CATHAY GENERAL BANCORP
Form 10-Q
August 07, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2014

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 0-18630

CATHAY GENERAL BANCORP

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

Common stock, $.01 par value, 79,671,878 shares outstanding as of July 31, 2014.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

2ND QUARTER 2014 REPORT ON FORM 10-Q

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Forward-Looking Statements

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

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

U.S. and international business and economic conditions;

possible additional provisions for loan losses and charge-offs;

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

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

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

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

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

potential goodwill impairment;

liquidity risk;

fluctuations in interest rates;

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

inflation and deflation;

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

environmental liabilities;

our ability to compete with larger competitors;

our ability to retain key personnel;

successful management of reputational risk;

natural disasters and geopolitical events;

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

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

our ability to adapt our systems to technological changes;

risk management processes and strategies;

adverse results in legal proceedings;

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

changes in accounting standards or tax laws and regulations;

market disruption and volatility;

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

issuance of preferred stock;

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

the soundness of other financial institutions.

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

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

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

CATHAY GENERAL BANCORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share and per share data)	June 30, 2014	December 31, 2013
Assets		
Cash and due from banks	$245,860	$153,747
Short-term investments and interest bearing deposits	803,576	516,938
Securities available-for-sale (amortized cost of $1,354,885 in 2014 and $1,637,965 in 2013)	1,339,989	1,586,668
Trading securities	-	4,936
Loans	8,565,278	8,084,563
Less: Allowance for loan losses	(169,077)	(173,889)
Unamortized deferred loan fees, net	(13,501)	(13,487)
Loans, net	8,382,700	7,897,187
Federal Home Loan Bank stock	25,671	25,000
Other real estate owned, net	34,835	52,985
Affordable housing investments, net	88,277	84,108
Premises and equipment, net	101,758	102,045
Customers' liability on acceptances	19,915	32,194
Accrued interest receivable	24,723	24,274
Goodwill	316,340	316,340
Other intangible assets, net	1,929	2,230
Other assets	171,249	190,634
Total assets	$11,556,822	$10,989,286
Liabilities and Stockholders' Equity		
Deposits		
Non-interest-bearing demand deposits	$1,524,577	$1,441,858
Interest-bearing deposits:		
NOW deposits	698,671	683,873
Money market deposits	1,410,123	1,286,338
Savings deposits	501,065	499,520

Time deposits under $100,000	1,112,673	931,204
Time deposits of $100,000 or more	3,333,487	3,138,512
Total deposits	8,580,596	7,981,305
Securities sold under agreements to repurchase	700,000	800,000
Advances from the Federal Home Loan Bank	521,200	521,200
Other borrowings for affordable housing investments	18,985	19,062
Long-term debt	119,136	121,136
Acceptances outstanding	19,915	32,194
Other liabilities	58,628	55,418
Total liabilities	10,018,460	9,530,315
Commitments and contingencies	-	-
Stockholders' Equity		
Common stock, $0.01 par value, 100,000,000 shares authorized, 83,878,550 issued and 79,670,985 outstanding at June 30, 2014, and 83,797,434 issued and 79,589,869 outstanding at December 31, 2013	839	838
Additional paid-in-capital	786,259	784,489
Accumulated other comprehensive loss, net	(8,896)	(29,729)
Retained earnings	885,896	829,109
Treasury stock, at cost (4,207,565 shares at June 30, 2014, and at December 31, 2013)	(125,736)	(125,736)
Total equity	1,538,362	1,458,971
Total liabilities and equity	$11,556,822	$10,989,286

See accompanying notes to unaudited condensed consolidated financial statements

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CATHAY GENERAL BANCORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND

COMPREHENSIVE INCOME/(LOSS)

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	(In thousands, except share and per share data)			
Interest and Dividend Income				
Loans receivable, including loan fees	$ 97,454	$ 87,879	$ 190,186	$ 176,719
Investment securities- taxable	6,708	12,332	14,284	24,118
Investment securities- nontaxable	-	28	-	995
Federal Home Loan Bank stock	421	342	871	592
Deposits with banks	479	281	928	489
Total interest and dividend income	105,062	100,862	206,269	202,913
Interest Expense				
Time deposits of $100,000 or more	6,748	6,822	13,412	13,579
Other deposits	4,429	2,993	8,457	5,759
Securities sold under agreements to repurchase	6,943	9,984	13,873	21,376
Advances from Federal Home Loan Bank	497	145	696	225
Long-term debt	828	924	1,556	1,848
Total interest expense	19,445	20,868	37,994	42,787
Net interest income before provision for credit losses	85,617	79,994	168,275	160,126
Provision/(credit) for loan losses	(3,700)	-	(3,700)	-
Net interest income after provision/(credit) for loan losses	89,317	79,994	171,975	160,126
Non-Interest Income				
Securities gains, net	506	12,177	6,466	18,469
Letters of credit commissions	1,520	1,449	2,988	2,910
Depository service fees	1,306	1,485	2,669	2,959
Other operating income	5,689	5,250	11,457	10,904
Total non-interest income	9,021	20,361	23,580	35,242
Non-interest Expense				
Salaries and employee benefits	23,391	21,588	46,842	44,441
Occupancy expense	3,896	3,510	7,758	7,154

Computer and equipment expense	2,534	2,366	4,836	5,042
Professional services expense	5,263	6,854	10,419	12,671
FDIC and State assessments	2,277	1,981	4,431	3,719
Marketing expense	1,519	1,169	2,083	1,606
Other real estate owned (income)/expense	(377)	(264)	382	359
Operations of affordable housing investments, net	1,018	2,023	3,454	3,718
Amortization of core deposit intangibles	124	1,338	296	2,734
(Income)/Costs associated with debt redemption	(555)	10,051	2,821	15,696
Other operating expense	3,423	3,100	7,259	5,704
Total non-interest expense	42,513	53,716	90,581	102,844
Income before income tax expense	55,825	46,639	104,974	92,524
Income tax expense	20,741	16,573	38,631	33,460
Net income	35,084	30,066	66,343	59,064
Less: net income attributable to noncontrolling interest	-	150	-	301
Net income attributable to Cathay General Bancorp	35,084	29,916	66,343	58,763
Dividends on preferred stock and noncash charge from repayment	-	(2,067)	-	(7,251)
Net income attributable to common stockholders	35,084	27,849	66,343	51,512
Other comprehensive income/(loss), net of tax				
Unrealized holding gain/(loss) on securities available-for-sale	13,750	(31,492)	24,844	(4,833)
Less: reclassification adjustments included in net income	293	7,058	3,748	10,705
Unrealized holding losses on cash flow hedge derivatives	(263)	-	(263)	-
Less: reclassification adjustments included in net income	-	-	-	-
Total other comprehensive gain/(loss), net of tax	13,194	(38,550)	20,833	(15,538)
Total comprehensive income/(loss)	$ 48,278	$ (8,634)	$ 87,176	$ 43,225
Net income per common share:				
Basic	$ 0.44	$ 0.35	$ 0.83	$ 0.65
Diluted	$ 0.44	$ 0.35	$ 0.83	$ 0.65
Cash dividends paid per common share	$ 0.07	$ 0.01	$ 0.12	$ 0.02
Average common shares outstanding				
Basic	79,642,993	78,869,089	79,619,506	78,832,530
Diluted	80,046,471	78,899,906	80,042,946	78,857,758

See accompanying notes to unaudited condensed consolidated financial statements.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six months ended June 30,	
	2014	**2013**
	(In thousands)	
Cash Flows from Operating Activities		
Net income	$66,343	$59,064
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Provision for loan (benefit)/losses	(3,700)	-
Provision/(credit) for losses on other real estate owned	1,616	(894)
Deferred tax liability/(asset)	10,483	(16,523)
Depreciation	3,556	3,105
Net losses on sale and transfer of other real estate owned	(2,373)	(554)
Net gains on sale of loans	(216)	(834)
Proceeds from sales of loans	9,914	38,648
Originations of loans held-for-sale	(9,699)	(37,814)
Net change in trading securities	4,936	(113)
Write-downs on venture capital investments	268	211
Gain on sales and calls of securities	(6,466)	(18,469)
Amortization/accretion of security premiums/discounts, net	1,723	2,333
Amortization of other intangible assets	340	2,797
Excess tax short-fall from share-based payment arrangements	1,177	80
Stock based compensation and stock issued to officers as compensation	1,997	1,867
Net change in accrued interest receivable and other assets	(6,644)	35,849
Net change in other liabilities	(6,529)	5,025
Net cash provided by operating activities	66,726	73,778
Cash Flows from Investing Activities		
(Increase)/decrease in short-term investments	(286,638)	272,142
Purchase of investment securities available-for-sale	(350,834)	(776,453)
Proceeds from sale of investment securities available-for-sale	466,867	553,674
Proceeds from repayments, maturities and calls of investment securities available-for-sale	175,398	208,074
Proceeds from repayments, maturities and calls of investment securities held-to-maturity	-	50,973
Purchase of Federal Home Loan Bank stock	(6,043)	-
Redemptions of Federal Home Loan Bank stock	5,371	8,354
Net increase in loans	(476,774)	(274,907)
Purchase of premises and equipment	(3,317)	(2,631)
Proceeds from sale of other real estate owned	17,931	6,631
Net increase in investment in affordable housing	(3,588)	(3,441)
Net cash (used in)/provided by investing activities	(461,627)	42,416
Cash Flows from Financing Activities		
Net increase in deposits	599,146	326,597

Net decrease in federal funds purchased and securities sold under agreements to repurchase	(100,000)	(300,000)
Advances from Federal Home Loan Bank	6,452,400	643,478
Repayment of Federal Home Loan Bank borrowings	(6,452,400)	(663,000)
Cash dividends paid	(9,556)	(6,231)
Redemption of series B preferred stock	-	(129,000)
Repayment of other borrowings	(2,000)	-
Proceeds from shares issued under Dividend Reinvestment Plan	875	136
Taxes paid related to net share settlement of RSUs	(274)	-
Excess tax short-fall from share-based payment arrangements	(1,177)	(80)
Net cash provided by/(used in) financing activities	487,014	(128,100)
Increase/(decrease) in cash and cash equivalents	92,113	(11,906)
Cash and cash equivalents, beginning of the period	153,747	144,909
Cash and cash equivalents, end of the period	$245,860	$133,003
Supplemental disclosure of cash flow information		
Cash paid during the period:		
Interest	$38,910	$44,472
Income taxes paid	$40,864	$28,212
Non-cash investing and financing activities:		
Net change in unrealized holding gain/(loss) on securities available-for-sale, net of tax	$21,096	$(15,537)
Net change in unrealized holding loss on cash flow hedge derivatives	$(263)	$-
Transfers of investment securities to available-for-sale from held-to-maturity	$-	$722,466
Transfers to other real estate owned from loans held for investment	$975	$8,016
Loans to facilitate the sale of other real estate owned	$-	$75

See accompanying notes to unaudited condensed consolidated financial statements.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Business

Cathay General Bancorp ("Bancorp") is the holding company for Cathay Bank (the "Bank" and, together, the "Company"), six limited partnerships investing in affordable housing investments in which the Bank is the sole limited partner, and GBC Venture Capital, Inc. The Bancorp also owns 100% of the common stock of five statutory business trusts created for the purpose of issuing capital securities. The Bank was founded in 1962 and offers a wide range of financial services. As of June 30, 2014, the Bank operated 21 branches in Southern California, 11 branches in Northern California, nine branches in New York State, three branches in Illinois, three branches in Washington State, two branches in Texas, one branch in Massachusetts, one branch in New Jersey, one branch in Nevada, one branch in Hong Kong, and a representative office in Shanghai and in Taipei. Deposit accounts at the Hong Kong branch are not insured by the Federal Deposit Insurance Corporation (the "FDIC").

2. Basis of Presentation

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

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

3. Recent Accounting Pronouncements

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

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

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

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

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

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4. Earnings per Share

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

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

	Three months ended June 30,		Six months ended June 30,	
(Dollars in thousands, except share and per share data)	2014	2013	2014	2013
Net income attributable to Cathay General Bancorp	$35,084	$29,916	$66,343	$58,763
Dividends on preferred stock and noncash charge from repayment	-	(2,067)	-	(7,251)
Net income available to common stockholders	$35,084	$27,849	$66,343	$51,512
Weighted-average shares:				
Basic weighted-average number of common shares outstanding	79,642,993	78,869,089	79,619,506	78,832,530
Dilutive effect of weighted-average outstanding common share equivalents				
Warrants	273,759	-	286,079	-
Options	97,476	-	99,575	-
Restricted stock units	32,243	30,817	37,786	25,228
Diluted weighted-average number of common shares outstanding	80,046,471	78,899,906	80,042,946	78,857,758
Average stock options and warrants with anti-dilutive effect	2,003,896	5,597,123	1,994,922	5,613,875
Earnings per common share:				
Basic	$0.44	$0.35	$0.83	$0.65
Diluted	$0.44	$0.35	$0.83	$0.65

5. Stock-Based Compensation

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

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

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

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

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

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

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

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

The compensation expense related to the restricted stock units was $1.0 million for the three months ended June 30, 2014, compared to $492,000 for the three months ended June 30, 2013. For the six months ended June 30, compensation expense recorded related to the restricted stock units was $2.0 million in 2014 and $1.1 million in 2013. Unrecognized stock-based compensation expense related to restricted stock units was $5.6 million at June 30, 2014, and is expected to be recognized over the next 2.3 years.

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

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

	Three months ended June 30,		Six months ended June 30,	
(Dollars in thousands)	2014	2013	2014	2013
Excess/(Short-fall) of tax deductions in excess of grant-date fair value	$50	$(11)	$(1,177)	$(80)
Benefit of tax deductions on grant-date fair value	(50)	11	1,177	607
Total benefit of tax deductions	$-	$-	$-	$527

6. Investment Securities

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

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

	June 30, 2014			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
	(In thousands)			
Securities Available-for-Sale				
U.S. treasury securities	$565,091	$ 73	$ 1	$565,163

Mortgage-backed securities	680,556	1,210	24,897	656,869
Collateralized mortgage obligations	81	-	35	46
Corporate debt securities	94,938	848	1,449	94,337
Mutual funds	6,000	-	167	5,833
Preferred stock of government sponsored entities	4,611	6,885	1	11,495
Other equity securities	3,608	2,638	-	6,246
Total securities available-for-sale	$1,354,885	$ 11,654	$ 26,550	$1,339,989
Total investment securities	$1,354,885	$ 11,654	$ 26,550	$1,339,989

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

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

	Securities available-for-sale	
	Amortized cost	Fair value
	(In thousands)	
Due in one year or less	$450,032	$450,048
Due after one year through five years	138,285	139,329
Due after five years through ten years	85,857	85,165
Due after ten years (1)	680,711	665,447
Total	$1,354,885	$1,339,989

(1) Equity securities are reported in this category

Proceeds from sales of mortgage-backed securities were $386.5 million and from repayments, maturities and calls of mortgage-backed securities were $39.6 million during the first six months of 2014 compared to proceeds from sales of

$113.6 million and proceeds of $179.0 million from repayments, maturities, and calls during the same period a year ago. Proceeds from sales of other investment securities were $80.4 million during the first six months of 2014 compared to $440.1 million during the same period a year ago. Proceeds from maturities and calls of other investment securities were $135.8 million during the first six months of 2014 compared to $80.1 million during the same period a year ago. Gains of $12.8 million and losses of $6.3 million were realized on sales and calls of investment securities during the first six months of 2014 compared to gains of $18.5 million and no losses realized during the same period a year ago.

At June 30, 2014, all of the Company's mortgage-backed securities were rated as investment grade except for one non-agency issue. Total unrealized losses of $24.9 million from all mortgage-backed securities resulted from increases in interest rates subsequent to the date that these securities were purchased. Total unrealized losses of $1.4 million on corporate bonds relates to four issues of investments in bonds of financial institutions, all of which were investment grade at the date of acquisition and as of June 30, 2014. The unrealized losses were primarily caused by the widening of credit and liquidity spreads since the dates of acquisition. The contractual terms of those investments do not permit the issuers to settle the security at a price less than the amortized cost of the investment. The Company currently does not believe it is probable that it will be unable to collect all amounts due according to the contractual terms of the investments. Therefore, it is expected that these mortgage-backed securities and corporate bonds would not be settled at a price less than the amortized cost of the investment. Because the Company does not intend to sell and would not be required to sell these investments until a recovery of fair value, which may be maturity, it does not consider its investments in these mortgaged-backed securities and corporate bonds to be other-than-temporarily impaired at June 30, 2014.

The temporarily impaired securities represent 60.2% of the fair value of investment securities as of June 30, 2014. Unrealized losses for securities with unrealized losses for less than twelve months represent 0.003%, and securities with unrealized losses for twelve months or more represent 3.6%, of the historical cost of these securities. Unrealized losses on these securities generally resulted from increases in interest rates or spreads subsequent to the date that these securities were purchased.

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

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

	June 30, 2014					
	Temporarily impaired securities					
	Less than 12 months		**12 months or longer**		**Total**	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
	(Dollars in thousands)					
Securities Available-for-Sale						
U.S. treasury securities	$99,999	$ 1	$-	$ -	$99,999	$ 1
Mortgage-backed securities	185	1	636,390	24,896	636,575	24,897
Collateralized mortgage obligations	-	-	46	35	46	35
Corporate debt securities	-	-	63,551	1,449	63,551	1,449
Mutual funds	-	-	5,833	167	5,833	167
Preferred stock of government sponsored entities	970	1	-	-	970	1
Total securities available-for-sale	$101,154	$ 3	$705,820	$ 26,547	$806,974	$ 26,550
Total investment securities	$101,154	$ 3	$705,820	$ 26,547	$806,974	$ 26,550

	December 31, 2013					
	Temporarily impaired securities					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)					
Securities Available-for-Sale						
U.S. treasury securities	$75,064	$ 1	$-	$ -	$75,064	$ 1
Mortgage-backed securities	792,012	64,526	272	2	792,284	64,528
Mortgage-backed securities-Non-agency	94	1	-	-	94	1
Collateralized mortgage obligations	68	4	301	50	369	54
Corporate debt securities	9,970	30	100,081	4,919	110,051	4,949
Mutual funds	-	-	5,724	275	5,724	275
Total securities available-for-sale	$877,208	$ 64,562	$106,378	$ 5,246	$983,586	$ 69,808
Total investment securities	$877,208	$ 64,562	$106,378	$ 5,246	$983,586	$ 69,808

Investment securities having a carrying value of $849.1 million at June 30, 2014, and $926.5 million at December 31, 2013, were pledged to secure public deposits, other borrowings, treasury tax and loan, and securities sold under agreements to repurchase.

7. Loans

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

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

	June 30, 2014	December 31, 2013
	(In thousands)	
Type of Loans:		
Commercial loans	$2,322,880	$2,298,724
Residential mortgage loans	1,468,715	1,355,255
Commercial mortgage loans	4,308,170	4,023,051
Equity lines	170,711	171,277
Real estate construction loans	285,339	221,701
Installment and other loans	9,463	14,555
Gross loans	8,565,278	8,084,563
Less:		
Allowance for loan losses	(169,077)	(173,889)
Unamortized deferred loan fees	(13,501)	(13,487)
Total loans, net	$8,382,700	$7,897,187

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At June 30, 2014, recorded investment in impaired loans totaled $188.7 million and was comprised of non-accrual loans of $77.6 million and accruing troubled debt restructured ("TDR") loans of $111.1 million. At December 31, 2013, recorded investment in impaired loans totaled $200.8 million and was comprised of non-accrual loans of $83.2 million and accruing TDRs of $117.6 million. For impaired loans, the amounts previously charged off represent 12.9% at June 30, 2014, and 23.9% at December 31, 2013, of the contractual balances for impaired loans. The following table presents the average balance and interest income recognized related to impaired loans for the periods indicated:

	Impaired Loans Average Recorded Investment				**Interest Income Recognized**			
	Three months ended		Six months ended		Three months ended		Six months ended	
	June 30,		June 30,		June 30,		June 30,	
	2014	2013	2014	2013	2014	2013	2014	2013
	(In thousands)							
Commercial loans	$27,773	$20,196	$29,300	$21,156	$194	$89	$420	$200
Real estate construction loans	33,049	40,108	33,552	41,082	66	66	132	132
Commercial mortgage loans	112,982	141,285	112,148	151,713	995	1,501	2,014	2,863
Residential mortgage and equity lines	18,392	18,050	18,772	17,924	93	107	192	215
Total	$192,196	$219,639	$193,772	$231,875	$1,348	$1,763	$2,758	$3,410

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

	Impaired Loans June 30, 2014			**December 31, 2013**		
	Unpaid Principal Balance	**Recorded Investment**	**Allowance**	**Unpaid Principal Balance**	**Recorded Investment**	**Allowance**
	(In thousands)					
With no allocated allowance						
Commercial loans	$20,298	$ 19,271	$ -	$20,992	$ 18,905	$ -
Real estate construction loans	37,494	16,225	-	25,401	15,097	-
Commercial mortgage loans	82,090	80,102	-	105,593	78,930	-
Residential mortgage loans and equity lines	3,084	3,084	-	4,892	4,892	-
Subtotal	$142,966	$ 118,682	$ -	$156,878	$ 117,824	$ -
With allocated allowance						
Commercial loans	$10,725	$ 7,700	$ 2,717	$22,737	$ 13,063	$ 2,519
Real estate construction loans	15,503	15,503	143	28,475	19,323	3,460

Commercial mortgage loans	33,411	33,149	6,230	39,223	35,613	6,584
Residential mortgage loans and equity lines	14,077	13,675	519	16,535	14,957	721
Subtotal	$73,716	$ 70,027	$ 9,609	$106,970	$ 82,956	$ 13,284
Total impaired loans	$216,682	$ 188,709	$ 9,609	$263,848	$ 200,780	$ 13,284

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The following table presents the aging of the loan portfolio by type as of June 30, 2014, and as of December 31, 2013:

	June 30, 2014						
	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)						
Type of Loans:							
Commercial loans	$14,384	$4	$-	$ 11,570	$25,958	$2,296,922	$2,322,880
Real estate construction loans	-	-	-	25,928	25,928	259,411	285,339
Commercial mortgage loans	564	12,321	1,426	30,549	44,860	4,263,310	4,308,170
Residential mortgage loans and equity lines	274	1,128	-	9,526	10,928	1,628,498	1,639,426
Installment and other loans	39	-	-	-	39	9,424	9,463
Total loans	$15,261	$13,453	$1,426	$ 77,573	$107,713	$8,457,565	$8,565,278

	December 31, 2013						
	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)						
Type of Loans:							
Commercial loans	$7,170	$16,562	$ -	$ 21,232	$44,964	$2,253,760	$2,298,724
Real estate construction loans	-	-	-	28,586	28,586	193,115	221,701
Commercial mortgage loans	20,043	7,862	982	19,621	48,508	3,974,543	4,023,051
Residential mortgage loans and equity lines	3,508	832	-	13,744	18,084	1,508,448	1,526,532
Installment and other loans	100	-	-	-	100	14,455	14,555
Total loans	$30,821	$25,256	$ 982	$ 83,183	$140,242	$7,944,321	$8,084,563

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

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

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

At June 30, 2014, accruing TDRs were $111.1 million and non-accrual TDRs were $43.6 million compared to accruing TDRs of $117.6 million and non-accrual TDRs of $38.8 million at December 31, 2013. The Company allocated specific reserves of $6.0 million to accruing TDRs and $1.9 million to non-accrual TDRs at June 30, 2014, and $6.9 million to accruing TDRs and $2.2 million to non-accrual TDRs at December 31, 2013. The following tables present TDRs that were modified during the first six months of 2014 and 2013, their specific reserves at June 30, 2014 and 2013, and charge-offs during the first six months of 2014 and 2013:

	Six months ended June 30, 2014				June 30, 2014
	No. of Contracts	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**	**Charge-offs**	**Specific Reserve**
			(Dollars in thousands)		
Commercial loans	3	$ 8,490	$ 8,490	$ -	$ 20
Residential mortgage loans and equity lines	3	1,393	1,393	-	32
Total	6	$ 9,883	$ 9,883	$ -	$ 52

	Six months ended June 30, 2013				June 30, 2013
	No. of Contracts	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**	**Charge-offs**	**Specific Reserve**
			(Dollars in thousands)		
Commercial loans	4	$ 4,006	$ 4,006	$ -	$ 55
Commercial mortgage loans	2	1,175	1,175	-	9
Residential mortgage loans and equity lines	10	3,459	3,381	78	155
Total	16	$ 8,640	$ 8,562	$ 78	$ 219

Modifications of the loan terms during the first six months of 2014 were in the form of changes in the stated interest rate, and in payment terms to interest only from principal and interest, or reduction in monthly payment amount, multiple note structure, and waiver of late charges and collection fees. The length of time for which modifications involving a reduction of the stated interest rate or changes in payment terms that were documented ranged from twelve months to three years from the modification date.

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

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	June 30, 2014			
Accruing TDRs	**Principal Deferral**	**Rate Reduction**	**Rate Reduction and Payment Deferral**	**Total**
	(In thousands)			
Commercial loans	$11,400	$ 1,576	$ 2,425	$15,401
Real estate construction loans	-	-	5,799	5,799
Commercial mortgage loans	9,750	8,340	64,612	82,702
Residential mortgage loans	2,494	1,017	3,723	7,234
Total accruing TDRs	$23,644	$ 10,933	$ 76,559	$111,136

	June 30, 2014				
Non-accrual TDRs	**Interest Deferral**	**Principal Deferral**	**Rate Reduction and Forgiveness of Principal**	**Rate Reduction and Payment Deferral**	**Total**
	(In thousands)				
Commercial loans	$-	$2,221	$ 1,266	$ 247	$3,734
Real estate construction loans	-	15,503	-	8,926	24,429
Commercial mortgage loans	1,399	4,058	-	6,066	11,523
Residential mortgage loans	222	1,673	217	1,807	3,919
Total non-accrual TDRs	$1,621	$23,455	$ 1,483	$ 17,046	$43,605

	December 31, 2013			
Accruing TDRs	**Principal Deferral**	**Rate Reduction**	**Rate Reduction and Payment Deferral**	**Total**

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

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

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

Accruing TDRs	Three months ended June 30, 2014	2013	Six months ended June 30, 2014	2013
	(In thousands)			
Beginning balance	$118,922	$130,215	$117,597	$144,695
New restructurings	722	-	8,097	4,816
Restructured loans restored to accrual status	-	824	962	1,454
Charge-offs	-	(78)	-	(78)
Payments	(1,278)	(15,497)	(8,290)	(33,389)
Restructured loans placed on nonaccrual	(7,230)	-	(7,230)	(2,034)
Ending balance	$111,136	$115,464	$111,136	$115,464

Non-accrual TDRs	Three months ended June 30, 2014	2013	Six months ended June 30, 2014	2013
	(In thousands)			
Beginning balance	$37,797	$49,878	$38,769	$47,731
New restructurings	247	1,686	1,786	3,748
Restructured loans placed on nonaccrual	7,230	-	7,230	2,034
Charge-offs	(595)	(254)	(599)	(933)
Payments	(1,074)	(1,962)	(2,619)	(2,602)
Restructured loans restored to accrual status	-	(824)	(962)	(1,454)
Ending balance	$43,605	$48,524	$43,605	$48,524

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

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

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

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

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

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

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

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

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

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

	June 30, 2014				
	Pass/Watch	**Special Mention**	**Substandard**	**Doubtful**	**Total**
	(In thousands)				
Commercial loans	$2,120,818	$120,796	$ 77,839	$ 3,427	$2,322,880
Real estate construction loans	251,421	-	32,418	1,500	285,339
Commercial mortgage loans	4,017,186	105,715	185,269	-	4,308,170
Residential mortgage loans and equity lines	1,627,299	-	12,127	-	1,639,426
Installment and other loans	9,463	-	-	-	9,463
Total gross loans	$8,026,187	$226,511	$ 307,653	$ 4,927	$8,565,278

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

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

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

	Commercial Loans	**Real Estate Construction Loans**	**Commercial Mortgage Loans**	**Residential Mortgage Loans and Equity Lines**	**Installment and Other Loans**	**Total**
	(In thousands)					
June 30, 2014						
Loans individually evaluated for impairment						
Allowance	$2,717	$ 143	$6,230	$519	$ -	$9,609
Balance	$26,971	$ 31,728	$113,251	$16,759	$ -	$188,709
Loans collectively evaluated for impairment						
Allowance	$60,522	$ 9,412	$77,165	$12,351	$ 18	$159,468
Balance	$2,295,909	$ 253,611	$4,194,919	$1,622,667	$ 9,463	$8,376,569
Total allowance	$63,239	$ 9,555	$83,395	$12,870	$ 18	$169,077
Total balance	$2,322,880	$ 285,339	$4,308,170	$1,639,426	$ 9,463	$8,565,278
December 31, 2013						
Loans individually evaluated for impairment						
Allowance	$2,519	$ 3,460	$6,584	$721	$ -	$13,284
Balance	$31,968	$ 34,420	$114,544	$19,848	$ -	$200,780
Loans collectively evaluated for impairment						
Allowance	$62,584	$ 8,539	$78,169	$11,284	$ 29	$160,605
Balance	$2,266,756	$ 187,281	$3,908,507	$1,506,684	$ 14,555	$7,883,783
Total allowance	$65,103	$ 11,999	$84,753	$12,005	$ 29	$173,889
Total balance	$2,298,724	$ 221,701	$4,023,051	$1,526,532	$ 14,555	$8,084,563

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

Three months ended June 30, 2014 and 2013

	Commercial Loans	Real Estate Construction Loans	Commercial Mortgage Loans	Residential Mortgage Loans and Equity Lines	Installment and Other Loans	Total
	(In thousands)					
March 31, 2014 Ending Balance	64,782	10,626	81,326	12,377	27	169,138
Provision/(credit) for possible credit losses	(6,111)	742	1,185	493	(9)	(3,700)
Charge-offs	(114)	(1,813)	(648)	-	-	(2,575)
Recoveries	4,682	-	1,532	-	-	6,214
Net (charge-offs)/recoveries	4,568	(1,813)	884	-	-	3,639
June 30, 2014 Ending Balance	$63,239	$ 9,555	$ 83,395	$ 12,870	$ 18	$169,077
March 31, 2013 Ending Balance	$61,056	$ 20,697	$ 84,816	$ 12,091	$ 32	$178,692
Provision/(credit) for possible credit losses	4,389	(7,883)	3,677	(67)	(14)	102
Charge-offs	(1,690)	-	(2,041)	(196)	-	(3,927)
Recoveries	624	941	3,226	64	11	4,866
Net (charge-offs)/recoveries	(1,066)	941	1,185	(132)	11	939
June 30, 2013 Ending Balance	$64,379	$ 13,755	$ 89,678	$ 11,892	$ 29	$179,733

Six months ended June 30, 2014 and 2013

	Commercial Loans	Real Estate Construction Loans	Commercial Mortgage Loans	Residential Mortgage Loans and Equity	Installment and Other Loans	Total

	(In thousands)			**Lines**		
2014 Beginning Balance	$65,103	$ 11,999	$ 84,753	$ 12,005	$ 29	$173,889
Provision/(credit) for possible credit losses	(1,228)	(656)	(3,041)	865	(11)	(4,071)
Charge-offs	(7,340)	(1,813)	(2,424)	-	-	(11,577)
Recoveries	6,704	25	4,107	-	-	10,836
Net (charge-offs)/recoveries	(636)	(1,788)	1,683	-	-	(741)
June 30, 2014 Ending Balance	$63,239	$ 9,555	$ 83,395	$ 12,870	$ 18	$169,077
Reserve for impaired loans	$2,717	$ 143	$ 6,230	$ 519	$ -	$9,609
Reserve for non-impaired loans	$60,522	$ 9,412	$ 77,165	$ 12,351	$ 18	$159,468
Reserve for off-balance sheet credit commitments	$1,014	$ 391	$ 401	$ 36	$ 2	$1,844
2013 Beginning Balance	$66,101	$ 23,017	$ 82,473	$ 11,703	$ 28	$183,322
Provision/(credit) for possible credit losses	1,079	(10,282)	6,645	728	(10)	(1,840)
Charge-offs	(4,380)	-	(3,031)	(606)	-	(8,017)
Recoveries	1,579	1,020	3,591	67	11	6,268
Net (charge-offs)/recoveries	(2,801)	1,020	560	(539)	11	(1,749)
June 30, 2013 Ending Balance	$64,379	$ 13,755	$ 89,678	$ 11,892	$ 29	$179,733
Reserve for impaired loans	$1,568	$ 4,995	$ 5,342	$ 874	$ -	$12,779
Reserve for non-impaired loans	$62,811	$ 8,760	$ 84,336	$ 11,018	$ 29	$166,954
Reserve for off-balance sheet credit commitments	$924	$ 273	$ 1,972	$ 33	$ 1	$3,203

8. Commitments and Contingencies

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

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

<u>9. Borrowed Funds</u>

Securities Sold Under Agreements to Repurchase. Securities sold under agreements to repurchase were $700.0 million with a weighted average rate of 3.92% at June 30, 2014, compared to $800.0 million with a weighted average rate of 3.87% at December 31, 2013. In the first six months of 2014, the Company prepaid securities sold under agreements to repurchase totaling $100.0 million with a weighted average rate of 3.5% and incurred prepayment penalties of $3.4 million. In the first six months of 2013, the Company prepaid securities sold under agreements to repurchase totaling $300.0 million with a weighted average rate of 3.97% and incurred prepayment penalties of $15.7 million. Five floating-to-fixed rate agreements totaling $300.0 million have initial floating rates for a period of time ranging from six months to one year, with floating rates ranging from the three-month LIBOR rate minus 200 basis points to the three-month LIBOR rate minus 340 basis points. Thereafter, the rates are fixed for the remainder of the term, with interest rates ranging from 4.78% to 5.07%. After the initial floating rate term, the counterparties have the right to terminate the transaction at par at the fixed rate reset date and quarterly thereafter. Four fixed-to-floating rate agreements totaling $200.0 million have initial fixed rates ranging from 1.00% to 3.50% with initial fixed rate terms ranging from six months to 18 months. For the remaining term, the rates float at 8% minus the three-month LIBOR rate with a maximum rate ranging from 3.50% to 3.75% and a minimum rate of 0.0%. After the initial fixed rate term, the counterparties have the right to terminate the transaction at par at the floating rate reset date and quarterly thereafter. The table below provides summary data for the $500.0 million of callable securities sold under agreements to repurchase as of June 30, 2014:

(Dollars in millions)	Fixed-to-floating			Floating-to-fixed		Total
Rate type	Float Rate			Fixed Rate		
Rate index	8% minus 3 month LIBOR					
Maximum rate	3.75%	3.50 %	3.50%			
Minimum rate	0.0 %	0.0 %	0.0 %			
No. of agreements	1	2	1	1	4	9
Amount	$50.0	$100.0	$50.0	$100.0	$200.0	$500.0
Weighted average rate	3.75%	3.50 %	3.50%	4.78 %	5.00 %	4.38 %
Final maturity	2014	2014	2015	2014	2017	

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

Maturity	No. of Agreements	Amount (In thousands)	Weighted Average Interest Rate	
1 year to 3 years	1	$ 50,000	2.69	%
3 years to 5 years	3	150,000	2.81	%
Total	4	$ 200,000	2.78	%

These transactions are accounted for as collateralized financing transactions and recorded at the amounts at which the securities were sold. The Company may have to provide additional collateral for the repurchase agreements, as necessary. The underlying collateral pledged for the repurchase agreements consists of U.S. Treasury securities, U.S. government agency securities, and mortgage-backed securities with a fair value of $789.9 million as of June 30, 2014, and $906.1 million as of December 31, 2013.

Advances from the FHLB. Advances from the FHLB were $521.2 million with weighted average rate of 0.52% at June 30, 2014, compared to $521.2 million with weighted average rate of 0.17% at December 31, 2013. The following relates to the outstanding advances at June 30, 2014, and December 31, 2013:

Maturity	June 30, 2014				December 31, 2013			
	Amount (In thousands)		Weighted Average Interest Rate		Amount (In thousands)		Weighted Average Interest Rate	
Within 90 days	$	325,000	0.18	%	$	475,000	0.06	%
1 - 3 years		171,200	1.08	%		-	-	
4 - 5 years		25,000	1.13	%		46,200	1.24	%
	$	521,200	0.52	%	$	521,200	0.17	%

<u>10. Income Taxes</u>

Income tax expense totaled $38.6 million, or an effective tax rate of 36.8%, for the first six months of 2014, compared to an income tax expense of $33.5 million, or an effective tax rate of 36.3%, for the same period a year ago. The effective tax rate includes the impact of the utilization of low income housing tax credits and recognition of other tax credits for both years.

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

The Company’s tax returns are open for audits by the Internal Revenue Service back to 2010 and by the California Franchise Tax Board back to 2003. The Company is under audit by the California Franchise Tax Board for the years 2003 to 2007. As the Company is presently under audit by a number of tax authorities, it is reasonably possible that unrecognized tax benefits could change significantly over the next twelve months. The Company does not expect that any such changes would have a material impact on its annual effective tax rate.

11. Fair Value Measurements

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

Level 1 - Quoted prices in active markets for identical assets or liabilities.
Level 2 - Observable prices in active markets for similar assets or liabilities; prices for identical or similar assets or liabilities in markets that are not active; directly observable market inputs for substantially the full term of the asset and liability; market inputs that are not directly observable but are derived from or corroborated by observable market data.
Level 3 – Unobservable inputs based on the Company’s own judgment about the assumptions that a market participant would use.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

June 30, 2014	Fair Value Measurements Using			Total at
	Level 1	Level 2	Level 3	Fair Value
	(In thousands)			
Assets				
Securities available-for-sale				
U.S. Treasury securities	$565,163	$-	$ -	$565,163
Mortgage-backed securities	-	656,869	-	656,869
Collateralized mortgage obligations	-	46	-	46
Corporate debt securities	-	94,337	-	94,337
Mutual funds	5,833	-	-	5,833
Preferred stock of government sponsored entities	-	11,495	-	11,495
Other equity securities	6,246	-	-	6,246
Total securities available-for-sale	577,242	762,747	-	1,339,989
Warrants	-	-	21	21
Foreign exchange contracts	-	3,438	-	3,438
Total assets	$577,242	$766,185	$ 21	$1,343,448
Liabilities				
Interest rate swaps	$-	$454	$ -	$454
Foreign exchange contracts	-	1,594	-	1,594
Total liabilities	$-	$2,048	$ -	$2,048

December 31, 2013	Fair Value Measurements Using			Total at
	Level 1	Level 2	Level 3	Fair Value
	(In thousands)			
Assets				
Securities available-for-sale				
U.S. Treasury securities	$460,193	$-	$ -	$460,193
Mortgage-backed securities	-	952,815	-	952,815
Collateralized mortgage obligations	-	6,106	-	6,106
Asset-backed securities	-	123	-	123

Corporate debt securities	-	150,304	-	150,304
Mutual funds	5,724	-	-	5,724
Preferred stock of government sponsored entities	-	11,403	-	11,403
Total securities available-for-sale	465,917	1,120,751	-	1,586,668
Trading securities	-	4,936	-	4,936
Warrants	-	-	30	30
Foreign exchange contracts	-	6,182	-	6,182
Total assets	$465,917	$1,131,869	$ 30	$1,597,816
Liabilities				
Foreign exchange contracts	$-	$6,140	$ -	$6,140
Total liabilities	$-	$6,140	$ -	$6,140

The Company measured the fair value of its warrants on a recurring basis using significant unobservable inputs. The fair value of warrants was $21,000 at June 30, 2014, compared to $30,000 at December 31, 2013. The fair value adjustment of warrants was included in other operating income in the second quarter of 2014. The significant unobservable inputs in the Black-Scholes option pricing model for the fair value of warrants are their expected life ranging from 1 to 4 years, risk-free interest rate from 0.46% to 1.25%, and stock volatility from 9.9% to 14.5%.

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

	June 30, 2014 Fair Value Measurements Using			Total at	Total Losses / (Gains) Three months ended		Six Months ended	
	Level 1	Level 2	Level 3	Fair Value	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
	(In thousands)							
Assets								
Impaired loans by type:								
Commercial loans	$-	$-	$4,983	$4,983	$17	$-	$17	$463
Commercial mortgage loans	-	-	26,889	26,889	-	65	-	106
Construction loans	-	-	15,360	15,360	-	-	-	-
Residential mortgage loans and equity lines	-	-	13,156	13,156	-	31	-	220
Land loans	-	-	31	31	-	-	-	48
Total impaired loans	-	-	60,419	60,419	17	96	17	837
Other real estate owned (1)	-	15,483	10,637	26,120	142	(1,312)	325	(1,378)
Investments in venture capital	-	-	5,787	5,787	157	119	268	211
Total assets	$-	$15,483	$76,843	$92,326	$316	$(1,097)	$610	$(330)

(1) Other real estate owned balance of $34.8 million in the condensed consolidated balance sheet is net of estimated disposal costs.

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

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

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

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

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

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

12. Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	June 30, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Financial Assets				
Cash and due from banks	$245,860	$245,860	$153,747	$153,747
Short-term investments	803,576	803,576	516,938	516,938
Securities available-for-sale	1,339,989	1,339,989	1,586,668	1,586,668
Trading securities	-	-	4,936	4,936
Loans, net	8,382,700	8,262,977	7,897,187	7,760,490
Investment in Federal Home Loan Bank stock	25,671	25,671	25,000	25,000
Warrants	21	21	30	30

	Notional Amount	Fair Value	Notional Amount	Fair Value
Option contracts	$-	$-	$200	$0
Foreign exchange contracts	226,061	3,438	267,644	6,182

Financial Liabilities

	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Deposits	$8,580,596	$8,578,747	$7,981,305	$7,977,639
Securities sold under agreements to repurchase	700,000	733,020	800,000	852,835
Advances from Federal Home Loan Bank	521,200	521,966	521,200	521,560
Other borrowings	18,985	16,161	19,062	16,107
Long-term debt	119,136	58,365	121,136	58,970

	Notional Amount	Fair Value	Notional Amount	Fair Value
Foreign exchange contracts	$161,760	$1,594	$236,350	$6,140
Interest rate swaps	267,194	454	-	-

	Notional Amount	Fair Value	Notional Amount	Fair Value
Off-Balance Sheet Financial Instruments				
Commitments to extend credit	$1,933,456	$(2,856)	$1,858,669	$(2,187)
Standby letters of credit	47,983	(238)	45,058	(205)
Other letters of credit	59,445	(31)	54,098	(34)

Bill of lading guarantees	71	-	80	-

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

	June 30, 2014 **Estimated** **Fair Value** **Measurements** **(In thousands)**	**Level 1**	**Level 2**	**Level 3**
Financial Assets				
Cash and due from banks	$245,860	$245,860	$-	$-
Short-term investments	803,576	803,576	-	-
Securities available-for-sale	1,339,989	565,163	774,826	-
Loans, net	8,262,977	-	-	8,262,977
Investment in Federal Home Loan Bank stock	25,671	-	25,671	-
Warrants	21	-	-	21
Financial Liabilities				
Deposits	8,578,747	-	-	8,578,747
Securities sold under agreements to repurchase	733,020	-	733,020	-
Advances from Federal Home Loan Bank	521,966	-	521,966	-
Other borrowings	16,161	-	-	16,161
Long-term debt	58,365	-	58,365	-

	December 31, 2013 **Estimated** **Fair Value** **Measurements** **(In thousands)**	**Level 1**	**Level 2**	**Level 3**
Financial Assets				
Cash and due from banks	$153,747	$153,747	$-	$-
Short-term investments	516,938	516,938	-	-
Securities available-for-sale	1,586,668	465,917	1,120,751	-
Trading securities	4,936	-	4,936	-
Loans, net	7,760,490	-	-	7,760,490
Investment in Federal Home Loan Bank stock	25,000	-	25,000	-
Warrants	30	-	-	30
Financial Liabilities				
Deposits	7,977,639	-	-	7,977,639
Securities sold under agreements to repurchase	852,835	-	852,835	-

Advances from Federal Home Loan Bank	521,560	-	521,560	-
Other borrowings	16,107	-	-	16,107
Long-term debt	58,970	-	58,970	-

13. 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.

The Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in ASC Topic 350. The two-step impairment testing process, if needed, begins by assigning net assets and goodwill to our two reporting units—Commercial Lending and Retail Banking. The Company then completes "step one" of the impairment test by comparing the fair value of each reporting unit (as determined based on the discussion below) with the recorded book value (or "carrying amount") of its net assets, with goodwill included in the computation of the carrying amount. If the fair value of a reporting unit exceeds its carrying amount, goodwill of that reporting unit is not considered impaired, and "step two" of the impairment test is not necessary. If the carrying amount of a reporting unit exceeds its fair value, step two of the impairment test is performed to determine the amount of impairment. Step two of the impairment test compares the carrying amount of the reporting unit's goodwill to the "implied fair value" of that goodwill. The implied fair value of goodwill is computed by assuming that all assets and liabilities of the reporting unit would be adjusted to the current fair value, with the offset as an adjustment to goodwill. This adjusted goodwill balance is the implied fair value used in step two. An impairment charge is recognized for the amount by which the carrying amount of goodwill exceeds its implied fair value.

At June 30, 2014, the Company's market capitalization was above book value and there was no triggering event that required the Company to assess goodwill for impairment as of an interim date.

<u>14. Financial Derivatives</u>

It is the policy of the Company not to speculate on the future direction of interest rates. However, the Company enters 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 the Company's assets or liabilities and against risk in specific transactions. In such instances, the Company 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 consolidated balance sheet 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.

In May 2014, the Bancorp entered into five 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. The Bancorp pays a weighted average fixed interest rate of 2.61% and receives a variable interest rate of three-month LIBOR at a weighted average rate of 0.23%. As of June 30, 2014, the unrealized loss of $263,000, net of taxes, of these interest rate swaps was included in other comprehensive income.

In June 2014, the Bank entered into ten interest rate swap contracts in the notional amount of $148.1 million for various terms from four to eight 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 loan 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. The Bank pays a weighted average fixed rate of 4.67% and receives a variable rate at one month LIBOR rate plus a weighted average spread of 298 basis points, or at a weighted average rate of 3.13%. As of June 30, 2014, the ineffective portion of these interest rate swaps was not significant.

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 derivatives clearing organization and daily margin is indirectly maintained with the derivatives clearing organization. Cash posted as collateral by the Bancorp related to derivative contracts totaled $3.9 million as of June 30, 2014.

The Company enters into foreign exchange forward contracts and foreign currency option contracts with various counterparties to mitigate the risk of fluctuations in foreign currency exchange rates for foreign exchange certificates of deposit, foreign exchange contracts, or foreign currency option 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, foreign exchange contracts, or foreign currency option 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. At June 30, 2014, no option contracts were outstanding. Spot and forward contracts in the total notional amount of $226.1 million had a positive fair value of $3.4 million at June 30, 2014. Spot and forward contracts in the total notional amount of $161.8 million had a negative fair value of $1.6 million at June 30, 2014. At December 31, 2013, the notional amount of option contracts totaled $200,000 with a net positive fair value of $83. Spot and forward contracts in the total notional amount of $267.6 million had a positive fair value of $6.2 million at December 31, 2013. Spot and forward contracts in the total notional amount of $236.3 million had a negative fair value of $6.1 million at December 31, 2013.

15. Balance Sheet Offsetting

Certain financial instruments, including resell and repurchase agreements, securities lending arrangements and derivatives, may be eligible for offset in the consolidated balance sheet and/or subject to master netting arrangements or similar agreements. The Company's securities sold with agreement to repurchase and derivative transactions with upstream financial institution counterparties are generally executed under International Swaps and Derivative Association master agreements which 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, 2014, and December 31, 2013, are presented in the following table:

(In thousands)	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Balance Sheet	Net Amounts of Liabilities Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet		
				Financial Instruments	Collateral Posted	Net Amount
June 30, 2014						
Securities sold under agreements to repurchase	$ 700,000	$ -	$ 700,000	$ -	$ (700,000)	$ -
Derivatives	$ 454	$ -	$ 454	$ -	$ (454)	$ -
December 31, 2013						
Securities sold under agreements to repurchase	$ 800,000	$ -	$ 800,000	$ -	$ (800,000)	$ -

16. Stockholders' Equity

Total equity was $1.54 billion at June 30, 2014, an increase of $79.4 million, or 5.4%, from $1.46 billion at December 31, 2013, primarily due to increases in net income of $66.3 million and increases in other comprehensive income of $20.8 million offset by common stock cash dividends of $9.6 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, 2014, and June 30, 2013, was as follows:

	Three months ended June 30, 2014			Three months ended June 30, 2013		
	Pre-tax	Tax expense	Net-of-tax	Pre-tax	Tax expense	Net-of-tax
	(In thousands)					
Beginning balance, net of tax						
Securities available-for sale			$ (22,090)			$ 23,477
Cash flow hedge derivatives			-			-
Total			$ (22,090)			$ 23,477
Net unrealized losses arising during the period						
Securities available-for sale	$ 23,724	$ 9,974	$ 13,750	$ (54,334)	$ (22,842)	$ (31,492)
Cash flow hedge derivatives	(454)	(191)	(263)	-	-	-
Total	23,270	9,783	13,487	(54,334)	(22,842)	$ (31,492)
Reclassification adjustment for net gains/(losses) in net income						
Securities available-for sale	(506)	(213)	(293)	(12,177)	(5,119)	(7,058)
Cash flow hedge derivatives	-	-	-	-	-	-
Total	(506)	(213)	(293)	(12,177)	(5,119)	(7,058)
Total other comprehensive income						
Securities available-for sale	23,218	9,761	13,457	(66,511)	(27,961)	(38,550)
Cash flow hedge derivatives	(454)	(191)	(263)	-	-	-
Total	$ 22,764	$ 9,570	$ 13,194	$ (66,511)	$ (27,961)	$ (38,550)
Ending balance, net of tax						
Securities available-for sale			$ (8,633)			$ (15,073)
Cash flow hedge derivatives			(263)			-
Total			$ (8,896)			$ (15,073)

	Six months ended June 30, 2014			Six months ended June 30, 2013		
	Pre-tax	Tax expense	Net-of-tax	Pre-tax	Tax expense	Net-of-tax
	(In thousands)					
Beginning balance, net of tax						
Securities available-for sale			$ (29,729)			$ 465
Cash flow hedge derivatives			-			-
Total			$ (29,729)			$ 465
Net unrealized losses arising during the period						
Securities available-for sale	$ 42,867	$ 18,023	$ 24,844	$ (46,391)	$ (19,503)	$ (26,888)
Cash flow hedge derivatives	(454)	(191)	(263)	-	-	-
Total	42,413	17,832	24,581	(46,391)	(19,503)	$ (26,888)

Reclassification adjustment for net gains/(losses) in net income						
Securities available-for sale	(6,466)	(2,718)	(3,748)	(18,469)	(7,764)	(10,705)
Cash flow hedge derivatives	-	-	-	-	-	-
Total	(6,466)	(2,718)	(3,748)	(18,469)	(7,764)	(10,705)
Net unrealized gains arising from transferring securities held-to-maturity to available-for-sale	-	-	-	38,052	15,997	22,055
Total other comprehensive income						
Securities available-for sale	36,401	15,305	21,096	(26,808)	(11,270)	(15,538)
Cash flow hedge derivatives	(454)	(191)	(263)	-	-	-
Total	$35,947	$15,114	$20,833	$(26,808)	$(11,270)	$(15,538)
Ending balance, net of tax						
Securities available-for sale			$(8,633)			$(15,073)
Cash flow hedge derivatives			(263)			-
Total			$(8,896)			$(15,073)

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, 2013.

Critical Accounting Policies

The discussion and analysis of the Company's unaudited condensed consolidated balance sheets and results of operations are based upon its unaudited condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these 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 our financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Management of the Company considers the following to be critical accounting policies:

Accounting for the allowance for credit losses involves significant judgments and assumptions by management, which have a material impact on 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, 2013.

Accounting for investment securities involves significant judgments and assumptions by management, which have a material impact on the carrying value of securities and the recognition of any "other-than-temporary" impairment to our investment securities. The judgments and assumptions used by management are described in "*Investment Securities*" 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, 2013.

Accounting for income taxes involves significant judgments and assumptions by management, which have a material impact on the amount of taxes currently payable and the income tax expense recorded in the financial statements. The judgments and assumptions used by management are described in "*Income Taxes*" 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, 2013.

Accounting for goodwill and goodwill impairment involves significant judgments and assumptions by management, which have a material impact on the amount of goodwill and noninterest expense recorded in the financial statements. The judgments and assumptions used by management are described in "*Goodwill and Goodwill Impairment*" 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, 2013.

Highlights

Diluted earnings per share increased 25.7% to $0.44 per share for the second quarter of 2014 compared to $0.35 per share for the same quarter a year ago.
Total loans increased $263.0 million, or 12.7%, in the second quarter of 2014, to $8.6 billion at June 30, 2014, compared to $8.3 billion at March 31, 2014, and $8.1 billion at December 31, 2013.

Quarterly Statement of Operations Review

Net Income

Net income available to common stockholders for the quarter ended June 30, 2014, was $35.1 million, an increase of $7.3 million, or 26.0%, compared to net income available to common stockholders of $27.8 million for the same quarter a year ago. Diluted earnings per share available to common stockholders for the quarter ended June 30, 2014, was $0.44 compared to $0.35 for the same quarter a year ago due primarily to an increase in net interest income, the negative provision for credit losses in 2014, a decrease in the cost associated with debt redemption and the elimination of preferred stock dividends, which were partially offset by a decrease in securities gains.

Return on average stockholders’ equity was 9.25% and return on average assets was 1.29% for the quarter ended June 30, 2014, compared to a return on average stockholders’ equity of 7.74% and a return on average assets of 1.15% for the same quarter a year ago.

Financial Performance

	Three months ended June 30,	
	2014	2013
Net income (in millions)	$35.1	$29.9
Net income available to common stockholders (in millions)	$35.1	$27.8
Basic earnings per common share	$0.44	$0.35
Diluted earnings per common share	$0.44	$0.35
Return on average assets	1.29 %	1.15 %
Return on average total stockholders' equity	9.25 %	7.74 %
Efficiency ratio	44.92%	53.53%

Net Interest Income Before Provision for Credit Losses

Net interest income before provision for credit losses increased $5.6 million, or 7.0%, to $85.6 million during the second quarter of 2014 compared to $80.0 million during the same quarter a year ago. The increase was due primarily to the increase in loan interest income and decrease in interest expense from securities sold under agreements to repurchase offset by the decrease in interest income from available-for-sale securities.

The net interest margin, on a fully taxable-equivalent basis, was 3.37% for the second quarter of 2014, compared to 3.38% for the first quarter of 2014 and 3.30% for the second quarter of 2013. The increase in the net interest margin was due mainly to the factors discussed above.

For the second quarter of 2014, the yield on average interest-earning assets was 4.13%, on a fully taxable-equivalent basis, the cost of funds on average interest-bearing liabilities was 1.00%, and the cost of interest bearing deposits was 0.66%. In comparison, for the second quarter of 2013, the yield on average interest-earning assets was 4.16%, on a fully taxable-equivalent basis, the cost of funds on average interest-bearing liabilities was 1.11%, and the cost of interest bearing deposits was 0.63%. The interest spread, defined as the difference between the yield on average interest-earning assets and the cost of funds on average interest-bearing liabilities, increased 8 basis points to 3.13% for the quarter ended June 30, 2014, from 3.05% for the same quarter a year ago, primarily for the reason discussed above.

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, 2014, and June 30, 2013. Average outstanding amounts included in the table are daily averages.

Interest-Earning Assets and Interest-Bearing Liabilities

	Three months ended June 30,					
	2014			2013		
(Dollars in thousands)	Average Balance	Interest Income/ Expense	Average Yield/ Rate (1)(2)	Average Balance	Interest Income/ Expense	Average Yield/ Rate (1)(2)
Interest earning assets:						
Commercial loans	$2,252,424	$21,968	3.91 %	$2,053,347	$20,565	4.02%
Residential mortgage loans	1,626,458	19,238	4.73	1,388,792	16,214	4.67
Commercial mortgage loans	4,242,975	52,251	4.94	3,829,999	48,980	5.13
Real estate construction loans	270,181	3,975	5.90	156,135	2,085	5.36
Other loans and leases	17,699	22	0.50	13,599	35	1.03
Total loans and leases (1)	8,409,737	97,454	4.65	7,441,872	87,879	4.74
Taxable securities	1,510,183	6,708	1.78	2,050,533	12,332	2.41
Tax-exempt securities (3)	-	-	-	11,051	43	1.56
Federal Home Loan Bank stock	27,979	421	6.04	35,186	342	3.90
Interest bearing deposits	252,552	479	0.76	191,255	281	0.59
Total interest-earning assets	10,200,451	105,062	4.13	9,729,897	100,877	4.16
Non-interest earning assets:						
Cash and due from banks	141,166			159,317		
Other non-earning assets	774,246			744,150		
Total non-interest earning assets	915,412			903,467		
Less: Allowance for loan losses	(171,985)			(179,409)		
Deferred loan fees	(13,488)			(11,208)		
Total assets	$10,930,390			$10,442,747		
Interest bearing liabilities:						
Interest bearing demand accounts	$702,216	$307	0.18	$622,998	$248	0.16
Money market accounts	1,303,129	2,016	0.62	1,137,452	1,592	0.56
Savings accounts	523,684	216	0.17	513,781	97	0.08
Time deposits	4,260,700	8,638	0.81	3,974,923	7,879	0.80
Total interest-bearing deposits	6,789,729	11,177	0.66	6,249,154	9,816	0.63
Securities sold under agreements to repurchase	700,000	6,943	3.98	1,042,308	9,982	3.84
Other borrowings	222,618	497	0.90	70,836	145	0.82
Long-term debt	119,760	828	2.77	171,136	924	2.17
Total interest-bearing liabilities	7,832,107	19,445	1.00	7,533,434	20,867	1.11
Non-interest bearing liabilities:						
Demand deposits	1,498,654			1,278,311		
Other liabilities	77,737			71,726		

Total equity	1,521,892			1,559,276		
Total liabilities and equity	$10,930,390			$10,442,747		
Net interest spread (4)			3.13 %			3.05%
Net interest income (4)		$85,617			$80,010	
Net interest margin (4)			3.37 %			3.30%

(1) Yields and amounts of interest earned include loan fees. Non-accrual loans are included in the average balance.
(2) Calculated by dividing net interest income by average outstanding interest-earning assets.
(3) The average yield has been adjusted to a fully taxable-equivalent basis for certain securities of states and political subdivisions and other securities held using a statutory federal income tax rate of 35%.
(4) Net interest income, net interest spread, and net interest margin on interest-earning assets have been adjusted to a fully taxable-equivalent basis using a statutory federal income tax rate of 35%.

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 Rate and Volume(1)

	Three months ended June 30, 2014-2013 Increase (Decrease) in Net Interest Income Due to:		
(Dollars in thousands)	Changes in Volume	Changes in Rate	Total Change
Interest-earning assets:			
Loans and leases	11,251	(1,676)	9,575
Taxable securities	(2,823)	(2,801)	(5,624)
Tax-exempt securities (2)	(43)	-	(43)
Federal Home Loan Bank stock	(81)	160	79
Deposits with other banks	104	94	198
Total changes in interest income	8,408	(4,223)	4,185
Interest-bearing liabilities:			
Interest bearing demand accounts	33	26	59
Money market accounts	246	178	424
Savings accounts	2	117	119
Time deposits	576	183	759
Securities sold under agreements to repurchase	(3,386)	347	(3,039)
Other borrowed funds	338	14	352
Long-term debt	(318)	222	(96)
Total changes in interest expense	(2,509)	1,087	(1,422)
Changes in net interest income	$10,917	$(5,310)	$5,607

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

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

Provision for Credit Losses

Provision for credit losses was a credit of $3.7 million for the second quarter of 2014 compared to zero for the second quarter of 2013. The provision for credit losses was based on the review of the adequacy of the allowance for loan losses at June 30, 2014. The provision or reversal for credit losses represents the charge against or benefit toward current earnings that is determined by management, through a credit review process, as the amount needed to establish an allowance that management believes to be sufficient to absorb credit losses inherent in the Company's loan portfolio, including unfunded commitments. The following table summarizes the charge-offs and recoveries for the periods indicated:

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
	(In thousands)			
Charge-offs:				
Commercial loans	$114	$1,690	$7,340	$4,380
Construction loans	1,813	-	1,813	-
Real estate loans (1)	648	2,237	2,424	3,637
Total charge-offs	2,575	3,927	11,577	8,017
Recoveries:				
Commercial loans	4,682	624	6,704	1,579
Construction loans	-	941	25	1,020
Real estate loans (1)	1,528	2,645	4,099	3,004
Real estate- land loans	4	645	8	654
Installment and other loans	-	11	-	11
Total recoveries	6,214	4,866	10,836	6,268
Net (recoveries)/charge-offs	$(3,639)	$(939)	$741	$1,749

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

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Non-Interest Income

Non-interest income, which includes revenues from depository service fees, letters of credit commissions, securities gains (losses), gains (losses) on loan sales, wire transfer fees, and other sources of fee income, was $9.0 million for the second quarter of 2014, a decrease of $11.4 million, or 55.7%, compared to $20.4 million for the second quarter of 2013. The decrease in non-interest income in the second quarter of 2014 was primarily due to a decrease of $11.7 million in gains on sale of securities offset by an increase of $644,000 in commissions from wealth management.

Non-Interest Expense

Non-interest expense decreased $11.2 million, or 20.9%, to $42.5 million in the second quarter of 2014 compared to $53.7 million in the same quarter a year ago. The efficiency ratio was 44.92% in the second quarter of 2014 compared to 53.53% for the same quarter a year ago.

Costs associated with debt redemption decreased $10.6 million to income of $555,000 in the second quarter of 2014 compared to costs of $10.1 million in the same quarter a year ago. The Company repurchased $2.0 million of Junior Subordinated Notes at a discount in the second quarter of 2014 whereas the Company prepaid $200.0 million of securities sold under agreements to repurchase in the same period a year ago. Other professional services expenses decreased $1.6 million due to the completion of the core system conversion in 2013. Amortization of core deposit premium decreased $1.2 million to $124,000 in the second quarter of 2014 compared to $1.3 million in the same quarter a year ago, as a result of the full amortization of the core deposit premium from the General Bank acquisition. Operating expenses of affordable housing investments also decreased $1.0 million primarily due to adjustments made in the second quarter of 2014 to reflect actual 2013 operating results for several low income housing investments. Offsetting the above decreases was a $1.8 million increase in salaries and employee benefits, primarily due to higher bonus accruals and amortization of long term incentive compensation awards.

Income Taxes

The effective tax rate for the second quarter of 2014 was 37.2% compared to 35.7% for the second quarter of 2013. The effective tax rate includes the impact of the utilization of low income housing tax credits.

Year-to-Date Statement of Operations Review

Net income attributable to common stockholders for the six months ended June 30, 2014, was $66.3 million, an increase of $14.8 million, or 28.8%, compared to net income attributable to common stockholders of $51.5 million for the same period a year ago, due primarily to increases in net interest income, a negative provision for credit losses, and decreases in costs associated with debt redemption partially offset by decreases in gains on sale of securities and increases in salaries and incentive compensation expense. Diluted earnings per share for the six months ended June 30, 2014, was $0.83 compared to $0.65 for the same period a year ago. The net interest margin for the six months ended June 30, 2014, increased four basis points to 3.37% compared to 3.33% for the same period a year ago.

Return on average stockholders' equity was 8.89% and return on average assets was 1.24% for the six months ended June 30, 2014, compared to a return on average stockholders' equity of 7.47% and a return on average assets of 1.13% for the same period of 2013. The efficiency ratio for the six months ended June 30, 2014, was 47.21% compared to 52.64% 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, 2014, and 2013. Average outstanding amounts included in the table are daily averages.

Interest-Earning Assets and Interest-Bearing Liabilities

	Six months ended June 30,					
	2014			2013		
(Dollars in thousands)	Average Balance	Interest Income/ Expense	Average Yield/ Rate (1)(2)	Average Balance	Interest Income/ Expense	Average Yield/ Rate (1)(2)
Interest earning assets:						
Commercial loans	$2,256,483	$43,280	3.87%	$2,063,530	$41,333	4.04%
Residential mortgage loans	1,597,244	37,708	4.72	1,373,156	32,156	4.68
Commercial mortgage loans	4,159,798	101,865	4.94	3,795,783	98,686	5.24
Real estate construction loans	251,815	7,285	5.83	168,626	4,472	5.35
Other loans and leases	18,819	48	0.51	13,426	72	1.08
Total loans and leases (1)	8,284,159	190,186	4.63	7,414,521	176,719	4.81
Taxable securities	1,545,715	14,284	1.86	2,028,435	24,118	2.40
Tax-exempt securities (3)	-	-	-	67,304	1,531	4.59
Federal Home Loan Bank stock	26,525	871	6.62	38,097	592	3.13
Interest bearing deposits	200,684	928	0.93	193,920	489	0.51
Total interest-earning assets	10,057,083	206,269	4.14	9,742,277	203,449	4.21
Non-interest earning assets:						
Cash and due from banks	138,629			149,403		
Other non-earning assets	780,124			753,974		
Total non-interest earning assets	918,753			903,377		
Less: Allowance for loan losses	(173,451)			(181,467)		
Deferred loan fees	(13,415)			(10,642)		
Total assets	$10,788,970			$10,453,545		
Interest bearing liabilities:						
Interest bearing demand accounts	$692,544	$580	0.17	$611,617	$483	0.16
Money market accounts	1,289,503	3,943	0.62	1,150,715	3,172	0.56
Savings accounts	511,107	308	0.12	490,496	189	0.08
Time deposits	4,216,128	17,038	0.81	3,927,151	15,494	0.80
Total interest-bearing deposits	6,709,282	21,869	0.66	6,179,979	19,338	0.63
Securities sold under agreements to repurchase	703,591	13,873	3.98	1,119,337	21,375	3.85
Other borrowings	199,066	696	0.71	59,883	225	0.76

Long-term debt	120,444	1,556	2.61	171,136	1,848	2.18
Total interest-bearing liabilities	7,732,383	37,994	0.99	7,530,335	42,786	1.15
Non-interest bearing liabilities:						
Demand deposits	1,472,109			1,250,088		
Other liabilities	80,331			77,301		
Total equity	1,504,147			1,595,821		
Total liabilities and equity	$10,788,970			$10,453,545		
Net interest spread (4)			3.15%			3.06%
Net interest income (4)		$168,275			$160,663	
Net interest margin (4)			3.37%			3.33%

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

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

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

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

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 Rate and Volume(1)

(Dollars in thousands)	Six months ended June 30, 2014-2013 Increase (Decrease) in Net Interest Income Due to: Changes in Volume	Changes in Rate	Total Change
Interest-earning assets:			
Loans and leases	20,229	(6,762)	13,467
Taxable securities	(5,079)	(4,755)	(9,834)
Tax-exempt securities (2)	(1,531)	-	(1,531)
Federal Home Loan Bank stock	(225)	504	279
Interest bearing deposits	18	421	439
Total decrease in interest income	13,412	(10,592)	2,820
Interest-bearing liabilities:			
Interest bearing demand accounts	67	30	97
Money market accounts	405	366	771
Savings accounts	8	111	119
Time deposits	1,161	383	1,544
Securities sold under agreements to repurchase	(8,187)	685	(7,502)
Other borrowings	488	(17)	471
Long-term debts	(616)	324	(292)
Total decrease in interest expense	(6,674)	1,882	(4,792)
Changes in net interest income	$20,086	$(12,474)	$7,612

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

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

Balance Sheet Review

Assets

Total assets were $11.6 billion at June 30, 2014, an increase of $567.5 million, or 5.2%, from $11.0 billion at December 31, 2013, primarily due to a $480.7 million increase in loans and a $286.6 million increase in short-term investments offset by a $246.7 million decrease in securities available-for-sale.

Investment Securities

Investment securities represented 11.6% of total assets at June 30, 2014, compared with 14.4% of total assets at December 31, 2013. The carrying value of investment securities at June 30, 2014, was $1.34 billion compared with $1.59 billion at December 31, 2013. Securities available-for-sale are carried at fair value and had a net unrealized loss, net of tax, of $8.6 million at June 30, 2014, compared with a net unrealized loss, net of tax, of $29.7 million at December 31, 2013. During the first quarter of 2013, due to the ongoing discussions regarding corporate income tax rates which could have a negative impact on the after-tax yields and fair values of the Company's portfolio of municipal securities, the Company determined it may sell such securities in response to market conditions. As a result, the Company reclassified its municipal securities from securities held-to-maturity to securities available-for-sale. Concurrent with this reclassification, the Company also reclassified all other securities held-to-maturity, which together with the municipal securities had an amortized cost on the date of transfer of $722.5 million, to securities available-for-sale. At the reclassification date, a net unrealized gain was recorded in other comprehensive income for these securities totaling $40.5 million.

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

	June 30, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Securities Available-for-Sale				
U.S. treasury securities	$565,091	$ 73	$ 1	$565,163
Mortgage-backed securities	680,556	1,210	24,897	656,869
Collateralized mortgage obligations	81	-	35	46
Corporate debt securities	94,938	848	1,449	94,337
Mutual funds	6,000	-	167	5,833
Preferred stock of government sponsored entities	4,611	6,885	1	11,495
Other equity securities	3,608	2,638	-	6,246
Total securities available-for-sale	$1,354,885	$ 11,654	$ 26,550	$1,339,989
Total investment securities	$1,354,885	$ 11,654	$ 26,550	$1,339,989

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

For additional information, see Note 6 to the Company’s condensed consolidated financial statements presented elsewhere in this report.

Investment securities having a carrying value of $849.1 million at June 30, 2014, and $926.5 million at December 31, 2013, were pledged to secure public deposits, other borrowings, treasury tax and loan, , securities sold under agreements to repurchase.

Loans

Gross loans were $8.57 billion at June 30, 2014, an increase of $480.7 million, or 5.9%, from $8.08 billion at December 31, 2013, primarily due to increases of $24.2 million, or 1.1%, in commercial loans, $63.6 million, or 28.7%, in real estate construction loans, $113.5 million, or 8.4%, in residential mortgage loans, and $285.1 million, or 7.1%, in commercial mortgage loans. The following table sets forth the classification of loans by type, mix, and percentage change as of the dates indicated:

	June 30, 2014	% of Gross Loans	December 31, 2013	% of Gross Loans	% Change
	(Dollars in thousands)				
Type of Loans					
Commercial loans	$2,322,880	27.1 %	$2,298,724	28.4 %	1.1 %
Residential mortgage loans	1,468,715	17.2	1,355,255	16.8	8.4
Commercial mortgage loans	4,308,170	50.3	4,023,051	49.8	7.1
Equity lines	170,711	2.0	171,277	2.1	(0.3)
Real estate construction loans	285,339	3.3	221,701	2.7	28.7
Installment and other loans	9,463	0.1	14,555	0.2	(35.0)
Gross loans	$8,565,278	100 %	$8,084,563	100 %	5.9 %
Allowance for loan losses	(169,077)		(173,889)		(2.8)
Unamortized deferred loan fees	(13,501)		(13,487)		0.1
Total loans, net	$8,382,700		$7,897,187		6.1 %

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 for problem loans. During the ordinary course of business, management becomes aware of borrowers that may not be able to meet the contractual requirements of the loan agreements. Such loans 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 1.0% at June 30, 2014, compared to 1.3% at December 31, 2013. Total non-performing assets decreased $23.4 million, or 17.0%, to $113.8 million at June 30, 2014, compared to $137.2 million at December 31, 2013, primarily due to a $5.6 million, or 6.7%, decrease in non-accrual loans and a $18.2 million, or 34.3%, decrease in OREO.

As a percentage of gross loans plus OREO, our non-performing assets decreased to 1.32% at June 30, 2014, from 1.69% at December 31, 2013. The non-performing portfolio loan coverage ratio, defined as the allowance for credit losses to non-performing loans, increased to 216.4% at June 30, 2014, from 208.2% at December 31, 2013.

The following table presents the changes in non-performing assets and troubled debt restructurings (TDRs) at June 30, 2014, compared to December 31, 2013, and to June 30, 2013:

(Dollars in thousands)	June 30, 2014	December 31, 2013	% Change	June 30, 2013	% Change
Non-performing assets					
Accruing loans past due 90 days or more	$1,426	$982	45	$-	100
Non-accrual loans:					
Construction- residential loans	1,500	3,313	(55)	3,691	(59)
Construction- non-residential loans	24,428	25,273	(3)	25,763	(5)
Land loans	6,502	6,502	-	11,534	(44)
Commercial real estate loans, excluding land loans	24,047	13,119	83	30,326	(21)
Commercial loans	11,570	21,232	(46)	14,029	(18)
Residential mortgage loans	9,526	13,744	(31)	10,270	(7)
Total non-accrual loans:	$77,573	$83,183	(7)	$95,613	(19)
Total non-performing loans	78,999	84,165	(6)	95,613	(17)
Other real estate owned	34,835	52,985	(34)	49,141	(29)
Total non-performing assets	$113,834	$137,150	(17)	$144,754	(21)
Accruing troubled debt restructurings (TDRs)	$111,136	$117,597	(5)	$115,464	(4)
Allowance for loan losses	$169,077	$173,889	(3)	$179,733	(6)
Allowance for off-balance sheet credit commitments	1,844	1,362	35	3,203	(42)
Allowance for credit losses	$170,921	$175,251	(2)	$182,936	(7)
Total gross loans outstanding, at period-end	$8,565,278	$8,084,563	6	$7,694,373	11
Allowance for loan losses to non-performing loans, at period-end	214.02 %	206.60 %		187.98 %	
Allowance for loan losses to gross loans, at period-end	1.97 %	2.15 %		2.34 %	
Allowance for credit losses to gross loans, at period-end	2.00 %	2.17 %		2.38 %	

Non-accrual Loans

At June 30, 2014, total non-accrual loans were $77.6 million, a decrease of $18.0 million, or 18.9%, from $95.6 million at June 30, 2013, and a decrease of $5.6 million, or 6.7%, from $83.2 million at December 31, 2013. 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. 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, based on recent appraisals, of these loans on a quarterly basis and adjust the allowance accordingly. Non-accrual loans also include those troubled debt restructurings that do not qualify for accrual status.

The following tables present 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, 2014		December 31, 2013	
	Real Estate (1)	Commercial	Real Estate (1)	Commercial
	(In thousands)			
Type of Collateral				
Single/multi-family residence	$12,006	$ 2,998	$22,370	$ 2,030
Commercial real estate	47,495	1,733	33,079	1,366
Land	6,502	-	6,502	-
Unsecured	-	6,839	-	17,836
Total	$66,003	$ 11,570	$61,951	$ 21,232

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

	June 30, 2014		December 31, 2013	
	Real Estate (1)	Commercial	Real Estate (1)	Commercial
	(In thousands)			
Type of Business				
Real estate development	$41,636	$ 1,465	$31,895	$ 5,866
Wholesale/Retail	15,380	6,234	16,796	3,526
Food/Restaurant	1,165	195	569	173
Import/Export	-	3,676	-	11,667
Other	7,822	-	12,691	-
Total	$66,003	$ 11,570	$61,951	$ 21,232

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

Other Real Estate Owned

At June 30, 2014, OREO totaled $34.8 million, which decreased $18.2 million, or 34.3%, compared to $53.0 million at December 31, 2013, and decreased $14.3 million, or 29.1%, compared to $49.1 million at June 30, 2013.

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Impaired Loans

A loan is considered impaired when it is probable that a creditor 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 receipt of information indicating that full collection of principal is doubtful, or when the loan has been restructured in a troubled debt restructuring. Those loans with a balance less than our defined selection criteria, generally a loan amount less than $500,000 (less than $100,000 for quarters before June 30, 2012), 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 obtain an appraisal to determine the amount of impairment at the date that the loan becomes impaired. The appraisals are based on “as is” or bulk sale valuations. To ensure that appraised values remain current, we generally obtain an updated appraisal every six months from qualified independent appraisers. Furthermore, if the most current appraisal is dated more than three months prior to the effective date of the impairment test, we validate the most current value with third party market data appropriate to the location and property type of the collateral. If the third party market data indicates that the value of our collateral has declined since the most recent valuation date, we adjust downward the value of the property to reflect current market conditions. 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 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.

At June 30, 2014, recorded investment in impaired loans totaled $188.7 million and was comprised of non-accrual loans of $77.6 million and accruing TDRs of $111.1 million. At December 31, 2013, recorded investment in impaired loans totaled $200.8 million and was comprised of non-accrual loans of $83.2 million and accruing TDRs of $117.6 million. For impaired loans, the amounts previously charged off represent 12.9% at June 30, 2014, and 23.9% at December 31, 2013, of the contractual balances for impaired loans. As of June 30, 2014, $66.0 million, or 85.1%, of the $77.6 million of non-accrual loans were secured by real estate compared to $62.0 million, or 74.5%, of the $83.2 million of non-accrual loans that were secured by real estate at December 31, 2013. The Bank obtains current appraisals, sales contracts, or other available market price information which provide updated factors in evaluating potential loss.

At June 30, 2014, $9.6 million of the $169.1 million allowance for loan losses was allocated for impaired loans and $159.5 million was allocated to the general allowance. At December 31, 2013, $13.3 million of the $173.9 million allowance for loan losses was allocated for impaired loans and $160.6 million was allocated to the general allowance.

The allowance for credit losses to non-accrual loans increased to 220.3% at June 30, 2014, from 210.7% at December 31, 2013, primarily due to decreases in non-accrual loans. Non-accrual loans also include those TDRs that do not qualify for accrual status.

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

	Impaired Loans					
	June 30, 2014			**December 31, 2013**		
	Unpaid Principal Balance	**Recorded Investment**	**Allowance**	**Unpaid Principal Balance**	**Recorded Investment**	**Allowance**
	(In thousands)					
With no allocated allowance						
Commercial loans	$20,298	$ 19,271	$ -	$20,992	$ 18,905	$ -
Real estate construction loans	37,494	16,225	-	25,401	15,097	-
Commercial mortgage loans	82,090	80,102	-	105,593	78,930	-
Residential mortgage loans and equity lines	3,084	3,084	-	4,892	4,892	-
Subtotal	$142,966	$ 118,682	$ -	$156,878	$ 117,824	$ -
With allocated allowance						
Commercial loans	$10,725	$ 7,700	$ 2,717	$22,737	$ 13,063	$ 2,519
Real estate construction loans	15,503	15,503	143	28,475	19,323	3,460
Commercial mortgage loans	33,411	33,149	6,230	39,223	35,613	6,584
Residential mortgage loans and equity lines	14,077	13,675	519	16,535	14,957	721
Subtotal	$73,716	$ 70,027	$ 9,609	$106,970	$ 82,956	$ 13,284
Total impaired loans	$216,682	$ 188,709	$ 9,609	$263,848	$ 200,780	$ 13,284

Loan Interest Reserves

In accordance with customary banking practice, construction loans and land development loans are originated where interest on the loan is disbursed from pre-established interest reserves included in the total original loan commitment. Our construction 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 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 65% in the case of land to 85% in the case of one to four family residential construction projects.

As of June 30, 2014, construction loans of $226.0 million were disbursed with pre-established interest reserves of $25.8 million compared to $160.8 million of such loans disbursed with pre-established interest reserves of $20.0 million at December 31, 2013. The balance for construction loans with interest reserves which have been extended was $40.1 million with pre-established interest reserves of $1.5 million at June 30, 2014, compared to $20.5 million with pre-established interest reserves of $1.8 million at December 31, 2013. Land loans of $33.7 million were disbursed with pre-established interest reserves of $2.0 million at June 30, 2014, compared to $32.8 million land loans disbursed with pre-established interest reserves of $3.0 million at December 31, 2013. The balance for land loans with interest reserves which have been extended was zero at June 30, 2014, compared to $1.7 million land loans with pre-established interest reserves of $53,000 at December 31, 2013.

At June 30, 2014, the Bank had no loans on non-accrual status with available interest reserves. At June 30, 2014, $1.5 million of non-accrual residential construction loans, $24.4 million of non-accrual non-residential construction loans, and $32,000 of non-accrual land loans had been originated with pre-established interest reserves. At December 31, 2013, the Bank had no loans on non-accrual status with available interest reserves. At December 31, 2013, $3.3 million of non-accrual residential construction loans, $25.3 million of non-accrual non-residential construction loans, and $32,000 of non-accrual land loans had been originated with pre-established interest reserves. While loans with interest reserves are typically expected to be repaid in full according to the original contractual terms, some loans require one or more extensions beyond the original maturity. Typically, these extensions are required due to construction delays, delays in the sale or lease of property, or some combination of these two factors.

Loan Concentration

Most of the Company's business activities are with customers located in the predominantly Asian areas of Southern and Northern California; New York City, New York; Dallas and Houston, Texas; Seattle, Washington; Boston, Massachusetts; Chicago, Illinois; Edison, New Jersey; Las Vegas, Nevada, and Hong Kong. The Company has no specific industry concentration, and generally its loans are collateralized with real property or other pledged collateral of the borrowers. Loans are generally expected to be paid off from the operating profits of the borrowers, refinancing by another lender, or through sale by the borrowers of the collateral. There were no loan concentrations to multiple borrowers in similar activities which exceeded 10% of total loans as of June 30, 2014, or as of December 31, 2013.

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) both 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-nine months. Total loans for construction, land development, and other land represented 26% of the Bank's total risk-based capital as of June 30, 2014, and 23% as of December 31, 2013. Total CRE loans represented 255% of total risk-based capital as of June 30, 2014, and 249% as of December 31, 2013 and were below the Bank's internal limit for CRE loans of 300% of total capital at both dates.

Allowance for Credit Losses

The Bank maintains the allowance for credit losses at a level that is considered adequate 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 is designed to identify impaired and potential problem loans, and to permit periodic evaluation of impairment and the adequacy 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 which it believes should be effective in ensuring that the Bank maintains an adequate allowance for credit losses. The Board of Directors provides oversight for the allowance evaluation process, including quarterly evaluations, and determines whether the allowance is adequate to absorb losses in the credit portfolio. The determination of the amount of the allowance for credit losses and the provision for credit losses is based on management's current judgment about the credit quality of the loan portfolio and takes into consideration known relevant internal and external factors that affect collectability when determining the appropriate level for the allowance for credit losses. The nature of the process by which the Bank determines the appropriate allowance for credit losses requires the exercise of considerable judgment. Additions to the allowance for credit losses are made by charges to the provision for credit losses. While management utilizes its best judgment based on the information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Bank's control, including the performance of the Bank's loan portfolio, the economy, 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 $169.1 million and the allowance for off-balance sheet unfunded credit commitments was $1.8 million at June 30, 2014, which represented the amount believed by management to be sufficient to absorb credit losses inherent in the loan portfolio, including unfunded commitments. The allowance for credit losses, which is the sum of the allowances for loan losses and for off-balance sheet unfunded credit commitments, was $170.9 million at June 31, 2014, compared to $175.3 million at December 31, 2013, a decrease of $4.3 million, or 2.5%. The allowance for credit losses represented 2.00% of period-end gross loans and 216.4% of non-performing loans at June 30, 2014. The comparable ratios were 2.17% of period-end gross loans and 208.2% of non-performing loans at December 31, 2013.

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,	
	2014	2013	2014	2013
	(Dollars in thousands)			
Allowance for Loan Losses				
Balance at beginning of period	$169,138	$178,692	$173,889	$183,322
Provision for credit losses	(3,700)	-	(3,700)	-
Transfers from/(to) reserve for off-balance sheet credit commitments	-	102	(371)	(1,840)
Charge-offs :				
Commercial loans	(114)	(1,690)	(7,340)	(4,380)
Construction loans-residential	(1,813)	-	(1,813)	-
Real estate loans	(648)	(1,189)	(2,424)	(2,319)
Land loans	-	(1,048)	-	(1,318)
Total charge-offs	(2,575)	(3,927)	(11,577)	(8,017)
Recoveries:				
Commercial loans	4,682	624	6,704	1,579
Construction loans-residential	-	108	16	154
Construction loans-other	-	833	9	866
Real estate loans	1,528	2,645	4,099	3,004
Land loans	4	645	8	654
Installment loans and other loans	-	11	-	11
Total recoveries	6,214	4,866	10,836	6,268
Balance at end of period	$169,077	$179,733	$169,077	$179,733
Reserve for off-balance sheet credit commitments				
Balance at beginning of period	$1,734	$3,304	$1,362	$1,362
Provision/(reversal) for credit losses/transfers	110	(102)	482	1,840
Balance at end of period	$1,844	$3,202	$1,844	$3,202
Average loans outstanding during period ended	$8,409,737	$7,441,872	$8,284,159	$7,414,521
Total gross loans outstanding, at period-end	$8,565,278	$7,694,373	$8,565,278	$7,694,373
Total non-performing loans, at period-end	$77,573	$95,613	$77,573	$95,613
Ratio of net charge-offs to average loans outstanding during the period	-0.17%	-0.05%	0.02%	0.05%
Provision for loan losses to average loans outstanding during the period	-0.18%	-	-0.09%	-
Allowance for loan losses to non-performing loans at period-end	220.34%	191.33%	220.34%	191.33%
Allowance for loan losses to gross loans at period-end	2.00%	2.38%	2.00%	2.38%

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 23 segments: two commercial segments, ten commercial real estate segments, three residential construction segments, three non-residential construction segments, 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 takes into account 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 including the 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 ensure 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 total average loans as of the dates indicated:

(Dollars in thousands)	June 30, 2014		December 31, 2013	
	Amount	Percentage of Loans in Each Category to Average Gross Loans	Amount	Percentage of Loans in Each Category to Average Gross Loans
Type of Loan:				
Commercial loans	$63,239	27.2 %	$65,103	28.2 %
Residential mortgage loans (1)	12,870	19.3	12,005	18.6
Commercial mortgage loans	83,395	50.2	84,753	50.7
Real estate construction loans	9,555	3.1	11,999	2.3
Installment and other loans	18	0.2	29	0.2
Total	$169,077	100 %	$173,889	100 %

(1) Residential mortgage loans includes equity lines.

The allowance allocated to commercial loans was $63.2 million at June 30, 2014, compared to $65.1 million at December 31, 2013. The decrease is due primarily to decreases in Substandard commercial loans from $102.1 million at December 31, 2013, to $77.8 million at June 30, 2014.

The allowance allocated to commercial mortgage loans decreased from $84.8 million at December 31, 2013, to $83.4 million at June 30, 2014, which was due primarily to decreases in loss experience from commercial mortgage loans and to the net recoveries of $1.7 million during the first six months of 2014. The overall allowance for total commercial mortgage loans was 1.9% at June 30, 2014, and 2.1% at December 31, 2013.

The allowance allocated for construction loans decreased to $9.6 million, or 3.4%, of construction loans at June 30, 2014, compared to $12.0 million, or 5.4%, of construction loans at December 31, 2013, primarily due to decreases in loss experience from construction loans which are evaluated on a collective basis.

Deposits

Total deposits were $8.58 billion at June 30, 2014, an increase of $599.3 million, or 7.5%, from $7.98 billion at December 31, 2013, primarily due to a $195.0 million, or 6.2%, increase in time deposits of $100,000 or more, a $181.5 million, or 19.5%, increase in time deposits under $100,000, a $123.8 million, or 9.6%, increase in money market deposits, a $82.7 million, or 5.7%, increase in non-interest bearing demand deposits, and a $14.8 million, or 2.2%, increase in NOW deposits. The following table displays the deposit mix as of the dates indicated:

	June 30, 2014	% of Total	December 31, 2013	% of Total
	(Dollars in thousands)			
Deposits				
Non-interest-bearing demand deposits	$1,524,577	17.8 %	$ 1,441,858	18.1 %
NOW deposits	698,671	8.1	683,873	8.6
Money market deposits	1,410,123	16.4	1,286,338	16.1
Savings deposits	501,065	5.8	499,520	6.2
Time deposits under $100,000	1,112,673	13.0	931,204	11.7
Time deposits of $100,000 or more	3,333,487	38.9	3,138,512	39.3
Total deposits	$8,580,596	100.0%	$ 7,981,305	100.0%

Borrowings

Borrowings include federal funds purchased, securities sold under agreements to repurchase, funds obtained as advances from the Federal Home Loan Bank (“FHLB”) of San Francisco, and borrowings from other financial institutions.

Securities sold under agreements to repurchase were $700.0 million with a weighted average rate of 3.92% at June 30, 2014, compared to $800.0 million with a weighted average rate of 3.87% at December 31, 2013. In the first six months of 2014, the Company prepaid securities sold under agreements to repurchase totaling $100 million with a weighted average rate of 3.5% and incurred prepayment penalties of $3.4 million. In the first six months of 2013, the Company prepaid securities sold under agreements to repurchase totaling $300 million with a weighted average rate of 3.97% and incurred prepayment penalties of $15.7 million. Five floating-to-fixed rate agreements totaling $300.0 million have initial floating rates for a period of time ranging from six months to one year, with floating rates ranging from the three-month LIBOR rate minus 200 basis points to the three-month LIBOR rate minus 340 basis points. Thereafter, the rates are fixed for the remainder of the term, with interest rates ranging from 4.78% to 5.07%. After the initial floating rate term, the counterparties have the right to terminate the transaction at par at the fixed rate reset date and quarterly thereafter. Four fixed-to-floating rate agreements totaling $200.0 million have initial fixed rates ranging from 1.00% to 3.50% with initial fixed rate terms ranging from six months to 18 months. For the remaining term, the rates float at 8% minus the three-month LIBOR rate with a maximum rate ranging from 3.50% to 3.75% and a minimum rate of 0.0%. After the initial fixed rate term, the counterparties have the right to terminate the transaction at par at the floating rate reset date and quarterly thereafter. The table below provides summary data for the $500 million of callable securities sold under agreements to repurchase as of June 30, 2014:

(Dollars in millions)	Fixed-to-floating			Floating-to-fixed		Total
Rate type	Float Rate			Fixed Rate		
Rate index	8% minus 3 month LIBOR					
Maximum rate	3.75%	3.50 %	3.50%			
Minimum rate	0.0 %	0.0 %	0.0 %			
No. of agreements	1	2	1	1	4	9
Amount	$50.0	$100.0	$50.0	$100.0	$200.0	$500.0
Weighted average rate	3.75%	3.50 %	3.50%	4.78 %	5.00 %	4.38 %
Final maturity	2014	2014	2015	2014	2017	

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

Maturity	No. of Agreements	Amount (In thousands)	Weighted Average Interest Rate	
1 year to 3 years	1	$ 50,000	2.69	%
3 years to 5 years	3	150,000	2.81	%
Total	4	$ 200,000	2.78	%

These transactions are accounted for as collateralized financing transactions and recorded at the amounts at which the securities were sold. The Company may have to provide additional collateral for the repurchase agreements, as necessary. The underlying collateral pledged for the repurchase agreements consists of U.S. Treasury securities, U.S. government agency securities, and mortgage-backed securities with a fair value of $789.9 million as of June 30, 2014, and $906.1 million as of December 31, 2013.

Advances from the FHLB. Advances from the FHLB were $521.2 million with weighted average rate of 0.52% at June 30, 2014, compared to $521.2 million with weighted average rate of 0.17% at December 31, 2013. The following relates to the outstanding advances at June 30, 2014, and December 31, 2013:

	June 30, 2014			December 31, 2013		
Maturity	Amount (In thousands)	Weighted Average Interest Rate		Amount (In thousands)	Weighted Average Interest Rate	
Within 90 days	$325,000	0.18	%	$475,000	0.06	%
1 - 3 years	171,200	1.08	%	-	-	
4 - 5 years	25,000	1.13	%	46,200	1.24	%
	$521,200	0.52	%	$521,200	0.17	%

Long-term Debt

Long-term debt was $119.1 million at June 30, 2014, compared to $121.1 million at December 31, 2013. Long-term debt is comprised of Junior Subordinated Notes, which qualifies as Tier I capital for regulatory purposes, issued in connection with our various pooled trust preferred securities offerings.

Off-Balance-Sheet Arrangements and Contractual Obligations

The following table summarizes the Company's contractual obligations to make future payments as of June 30, 2014. 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	$3,533,105	$679,244	$233,800	$11	$4,446,160
Securities sold under agreements to repurchase (1)	300,000	200,000	-	-	500,000
Securities sold under agreements to repurchase (2)	-	50,000	150,000	-	200,000
Advances from the Federal Home Loan Bank	325,000	171,200	25,000	-	521,200
Other borrowings	-	-	-	18,985	18,985
Long-term debt	-	-	-	119,136	119,136
Operating leases	5,911	8,299	4,619	3,184	22,013
Total contractual obligations and other commitments	$4,164,016	$1,108,743	$413,419	$141,316	$5,827,494

(1) These repurchase agreements have a final maturity of 5-years, 7-years and 10-years from origination date but are callable on a quarterly basis after six months, one year, or 18 months for the 7-year term and one year for the 5-year and 10-year terms.

(2) These repurchase agreements are non-callable.

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 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 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 $1.54 billion at June 30, 2014, an increase of $79.4 million, or 5.4%, from $1.46 billion at December 31, 2013, primarily due to increases in net income of $66.3 million and decreases in unrealized losses on securities available-for-sale of $20.8 million offset by common stock cash dividends of $9.6 million.

The following table summarizes changes in total equity for the six months ended June 30, 2014:

(In thousands)	Six months ended June 30, 2014
Net income	$66,343
Stock issued to directors	350
Proceeds from shares issued through the Dividend Reinvestment Plan	875
Shares withheld related to net share settlement of RSUs	(274)
Net tax short-fall from stock-based compensation expense	(1,177)
Share-based compensation	1,997
Other comprehensive income	20,833
Cash dividends paid to common stockholders	(9,556)
Net increase in total equity	$79,391

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.

Both the Bancorp’s and the Bank’s regulatory capital continued to exceed the regulatory minimum requirements as of June 30, 2014. In addition, the capital ratios of the Bank place it in the “well capitalized” category which is defined as institutions with a Tier 1 risk-based capital ratio equal to or greater than 6.0%, total risk-based capital ratio equal to or greater than 10.0%, and Tier 1 leverage capital ratio equal to or greater than 5.0%.

The following table presents Bancorp's and the Bank's capital and leverage ratios as of June 3, 2014, and December 31, 2013:

	Cathay General Bancorp				Cathay Bank			
	June 30, 2014		December 31, 2013		June 30, 2014		December 31, 2013	
(Dollars in thousands)	Balance	%	Balance	%	Balance	%	Balance	%
Tier 1 capital (to risk-weighted assets)	$1,346,077	15.13	$1,288,892	15.04	$1,309,293	14.73	$1,244,480	14.53
Tier 1 capital minimum requirement	355,928	4.00	342,899	4.00	355,592	4.00	342,701	4.00
Excess	$990,149	11.13	$945,993	11.04	$953,701	10.73	$901,779	10.53
Total capital (to risk-weighted assets)	$1,462,252	16.43	$1,401,319	16.35	$1,421,154	15.99	$1,352,415	15.79
Total capital minimum requirement	711,857	8.00	685,799	8.00	711,185	8.00	685,402	8.00
Excess	$750,395	8.43	$715,520	8.35	$709,969	7.99	$667,013	7.79
Tier 1 capital (to average assets) – Leverage ratio	$1,346,077	12.65	$1,288,892	12.48	$1,309,293	12.31	$1,244,480	12.06
Minimum leverage requirement	425,623	4.00	413,158	4.00	425,381	4.00	412,815	4.00
Excess	$920,454	8.65	$875,734	8.48	$883,912	8.31	$831,665	8.06
Risk-weighted assets	$8,898,207		$8,572,487		$8,889,811		$8,567,523	
Total average assets (1)	$10,640,585		$10,328,952		$10,634,527		$10,320,368	

(1) The quarterly total average assets reflect all debt securities at amortized cost, equity security with readily determinable fair values at the lower of cost or fair value, and equity securities without readily determinable fair values at historical cost.

In July 2013, the federal bank regulatory agencies adopted final regulations which revised their risk-based and leverage capital requirements for banking organizations to meet requirements of the Dodd-Frank Act and to implement international agreements reached by the Basel Committee on Banking Supervision that were intended to improve both the quality and quantity of banking organizations' capital ("Basel III"). Although many of the rules contained in these final regulations are applicable only to large, internationally active banks, some of them will apply on a phased in basis to all banking organizations, including the Company and the Bank.

The following are among the new requirements that will be phased in beginning January 1, 2015:

- An increase in the minimum Tier 1 capital ratio from 4.00% to 6.00% of risk-weighted assets.
- A new category and a required 4.50% of risk-weighted assets ratio is established for “common equity Tier 1” as a subset of Tier 1 capital limited to common equity.
- A minimum non-risk-based leverage ratio is set at 4.00% eliminating a 3.00% exception for higher rated banks.
- Changes in the permitted composition of Tier 1 capital to exclude trust preferred securities, mortgage servicing rights and certain deferred tax assets and include unrealized gains and losses on available-for-sale debt and equity securities.
- A new additional capital conservation buffer of 2.5% of risk weighted assets over each of the required capital ratios that will be phased in from 2016 to 2019 must be met to avoid limitations in the ability of the Bank to pay dividends, repurchase shares or pay discretionary bonuses.
- The risk-weights of certain assets for purposes of calculating the risk-based capital ratios are changed for high volatility commercial real estate acquisition, development and construction loans, certain past due non-residential mortgage loans and certain mortgage-backed and other securities exposures.
- An additional “countercyclical capital buffer” is required for larger and more complex institutions.

Management believes that, as of June 30, 2014, Bancorp and the Bank would meet all capital adequacy requirements under the Basel III rules on a fully phased-in basis as if such requirements were currently in effect.

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 will depend on our earnings, financial condition, capital requirements and other factors, and will be determined by our Board of Directors. We are subject to Federal Reserve supervisory policies, including informing and consulting with the Federal Reserve Bank of San Francisco sufficiently in advance of any planned capital actions (i.e. increased dividend payments or stock redemptions) and, after prior notification to the Federal Reserve Bank of San Francisco, our Board of Directors increased the common stock dividend to $.07 per share in June 2014. There can be no assurance that our regulators will not object to any capital actions. The terms of our Junior Subordinated Notes also limit our ability to pay dividends.

The Company declared cash dividends of $.07 per share on 79,656,124 shares outstanding on June 5, 2014, for distribution to holders of our common stock on June 12, 2014, and $.05 per share on 79,595,528 shares on March 7,2014. Total cash dividends of $9.6 million were paid during the six months ended June 30, 2014.

Country Risk Exposures

The Company's total assets were $11.6 billion and total foreign country risk net exposures were $870.8 million at June 30, 2014. Total foreign country risk net exposures at June 30, 2014, were comprised primarily of $408.4 million from Hong Kong, $158.4 million from China, $126.4 million from England, $44.7 million from France, $30.1 million from Australia, $27.5 million from Taiwan, $23.8 million from Switzerland, $17.1 million from the Philippines, $10.0 million from Luxembourg, $9.3 million from Singapore, $8.1 million from Japan, $4.7 million from Canada, and $2.1 million from Macau. Risk is determined based on location of the borrowers, issuers, and counterparties.

All foreign country risk net exposures were to non-sovereign counterparties except $64.1 million due from the Hong Kong Monetary Authority at June 30, 2014.

Unfunded loan exposures were $84.6 million at June 30, 2014, and were comprised primarily of $43.5 million unfunded loans to borrowers of Hong Kong residence, $27.6 million unfunded loans to two financial institution in China, $5.4 million unfunded loans to borrowers of Taiwan residence, $5.1 million unfunded loans to borrowers of

China residence, and $2.3 million unfunded loans to borrowers of Philippines residence.

Financial Derivatives

It is the policy of the Company not to speculate on the future direction of interest rates. However, the Company enters 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 the Company's assets or liabilities and against risk in specific transactions. In such instances, the Company 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 consolidated balance sheet 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.

In May 2014, the Bancorp entered into five 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. The Bancorp pays a weighted average fixed interest rate of 2.61% and receives a variable interest rate of three-month LIBOR at a weighted average rate of 0.23%. As of June 30, 2014, the unrealized loss of $263,000, net of taxes, of these interest rate swaps was included in other comprehensive income.

In June 2014, the Bank entered into ten interest rate swap contracts in the notional amount of $148.1 million for various terms from four to eight 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 loan 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. The Bank pays a weighted average fixed rate of 4.67% and receives a variable rate at one month LIBOR rate plus a weighted average spread of 298 basis points, or at a weighted average rate of 3.13%. As of June 30, 2014, the ineffective portion of these interest rate swaps was not significant.

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 derivatives clearing organization and daily margin is indirectly maintained with the derivatives clearing organization. Cash posted as collateral by the Bancorp related to derivative contracts totaled $3.9 million as of June 30, 2014.

The Company enters into foreign exchange forward contracts and foreign currency option contracts with various counterparties to mitigate the risk of fluctuations in foreign currency exchange rates for foreign exchange certificates of deposit, foreign exchange contracts, or foreign currency option 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, foreign exchange contracts, or foreign currency option 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. At June 30, 2014, no option contracts were outstanding. Spot and forward contracts in the total notional amount of $226.1 million had a positive fair value of $3.4 million at June 30, 2014. Spot and forward contracts in the total notional amount of $161.8 million had a negative fair value of $1.6 million at June 30, 2014. At December 31, 2013, the notional amount of option contracts totaled $200,000 with a net positive fair value of $83. Spot and forward contracts in the total notional amount of $267.6 million had a positive fair value of $6.2 million at December 31, 2013. Spot and forward contracts in the total notional amount of $236.3 million had a negative fair value of $6.1 million at December 31, 2013.

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. At June 30, 2014, our liquidity ratio (defined as net cash plus short-term and marketable securities to net deposits and short-term liabilities) was 16.5% compared to 15.3% at December 31, 2013.

The Bank is a shareholder of the FHLB of San Francisco, enabling it to have access to lower cost FHLB financing when necessary. As of June 30, 2014, the Bank had an approved credit line with the FHLB totaling $3.5 billion. Advances from the FHLB were $521.2 million at June 30, 2014. The Bank expects to be able to access this source of funding, if required, in the near term. The Bank has pledged a portion of its commercial loans to the Federal Reserve Bank's Discount Window under the Borrower-in-Custody program to secure these borrowings. At June 30, 2014, the borrowing capacity under the Borrower-in-Custody program was $76.2 million.

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Liquidity can also be provided through the sale of liquid assets, which consist of federal funds sold, securities sold under agreements to repurchase, and unpledged investment securities. At June 30, 2014, investment securities totaled $1.34 billion, with $849.1 million pledged as collateral for borrowings and other commitments. The remaining $490.9 million was available as additional liquidity or to be pledged as collateral for additional borrowings.

Approximately 79.5% of the Company's time deposits mature within one year or less as of June 30, 2014. 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 run-off experience, we expect that the outflow will be minimal and can be replenished through our normal growth in deposits. Management believes the above-mentioned sources will provide adequate liquidity to the Bank to meet its daily operating needs.

The business activities of Bancorp consist primarily of the operation of the Bank and limited activities in other investments. Under the memorandum of understanding Bancorp entered into with the Federal Reserve Bank of San Francisco ("FRB SF"), which was terminated effective April 5, 2013, we agreed that we would not, without the FRB SF's prior written approval, receive any dividends or any other form of payment or distribution representing a reduction of capital from the Bank. The Bank paid dividends to Bancorp totaling $138.0 million during 2013. The Bank did not pay dividends to Bancorp in the first six months of 2014.

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 economic 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 is very 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 attempts 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 15% 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 value the net economic value of our portfolio of assets and liabilities to a change of plus or minus 15% when the hypothetical rate change is plus or minus 200 basis points.

The table below shows the estimated impact of changes in interest rate on net interest income and market value of equity as of June 30, 2014:

Change in Interest Rate (Basis Points)	Net Interest Income Volatility (1)	Market Value of Equity Volatility (2)
+200	15.7	3.6
+100	6.7	2.3
-100	-0.8	-7.5
-200	-1.8	-12.1

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

(2) The percentage chan3ge in this column represents 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 fiscal quarter of 2014 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.

Bancorp's wholly-owned subsidiary, Cathay Bank, is a party to ordinary routine litigation from time to time incidental to various aspects of its operations. Management does not believe that any such litigation is expected to have a material adverse impact on the Company's consolidated financial condition or results of operations.

ITEM 1A. RISK FACTORS.

There is no material change in the risk factors as previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, in response to Item 1A in Part I of Form 10-K.

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
Month #1 (April 1, 2014 - April 30, 2014)	0	$0	0	622,500
Month #2 (May 1, 2014 - May 31, 2014)	0	$0	0	622,500
Month #3 (June 1, 2014 - June 30,	0	$0	0	622,500

2014)				
Total	0	$0	0	622,500

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.

(i) Exhibit 31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

(ii) Exhibit 31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

(iii) Exhibit 32.1 Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(iv) Exhibit 32.2 Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(v) **Exhibit 101.INS** XBRL Instance Document *

(vi) **Exhibit 101.SCH** XBRL Taxonomy Extension Schema Document*

(vii) **Exhibit 101.CAL** XBRL Taxonomy Extension Calculation Linkbase Document*

(viii) **Exhibit 101.DEF** XBRL Taxonomy Extension Definition Linkbase Document*

(ix) **Exhibit 101.LAB** XBRL Taxonomy Extension Label Linkbase Document*

(x) **Exhibit 101.PRE** XBRL Taxonomy Extension Presentation Linkbase Document*

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* XBRL (Extensible Business Reporting Language) information shall not be deemed to be filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, shall not be deemed to be filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise shall not be subject to liability under these sections, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, except as expressly set forth by specific reference in such filing.

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, 2014

/s/ Dunson K. Cheng .
Dunson K. Cheng
Chairman, President, and
Chief Executive Officer

Date: August 7, 2014

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