CATHAY GENERAL BANCORP
Form 10-Q
November 08, 2018

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UNITED STATES

securities and exchange commission

Washington, D.C. 20549

form 10-q

[X] quarterly report pursuant to section 13 or 15(d) of THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018
OR

[ ] transition report pursuant to section 13 or 15 (d) of the SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended to

Commission file number 001-31830

Cathay General Bancorp
(Exact name of registrant as specified in its charter)

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

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, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

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

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

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

Yes No

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

Common stock, $.01 par value, 81,075,803 shares outstanding as of October 31, 2018.

CATHAY GENERAL BANCORP AND SUBSIDIARies

3RD quarter 2018 REPORT ON FORM 10-Q

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Forward-Looking Statements

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

The statements in this report include forward-looking statements within the meaning of the applicable provisions of the Private Securities Litigation Reform Act of 1995 regarding management’s beliefs, projections, and assumptions concerning future results and events. We intend such forward-looking statements to be covered by the safe harbor provision for forward-looking statements in these provisions. All statements other than statements of historical fact are “forward-looking statements” for purposes of federal and state securities laws, including statements about anticipated future operating and financial performance, financial position and liquidity, growth opportunities and growth rates, growth plans, acquisition and divestiture opportunities, business prospects, strategic alternatives, business strategies, financial expectations, regulatory and competitive outlook, loan and deposit growth, investment and expenditure plans, financing needs and availability, level of nonperforming assets, and other similar forecasts and statements of expectation and statements of assumptions underlying any of the foregoing. Words such as “aims,” “anticipates,” “believes,” “can,” “continue,” “could,” “estimates,” “expects,” “hopes,” “intends,” “may,” “optimistic,” “plans,” “potential,” “possible,” “
“seeks,” “shall,” “should,” “will,” and variations of these words and similar expressions are intended to identify these forward-looking statements. Forward-looking statements by us are based on estimates, beliefs, projections, and assumptions of management and are not guarantees of future performance. These forward-looking statements are subject to certain risks 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, including against larger competitors;
our ability to retain key personnel;

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- 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;
- the impact of regulatory enforcement actions, if any;
- certain provisions in our charter and bylaws that may affect acquisition of the Company;
- changes in accounting standards or tax laws and regulations;
- market disruption and volatility;
- fluctuations in the Bancorp's stock price;
- restrictions on dividends and other distributions by laws and regulations and by our regulators and our capital structure;
- issuances of preferred stock;
- capital level requirements and successfully raising additional capital, if needed, and the resulting dilution of interests of holders of our common stock; and
- the soundness of other financial institutions.

These and other factors are further described in Bancorp's Annual Report on Form 10-K for the year ended December 31, 2017 (Item 1A in particular), other reports and registration statements filed with the Securities and Exchange Commission ("SEC"), and other filings Bancorp makes with the SEC from time to time. Actual results in any future period may also vary from the past results discussed in this report. Given these risks and uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements, 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) 279-3296.

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PART I – FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS (Unaudited)

CATHAY GENERAL BANCORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share and per share data)	September 30, 2018	December 31, 2017
Assets		
Cash and due from banks	$204,178	$247,056
Short-term investments and interest bearing deposits	377,839	292,745
Cash and cash equivalents	582,017	539,801
Securities available-for-sale (amortized cost of $1,320,843 at September 30, 2018 and $1,336,345 at December 31, 2017)	1,283,060	1,333,626
Loans held for sale	-	8,000
Loans	13,647,646	12,870,290
Less: Allowance for loan losses	(123,457)	(123,279)
Unamortized deferred loan fees, net	(2,086)	(3,245)
Loans, net	13,522,103	12,743,766
Equity securities	23,522	-
Federal Home Loan Bank stock	17,250	23,085
Other real estate owned, net	8,741	9,442
Affordable housing investments and alternative energy partnerships, net	295,857	272,871
Premises and equipment, net	102,565	103,064
Customers’ liability on acceptances	10,454	13,482
Accrued interest receivable	50,291	45,307
Goodwill	372,189	372,189
Other intangible assets, net	7,391	8,062
Other assets	186,282	167,491
Total assets	$16,461,722	$15,640,186
Liabilities and Stockholders’ Equity		
Deposits		
Non-interest-bearing demand deposits	$2,957,881	$2,783,127
Interest-bearing deposits:		
Demand deposits	1,409,463	1,410,519

Money market deposits	2,134,097	2,248,271
Savings deposits	747,814	857,199
Time deposits	6,331,823	5,390,777
Total deposits	13,581,078	12,689,893
Securities sold under agreements to repurchase	-	100,000
Advances from the Federal Home Loan Bank	315,000	430,000
Other borrowings of affordable housing investments	17,332	17,481
Long-term debt	194,136	194,136
Deferred payments from acquisition	18,253	35,404
Acceptances outstanding	10,454	13,482
Other liabilities	208,694	186,486
Total liabilities	14,344,947	13,666,882
Commitments and contingencies	-	-
Stockholders' Equity		
Common stock, $0.01 par value, 100,000,000 shares authorized, 89,606,690 issued and 81,396,047 outstanding at September 30, 2018, and 89,104,022 issued and 80,893,379 outstanding at December 31, 2017	896	891
Additional paid-in-capital	939,801	932,874
Accumulated other comprehensive loss, net	(23,783)	(2,511)
Retained earnings	1,439,450	1,281,639
Treasury stock, at cost (8,210,643 shares at September 30, 2018, and at December 31, 2017)	(239,589)	(239,589)
Total equity	2,116,775	1,973,304
Total liabilities and equity	$ 16,461,722	$ 15,640,186

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

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	(In thousands, except share and per share data)			
Interest and Dividend Income				
Loans receivable, including loan fees	$168,179	$146,383	$478,128	$401,129
Investment securities	7,546	5,692	21,212	14,817
Federal Home Loan Bank stock	303	607	1,079	1,317
Term federal funds sold	-	108	-	108
Deposits with banks	838	1,288	3,667	3,140
Total interest and dividend income	176,866	154,078	504,086	420,511
Interest Expense				
Time deposits	22,135	11,678	56,593	33,429
Other deposits	5,474	5,101	14,892	14,245
Securities sold under agreements to repurchase	124	874	1,446	3,489
Advances from Federal Home Loan Bank	1,430	872	3,286	1,465
Long-term debt	2,220	1,456	6,465	4,320
Deferred payments from acquisition	399	901	946	901
Total interest expense	31,782	20,882	83,628	57,849
Net interest income before reversal for credit losses	145,084	133,196	420,458	362,662
Reversal for credit losses	(1,500)	-	(4,500)	(2,500)
Net interest income after reversal for credit losses	146,584	133,196	424,958	365,162
Non-Interest Income				
Net gains/(losses) from equity securities	391	-	(4,580)	-
Securities (losses)/gains, net	(14)	24	(14)	(439)
Letters of credit commissions	1,459	1,302	4,110	3,618
Depository service fees	1,219	1,407	3,905	4,259
Gain from acquisition	-	5,440	340	5,440
Other operating income	4,780	4,788	17,151	12,953
Total non-interest income	7,835	12,961	20,912	25,831
Non-Interest Expense				
Salaries and employee benefits	30,514	27,913	91,491	79,929
Occupancy expense	5,186	5,312	15,808	14,733

Computer and equipment expense	2,772	2,643	8,477	7,895
Professional services expense	5,286	4,942	17,055	14,541
Data processing service expense	3,080	2,918	9,450	7,846
FDIC and regulatory assessments	2,555	2,552	6,732	7,261
Marketing expense	1,263	2,103	5,521	4,833
Other real estate owned (income)/expense	(21)	369	(236)	747
Amortization of investments in low income housing and alternative energy partnerships	11,115	5,723	21,989	16,797
Amortization of core deposit intangibles	190	281	704	626
Acquisition and integration costs	179	3,277	2,083	3,277
Other operating expense	3,845	3,215	10,949	11,307
Total non-interest expense	65,964	61,248	190,023	169,792
Income before income tax expense	88,455	84,909	255,847	221,201
Income tax expense	18,698	35,163	48,610	71,099
Net income	$69,757	$49,746	$207,237	$150,102
Other comprehensive income, net of tax				
Unrealized holding (losses)/gains on securities available-for-sale	(2,538)	1,060	(16,803)	3,338
Unrealized holding gain/(loss) on cash flow hedge derivatives	1,666	157	4,595	(94)
Less: reclassification adjustments for (losses)/gains included in net income	(10)	14	(10)	(254)
Total other comprehensive gain, net of tax	(862)	1,203	(12,198)	3,498
Total other comprehensive income	$68,895	$50,949	$195,039	$153,600
Net income per common share:				
Basic	$0.86	$0.62	$2.55	$1.87
Diluted	$0.85	$0.61	$2.53	$1.86
Cash dividends paid per common share	$0.24	$0.21	$0.72	$0.63
Average common shares outstanding				
Basic	81,311,899	80,665,398	81,224,555	80,073,249
Diluted	81,855,271	81,404,854	81,770,874	80,797,179

See accompanying notes to unaudited condensed consolidated financial statements.

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CATHAY GENERAL BANCORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine months ended September 30	
	2018	**2017**
	(In thousands)	
Cash Flows from Operating Activities		
Net income	$207,237	$150,102
Adjustments to reconcile net income to net cash provided by operating activities:		
Reversal for credit losses	(4,500)	(2,500)
Provision for losses on other real estate owned	-	889
Deferred tax liability	2,342	10,319
Depreciation and amortization	5,593	5,416
Net gains on sale and transfer of other real estate owned	(567)	(394)
Proceeds from sales of loans	8,000	7,500
Amortization on alternative energy partnerships, venture capital and other investments	5,384	2,778
Net loss on sales and calls of securities	14	438
Amortization/accretion of security premiums/discounts, net	2,371	990
Loss on sales or disposal of fixed assets	107	-
Unrealized loss on equity securities	4,580	-
Stock based compensation and stock issued to officers as compensation	5,976	4,449
Net change in accrued interest receivable and other assets	(7,863)	(51,776)
Gain on acquisition	(340)	(5,440)
Net change in other liabilities	10,998	828
Net cash provided by operating activities	239,332	123,599
Cash Flows from Investing Activities		
Purchase of investment securities available-for-sale	(448,805)	(450,745)
Proceeds from sale of investment securities available-for-sale	99,644	99,541
Proceeds from repayments, maturities and calls of investment securities available-for-sale	346,328	389,829
Purchase of Federal Home Loan Bank stock	(5,430)	-
Redemptions of Federal Home Loan Bank stock	11,265	6,459
Net increase in loans	(771,290)	(686,225)
Purchase of premises and equipment	(4,496)	(976)
Proceeds from sales of other real estate owned	3,302	2,186
Net increase in investment in affordable housing and alternative energy partnerships	(36,666)	(20,867)
Acquisition, net of cash acquired	-	(14,309)
Net cash used for investing activities	(806,148)	(675,107)
Cash Flows from Financing Activities		
Net increase in deposits	890,823	73,120

Net decrease in federal funds purchased and securities sold under agreements to repurchase	(100,000)	(250,000)
Advances from Federal Home Loan Bank	4,495,000	2,608,000
Repayment of Federal Home Loan Bank borrowings	(4,610,000)	(2,393,000)
Cash dividends paid	(58,498)	(50,491)
Repayment of other borrowings	(37,117)	-
Proceeds from issuance of other borrowings	29,554	-
Proceeds from shares issued under Dividend Reinvestment Plan	1,982	1,849
Proceeds from exercise of stock options	838	1,018
Taxes paid related to net share settlement of RSUs	(3,550)	(5,127)
Net cash provided by (used in) financing activities	609,032	(14,631)
Increase/(decrease) in cash and cash equivalents	42,216	(566,139)
Cash and cash equivalents, beginning of the period	539,801	1,185,084
Cash and cash equivalents, end of the period	$582,017	$618,945
Supplemental disclosure of cash flow information		
Cash paid during the period:		
Interest	$79,877	$58,416
Income taxes paid	$48,072	$62,296
Non-cash investing and financing activities:		
Net change in unrealized holding (loss)/gain on securities available-for-sale, net of tax	$(16,793)	$3,592
Net change in unrealized holding gain/(loss) on cash flow hedge derivatives	$4,595	$(94)
Transfers to other real estate owned from loans held for investment	$1,646	$726

See accompanying notes to unaudited condensed consolidated financial statements.

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CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Business

Cathay General Bancorp ("Bancorp") is the holding company for Cathay Bank (the "Bank" and, together, with Bancorp, the "Company"), eight limited partnerships investing in affordable housing investments in which the Bank is the sole limited partner, Asia Realty Corp. and GBC Venture Capital, Inc. Bancorp also owns 100% of the common stock of five statutory business trusts created for the purpose of issuing capital securities. The Bank was founded in 1962 and offers a wide range of financial services. As of September 30, 2018, the Bank operates 26 branches in Southern California, 14 branches in Northern California, 11 branches in New York State, three branches in Illinois, four branches in Washington State, two branches in Texas, one branch in Massachusetts, New Jersey, Maryland and Nevada, one branch in Hong Kong, and a representative office in Taipei, Beijing, and Shanghai. Deposit accounts at the Hong Kong branch are not insured by the Federal Deposit Insurance Corporation (the "FDIC").

2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and 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, 2018. 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, 2017.

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 condensed consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. The Company expects that the most significant estimates subject to change are the allowance for loan losses.

In the condensed consolidated statement of cash flows, the amounts for the nine months ended September 30, 2017 have been corrected in the current year and differ from the previously reported amounts of $159.1 million for net cash provided by investing activities, $50.1 million for decrease in cash and cash equivalents, $218.0 million for cash and cash equivalents, beginning of period and $167.9 million for cash and cash equivalents, end of period.

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3. Recent Accounting Pronouncements

Accounting Standards adopted in 2018

In May 2014, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers (Topic 606).” The new guidance replaces existing revenue recognition guidance for contracts to provide goods or services to customers and amends existing guidance related to recognition of gains and losses on the sale of certain nonfinancial assets such as real estate. ASU 2014-09 clarifies the principles for recognizing revenue and replaces nearly all existing revenue recognition guidance in U.S. GAAP. Quantitative and qualitative disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers are also required. ASU 2014-09 as amended by ASU 2015-14, ASU 2016-08, ASU 2016-10 and ASU 2016-12, is effective for interim and annual periods beginning after December 15, 2017 and is applied on either a modified retrospective or full retrospective basis. Our revenue is primarily comprised of net interest income on financial assets and financial liabilities, which is explicitly excluded from the scope of ASU 2014-09, and non-interest income. Accordingly, the majority of the Company’s revenues was not affected. In addition, the new standard did not materially impact the timing or measurement of the Company’s revenue recognition as it is consistent with the Company’s existing accounting for contracts within the scope of the new standard. The Company adopted this guidance as of January 1, 2018 using the modified retrospective method where there was no cumulative effect adjustment to retained earnings as a result of adopting this new standard. In addition, the standard did not have a material impact on our consolidated financial statements. The Company has provided a disaggregation of the significant categories of revenues within the scope of this guidance and expanded the qualitative disclosures of the Company’s noninterest income. See footnote 17 - Revenue from Contracts with Customers for additional information.

In January 2016, the FASB issued ASU 2016-01, “Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.” This update requires an entity to measure equity investments with readily determinable fair values at fair value with changes in fair value recognized in net income. Equity investment without readily determinable fair values will be measured at fair value either upon the occurrence of an observable price change or upon identification of an impairment and any amount by which the carrying value exceeding the fair value will be recognized as an impairment in net income. This update also requires an entity to disclose fair value of financial instruments measured at amortized cost on the balance sheet to measure that fair value using the exit price option. In addition, this update requires separate presentation in comprehensive income for changes in the fair value of a liability and in the balance sheet by measurement category and form of financial asset. ASU 2016-01 became effective for interim and annual periods beginning after December 15, 2017. The adoption of the amendment resulted in approximately $8.6 million being reclassified from accumulated other comprehensive income to retained earnings, representing an increase to retained earnings as of January 1, 2018, and increased pre-tax income by $391,000 for the three months ended September 30, 2018 and decreased pre-tax income by $4.6 million for the nine months ended September 30, 2018. See footnote 7 – Investment Securities. Also, beginning in the first quarter of 2018, the Company is adopting the exit price notion on fair value measurement of its loan portfolio. As a result of this fair value change, the prior-year figures shown for loans on footnote - 13 for comparative purposes will no longer be comparable.

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In February 2018, FASB issued ASU 2018-02 to help organizations address certain stranded income tax effects in accumulated other comprehensive income ("AOCI") resulting from the Tax Cuts and Jobs Act of 2017 (the "Tax Legislation"). The amendment provides financial statement preparers with an option to reclassify stranded tax effects within AOCI to retained earnings in each period in which the effect of the changes in the U.S. federal corporate income tax rate in the Tax Legislation (or portion thereof) is recorded. The amendment also includes disclosure requirements regarding the issuer's accounting policy for releasing income tax effects from AOCI. The amendment is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted, and organizations should apply the provisions of the amendment either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Legislation is recognized. The Company elected to reclassify the income tax effects of the Tax Legislation from accumulated other comprehensive income to retained earnings effective January 1, 2018. This resulted in the reclassification of $515,000 from accumulated other comprehensive income to retained earnings, representing an increase to retained earnings as of January 1, 2018.   See footnote 18 – Stockholders Equity.

Other Accounting Standards

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)," which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. Topic 842 was subsequently amended by ASU No. 2018-01, Land Easement Practical Expedient for Transition to Topic 842; ASU No. 2018-10, Codification Improvements to Topic 842, Leases; and ASU No. 2018-11, Targeted Improvements. The new standard establishes a right-of-use model (ROU) that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement.

The new standard is effective for us on January 1, 2019, with early adoption permitted. We expect to adopt the new standard on its effective date. A modified retrospective transition approach is required, applying the new standard to all leases existing at the date of initial application. An entity may choose to use either (1) its effective date or (2) the beginning of the earliest comparative period presented in the financial statements as its date of initial application. If an entity chooses the second option, the transition requirements for existing leases also apply to leases entered into between the date of initial application and the effective date. The entity must also recast its comparative period financial statements and provide the disclosures required under the new standard for the comparative periods. We expect to adopt the new standard on January 1, 2019 and use the effective date as our date of initial application. Consequently, financial information will not be updated and the disclosures required under the new standard will not be provided for dates and periods before January 1, 2019.

The new standard provides a number of optional practical expedients in transition. We expect to elect the 'package of practical expedients', which permits us not to reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs. We expect to elect all of the new standard's available transition practical expedients.

We expect that this standard will not have a material effect on our financial statements. While we continue to assess all of the effects of adoption, we currently believe the most significant effects relate to (1) the recognition of new ROU assets and lease liabilities on our balance sheet for our real estate and equipment operating leases; and (2) providing significant new disclosures about our leasing activities. We do not expect a significant change in our leasing activities between now and adoption.

On adoption, we currently expect to recognize additional operating liabilities ranging from $30 million to $40 million, with corresponding ROU assets of the same amount based on the present value of the remaining minimum rental payments under current leasing standards for existing operating leases.

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The new standard also provides practical expedients for an entity's ongoing accounting. We currently expect to elect the short-term lease recognition exemption for all leases that qualify. This means, for those leases that qualify, we will not recognize ROU assets or lease liabilities, and this includes not recognizing ROU assets or lease liabilities for existing short-term leases of those assets in transition. We also currently expect to elect the practical expedient to not separate lease and non-lease components for all of our leases.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." This update requires an entity to use a broader range of reasonable and supportable forecasts, in addition to historical experience and current conditions, to develop an expected credit loss estimate for financial assets and net investments that are not accounted for at fair value through net income. Credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses to the amount by which fair value is below amortized cost. ASU 2016-13 becomes effective for interim and annual periods beginning after December 15, 2019. The Company has designated a management team and begun its implementation efforts by identifying key interpretive issues, assessing its processes and identifying the system requirements against the new guidance to determine what modifications may be required. Management has also selected a loss forecasting modeling approach and has engaged a vendor to assist in the design and implementation of the loss forecasting modeling. The implementation efforts also involve, but are not limited to, assessing potential macroeconomic factors that will be used to determine the reasonable and supportable forecast period. The Company has not yet determined the effect of ASU 2016-13 on its accounting policies or the impact on the Company's consolidated financial statements.

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

In March 2017, the FASB issued ASU 2017-08, "Receivables- Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities." This update amends the amortization period for certain purchased callable debt securities held at a premium. The amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. This update affects all entities that hold investments in callable debt securities that have an amortized cost basis in excess of the amount that is repayable by the issuer at the earliest call date. This update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Adoption of ASU 2017-08 is not expected to have a significant impact on the Company's consolidated financial statements.

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

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815)," which targeted improvements to accounting for hedging activities. The amendments in this update are intended to better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. To meet that objective, the amendments expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. For public business entities, the amendments in this update are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. The Company is currently evaluating the impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement." This update targets improvements in the effectiveness of disclosure requirements for recurring and nonrecurring fair value measurements. The standard removes, modifies, and adds certain disclosure requirements, and is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. It is permitted to early adopt any removed or modified disclosures upon issuance of this update and delay adoption of the additional disclosures until the effective date. Adoption of ASU 2018-13 is not expected to have a significant impact on the Company's consolidated financial statements.

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4. Acquisition

On July 14, 2017, the Company completed the acquisition of SinoPac Bancorp, the parent of Far East National Bank (“FENB”), pursuant to a Stock Purchase Agreement, dated as of July 8, 2016, by and between the Company and Bank SinoPac Co. Ltd. Under the terms of the Stock Purchase Agreement, the Company purchased all of the issued and outstanding share capital of SinoPac Bancorp for an aggregate purchase price of $351.6 million plus additional post closing payments based on the realization of certain assets of FENB. The Company issued 926,192 shares of common stock as consideration and the remainder of the consideration is payable in cash of which $100 million was deferred and paid on November 14, 2017 and $35.4 million was deferred and will be released over the next three years. On December 12, 2017, additional cash consideration of $4.1 million was paid based on the realized gain from the sale of the building that housed FENB’s former Alhambra, California branch. SinoPac Bancorp was merged into Cathay General Bancorp on July 17, 2017 and subsequently, on October 27, 2017, FENB was merged into Cathay Bank. The acquisition allowed the Company to expand its number of branches in California. Prior to the closing of the acquisition, FENB operated nine branches in California, and a representative office in Beijing. The acquisition is accounted for as a business combination, subject to the provisions of ASC 805-10-50, Business Combinations.

The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the July 14, 2017 acquisition date. We have included the financial results of the business combinations in the condensed consolidated statement of income beginning on the acquisition date. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the acquisition date. We made significant estimates and exercised significant judgement in estimating fair values and accounting for such acquired assets and liabilities. The assets and liabilities have been accounted for under the acquisition method of accounting.

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The fair value of the assets and the liabilities acquired as of July 14, 2017 are shown below:

	SinoPac Bancorp
Assets acquired:	
Cash and cash equivalents	$166,932
Short-term investments	122,000
Securities available-for-sale	88,044
FHLB and FRB stock	19,890
Loans	705,792
Premises and equipment	6,239
Cash surrender value of life insurance	46,083
Deferred tax assets, net	40,690
Core deposit intangible	6,122
Accrued interest receivable and other assets	10,689
Total assets acquired	1,212,481
Liabilities assumed:	
Deposits	813,888
Advances from the Federal Home Loan Bank	30,000
Accrued interest payable and other liabilities	8,512
Total liabilities assumed	852,400
Net assets acquired	$360,081
Cash paid	$284,984
Fair value of common stock issued	34,862
Total consideration paid	$319,846
Purchase price payable to SinoPac	34,267
Total consideration	$354,113
Gain from acquisition	$5,968

The table above reflects net purchase price adjustments of $340,000 related to contingent consideration and imputed interest adjustments made during the nine months ended September 30, 2018.

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5. Earnings per Share

Basic earnings per share excludes dilution and is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock and resulted in the issuance of common stock that then shared in earnings. Outstanding stock options and restricted stock units 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 September 30,		Nine months ended September 30,	
(Dollars in thousands, except share and per share data)	2018	2017	2018	2017
Net income	$69,757	$49,746	$207,237	$150,102
Weighted-average shares:				
Basic weighted-average number of common shares outstanding	81,311,899	80,665,398	81,224,555	80,073,249
Dilutive effect of weighted-average outstanding common share equivalents				
Warrants	234,105	399,957	268,988	409,019
Options	-	19,221	-	25,706
Restricted stock units	309,267	320,278	277,331	289,205
Diluted weighted-average number of common shares outstanding	81,855,271	81,404,854	81,770,874	80,797,179
Average stock options and restricted stock units with anti-dilutive effect	1,854	-	15,625	6,561
Earnings per common share:				
Basic	$0.86	$0.62	$2.55	$1.87
Diluted	$0.85	$0.61	$2.53	$1.86

6. Stock-Based Compensation

Under the Company’s equity incentive plans, directors and eligible employees may be granted incentive or non-statutory stock options, restricted stock units (“RSUs”) and/or awarded non-vested stock. As of September 30, 2018, there were no stock options outstanding.

There were 35,880 and 43,540 stock option shares exercised in the nine months ended September 30, 2018 and 2017, respectively. The Company received $838,000 from the exercise of stock options for 35,880 shares at $23.37 per share that had an aggregate intrinsic value of $718,000 during the nine months ended September 30, 2018 compared to $1.0 million from the exercise of stock options that had an aggregate intrinsic value of $607,000 during the nine months ended September 30, 2017.

RSUs are granted under the Company’s long-term incentive plan at no cost to the recipient. RSUs generally vest ratably over three years or cliff vest after one or three years of continued employment from the date of the grant. While a portion of RSUs are time-vesting awards, others vest subject to the attainment of specified performance goals and are referred to as “performance-based RSUs.” All RSUs are subject to forfeiture until vested.

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

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

The following table presents RSU activity during the nine months ended September 30, 2018:

	Time-Based RSUs		Performance-Based RSUs	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value
Balance at December 31, 2017	221,738	32.72	339,872	33.52
Granted	141,810	43.30	55,455	39.46
Vested	(65,721)	41.59	(68,459)	41.22
Forfeited	(12,535)	35.46	-	-
Balance at September 30, 2018	285,292	35.82	326,868	32.91

The compensation expense recorded for RSUs was $1.9 million for the three months ended September 30, 2018, compared to $1.3 million in the same period a year ago. For the nine months ended September 30, 2018 and 2017, compensation expense recorded relating to the RSUs was $5.3 million and $3.9 million, respectively. Unrecognized stock-based compensation expense related to RSUs was $11.8 million and $9.1 million as of September 30, 2018 and 2017, respectively. As of September 30, 2018, these costs are expected to be recognized over the next 1.9 years for time-based and performance-based RSU's.

As of September 30, 2018, 2,582,001 shares were available under the Company's 2005 Incentive Plan (as Amended and Restated) for future grants.

Tax benefit from share-based payment arrangements of $0.8 million reduced income tax expense in the first nine months of 2018 compared to $2.6 million in the same period a year ago.

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7. Investment Securities

Securities available-for-sale were $1.3 billion as of September 30, 2018, compared to $1.3 billion as of December 31, 2017.

The following tables reflect the amortized cost, gross unrealized gains, gross unrealized losses, and fair value of debt securities available-for-sale as of September 30, 2018, and debt and equity investment securities as of December 31, 2017:

	September 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Debt Securities Available-for-Sale				
U.S. treasury securities	$199,488	$ -	$ 114	$199,374
U.S. government agency entities	6,721	-	210	6,511
U.S. government sponsored entities	400,000	-	16,553	383,447
Mortgage-backed securities	648,532	130	22,023	626,639
Collateralized mortgage obligations	1,119	-	33	1,086
Corporate debt securities	64,983	1,020	-	66,003
Total	$1,320,843	$ 1,150	$ 38,933	$1,283,060

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Securities Available-for-Sale				
U.S. treasury securities	$249,877	$ -	$ 357	$249,520
U.S. government agency entities	9,047	11	70	8,988
U.S. government sponsored entities	400,000	-	9,664	390,336
State and municipal securities	1,944	-	30	1,914
Mortgage-backed securities	577,987	241	6,259	571,969
Collateralized mortgage obligations	1,533	-	17	1,516
Corporate debt securities	80,007	1,291	17	81,281
Mutual funds	6,500	-	270	6,230
Preferred stock of government sponsored entities	5,842	4,260	-	10,102

Other equity securities	3,608	8,162	-	11,770
Total	$1,336,345	$ 13,965	$ 16,684	$1,333,626

The amortized cost and fair value of investment securities as of September 30, 2018, 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	$199,497	$199,383
Due after one year through five years	465,892	450,363
Due after five years through ten years	6,434	6,163
Due after ten years	649,020	627,151
Total	$1,320,843	$1,283,060

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There were no sales of mortgage-backed securities during the first nine months of 2018 and the first nine months of 2017. Proceeds from repayments, maturities and calls of mortgage-backed securities were $79.4 million and $48.5 million for the nine months ended September 30, 2018 and 2017, respectively. Proceeds of $99.6 million were received from the sale of other investment securities during the first nine months of 2018, compared to proceeds of $99.5 million from the sale of other investment securities during the first nine months of 2017. Proceeds from maturities and calls of other investment securities were $266.9 million during the nine months ended September 30, 2018, compared to $341.3 million during the same period a year ago. There were $14,000 of losses realized on sales of investment securities during the nine months ended September 30, 2018, compared to $438,000 of losses in the same period a year ago. There were no other than temporary impairment write-downs recorded during the first nine months of 2018 and the first nine months of 2017.

The adoption of ASU 2016-01 resulted in approximately $8.6 million being reclassified from accumulated other comprehensive income to retained earnings, representing an increase to retained earnings as of January 1, 2018. For the nine months ended September 30, 2018, the Company recognized a net loss of $4.6 million due to the decrease in fair value of equity investments with readily determinable fair values. Equity securities were $23.5 million as of September 30, 2018, compared to $28.1 million as of December 31, 2017.

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The tables below show the fair value and unrealized losses of the temporarily impaired securities in our investment securities portfolio as of September 30, 2018, and December 31, 2017:

	September 30, 2018					
	Temporarily impaired securities					
	Less than 12 months		**12 months or longer**		**Total**	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
	(In thousands)					
Debt Securities Available-for-Sale						
U.S. treasury securities	$199,374	$ 114	$-	$ -	$199,374	$ 114
U.S. government agency entities	5,208	160	1,304	50	6,512	210
U.S. government sponsored entities	-	-	383,447	16,553	383,447	16,553
Mortgage-backed securities	247,059	6,088	372,218	15,935	619,277	22,023
Collateralized mortgage obligations	-	-	1,086	33	1,086	33
Total debt securities	$451,641	$ 6,362	$758,055	$ 32,571	$1,209,696	$ 38,933
Equity Securities						
Preferred stock of government sponsored entities	6,397	3,706	-	-	6,397	3,706
Mutual funds	-	-	6,034	195	6,034	195
Other equity securities	1,008	679	-	-	1,008	679
Total equity securities	$7,405	$ 4,385	$6,034	$ 195	$13,439	$ 4,580

	December 31, 2017					
	Temporarily impaired securities					
	Less than 12 months		**12 months or longer**		**Total**	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
	(In thousands)					
Securities Available-for-Sale						
U.S. treasury securities	$199,823	$ 62	$49,697	$ 295	$249,520	$ 357
U.S. government agency entities	5,711	70	-	-	5,711	70
U.S. government sponsored entities	-	-	390,336	9,664	390,336	9,664
State and municipal securities	1,914	30	-	-	1,914	30
Mortgage-backed securities	342,436	3,147	178,617	3,112	521,053	6,259
Collateralized mortgage obligations	1,516	17	-	-	1,516	17
Corporate debt securities	5,015	17	-	-	5,015	17
Mutual funds	-	-	6,230	270	6,230	270
Total	$556,415	$ 3,343	$624,880	$ 13,341	$1,181,295	$ 16,684

As of September 30, 2018, the Company had unrealized losses on available-for-sale securities of $38.9 million. The unrealized losses on these securities were primarily attributed to yield curve movement, together with widened liquidity spreads and credit spreads. The issuers have not, to the Company's knowledge, established any cause for default on these securities. Management believes the impairment was temporary and, accordingly, no impairment loss on these securities has been recognized in our condensed consolidated statements of operations. The Company expects to recover the amortized cost basis of its securities and has no intent to sell, and will not be required to sell, available-for-sale securities that have declined below their cost before their anticipated recovery.

Investment securities having a carrying value of $33.1 million as of September 30, 2018, and $272.2 million as of December 31, 2017, were pledged to secure public deposits, other borrowings, treasury tax and loan, and securities sold under agreements to repurchase.

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8. Loans

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

The types of loans in the Company's condensed consolidated balance sheets as of September 30, 2018, and December 31, 2017, were as follows:

	September 30, 2018	December 31, 2017
	(In thousands)	
Commercial loans	$2,674,089	$2,461,266
Residential mortgage loans	3,569,111	3,062,050
Commercial mortgage loans	6,580,254	6,482,695
Real estate construction loans	597,018	678,805
Equity lines	221,599	180,304
Installment & other loans	5,575	5,170
Gross loans	$13,647,646	$12,870,290
Allowance for loan losses	(123,457)	(123,279)
Unamortized deferred loan fees	(2,086)	(3,245)
Total loans, net	$13,522,103	$12,743,766
Loans held for sale	$-	$8,000

As of September 30, 2018, recorded investment in impaired loans totaled $117.0 million and was comprised of non-accrual loans, excluding loans held for sale, of $42.4 million and accruing troubled debt restructured loans ("TDRs") of $74.6 million. As of December 31, 2017, recorded investment in impaired loans totaled $117.4 million and was comprised of non-accrual loans, excluding loans held for sale, of $48.8 million and accruing TDRs of $68.6 million. For impaired loans, the amounts previously charged off represent 7.4% as of September 30, 2018, and 7.2% as of December 31, 2017, of the contractual balances for impaired loans.

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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		Nine months ended		Three months ended		Nine months ended	
	September 30,		September 30,		September 30,		September 30,	
	2018	2017	2018	2017	2018	2017	2018	2017
	(In thousands)							
Commercial loans	$48,772	$24,987	$46,920	$22,572	$461	$678	$1,152	$760
Real estate construction loans	5,980	29,780	7,490	29,868	-	99	-	287
Commercial mortgage loans	55,375	58,555	59,314	60,074	576	391	1,757	1,015
Residential mortgage loans and equity lines	13,724	13,937	14,032	15,208	108	96	279	287
Total impaired loans	$123,851	$127,259	$127,756	$127,722	$1,145	$1,264	$3,188	$2,349

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

	Impaired Loans					
	September 30, 2018			**December 31, 2017**		
	Unpaid Principal Balance	**Recorded Investment**	**Allowance**	**Unpaid Principal Balance**	**Recorded Investment**	**Allowance**
	(In thousands)					
With no allocated allowance						
Commercial loans	$40,426	$ 38,556	$ -	$43,483	$ 42,702	$ -
Real estate construction loans	5,776	4,922	-	8,821	8,185	-
Commercial mortgage loans	34,276	26,912	-	37,825	31,029	-
Residential mortgage loans and equity lines	6,791	6,776	-	1,301	1,301	-
Subtotal	$87,269	$ 77,166	$ -	$91,430	$ 83,217	$ -
With allocated allowance						
Commercial loans	$5,792	$ 5,715	$ 2,506	$891	$ 793	$ 43
Commercial mortgage loans	27,549	27,523	917	21,733	21,635	1,738
Residential mortgage loans and equity lines	7,670	6,605	281	13,022	11,708	353
Subtotal	$41,011	$ 39,843	$ 3,704	$35,646	$ 34,136	$ 2,134
Total impaired loans	$128,280	$ 117,009	$ 3,704	$127,076	$ 117,353	$ 2,134

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The following tables present the aging of the loan portfolio by type as of September 30, 2018, and as of December 31, 2017:

	September 30, 2018						
	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
Type of Loans:	(In thousands)						
Commercial loans	$28,212	$17,329	$3,467	$ 17,118	$66,126	$2,607,963	$2,674,089
Real estate construction loans	-	-	-	4,922	4,922	592,096	597,018
Commercial mortgage loans	-	9,157	3,214	13,172	25,543	6,554,711	6,580,254
Residential mortgage loans and equity lines	-	-	-	7,198	7,198	3,783,512	3,790,710
Installment and other loans	-	-	-	-	-	5,575	5,575
Total loans	$28,212	$26,486	$6,681	$ 42,410	$103,789	$13,543,857	$13,647,646

	December 31, 2017						
	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
Type of Loans:	(In thousands)						
Commercial loans	$11,079	$5,192	$ -	$ 14,296	$30,567	$2,430,699	$2,461,266
Real estate construction loans	3,028	-	-	8,185	11,213	667,592	678,805
Commercial mortgage loans	17,573	5,602	-	19,820	42,995	6,439,700	6,482,695
Residential mortgage loans and equity lines	6,613	732	-	6,486	13,831	3,228,523	3,242,354
Installment and other loans	103	-	-	-	103	5,067	5,170
Total loans	$38,396	$11,526	$ -	$ 48,787	$98,709	$12,771,581	$12,870,290

The determination of the amount of the allowance for loan losses for impaired loans is based on management's current judgment about the credit quality of the loan portfolio and takes into consideration known relevant internal and external factors that affect collectability when determining the appropriate level for the allowance for loan losses. The nature of the process by which the Bank determines the appropriate allowance for loan losses requires the exercise of considerable judgment. This allowance evaluation process is also applied to troubled debt restructurings since they are considered to be impaired loans. The allowance for loan losses and the reserve for off-balance sheet credit commitments are significant estimates that can and do change based on management’s process in analyzing the loan portfolio and on management’s assumptions about specific borrowers, underlying collateral, and applicable economic and environmental conditions, among other factors.

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.

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As of September 30, 2018, accruing TDRs were $74.6 million and non-accrual TDRs were $27.7 million compared to accruing TDRs of $68.6 million and non-accrual TDRs of $33.4 million as of December 31, 2017. The Company allocated specific reserves of $1.6 million to accruing TDRs and $1.9 million to non-accrual TDRs as of September 30, 2018, and $1.9 million to accruing TDRs and $83,000 to non-accrual TDRs as of December 31, 2017. The following tables present TDRs that were modified during the three and nine months ended September 30, 2018 and 2017, their specific reserves as of September 30, 2018 and 2017, and charge-offs for the three and nine months ended September 30, 2018 and 2017:

	Three months ended September 30, 2018				September 30, 2018
	No. of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Charge-offs	Specific Reserve
	(Dollars in thousands)				
Commercial loans	3	$ 4,621	$ 4,621	$ -	$ 2,467
Commercial mortgage loans	1	339	339	-	-
Residential mortgage loans and equity lines	2	413	413	-	16
Total	6	$ 5,373	$ 5,373	$ -	$ 2,483

	Three months ended September 30, 2017				September 30, 2017
	No. of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Charge-offs	Specific Reserve
	(Dollars in thousands)				
Commercial loans	8	$ 18,873	$ 18,873	$ -	$ 636
Commercial mortgage loans	5	4,123	3,818	305	10
Residential mortgage loans and equity lines	1	483	483	-	32
Total	14	$ 23,479	$ 23,174	$ 305	$ 678

	Nine months ended September 30, 2018				September 30, 2018
	No. of Contracts	Pre-Modification Outstanding Recorded	Post-Modification Outstanding Recorded	Charge-offs	Specific Reserve

		Investment	Investment		
	(Dollars in thousands)				
Commercial loans	21	$ 12,212	$ 12,212	$ -	$ 2,493
Commercial mortgage loans	7	14,626	14,626	-	119
Residential mortgage loans and equity lines	4	1,213	1,213	-	24
Total	32	$ 28,051	$ 28,051	$ -	$ 2,636

	Nine months ended September 30, 2017				September 30, 2017
	No. of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Charge-offs	Specific Reserve
	(Dollars in thousands)				
Commercial loans	13	$ 19,543	$ 19,543	$ -	$ 641
Real estate construction loans	2	28,489	28,489	-	-
Commercial mortgage loans	5	4,123	3,818	305	10
Residential mortgage loans and equity lines	1	483	483	-	32
Total	21	$ 52,638	$ 52,333	$ 305	$ 683

Modifications of the loan terms during the first nine months of 2018 were in the form of extensions of maturity dates, which ranged from three to twelve months from the modification date.

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We expect that the TDRs on accruing status as of September 30, 2018, which were all performing in accordance with their restructured terms, will continue to comply with the restructured terms because of the reduced principal or interest payments on these loans. A summary of TDRs by type of concession and by type of loan, as of September 30, 2018, and December 31, 2017, is shown below:

Accruing TDRs	**September 30, 2018**			
	Payment Deferral	**Rate Reduction**	**Rate Reduction and Payment Deferral**	**Total**
	(In thousands)			
Commercial loans	$27,153	$ -	$ -	$27,153
Commercial mortgage loans	14,248	7,446	19,568	41,262
Residential mortgage loans	3,433	329	2,421	6,183
Total accruing TDRs	$44,834	$ 7,775	$ 21,989	$74,598

Non-accrual TDRs	**September 30, 2018**			
	Payment Deferral	**Rate Reduction**	**Rate Reduction and Payment Deferral**	**Total**
	(In thousands)			
Commercial loans	$14,579	$ -	$ -	$14,579
Commercial mortgage loans	3,863	-	7,261	11,124
Residential mortgage loans	1,901	-	114	2,015
Total non-accrual TDRs	$20,343	$ -	$ 7,375	$27,718

Accruing TDRs	**December 31, 2017**			
	Payment Deferral	**Rate Reduction**	**Rate Reduction and**	**Total**

			Payment Deferral	
	(In thousands)			
Commercial loans	$29,199	$ -	$ -	$29,199
Commercial mortgage loans	11,504	5,871	15,468	32,843
Residential mortgage loans	3,416	335	2,772	6,523
Total accruing TDRs	$44,119	$ 6,206	$ 18,240	$68,565

	December 31, 2017			
Non-accrual TDRs	Payment Deferral	Rate Reduction	Rate Reduction and Payment Deferral	Total
	(In thousands)			
Commercial loans	$12,944	$ -	$ -	$12,944
Commercial mortgage loans	6,231	1,677	11,113	19,021
Residential mortgage loans	1,297	-	154	1,451
Total non-accrual TDRs	$20,472	$ 1,677	$ 11,267	$33,416

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

Accruing TDRs	Three months ended September 30, 2018	2017	Nine months ended September 30, 2018	2017
	(In thousands)			
Beginning balance	$84,487	$79,819	$68,566	$65,393
New restructurings	2,589	21,790	25,036	49,973
Restructured loans restored to accrual status	577	-	2,895	-
Payments	(13,055)	(35,677)	(19,801)	(41,372)
Restructured loans placed on non-accrual status	-	(3,574)	(2,098)	(9,396)
Expiration of loan concession upon renewal	-	-	-	(2,240)
Ending balance	$74,598	$62,358	$74,598	$62,358

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Non-accrual TDRs	Three months ended September 30, 2018	2017	Nine months ended September 30, 2018	2017
	(In thousands)			
Beginning balance	$30,347	$30,045	$33,415	$29,722
New restructurings	2,784	2,360	3,015	2,360
Restructured loans placed on non-accrual status	-	3,574	2,098	9,396
Charge-offs	-	(355)	(161)	(1,901)
Payments	(4,836)	(1,933)	(7,754)	(5,160)
Foreclosures	-	-	-	(726)
Restructured loans restored to accrual status	(577)	-	(2,895)	-
Ending balance	$27,718	$33,691	$27,718	$33,691

The Company considers a loan to be in payment default once it is 60 to 90 days contractually past due under the modified terms. The Company did not have any loans that were modified as a TDR during the previous twelve months and which had subsequently defaulted as of September 30, 2018.

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

As of September 30, 2018, there were no commitments to lend additional funds to those borrowers whose loans had been restructured, were considered impaired, or were on non-accrual status.

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.

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The following tables present the loan portfolio by risk rating as of September 30, 2018, and as of December 31, 2017:

	September 30, 2018				
	Pass/Watch	Special Mention	Substandard	Doubtful	Total
	(In thousands)				
Commercial loans	$2,494,780	$125,373	$ 53,936	$ -	$2,674,089
Real estate construction loans	531,579	60,517	4,922	-	597,018
Commercial mortgage loans	6,181,227	315,010	84,017	-	6,580,254
Residential mortgage loans and equity lines	3,782,077	-	8,633	-	3,790,710
Installment and other loans	5,575	-	-	-	5,575
Total gross loans	$12,995,238	$500,900	$ 151,508	$ -	$13,647,646
Loans held for sale	$-	$-	$ -	$ -	$-

	December 31, 2017				
	Pass/Watch	Special Mention	Substandard	Doubtful	Total
Commercial loans	$2,281,698	$118,056	$ 61,503	$ 9	$2,461,266
Real estate construction loans	616,411	54,209	8,185	-	678,805
Commercial mortgage loans	6,004,258	308,924	169,513	-	6,482,695
Residential mortgage loans and equity lines	3,232,606	-	9,748	-	3,242,354
Installment and other loans	5,170	-	-	-	5,170
Total gross loans	$12,140,143	$481,189	$ 248,949	$ 9	$12,870,290
Loans held for sale	$-	$-	$ 8,000	$ -	$8,000

The following table presents the balance in the allowance for loan losses by portfolio segment and based on impairment method as of September 30, 2018, and as of December 31, 2017:

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

	(In thousands)					
September 30, 2018						
Loans individually evaluated for impairment						
Allowance	$2,506	$ -	$917	$281	$ -	$3,704
Balance	$44,272	$ 4,922	$54,435	$13,381	$ -	$117,010
Loans collectively evaluated for impairment						
Allowance	$54,008	$ 21,226	$31,865	$12,628	$ 26	$119,753
Balance	$2,629,817	$ 592,096	$6,525,819	$3,777,329	$ 5,575	$13,530,636
Total allowance	$56,514	$ 21,226	$32,782	$12,909	$ 26	$123,457
Total balance	$2,674,089	$ 597,018	$6,580,254	$3,790,710	$ 5,575	$13,647,646
December 31, 2017						
Loans individually evaluated for impairment						
Allowance	$43	$ -	$1,738	$353	$ -	$2,134
Balance	$43,495	$ 8,185	$52,664	$13,009	$ -	$117,353
Loans collectively evaluated for impairment						
Allowance	$49,753	$ 24,838	$35,872	$10,660	$ 22	$121,145
Balance	$2,417,771	$ 670,620	$6,430,031	$3,229,345	$ 5,170	$12,752,937
Total allowance	$49,796	$ 24,838	$37,610	$11,013	$ 22	$123,279
Total balance	$2,461,266	$ 678,805	$6,482,695	$3,242,354	$ 5,170	$12,870,290

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The following tables detail activity in the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2018, and September 30, 2017. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

Three months ended September 30, 2018 and 2017

	Commercial Loans	Real Estate Construction Loans	Commercial Mortgage Loans	Residential Mortgage Loans and Equity Lines	Installment and Other Loans	Total
	(In thousands)					
June 30, 2018 Ending Balance	$55,179	$ 20,663	$ 33,976	$ 12,062	$ 19	121,899
Provision/(credit) for possible credit losses	1,270	519	(4,138)	842	7	(1,500)
Charge-offs	(122)	-	-	-	-	(122)
Recoveries	187	44	2,944	5	-	3,180
Net (charge-offs)/recoveries	65	44	2,944	5	-	3,058
September 30, 2018 Ending Balance	$56,514	$ 21,226	$ 32,782	$ 12,909	$ 26	$123,457
June 30, 2017 Ending Balance	$46,744	$ 17,844	$ 36,840	$ 14,364	$ 17	$115,809
Provision/(credit) for possible credit losses	3,800	4,117	(4,615)	(3,309)	7	-
Charge-offs	(80)	-	(305)	-	-	(385)
Recoveries	575	47	5,482	7	-	6,111
Net (charge-offs)/recoveries	495	47	5,177	7	-	5,726
September 30, 2017 Ending Balance	$51,039	$ 22,008	$ 37,402	$ 11,062	$ 24	$121,535

Nine months ended September 30, 2018 and 2017

	Commercial Loans	Real Estate Construction Loans	Commercial Mortgage Loans	Residential Mortgage Loans and Equity Lines	Installment and Other Loans	Total
	(In thousands)					

2018 Beginning Balance	$49,796	$ 24,838	$ 37,610	$ 11,013	$ 22	$123,279
Provision/(credit) for possible credit losses	6,097	(3,744)	(8,672)	1,815	4	(4,500)
Charge-offs	(629)	-	(390)	-	-	(1,019)
Recoveries	1,250	132	4,234	81	-	5,697
Net recoveries	621	132	3,844	81	-	4,678
September 30, 2018 Ending Balance	$56,514	$ 21,226	$ 32,782	$ 12,909	$ 26	$123,457
Reserve for impaired loans	$2,506	$ -	$ 917	$ 281	$ -	$3,704
Reserve for non-impaired loans	$54,008	$ 21,226	$ 31,865	$ 12,628	$ 26	$119,753
Reserve for off-balance sheet credit commitments	$1,615	$ 1,174	$ 78	$ 215	$ 6	$3,088
2017 Beginning Balance	$49,203	$ 23,268	$ 34,864	$ 11,620	$ 11	$118,966
(Credit)/provision for possible credit losses	2,245	(1,403)	(2,775)	(580)	13	(2,500)
Charge-offs	(1,810)	-	(860)	-	-	(2,670)
Recoveries	1,401	143	6,173	22	-	7,739
Net (charge-offs)/recoveries	(409)	143	5,313	22	-	5,069
September 30, 2017 Ending Balance	$51,039	$ 22,008	$ 37,402	$ 11,062	$ 24	$121,535
Reserve for impaired loans	$1,461	-	$ 823	$ 322	-	$2,606
Reserve for non-impaired loans	$49,578	$ 22,008	$ 36,579	$ 10,740	$ 24	$118,929
Reserve for off-balance sheet credit commitments	$2,760	$ 1,206	$ 109	$ 175	$ 4	$4,254

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9. 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 losses 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.

10. Borrowed Funds

Borrowing from the Federal Home Loan Bank (“FHLB”). As of September 30, 2018, over-night borrowings from the FHLB were $240 million at a rate of 2.33% compared to $325 million at a rate of 1.41% as of December 31, 2017. As of September 30, 2018, the advances from the FHLB were $75 million at a rate of 1.99% compared to $105 million at a rate of 1.41% as of December 31, 2017. As of September 30, 2018, FHLB advances of $5 million will mature in October 2018, $50 million in December 2019, and $20 million in May 2023.

Other Borrowing. Pursuant to the Stock Purchase Agreement with Bank SinoPac Co. Ltd, $35.2 million of the purchase price were held back at a floating rate of three-month LIBOR rate plus 150 basis points and 50%, 30%, and 20% will be disbursed annually over three years on the anniversary dates, respectively. As of September 30, 2018, the outstanding balance was $18.3 million with a rate of 3.39% compared to $35.2 million at December 31, 2017.

Long-term Debt. On October 12, 2017, the Bank entered into a term loan agreement of $75.0 million with U.S. Bank. The loan has a floating rate of one-month LIBOR plus 175 basis points. As of September 30, 2018, the term loan has an interest rate of 3.875% compared to 3.125% at December 31, 2017. The principal amount of the long-term debt from U.S. Bank is due and payable in consecutive quarterly installments of $4.7 million each on the last day of each calendar quarter commencing December 31, 2018, with the final installment due and payable on October 12, 2020. The U.S. Bank loan proceeds were used to fund a portion of our acquisition of SinoPac Bancorp.

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11. Income Taxes

The effective tax rate for the first nine months of 2018 was 19.0% compared to 32.1% for the first nine months of 2017. The reduction in the effective tax rate was primarily due to the Tax Legislation, which reduced the Company's federal corporate tax rate from 35% to 21% effective January 1, 2018, an alternative energy investment made i