HOHMANN FRANK L III
Form 4
March 04, 2013

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
HOHMANN FRANK L III

(Last) (First) (Middle)

C/O BARBARA NIMS, ESQ., DAVIS POLK & WARDWELL

(Street)

NEW YORK, NY 10017

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
MATERIAL SCIENCES CORP [MASC]

3. Date of Earliest Transaction (Month/Day/Year)
03/01/2013

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director __X__ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	03/01/2013		M		1,152	A	(2)	1,003,057	D	
Common Stock	03/01/2013		D		1,152	D	$ 9.95 (2)	1,001,905	D	
Common Stock	03/01/2013		A		838 (3)	A	$ 0	1,002,743	D	
Common Stock								5,000	I	Trust for daughter

(1)

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Phantom Stock	(2)	03/01/2013		M			1,152	03/01/2013	03/01/2013	Common Stock	1,152

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
HOHMANN FRANK L III C/O BARBARA NIMS, ESQ. DAVIS POLK & WARDWELL NEW YORK, NY 10017	X	X		

Signatures

/s/ JAMES D. PAWLAK, CFO, attorney in fact	03/04/2013
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The reporting person disclaims beneficial ownership of these shares, except to the extent of his pecuniary interest therein.

(2) Each share of Phantom Stock was the economic equivalent of one share of MASC common stock. The reporting person settled his shares of common stock for cash.

(3) Represents the maximum number of shares of restricted stock that could become vested assuming full satisfaction of all vesting requirements.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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Collateralized mortgage obligations

63 - 27 36

Corporate debt securities

74,955 425 1,525 73,855

Mutual funds

6,000 - 167 5,833

Preferred stock of government sponsored entities

2,811 633 228 3,216

Other equity securities

4,108 4,929 342 8,695

Total securities available-for-sale

$1,595,723 $6,552 $15,923 $1,586,352

	As of December 31, 2014			
	Amortized Cost	**Gross Unrealized** Gains	**Gross Unrealized** Losses	**Fair Value**
	(In thousands)			
Securities Available-for-Sale				
U.S. treasury securities	$664,206	$ 63	$ 265	664,004
Mortgage-backed securities	549,296	1,393	6,386	544,303
Collateralized mortgage obligations	79	-	34	45
Corporate debt securities	94,943	776	1,247	94,472
Mutual funds	6,000		134	5,866
Preferred stock of government sponsored entities	6,276	681	3,733	3,224

Other equity securities	3,608	3,413		7,021
Total securities available-for-sale	$1,324,408	$ 6,326	$ 11,799	$1,318,935

The amortized cost and fair value of investment securities at December 31, 2015, 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.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

	Securities Available-for-Sale	
	Amortized Cost	**Fair Value**
	(In thousands)	
Due in one year or less	$184,963	$184,956
Due after one year through five years	135,698	135,924
Due after five years through ten years	195,539	192,291
Due after ten years (1)	1,079,523	1,073,181
Total	$1,595,723	$1,586,352

(1) Equity securities are reported in this category

Proceeds from sales of mortgage-backed securities were $648.0 million and from repayments, maturities and calls of mortgage-backed securities were $101.2 million during 2015 compared to proceeds from sales of $698.5 million and proceeds of $69.7 million from repayments, maturities, and calls during 2014. Proceeds from sales of other investment securities were $385.2 million during 2015 compared to $160.5 million during 2014. Proceeds from maturities and calls of other investment securities were $165.0 during 2015 compared to $585.8 million during 2014. In 2015, gains of $2.4 million and losses of $1.9 million were realized on sales and calls of investment securities compared with gains of $18.0 million and losses of $10.5 million realized in 2014. In 2015, the Company recorded investment securities write-downs of $3.9 million compared to $0.8 million in 2014.

The temporarily impaired securities represent 92.0% of the fair value of investment securities as of December 31, 2015. Unrealized losses for securities with unrealized losses for less than twelve months represent 1.0%, and securities with unrealized losses for twelve months or more represent 3.3%, 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 December 31, 2015, 7 issues of securities had unrealized losses for 12 months or longer and 47 issues of securities had unrealized losses of less than 12 months.

Total unrealized losses of $15.9 million at December 31, 2015, were primarily caused by increases in interest rates subsequent to the date that these securities were purchased or 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.

At December 31, 2015, management believed the impairment was temporary and, accordingly, no impairment loss on debt securities has been recognized in our condensed consolidated statements of operations. The Company expects to recover the amortized cost basis of its debt securities, and has no intent to sell and believes it is more likely than not that it will not be required to sell available-for-sale debt securities that have declined below their cost before their anticipated recovery.

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CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

The tables below show the fair value and unrealized losses of the temporarily impaired securities in our investment securities portfolio as of December 31, 2015, and December 31, 2014:

	As of December 15, 2015 **Temporarily Impaired Securities**								
	Less than 12 months			**12 months or longer**			**Total**		
	Fair Value	**Unrealized Losses**	**No. of Issuances**	**Fair Value**	**Unrealized Losses**	**No. of Issuances**	**Fair Value**	**Unrealized Losses**	**No. of Issuances**
	(Dollars in thousands)								
Securities Available-for-Sale									
U.S. treasury securities	$224,289	$ 395	5	$-	$ -	-	$224,289	$ 395	5
U.S. government sponsored entities	148,160	1,840	3	-	-	-	148,160	1,840	3
Mortgage-backed securities	1,025,342	11,398	35	6	1	2	1,025,348	11,399	37
Collateralized mortgage obligations	-	-	-	36	27	1	36	27	1
Corporate debt securities	9,950	50	1	43,525	1,475	3	53,475	1,525	4
Mutual funds	-	-	-	5,833	167	1	5,833	167	1
Preferred stock of government sponsored entities	2,488	228	2	-	-	-	2,488	228	2
Other equity securities	158	342	1	-	-	-	158	342	1
Total securities available-for-sale	$1,410,387	$ 14,253	47	$49,400	$ 1,670	7	$1,459,787	$ 15,923	54

As of December 31, 2014
Temporarily Impaired Securities

	Less than 12 months			12 months or longer			Total		
	Fair Value	Unrealized Losses	No. of Issuances	Fair Value	Unrealized Losses	No. of Issuances	Fair Value	Unrealized Losses	No. of Issuances
	(Dollars in thousands)								
Securities Available-for-Sale									
U.S. treasury securities	$374,153	$ 265	6	$-	$ -	-	$374,153	$ 265	6
Mortgage-backed securities	-	-	-	425,090	6,386	16	425,090	6,386	16
Collateralized mortgage obligations	-	-	-	45	34	1	45	34	1
Corporate debt securities	-	-	-	63,753	1,247	4	63,753	1,247	4
Mutual funds	-	-	-	5,866	134	1	5,866	134	1
Preferred stock of government sponsored entities	2,448	3,733	2	-	-	-	2,448	3,733	2
Total securities available-for-sale	$376,601	$ 3,998	8	$494,754	$ 7,801	22	$871,355	$ 11,799	30

Investment securities having a carrying value of $449.6 million at December 31, 2015, and $591.3 million at December 31, 2014, were pledged to secure public deposits, other borrowings, treasury tax and loan, Federal Home Loan Bank advances, securities sold under agreements to repurchase, and foreign exchange transactions.

5. Loans

Most of the Company’s business activity is predominately with Asian customers located in Southern and Northern California; New York City; Houston and Dallas, Texas; Seattle, Washington; Boston, Massachusetts; Chicago, Illinois; Edison, New Jersey; Rockville, Maryland; 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 secured collateral.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

The components of loans in the Consolidated Balance Sheets as of December 31, 2015, and December 31, 2014, were as follows:

	As of December 31,	
	2015	**2014**
	(In thousands)	
Type of Loans:		
Commercial loans	$2,316,863	$2,382,493
Real estate construction loans	441,543	298,654
Commercial mortgage loans	5,301,218	4,486,443
Residential mortgage loans	1,932,355	1,570,059
Equity lines	168,980	172,879
Installment and other loans	2,493	3,552
Gross loans	10,163,452	8,914,080
Less:		
Allowance for loan losses	(138,963)	(161,420)
Unamortized deferred loan fees	(8,262)	(12,392)
Total loans and leases, net	$10,016,227	$8,740,268
Loans held for sale	$6,676	$973

The Company pledged real estate loans of $6.8 billion at December 31, 2015, and $3.8 billion at December 31, 2014, to the Federal Home Loan Bank of San Francisco under its blanket lien pledging program. In addition, the Bank pledged $71.3 million at December 31, 2015, and $127.2 million at December 31, 2014, of its commercial loans to the Federal Reserve Bank's Discount Window under the Borrower-in-Custody program.

Loans serviced for others as of December 31, 2015, totaled $356.7 million and were comprised of $138.0 million of residential mortgages, $90.9 million of commercial real estate loans, $77.3 million of construction loans, and $50.5 million of commercial loans.

The Company has entered into transactions with its directors, executive officers, or principal holders of its equity securities, or the associates of such persons ("Related Parties"). Such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with customers who are not related parties. In management's opinion, these transactions did not involve more than normal credit risk or present other unfavorable features. All loans to Related Parties were current as of December 31, 2015. An analysis of the activity with respect to loans to Related Parties for the years indicated is as follows:

	December 31,	
	2015	**2014**
	(In thousands)	
Balance at beginning of year	$83,812	$126,985
Additional loans made	54,975	76,610
Payment received	(47,167)	(119,783)
Balance at end of year	$91,620	$83,812

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CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

At December 31, 2015, recorded investment in impaired loans totaled $133.8 million and was comprised of nonaccrual loans, excluding loans held for sale, of $52.1 million and accruing TDR's of $81.7 million. At December 31, 2014, recorded investment in impaired loans totaled $174.5 million and was comprised of nonaccrual loans, excluding loans held for sale, of $70.2 million and accruing TDR's of $104.3 million. The average balance of impaired loans was $162.9 million in 2015 and $190.2 million in 2014. We considered all non-accrual loans and troubled debt restructurings ("TDR") to be impaired. Interest recognized on impaired loans totaled $4.0 million in 2015 and $5.3 million in 2014. The Bank recognizes interest income on impaired loans based on its existing method of recognizing interest income on non-accrual loans except accruing TDRs. For impaired loans, the amounts previously charged off represent 22.4% at December 31, 2015, and 17.1% at December 31, 2014, of the contractual balances for impaired loans. The following table presents impaired loans and the related allowance as of the dates indicated:

	Impaired Loans As of December 31, 2015			**As of December 31, 2014**		
	Unpaid Principal Balance	**Recorded Investment**	**Allowance**	**Unpaid Principal Balance**	**Recorded Investment**	**Allowance**
	(In thousands)					
With no allocated allowance						
Commercial loans	$15,493	$ 6,721	$ -	$19,479	$ 18,452	$ -
Real estate construction loans	51,290	22,002	-	32,924	17,025	-
Commercial mortgage loans	59,954	54,625	-	77,474	75,172	-
Residential mortgage and equity lines	3,233	3,026	-	2,518	2,518	-
Subtotal	$129,970	$ 86,374	$ -	$132,395	$ 113,167	$ -
With allocated allowance						
Commercial loans	$7,757	$ 6,847	$ 530	$7,003	$ 5,037	$ 1,263
Real estate construction loans	-	-	-	19,006	8,703	1,077
Commercial mortgage loans	28,258	27,152	6,792	38,197	34,022	8,993
Residential mortgage and equity lines	14,383	13,437	427	14,019	13,590	465
Subtotal	$50,398	$ 47,436	$ 7,749	$78,225	$ 61,352	$ 11,798
Total impaired loans	$180,368	$ 133,810	$ 7,749	$210,620	$ 174,519	$ 11,798

The following table presents the average balance and interest income recognized related to impaired loans for the periods indicated:

	For the year ended December 31,					
	2015	**2014**	**2013**	**2015**	**2014**	**2013**
	Average Recorded Investment			**Interest Income Recognized**		
	(In thousands)					
Commercial loans	$23,960	$26,128	$27,123	$546	$878	$770
Real estate construction loans	22,066	32,439	37,875	261	264	284
Commercial mortgage loans	100,118	114,248	138,121	2,708	3,735	4,256
Residential mortgage and equity lines	16,801	17,411	18,033	482	462	289
Subtotal	$162,945	$190,226	$221,152	$3,997	$5,339	$5,599

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CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

The following is a summary of non-accrual loans as of December 31, 2015, 2014, and 2013 and the related net interest foregone for the years then ended:

	2015	**2014**	**2013**
	(In thousands)		
Non-accrual portfolio loans	$52,130	$70,163	$83,183
Non-accrual loans held-for-sale	5,944	973	-
Total non-accrual loans	$58,074	$71,136	$83,183
Contractual interest due	$5,732	$6,663	$5,851
Interest recognized	119	217	22
Net interest foregone	$5,613	$6,446	$5,829

The following tables present the aging of the loan portfolio by type as of December 31, 2015, and December 31, 2014:

	As of December 31, 2015						
	30-59 Days Past Due	**60-89 Days Past Due**	**Greater than 90 Days Past Due**	**Non-accrual Loans**	**Total Past Due**	**Loans Not Past Due**	**Total**
	(In thousands)						
Type of Loans:							
Commercial loans	$8,367	$221	$ -	$ 3,545	$12,133	$2,304,730	$2,316,863
Real estate construction loans	7,285	-	-	16,306	23,591	417,952	441,543
Commercial mortgage loans	2,243	2,223	-	25,231	29,697	5,271,521	5,301,218
Residential mortgage loans	4,959	1,038	-	7,048	13,045	2,088,290	2,101,335
Installment and other loans	-	-	-	-		2,493	2,493
Total loans	$22,854	$3,482	$ -	$ 52,130	$78,466	$10,084,986	$10,163,452

	As of December 31, 2014						
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Non-accrual Loans	Total Past Due	Loans Not Past Due	Total
	(In thousands)						
Type of Loans:							
Commercial loans	$11,595	$1,238	$ -	$ 6,983	$19,816	$2,362,677	$2,382,493
Real estate construction loans	1,416	-	-	19,963	21,379	277,275	298,654
Commercial mortgage loans	17,654	3,909	-	35,606	57,169	4,429,274	4,486,443
Residential mortgage loans	5,634	732	-	7,611	13,977	1,728,961	1,742,938
Installment and other loans	60	-	-	-	60	3,492	3,552
Total loans	$36,359	$5,879	$ -	$ 70,163	$112,401	$8,801,679	$8,914,080

The determination of the amount of the allowance for credit losses for problem 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 TDRs since TDRs are considered to be impaired loans.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

At December 31, 2015, accruing TDRs were $81.7 million and non-accrual TDRs were $39.9 million compared to accruing TDRs of $104.3 million and non-accrual TDRs of $41.6 million at December 31, 2014. The Company has allocated specific reserves of $5.4 million to non-accrual TDRs and $2.0 million to accruing TDRs at December 31, 2015, and $6.5 million to accruing TDRs and $4.9 million to non-accrual TDRs at December 31, 2014. The following table presents TDRs that were modified during 2015, their specific reserve at December 31, 2015, and charge-offs during 2015:

	No. of Contracts	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**	**Specific Reserve**	**Charge-offs**
	(Dollars in thousands)				
Commercial loans	3	$ 1,181	$ 1,181	$ 2	$ -
Commercial mortgage loans	20	17,204	17,204	708	-
Residential mortgage and equity lines	5	1,521	1,374	42	148
Total	28	$ 19,906	$ 19,759	$ 752	$ 148

The following table presents TDRs that were modified during 2014, their specific reserve at December 31, 2014, and charge-offs during 2014:

	No. of Contracts	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**	**Specific Reserve**	**Charge-offs**
	(Dollars in thousands)				
Commercial loans	4	$ 10,539	$ 10,539	$ 21	$ -
Commercial mortgage loans	3	11,817	11,817	5,550	-
Residential mortgage and equity lines	7	2,715	2,715	29	-
Total	14	$ 25,071	$ 25,071	$ 5,600	$ -

The following table presents TDRs that were modified during 2013, their specific reserve at December 31, 2013, and charge-offs during 2013:

	No. of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Specific Reserve	Charge-off
	(Dollars in thousands)				
Commercial loans	9	$ 12,026	$ 10,860	$ 550	$ 1,166
Commercial mortgage loans	5	13,090	13,090	329	-
Residential mortgage and equity lines	11	3,736	3,658	103	78
Total	25	$ 28,852	$ 27,608	$ 982	$ 1,244

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CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

A summary of TDRs by type of concession and by type of loans as of December 31, 2015, and December 31, 2014, are shown below:

Accruing TDRs	**December 31, 2015** **Payment Deferral**	**Rate Reduction**	**Rate Reduction and Payment Deferral**	**Total**
Commercial loans	$8,298	$ -	$ 1,726	$10,024
Real estate construction loans	-	-	5,696	5,696
Commercial mortgage loans	16,701	6,045	33,800	56,546
Residential mortgage loans	5,201	999	3,214	9,414
Total accruing TDRs	$30,200	$ 7,044	$ 44,436	$81,680

Non-accrual TDRs	**December 31, 2015** **Payment Deferral**	**Rate Reduction and Payment Deferral**	**Total**
Commercial loans	$1,033	$ 90	$1,123
Real estate construction loans	9,981	5,825	15,806
Commercial mortgage loans	1,544	20,362	21,906
Residential mortgage loans	388	700	1,088
Total non-accrual TDRs	$12,946	$ 26,977	$39,923

Accruing TDRs	December 31, 2014 Payment Deferral	Rate Reduction	Rate Reduction and Forgiveness of Principal	Rate Reduction and Payment Deferral	Total
Commercial loans	$11,572	$ -	$ -	$ 4,934	$16,506
Real estate construction loans	5,765	-	-	-	5,765
Commercial mortgage loans	20,543	26,694	-	26,351	73,588
Residential mortgage loans	3,316	-	410	4,771	8,497
Total accruing TDRs	$41,196	$ 26,694	$ 410	$ 36,056	$104,356

Non-accrual TDRs	December 31, 2014 Payment Deferral	Rate Reduction	Rate Reduction and Payment Deferral	Total
Commercial loans	$1,423	$ 860	$ 1,269	$3,552
Real estate construction loans	-	-	19,462	19,462
Commercial mortgage loans	15,917	-	973	16,890
Residential mortgage loans	1,026	-	688	1,714
Total non-accrual TDRs	$18,366	$ 860	$ 22,392	$41,618

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CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

Troubled debt restructurings on accrual status totaled $81.7 million at December 31, 2015, and were comprised of 59 loans, a decrease of $22.7 million, compared to 60 loans totaling $104.4 million at December 31, 2014. TDRs at December 31, 2015, were comprised of 15 non-farm non-residential commercial mortgage loans of $44.9 million, six commercial loans of $10.0 million, 32 single family residential mortgage loans of $9.4 million, one multi-family residential commercial mortgage loan of $6.0 million, four single family residential commercial mortgage loans of $5.7 million, and one construction loan of $5.7 million. We expect that the troubled debt restructuring loans on accruing status as of December 31, 2015, which are 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. The comparable TDRs at December 31, 2014, were comprised of nine commercial loans of $16.5 million, three hotel loans of $15.7 million, 31 single family residential loans of $13.6 million, two industrial and manufactural use building loans of $12.2 million, two land loans for residential purpose of $10.2 million, four commercial condos loans of $10.1 million, three retail shopping and commercial use building loans of $9.0 million, one multi-family residential loan of $6.1 million, one shopping center construction loan of $5.8 million, three office buildings loans of $3.5 million, and one warehouse loan of $1.6 million. The activity within our TDR loans for 2015, 2014, and 2013 are shown below:

Accruing TDRs	**2015**	**2014**	**2013**
	(In thousands)		
Beginning balance	$104,356	$117,597	$144,695
New restructurings	17,752	23,740	21,382
Restructured loans restored to accrual status	723	962	6,851
Charge-offs	(104)	-	(78)
Payments	(30,858)	(13,256)	(52,362)
Restructured loans placed on non-accrual	(10,189)	(24,687)	(2,891)
Ending balance	$81,680	$104,356	$117,597

Non-accrual TDRs	**2015**	**2014**	**2013**
	(In thousands)		
Beginning balance	$41,618	$38,769	$47,731
New restructurings	2,006	1,331	6,226
Restructured loans placed on non-accrual	10,189	24,687	2,891
Charge-offs	(3,246)	(8,937)	(2,124)
Payments	(9,921)	(11,710)	(4,295)

Foreclosures	-	(1,560)	(4,809)
Restructured loans restored to accrual status	(723)	(962)	(6,851)
Ending balance	$39,923	$41,618	$38,769

A loan is considered to be in payment default once it is 60 to 90 days contractually past due under the modified terms. There were no loans modified as TDRs during the previous twelve months that subsequently defaulted as of December 31, 2015.

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 December 31, 2015, 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. Loans are risk rated based on analysis of the current state of the borrower's credit quality. The analysis of credit quality includes a review of all sources of repayment, the borrower's current financial and liquidity status and all other relevant information. 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 the 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.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

Substandard – These loans are inadequately protected by current sound worth, paying capacity or pledged 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 loans as an active asset is no longer warranted.

The following tables present loan portfolio by risk rating as of December 31, 2015, and as of December 31, 2014:

	As of December 31, 2015				
	Pass/Watch	**Special Mention**	**Substandard**	**Doubtful**	**Total**
	(In Thousands)				
Commercial loans	$2,143,270	$110,338	$ 61,297	$ 1,958	$2,316,863
Real estate construction loans	413,765	5,776	21,502	500	441,543
Commercial mortgage loans	5,018,199	155,553	118,196	9,270	5,301,218
Residential mortgage and equity lines	2,091,434	399	9,502	-	2,101,335
Installment and other loans	2,493	-	-	-	2,493
Total gross loans	$9,669,161	$272,066	$ 210,497	$ 11,728	$10,163,452
Loans held for sale	$732	$-	$ 5,944	$ -	$6,676

	As of December 31, 2014				
	Pass/Watch	**Special Mention**	**Substandard**	**Doubtful**	**Total**
	(In Thousands)				
Commercial loans	$2,260,474	$47,619	$ 72,561	$ 1,839	$2,382,493
Real estate construction loans	272,927	-	25,227	500	298,654

Commercial mortgage loans	4,213,453	105,970	167,020	-	4,486,443
Residential mortgage and equity lines	1,733,248	-	9,690	-	1,742,938
Installment and other loans	3,552	-	-	-	3,552
Total gross loans	$8,483,654	$153,589	$ 274,498	$ 2,339	$8,914,080
Loans held for sale	$-	$-	$ 973	$ -	$973

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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CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

The following table presents the balance in the allowance for loan losses by portfolio segment and based on impairment method as of December 31, 2015, and as of December 31, 2014.

	Commercial Loans	**Real Estate Construction** Loans	**Commercial Mortgage** Loans	**Residential Mortgage** and Equity Lines	**Consumer and Other**	**Total**
	(In thousands)					
December 31, 2015						
Loans individually evaluated for impairment						
Allowance	$530	$ -	$6,792	$427	$ -	$7,749
Balance	$13,568	$ 22,002	$81,776	$16,464	$ -	$133,810
Loans collectively evaluated for impairment						
Allowance	$55,669	$ 22,170	$42,648	$10,718	$ 9	$131,214
Balance	$2,303,295	$ 419,541	$5,219,442	$2,084,871	$ 2,493	$10,029,642
Total allowance	$56,199	$ 22,170	$49,440	$11,145	$ 9	$138,963
Total balance	$2,316,863	$ 441,543	$5,301,218	$2,101,335	$ 2,493	$10,163,452
December 31, 2014						
Loans individually evaluated for impairment						
Allowance	$1,263	$ 1,077	$8,993	$465	$ -	$11,798
Balance	$23,489	$ 25,728	$109,194	$16,108	$ -	$174,519
Loans collectively evaluated for impairment						
Allowance	$46,238	$ 26,575	$65,680	$11,113	$ 16	$149,622
Balance	$2,359,004	$ 272,926	$4,377,249	$1,726,830	$ 3,552	$8,739,561
Total allowance	$47,501	$ 27,652	$74,673	$11,578	$ 16	$161,420
Total balance	$2,382,493	$ 298,654	$4,486,443	$1,742,938	$ 3,552	$8,914,080

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Explanation of Responses:

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

The following table details activity in the allowance for loan losses by portfolio segment for the years ended December 31, 2015 and 2014. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

	Commercial Loans	**Real Estate Construction** Loans	**Commercial Mortgage** Loans	**Residential Mortgage** and Equity Lines	**Installment and Other** Loans	**Total**
	(In thousands)					
2014 Beginning Balance	$65,103	$ 11,999	$ 84,753	$ 12,005	$ 29	$173,889
Provision/(reversal) for possible loan losses	(22,244)	19,853	(8,197)	(558)	(26)	(11,172)
Charge-offs	(7,875)	(6,747)	(7,458)	(155)	-	(22,235)
Recoveries	12,517	2,547	5,575	286	13	20,938
Net Recoveries/(Charge-offs	4,642	(4,200)	(1,883)	131	13	(1,297)
2014 Ending Balance	$47,501	$ 27,652	$ 74,673	$ 11,578	$ 16	$161,420
Reserve to impaired loans	$1,263	$ 1,077	$ 8,993	$ 465	$ -	$11,798
Reserve to non-impaired loans	$46,238	$ 26,575	$ 65,680	$ 11,113	$ 16	$149,622
Reserve for off-balance sheet credit commitments	$923	$ 728	$ 259	$ 39	$ -	$1,949
2015 Beginning Balance	$47,501	$ 27,652	$ 74,673	$ 11,578	$ 16	$161,420
Provision/(reversal) for possible loan losses	20,505	(5,684)	(26,035)	(179)	(7)	(11,400)
Charge-offs	(16,426)	-	(3,716)	(285)	-	(20,427)
Recoveries	4,619	202	4,518	31	-	9,370
Net (Charge-offs)/Recoveries	(11,807)	202	802	(254)	-	(11,057)
2015 Ending Balance	$56,199	$ 22,170	$ 49,440	$ 11,145	$ 9	$138,963
Reserve to impaired loans	$530	$ -	$ 6,792	$ 427	$ -	$7,749

Reserve to non-impaired loans	$55,669	$ 22,170	$ 42,648	$ 10,718	$ 9	$131,214
Reserve for off-balance sheet credit commitments	$810	$ 526	$ 158	$ -	$ -	$1,494

An analysis of the activity in the allowance for credit losses for the years ended December 31, 2015, 2014, and 2013 is as follows:

	December 31,		
	2015	**2014**	**2013**
	(In thousands)		
Allowance for Loan Losses			
Balance at beginning of year	$161,420	$173,889	$183,322
Reversal for credit losses	(11,400)	(10,800)	(3,000)
Transfers to reserve for off-balance sheet credit commitments	-	(372)	-
Loans charged off	(20,427)	(22,235)	(20,442)
Recoveries of charged off loans	9,370	20,938	14,009
Balance at end of year	$138,963	$161,420	$173,889
Reserve for Off-balance Sheet Credit Commitments			
Balance at beginning of year	$1,949	$1,363	$1,363
(Reversal)/provision for credit losses and transfers	(455)	586	-
Balance at end of year	$1,494	$1,949	$1,363

Residential mortgage loans in process of formal foreclosure proceedings were $2.0 million at December 31, 2015, compared to $2.3 million at December 31, 2014.

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CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

6. Other Real Estate Owned

At December 31, 2015, the net carrying value of other real estate owned (“OREO”) decreased $6.8 million, or 21.5%, to $24.7 million from $31.5 million at December 31, 2014. OREO located in Texas was $14.6 million and was comprised of three parcels of land zoned for commercial purpose of $12.3 million, one medical office building of $1.6 million, and a retail store of $761,000. OREO located in the state of New York were comprised of two residential properties of $5.7 million. OREO located in Illinois was $2.9 million and was comprised of two multi-family residential properties of $2.4 million, two office and commercial buildings of $320,000, and a residential property of $153,000. OREO located in California was $891,000 and was comprised primarily of one residential construction project of $414,000 and two parcels of land zoned for commercial purpose of $478,000. OREO located in the state of Washington was an office and commercial use building of $635,000.

For 2014, OREO located in California was $4.1 million and was comprised primarily of one residential property of $2.0 million, four commercial use buildings of $1.2 million, one residential construction project of $526,000, one parcel of land zoned for residential purpose of $243,000, and one parcel of land zoned for commercial purpose of $235,000. OREO located in Texas was $15.7 million and was comprised of three parcels of land zoned for commercial purpose of $12.3 million, one medical office building of $1.6 million, a retail store of $761,000, a commercial building construction project of $752,000, and a shopping center of $304,000. OREO located in Illinois was $4.0 million and was comprised of two multi-family residential properties of $3.1 million and an office of $921,000. OREO located in the state of Washington was an office and commercial use building of $3.8 million. OREO located in the state of New York was $3.8 million and was comprised of one residential property of $2.7 million and a retail store of $1.1 million.

An analysis of the activity in the valuation allowance for other real estate losses for the years ended December 31, 2015, 2014, and 2013 is as follows:

	Year Ended December 31,		
	2015	**2014**	**2013**
	(In thousands)		
Balance, beginning of year	$2,110	$13,384	$19,556
Provision/(Reversal) for losses	547	1,619	(2,122)
OREO disposal	(350)	(12,893)	(4,050)

Balance, end of year	$2,307	$2,110	$13,384

The following table presents the components of other real estate owned expense for the years ended December 31, 2015, 2014, and 2013:

	Year Ended December 31,		
	2015	**2014**	**2013**
	(In thousands)		
Operating expense	$665	$1,142	$3,680
Provision/(reversal) for losses	547	1,619	(2,122)
Net gain on transfers and disposals	(2,012)	(4,065)	(1,793)
Total other real estate owned expense	$(800)	$(1,304)	$(235)

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

7. Investments in Affordable Housing and Alternative Energy Partnerships

The Company has invested in certain limited partnerships that were formed to develop and operate housing for lower-income tenants throughout the United States. The Company’s investments in these partnerships were $172.7 million at December 31, 2015, and $104.6 million at December 31, 2014. In addition, in April 2015, the Company invested in an alternative energy partnership that qualify for energy tax credits.

Investments in affordable housing partnerships, net, were $172.4 million and $104.6 million at December 31, 2015 and 2014, respectively. At December 31, 2015, and December 31, 2014, seven of the limited partnerships in which the Company has an equity interest were determined to be variable interest entities for which the Company is the primary beneficiary. The consolidation of these limited partnerships in the Company’s Consolidated Financial Statements increased total assets and liabilities by $24.3 million at December 31, 2015, and by $24.8 million at December 31, 2014. Other borrowings for affordable housing limited partnerships were $18.6 million at December 31, 2015, and $19.9 million at December 31, 2014; recourse is limited to the assets of the limited partnerships. Unfunded commitments for affordable housing limited partnerships of $85.8 million as of December 31, 2015, and $22.0 million as of December 31, 2014, were recorded under other liabilities.

Each of the partnerships must meet regulatory requirements for affordable housing for a minimum 15-year compliance period to fully utilize the tax credits. If the partnerships cease to qualify during the compliance period, the credits may be denied for any period in which the projects are not in compliance and a portion of the credits previously taken is subject to recapture with interest. The remaining tax credits to be utilized over a multiple-year period are $112.1 million for Federal and $3.3 million for state at December 31, 2015. The Company’s usage of affordable housing and other tax credits approximated $10.1 million in 2015, $10.2 million in 2014, and $9.8 million in 2013. Losses in excess of the Bank’s investment in three limited partnerships have not been recorded in the Company’s Consolidated Financial Statements because the Company had fully satisfied all capital commitments required under the respective limited partnership agreements.

Investment in the alternative energy tax credit partnership, net, was $10.5 million at December 31, 2015. The Company’s usage of energy tax credits approximated $20.9 million in 2015.

8. Premises and Equipment

Premises and equipment consisted of the following as of December 31, 2015, and December 31, 2014:

	As of December 31,	
	2015	2014
	(In thousands)	
Land and land improvements	$42,407	$33,543
Building and building improvements	78,299	74,550
Furniture, fixtures and equipment	50,378	47,936
Leasehold improvement	14,546	14,006
Construction in process	538	54
	186,168	170,089
Less: Accumulated depreciation/amortization	77,244	70,407
Premises and equipment, net	$108,924	$99,682

The amount of depreciation/amortization included in operating expense was $7.0 million in 2015, $7.1 million in 2014, and $6.7 million in 2013.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

9. Deposits

The following table displays deposit balances as of December 31, 2015, and December 31, 2014:

	As of December 31,	
	2015	2014
	(In thousands)	
Demand	$2,033,048	$1,664,914
NOW accounts	966,404	778,691
Money market accounts	1,905,719	1,538,187
Saving accounts	618,164	533,940
Time deposits	4,985,752	4,267,728
Total	$10,509,087	$8,783,460

Time deposits outstanding as of December 31, 2015, mature as follows.

	Expected Maturity Date at December 31,						
	2016	2017	2018	2019	2020	Thereafter	Total
	(In thousands)						
Time deposits	$3,695,164	$997,735	$249,147	$42,788	$907	$ 11	$4,985,752

Accrued interest payable on customer deposits was $3.4 million at December 31, 2015, $2.3 million at December 31, 2014, and $2.0 million at December 31, 2013. The following table summarizes the interest expense on deposits by account type for the years ended December 31, 2015, 2014, and 2013:

	Year Ended December 31,		
	2015	2014	2013
	(In thousands)		
Interest bearing demand	$1,406	$1,229	$1,017
Money market accounts	10,138	8,627	7,034
Saving accounts	901	802	374
Time deposits	39,443	35,111	31,964
Total	$51,888	$45,769	$40,389

10. Borrowed Funds

Securities Sold under Agreements to Repurchase. Securities sold under agreements to repurchase were $400.0 million with a weighted average rate of 3.89% at December 31, 2015, compared to $450.0 million with a weighted average rate of 3.85% at December 31, 2014. In 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 compared to no repayments in 2015. As of December 31, 2015, four floating-to-fixed rate agreements totaling $200.0 million with weighted average rate of 5.0% and final maturity in January 2017 have initial floating rates for one year, with floating rates of 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 4.89% to 5.07%. As of December 31, 2015, and December 31, 2014, four fixed rate non-callable securities sold under agreements to repurchase totaled $200.0 million with a weighted average rate of 2.78%. Final maturity for the four fixed rate non-callable securities sold under agreements to repurchase is $50.0 million in August 2016, $50.0 million in July 2017, $50.0 million in June 2018, and $50.0 million in July 2018.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

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 and mortgage-backed securities with a fair value of $430.2 million as of December 31, 2015, and $516.3 million as of December 31, 2014.

The table below provides comparative data for securities sold under agreements to repurchase for the years indicated:

	2015		**2014**		**2013**	
	(Dollars in thousands)					
Average amount outstanding during the year (1)	$400,822		$629,315		$972,329	
Maximum amount outstanding at month-end (2)	400,000		700,000		1,200,000	
Balance, December 31	400,000		450,000		800,000	
Rate, December 31	3.89	%	3.85	%	3.87	%
Weighted average interest rate for the year	3.95	%	3.92	%	3.88	%

(1) Average balances were computed using daily averages.

(2) Highest month-end balances were January 2015, January 2014, and January 2013.

As of December 31, 2015, over-night borrowings from the FHLB were $250.0 million at a rate of 0.27% compared to $400.0 million at a rate of 0.27% at December 31, 2014. At December 31, 2015 and 2014, a $25.0 million advance from the FHLB at a rate of 1.13% was outstanding and will mature in March 2018.

Other Liabilities. On November 23, 2004, the Company entered into an agreement with its Chief Executive Officer (“CEO”) pursuant to which the CEO agreed to defer any bonus amounts in excess of $225,000 for the year ended December 31, 2005, until the later of January 1 of the first year following the CEO’s separation from service or the first day of the seventh month following the CEO’s separation from service. Accordingly, an amount equal to $610,000 was deferred in 2004 and was accrued in other liabilities in the consolidated balance sheet. The Company agreed to accrue interest on the deferred portion of the bonus at 7.0% per annum compounded quarterly. The deferred amount will be increased each quarter by the amount of interest computed for that quarter. On November 23, 2014, the interest rate was reset to 5.06% based on 275 basis points above the interest rate on the ten-year Treasury Note on that date. On March 13, 2014, the Compensation Committee of the Company awarded the Company's CEO a cash bonus in the amount of $300,000 for the quarter ended December 31, 2013, and provided as part of the award that payment of the bonus would be deferred until the later of January 1 of the first year following the CEO's separation from service or the first day of the seventh month following the CEO's separation from service. The Company accrues interest on the deferred bonus at 5.02% per annum compounded quarterly. Beginning on the fifth anniversary of the agreement, the interest rate will be reset at 350 basis points above the then prevailing interest rate on the five-year Treasury Note.

Interest of $79,000 during 2015, $93,000 during 2014, and $77,000 during 2013 was accrued on the deferred bonuses. The balance was $1.6 million at December 31, 2015, and $1.5 million at December 31, 2014.

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CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

11. Capital Resources

Total equity was $1.75 billion at December 31, 2015, an increase of $144.9 million, or 9.0%, from $1.60 billion at December 31, 2014, primarily due to increases in net income of $161.1 million and equity consideration for the acquisition of Asia Bancshares, Inc. of $82.8 million offset by purchases of treasury stock of $59.4 million and common stock cash dividends of $45.3 million. Under the terms of the acquisition of Asia Bancshares, Inc. which was completed on July 31, 2015, we issued 2.58 million shares of our common stock and paid $57.0 million in cash for all of the issued and outstanding stock of Asia Bancshares. The Company paid cash dividends of $0.56 per common share in 2015 and $0.29 per common share in 2014.

In November 2007, the Board of Directors approved a stock repurchase program for the Company to buy back up to one million shares of our common stock, and 377,500 shares were repurchased during 2007. Repurchases of shares were suspended under this program between 2008 and July 2015. In August 2015, the Company resumed stock repurchases under the November 2007 repurchase program and repurchased the remaining 622,500 shares under the November 2007 repurchase program for $18.1 million, or an average price of $29.08 per share.

On August 31, 2015, the Board of Directors approved a new stock repurchase program to buy back up to two million shares of our common stock. In 2015, the Company repurchased 1,366,750 shares for $41.3 million, or $30.22 per share under the August 2015 repurchase program.

As of December 31, 2015, the Company could repurchase up to 633,250 shares of common stock under the August 2015 stock repurchase program, subject to regulatory limitations. The August 2015 stock repurchase program were completed on February 1, 2016 by repurchasing the remaining shares of 633,250 for $17.0 million, or $26.82 per share, in January and February of 2016.

On February 1, 2016, the Board of Directors approved a new stock repurchase program to buy back up to $45.0 million of the Company’s common stock. As of February 16, 2016, the Company repurchased 579,543 shares for $15.8 million, or $27.22 per share, under the February 2016 repurchase program. As of February 16, 2016, the Company may repurchase up to $29.2 million of its common stock under the February 2016 repurchase program.

The Bancorp established three special purpose trusts in 2003 and two in 2007 for the purpose of issuing trust preferred securities to outside investors (“Capital Securities”). The trusts exist for the purpose of issuing the Capital Securities and investing the proceeds thereof, together with proceeds from the purchase of the common securities of the trusts by the Bancorp, in Junior Subordinated Notes issued by the Bancorp. Subject to some limitations, payment of distributions out of the monies held by the trusts and payments on liquidation of the trusts or the redemption of the Capital Securities are guaranteed by the Bancorp to the extent the trusts have funds on hand at such time. The obligations of the Bancorp under the guarantees and the Junior Subordinated Notes are subordinate and junior in right of payment to all indebtedness of the Bancorp and will be structurally subordinated to all liabilities and obligations of the Bancorp’s subsidiaries. The Bancorp has the right to defer payments of interest on the Junior Subordinated Notes at any time or from time to time for a period of up to twenty consecutive quarterly periods with respect to each deferral period. Under the terms of the Junior Subordinated Notes, the Bancorp may not, with certain exceptions, declare or pay any dividends or distributions on its capital stock or purchase or acquire any of its capital stock if the Bancorp has deferred payment of interest on the Junior Subordinated Notes.

The five special purpose trusts are considered variable interest entities. Because the Bancorp is not the primary beneficiary of the trusts, the financial statements of the trusts are not included in the Consolidated Financial Statements of the Company. The Junior Subordinated Notes are currently included in the Tier 1 capital of the Bancorp for regulatory capital purposes. Interest expense, excluding impact of cash flow interest rate swaps entered into during June 2014, on the Junior Subordinated Notes was $3.0 million for 2015, $2.9 million for 2014, and $3.0 million for 2013.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

The table below summarizes the outstanding Junior Subordinated Notes issued by the Company to each trust as of December 31, 2015:

Trust Name	Issuance Date	Principal Balance of Notes	Not Redeemable Until	Stated Maturity	Annualized Coupon Rate	Current Interest Rate	Date of Rate Change	Payable/ Distribution Date
(Dollars in thousands)								
Cathay Capital Trust I	June 26, 2003	$ 20,619	June 30, 2008	June 30, 2033	3-month LIBOR + 3.15%	3.75 %	December 30, 2015	March 30 June 30 September 30 December 30
Cathay StatutoryTrust I	September 17, 2003	20,619	September 17, 2008	September 17, 2033	3-month LIBOR + 3.00%	3.53 %	December 17, 2015	March 17 June 17 September 17 December 17
Cathay Capital Trust II	December 30, 2003	12,887	March 30, 2009	March 30, 2034	3-month LIBOR + 2.90%	3.50 %	December 30, 2015	March 30 June 30 September 30 December 30
Cathay Capital Trust III	March 28, 2007	46,392	June 15, 2012	June 15, 2037	3-month LIBOR + 1.48%	1.99 %	December 15, 2015	March 15 June 15 September 15 December 15
	May 31,	18,619	September 6,		3-month	1.85 %		March 6

Cathay Capital Trust IV	2007	2012	September 6, 2037	LIBOR + 1.4%	December 7, 2015	June 6 September 6 December 6
Total Junior Subordinated Notes	$ 119,136					

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CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

12. Income Taxes

For the years ended December 31, 2015, 2014, and 2013, the current and deferred amounts of the income tax expense are summarized as follows:

	Year Ended December 31,		
	2015	2014	2013
	(In thousands)		
Current:			
Federal	$31,587	$36,180	$62,254
State	26,396	14,481	23,295
Total Current	$57,983	$50,661	$85,549
Deferred:			
Federal	3,738	23,783	(11,162)
State	(1,734)	7,521	(3,952)
Total Deferred	$2,004	$31,304	$(15,114)
Total income tax expense	$59,987	$81,965	$70,435

Temporary differences between the amounts reported in the financial statements and the tax basis of assets and liabilities give rise to deferred taxes. Net deferred tax assets at December 31, 2015, and at December 31, 2014, are included in other assets in the accompanying Consolidated Balance Sheets and are as follows:

	As of December 31,	
	2015	2014
	(In thousands)	
Deferred Tax Assets		
Loan loss allowance, due to differences in computation of bad debts	$59,639	$66,999
Share-based compensation	7,513	12,808
Accrual for bonuses	4,984	4,585
Non-accrual interest	4,929	3,735
Accrual for litigation	3,209	2,918
Write-down on equity securities and venture capital investments	3,981	2,697
Write-down on other real estate owned	384	1,357
Depreciation and amortization	2,917	-

State tax	4,802	3,253
Unrealized loss on interest rate swaps	2,173	1,739
Unrealized loss on securities available-for-sale, net	3,940	2,301
Other, net	1,743	2,179
Gross deferred tax assets	100,214	104,571
Deferred Tax Liabilities		
Investment in affordable housing partnerships	(1,444)	(703)
Basis difference in acquired assets	(4,947)	(3,321)
Dividends on Federal Home Loan Bank common stock	(1,322)	(1,927)
Other, net	(1,937)	(2,372)
Gross deferred tax liabilities	(9,650)	(8,323)
Net deferred tax assets	$90,564	$96,248

Amounts for the current year are based upon estimates and assumptions and could vary from amounts shown on the tax returns as filed.

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent on the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize all benefits related to these deductible temporary differences.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

The Company had income tax refunds receivables of $28.9 million at December 31, 2015, and $18.1 million at December 31, 2014. These income tax receivables are included in other assets in the accompanying Consolidated Balance Sheets. At December 31, 2015, the Company had Federal net operating loss carry forwards of approximately $0.3 million which expire through 2022. The Federal net operating loss carry-forwards were acquired in connection with the Company's acquisition of United Heritage Bank.

At both December 31, 2015 and 2014, there were no unrecognized tax benefits. The Company's tax returns are open for audits by the Internal Revenue Service back to 2012 and by the California Franchise Tax Board back to 2008. The Company is under audit by the California Franchise Tax Board for the years 2008 to 2011. 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.

Income tax expense results in effective tax rates that differ from the statutory Federal income tax rate for the years indicated as follows:

	2015		**2014**		**2013**	
	(In thousands)					
Tax provision at Federal statutory rate	$77,384	35.0 %	$76,928	35.0%	$67,752	35.0%
State income taxes, net of Federal income tax benefit	14,656	6.6	14,324	6.6	12,573	6.5
Interest on obligations of state and political subdivisions, which are exempt from Federal taxation	-	-	-	-	(348)	(0.2)
Low income housing and other tax credits	(30,986)	(14.0)	(10,014)	(4.6)	(10,056)	(5.2)
Other, net	(1,067)	(0.5)	727	0.3	514	0.3
Total income tax expense	$59,987	27.1 %	$81,965	37.3%	$70,435	36.4%

13. Stockholders' Equity and Earnings per Share

As a bank holding company, the Bancorp's ability to pay dividends will depend upon the dividends it receives from the Bank and on the income it may generate from any other activities in which it may engage, either directly or through other subsidiaries.

Under California banking law, the Bank may not, without regulatory approval, pay a cash dividend that exceeds the lesser of the Bank's retained earnings or its net income for the last three fiscal years, less any cash distributions made during that period. Under this regulation, the amount of retained earnings available for cash dividends to the Company immediately after December 31, 2015, is restricted to approximately $98.4 million.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

Activity in accumulated other comprehensive income, net of tax, and reclassification out of accumulated other comprehensive income for the years ended December 31, 2015, and 2014 was as follows:

	2015			**2014**		
	Pre-tax	**Tax expense/ (Benefit)**	**Net-of-tax**	**Pre-tax**	**Tax expense/ (Benefit)**	**Net-of-tax**
	(In thousands)					
Beginning balance, loss, net of tax						
Securities available-for-sale			$ (3,172)			$ (29,729)
Cash flow hedge derivatives			(2,397)			-
Total			$ (5,569)			$ (29,729)
Net unrealized (losses)/gains arising during the period						
Securities available-for-sale	$ (7,247)	$ (3,047)	$ (4,200)	$ 52,573	$ 22,105	$ 30,468
Cash flow hedge derivatives	(1,032)	(434)	(598)	(4,136)	(1,739)	(2,397)
Total	(8,279)	(3,481)	(4,798)	48,437	20,366	28,071
Reclassification adjustment for net losses/(gains) included in net income						
Securities available-for-sale	3,349	1,408	1,941	(6,748)	(2,837)	(3,911)
Cash flow hedge derivatives	-	-	-	-	-	-
Total	3,349	1,408	1,941	(6,748)	(2,837)	(3,911)
Total other comprehensive (loss)/income						
Securities available-for-sale	(3,898)	(1,639)	(2,259)	45,825	19,268	26,557
Cash flow hedge derivatives	(1,032)	(434)	(598)	(4,136)	(1,739)	(2,397)
Total	$ (4,930)	$ (2,073)	$ (2,857)	$ 41,689	$ 17,529	$ 24,160
Ending balance, loss, net of tax						
Securities available-for sale			$ (5,431)			$ (3,172)
Cash flow hedge derivatives			(2,995)			(2,397)
Total			$ (8,426)			$ (5,569)

The Board of Directors of the Bancorp is authorized to issue preferred stock in one or more series and to fix the voting powers, designations, preferences or other rights of the shares of each such class or series and the qualifications, limitations, and restrictions thereon. Any preferred stock issued by the Bancorp may rank prior to the Bancorp common stock as to dividend rights, liquidation preferences, or both, may have full or limited voting rights, and may be convertible into shares of the Bancorp common stock.

The following is the reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the years as indicated:

	Year Ended December 31,								
	2015			**2014**			**2013**		
	Income (Numerator)	**Shares (Denominator)**	**Per Share Amount**	**Income (Numerator)**	**Shares (Denominator)**	**Per Share Amount**	**Income (Numerator)**	**Shares (Denominator)**	**Per Share Amount**
	(In thousands, except shares and per share data)								
Net income	$161,109			$137,830			$123,143		
Dividends on preferred stock	-			-			(9,685)		
Basic EPS, income	$161,109	80,563,577	$2.00	$137,830	79,661,571	$1.73	$113,458	78,954,898	$1.44
Effect of dilutive stock options		731,219			445,324			183,085	
Diluted EPS, income	$161,109	81,294,796	$1.98	$137,830	80,106,895	$1.72	$113,458	79,137,983	$1.43

Options to purchase an additional 988,569 shares at December 31, 2015, and 2.0 million shares at December 31, 2014, were not included in the computation of diluted earnings per share because their inclusion would have had an anti-dilutive effect.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

14. Commitments and Contingencies

Litigation. The Company is involved in various litigation concerning transactions entered into during 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.

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

The Company's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Unless noted otherwise, the Company does not require collateral or other security to support financial instruments with credit risk.

Financial instruments for which contract amounts represent the amount of credit risk include the following:

	As of December 31,	
	2015	**2014**
	(In thousands)	
Commitments to extend credit	$1,971,848	$2,071,766
Standby letters of credit	49,081	53,910
Commercial letters of credit	38,131	48,143
Bill of lading guarantees	454	108
Total	$2,059,514	$2,173,927

Commitments to extend credit are agreements to lend to a customer provided there is no violation of any condition established in the commitment agreement. These commitments generally have fixed expiration dates and are expected to expire without being drawn upon. The total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on management's credit evaluation of the borrowers.

As of December 31, 2015, the Company does not have fixed-rate or variable-rate commitments with characteristics similar to options, which provide the holder, for a premium paid at inception to the Company, the benefits of favorable movements in the price of an underlying asset or index with limited or no exposure to losses from unfavorable price movements.

As of December 31, 2015, commitments to extend credit of $2.0 billion include commitments to fund fixed rate loans of $87.3 million and adjustable rate loans of $1.9 billion.

Commercial letters of credit and bill of lading guarantees are issued to facilitate domestic and foreign trade transactions while standby letters of credit are issued to make payments on behalf of customers if certain specified future events occur. The credit risk involved in issuing letters of credit and bill of lading guarantees is essentially the same as that involved in making loans to customers.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

Leases. The Company is obligated under a number of operating leases for premises and equipment with terms ranging from one to 25 years, many of which provide for periodic adjustment of rentals based on changes in various economic indicators. Rental expense was $9.3 million for 2015, $8.2 million for 2014, and $7.7 million for 2013. The following table shows future minimum payments under operating leases with terms in excess of one year as of December 31, 2015.

Year Ending December 31,	Commitments (In thousands)
2016	$ 7,887
2017	6,444
2018	4,939
2019	3,209
2020	1,586
Thereafter	4,869
Total minimum lease payments	$ 28,934

Rental income was $0.3 million for 2015, $0.2 million for 2014, and $0.3 million for 2013. The following table shows future rental payments to be received under operating leases with terms in excess of one year as of December 31, 2015:

	(In thousands)
2016	$ 294
2017	171
2018	73
2019	58
2020	15
Thereafter	-
Total minimum lease payments to be received	$ 611

15. Financial Derivatives

The Company does not 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 its interest-earning assets and interest-bearing liabilities. These transactions, when properly structured and managed, may provide a hedge against inherent interest rate risk in assets or liabilities and against risk in specific transactions of the Company. In such instances, The Company may protect its position through the purchase or sale of interest rate futures contracts for a specific cash or interest rate risk position. Other hedging transactions may be implemented using interest rate swaps, interest rate caps, floors, financial futures, forward rate agreements, and options on futures or bonds. Prior to considering any hedging activities, the Company seeks to analyze the costs and benefits of the hedge in comparison to other viable alternative strategies. All hedges will require an assessment of basis risk and must be approved by the Bancorp or the Bank’s Investment Committee.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

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, 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 the three-month LIBOR at a weighted average rate of 0.53%. As of December 31, 2015, the notional amount of cash flow interest rate swaps was $119.1 million and their unrealized loss of $3.0 million, net of taxes, was included in other comprehensive income. For the year ended December 31, 2015, the periodic net settlement of interest rate swaps included in interest expense was $2.8 million compared to $1.5 million in 2014. As of December 31, 2015 and 2014, the ineffective portion of these interest rates swaps was not significant.

In 2014 and 2015, the Bank entered into interest rate swap contracts in the notional amount of $347.2 million for various terms from two 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 4.69% and receives a variable rate at the one month LIBOR rate plus a weighted average spread of 321 basis points, or at a weighted average rate of 3.51%. As of December 31, 2015 and 2014, the notional amount of fair value interest rate swaps was $340.3 million and $181.3

million, respectively, and their unrealized loss of $1.3 million and $489,000, respectively, were included in other non-interest income. The amount of periodic net settlement of interest rate swaps reducing interest income was $3.3 million in 2015 compared to $1.3 million in 2014. As of December 31, 2015 and 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. 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 Bancorp related to derivative contracts totaled $7.9 million as of December 31, 2015.

The Company enters into foreign exchange forward contracts with various counterparties to mitigate the risk of fluctuations in foreign currency exchange rates for foreign exchange certificates of deposit or foreign exchange contracts entered into with our clients. These contracts are not designated as hedging instruments and are recorded at fair value in our condensed consolidated balance sheets. Changes in the fair value of these contracts as well as the related foreign exchange certificates of deposit and foreign exchange contracts are recognized immediately in net income as a component of non-interest income. Period end gross positive fair values are recorded in other assets and gross negative fair values are recorded in other liabilities. At December 31, 2015, the notional amount of option contracts totaled $9.4 million with a net negative fair value of $28,000. At December 31, 2015, spot, forward, and swap contracts in the total notional amount of $100.6 million had a positive fair value of $3.3 million. Spot, forward, and swap contracts in the total notional amount of $115.4 million had a negative fair value of $4.1 million at December 31, 2015. At December 31, 2014, no option contracts were outstanding. At December 31, 2014, spot, forward, and swap contracts in the total notional amount of $167.0 million had a positive fair value of $1.9 million. Spot, forward, and swap contracts in the total notional amount of $178.9 million had a negative fair value of $5.0 million at December 31, 2014.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

16. 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 judgments 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.

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 Contracts and Foreign Exchange Contracts. The Company measures the fair value of currency option and foreign exchange contracts based on observable market rates on a recurring basis, 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 old appraisals which are then adjusted based on recent market trends, a Level 3 measurement.

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

Goodwill. The Company 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 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 then 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 was 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 Level 3 measurement.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

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 old appraisals which are then adjusted based on recent market trends, a Level 3 measurement.

Investments in Venture Capital. The Company periodically reviews for OTTI 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.

The following tables present the Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis at December 31, 2015, and at December 31, 2014:

As of December 31, 2015	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	$284,288	$-	$ -	$284,288
U.S. government sponsored entities	-	148,160	-	148,160
Mortgage-backed securities	-	1,062,269	-	1,062,269
Collateralized mortgage obligations	-	36	-	36
Corporate debt securities	-	73,855	-	73,855
Mutual funds	5,833	-	-	5,833

Preferred stock of government sponsored entities	-	3,216	-	3,216
Other equity securities	-	8,695	-	8,695
Total securities available-for-sale	290,121	1,296,231	-	1,586,352
Warrants	-	-	62	62
Foreign exchange contracts	-	3,339	-	3,339
Total assets	$290,121	$1,299,570	$ 62	$1,589,753
Liabilities				
Option contracts	$-	$28	$ -	$28
Interest rate swaps	-	6,496	-	6,496
Foreign exchange contracts	-	4,124	-	4,124
Total liabilities	$-	$10,648	$ -	$10,648

As of December 31, 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	$664,004	$-	$ -	$664,004
Mortgage-backed securities	-	544,303	-	544,303
Collateralized mortgage obligations	-	45	-	45
Corporate debt securities	-	94,472	-	94,472
Mutual funds	5,866	-	-	5,866
Preferred stock of government sponsored entities	-	3,224	-	3,224
Other equity securities	-	7,021	-	7,021
Total securities available-for-sale	669,870	649,065	-	1,318,935
Warrants	-	-	27	27
Foreign exchange contracts	-	1,876	-	1,876
Total assets	$669,870	$650,941	$ 27	$1,320,838
Liabilities				
Interest rate swaps	$-	$4,626	$ -	$4,626
Foreign exchange contracts	-	5,007	-	5,007
Total liabilities	$-	$9,633	$ -	$9,633

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

For financial assets measured at fair value on a nonrecurring basis that were still reflected in the balance sheet at December 31, 2015 and 2014, the following tables provide the level of valuation assumptions used to determine each adjustment and the carrying value of the related individual assets at December 31, 2015, and at December 31, 2014, and the total losses for the periods indicated:

	As of December 31, 2015				Total Losses/(Gains) For the Twelve Months Ended	
	Fair Value Measurements Using			Total at		
	Level 1	Level 2	Level 3	Fair Value	December 31, 2015	December 31, 2014
	(In thousands)					
Assets						
Impaired loans by type:						
Commercial loans	$-	$-	$6,317	$6,317	$806	$ 17
Commercial mortgage loans	-	-	20,359	20,359	598	3,914
Residential mortgage and equity lines	-	-	13,009	13,009	146	27
Total impaired loans	-	-	39,685	39,685	1,550	3,958
Other real estate owned (1	-	10,047	4,235	14,282	404	202
Investments in venture capital and private company stock	-	-	4,922	4,922	553	436
Total assets	$-	$10,047	$48,842	$58,889	$2,507	$ 4,596

(1) Other real estate owned balance of $24.7. million in the Consolidated Balance Sheets is net of estimated disposal costs.

	As of December 31, 2014				Total Losses/(Gains) For the Twelve Months Ended	
	Fair Value Measurements Using			Total at		
	Level 1	Level 2	Level 3	Fair Value	December 31, 2014	December 31, 2013
	(In thousands)					
Assets						
Impaired loans by type:						
Commercial loans	$-	$-	$3,774	$3,774	$17	$ 5,731
Commercial mortgage loans	-	-	25,029	25,029	3,914	125
Construction- other	-	-	7,625	7,625	-	-
Residential mortgage and equity lines	-	-	13,126	13,126	27	213
Total impaired loans	-	-	49,554	49,554	3,958	6,069
Other real estate owned (1)	-	16,458	4,110	20,568	202	(3,134)
Investments in venture capital and private company stock	-	-	5,495	5,495	436	409
Equity investments	-	-	617	617	-	-
Total assets	$-	$16,458	$59,776	$76,234	$4,596	$ 3,344

(1) Other real estate owned balance of $31.5 million in the Consolidated Balance Sheets is net of estimated disposal costs.

The significant unobservable (Level 3) inputs used in the fair value measurement of collateral for collateral-dependent impaired loans was primarily based on the appraised value of collateral adjusted by estimated sales cost and commissions. The Company generally obtains new appraisal reports every six 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 45% 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 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 commission ranging from 3% to 6% of collateral value of impaired loans, quoted price or loan sale price of loans held for sale, and appraised value of OREOs.

The significant unobservable inputs in the Black-Scholes option pricing model for the fair value of warrants are the expected life of warrant ranging from 1 to 8 years, risk-free interest rate from 1.06% to 2.11%, and stock volatility of the Company from 11.9% to 18.7%.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

17. 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. 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 held for sale. The Company records loans held for sale at fair value based on quoted price from third party sources, or appraisal reports adjusted by sales commission assumption, a Level 3 measurement.

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, or management's judgment and estimation of value reported on old appraisals which are then adjusted based on recent market trends, a Level 3 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. The fair value of the advances is based on quotes from the FHLB to settle the advances, a Level 2 measurement.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

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 observable market rates, 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 counter parties. 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 counter parties at the reporting date. Off-balance-sheet financial instruments were valued 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.

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CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

Fair Value of Financial Instruments

	December 31, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Financial Assets				
Cash and due from banks	$180,130	$180,130	$176,830	$176,830
Short-term investments	536,880	536,880	489,614	489,614
Securities available-for-sale	1,586,352	1,586,352	1,318,935	1,318,935
Loans held for sale	6,676	6,676	973	1,225
Loans, net	10,016,227	9,938,810	8,740,268	8,688,072
Investment in Federal Home Loan Bank stock	17,250	17,250	30,785	30,785
Warrants	62	62	27	27

	Notional Amount	Fair Value	Notional Amount	Fair Value
Foreign exchange contracts	100,602	3,339	167,005	1,876

	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Liabilities				
Deposits	$10,509,087	10,509,879	$8,783,460	$8,785,342
Securities sold under agreements to repurchase	400,000	413,417	450,000	473,816
Advances from Federal Home Loan Bank	275,000	274,488	425,000	424,974
Other borrowings	18,593	16,684	19,934	17,978
Long-term debt	119,136	58,420	119,136	59,425

	Notional Amount	Fair Value	Notional Amount	Fair Value
Option contracts	$9,396	$28	$-	$-
Foreign exchange contracts	$115,418	$4,124	$178,868	$5,007
Interest rate swaps	459,416	6,496	300,480	4,626

	Notional Amount	Fair Value	Notional Amount	Fair Value
Off-Balance Sheet Financial Instruments				
Commitments to extend credit	$1,971,848	$(5,570)	$2,071,766	$(3,442)
Standby letters of credit	49,081	(194)	53,910	(243)
Other letters of credit	38,131	(22)	48,142	(29)
Bill of lading guarantees	454	(1)	108	-

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CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

The following tables present the level in the fair value hierarchy for the estimated fair values of only financial instruments that are not already on the Consolidated Balance Sheets at fair value at December 31, 2015, and December 31, 2014.

	As of December 31, 2015			
	Estimated Fair Value Measurements	**Level 1**	**Level 2**	**Level 3**
	(In thousands)			
Financial Assets				
Cash and due from banks	$180,130	$180,130	$-	$-
Short-term investments	536,880	536,880	-	-
Securities available-for-sale	1,586,352	290,121	1,296,231	-
Loans held-for-sale	6,676	-	-	6,676
Loans, net	9,938,810	-	-	9,938,810
Investment in Federal Home Loan Bank stock	17,250	-	17,250	-
Warrants	62	-	-	62
Financial Liabilities				
Deposits	10,509,879	-	-	10,509,879
Securities sold under agreement to repurchase	413,417	-	413,417	-
Advances from Federal Home Loan Bank	274,488	-	-	274,488
Other borrowings	16,684	-	-	16,684
Long-term debt	58,420	-	58,420	-

	As of December 31, 2014			
	Estimated Fair Value Measurements	**Level 1**	**Level 2**	**Level 3**
	(In thousands)			
Financial Assets				
Cash and due from banks	$176,830	$176,830	$-	$-
Short-term investments	489,614	489,614	-	-
Securities available-for-sale	1,318,935	669,870	649,065	-
Loans held-for-sale	1,225	-	-	1,225
Loans, net	8,688,072	-	-	8,688,072

Investment in Federal Home Loan Bank stock	30,785	-	30,785	-
Warrants	27	-	-	27
Financial Liabilities				
Deposits	8,785,342	-	-	8,785,342
Securities sold under agreement to repurchase	473,816	-	473,816	-
Advances from Federal Home Loan Bank	424,974	-	424,974	-
Other borrowings	17,978	-	-	17,978
Long-term debt	59,425	-	59,425	-

18. Employee Benefit Plans

Employee Stock Ownership Plan. Under the Company's Amended and Restated Cathay Bank Employee Stock Ownership Plan ("ESOP"), the Company can make annual contributions to a trust in the form of either cash or common stock of the Bancorp for the benefit of eligible employees. Employees are eligible to participate in the ESOP after completing two years of service for salaried full-time employees or 1,000 hours for each of two consecutive years for salaried part-time employees. The amount of the annual contribution is discretionary except that it must be sufficient to enable the trust to meet its current obligations. The Company also pays for the administration of this plan and of the trust. The Company has not made contributions to the trust since 2004 and does not expect to make any contributions in the future. Effective June 17, 2004, the ESOP was amended to provide the participants the election either to reinvest the dividends on the Company stock allocated to their accounts or to have these dividends distributed to the participant. The ESOP trust purchased 18,012 shares in 2015, 11,887 shares in 2014, and 3,825 shares in 2013, of the Bancorp's common stock at an aggregate cost of $541,000 in 2015, $301,902 in 2014, and $92,000 in 2013. The distribution of benefits to participants totaled 107,202 shares in 2015, 73,439 shares in 2014, and 51,779 shares in 2013. As of December 31, 2015, the ESOP owned 990,047 shares, or 1.2%, of the Company's outstanding common stock.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

401(k) Plan. In 1997, the Board approved the Company's 401(k) Profit Sharing Plan, which began on March 1, 1997. Salaried employees who have completed three months of service and have attained the age of 21 are eligible to participate. Enrollment dates are on January 1st, April 1st, July 1st, and October 1st of each year. Participants may contribute up to 75% of their eligible compensation for the year but not to exceed the dollar limit set by the Internal Revenue Code. Participants may change their contribution election on the enrollment dates. The vesting schedule for the matching contribution is 0% for less than two years of service, 25% after two years of service and from then on, at an increment of 25% each year until 100% is vested after five years of service. Effective on October 1, 2014, the Company matches 100% on the first 4.0% of eligible compensation contributed per pay period by the participant, after one year of service. The Company's contribution amounted to $2.0 million in 2015, $1.4 million in 2014, and $1.0 million in 2013. The Plan allows participants to withdraw all or part of their vested amount in the Plan due to certain financial hardship as set forth in the Internal Revenue Code and Treasury Regulations. Participants may also borrow up to 50% of the vested amount, with a maximum of $50,000. The minimum loan amount is $1,000.

19. Equity Incentive Plans

In 1998, the Board adopted the Cathay Bancorp, Inc. Equity Incentive Plan. Under the Equity Incentive Plan, as amended in September, 2003, directors and eligible employees may be granted incentive or non-statutory stock options and/or restricted stock units, or awarded non-vested stock, for up to 7,000,000 shares of the Company's common stock on a split adjusted basis. In May 2005, the stockholders of the Company approved the 2005 Incentive Plan. In May 2015, the stockholders of the Company approved, amendment, and restatement of the 2005 Incentive Plan which provides that 3,562,168 shares of the Company's common stock may be granted as incentive or non-statutory stock options, or as restricted stock, or as restricted stock units. As of December 31, 2015, the only options granted by the Company under the 2005 Incentive Plan, as amended and restated, 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 three years ended 2015. The Company expects to issue new shares to satisfy stock option exercises and the vesting of restricted stock units.

Cash received from exercises of stock options totaled $5.0 million for 214,580 shares in 2015, $128,000 for 5,500 shares in 2014, and $14.8 million for 594,946 shares in 2013. Aggregate intrinsic value for options exercised was $2.0 million in 2015 compared to $16,000 in 2014.

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CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

A summary of stock option activity for 2015, 2014, and 2013 follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Balance, December 31, 2012	3,996,630	29.45	2.2	$ -
Exercised	(594,946)	$ 24.80		
Forfeited	(588,810)	22.86		
Balance, December 31, 2013	2,812,874	31.81	1.9	$ 2,119
Exercised	(5,500)	$ 23.37		
Forfeited	(474,470)	29.28		
Balance, December 31, 2014	2,332,904	32.34	1.2	$ 1,388
Exercised	(214,580)	$ 23.37		
Forfeited	(1,087,154)	35.13		
Balance, December 31, 2015	1,031,170	31.27	0.9	$ 3,268
Exercisable, December 31, 2015	1,031,170	$ 31.27		

At December 31, 2015, 3,181,112 shares were available under the 2005 Incentive Plan for future grants. The following table shows stock options outstanding and exercisable as of December 31, 2015, the corresponding exercise prices, and the weighted-average contractual life remaining:

	Outstanding		Exercisable
Exercise Price	Shares	Weighted-Average Remaining Contractual Life (in Years)	Shares

$ 36.90	203,440	0.1	203,440
38.26	12,000	0.3	12,000
36.24	405,230	0.1	405,230
23.37	410,500	2.1	410,500
	1,031,170	0.9	1,031,170

In addition to stock options, the Company also grants restricted stock units to eligible employees which vest subject to continued employment at the vesting dates.

The Company granted restricted stock units for 72,900 shares at an average closing price of $28.11 per share in 2015, 17,601 shares at an average closing price of $24.66 per share in 2014, and for 25,037 shares at an average closing price of $20.68 per share in 2013. The restricted stock units granted in 2014, 2013, and 2012 are scheduled to vest two years from grant date. The restricted stock units granted in 2015 are scheduled to vest three years from grant date.

In December 2013, the Company granted performance share unit awards in which the number of units earned is calculated based on the relative total shareholder 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 share unit awards in which the number of units earned is determined by comparison to the targeted EPS as defined in the award for the 2014 to 2016 period. 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 in 2013. In December 2014, the Company granted additional performance TSR restricted stock units for 60,456 shares and performance EPS restricted stock units for 57,642 shares were granted to six executive officers. In December 2015, the Company granted additional performance TSR restricted stock units for 61,209 shares and performance EPS restricted stock units for 57,409 shares were granted to seven executive officers. Both the performance TSR and performance EPS share awarded are scheduled to vest three years from grant date.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

The following table presents restricted stock unit activity for 2015, 2014, and 2013:

	Units
Balance at December 31, 2012	256,616
Granted	261,062
Vested	(138,220)
Balance at December 31, 2013	379,458
Granted	135,699
Vested	(122,832)
Cancelled or forfeited	(5,860)
Balance at December 31, 2014	386,465
Granted	191,518
Vested	(26,924)
Cancelled or forfeited	(8,684)
Balance at December 31, 2015	542,375

All awards are deemed probable of issuance and the compensation expense recorded for restricted stock units was $4.5 million in 2015, $3.8 million in 2014, and $2.0 million in 2013. Unrecognized stock-based compensation expense related to restricted stock units was $7.5 million at December 31, 2015, and is expected to be recognized over the next 2.4 years.

The following table summarizes the tax benefit from options exercised:

	2015	**2014**	**2013**
	(In thousands)		
Short-fall of tax deductions in excess of grant-date fair value	$(5,348)	$(1,285)	$(2,509)
Benefit of tax deductions on grant-date fair value	6,485	1,292	4,172
Total benefit of tax deductions	$1,137	$7	$1,663

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CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

20. Condensed Financial Information of Cathay General Bancorp

The condensed financial information of the Bancorp as of December 31, 2015, and December 31, 2014, and for the years ended December 31, 2015, 2014, and 2013 is as follows:

Balance Sheets

	As of December 31, 2015	2014
	(In thousands, except share and per share data)	
Assets		
Cash	$5,048	$7,420
Cash pledged as margin for interest rate swaps	7,936	7,465
Short-term certificates of deposit	24,324	23,203
Securities available for sale	11,911	10,244
Investment in bank subsidiaries	1,807,825	1,666,238
Investment in non-bank subsidiaries	5,979	2,631
Other assets	9,551	9,541
Total assets	$1,872,574	$1,726,742
Liabilities		
Junior subordinated debt	$119,136	$119,136
Other liabilities	5,660	4,718
Total liabilities	124,796	123,854
Commitments and contingencies	-	-
Stockholders' equity		
Common stock, $0.01 par value, 100,000,000 shares authorized, 87,002,931 issued and 80,806,116 outstanding at December 31, 2015, and 84,022,118 issued and 79,814,553 outstanding at December 31, 2014	870	840
Additional paid-in-capital	880,822	789,519
Accumulated other comprehensive loss, net	(8,426)	(5,569)
Retained earnings	1,059,660	943,834
	(185,148)	(125,736)

Treasury stock, at cost (6,196,815 shares at December 31, 2015, and 4,207,565 shares at December 31, 2014)		
Total stockholders' equity	1,747,778	1,602,888
Total liabilities and stockholders' equity	$1,872,574	$1,726,742

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

Statements of Operations

	Year Ended December 31,		
	2015	2014	2013
	(In thousands)		
Cash dividends from Cathay Bank	$163,301	$30,000	$138,030
Interest income	68	88	157
Interest expense	5,776	4,469	2,994
Non-interest (loss)/income	(1,858)	10,144	434
Non-interest expense	4,644	2,248	2,443
Income before income tax benefit	151,091	33,515	133,184
Income tax (benefit)/expense	(5,134)	1,478	(2,037)
Income before undistributed earnings of subsidiaries	156,225	32,037	135,221
Distributions more than earnings of subsidiaries	-	-	(12,078)
Undistributed earnings of subsidiary	4,884	105,793	-
Net income	$161,109	$137,830	$123,143

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CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

Statements of Cash Flows

	Year Ended December 31,		
	2015	2014	2013
	(In thousands)		
Cash flows from Operating Activities			
Net income	$161,109	$137,830	$123,143
Adjustments to reconcile net income to net cash provided by operating activities:			
Dividends in excess of earnings of subsidiaries	-	-	12,078
Equity in undistributed earnings of subsidiaries	(4,884)	(105,793)	-
Gains on sale of securities	-	(10,689)	-
Income associated with debt redemption	-	(555)	-
Write-downs on venture capital and other investments	468	432	357
Write-downs on impaired securities	-	264	-
Loss in fair value of warrants	-	3	56
Stock issued to directors as compensation	495	350	-
Excess tax short-fall from stock options	5,348	1,285	2,509
Net change in other assets	619	(3,445)	(1,684)
Net change in other liabilities	(5,438)	(1,294)	27
Net cash provided by operating activities	157,717	18,388	136,486
Cash flows from Investment Activities			
(Increase)/decrease in short-term investment	(1,121)	14,797	123,300
Proceeds from sale of available-for-sale securities	-	12,083	-
Purchase of available-for-sale securities	(410)	(7,920)	-
Venture capital and other investments	-	(590)	(835)
Acquisition, net of cash acquired	(57,006)	-	-
Net cash (used in)/provided by investment activities	(58,537)	18,370	122,465
Cash flows from Financing Activities			
Redemption of Series B preferred stock	-	-	(258,000)
Repayment of long-term debt	-	(1,445)	-
Cash dividends	(45,283)	(23,104)	(12,606)
Proceeds from shares issued under the Dividend Reinvestment Plan	4,175	2,848	605
Proceeds from exercise of stock options	5,014	128	14,755
Taxes paid related to net share settlement of RSUs	(227)	(850)	-
Excess tax short-fall from share-based payment arrangements	(5,348)	(1,285)	(2,509)
Purchase of treasury stock	(59,412)	-	-
Net cash used in financing activities	(101,081)	(23,708)	(257,755)
(Decrease)/increase in cash and cash equivalents	(1,901)	13,050	1,196

Cash and cash equivalents, beginning of the year	14,885	1,835	639
Cash and cash equivalents, end of the year	$12,984	$14,885	$1,835

21. Dividend Reinvestment Plan

The Company has a Dividend Reinvestment Plan which allows for participants' reinvestment of cash dividends and certain optional additional investments in the Bancorp's common stock. Shares issued under the plan and the consideration received were 148,582 shares for $4.2 million in 2015, 116,957 shares for $2.8 million in 2014, and 25,984 shares for $605,000 in 2013.

22. Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can result in certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

The Federal Deposit Insurance Corporation has established five capital ratio categories: “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized,” and “critically undercapitalized.” A well capitalized institution must have a common equity tier 1 capital ratio equal to or greater than 6.5%, a Tier 1 risk-based capital ratio equal to or greater than 8%, a total risk-based capital ratio equal to or greater than 10%, and a Tier 1 leverage capital ratio equal to or greater than 5%. At December 31, 2015 and 2014, the Bank qualified as well capitalized under the regulatory framework for prompt corrective action.

The Bancorp’s and the Bank’s capital and leverage ratios as of December 31, 2015, and December 31, 2014, are presented in the tables below:

	Cathay General Bancorp				Cathay Bank			
	December 31, 2015		December 31, 2014		December 31, 2015		December 31, 2014	
(Dollars in thousands)	Balance	%	Balance	%	Balance	%	Balance	%
Common equtiy Tier 1 capital (to risk-weighted assets)	$ 1,383,377	12.95	n/a	n/a	$1,443,159	13.54	n/a	n/a
Common equtiy Tier 1 capital minimum requirement	480,830	4.50	n/a	n/a	479,801	4.50	n/a	n/a
Excess	$ 902,547	8.45	n/a	n/a	$963,358	9.04	n/a	n/a
Tier 1 capital (to risk-weighted assets)	$ 1,498,810	14.03	$1,406,511	14.96	$1,443,159	13.54	$1,353,481	14.42
Tier 1 capital minimum requirement	641,107	6.00	376,072	4.00	639,735	6.00	375,318	4.00
Excess	$ 857,703	8.03	$1,030,439	10.96	$803,424	7.54	$978,163	10.42
Total capital (to risk-weighted assets)	$ 1,634,631	15.30	$1,524,702	16.22	$1,576,525	14.79	$1,471,337	15.68
Total capital minimum requirement	854,809	8.00	752,144	8.00	852,980	8.00	750,637	8.00
Excess	$ 779,822	7.30	$772,558	8.22	$723,545	6.79	$720,700	7.68
Tier 1 capital (to average assets)								

– Leverage ratio	$ 1,498,810	11.95	$1,406,511	12.99	$1,443,159	11.53	$1,353,481	12.52
Minimum leverage requirement	501,875	4.00	433,121	4.00	500,455	4.00	432,350	4.00
Excess	$ 996,935	7.95	$973,390	8.99	$942,704	7.53	$921,131	8.52
Risk-weighted assets	$ 10,685,115		$9,401,803		$10,662,248		$9,382,961	
Total average assets (1)	$ 12,546,879		$10,828,015		$12,511,382		$10,808,747	

(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.
* Basel III rules became effective January 1, 2015, with transitional provisions. All prior period data is based on Basel I rules.

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CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

23. 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 agreements to repurchase and derivative transactions with upstream financial institution counter parties 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 December 31, 2015, and December 31, 2014, are presented in the following tables:

				Gross Amounts Not Offset in the Balance Sheet		
	Gross Amounts Recognized	Gross Amounts Offset in the Balance Sheet	Net Amounts Presented in the Balance Sheet	Financial Instruments	Collateral Posted	Net Amount
December 31, 2015	(In thousands)					
Liabilities:						
Securities sold under agreements to repurchase	$400,000	$ -	$400,000	$-	$(400,000)	$ -
Derivatives	$6,496	$ -	$6,496	$-	$(6,496)	$ -
December 31, 2014						
Liabilities:						
Securities sold under agreements to repurchase	$450,000	$ -	$450,000	$-	$(450,000)	$ -
Derivatives	$4,626	$ -	$4,626	$-	$(4,626)	$ -

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Explanation of Responses:

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

24. Quarterly Results of Operations (Unaudited)

The following table sets forth selected unaudited quarterly financial data:

	Summary of Operations							
	2015				2014			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(In thousands, except per share data)							
Interest income	$119,519	$116,867	$112,386	$104,934	$106,043	$106,335	$105,062	$101,207
Interest expense	20,103	19,221	17,632	17,008	18,292	19,580	19,445	18,549
Net interest income	99,416	97,646	94,754	87,926	87,751	86,755	85,617	82,658
Reversal for credit losses	(3,000)	(1,250)	(2,150)	(5,000)	(2,000)	(5,100)	(3,700)	-
Net-interest income after provision for loan losses	102,416	98,896	96,904	92,926	89,751	91,855	89,317	82,658
Non-interest income	9,350	9,156	5,619	8,549	7,973	8,974	9,021	14,559
Non-interest expense	53,533	57,471	47,585	44,131	41,125	42,607	42,513	48,068
Income before income tax expense	58,233	50,581	54,938	57,344	56,599	58,222	55,825	49,149
Income tax expense	16,787	12,098	9,738	21,364	21,021	22,313	20,741	17,890
Net income	$41,446	$38,483	$45,200	$35,980	$35,578	$35,909	$35,084	$31,259
Net income per common share								
Basic	$0.51	$0.47	$0.57	$0.45	$0.45	$0.45	$0.44	$0.39
Diluted	$0.51	$0.47	$0.56	$0.45	$0.44	$0.45	$0.44	$0.39