UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2017

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

Commission file number 001-31830

Cathay General Bancorp

(Exact name of Registrant as specified in its charter)

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

Registrant's telephone number, including area code:

(213) 625-4700

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

Title of each class	Name of each exchange on which registered
Common Stock, $.01 par value	NASDAQ Global Select Market
Warrants to purchase shares of Common Stock (expiring December 5, 2018)	NASDAQ Global Select Market

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☑

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Exchange Act. ☐

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the price at which the common equity was last sold as of the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2017) was $2,841,997,892. This value is estimated solely for the purposes of this cover page. The market value of shares held by registrant's directors, executive officers, and Employee Stock Ownership Plan have been excluded because they may be considered to be affiliates of the registrant.

As of February 15, 2018, there were 81,117,521 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Registrant's definitive proxy statement relating to Registrant's 2018 Annual Meeting of Stockholders, which will be filed within 120 days of the fiscal year ended December 31, 2017, are incorporated by reference in this Form 10-K in response to Part III, Items 10, 11, 12, 13 and 14 of this Form 10-K .

CATHAY GENERAL BANCORP

2017 ANNUAL REPORT ON FORM 10-K

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Forward-Looking Statements

In this Annual Report on Form 10-K, the term "Bancorp" refers to Cathay General Bancorp and the term "Bank" refers to Cathay Bank. The terms "Company," "we," "us," and "our" refer to Bancorp and the Bank collectively. The statements in this report include forward-looking statements within the meaning of the applicable provisions of the Private Securities Litigation Reform Act of 1995 regarding management's beliefs, projections, and assumptions concerning future results and events. We intend such forward-looking statements to be covered by the safe harbor provision for forward-looking statements in these provisions. All statements other than statements of historical fact are "forward-looking statements" for purposes of federal and state securities laws, including statements about anticipated future operating and financial performance, financial position and liquidity, growth opportunities and growth rates, growth plans, acquisition and divestiture opportunities, business prospects, strategic alternatives, business strategies, financial expectations, regulatory and competitive outlook, investment and expenditure plans, financing needs and availability, and other similar forecasts and statements of expectation and statements of assumptions underlying any of the foregoing. Words such as "aims," "anticipates," "believes," "can," "could," "estimates," "expects," "hopes," "intends," "may," "plans," "projects," "seeks," "shall," "should," "will," "predicts," "potential," "continue," "possible," "optimistic," and variations of these words and similar expressions are intended to identify these forward-looking statements. Forward-looking statements by us are based on estimates, beliefs, projections, and assumptions of management and are not guarantees of future performance. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or projections. Such risks and uncertainties and other factors include, but are not limited to, adverse developments or conditions related to or arising from:

- *U.S. and international business and economic conditions;*
- *possible additional provisions for loan losses and charge-offs;*
- *credit risks of lending activities and deterioration in asset or credit quality;*
- *extensive laws and regulations and supervision that we are subject to, including potential supervisory action by bank supervisory authorities;*
- *increased costs of compliance and other risks associated with changes in regulation, including the implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act");*
- *higher capital requirements from the implementation of the Basel III capital standards;*
- *compliance with the Bank Secrecy Act and other money laundering statutes and regulations;*
- *potential goodwill impairment;*
- *liquidity risk;*
- *fluctuations in interest rates;*
- *risks associated with acquisitions and the expansion of our business into new markets;*
- *inflation and deflation;*
- *real estate market conditions and the value of real estate collateral;*
- *environmental liabilities;*
- *our ability to compete with larger competitors;*
- *our ability to retain key personnel;*
- *successful management of reputational risk;*
- *natural disasters and geopolitical events;*
- *general economic or business conditions in Asia, and other regions where the Bank has operations;*
- *failures, interruptions, or security breaches of our information systems;*
- *our ability to adapt our systems to the expanding use of technology in banking;*
- *risk management processes and strategies;*
- *adverse results in legal proceedings;*
- *the impact of regulatory enforcement actions, if any;*
- *certain provisions in our charter and bylaws that may affect acquisition of the Company;*

- *changes in accounting standards or tax laws and regulations;*
- *market disruption and volatility;*
- *fluctuations in the Bancorp's stock price;*
- *restrictions on dividends and other distributions by laws and regulations and by our regulators and our capital structure;*
- *issuances of preferred stock;*
- *capital level requirements and successfully raising additional capital, if needed, and the resulting dilution of interests of holders of our common stock; and*
- *the soundness of other financial institutions.*

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

PART I

Item 1. Business.

Business of Bancorp

Overview

Cathay General Bancorp (the "Bancorp" on a parent-only basis, and the "Company," "we" or "our" on a consolidated basis) is a corporation that was organized in 1990 under the laws of the State of Delaware. The Bancorp is the holding company of Cathay Bank, a California state-chartered commercial bank ("Cathay Bank" or the "Bank"), eight limited partnerships investing in affordable housing investments in which the Bank is the sole limited partner, GBC Venture Capital, Inc., and Asia Realty Corp. The Bancorp also own 100% of the common stock of five statutory business trusts created for the purpose of issuing capital securities. Our principal place of business is currently located at 777 North Broadway, Los Angeles, California 90012, and our telephone number at that location is (213) 625-4700. In addition, certain of our administrative offices are located in El Monte, California, and our address there is 9650 Flair Drive, El Monte, California 91731. Our common stock is traded on the NASDAQ Global Select Market, and our trading symbol is "CATY".

The Bancorp is regulated as a bank holding company by the Board of Governors of the Federal Reserve System ("Federal Reserve"). Cathay Bank is regulated as a California commercial bank by the California Department of Business Oversight ("DBO") and the Federal Deposit Insurance Corporation ("FDIC").

Subsidiaries of Bancorp

In addition to its wholly-owned bank subsidiary, the Bancorp has the following subsidiaries:

Cathay Capital Trust I, Cathay Statutory Trust I, Cathay Capital Trust II, Cathay Capital Trust III and Cathay Capital Trust IV. The Bancorp established Cathay Capital Trust I in June 2003, Cathay Statutory Trust I in September 2003, Cathay Capital Trust II in December 2003, Cathay Capital Trust III in March 2007, and Cathay Capital Trust IV in May 2007 (collectively, the "Trusts") as wholly-owned subsidiaries. The Trusts are statutory business trusts. The Trusts issued capital securities representing undivided preferred beneficial interests in the assets of the Trusts. 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 a certain series of securities issued by us, with similar terms to the relevant series of securities issued by each of the Trusts, which we refer to as "Junior Subordinated Notes." The Bancorp guarantees, on a limited basis, payments of distributions on the capital securities of the Trusts and payments on redemption of the capital securities of the Trusts. The Bancorp is the owner of all the beneficial interests represented by the common securities of the Trusts. The purpose of issuing the capital securities was to provide the Company with a cost-effective means of obtaining Tier 1 capital for regulatory purposes. Because the Bancorp is not the primary beneficiary of the Trusts, the financial statements of the Trusts are not included in our Consolidated Financial Statements.

GBC Venture Capital, Inc. The business purpose of GBC Venture Capital, Inc. is to hold equity interests (such as options or warrants) received as part of business relationships and to make equity investments in companies and limited partnerships subject to applicable regulatory restrictions.

Asia Realty Corp. Asia Realty Corp. was incorporated in January 2013 for the purpose of holding other real estate owned and became a subsidiary of the Bancorp as a result of the acquisition of Asia Bancshares. Asia Realty Corp. owned one foreclosed property with a carrying value of $3.0 million at December 31, 2017.

Competition

The Bancorp's primary business is to act as the holding company for the Bank. Accordingly, the Bancorp faces the same competitive pressures as those expected by the Bank. For a discussion of those risks, see "Business of the Bank — *Competition*" below under this Item 1.

Employees

Due to the limited nature of the Bancorp's activities as a bank holding company, the Bancorp currently does not employ any persons other than the Bancorp's management, which includes the Chief Executive Officer and President, Executive Chairman, the Chief Financial Officer, Executive Vice Presidents, the Secretary and General Counsel, and the Assistant Secretary. See also "Business of the Bank — *Employees*" below under this Item 1. In the future, the Bancorp may become an operating company or may engage in such other activities or acquire such other businesses as may be permitted by applicable law.

Business of the Bank

General

Cathay Bank was incorporated under the laws of the State of California on August 22, 1961, is licensed by the DBO, and commenced operations as a California state-chartered bank on April 19, 1962. Cathay Bank is an insured bank under the Federal Deposit Insurance Act by the FDIC, but it is not a member of the Federal Reserve.

The Bank's head office is located in the Chinatown area of Los Angeles, at 777 North Broadway, Los Angeles, California 90012. In addition, as of December 31, 2017, the Bank has branch offices in Southern California (28 branches), Northern California (15 branches), New York (12 branches), Illinois (three branches), Washington (three branches), Texas (two branches), Maryland (one branch), Massachusetts (one branch), Nevada (one branch), New Jersey (one branch), and Hong Kong (one branch) and a representative office in Shanghai and in Taipei. Deposit accounts at the Hong Kong branch are not insured by the FDIC. Each branch has loan approval rights subject to the branch manager's authorized lending limits. Current activities of the Shanghai and Taipei representative offices are limited to coordinating the transportation of documents to the Bank's head office and performing liaison services.

Our primary market area is defined by the Community Reinvestment Act (the "CRA") delineation, which includes the contiguous areas surrounding each of the Bank's branch offices. It is the Bank's policy to reach out and actively offer services to low and moderate income groups in the delineated branch service areas. Many of the Bank's employees speak both English and one or more Chinese dialects or Vietnamese, and are thus able to serve the Bank's English, Chinese and Vietnamese speaking customers.

As a commercial bank, the Bank accepts checking, savings, and time deposits, and makes commercial, real estate, personal, home improvement, automobile, and other installment and term loans. From time to time, the Bank invests available funds in other interest-earning assets, such as U.S. Treasury securities, U.S. government agency securities, state and municipal securities, mortgage-backed securities, asset-backed securities, corporate bonds, and other security investments. The Bank also provides letters of credit, wire transfers, forward currency spot and forward contracts, traveler's checks, safe deposit, night deposit, Social Security payment deposit, collection, bank-by-mail, drive-up and walk-up windows, automatic teller machines ("ATM"), Internet banking services, and other customary bank services.

The Bank primarily services individuals, professionals, and small to medium-sized businesses in the local markets in which its branches are located and provides commercial mortgage loans, commercial loans, U.S. Small Business Administration ("SBA") loans, residential mortgage loans, real estate construction loans, home equity lines of credit, and installment loans to individuals for automobile, household, and other consumer expenditures.

Through its Cathay Wealth Management business unit, the Bank provides its customers the ability to trade securities online and to purchase mutual funds, annuities, equities, bonds, and short-term money market instruments. As of December 31, 2017, all securities and insurance products provided by Cathay Wealth Management are offered by, and all financial consultants are registered with, Cetera Financial Services, a registered securities broker/dealer and licensed insurance agency and member of the Financial Industry Regulatory Authority and Security Investor Protection Corporation. Cetera Financial Services and Cathay Bank are independent entities. The securities and insurance products offered by Cetera Financial Services are not insured by the FDIC.

Securities

The Bank's securities portfolio is managed in accordance with a written investment policy which addresses strategies, types, and levels of allowable investments, and which is reviewed and approved by our Board of Directors on an annual basis.

Our investment portfolio is managed to meet our liquidity needs through proceeds from scheduled maturities and is also utilized for pledging requirements for deposits of state and local subdivisions, securities sold under repurchase agreements, and Federal Home Loan Bank ("FHLB") advances. The portfolio is comprised of U.S. government securities, mortgage-backed securities, collateralized mortgage obligations, corporate debt instruments, and mutual funds.

Information concerning the carrying value, maturity distribution, and yield analysis of the Company's securities portfolio as well as a summary of the amortized cost and estimated fair value of the Bank's securities by contractual maturity is included in Part II — Item 7 — "Management's Discussion and Analysis of Financial Condition and Results of Operations," and in Note 4 to the Consolidated Financial Statements.

Loans

The Bank's Board of Directors and senior management establish, review, and modify the Bank's lending policies. These policies include (as applicable) an evaluation of a potential borrower's financial condition, ability to repay the loan, character, secondary repayment sources (such as guaranties), quality and availability of collateral, capital, leverage capacity and regulatory guidelines, market conditions for the borrower's business or project, and prevailing economic trends and conditions. Loan originations are obtained through a variety of sources, including existing customers, walk-in customers, referrals from brokers or existing customers, and advertising. While loan applications are accepted at all branches, the Bank's centralized document department supervises the application process including documentation of loans, review of appraisals, and credit reports.

Commercial Mortgage Loans. Commercial mortgage loans are typically secured by first deeds of trust on commercial properties. Our commercial mortgage portfolio includes primarily commercial retail properties, shopping centers, and owner-occupied industrial facilities, and, secondarily, office buildings, multiple-unit apartments, hotels, and multi-tenanted industrial properties.

The Bank also makes medium-term commercial mortgage loans which are generally secured by commercial or industrial buildings where the borrower uses the property for business purposes or derives income from tenants.

Commercial Loans. The Bank provides financial services to diverse commercial and professional businesses in its market areas. Commercial loans consist primarily of short-term loans (normally with a maturity of up to one year) to support general business purposes, or to provide working capital to businesses in the form of lines of credit to finance trade. The Bank continues to focus primarily on commercial lending to small-to-medium size businesses within the Bank's geographic market areas. The Bank participates or syndicates loans, typically more than $25 million in principal amount, with other financial institutions to limit its credit exposure. Commercial loan pricing is generally at a rate tied to the prime rate, as quoted in *The Wall Street Journal*, or the Bank's reference rate.

SBA Loans. The Bank originates SBA loans under the national "preferred lender" status. Preferred lender status is granted to a lender that has made a certain number of SBA loans and which, in the opinion of the SBA, has staff qualified and experienced in small business loans. As a preferred lender, the Bank's SBA Lending Group has the authority to issue, on behalf of the SBA, the SBA guaranty on loans under the 7(a) program which may result in shortening the time it takes to process a loan. In addition, under this program, the SBA delegates loan underwriting, closing, and most servicing and liquidation authority and responsibility to selected lenders.

The Bank utilizes both the 504 program, which is focused on long-term financing of buildings and other long-term fixed assets, and the 7(a) program, which is the SBA's primary loan program and which can be used for financing of a variety of general business purposes such as acquisition of land, buildings, equipment and inventory and working capital needs of eligible businesses generally over a 5- to 25-year term. The collateral position in the SBA loans is enhanced by the SBA guaranty in the case of 7(a) loans, and by lower loan-to-value ratios under the 504 program. The Bank has sold, and may in the future sell, the guaranteed portion of certain of its SBA 7(a) loans in the secondary market. SBA loan pricing is generally at a rate tied to the prime rate, as quoted in *The Wall Street Journal*.

Residential Mortgage Loans. The Bank originates single-family-residential mortgage loans. The single-family-residential mortgage loans are comprised of conforming, nonconforming, and jumbo residential mortgage loans, and are secured by first or subordinate liens on single (one-to-four) family residential properties. The Bank's products include a fixed-rate residential mortgage loan and an adjustable-rate residential mortgage loan. Mortgage loans are underwritten in accordance with the Bank's and regulatory guidelines, on the basis of the borrower's financial capabilities, an independent appraisal of the value of the property, historical loan quality, and other factors deemed relevant by the Bank's underwriting personnel. The Bank retains all mortgage loans it originates in its portfolio. As such, the Bank was not impacted by the rule pertaining to risk retention implementing the risk retention requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), since the Bank does not securitize any of the loans it originates in its portfolio.

Real Estate Construction Loans. The Bank's real estate construction loan activity focuses on providing short-term loans to individuals and developers, primarily for the construction of multi-unit projects. Residential real estate construction loans are typically secured by first deeds of trust and guarantees of the borrower. The economic viability of the projects, borrower's credit worthiness, and borrower's and contractor's experience are primary considerations in the loan underwriting decision. The Bank utilizes approved independent licensed appraisers and monitors projects during the construction phase through construction inspections and a disbursement program tied to the percentage of completion of each project. The Bank also occasionally makes unimproved property loans to borrowers who intend to construct a single-family residence on their lots generally within twelve months. In addition, the Bank makes commercial real estate construction loans to high net worth clients with adequate liquidity for construction of office and warehouse properties. Such loans are typically secured by first deeds of trust and are guaranteed by the borrower.

Home Equity Lines of Credit. The Bank offers variable-rate home equity lines of credit that are secured by the borrower's home. The pricing on the variable-rate home equity line of credit is generally at a rate tied to the prime rate, as quoted in *The Wall Street Journal*, or the Bank's reference rate. Borrowers may use this line of credit for home improvement financing, debt consolidation and other personal uses.

Installment Loans. Installment loans tend to be fixed rate and longer-term (one-to-six year maturities). These loans are funded primarily for the purpose of financing the purchase of automobiles and other personal uses of the borrower.

Distribution and Maturity of Loans. Information concerning types, distribution, and maturity of loans is included in Part II — Item 7 — "Management's Discussion and Analysis of Financial Condition and Results of Operations," and in Note 5 to the Consolidated Financial Statements.

Asset Quality

The Bank's lending and credit policies require management to regularly review the Bank's loan portfolio so that the Bank can monitor the quality of its assets. If during the ordinary course of business, management becomes aware that a borrower may not be able to meet the contractual payment obligations under a loan, then that loan is supervised more closely with consideration given to placing the loan on non-accrual status, the need for an additional allowance for loan losses, and (if appropriate) partial or full charge-off.

Under the Bank's current policy, a loan will generally be placed on a non-accrual status if interest or principal is past due 90 days or more, or in cases where management deems the full collection of principal and interest unlikely. When a loan is placed on non-accrual status, previously accrued but unpaid interest is reversed and charged against current income, and subsequent payments received are generally first applied towards the outstanding principal balance of the loan. Depending on the circumstances, management may elect to continue the accrual of interest on certain past due loans if partial payment is received or the loan is well-collateralized, and in the process of collection. The loan is generally returned to accrual status when the borrower has brought the past due principal and interest payments current and, in the opinion of management, the borrower has demonstrated the ability to make future payments of principal and interest as scheduled. A non-accrual loan may also be returned to accrual status if all principal and interest contractually due are reasonably assured of repayment within a reasonable period and there has been a sustained period of payment performance, generally six months.

Information concerning non-performing loans, restructured loans, allowance for credit losses, loans charged-off, loan recoveries, and other real estate owned is included in Part II — Item 7 — "Management's Discussion and Analysis of Financial Condition and Results of Operations," and in Note 5 to the Consolidated Financial Statements.

Deposits

The Bank offers a variety of deposit products in order to meet its customers' needs. As of December 31, 2017, the Bank offered passbook accounts, checking accounts, money market deposit accounts, certificates of deposit, individual retirement accounts, and public funds deposits. These products are priced in order to promote growth of deposits in a safe and sound manner.

The Bank's deposits are generally obtained from residents within its geographic market area. The Bank utilizes traditional marketing methods to attract new customers and deposits, by offering a wide variety of products and services and utilizing various forms of advertising media. From time to time, the Bank may offer special deposit promotions. Information concerning types of deposit accounts, average deposits and rates, and maturity of time deposits is included in Part II — Item 7 — "Management's Discussion and Analysis of Financial Condition and Results of Operations," and in Note 8 to the Consolidated Financial Statements.

Borrowings

Borrowings from time to time include securities sold under agreements to repurchase, the purchase of federal funds, funds obtained as advances from the FHLB, borrowing from other financial institutions, and the issuance of Junior Subordinated Notes. Information concerning the types, amounts, and maturity of borrowings is included in in Part II — Item 7 — "Management's Discussion and Analysis of Financial Condition and Results of Operations," and in Note 9 and Note 10 to the Consolidated Financial Statements.

Return on Equity and Assets

Information concerning the return on average assets, return on average stockholders' equity, the average equity to assets ratio and the dividend payout ratio is included in Part II — Item 7 — "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Interest Rates and Differentials

Information concerning the interest-earning asset mix, average interest-earning assets, average interest-bearing liabilities, and the yields on interest-earning assets and interest-bearing liabilities is included in Part II — Item 7 — "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Analysis of Changes in Net Interest Income

An analysis of changes in net interest income due to changes in rate and volume is included in Part II — Item 7 — "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Commitments and Letters of Credit

Information concerning the Bank's outstanding loan commitments and letters of credit is included in Note 13 to the Consolidated Financial Statements.

Expansion

We have engaged in expansion through acquisitions and may consider acquisitions in the future in order to compete for new deposits and loans, and to be able to serve our customers more effectively.

In July 2017, we purchased from Bank SinoPac Co. Ltd. all of the issued and outstanding share capital of SinoPac Bancorp, the parent of Far East National Bank ("FENB"), for an aggregate purchase price of $351.6 million plus additional post closing payments based on the realization of certain assets of FENB. We issued 926,192 shares of common stock as consideration and the remainder of the consideration is payable in cash. SinoPac Bancorp was merged with and into Cathay General Bancorp on July 17, 2017 and subsequently, on October 27, 2017, FENB was merged into Cathay Bank. At the date of acquisition, the total value of assets purchased was $1.2 billion including total gross loans of $705.8 million, investments of $107.9 million, and core deposit intangibles of $6.1 million. The total value of deposits purchased was $813.9 million. The acquisition allowed us to expand the number of our branches in California and is expected to result in a gain of approximately $5.6 million. The purchase accounting adjustments are preliminary and subject to finalization during the one-year measurement period from the date of the acquisition.

Subsidiaries of Cathay Bank

Cathay New Asia Community Development Corporation ("CNACDC") was formed in October 2006 for the purpose of assuming New Asia Bank's pre-existing New Markets Tax Credit activities in the greater Chicago area by providing or facilitating the availability of capital to businesses and real estate developers working to renovate these neighborhoods.

Cathay Holdings LLC ("CHLLC") was incorporated in December 2007, Cathay Holdings 2 LLC ("CHLLC2") was incorporated in January 2008, and Cathay Holdings 3 LLC ("CHLLC3") was incorporated in December 2008. The purpose of these subsidiaries is to hold other real estate owned in the state of Texas that was transferred from the Bank. As of December 31, 2017, CHLLC owned properties with a carrying value of $1.2 million. CHLLC2 and CHLLC3 did not own property at December 31, 2017.

Competition

We face substantial competition for deposits, loans and other banking services, as well as for acquisitions, opportunities, from the numerous banks and financial institutions that operate in our market areas. We also compete for loans and deposits, as well as other banking services, such as payment services, with savings and loan associations, savings banks, brokerage houses, insurance companies, mortgage companies, credit unions, credit card companies and other financial and non-financial institutions and entities.

In California, one larger Chinese-American bank competes for loans and deposits with the Bank and at least two super-regional banks compete with the Bank for deposits. In addition, there are many other banks that target the Chinese-American communities in both Southern and Northern California. Banks from the Pacific Rim countries, such as Taiwan, Hong Kong, and China also continue to open branches in the Los Angeles area, thus increasing competition in the Bank's primary markets. See discussion below in Part I — Item 1A — "Risk Factors."

To compete with other financial institutions in its primary service areas, the Bank relies principally upon personal contacts by its officers, directors, employees, and stockholders, our long established relationships with the Chinese-American communities, the Bank's responsiveness to customer needs, local promotional activities, availability and pricing of loan and deposit products, extended hours on weekdays, Saturday banking in certain locations, Internet banking, an Internet website (*www.cathaybank.com*), and other specialized services. The content of our website is not incorporated into and is not part of this Annual Report on Form 10-K.

If a proposed loan exceeds the Bank's internal lending limits, the Bank has, in the past, and may in the future, arrange the loan on a participation or syndication basis with correspondent banks. The Bank also assists customers requiring other services not offered by the Bank to obtain these services from its correspondent banks.

Employees

As of December 31, 2017, the Bank and its subsidiaries employed approximately 1,271 persons, including 625 banking officers. None of the employees are represented by a union. We believe that our employer-employee relations are good.

Executive Officers of the Registrant

The table below sets forth the names, ages, and positions at the Bancorp and the Bank of all executive officers of the Company as of February 15, 2018.

Name	Age	Present Position and Principal Occupation During the Past Five Years
Dunson K. Cheng	73	Executive Chairman of the Boards of Directors of the Bancorp and the Bank since October 2016; Director of the Bancorp since 1990; Director of the Bank since 1982; Chairman of the Boards of Directors of the Bancorp and the Bank from 1994 to September 2016; President of the Bank from 1985 to March 2015; President and Chief Executive Officer of the Bancorp from 1990 to September 2016.
Pin Tai	63	Director of the Bancorp since August 2017; Chief Executive Officer and President of the Bancorp since October 2016; Chief Executive Officer of the Bank since October 2016; Director and President of the Bank since April 2015; Chief Lending Officer of the Bank from 2013 to March 2015; Executive Vice President of the Bank from 2006 to 2015; Deputy Chief Lending Officer and General Manager of Eastern Regions of the Bank from 2010 to 2013; General Manager of Eastern Regions of the Bank from 2006 to 2009.
Irwin Wong	69	Chief Operating Officer of the Bank since April 2015; Senior Executive Vice President since 2014, Chief Retail Administration and Regulatory Affairs Officer of the Bank from January 2014 to March 2015; Executive Vice President and Chief Risk Officer of the Bank from 2011 to 2013; Executive Vice President-Branch Administration of the Bank from 1999 to 2011.
Heng W. Chen	65	Executive Vice President, Chief Financial Officer, and Treasurer of the Bancorp since 2003; Executive Vice President of the Bank since 2003; Chief Financial Officer of the Bank since 2004.
Mark H. Lee	55	Executive Vice President and Chief Credit Officer of the Bank since December 2017; Executive Vice President and Special Advisor to the Office of the President of the Bank from April 2017 to December 2017; Senior Executive Vice President and Head of Corporate Banking of Bank of Hope (formerly known as BBCN Bank) from 2016 to 2017; Senior Executive Vice President and Chief Credit Officer of BBCN Bank (formerly known as Nara Bank) from 2009 to 2016; and Senior Vice President and Deputy Chief Credit Officer of East West Bank from 2007 to 2009.
Kim R. Bingham	61	Chief Risk Officer of the Bank since 2014; Executive Vice President of the Bank since 2004; Chief Credit Officer of the Bank from 2004 to 2013.

Available Information

We invite you to visit our website at *www.cathaygeneralbancorp.com*, to access free of charge the Bancorp's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports, all of which are made available as soon as reasonably practicable after we electronically file such material with or furnish it to the SEC. The content of our website is not incorporated into and is not part of this Annual Report on Form 10-K. In addition, you can write to us to obtain a free copy of any of those reports at Cathay General Bancorp, 9650 Flair Drive, El Monte, California 91731, Attn: Investor Relations. These reports are also available through the SEC’s Public Reference Room, located at 100 F Street NE, Washington, DC 20549 and online at the SEC’s website, located at *www.sec.gov*. Investors can obtain information about the operation of the SEC’s Public Reference Room by calling 800-SEC-0330.

Regulation and Supervision

General

Bank holding companies and their bank and non-bank subsidiaries are subject to significant regulation and restrictions by federal and state laws and regulatory agencies. These laws, regulations and restrictions, which may affect the cost of doing business, limit permissible activities and expansion or impact the competitive balance between banks and other financial services providers, are intended primarily for the protection of depositors and the FDIC’s Deposit Insurance Fund, and secondarily for the stability of the U.S. banking system. They are not intended for the benefit of stockholders of financial institutions. The following discussion of key statutes and regulations to which the Bancorp and the Bank are subject is a summary and does not purport to be complete nor does it address all applicable statutes and regulations. This discussion is qualified in its entirety by reference to the full statutes and regulations.

Additional initiatives may be proposed or introduced before Congress, the California Legislature, and other governmental bodies in the future. Such proposals, if enacted, may further alter the structure, regulation, and competitive relationship among financial institutions and may subject us to increased supervision and disclosure and reporting requirements. In addition, the various bank regulatory agencies often adopt new rules and regulations and policies to implement and enforce existing legislation. It cannot be predicted whether, or in what form, any such legislation or regulatory changes in policy may be enacted or the extent to which the business of the Bank would be affected thereby. The outcome of examinations, any litigation, or any investigations initiated by state or federal authorities also may result in necessary changes in our operations and increased compliance costs.

Bank Holding Company and Bank Regulation

The Bancorp is a bank holding company within the meaning of the Bank Holding Company Act and is registered as such with the Federal Reserve. The Bancorp is also a bank holding company within the meaning of Section 3700 of the California Financial Code. Therefore, the Bancorp and any of its subsidiaries are subject to examination by, and may be required to file reports with, the DBO. DBO approvals are also required for bank holding companies to acquire control of banks. As a California commercial bank, the deposits of which are insured by the FDIC, the Bank is subject to regulation, supervision, and regular examination by the DBO and by the FDIC, as the Bank's primary federal regulator, and must additionally comply with certain applicable regulations of the Federal Reserve.

The wide range of requirements and restrictions contained in both federal and state banking laws include:

- Requirements that bank holding companies and banks file periodic reports.

- Requirements that bank holding companies and banks meet or exceed minimum capital requirements (see "Capital Adequacy Requirements" below).

- Requirements that bank holding companies serve as a source of financial and managerial strength for their banking subsidiaries. In addition, the regulatory agencies have "prompt corrective action" authority to limit activities and require a limited guaranty of a required bank capital restoration plan by a bank holding company if the capital of a bank subsidiary falls below capital levels required by the regulators. (See "Source of Strength" and "Prompt Corrective Action Provisions" below.)

- Limitations on dividends payable to stockholders. The Bancorp's ability to pay dividends is subject to legal and regulatory restrictions. A substantial portion of the Bancorp's funds to pay dividends or to pay principal and interest on our debt obligations is derived from dividends paid by the Bank. (See "Dividends" below)

- Limitations on dividends payable by bank subsidiaries. These dividends are subject to various legal and regulatory restrictions. The federal banking agencies have indicated that paying dividends that deplete a depositary institution's capital base to an inadequate level would be an unsafe and unsound banking practice. Moreover, the federal agencies have issued policy statements that provide that bank holding companies and insured banks should generally only pay dividends out of current operating earnings. (See "Dividends" below)

- Safety and soundness requirements. Banks must be operated in a safe and sound manner and meet standards applicable to internal controls, information systems, internal audit, loan documentation, credit underwriting, interest rate exposure, asset growth, and compensation, as well as other operational and management standards. These safety and soundness requirements give bank regulatory agencies significant latitude in exercising their supervisory authority and the authority to initiate informal or formal enforcement actions.

- Requirements for notice, application and approval, or non-objection of acquisitions and certain other activities conducted directly or in subsidiaries of the Bancorp or the Bank.

- Compliance with the Community Reinvestment Act ("CRA"). The CRA requires that banks help meet the credit needs in their communities, including the availability of credit to low and moderate income individuals. If the Bank fails to adequately serve its communities, restrictions may be imposed, including denials of applications for branches, for adding subsidiaries or affiliate companies, for engaging in new activities or for the merger with or purchase of other financial institutions. In its last reported examination by the FDIC in March 2016, the Bank received a CRA rating of "Satisfactory."

- Compliance with the Bank Secrecy Act, the USA Patriot Act, and other anti-money laundering laws ("AML"), and the regulations of the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC"). (See "Anti-Money Laundering and OFAC Regulations" below.)

- Limitations on the amount of loans to one borrower and its affiliates and to executive officers and directors.

- Limitations on transactions with affiliates.
- Restrictions on the nature and amount of any investments in, and the ability to underwrite, certain securities.
- Requirements for opening of intra- and interstate branches.
- Compliance with truth in lending and other consumer protection and disclosure laws to ensure equal access to credit and to protect consumers in credit transactions. (See "Operations and Consumer Compliance Laws" below.)
- Compliance with provisions of the Gramm-Leach-Bliley Act of 1999 ("GLB Act") and other federal and state laws dealing with privacy for nonpublic personal information of customers. The federal bank regulators have adopted rules limiting the ability of banks and other financial institutions to disclose non-public information about consumers to unaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to an unaffiliated third party. These regulations affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors.

Specific federal and state laws and regulations which are applicable to banks regulate, among other things, the scope of their business, their investments, their reserves against deposits, the timing of the availability of deposited funds, their activities relating to dividends, the nature and amount of and collateral for certain loans, servicing and foreclosing on loans, borrowings, capital requirements, certain check-clearing activities, branching, and mergers and acquisitions. California banks are also subject to statutes and regulations including Federal Reserve Regulation O and Federal Reserve Act Sections 23A and 23B and Regulation W, which restrict or limit loans or extensions of credit to "insiders," including officers, directors, and principal shareholders, and affiliates, and purchases of assets from affiliates, including parent bank holding companies, except pursuant to certain exceptions and only on terms and conditions at least as favorable to those prevailing for comparable transactions with unaffiliated parties. The Dodd-Frank Act expanded definitions and restrictions on transactions with affiliates and insiders under Sections 23A and 23B, and also lending limits for derivative transactions, repurchase agreements and securities lending, and borrowing transactions.

The Bank operates branches and/or loan production offices in California, New York, Illinois, Massachusetts, Texas, Washington, Nevada, Maryland, and New Jersey. While the DBO remains the Bank's primary state regulator, the Bank's operations in these jurisdictions are subject to examination and supervision by local bank regulators, and transactions with customers in those jurisdictions are subject to local laws, including consumer protection laws. The Bank also operates a branch in Hong Kong and a representative office in Taipei and in Shanghai. The operations of these foreign offices and branches (and limits on the scope of their activities) are subject to local law and regulatory authorities in addition to regulation and supervision by the DBO and the Federal Reserve.

On February 3, 2017 the President of the United States issued an executive order titled "Core Principles for Regulating the United States Financial Systems" that establishes "core principles" that will guide the administration's financial services regulatory policy and directs the Secretary of the Treasury to evaluate the current regulatory framework and how it promotes or inhibits the principles, On June 12, 2017, October 6, 2017 and October 26, 2017, in response to the executive order, the United States Department of the Treasury issued the first three of four reports recommending a number of comprehensive changes in the current regulatory system for U.S. depository institutions, the U.S. capital markets and the U.S. asset management and insurance industries, around the following principles:

- Improving regulatory efficiency and effectiveness by critically evaluating mandates and regulatory fragmentation, overlap, and duplication across regulatory agencies;
- Aligning the financial system to help support the U.S. economy;
- Reducing regulatory burden by decreasing unnecessary complexity;
- Tailoring the regulatory approach based on size and complexity of regulated firms and requiring greater regulatory cooperation and coordination among financial regulators; and
- Aligning regulations to support market liquidity, investment, and lending in the U.S. economy.

The scope and impact of any regulatory changes that may be implemented in response to the President's executive order have not yet been determined.

The Dodd-Frank Wall Street Reform and Consumer Protection Act

The Dodd-Frank Act financial reform legislation, adopted in July 2010, significantly revised and expanded the rulemaking, supervisory and enforcement authority of the federal bank regulatory agencies. Various provisions of the Dodd-Frank Act are now effective and have been fully implemented, including, among others:

- new capital standards that, among other things, increase capital requirements and eliminate the treatment of trust preferred securities as Tier 1 regulatory capital for bank holding companies with assets of $15 billion or more (as of December 31, 2017, our assets grew past the $15 billion threshold and, as a result, our outstanding junior subordinated notes no longer qualify as Tier 1 capital for regulatory reporting purposes);
- the revisions in the deposit insurance assessment base for FDIC insurance and the permanent increase in coverage to $250,000;
- the permissibility of paying interest on business checking accounts;

- the removal of barriers to interstate branching;
- required disclosure and shareholder advisory votes on executive compensation;
- annual stress tests for financial entities, including the Company;
- additional risk management and other enhanced prudential standards for larger bank holding companies, including the Company;
- restrictions on banking entities, after a transition period, from engaging in proprietary trading, as well as having investments in, sponsoring, and maintaining relationships with hedge funds and private equity funds (commonly referred to as the "Volcker Rule");
- limitations on interchange fees charged for debit card transactions;
- the establishment of new minimum mortgage underwriting standards for residential mortgages; and
- the establishment of the Consumer Financial Protection Bureau ("CFPB") to be responsible for consumer protection in the financial services industry and to examine financial institutions with $10 billion or more in assets, such as the Company, for compliance with regulations promulgated by the CFPB.

The numerous rules and regulations promulgated pursuant to the Dodd-Frank Act, including those described further below, have significantly impacted our operations and compliance costs. The Dodd-Frank Act also requires the issuance of numerous implementing regulations, some of which have not yet been issued. Some of the final regulations will continue to take effect over several more years, continuing to make it difficult to anticipate the overall impact to us, our customers, or the financial industry in general.

Capital Adequacy Requirements

Bank holding companies and banks are subject to various regulatory capital requirements administered by state and federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations (see "Prompt Corrective Action Provisions" below), involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting, and other factors. The risk-based capital guidelines for bank holding companies and banks require capital ratios that vary based on the perceived degree of risk associated with a banking organization's operations for both transactions reported on the balance sheet as assets, such as loans, and those recorded as off-balance sheet items, such as commitments, letters of credit and recourse arrangements. The risk-based capital ratio is determined by classifying assets and certain off-balance sheet financial instruments into weighted categories, with higher levels of capital being required for those categories perceived as representing greater risks and dividing its qualifying capital by its total risk-adjusted assets and off-balance sheet items. Bank holding companies and banks engaged in significant trading activity may also be subject to the market risk capital guidelines and be required to incorporate additional market and interest rate risk components into their risk-based capital standards.

The federal bank regulatory agencies adopted final regulations in July 2013, which revised their risk-based and leverage capital requirements for banking organizations to meet requirements of the Dodd-Frank Act and to implement Basel III international agreements reached by the Basel Committee on Banking Supervision. Although many of the rules contained in these final regulations are applicable only to large, internationally active banks, most will apply on a phased in basis to all banking organizations, including the Bancorp and the Bank. The new capital rules took effect on January 1, 2015, but many elements are being phased-in. To the extent that the new capital rules are not fully phased-in, the prior capital rules continue to apply.

The following are among the new requirements that are effective or being phased-in beginning January 1, 2015:

- An increase in the minimum Tier 1 capital ratio from 4.00% to 6.00% of risk-weighted assets.

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

Without taking into account the capital conservation buffer, the new capital rules require the following minimum ratios: (i) a Tier 1 leverage ratio of 4.0%; (ii) a common equity Tier 1 risk-based capital ratio of 4.5%, (iii) a Tier 1 risk-based capital ratio of 6%, and (iv) a total risk-based capital ratio of 8.0%. To be considered “well capitalized,” a bank holding company or bank would be required to have the following minimum ratios: (i) a Tier 1 leverage ratio of 5.0%; (ii) a common equity Tier 1 risk-based capital ratio of 6.5%, (iii) a Tier 1 risk-based capital ratio of 8.0%, and (iv) a total risk-based capital ratio of 10.0%. The implementation of the new capital conservation buffer requirements began on January 1, 2016 at 0.625% of risk-weighted assets, increasing each year by 0.625% until fully implemented in January 2019 at 2.50% of risk-weighted assets.

Failure to meet statutorily mandated capital guidelines or more restrictive ratios separately established for a financial institution could subject a bank or bank holding company to a variety of enforcement remedies, including issuance of a capital directive, the termination of deposit insurance by the FDIC, a prohibition on accepting or renewing brokered deposits, limitations on the rates of interest that the institution may pay on its deposits and other restrictions on its business. Significant additional restrictions can be imposed on FDIC-insured depository institutions that fail to meet applicable capital requirements under the regulatory agencies’ prompt corrective action authority.

At December 31, 2017, (i) the Bancorp’s and the Bank’s common equity Tier 1 capital ratios were 12.19% and 13.46%, respectively; (ii) their total risk-based capital ratios were, respectively, 14.11% and 14.46%; (iii) their Tier 1 risk-based capital ratios were, respectively, 12.19% and 13.46%; and (iv) their leverage capital ratios were, respectively, 10.35% and 11.82%, all of which ratios exceeded the minimum percentage requirements to be deemed “well-capitalized” for regulatory purposes.

While the new capital rules set higher regulatory capital standards for the Bancorp and the Bank, bank regulators may also continue their past policies of expecting banks to maintain additional capital beyond the new minimum requirements. The federal banking agencies may also require banks and bank holding companies subject to enforcement actions to maintain capital ratios in excess of the minimum ratios otherwise required to be deemed “well-capitalized. The implementation of the new capital rules or more stringent requirements to maintain higher levels of capital or to maintain higher levels of liquid assets could adversely impact the Bancorp’s net income and return on equity, restrict the ability of the Bank and/or the Bancorp to pay dividends or executive bonuses and require the raising of additional capital.

As of December 31, 2017, the Bancorp and the Bank met all applicable capital requirements under the new capital rules on a fully phased-in basis if such requirements were currently in effect.

In September 2017, the federal bank regulators proposed revisions to the regulatory capital treatment for mortgage servicing assets, certain deferred tax assets, investments in the capital instruments of unconsolidated financial institutions, and minority interests. These changes would both simplify the calculations and have the impact of increasing regulatory capital ratios for some non-advanced approaches banking organizations. In November 2017, the federal banking regulators revised the Basel III Capital Rules to extend the current transitional treatment of these items for non-advanced approaches banking organizations until the September 2017 proposal is finalized. The September 2017 proposal would also change the capital treatment of certain commercial real estate loans under the standardized approach used to calculate capital ratios.

In December 2017, the Basel Committee published “Basel IV” standards to finalize the Basel III regulatory reforms. According to the Basel Committee, Basel IV is intended to, among other things, reduce variability in risk weighted assets by implementing a standardized approach for operation risk and credit risk to replace model-based approaches for certain categories of risk weighted assets, and by reducing the scope of model-based parameters and implementing exposure-level parameter floors where model-based approaches remain available. Under the Basel framework, these standards will generally be effective on January 1, 2022, with an aggregate output floor phasing in through January 1, 2027. The impact of Basel IV on us will depend on the manner in which it is implemented by the federal bank regulators.

Volcker Rule

In December 2013, the federal bank regulatory agencies adopted final rules that implement a part of the Dodd-Frank Act commonly referred to as the “Volcker Rule.” Under these rules and subject to certain exceptions, banking entities, including the Bancorp and the Bank and its subsidiaries, are restricted from engaging in activities that are considered proprietary trading and from sponsoring or investing in certain entities, including hedge or private equity funds that are considered “covered funds.” The Federal Reserve granted an extension until July 21, 2022 of the conformance period for the Bancorp to divest ownership in certain legacy investment funds that are prohibited under the rule.

Except for divesting some investments aggregating less than $2.6 million as of December 31, 2017, we believe that the Volcker Rule will not require any material changes in our operations or business or security holdings.

CFPB Actions

The Dodd-Frank Act provided for the creation of the CFPB as an independent entity within the Federal Reserve with broad rulemaking, supervisory, and enforcement authority over consumer financial products and services, including deposit products, residential mortgages, home-equity loans and credit cards. The CFPB’s functions include investigating consumer complaints, conducting market research, rulemaking, supervising and examining bank consumer transactions, and enforcing rules related to consumer financial products and services. CFPB regulations and guidance apply to all financial institutions and banks with $10 billion or more in assets, which are also subject to examination by the CFPB. As the Bank has more than $10 billion in assets, it is now examined for compliance with CFPB regulation by the CFPB in addition to examinations of the Bank by the FDIC and the DBO.

The CFPB has enforcement authority over unfair, deceptive or abusive act and practices (“UDAAP”). UDAAP is considered one of the most far reaching new enforcement tools at the disposal of the CFPB and covers all consumer and small business financial products or services such as deposit and lending products or services such as overdraft programs and third-party payroll card vendors. It is a wide-ranging regulatory net that potentially picks up the gaps not included in other consumer laws, rules and regulations. Violations of UDAAP can be found in many areas and can include advertising and marketing materials, the order of processing and paying items in a checking account or the design of client overdraft programs. The scope of coverage includes not only direct interactions with clients and prospects but also actions by third-party service providers. The Dodd-Frank Act does not prevent states from adopting stricter consumer protection standards. State regulation of financial products and potential enforcement actions could also adversely affect our business, financial condition or results of operations.

Additionally, in 2014, the CFPB adopted revisions to Regulation Z, which implement the Truth in Lending Act, pursuant to the Dodd-Frank Act, and apply to all consumer mortgages (except home equity lines of credit, timeshare plans, reverse mortgages, or temporary loans). The revisions mandate specific underwriting criteria for home loans in order for creditors to make a reasonable, good faith determination of a consumer's ability to repay and establish certain protections from liability under this requirement for “qualified mortgages” meeting certain standards. In particular, it will prevent banks from making “no doc” and “low doc” home loans, as the rules require that banks determine a consumer’s ability to pay based in part on verified and documented information. We do originate certain “low doc” loans that meet specific underwriting criteria. Given the small volume of such loans, we do not believe that this regulation will have a significant impact on our operations.

Enhanced Prudential Standards

Pursuant to Federal Reserve Board regulations promulgated under authority of the Dodd-Frank Act, as a publicly traded bank holding company with $10 billion or more (but less than $50 billion) in assets, we are required and have established and maintained a risk committee responsible for enterprise-wide risk management practices, comprised of an independent chairman and at least one risk management expert. Additional stress testing is required for banking organizations having $50 billion or more of assets. The risk committee approves and periodically reviews the risk-management policies of the bank holding company’s global operations and oversees the operations of its risk-management framework. The bank holding company’s risk-management framework must be commensurate with its structure, risk profile, complexity, activities and size. At a minimum, the framework must include policies and procedures establishing risk-management governance and providing for adequate risk-control infrastructure for the bank holding company’s operations. In addition, the framework must include processes and systems to monitor compliance with the foregoing policies and procedures, including processes and systems designed to identify and report risk-management risks and deficiencies; ensure effective implementation of actions to address emerging risks and risk-management deficiencies; designate managerial and staff responsibility for risk management; ensure the independence of the risk-management function; and integrate risk-management and associated controls with management goals and the management compensation structure.

Stress Testing

As a bank holding company with more than $10 billion in assets, we are also required under the Dodd-Frank Act to conduct annual stress tests using various scenarios established by the Federal Reserve, including a baseline, adverse and severely adverse economic conditions (known as “Dodd Frank Act Stress Tests” or “DFAST”). The stress tests are designed to determine whether our capital planning, assessment of capital adequacy and risk management practices adequately protect the Bancorp and its affiliates in the event of an economic downturn. The Bancorp must establish adequate internal controls, documentation, policies and procedures to ensure the annual stress adequately meets these objectives. The Board of Directors must review our policies and procedures at least annually. We are required to report the results of our annual stress tests to the Federal Reserve by July 31 of each year, using data as of December 31 of the preceding year, publish a summary of the results between October 15 and October 31, and consider the results of our stress tests as part of our capital planning and risk management practices. We reported the results of our 2017 annual stress test to the Federal Reserve on July 28, 2017, and published a summary of the results in a Form 8-K furnished with the SEC on October 25, 2017.

Interchange Fees

Under the Durbin Amendment to the Dodd-Frank Act, the Federal Reserve adopted rules establishing standards for assessing whether the interchange fees that may be charged with respect to certain electronic debit transactions are “reasonable and proportional” to the costs incurred by issuers for processing such transactions.

Interchange fees, or “swipe” fees, are charges that merchants pay to us and other card-issuing banks for processing electronic payment transactions. Under the final rules, the maximum permissible interchange fee is equal to no more than 21 cents plus 5 basis points of the transaction value for many types of debit interchange transactions. The Federal Reserve also adopted a rule to allow a debit card issuer to recover 1 cent per transaction for fraud prevention purposes if the issuer complies with certain fraud-related requirements required by the Federal Reserve. The Federal Reserve also has rules governing routing and exclusivity that require issuers to offer two unaffiliated networks for routing transactions on each debit or prepaid product.

Anti-Money Laundering and OFAC Regulation

A major focus of governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing through AML and OFAC regulations. AML laws and regulations, including the Bank Secrecy Act and the U.S.A. Patriot Act, require us to assist U.S. government agencies in detecting and preventing money laundering and other illegal acts by maintaining policies, procedures and controls designed to detect and report money laundering, terrorist financing, and other suspicious activity. The AML program must include, at a minimum, a designated compliance officer, written policies, procedures and internal controls, training of appropriate personnel and independent testing of the program, and a customer identification program.

OFAC administers and enforces economic and trade sanctions against targeted foreign countries and regimes, under authority of various laws, including designated foreign countries, nationals and others. OFAC publishes lists of specially designated targets and countries. We and our bank are responsible for, among other things, blocking accounts of, and transactions with, such targets and countries, prohibiting unlicensed trade and financial transactions with them and reporting blocked transactions after their occurrence.

Regulatory authorities routinely examine financial institutions for compliance with these obligations, and any failure by us to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required. Regulatory authorities have imposed cease and desist orders and civil money penalties against institutions found to be violating these obligations.

Additional Restrictions on Bancorp and Bank Activities

Subject to prior notice or Federal Reserve approval, bank holding companies may generally engage in, or acquire shares of companies engaged in, activities determined by the Federal Reserve to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Bank holding companies which elect and retain “financial holding company” status pursuant to the GLB Act may engage in these nonbanking activities and broader securities, insurance, merchant banking and other activities that are determined to be “financial in nature” or are incidental or complementary to activities that are financial in nature without prior Federal Reserve approval. Pursuant to the GLB Act and the Dodd-Frank Act, in order to elect and retain financial holding company status, a bank holding company and all depository institution subsidiaries of a bank holding company must be well capitalized and well managed, and, except in limited circumstances, depository subsidiaries must be in satisfactory compliance with the CRA. Failure to sustain compliance with these requirements or correct any non-compliance within a fixed time period could lead to divestiture of subsidiary banks or require all activities to conform to those permissible for a bank holding company. The Bancorp has not elected financial holding company status and does not believe it has engaged in any activities determined by the Federal Reserve to be financial in nature or incidental or complementary to activities that are financial in nature, which would, in the absence of financial holding company status, require notice or Federal Reserve approval.

Pursuant to the Federal Deposit Insurance Act (“FDI Act”) and the California Financial Code, California state chartered commercial banks may generally engage in any activity permissible for national banks. Therefore, the Bank may form subsidiaries to engage in the many so-called “closely related to banking” or “nonbanking” activities commonly conducted by national banks in operating subsidiaries or subsidiaries of bank holding companies. Further, pursuant to the GLB Act, California banks may conduct certain “financial” activities in a subsidiary to the same extent as a national bank, provided the bank is and remains “well-capitalized,” “well-managed” and in satisfactory compliance with the CRA. The Bank currently has no financial subsidiaries.

Source of Strength

Federal Reserve policy and federal law require bank holding companies to act as a source of financial and managerial strength to their subsidiary banks. Under this requirement, Bancorp is expected to commit resources to support the Bank, including at times when Bancorp may not be in a financial position to provide such resources, and it may not be in Bancorp’s, or Bancorp’s stockholders’ or creditors’, best interests to do so. In addition, any capital loans Bancorp makes to the Bank are subordinate in right of payment to depositors and to certain other indebtedness of the Bank. In the event of Bancorp’s bankruptcy, any commitment by Bancorp to a federal bank regulatory agency to maintain the capital of the Bank will be assumed by the bankruptcy trustee and entitled to priority of payment.

Enforcement Authority

The federal and California regulatory structure gives the bank regulatory agencies extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. The regulatory agencies have adopted guidelines to assist in identifying and addressing potential safety and soundness concerns before an institution's capital becomes impaired. The guidelines establish operational and managerial standards generally relating to: (i) internal controls, information systems, and internal audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) interest-rate exposure; (v) asset growth and asset quality; (vi) loan concentration; and (vii) compensation, fees, and benefits. Further, the regulatory agencies have adopted safety and soundness guidelines for asset quality and for evaluating and monitoring earnings to ensure that earnings are sufficient for the maintenance of adequate capital and reserves. If, as a result of an examination, the DBO or the FDIC should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of the Bank's operations are unsatisfactory or that the Bank or its management is violating or has violated any law or regulation, the DBO and the FDIC have residual authority to:

- Require affirmative action to correct any conditions resulting from any violation or practice;
- Direct an increase in capital and the maintenance of higher specific minimum capital ratios, which may preclude the Bank from being deemed "well-capitalized" and restrict its ability to accept certain brokered deposits, among other things;
- Restrict the Bank's growth geographically, by products and services, or by mergers and acquisitions;
- Issue, or require the Bank to enter into, informal or formal enforcement actions, including required Board resolutions, memoranda of understanding, written agreements and consent or cease and desist orders or prompt corrective action orders to take corrective action and cease unsafe and unsound practices;
- Require prior approval of senior executive officer or director changes, remove officers and directors, and assess civil monetary penalties; and
- Terminate FDIC insurance, revoke the Bank's charter, take possession of, close and liquidate the Bank, or appoint the FDIC as receiver.

The Federal Reserve has similar enforcement authority over bank holding companies and commonly takes parallel action in conjunction with actions taken by a subsidiary bank's regulators.

In the exercise of their supervisory and examination authority, the regulatory agencies have recently emphasized corporate governance, stress testing, enterprise risk management and other board responsibilities; anti-money laundering compliance and enhanced high risk customer due diligence; vendor management; cyber security and fair lending and other consumer compliance obligations.

Deposit Insurance

The FDIC is an independent federal agency that insures deposits, up to prescribed statutory limits, of federally insured banks and savings institutions and safeguards the safety and soundness of the banking and savings industries. The FDIC insures our customer deposits through the Deposit Insurance Fund (the "DIF") up to prescribed limits of $250,000 for each depositor pursuant to the Dodd-Frank Act. The amount of FDIC assessments paid by each DIF member institution is based on its relative risk of default as measured by regulatory capital ratios and other supervisory factors. As an institution with $10 billion or more in assets, the FDIC uses a performance score and a loss-severity score to calculate an initial assessment rate for the Bank. In calculating these scores, the FDIC uses the Bank's capital level and regulatory supervisory ratings and certain financial measures to assess the Bank's ability to withstand asset-related stress and funding-related stress. The FDIC also has the ability to make discretionary adjustments to the total score based upon significant risk factors that are not adequately captured in the calculations. In addition to ordinary assessments described above, the FDIC has the ability to impose special assessments in certain instances.

All FDIC-insured institutions are also required to pay assessments to the FDIC to fund interest payments on bonds issued by the Financing Corporation (“FICO"), an agency of the federal government established to recapitalize the predecessor to the DIF. These assessments will continue until the FICO bonds mature in 2017 through 2019.

Pursuant to the Dodd-Frank Act, the FDIC has established 2.0% as the designated reserve ratio (DRR), that is, the ratio of the DIF to insured deposits. The FDIC has adopted a plan under which it will meet the statutory minimum DRR of 1.35% (formerly 1.15%) by September 30, 2020, the deadline imposed by the Dodd-Frank Act. The Dodd-Frank Act requires the FDIC to offset the effect of the increase in the statutory minimum DRR to 1.35% on institutions with assets less than $10 billion. Beginning with the third quarter of the 2016 assessment period, large banks will pay quarterly surcharges in addition to their lower regular risk-based assessments. The final rule imposes a surcharge of 4.5 basis points on the assessment base of large banks. The surcharges are to begin the quarter after the reserve ratio first reaches or surpasses 1.15%. The FDIC expects that surcharges will last eight quarters or through the quarter in which the reserve ratio first meets or exceeds 1.35%. The surcharge is applied to the Bank’s total liabilities in excess of $10 billion. To determine an institution’s quarterly assessment surcharge, the FDIC will take a bank’s standard assessment base, calculated as average consolidated total assets less average tangible equity, minus $10 billion multiplied by 1.125 basis points.

We are generally unable to control the amount of assessments that we are required to pay for FDIC insurance. If there are additional bank or financial institution failures or if the FDIC otherwise determines, we may be required to pay even higher FDIC assessments than the recently increased levels. These increases in FDIC insurance assessments may have a material and adverse effect on our earnings and could have a material adverse effect on the value of, or market for, our common stock.

Under the FDI Act, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Prompt Corrective Action Provisions

The FDI Act requires the federal bank regulatory agencies to take “prompt corrective action” with respect to a depository institution if that institution does not meet certain capital adequacy standards, including requiring the prompt submission of an acceptable capital restoration plan. Depending on the bank’s capital ratios, the agencies’ regulations define five categories in which an insured depository institution will be placed: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. At each successive lower capital category, an insured bank is subject to more restrictions, including restrictions on the bank's activities, operational practices or the ability to pay dividends. Based upon its capital levels, a bank that is classified as well-capitalized, adequately capitalized, or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition, or an unsafe or unsound practice, warrants such treatment.

The prompt corrective action standards were changed when the new capital rule ratios became effective on January 1, 2015. Under the new standards, in order to be considered well-capitalized, the Bank is required to have met the new common equity Tier 1 ratio of 6.5%, an increased Tier 1 ratio of 8% (increased from 6%), a total capital ratio of 10% (unchanged) and a leverage ratio of 5% (unchanged).

Dividends

Holders of the Bancorp’s common stock are entitled to receive dividends as and when declared by the board of directors out of funds legally available therefore under the laws of the State of Delaware. Delaware corporations such as the Bancorp may make distributions to their stockholders out of their surplus, or in case there is no surplus, out of their net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. However, dividends may not be paid out of a corporation’s net profits if, after the payment of the dividend, the corporation’s capital would be less than the capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets.

It is the Federal Reserve's policy that bank holding companies should generally pay dividends on common stock only out of income available over the past year, and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. It is also the Federal Reserve's policy that bank holding companies should not maintain dividend levels that undermine their ability to be a source of strength to their banking subsidiaries. The Federal Reserve also discourages dividend policy payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong.

The terms of our Junior Subordinated Notes also limit our ability to pay dividends on our common stock. If we are not current on our payment of interest on our Junior Subordinated Notes, we may not pay dividends on our common stock. The amount of future dividends by the Bancorp will depend on our earnings, financial condition, capital requirements and other factors, and will be determined by our board of directors in accordance with the capital management and dividend policy.

The Bank is a legal entity that is separate and distinct from its holding company. The Bancorp is dependent on the performance of the Bank for funds which may be received as dividends from the Bank for use in the operation of the Bancorp and the ability of the Bancorp to pay dividends to stockholders. Future cash dividends by the Bank will also depend upon management's assessment of future capital requirements, contractual restrictions, and other factors. When phased in, the new capital rules will restrict dividends by the Bank if the capital conservation buffer is not achieved.

The power of the board of directors of the Bank to declare cash dividends to the Bancorp is subject to California law, which restricts the amount available for cash dividends to the lesser of a bank's retained earnings or net income for its last three fiscal years (less any distributions to stockholders made during such period). Where the above test is not met, cash dividends may still be paid, with the prior approval of the DBO, in an amount not exceeding the greatest of (i) retained earnings of the Bank; (ii) the net income of the Bank for its last fiscal year; or (iii) the net income of the Bank for its current fiscal year. Future cash dividends by the Bank will also depend upon management's assessment of future capital requirements, contractual restrictions, and other factors.

Operations, Consumer and Privacy Compliance Laws

The Bank must comply with numerous federal and state anti-money laundering and consumer protection statutes and implementing regulations, including the USA Patriot Act, the Bank Secrecy Act, the Foreign Account Tax Compliance Act, the CRA, the Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act, the Equal Credit Opportunity Act, the Truth in Lending Act, the Fair Housing Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the National Flood Insurance Act, the California Homeowner Bill of Rights and various federal and state privacy protection laws. The Bank and the Company are also subject to federal and state laws prohibiting unfair or fraudulent business practices, untrue or misleading advertising, and unfair competition. Some of these laws are further discussed below:

The Equal Credit Opportunity Act (ECOA) generally prohibits discrimination in any credit transaction, whether for consumer or business purposes, on the basis of race, color, religion, national origin, sex, marital status, age, receipt of income from public assistance programs, or good faith exercise of any rights under the Consumer Credit Protection Act.

The Truth in Lending Act (TILA) is designed to ensure that credit terms are disclosed in a meaningful way so that consumers may compare credit terms more readily and knowledgeably. As a result of the TILA, all creditors must use the same credit terminology to express rates and payments, including the annual percentage rate, the finance charge, the amount financed, the total of payments and the payment schedule, among other things.

The Fair Housing Act (FH Act) regulates many practices, including making it unlawful for any lender to discriminate in its housing-related lending activities against any person because of race, color, religion, national origin, sex, handicap or familial status. A number of lending practices have been found by the courts to be, or may be considered, illegal under the FH Act, including some that are not specifically mentioned in the FH Act itself.

The Home Mortgage Disclosure Act (HMDA) grew out of public concern over credit shortages in certain urban neighborhoods and provides public information that will help show whether financial institutions are serving the housing credit needs of the neighborhoods and communities in which they are located. The HMDA also includes a “fair lending” aspect that requires the collection and disclosure of data about applicant and borrower characteristics as a way of identifying possible discriminatory lending patterns and enforcing anti-discrimination statutes.

Finally, the Real Estate Settlement Procedures Act (RESPA) requires lenders to provide borrowers with disclosures regarding the nature and cost of real estate settlements. Also, RESPA prohibits certain abusive practices, such as kickbacks, and places limitations on the amount of escrow accounts. Penalties under the above laws may include fines, reimbursements and other civil money penalties.

Due to heightened regulatory concern related to compliance with the CRA, TILA, FH Act, ECOA, HMDA and RESPA generally, the Bank may incur additional compliance costs or be required to expend additional funds for investments in its local community.

The Federal Reserve and other bank regulatory agencies also have adopted guidelines for safeguarding confidential, personal customer information. These guidelines require financial institutions to create, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information, protect against any anticipated threats or hazards to the security or integrity of such information and protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer. Financial institutions are also required to implement policies and procedures regarding the disclosure of nonpublic personal information about consumers to non-affiliated third parties. In general, financial institutions must provide explanations to consumers on policies and procedures regarding the disclosure of such nonpublic personal information and, except as otherwise required by law, prohibits disclosing such information. The Bank has adopted a customer information security and privacy program to comply with such requirements.

Operations, consumer and privacy compliance laws and regulations also mandate certain disclosure and reporting requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans, collecting loans, and providing other services. Failure to comply with these laws and regulations can subject the Bank to lawsuits and penalties, including enforcement actions, injunctions, fines or criminal penalties, punitive damages to consumers, and the loss of certain contractual rights.

Federal Home Loan Bank System

The Bank is a member of the FHLB of San Francisco. Among other benefits, each FHLB serves as a reserve or central bank for its members within its assigned region. Each FHLB is financed primarily from the sale of consolidated obligations of the FHLB system. Each FHLB makes available loans or advances to its members in compliance with the policies and procedures established by the board of directors of the individual FHLB. Each member of the FHLB of San Francisco is required to own stock in an amount equal to the greater of (i) a membership stock requirement with an initial cap of $15 million (100% of “membership asset value” as defined), or (ii) an activity based stock requirement (based on a percentage of outstanding advances). There can be no assurance that the FHLB will pay dividends at the same rate it has paid in the past, or that it will pay any dividends in the future.

Impact of Monetary Policies

The earnings and growth of the Bank are largely dependent on its ability to maintain a favorable differential or spread between the yield on its interest-earning assets and the rates paid on its deposits and other interest-bearing liabilities. As a result, the Bank’s performance is influenced by general economic conditions, both domestic and foreign, the monetary and fiscal policies of the federal government, and the policies of the regulatory agencies. The Federal Reserve implements national monetary policies (with objectives such as seeking to curb inflation and combat recession) by its open-market operations in U.S. government securities, by adjusting the required level of reserves for financial institutions subject to its reserve requirements, and by varying the discount rate applicable to borrowings by banks from the Federal Reserve Banks. The actions of the Federal Reserve in these areas influence the growth of bank loans, investments and deposits, and also affect interest rates charged on loans and deposits. The nature and impact of any future changes in monetary policies cannot be predicted.

Securities and Corporate Governance

The Bancorp is subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, both as administered by the SEC. As a company listed on the NASDAQ Global Select Market, the Company is subject to NASDAQ listing standards for listed companies. The Bancorp is also subject to the Sarbanes-Oxley Act of 2002, provisions of the Dodd-Frank Act, and other federal and state laws and regulations which address, among other issues, required executive certification of financial presentations, corporate governance requirements for board audit and compensation committees and their members, and disclosure of controls and procedures and internal control over financial reporting, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. NASDAQ has also adopted corporate governance rules, which are intended to allow stockholders and investors to more easily and efficiently monitor the performance of companies and their directors. Under the Sarbanes-Oxley Act, management and the Bancorp's independent registered public accounting firm are required to assess the effectiveness of the Bancorp's internal control over financial reporting as of December 31, 2017. These assessments are included in Part II — Item 9A — "Controls and Procedures."

Federal Banking Agency Compensation Guidelines

Guidelines adopted by the federal banking agencies pursuant to the FDI Act prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal stockholder. In June 2010, the federal banking agencies issued comprehensive guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking.

In addition, the Dodd-Frank Act requires the federal bank regulatory agencies and the SEC to establish joint regulations or guidelines prohibiting certain incentive-based payment arrangements. These regulators must establish regulations or guidelines requiring enhanced disclosure to regulators of incentive-based compensation arrangements. The agencies proposed such regulations in April 2011, but the regulations have not been finalized. In April 2016, the agencies published a notice of proposed rulemaking further revising the incentive-based compensation standards originally proposed in 2011. Similar to the 2011 proposed rule, the 2016 proposed rule would prohibit financial institutions with at least $1 billion in consolidated assets from establishing or maintaining incentive-based compensation arrangements that encourage inappropriate risk by providing any executive officer, employee, director or principal shareholder who is a covered person with excessive compensation, fees or benefits or that could lead to material financial loss to the covered institution. It cannot be predicted whether, or in what form, any such proposed compensation rules may be enacted, particularly in light of the stated intention of the administration of U.S. President Donald J. Trump to curtail the Dodd-Frank Act.

The scope, content and application of the U.S. banking regulators' policies on incentive compensation continue to evolve. It cannot be determined at this time whether compliance with such policies will adversely affect the ability of the Bancorp and the Bank to hire, retain and motivate key employees.

The Federal Reserve will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as us, that are not "large, complex banking organizations." These reviews will be tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization's supervisory ratings, which can affect the organization's ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk management control or governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

Audit Requirements

The Bank is required to have an annual independent audit, alone or as a part of its bank holding company's audit, and to prepare all financial statements in accordance with U.S. generally accepted accounting principles. The Bank and the Bancorp are also each required to have an audit committee comprised entirely of independent directors. As required by NASDAQ, the Bancorp has certified that its audit committee has adopted formal written charters and meets the requisite number of directors, independence, and other qualification standards. As such, among other requirements, the Bancorp must maintain an audit committee that includes members with banking or related financial management expertise, has access to its own outside counsel, and does not include members who are large customers of the Bank. In addition, because the Bank has more than $3 billion in total assets, it is subject to the FDIC requirements for audit committees of large institutions.

Regulation of Non-Bank Subsidiaries

Non-bank subsidiaries are subject to additional or separate regulation and supervision by other state, federal and self-regulatory bodies. Additionally, any foreign-based subsidiaries would also be subject to foreign laws and regulations.

Item 1A. Risk Factors.

We describe below the material risks that management believes affect or could affect us. Understanding these risks is important to understanding any statement in this Annual Report and to evaluating an investment in our common stock. You should carefully read and consider the risks and uncertainties described below together with all of the other information included or incorporated by reference in this Annual Report before you make any decision regarding an investment in our common stock. You should also consider the information set forth above under "Forward Looking Statements." The risks described below are not the only ones facing our business. Additional risks that management is not aware of or focused on or that management currently deems immaterial may also impair our business operations. This Annual Report is qualified in its entirety by these risk factors.

If any of the following risks actually occur, our business, financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of our common stock could significantly decline, and you could lose some or all of your investment.

Unfavorable or uncertain economic and market conditions can adversely affect our industry and business.

Our financial performance generally, and the ability of borrowers to pay interest on and repay the principal of outstanding loans and the value of the collateral securing those loans, as well as demand for loans and other products and services we offer, is highly dependent upon the business and economic conditions in the markets in which we operate and in the United States as a whole. Unfavorable or uncertain economic and market conditions could lead to credit quality concerns related to repayment ability and collateral protection as well as reduced demand for the products and services we offer. In recent years there has been gradual improvement in the U.S. economy as evidenced by a rebound in the housing market, lower unemployment and higher equities markets; however, economic growth has been uneven, and opinions vary on the strengthen and direction of the economy. Uncertainties also have arisen regarding the potential for a reversal or renegotiation of international trade agreements and for comprehensive tax reform under the administration of U.S. President Donald J. Trump, and the impact such actions and other policies of the new administration may have on economic and market conditions. In addition, concerns about the performance of international economies, especially in Europe and emerging markets, and economic conditions in Asia, particularly the economies of China and Taiwan, can impact the economy and financial markets here in the United States. These economic pressures on consumers and businesses may continue to adversely affect our business, financial condition, results of operations and stock price. In particular, we may face the following risks in connection with these events:

- Unfavorable market conditions can result in a deterioration in the credit quality of our borrowers and the demand for our products and services, an increase in the number of loan delinquencies, defaults and charge-offs, additional provisions for loan losses, adverse asset values and an overall material adverse effect on the quality of our loan portfolio.

- Economic pressure on consumers and uncertainty regarding continuing economic improvement may result in changes in consumer and business spending, borrowing and saving habits. Such conditions could have a material adverse effect on the credit quality of our loans or our business, financial condition or results of operations.

- The banking industry remains heavily regulated, and notwithstanding the stated intent of the Trump administration to seek to reduce governmental regulations, changes by Congress or federal regulatory agencies to the banking and financial institutions regulatory regime and heightened legal standards and regulatory requirements may continue to be adopted in the future. Compliance with such regulation may increase our costs and limit our ability to pursue business opportunities.

- The process we use to estimate losses inherent in our credit exposure requires difficult, subjective, and complex judgments, including qualitative factors that pertain to economic conditions and how these economic conditions might impair the ability of our borrowers to repay their loans. The level of uncertainty concerning economic conditions may adversely affect the accuracy of our estimates which may, in turn, impact the reliability of the process.

- The value of the portfolio of investment securities that we hold may be adversely affected by increasing interest rates and defaults by debtors.

Economic conditions in California and the other markets in which we operate may adversely affect our business.

Our banking operations are concentrated primarily in California, and secondarily in New York, Texas, Massachusetts, Washington, Illinois, New Jersey, Maryland, Nevada, and Hong Kong. The economic conditions in these local markets may be different from, and in some instances worse than, the economic conditions in the United States as a whole. Adverse economic conditions in these regions in particular could impair borrowers' ability to service their loans, decrease the level and duration of deposits by customers, decrease demand for our loans and other services and erode the value of loan collateral. These conditions include the effects of the general decline in real estate sales and prices in many markets across the United States; declines in economic growth, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; high unemployment; natural disasters; state or local government insolvency; or a combination of these or other factors. These conditions could increase the amount of our non-performing assets and have an adverse effect on our efforts to collect our non-performing loans or otherwise liquidate our non-performing assets (including other real estate owned) on terms favorable to us, if at all, and could also cause a decline in demand for our products and services, or a lack of growth or a decrease in deposits, any of which may cause us to incur losses, adversely affect our capital, and hurt our business.

We may be required to make additional provisions for loan losses and charge off additional loans in the future, which could adversely affect our results of operations.

At December 31, 2017, our allowance for loan losses totaled $123.3 million and we had net recoveries of $6.8 million for 2017. Although economic conditions in the real estate market in portions of Los Angeles, San Diego, Riverside, and San Bernardino counties and the Central Valley of California where many of our commercial real estate and construction loan customers are based, have improved, the economic recovery in these areas of California is uneven and in some areas rather slow, with relatively high and persistent unemployment. Moreover, rising interest rates may adversely affect real estate sales. As of December 31, 2017, we had approximately $7.2 billion in commercial real estate and construction loans. Any deterioration in the real estate market generally and in the commercial real estate and residential building segments in particular could result in additional loan charge-offs and provisions for loan losses in the future, which could have a material adverse effect on our financial condition, net income, and capital.

The allowance for credit losses is an estimate of probable credit losses. Actual credit losses in excess of the estimate could adversely affect our results of operations and capital.

A significant source of risk arises from the possibility that we could sustain losses because borrowers, guarantors, and related parties may fail to perform in accordance with the terms of their loans and leases. The underwriting and credit monitoring policies and procedures that we have adopted to address this risk may not prevent unexpected losses that could have a material adverse effect on our business, financial condition, results of operations, and cash flows. The allowance for credit losses is based on management's estimate of the probable losses from our credit portfolio. If actual losses exceed the estimate, the excess losses could adversely affect our results of operations and capital. Such excess losses could also lead to larger allowances for credit losses in future periods, which could in turn adversely affect results of operations and capital in those periods. If economic conditions differ substantially from the assumptions used in the estimate or adverse developments arise with respect to our credits, future losses may occur, and increases in the allowance may be necessary. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the adequacy of our allowance. These agencies may require us to establish additional allowances based on their judgment of the information available at the time of their examinations. No assurance can be given that we will not sustain credit losses in excess of present or future levels of the allowance for credit losses.

We are subject to extensive laws, regulations and supervision, and may become subject to additional laws, regulations and supervision that may be enacted and that could limit or restrict our activities, hamper our ability to increase our assets and earnings, and materially and adversely affect our profitability.

We operate in a highly regulated industry and are or may become subject to regulation by federal, state, and local governmental authorities and various laws, regulations, regulatory guidelines, and judicial and administrative decisions imposing requirements or restrictions on part or all of our operations, capitalization, payment of dividends, mergers and acquisitions, investments, loans and interest rates charged, interest rates paid on deposits, and locations of offices. We also must comply with numerous federal anti-money laundering, tax withholding and reporting, and consumer protection statutes and regulations. A considerable amount of management time and resources have been devoted to the oversight of, and the development and implementation of controls and procedures relating to, compliance with these laws and regulations, and we expect that significant time and resources will be devoted to compliance in the future. These laws and regulations mandate certain disclosure and reporting requirements and regulate the manner in which we must deal with our customers when taking deposits, making loans, collecting loans, and providing other services. We also are, or may become subject to, examination, supervision, and additional comprehensive regulation by various federal, state, and local authorities with regard to compliance with these laws and regulations.

Because our business is highly regulated, the laws, rules, regulations, and supervisory guidance and policies applicable to us are subject to regular modification and change. Perennially, various laws, rules and regulations are proposed, which, if adopted, could impact our operations, increase our capital requirements or substantially restrict our growth and adversely affect our ability to operate profitably by making compliance much more difficult or expensive, restricting our ability to originate or sell loans, or further restricting the amount of interest or other charges or fees earned on loans or other products. In addition, further regulation could increase the assessment rate we are required to pay to the FDIC, adversely affecting our earnings. Furthermore, recent changes to Regulation Z promulgated by the CFPB may make it more difficult for us to underwrite consumer mortgages and to compete with large national mortgage service providers. It is very difficult to predict the competitive impact that any such changes would have on the banking and financial services industry in general or on our business in particular. Such changes may, among other things, increase the cost of doing business, limit permissible activities, or affect the competitive balance between banks and other financial institutions. The Dodd-Frank Act instituted major changes to the banking and financial institutions regulatory regimes in light of the recent performance of and government intervention in the financial services sector. Other changes to statutes, regulations, or regulatory policies, including changes in interpretation or implementation of statutes, regulations, or policies, could affect us in substantial and unpredictable ways. Such changes could, among other things, subject us to additional costs, limit the types of financial services and products we may offer, and/or increase the ability of non-banks to offer competing financial services and products. Failure to comply with laws, regulations, or policies could result in sanctions by regulatory agencies, civil money penalties, and/or reputation damage, which could have a material and adverse effect on our business, financial condition, results of operations and the value of our common stock. See Part I — Item 1 — "Business — Regulation and Supervision."

Additional requirements imposed by the Dodd-Frank Act could adversely affect us.

Recent government efforts to strengthen the U.S. financial system have resulted in the imposition of additional regulatory requirements, including expansive financial services regulatory reform legislation. The Dodd-Frank Act provided for sweeping regulatory changes and the establishment of strengthened capital and liquidity requirements for banks and bank holding companies, including minimum leverage and risk-based capital requirements no less than the strictest requirements in effect for depository institutions as of the date of enactment; the requirement that bank holding companies serve as a source of financial strength for their depository institution subsidiaries; enhanced regulation of financial markets, including the derivative and securitization markets, and the elimination of certain proprietary trading activities by banks; additional corporate governance and executive compensation requirements; enhanced financial institution safety and soundness regulations; revisions in FDIC insurance assessment fees; the implementation of the qualified mortgage and ability-to-repay rules for mortgage loans; and the establishment of new regulatory bodies, such as the CFPB and the Financial Services Oversight Counsel, to identify emerging systemic risks and improve interagency cooperation. In addition, we are required to conduct stress testing based on certain macroeconomic scenarios to reflect the impact on our income, revenues, balance sheets, and capital levels, the results of which could require us to take certain actions, including being required to raise additional capital. Current and future legal and regulatory requirements, restrictions, and regulations, including those imposed under the Dodd-Frank Act, may adversely impact our profitability, make it more difficult to attract and retain key executives and other personnel, may have a material and adverse effect on our business, financial condition, results of operations and the value of our common stock, and may require us to invest significant management attention and resources to evaluate and make any changes required by the legislation and related regulations.

We are subject to stringent capital requirements, including those required by Basel III.

The U.S. federal bank regulators have jointly adopted new capital requirements on banks and bank holding companies as required by the Dodd-Frank Act, which became effective on January 1, 2015, incorporate the elements of Basel Committee's Basel III accords and have the effect of raising our capital requirements and imposing new capital requirements beyond those previously required. Increased regulatory capital requirements (and the associated compliance costs) whether due to the adoption of new laws and regulations, changes in existing laws and regulations, or more expansive or aggressive interpretations of existing laws and regulations, may require us to raise additional capital, or impact our ability to pay dividends or pay compensation to our executives, which could have a material and adverse effect on our business, financial condition, results of operations and the value of our common stock. If we do not meet minimum capital requirements, we will be subject to prompt corrective action by federal bank regulatory agencies. Prompt corrective action can include progressively more restrictive constraints on operations, management and capital distributions. For additional discussion regarding our capital requirements, please see "Item 1. Business – Regulation and Supervision – Capital Adequacy Requirements" above.

We may become subject to supervisory action by bank supervisory authorities that could have a material adverse effect on our business, financial condition, and the value of our common stock.

Under federal and state laws and regulations pertaining to the safety and soundness of financial institutions, the Federal Reserve Bank of San Francisco (the "FRB SF") has authority over the Bancorp and separately the DBO and FDIC have authority over the Bank to compel or restrict certain actions if the Bancorp or the Bank should violate any laws or regulations, if its capital should fall below adequate capital standards as a result of operating losses, or if these regulators otherwise determine that the Bancorp or the Bank have engaged in unsafe or unsound practices, including failure to exercise proper risk oversight over the many areas of the Bancorp's and the Bank's operations. These regulators, as well as the CFPB, also have authority over the Bancorp's and the Bank's compliance with various statutes and consumer protection and other regulations. Among other matters, the corrective actions that may be required of the Bancorp or the Bank following the occurrence of any of the foregoing may include, but are not limited to, requiring the Bancorp and/or the Bank to enter into informal or formal enforcement orders, including board resolutions, memoranda of understanding, written agreements, supervisory letters, commitment letters, and consent or cease and desist orders to take corrective action and refrain from unsafe and unsound practices; removing officers and directors; assessing civil monetary penalties; and taking possession of, closing and liquidating the Bank. If we are unable to meet the requirements of any corrective actions, we could become subject to supervisory action. The terms of any such supervisory action could have a material and adverse effect on our business, financial condition, results of operations and the value of our common stock.

We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The Bank Secrecy Act, the USA PATRIOT Act of 2001, and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports as appropriate. The federal Financial Crimes Enforcement Network is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with federal banking regulators, as well as with the U.S. Department of Justice, Drug Enforcement Administration, and Internal Revenue Service. We are also subject to increased scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control and compliance with the Foreign Corrupt Practices Act. In addition, our Hong Kong Branch is subject to the anti-money laundering laws and regulations of Hong Kong. If our policies, procedures and systems are deemed deficient, we would be subject to liability, including fines and regulatory actions, which may include restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including our acquisition plans. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could materially and adversely affect our business, financial condition, results of operations and the value of our common stock.

We are subject to the CRA, fair lending and other laws and regulations, and our failure to comply with these laws and regulations could lead to material penalties.

The CRA, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending and other requirements on financial institutions. The U.S. Department of Justice and other federal agencies, including the FDIC and CFPB, are responsible for enforcing these laws and regulations. A successful challenge to an institution’s performance under the CRA, fair lending and other compliance laws and regulations could result in a wide variety of sanctions, including the required payment of damages and civil money penalties, injunctive relief, imposition of restrictions on mergers and acquisitions activity and restrictions on expansion. Private parties may also have the ability to challenge an institution’s performance under fair lending laws in private class action litigation. The costs of defending, and any adverse outcome from, any such challenge could damage our reputation or could have a material adverse effect on our business, financial condition or results of operations.

Our stress testing processes rely on analytical and forecasting models that may prove to be inadequate or inaccurate, which could adversely affect the effectiveness of our strategic planning and our ability to pursue corporate goals.

In accordance with the Dodd-Frank Act and the Federal Reserve’s regulations thereunder, banking organizations with $10 billion to $50 billion in assets are required to perform annual capital stress tests. The results of our capital stress tests may require us to increase our regulatory capital, raise additional capital or take or decline to take certain other capital-related actions under certain circumstances. Our stress testing processes also rely on our use of analytical and forecasting models. These models reflect assumptions that may not be accurate, particularly in times of market stress or other unforeseen circumstances. Furthermore, even if our assumptions are accurate predictors of future performance, the models they are based on may prove to be inadequate or inaccurate because of other flaws in their design or implementation. Also, the assumptions we utilize for our stress tests may not be met with regulatory approval, which could result in our stress tests receiving a failing grade. In addition to adversely affecting our reputation, failing our stress tests would likely preclude or delay our growth through acquisition, and would limit our ability to pay any cash dividends

Our deposit insurance premiums could increase in the future, which could have a material adverse impact on future earnings and financial condition.

The FDIC insures deposits at FDIC-insured financial institutions, including the Bank. The FDIC charges insured financial institutions premiums to maintain the Deposit Insurance Fund ("DIF") at a specific level. Unfavorable economic conditions, increased bank failures and additional failures decreased the DIF. In order to restore the DIF to its statutorily mandated minimum of 1.35% of total deposits by September 30, 2020, the FDIC may need to increase deposit insurance premium rates. Insured institutions with assets of $10 billion or more will be responsible for funding this increase. The FDIC has issued regulations to implement these provisions of the Dodd-Frank Act. It has, in addition, established a higher reserve ratio of 2% as a long term goal which goes beyond what is required by statute. There is no implementation deadline for the 2% ratio. The FDIC may increase the assessment rates or impose additional special assessments in the future to keep the DIF at the statutory target level. Any increase in the Bank's FDIC premiums could have an adverse effect on its financial condition and results of operations.

Our use of third party vendors and our other ongoing third party business relationships are subject to increasing regulatory requirements and attention.

We regularly use third party vendors as part of our business. We also have substantial ongoing business relationships with other third parties. These types of third party relationships are subject to increasingly demanding regulatory requirements and attention by our federal bank regulators. Recent regulation requires us to enhance our due diligence, ongoing monitoring and control over our third party vendors and other ongoing third party business relationships. In certain cases we may be required to renegotiate our agreements with these vendors to meet these enhanced requirements, which could increase our costs. We expect that our regulators will hold us responsible for deficiencies in our oversight and control of our third party relationships and in the performance of the parties with which we have these relationships. As a result, if our regulators conclude that we have not exercised adequate oversight and control over our third party vendors or other ongoing third party business relationships or that such third parties have not performed appropriately, we could be subject to enforcement actions, including civil money penalties or other administrative or judicial penalties or fines as well as requirements for customer remediation, any of which could have a material adverse effect our business, financial condition or results of operations.

We may experience goodwill impairment.

Goodwill is initially recorded at fair value and is not amortized, but is reviewed at least annually or more frequently if events or changes in circumstances indicate that the carrying value may not be fully recoverable. If our estimates of goodwill fair value change, we may determine that impairment charges are necessary. Estimates of fair value are determined based on a complex model using cash flows and company comparisons. If management’s estimates of future cash flows are inaccurate, the fair value determined could be inaccurate and impairment may not be recognized in a timely manner.

Liquidity risk could impair our ability to fund operations and jeopardize our financial condition.

Liquidity is essential to our business. An inability to raise funds through deposits, FHLB advances and other borrowings, the sale of loans, and other sources could have a material adverse effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities could be impaired by factors that affect us specifically or the financial services industry in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity due to a market downturn or adverse regulatory action against us. Deposit balances can decrease when customers perceive alternative investments as providing a better risk/return tradeoff. If customers move money out of bank deposits and into other investments, we would lose a relatively low-cost source of funds, increasing our funding costs and reducing our net interest income and net income. Our ability to acquire deposits or borrow could also be impaired by factors that are not specific to us, such as a severe disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole.

Based on past experience, we believe that our deposit accounts are relatively stable sources of funds. If we increase interest rates paid to retain deposits, our earnings may be adversely affected, which could have an adverse effect on our business, financial condition and results of operations. Any decline in available funding could adversely impact our ability to originate loans, invest in securities, meet our expenses, pay dividends to our stockholders or to fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, financial condition and results of operations.

Our business is subject to interest rate risk, and fluctuations in interest rates could reduce our net interest income and adversely affect our business.

A substantial portion of our income is derived from the differential, or "spread," between the interest earned on loans, investment securities, and other interest-earning assets, and the interest paid on deposits, borrowings, and other interest-bearing liabilities. The interest rate risk inherent in our lending, investing, and deposit taking activities is a significant market risk to us and our business. Income associated with interest earning assets and costs associated with interest-bearing liabilities may not be affected uniformly by fluctuations in interest rates. The magnitude and duration of changes in interest rates, events over which we have no control, may have an adverse effect on net interest income. Prepayment and early withdrawal levels, which are also impacted by changes in interest rates, can significantly affect our assets and liabilities. Increases in interest rates may adversely affect the ability of our floating rate borrowers to meet their higher payment obligations, which could in turn lead to an increase in non-performing assets and net charge-offs.

Generally, the interest rates on our interest-earning assets and interest-bearing liabilities do not change at the same rate, to the same extent, or on the same basis. Even assets and liabilities with similar maturities or periods of re-pricing may react in different degrees to changes in market interest rates. Interest rates on certain types of assets and liabilities may fluctuate in advance of changes in general market interest rates, while interest rates on other types of assets and liabilities may lag behind changes in general market rates. Certain assets, such as fixed and adjustable rate mortgage loans, have features that limit changes in interest rates on a short-term basis and over the life of the asset. Therefore, as interest rates begin to increase, if our floating rate interest-earning assets do not reprice faster than our interest-bearing liabilities in a rising rate environment, our net interest income and, in turn, our profitability, could be adversely affected.

We seek to minimize the adverse effects of changes in interest rates by structuring our asset-liability composition to obtain the maximum spread. We use interest rate sensitivity analysis and a simulation model to assist us in estimating the optimal asset-liability composition. However, such management tools have inherent limitations that impair their effectiveness. Moreover, the long-term effects of the Federal Reserve's unprecedented quantitative easing and tapering off are unknown, and while interest rates have begun to increase, they remain at historically low levels. There can be no assurance that we will be successful in minimizing the adverse effects of changes in interest rates.

We have engaged in expansion through acquisitions and may consider additional acquisitions in the future, which could negatively affect our business and earnings.

We have engaged in expansion through acquisitions and may consider other acquisitions in the future. There are risks associated with any such expansion. These risks include, among others, incorrectly assessing the asset quality of a bank acquired in a particular transaction, encountering greater than anticipated costs in integrating acquired businesses, facing resistance from customers or employees, and being unable to profitably deploy assets acquired in the transaction. Additional country- and region-specific risks are associated with transactions outside the United States, including in China. To the extent we issue capital stock in connection with additional transactions, if any, these transactions and related stock issuances may have a dilutive effect on earnings per share and share ownership.

Our earnings, financial condition, and prospects after a merger or acquisition depend in part on our ability to successfully integrate the operations of the acquired company. We may be unable to integrate operations successfully or to achieve expected cost savings. Any cost savings which are realized may be offset by losses in revenues or other charges to earnings. As with any acquisition of financial institutions, there also may be business disruptions that cause us to lose customers or cause customers to remove their accounts from us and move their business to competing financial institutions.

In addition, our ability to grow may be limited if we cannot make acquisitions. We compete with other financial institutions with respect to proposed acquisitions. We cannot predict if or when we will be able to identify and attract acquisition candidates or make acquisitions on favorable terms.

Inflation and deflation may adversely affect our financial performance.

The Consolidated Financial Statements and related financial data presented in this report have been prepared in accordance with accounting principles generally accepted in the United States. These principles require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation or deflation. The primary impact of inflation on our operations is reflected in increased operating costs. Conversely, deflation will tend to erode collateral values and diminish loan quality. Virtually all of our assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on our performance than the general levels of inflation or deflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the price of goods and services.

Governmental monetary policies and intervention to stabilize the U.S. financial system may affect our business and are beyond our control.

The business of banking is affected significantly by the fiscal and monetary policies of the Federal government and its agencies. Such policies are beyond our control. We are particularly affected by the policies established by the Federal Reserve in relation to the supply of money and credit in the United States. The instruments of monetary policy available to the Federal Reserve can be used in varying degrees and combinations to directly affect the availability of bank loans and deposits, as well as the interest rates charged on loans and paid on deposits, and this can and does have a material effect on our business.

Concentration of risk increases the potential for significant losses.

We have naturally developed concentrated exposures to those markets and asset classes in which we have specific knowledge or competency. In particular, we primarily operate in California markets with a concentration of Chinese-American individuals and businesses, and commercial and commercial real estate loans constitute a significant portion of our loan portfolio. In management's judgment, our extensive experience within these concentration areas helps us to better evaluate underwriting and other associated risks with extending credit. However, the presence of similar exposures concentrated in certain asset classes leaves us exposed to the risk of a focused downturn within a concentration area. Thus, our concentration in the California markets increases our exposure to materially higher credit losses if there is a deterioration in the economic conditions, housing conditions or real estate values in the California markets. Our concentration in commercial and commercial real estate lending also increases our exposure to risks generally associated with such lending. Our commercial and commercial real estate loans may have a greater risk of loss than residential mortgage loans, in part because these loans are generally larger or more complex to underwrite and are characterized by having a limited supply of real estate at commercially attractive locations, long delivery time frames for development and high interest rate sensitivity. Unexpected deterioration in the credit quality of our commercial or commercial real estate loan portfolios would require us to increase our provision for loan losses, which would reduce our profitability and could materially adversely affect our business, financial condition and results of operations. Moreover, with respect to commercial real estate loans, federal and state banking regulators are examining commercial real estate lending activity with heightened scrutiny and may require banks with higher levels of commercial real estate loans to implement more stringent underwriting, internal controls, risk management policies and portfolio stress testing, as well as possibly higher levels of allowances for losses and capital levels as a result of commercial real estate lending growth and exposures.

As we expand our business outside of California markets, we will encounter risks that could adversely affect us.

We primarily operate in California markets with a concentration of Chinese-American individuals and businesses; however, one of our strategies is to expand beyond California into other domestic markets that have concentrations of Chinese-American individuals and businesses. We currently have operations in eight other states (New York, Texas, Washington, Massachusetts, Illinois, New Jersey, Maryland, and Nevada) and in Hong Kong. In the course of this expansion, we will encounter significant risks and uncertainties that could have a material adverse effect on our operations. These risks and uncertainties include increased expenses and operational difficulties arising from, among other things, our ability to attract sufficient business in new markets, to manage operations in noncontiguous market areas, to comply with all of the various local laws and regulations, and to anticipate events or differences in markets in which we have no current experience.

To the extent that we expand through acquisitions, such acquisitions may also adversely harm our business if we fail to adequately address the financial and operational risks associated with such acquisitions. For example, risks can include difficulties in assimilating the operations, technology, and personnel of the acquired company; diversion of management's attention from other business concerns; inability to maintain uniform standards, controls, procedures, and policies; potentially dilutive issuances of equity securities; the incurring of additional debt and contingent liabilities; use of cash resources; large write-offs; and amortization expenses related to other intangible assets with finite lives.

Our loan portfolio is largely secured by real estate, and a downturn in the real estate market may adversely affect our results of operations.

The real estate collateral securing our borrowers' obligations is principally located in California, and to a lesser extent, in New York, Texas, Massachusetts, Washington, Illinois, New Jersey, Maryland, and Nevada. The value of such collateral depends upon conditions in the relevant real estate markets. These include general or local economic conditions and neighborhood characteristics, unemployment rates, real estate tax rates, the cost of operating the properties, governmental regulations and fiscal policies, acts of nature including earthquakes, floods, and hurricanes (which may result in uninsured losses), and other factors beyond our control. The direction of real estate sales and prices in many markets across the United States is not currently predictable and reductions in the value of our real estate collateral could cause us to have to foreclose on the real estate. If we are not able to realize a satisfactory amount upon foreclosure sales, we may have to own the properties, subjecting us to exposure to the risks and expenses associated with ownership. Any continued declines in real estate sales and prices coupled with any weakness in the economy and continued high unemployment will result in higher than expected loan delinquencies or problem assets, additional loan charge-offs and provisions for loan losses, a decline in demand for our products and services, or a lack of growth or a decrease in deposits, which may cause us to incur losses, adversely affect our capital, and hurt our business.

Our commercial loan, commercial real estate loan and construction loan portfolios expose us to risks that may be greater than the risks related to our other loans.

Our loan portfolio includes commercial loans and commercial real estate loans, which are secured by hotels and motels, shopping/retail centers, service station and car wash, industrial and warehouse properties, and other types of commercial properties. Commercial and commercial real estate loans may carry more risk as compared to other types of lending, because they typically involve larger loan balances often concentrated with a single borrower or groups of related borrowers. This may result in larger charge-offs on commercial and commercial real estate loans on a per loan basis than those incurred with our residential or consumer loan portfolios. These loans also may expose a lender to greater credit risk than loans secured by residential real estate. The payment experience on commercial real estate loans that are secured by income producing properties are typically dependent on the successful operation of the related real estate project and thus, may subject us to adverse conditions in the real estate market or to the general economy. The collateral securing these loans typically cannot be liquidated as easily as residential real estate. If we foreclose on these loans, our holding period for the collateral typically is longer than residential properties because there are fewer potential purchasers of the collateral.

Additionally, many of the Bank's commercial real estate and commercial business loans are made to small to medium sized businesses that may have a heightened vulnerability to economic conditions. Moreover, a portion of these loans have been made by us in recent years and the borrowers may not have experienced a complete business or economic cycle. Furthermore, the deterioration of our borrowers' businesses may hinder their ability to repay their loans with us, which could adversely affect our results of operations. Any unexpected deterioration in the credit quality of our commercial or commercial real estate loan portfolios would require us to increase our provision for loan losses, which would reduce our profitability and could materially adversely affect our business, financial condition, results of operations and prospects.

Moreover, federal and state banking regulators are examining commercial real estate lending activity with heightened scrutiny and may require banks with higher levels of commercial real estate loans to implement more stringent underwriting, internal controls, risk management policies and portfolio stress testing, as well as possibly higher levels of allowances for losses and capital levels as a result of commercial real estate lending growth and exposures. Because a significant portion of our loan portfolio is comprised of commercial real estate loans, the banking regulators may require us to maintain higher levels of capital than we would otherwise be expected to maintain, which could limit our ability to leverage our capital and have a material adverse effect on our business, financial condition, results of operations and prospects.

In addition, the risks inherent in construction lending may continue to affect adversely our results of operations. Such risks include, among other things, the possibility that contractors may fail to complete, or complete on a timely basis, construction of the relevant properties; substantial cost overruns in excess of original estimates and financing; market deterioration during construction; and lack of permanent take-out financing. Loans secured by such properties also involve additional risk because they have no operating history. In these loans, loan funds are advanced upon the security of the project under construction (which is of uncertain value prior to completion of construction) and the estimated operating cash flow to be generated by the completed project. There is no assurance that such properties will be sold or leased so as to generate the cash flow anticipated by the borrower. A general decline in real estate sales and prices across the United States or locally in the relevant real estate market, a decline in demand for residential real estate, economic weakness, high rates of unemployment, and reduced availability of mortgage credit, are some of the factors that can adversely affect the borrowers' ability to repay their obligations to us and the value of our security interest in collateral, and thereby adversely affect our results of operations and financial results.

Our use of appraisals in deciding whether to make a loan on or secured by real property does not ensure the value of the real property collateral.

In considering whether to make a loan secured by real property, we typically require an appraisal of the property. However, an appraisal is only an estimate of the value of the property at the time the appraisal is made. If the appraisal does not reflect the amount that may be obtained upon any sale or foreclosure of the property, we may not realize an amount equal to the indebtedness secured by the property.

Liabilities from environmental regulations could materially and adversely affect our business and financial condition.

In the course of the Bank's business, the Bank may foreclose and take title to real estate, and could be subject to environmental liabilities with respect to these properties. The Bank may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clear up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, as the owner or former owner of any contaminated site, the Bank may be subject to common law claims by third parties based on damages, and costs resulting from environmental contamination emanating from the property. If the Bank ever becomes subject to significant environmental liabilities, its business, financial condition, results of operations and the value of our common stock could be materially and adversely affected.

We face substantial competition from our competitors.

We face substantial competition for deposits, loans, and for other banking services, as well as acquisitions, throughout our market area from the major banks and financial institutions that dominate the commercial banking industry. This may cause our cost of funds to exceed that of our competitors. These banks and financial institutions, including those with foreign ownership, have greater resources than we do, including the ability to finance advertising campaigns and allocate their investment assets to regions of higher yield and demand and make acquisitions and invest in new banking technology. By virtue of their larger capital bases, they have substantially greater lending limits than we do and perform certain functions, including trust services, which are not presently offered by us. We also compete for loans and deposits, as well as other banking services, such as payment services, with savings and loan associations, savings banks, brokerage houses, insurance companies, mortgage companies, credit unions, credit card companies and other financial and non-financial institutions and entities. These factors and ongoing consolidation among insured institutions in the financial services industry may materially and adversely affect our ability to market our products and services. Significant increases in the costs of monitoring and ensuring compliance with new banking regulations and the necessary costs of upgrading information technology and data processing capabilities can have a disproportionate impact on our ability to compete with larger institutions.

We are dependent on key personnel and the loss of one or more of those key personnel may materially and adversely affect our prospects.

Competition for qualified employees and personnel in the banking industry is intense and there are a limited number of qualified persons with knowledge of, and experience in, the communities that we serve. The process of recruiting personnel with the combination of skills and attributes required to carry out our strategies is often lengthy. Our success depends to a significant degree upon our ability to attract and retain qualified management, loan origination, finance, administrative, marketing, and technical personnel and upon the continued contributions of our management and personnel. In particular, our success has been and continues to be highly dependent upon the abilities of key executives and certain other employees, including, but not limited to, our Chief Executive Officer, Pin Tai, and our Chief Financial Officer, Heng W. Chen.

Our compensation practices are subject to review and oversight by the FDIC, the DBO, the Federal Reserve and other regulators. We may be subject to limitations on compensation practices, which may or may not affect our competitors, by the FDIC, the DBO, the Federal Reserve or other regulators. These limitations could further affect our ability to attract and retain our executive officers and other key personnel. In April 2011 and April 2016, the Federal Reserve, other federal banking agencies and the SEC jointly published proposed rules designed to implement provisions of the Dodd-Frank Act prohibiting incentive compensation arrangements that would encourage inappropriate risk taking at covered financial institutions, which includes a bank or bank holding company with $1 billion or more of assets, such as the Bancorp and the Bank. It cannot be determined at this time whether or when a final rule will be adopted and whether compliance with such a final rule will substantially affect the manner in which we structure compensation for our executives and other employees. Depending on the nature and application of the final rules, we may not be able to successfully compete with certain financial institutions and other companies that are not subject to some or all of the rules to retain and attract executives and other high performing employees. If this were to occur, our business, financial condition and results of operations could be adversely affected, perhaps materially.

Managing reputational risk is important to attracting and maintaining customers, investors, and employees.

Threats to our reputation can come from many sources, including adverse sentiment about financial institutions generally, unethical practices, employee misconduct, failure to deliver minimum standards of service or quality, compliance deficiencies, failure to protect confidential client information and questionable, illegal, or fraudulent activities of our customers. We have policies and procedures in place that seek to protect our reputation and promote ethical conduct, but these policies and procedures may not be fully effective. Negative publicity regarding our business, employees, or customers, with or without merit, may result in the loss of customers, investors, and employees, costly litigation, a decline in revenues, and increased governmental regulation.

Natural disasters and geopolitical events beyond our control could adversely affect us.

Natural disasters such as earthquakes, landslides, wildfires, extreme weather conditions, hurricanes, floods, and other acts of nature and geopolitical events involving civil unrest, changes in government regimes, terrorism, or military conflict could adversely affect our business operations and those of our customers and cause substantial damage and loss to real and personal property. These natural disasters and geopolitical events could impair our borrowers' ability to service their loans, decrease the level and duration of deposits by customers, erode the value of loan collateral, and result in an increase in the amount of our non-performing loans and a higher level of non-performing assets (including real estate owned), net charge-offs, and provision for loan losses, which could materially and adversely affect our business, financial condition, results of operations and the value of our common stock.

Adverse conditions in Asia and elsewhere could adversely affect our business.

A substantial number of our customers have economic and cultural ties to Asia and, as a result, we are likely to feel the effects of adverse economic and political conditions in Asia, including the effects of rising inflation or slowing growth and volatility in the real estate and stock markets in China and other regions. Additionally, we maintain a branch in Hong Kong. U.S. and global economic policies, military tensions, and unfavorable global economic conditions may adversely impact the Asian economies. In addition, pandemics and other public health crises or concerns over the possibility of such crises could create economic and financial disruptions in the region. A significant deterioration of economic conditions in Asia could expose us to, among other things, economic and transfer risk, and we could experience an outflow of deposits by those of our customers with connections to Asia. Transfer risk may result when an entity is unable to obtain the foreign exchange needed to meet its obligations or to provide liquidity. This may adversely impact the recoverability of investments with or loans made to such entities. Adverse economic conditions in Asia, and in China or Taiwan in particular, may also negatively impact asset values and the profitability and liquidity of our customers who operate in this region.

We depend on the accuracy and completeness of information about customers.

In deciding whether to extend credit, open a bank account or enter into other transactions with customers, we may rely on information furnished to us by or on behalf of customers, including financial statements and other financial information. We also may rely on representations of customers as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. We may further rely on invoices, contracts, and other supporting documentation provided by our customers, as well as our customers' representations that their financial statements conform to U.S. GAAP (or other applicable accounting standards in foreign markets) and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer. We also may rely on customer representations and certifications, or other audit or accountants' reports, with respect to the business and financial condition of our clients. Our financial condition, results of operations, financial reporting or reputation could be negatively affected if we rely on materially misleading, false, inaccurate or fraudulent information.

Our information systems may experience failures, interruptions, or breaches in security, which could have a material and adverse effect on our business, financial condition, results of operations and the value of our common stock.

We rely heavily on communications and information systems to conduct our business. Any failure, interruption, or breach or threatened breach of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan, and other systems. In the course of providing financial services, we store personally identifiable data concerning customers and employees of customers. While we have policies and procedures designed to prevent or limit the effect of the failure, interruption, or breaches of our information systems, there can be no assurance that any such failures, interruptions, or breaches will not occur or, if they do occur, that they will be adequately addressed. Privacy laws and regulations are matters of growing public concern and are continually changing in the states in which we operate.

In recent periods, there has been a rise in electronic fraudulent activity, security breaches, and cyber-attacks within the financial services industry, especially in the banking sector. Some financial institutions have reported breaches of their websites and systems, some of which have involved sophisticated and targeted attacks intended to misappropriate sensitive or confidential information, destroy or corrupt data, disable or degrade service, disrupt operations or sabotage systems. These breaches can remain undetected for an extended period of time. The secure maintenance and transmission of confidential information, as well as the secure execution of transactions over our systems, are essential to protect us and our customers against fraud and security breaches and to maintain our customers' confidence. Increases in criminal activity levels and sophistication, advances in computer capabilities, and other developments could result in a compromise or breach of the technology, processes, and controls that we use to prevent fraudulent transactions or to protect data about us, our customers, and underlying transactions, as well as the technology used by our customers to access our systems. Cyber security risks may also occur with our third-party service providers, and may interfere with their ability to fulfill their contractual obligations to us, with attendant potential for financial loss or liability that could adversely affect our financial condition or results of operations. These risks will likely continue to increase in the future as we continue to increase our offerings of mobile services and other Internet or web-based products.

The occurrence of any failures, interruptions, or breaches could damage our reputation, result in a loss of customers, cause us to incur additional costs (including remediation and cyber security protection costs), disrupt our operations, affect our ability to grow our online and mobile banking services, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our business, financial condition, results of operations and the value of our common stock.

Our need to continue to adapt our information technology systems to allow us to provide new and expanded service could present operational issues, require significant capital spending, and disrupt our business.

The financial services market, including banking services, is undergoing rapid changes with frequent introductions of new technology-driven products and services. In addition to better serving customers, the effective use of technology increases efficiency and may enable us to reduce costs. Our future success may depend, in part, on our ability to use technology to provide products and services that provide convenience to customers and to create additional efficiencies in our operations. As we continue to offer Internet banking and other online and mobile services to our customers, and continue to expand our existing conventional banking services, we will need to adapt our information technology systems to handle these changes in a way that meets constantly changing industry and regulatory standards. This can be very expensive and may require significant capital expenditures. In addition, our success will depend on, among other things, our ability to provide secure and reliable services, anticipate changes in technology, and efficiently develop and introduce services that are accepted by our customers and cost effective for us to provide. Some of our competitors have substantially greater resources to invest in technological improvements than we currently have. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. As a result, our ability to effectively compete to retain or acquire new business may be impaired, and our business, financial condition or results of operations, may be adversely affected.

We may incur significant losses as a result of ineffective risk management processes and strategies.

We are exposed to many types of operational risks, including liquidity risk, credit risk, market risk, interest rate risk, legal and compliance risk, strategic risk, information security risk, and reputational risk. We are also reliant upon our employees, and our operations are subject to the risk of fraud, theft or malfeasance by our employees. We seek to monitor and control our risk exposure through a risk and control framework encompassing a variety of separate but complementary financial, credit, operational and compliance systems, and internal control and management review processes. However, these systems and review processes and the judgments that accompany their application may not be effective and, as a result, we may not anticipate every economic and financial outcome in all market environments or the specifics and timing of such outcomes, particularly in the event of the kinds of dislocations in market conditions experienced during the recession, which highlight the limitations inherent in using historical data to manage risk. If those systems and review processes prove to be ineffective in identifying and managing risks, our business, financial condition, results of operations and the value of our common stock could be materially and adversely affected. We may also suffer severe reputational damage.

Our business and financial results could be impacted materially by adverse results in legal proceedings.

Various aspects of our operations involve the risk of legal liability. We have been, and expect to continue to be, named or threatened to be named as defendants in legal proceedings arising from our business activities. We establish accruals for legal proceedings when information related to the loss contingencies represented by those proceedings indicates both that a loss is probable and that the amount of the loss can be reasonably estimated, but we do not have accruals for all legal proceedings where we face a risk of loss. In addition, amounts accrued may not represent the ultimate loss to us from those legal proceedings. Thus, our ultimate losses may be higher or lower, and possibly significantly so, than the amounts accrued for loss contingencies arising from legal proceedings, and these losses could have a material and adverse effect on our business, financial condition, results of operations and the value of our common stock.

Certain provisions of our charter and bylaws could make the acquisition of our company more difficult.

Certain provisions of our restated certificate of incorporation, as amended, and our restated bylaws, as amended, could make the acquisition of our company more difficult. These provisions include authorized but unissued shares of preferred and common stock that may be issued without stockholder approval; three classes of directors serving staggered terms; special requirements for stockholder proposals and nominations for director; and super-majority voting requirements in certain situations including certain types of business combinations.

Our financial results could be adversely affected by changes in accounting standards or tax laws and regulations.

From time to time, the Financial Accounting Standards Board and the SEC will change the financial accounting and reporting standards that govern the preparation of our financial statements. In addition, from time to time, federal and state taxing authorities will change the tax laws and regulations, and their interpretations. These changes and their effects can be difficult to predict and can materially and adversely impact how we record and report our financial condition and results of operations.

Changes to tax law could increase our effective tax rates. These law changes may be retroactive to previous periods and as a result could negatively affect our current and future financial performance. The Tax Cuts and Jobs Act, the full impact of which is subject to further evaluation and analysis, is likely to have both positive and negative effects on our financial performance. For example, the new legislation will result in a reduction in our federal corporate tax rate from 35% to 21% beginning in 2018, which will have a favorable impact on our earnings and capital generation abilities. However, the new legislation also enacted limitations on certain deductions, such as the deduction of FDIC deposit insurance premiums, which will partially offset the anticipated increase in net earnings from the lower tax rate. In addition, fourth quarter and full-year 2017 results included $23.4 million of additional tax expense related to the revaluation of the Company's deferred tax assets and a $2.6 million pretax write-down of low income housing tax credit investments, both as a result of the lower corporate tax rate enacted by the Tax Cuts and Jobs Act. The impact of the Tax Cuts and Jobs Act may differ from the foregoing, possibly materially, due to changes in interpretations or in assumptions that we have made, guidance or regulations that may be promulgated, and other actions that we may take as a result of the Tax Cuts and Jobs Act. Similarly, the Bank’s customers are likely to experience varying effects from both the individual and business tax provisions of the Tax Cuts and Jobs Act and such effects, whether positive or negative, may have a corresponding impact on our business and the economy as a whole.

The price of our common stock may fluctuate significantly, and this may make it difficult for you to sell shares of common stock owned by you at times or at prices you find attractive.

The trading price of our common stock may fluctuate widely as a result of a number of factors, many of which are outside our control. In addition, the stock market is subject to fluctuations in the share prices and trading volumes that affect the market prices of the shares of many companies. These broad market fluctuations could adversely affect the market price of our common stock. Among the factors that could affect our stock price are:

- actual or anticipated quarterly fluctuations in our operating results and financial condition and prospects;
- changes in revenue or earnings estimates or publication of research reports and recommendations by financial analysts;
- failure to meet analysts’ revenue or earnings estimates;
- speculation in the press or investment community;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- acquisitions of other banks or financial institutions;

- actions by institutional stockholders;
- fluctuations in the stock price and operating results of our competitors;
- general market conditions and, in particular, developments related to market conditions for the financial services industry;
- proposed or adopted regulatory changes or developments;
- anticipated or pending investigations, proceedings, or litigation that involve or affect us;
- successful management of reputational risk; and
- domestic and international economic factors, such as interest or foreign exchange rates, stock, commodity, credit, or asset valuations or volatility, unrelated to our performance.

The stock market and, in particular, the market for financial institution stocks, has experienced significant volatility. As a result, the market price of our common stock may be volatile. In addition, the trading volume in our common stock may fluctuate more than usual and cause significant price variations to occur. The trading price of the shares of our common stock and the value of our other securities will depend on many factors, which may change from time to time, including, without limitation, our financial condition, performance, creditworthiness and prospects, future sales of our equity or equity related securities, and other factors identified above in "Forward-Looking Statements," and in this Item 1A — "Risk Factors." The capital and credit markets can experience volatility and disruption. Such volatility and disruption can reach unprecedented levels, resulting in downward pressure on stock prices and credit availability for certain issuers without regard to their underlying financial strength. A significant decline in our stock price could result in substantial losses for individual stockholders and could lead to costly and disruptive securities litigation.

An investment in our common stock is not an insured deposit.

Our common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in our common stock is inherently risky for the reasons described in this "Risk Factors" section and elsewhere in this report and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire our common stock, you could lose some or all of your investment.

Statutory restrictions and restrictions by our regulators on dividends and other distributions from the Bank may adversely impact us by limiting the amount of distributions the Bancorp may receive. Statutory and contractual restrictions and our regulators may also restrict the Bancorp's ability to pay dividends.

The ability of the Bank to pay dividends to us is limited by various regulations and statutes, including California law, and our ability to pay dividends on our outstanding stock is limited by various regulations and statutes, including Delaware law.

A substantial portion of the Bancorp's cash flow comes from dividends that the Bank pays to us. Various statutory provisions restrict the amount of dividends that the Bank can pay to us without regulatory approval.

The Federal Reserve Board has previously issued Federal Reserve Supervision and Regulation Letter SR-09-4 that states that bank holding companies are expected to inform and consult with the Federal Reserve supervisory staff prior to taking any actions that could result in a diminished capital base, including any payment or increase in the rate of dividends. In addition, if we are not current in our payment of dividends on our Junior Subordinated Notes, we may not pay dividends on our common stock. Further, new capital conservation buffer requirements will limit the ability of the Bank to pay dividends to the Bancorp if we are not compliant with those capital cushions.

If the Bank were to liquidate, the Bank's creditors would be entitled to receive distributions from the assets of the Bank to satisfy their claims against the Bank before the Bancorp, as a holder of the equity interest in the Bank, would be entitled to receive any of the assets of the Bank as a distribution or dividend.

The restrictions described above, together with the potentially dilutive impact of the warrant initially issued to the U.S. Treasury in connection with our participation in the TARP Capital Purchase Program and subsequently sold by the U.S. Treasury in a secondary public offering, could have a negative effect on the value of our common stock. Moreover, holders of our common stock are entitled to receive dividends only when, as and if declared by our Board of Directors. Although we have historically paid cash dividends on our common stock, we are not required to do so and our Board of Directors could reduce or eliminate our common stock dividend in the future, which could adversely affect the market price of our common stock.

The issuance of preferred stock could adversely affect holders of common stock, which may negatively impact their investment.

Our Board of Directors is authorized to issue preferred stock without any action on the part of the stockholders. The board of directors also has the power, without stockholder approval, to set the terms of any such classes or series of preferred stock that may be issued, including voting rights, dividend rights and preferences over the common stock with respect to dividends or upon the liquidation, dissolution, or winding up of our business and other terms. If we issue preferred stock in the future that has a preference over the common stock with respect to the payment of dividends or upon liquidation, dissolution or winding up, or if we issue preferred stock with voting rights that dilute the voting power of the common stock, the rights of holders of the common stock or the market price of the common stock could be adversely affected.

Our outstanding debt securities restrict our ability to pay dividends on our capital stock.

We have issued an aggregate of $119.1 million in trust preferred securities (collectively, the "Trust Preferred Securities"). Payments to investors in respect of the Trust Preferred Securities are funded by distributions on certain series of securities issued by us, with similar terms to the relevant series of Trust Preferred Securities, which we refer to as the "Junior Subordinated Notes." If we are unable to pay interest in respect of the Junior Subordinated Notes (which will be used to make distributions on the Trust Preferred Securities), or if any other event of default occurs, then we will generally be prohibited from declaring or paying any dividends or other distributions, or redeeming, purchasing or acquiring, any of our capital securities, including the common stock, during the next succeeding interest payment period applicable to any of the Junior Subordinated Notes.

Moreover, any other financing agreements that we enter into in the future may limit our ability to pay cash dividends on our capital stock, including the common stock. In the event that any other financing agreements in the future restrict our ability to pay such dividends, we may be unable to pay dividends in cash on the common stock unless we can refinance amounts outstanding under those agreements.

We may need to raise additional capital which may dilute the interests of holders of our common stock or otherwise have an adverse effect on their investment.

Should economic conditions deteriorate, particularly in the California commercial real estate and residential real estate markets where our business is concentrated, we may need to raise more capital to support any additional provisions for loan losses and loan charge-offs. In addition, we may need to raise more capital to meet other regulatory requirements, including new required capital standards, if our losses are higher than expected, if we are unable to meet our capital requirements, or if additional capital is required for our growth. There can be no assurance that we would succeed in raising any such additional capital, and any capital we obtain may dilute the interests of holders of our common stock, or otherwise have an adverse effect on their investment.

The soundness of other financial institutions could adversely affect us.

Financial institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial industry, including brokers and dealers, commercial banks, investment banks, and other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the financial instrument exposure due us. The failure of financial institutions can also result in increased FDIC assessments for the Deposit Insurance Fund. Any such losses or increased assessments could have a material adverse effect on our financial condition and results of operations.

Item 1B. Unresolved Staff Comments.

The Company has not received written comments regarding its periodic or current reports from the staff of the Securities and Exchange Commission that were issued not less than 180 days before the end of its 2017 fiscal year and that remain unresolved.

Item 2. Properties.

Cathay General Bancorp

The Bancorp currently neither owns nor leases any real or personal property. The Bancorp uses the premises, equipment, and furniture of the Bank at 777 North Broadway, Los Angeles, California 90012 and at 9650 Flair Drive, El Monte, California 91731, in exchange for payment of a management fee to the Bank.

Cathay Bank

The Bank's head office is located in a 36,727 square foot building in the Chinatown area of Los Angeles. The Bank owns both the building and the land upon which the building is situated. The Bank maintains certain of its administrative offices at a seven-story 102,548 square foot office building located at 9650 Flair Drive, El Monte, California 91731. The Bank also owns this building and land in El Monte.

The Bank owns its branch offices in Monterey Park, Alhambra, Westminster, San Gabriel, City of Industry, Cupertino, Artesia, New York City (2 locations), Flushing (3 locations), Chicago, and Rockville in the state of Maryland. In addition, the Bank has certain operating and administrative departments located at 4128 Temple City Boulevard, Rosemead, California, where it owns the building and land with approximately 27,600 square feet of space.

The other branch and representative offices and other properties are leased by the Bank under leases with expiration dates ranging from January 2018 to August 2027, exclusive of renewal options. As of December 31, 2017, the Bank's investment in premises and equipment totaled $103.1 million, net of accumulated depreciation. See Note 7 and Note 13 to the Consolidated Financial Statements.

Item 3. Legal Proceedings.

We are subject to various claims and legal proceedings that have arisen in the course of conducting our business. Management, after consultation with legal counsel, does not believe that the resolution of such claims and proceedings will have a material effect upon our consolidated financial condition, results of operations, or liquidity taken as a whole.

Item 4. Mine Safety Disclosures.

Not Applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Our common stock is listed on the NASDAQ Global Select Market under the symbol "CATY." The closing price of our common stock on February 15, 2018, was $42.88 per share, as reported by the NASDAQ Global elect Market.

The following table sets forth the high and low closing prices as reported on the NASDAQ Global Select Market for the periods presented:

	2017		2016	
	High	Low	High	Low
First quarter	$ 40.77	$ 36.00	$ 30.12	$ 25.65
Second quarter	39.61	35.44	31.25	26.27
Third quarter	40.22	34.31	31.53	26.79
Fourth quarter	44.75	39.31	38.56	28.89

Holders

As of February 15, 2018, there were approximately 1,413 holders of record of our common stock.

Dividends

The cash dividends per share declared by quarter were as follows:

	Year Ended December 31,	
	2017	2016
First quarter	$ 0.21	$ 0.18
Second quarter	0.21	0.18
Third quarter	0.21	0.18
Fourth quarter	0.24	0.21
Total	$ 0.87	$ 0.75

For information concerning restrictions on the payment of dividends, see Part II — Item 7 — "Management's Discussion and Analysis of Financial Condition and Results of Operations — Capital Resources — Dividend Policy," and Note 12 to the Consolidated Financial Statements.

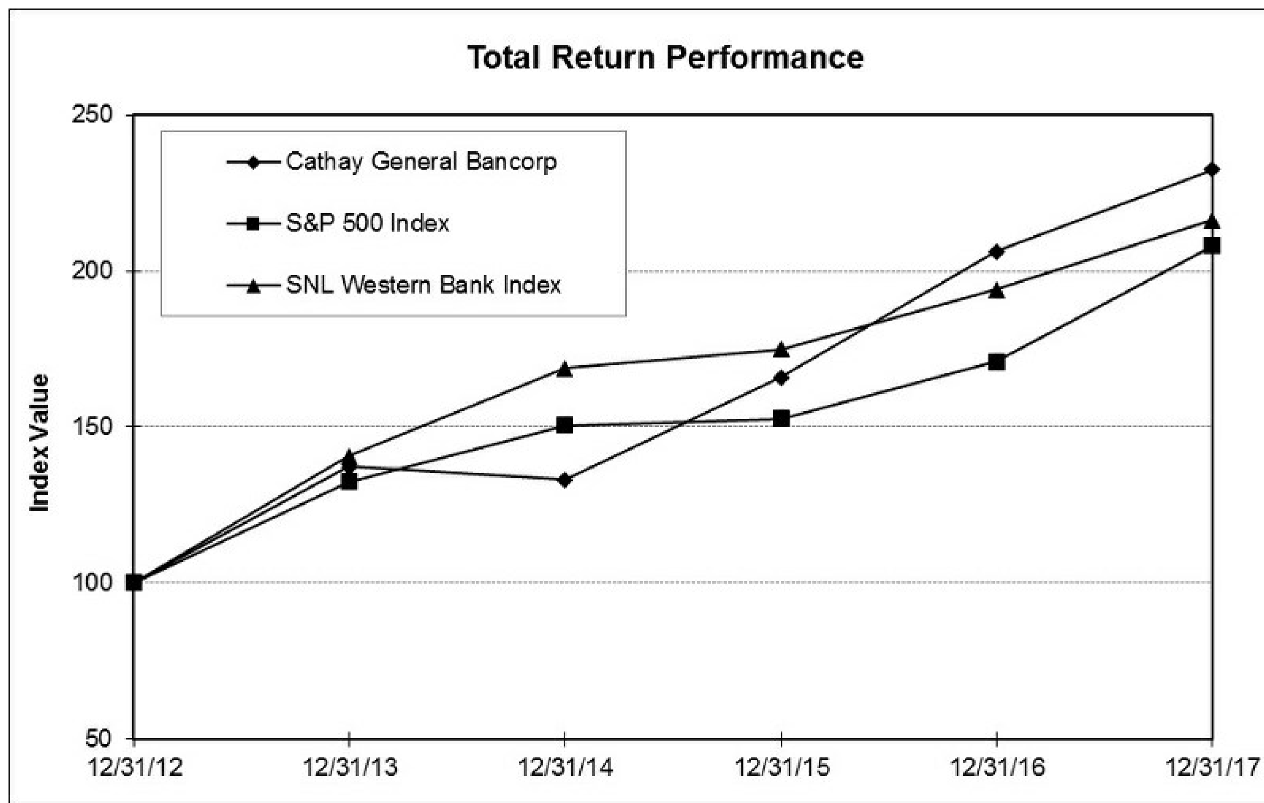
Securities Authorized for Issuance under Equity Compensation Plans

The information required by this item regarding equity compensation plans is incorporated by reference to the information set forth in Part III, Item 12 in this report.

Performance Graph

The graph and accompanying information furnished below shows the cumulative total stockholder return over the past five years assuming the investment of $100 on December 31, 2012 (and the reinvestment of dividends thereafter) in each of our common stock, the SNL Western Bank Index and the S&P 500 Index. The SNL Western Bank Index is a market-weighted index comprised of publicly traded banks and bank holding companies (including the Company) most of which are based in California and the remainder of which are based in eight other western states, including Oregon, Washington, and Nevada. We will furnish, without charge, on the written request of any person who is a stockholder of record as of the record date for the 2018 annual meeting of stockholders, a list of the companies included in the SNL Western Bank Index. Requests for this information should be addressed to Lisa L. Kim, Secretary, Cathay General Bancorp, 777 North Broadway, Los Angeles, California 90012.

NOTE: The comparisons in the graph below are based upon historical data and are not indicative of, or intended to forecast, the future performance of, or returns on, our common stock. Such information furnished herewith shall not be deemed to be incorporated by reference into any of our filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, and shall not be deemed to be "soliciting material" or to be "filed" under the Securities Act or the Securities Exchange Act with the Securities and Exchange Commission except to the extent that the Company specifically requests that such information be treated as soliciting material or specifically incorporates it by reference into a filing under the Securities Act or the Securities Exchange Act.



	Period Ending					
Index	**12/31/12**	**12/31/13**	**12/31/14**	**12/31/15**	**12/31/16**	**12/31/17**
Cathay General Bancorp	100.00	137.31	132.98	165.84	206.20	232.59
S&P 500 Index	100.00	132.39	150.51	152.59	170.84	208.14
SNL Western Bank Index	100.00	140.70	168.86	174.96	193.96	216.26

Source: SNL Financial LC, Charlottesville, VA © 2017

Unregistered Sales of Equity Securities

There were no sales of any equity securities by the Company during the period covered by this Annual Report on Form 10-K that were not registered under the Securities Act.

Issuer Purchases of Equity Securities

In August 2015, the Company resumed stock repurchases under the November 2007 repurchase program and repurchased the remaining 622,500 shares for $18.1 million, or an average price of $29.08 per share. Also, in August 2015, the Board of Directors approved a stock repurchase program for the Company to buy back up to two million shares of our common stock, and 1,366,750 shares were repurchased during 2015. In January and February of 2016, the Company repurchased the remaining 633,250 shares under the August 2015 repurchase program for $17.0 million, or an average price of $26.82 per share.

On February 1, 2016, the Board of Directors approved a new stock repurchase program to buy back up to $45.0 million of our common stock. In 2016, the Company repurchased 1,380,578 shares for $37.5 million, or $27.13 per share under the February 2016 repurchase program. As of December 31, 2017, the Company may repurchase up to $7.5 million of its common stock under the February 2016 repurchase program.

Issuer Purchases of Equity Securities				
Period	**(a) Total Number of Shares (or Units) Purchased**	**(b) Average Price Paid per Share (or Unit)**	**(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs**	**(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs**
(October 1, 2017 - October 31, 2017)	-	-	-	$7,543,008
(November 1, 2017 - November 30, 2017)	-	-	-	$7,543,008
(December 1, 2017 - December 31, 2017)	-	-	-	$7,543,008
Total	-	-	-	$7,543,008

Item 6. Selected Financial Data.

The following table presents our selected historical consolidated financial data, and is derived in part from our audited Consolidated Financial Statements. The selected historical consolidated financial data should be read in conjunction with the Consolidated Financial Statements and the Notes thereto included elsewhere herein and with Part II — Item 7 — “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Selected Consolidated Financial Data

	Year Ended December 31,				
	2017	2016	2015	2014	2013
	(Dollars in thousands, except share and per share data)				
Income Statement					
Interest income	$ 576,151	$ 499,070	$ 453,706	$ 418,647	$ 406,996
Interest expense	80,442	81,200	73,964	75,866	82,300
Net interest income before reversal for credit losses	495,709	417,870	379,742	342,781	324,696
Reversal for credit losses	(2,500)	(15,650)	(11,400)	(10,800)	(3,000)
Net interest income after reversal for credit losses	498,209	433,520	391,142	353,581	327,696
Securities gains/(losses)	1,006	4,898	(3,349)	6,748	27,362
Other non-interest income	35,291	28,472	36,023	33,779	32,945
Non-interest expense	236,199	224,690	202,720	174,313	193,833
Income before income tax expense	298,307	242,200	221,096	219,795	194,170
Income tax expense	122,265	67,101	59,987	81,965	70,435
Net income	176,042	175,099	161,109	137,830	123,735
Less: net income attributable to noncontrolling interest	-	-	-	-	592
Net income attributable to Cathay General Bancorp	176,042	175,099	161,109	137,830	123,143
Dividends on preferred stock	-	-	-	-	(9,685)
Net income attributable to common stockholders	$ 176,042	$ 175,099	$ 161,109	$ 137,830	$ 113,458
Net income attributable to common stockholders per common share					
Basic	$ 2.19	$ 2.21	$ 2.00	$ 1.73	$ 1.44
Diluted	$ 2.17	$ 2.19	$ 1.98	$ 1.72	$ 1.43
Cash dividends paid per common share	$ 0.87	$ 0.75	$ 0.56	$ 0.29	$ 0.08
Weighted-average common shares					
Basic	80,262,782	79,153,762	80,563,577	79,661,571	78,954,898
Diluted	81,004,550	79,929,262	81,294,796	80,106,895	79,137,983
Statement of Condition					
Investment securities	$ 1,333,626	$ 1,314,345	$ 1,586,352	$ 1,318,935	$ 1,586,668
Net loans (1)	12,743,766	11,077,315	10,016,227	8,740,268	7,897,187
Total assets	15,640,186	14,520,769	13,254,126	11,516,846	10,989,286
Deposits	12,689,893	11,674,726	10,509,087	8,783,460	7,981,305
Federal funds purchased and securities sold under agreements to repurchase	100,000	350,000	400,000	450,000	800,000
Advances from the Federal Home Loan Bank	430,000	350,000	275,000	425,000	521,200
Long-term debt	194,136	119,136	119,136	119,136	121,136
Total equity	1,973,304	1,828,539	1,747,778	1,602,888	1,458,971
Common Stock Data					
Shares of common stock outstanding	80,893,379	79,610,277	80,806,116	79,814,553	79,589,869
Book value per common share	$ 24.26	$ 22.80	$ 21.46	$ 20.00	$ 18.24
Profitability Ratios					
Return on average assets	1.19%	1.31%	1.34%	1.26%	1.17%
Return on average stockholders' equity	9.10	9.88	9.52	8.95	8.00
Dividend payout ratio	39.70	33.85	28.11	16.76	5.15
Average equity to average assets ratio	13.14	13.29	14.04	14.04	14.73
Efficiency ratio	44.40	49.79	49.15	45.48	50.35

(1) Net loans represent gross loans net of loans held for sale, loan participations sold, allowance for loan losses, and unamortized deferred loan fees.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

General

The following discussion is intended to provide information to facilitate the understanding and assessment of the consolidated financial condition and results of operations of the Bancorp and its subsidiaries. It should be read in conjunction with the audited Consolidated Financial Statements and Notes appearing elsewhere in this Annual Report on Form 10-K.

The Bank offers a wide range of financial services. It currently operates 28 branches in Southern California, 15 branches in Northern California, 12 branches in New York State, one branch in Massachusetts, two branches in Texas, three branches in Washington State, three branches in Illinois, one branch in New Jersey, one branch in Maryland, one branch in Nevada, one branch in Hong Kong and two representative offices (one in Shanghai, China, and one in Taipei, Taiwan). The Bank is a commercial bank, servicing primarily individuals, professionals, and small to medium-sized businesses in the local markets in which its branches are located.

The financial information presented herein includes the accounts of the Bancorp, its subsidiaries, including the Bank, and the Bank's consolidated subsidiaries. All material transactions between these entities are eliminated.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon our Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these Consolidated Financial Statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities at the date of our Consolidated Financial Statements. Actual results may differ from these estimates under different assumptions or conditions.

Certain accounting policies involve significant judgments and assumptions by management which have a material impact on the carrying value of certain assets and liabilities; management considers such accounting policies to be critical accounting policies. The judgments and assumptions used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances.

Management believes the following are critical accounting policies that require the most significant judgments and estimates used in the preparation of the Consolidated Financial Statements:

Allowance for Credit Losses

The determination of the amount of the provision for credit losses charged to operations reflects management's current judgment about the credit quality of the loan portfolio and takes into consideration changes in lending policies and procedures, changes in economic and business conditions, changes in the nature and volume of the portfolio and in the terms of loans, changes in the experience, ability, and depth of lending management, changes in the volume and severity of past due, non-accrual, and adversely classified or graded loans, changes in the quality of the loan review system, changes in the value of underlying collateral for collateral-dependent loans, the existence and effect of any concentrations of credit and the effect of competition, legal and regulatory requirements, and other external factors. The nature of the process by which we determine the appropriate allowance for loan losses requires the exercise of considerable judgment. The allowance is increased by the provision for loan losses and decreased by charge-offs when management believes the uncollectibility of a loan is confirmed. Subsequent recoveries, if any, are credited to the allowance. A weakening of the economy or other factors that adversely affect asset quality could result in an increase in the number of delinquencies, bankruptcies, or defaults, and a higher level of non-performing assets, net charge-offs, and provision for loan losses in future periods.

The total allowance for credit losses consists of two components: specific allowances and general allowances. To determine the adequacy of the allowance in each of these two components, we employ two primary methodologies, the individual loan review analysis methodology and the classification migration methodology. These methodologies support the basis for determining allocations between the various loan categories and the overall adequacy of our allowance to provide for probable losses inherent in the loan portfolio. These methodologies are further supported by additional analysis of relevant factors such as the historical losses in the portfolio, and environmental factors which include trends in delinquency and non-accrual, and other significant factors, such as the national and local economy, the volume and composition of the portfolio, the strength of management and loan staff, underwriting standards, and the concentration of credit.

The Bank's management allocates a specific allowance for "Impaired Credits," in accordance with Accounting Standard Codification ("ASC") Section 310-10-35. For non-Impaired Credits, a general allowance is established for those loans internally classified and risk graded Pass, Watch, Special Mention, or Substandard based on historical losses in the specific loan portfolio and a reserve based on environmental factors determined for that loan group. The level of the general allowance is established to provide coverage for management's estimate of the credit risk in the loan portfolio by various loan segments not covered by the specific allowance. The allowance for credit losses is discussed in more detail in "Risk Elements of the Loan Portfolio — *Allowance for Credit Losses*" below.

Results of Operations

Overview

For the year ended December 31, 2017, we reported net income of $176.0 million, or $2.17 per diluted share, compared to net income of $175.1 million, or $2.19 per share, in 2016, and net income of $161.1 million, or $1.98 per share, in 2015. The $943,000 increase in net income from 2016 to 2017 was primarily the result of increases in net interest income, increases in other operating income, decreases in operating expenses from amortization of investments in alternative energy partnerships, partially offset by decreases in reversal for credit losses, decreases in securities gains, increases in salaries and employee benefits, and increases in professional services expenses. The return on average assets in 2017 was 1.19%, compared to 1.31% in 2016, and to 1.34% in 2015. The return on average stockholders' equity was 9.10% in 2017, compared to 9.88% in 2016, and to 9.52% in 2015.

Highlights

- Including the acquisition of Far East National Bank, total loans and deposits increased for the year by $1.7 billion to $12.9 billion and $1.0 billion to $12.7 billion, respectively.

- Net interest margin for 2017 increased to 3.63% compared to 3.38% in 2016.

Net income available to common stockholders and key financial performance ratios are presented below for the three years indicated:

	Year Ended December 31,		
	2017	2016	2015
	(Dollars in thousands, except per share data)		
Net income	$ 176,042	$ 175,099	$ 161,109
Basic earnings per common share	$ 2.19	$ 2.21	$ 2.00
Diluted earnings per common share	$ 2.17	$ 2.19	$ 1.98
Return on average assets	1.19%	1.31%	1.34%
Return on average stockholders' equity	9.10%	9.88%	9.52%
Total average assets	$ 14,733,018	$ 13,331,148	$ 12,056,531
Total average equity	$ 1,935,298	$ 1,772,017	$ 1,692,826
Efficiency ratio	44.40%	49.79%	49.15%
Effective income tax rate	40.99%	27.70%	27.13%

Net Interest Income

Comparison of 2017 with 2016

Net interest income increased $77.8 million, or 18.6%, from $417.9 million in 2016 to $495.7 million in 2017. The increase in net interest income was due primarily to the increase in loan interest income, decrease in interest expense on securities sold under agreements to repurchase, and increase in interest income from interest bearing deposits, partially offset by increases in interest expense from money market accounts and time deposits.

Average loans for 2017 were $11.9 billion, a $1.3 billion, or a 12.4%, increase from $10.6 billion in 2016. Compared with 2016, average residential mortgage loans increased $584.3 million, or 25.1%, average commercial mortgage loans increased $564.6 million, or 10.2%, average real estate construction loans increased $121.8 million, or 24.6%, and average commercial loans increased $43.2 million, or 1.9%. Average investment securities were $1.3 billion in 2017, a decrease of $64.8 million, or 4.7%, from 2016. Average interest bearing cash on deposits with financial institutions increased $21.5 million, or 6.2%, to $366.7 million in 2017 from $345.1 million in 2016.

Average interest bearing deposits were $9.4 billion in 2017, an increase of $893.2 million, or 10.4%, from $8.6 billion in 2016, primarily due to increases of $300.4 million, or 14.6%, in money market deposits, $258.0 million, or 24.7%, in interest bearing demand deposits, $198.6 million, or 31.2%, in saving deposits, and $136.3 million, or 2.8%, in time deposits. Average securities sold under agreements to repurchase decreased $245.1 million, or 64.2%, to $136.8 million in 2017 from $381.9 million in 2016, primarily due to maturities of securities sold under agreements to repurchase. Average FHLB advances and other borrowings increased $129.7 million, or 102%, to $256.4 million in 2017 from $126.7 million in 2016, primarily due to increases in FHLB advances.

Interest income increased $77.1 million, or 15.4%, from $499.1 million in 2016 to $576.2 million in 2017 primarily due to increases in the volume of loans:

- Changes in volume: Average interest-earning assets increased $1.3 billion, or 10.4%, to $13.6 billion in 2017, compared with the average interest-earning assets of $12.4 billion in 2016. Average loans increased $1.3 billion and average interest bearing cash on deposits with financial institutions increased $21.5 million in 2017 which contributed to the increase in interest income. Offsetting the above increases was a decrease of $64.8 million in investment securities. The increase of $59.9 million in interest income resulted primarily from a $60.2 million increase in interest income from the loan volume increase, offset by a $1.0 million decrease in interest income from the investment securities.
- Changes in rate: The average yield of interest bearing assets increased to 4.22% in 2017 from 4.04% in 2016. Increase in rate on loans contributed $15.4 million to interest income, increase in rate on deposit with other financial institutions contributed $2.5 million to interest income, and increase rate on investment securities contributed $122,000 to interest income, partially offset by decrease in rate on FHLB stock which caused a $868,000 decrease to interest income. The changes in rate contributed to the interest income increase of $17.2 million.

- Change in the mix of interest-earning assets: Average gross loans, which generally have a higher yield than other types of investments, comprised 87.5% of total average interest-earning assets in 2017, an increase from 86.0% in 2016. Average investment securities comprised 9.6% of total average interest-bearing assets in 2017, a decrease from 11.1% in 2016.

Interest expense decreased by $758,000, or 0.9%, to $80.4 million in 2017, compared with $81.2 million in 2016, primarily due to decreased cost from securities sold under agreements to repurchase offset by increased interest cost from money market accounts, time deposits, and FHLB advances and other borrowings. The overall decrease in interest expense was primarily due to decreases in both volume and rates in securities sold under agreements to repurchase offset by increases in volume from all other interest bearing liabilities and increase in rate on time deposits and other borrowings from financial institutions as discussed below:

- Changes in volume: Average interest bearing deposits increased $893.2 million, or 10.4%, and average FHLB advances and other borrowings increased $129.7 million, or 102%, partially offset by a $245.1 million, or 64.2%, decrease in average securities sold under agreements to repurchase. The changes in volume caused a decrease in interest expense of $2.6 million.
- Changes in rate: The average cost of securities sold under agreements to repurchase decreased to 3.11% in 2017 from 4.01% in 2016. The average cost of interest bearing deposits increased to 0.70% in 2017 from 0.69% in 2016. The changes in rate caused interest expense to increase by $1.8 million.
- Change in the mix of interest-bearing liabilities: Average interest bearing deposits of $9.4 billion increased to 94.8% of total interest-bearing liabilities in 2017 compared to 93.2% in 2016. Average FHLB advances and other borrowings of $256.4 million increased to 2.6% of total interest-bearing liabilities in 2017 compared to 0.5% in 2016. Offsetting the increase, average securities sold under agreements to repurchase decreased to 1.4% of total interest-bearing liabilities in 2017 compared to 4.2% in 2016.

Net interest margin, defined as net interest income to average interest-earning assets, was 3.63% in 2017 compared to 3.38% in 2016.

Comparison of 2016 with 2015

Net interest income increased $38.2 million, or 10.0%, from $379.7 million in 2015 to $417.9 million in 2016. The increase in net interest income was due primarily to the increase in loan interest income, offset by the decrease in dividend income from FHLB stock and increases in interest expense from money market accounts and time deposits.

Average loans for 2016 were $10.6 billion, a $1.0 billion, or a 10.7%, increase from $9.6 billion in 2015. Compared with 2015, average commercial mortgage loans increased $612.5 million, or 12.4%, average residential mortgage loans increased $441.6 million, or 23.4%, and average real estate construction loans increased $125.7 million, or 34.0%. Compared with 2015, average commercial loans decreased $149.3 million, or 6.3%. Average investment securities were $1.37 billion in 2016, a decrease of $5.7 million, or 0.4%, from 2015. Average interest bearing cash on deposits with financial institutions increased $152.3 million, or 79.1%, to $345.1 million in 2016 from $192.8 million in 2015.

Average interest bearing deposits were $8.6 billion in 2016, an increase of $750.6 million, or 9.6%, from $7.8 billion in 2015, primarily due to increases of $382.8 million, or 22.8%, in money market deposits, $185.5 million, or 21.6%, in interest bearing demand deposits, $136.9 million, or 2.9%, in time deposits, and $45.4 million, or 7.7%, in saving deposits. Average securities sold under agreements to repurchase decreased $18.9 million, or 4.7%, to $381.9 million in 2016 from $400.8 million in 2015, primarily due to maturities of securities sold under agreements to repurchase. Average other borrowings increased $21.3 million, or 20.3%, to $126.7 million in 2016 from $105.4 million in 2015, primarily due to increases in FHLB advances.

Interest income increased $45.4 million, or 10.0%, from $453.7 million in 2015 to $499.1 million in 2016 primarily due to increases in the volume of loans:

- Changes in volume: Average interest-earning assets increased $1.2 billion, or 10.5%, to $12.4 billion in 2016, compared with the average interest-earning assets of $11.2 billion in 2015. Average loans increased $1.0 billion and average interest bearing cash on deposits with financial institutions increased $152.3 million in 2016 which contributed to the increase in interest income. The increase of $46.1 million in interest income resulted primarily from a $45.9 million increase in interest income from the loan volume increase.
- Change in rate: The average yield of interest bearing assets decreased to 4.04% in 2016 from 4.06% in 2015. Decreases in rate on interest bearing cash on deposits with financial institutions caused a $502,000 decline in interest income. Decreases in rate on FHLB stock caused a $535,000 decline in interest income. Increase in rate on loans contributed $277,000 to interest income.
- Change in the mix of interest-earning assets: Average gross loans, which generally have a higher yield than other types of investments, comprised 86.0% of total average interest-earning assets in 2016, an increase from 85.8% in 2015. Average investment securities comprised 11.1% of total average interest-bearing assets in 2016, a decrease from 12.3% in 2015.

Interest expense increased by $7.2 million, or 9.8%, to $81.2 million in 2016, compared with $74.0 million in 2015, primarily due to increased cost from money market accounts and time deposits. The overall increase in interest expense was primarily due to increases in both volume and rates in all deposit categories offset by decreases in volume on securities sold under agreements to repurchase as discussed below:

- Changes in volume: Average interest bearing deposits increased $750.6 million, or 9.6%, and average other borrowings increased $21.4 million, or 20.3%, partially offset by an $18.9 million, or 4.7%, decrease in average securities sold under agreements to repurchase. The changes in volume caused an increase in interest expense of $3.3 million.
- Increase in rate: The average cost of interest bearing deposits increased to 0.69% in 2016 from 0.67% in 2015. The average cost of securities sold under agreements to repurchase increased to 4.01% in 2016 from 3.95% in 2015. The increases in rate caused interest expense to increase by $3.9 million.
- Change in the mix of interest-bearing liabilities: Average interest bearing deposits of $8.6 billion increased to 93.2% of total interest-bearing liabilities in 2016 compared to 92.6% in 2015. Offsetting the increase, average securities sold under agreements to repurchase decreased to 4.2% of total interest-bearing liabilities in 2016 compared to 4.8% in 2015.

Net interest margin, defined as net interest income to average interest-earning assets, was 3.38% in 2016 compared to 3.39% in 2015.

The following table sets forth information concerning average interest-earning assets, average interest-bearing liabilities, and the yields and rates paid on those assets and liabilities. Average outstanding amounts included in the table are daily averages.

Interest-Earning Assets and Interest-Bearing Liabilities

	2017 Average Balance	Interest Income/ Expense	Average Yield/ Rate (1)(2)	2016 Average Balance	Interest Income/ Expense	Average Yield/ Rate (1)(2)	2015 Average Balance	Interest Income/ Expense	Average Yield/ Rate (1)(2)
	(Dollars in thousands)								
Interest-Earning Assets:									
Loans [1]	$ 11,937,683	$ 549,291	4.60	$ 10,622,160	$ 473,782	4.46	$ 9,593,448	$ 427,621	4.46
Investment securities	1,308,089	20,531	1.57	1,372,916	21,426	1.56	1,378,641	21,523	1.56
FHLB stock	23,209	1,798	7.75	17,516	2,099	11.98	21,480	3,164	14.73
Federal funds sold & securities									
Federal funds sold	9,499	110	1.16	-	-	-	-	-	-
Interest-bearing deposits	366,674	4,421	1.21	345,136	1,763	0.51	192,763	1,398	0.73
Total interest-earning assets	$ 13,645,154	$ 576,151	4.22	$ 12,357,728	$ 499,070	4.04	$ 11,186,332	$ 453,706	4.06
Non-interest earning assets:									
Cash and due from banks	229,796			216,443			213,882		
Other non-earning assets	977,939			893,478			822,326		
Total non-interest earning assets	1,207,735			1,109,921			1,036,208		
Less: Allowance for loan losses	(115,635)			(129,701)			(155,683)		
Deferred loan fees	(4,236)			(6,800)			(10,326)		
Total Assets	$ 14,733,018			$ 13,331,148			$ 12,056,531		
Interest-Bearing Liabilities:									
Interest-bearing demand deposits	$ 1,304,052	$ 2,242	0.17	$ 1,046,046	$ 1,740	0.17	$ 860,513	$ 1,406	0.16
Money market deposits	2,360,188	15,062	0.64	2,059,823	13,308	0.65	1,677,065	10,138	0.60
Savings deposits	834,973	1,772	0.21	636,422	1,046	0.16	590,987	901	0.15
Time deposits	4,947,052	46,768	0.95	4,810,746	43,327	0.90	4,673,862	39,443	0.84
Total interest-bearing deposits	9,446,265	65,844	0.70	8,553,037	59,421	0.69	7,802,427	51,888	0.67
Securities sold under agreements to repurchase	136,849	4,250	3.11	381,967	15,329	4.01	400,822	15,813	3.95
FHLB advances and other borrowings	256,423	4,252	1.66	126,720	659	0.52	105,367	487	0.46
Long-term debt	128,999	6,096	4.73	119,136	5,791	4.86	119,136	5,776	4.85
Total interest-bearing liabilities	9,968,536	80,442	0.81	9,180,860	81,200	0.88	8,427,752	73,964	0.88
Non-interest Bearing Liabilities:									
Demand deposits	2,599,109			2,199,274			1,781,981		
Other liabilities	230,075			178,997			153,972		
Stockholders' equity	1,935,298			1,772,017			1,692,826		
Total liabilities and stockholders' equity	$ 14,733,018			$ 13,331,148			$ 12,056,531		
Net interest spread			3.41%			3.16%			3.18%
Net interest income		$ 495,709			$ 417,870			$ 379,742	
Net interest margin			3.63%			3.38%			3.39%

(1) Yields and amounts of interest earned include loan fees. Non-accrual loans are included in the average balance.
(2) Calculated by dividing net interest income by average outstanding interest-earning assets.

Net Interest Income — Changes Due to Rate and Volume (1)

	2017 - 2016 Increase/(Decrease) in Net Interest Income Due to:			2016 - 2015 Increase/(Decrease) in Net Interest Income Due to:		
	Change in Volume	Change in Rate	Total Change	Change in Volume	Change in Rate	Total Change
	(In thousands)					
Interest-Earning Assets						
Deposits with other banks	$ 117	$ 2,541	$ 2,658	$ 867	$ (502)	$ 365
Federal funds sold and securities purchased under agreements to resell	110	-	110	-	-	-
Investment securities	(1,017)	122	(895)	(89)	(8)	(97)
FHLB stock	567	(868)	(301)	(530)	(535)	(1,065)
Loans	60,154	15,355	75,509	45,884	277	46,161
Total increase/(decrease) in interest income	59,931	17,150	77,081	46,132	(768)	45,364
Interest-Bearing Liabilities						
Interest-bearing demand deposits	442	60	502	308	26	334
Money market deposits	1,919	(165)	1,754	2,436	734	3,170
Savings deposits	375	351	726	72	73	145
Time deposits	1,250	2,191	3,441	1,179	2,705	3,884
Securities sold under agreements to repurchase	(8,192)	(2,887)	(11,079)	(753)	269	(484)
FHLB advances and other borrowings	1,145	2,448	3,593	106	66	172
Long-term debt	469	(164)	305	-	15	15
Total (decrease)/increase in interest expense	(2,592)	1,834	(758)	3,348	3,888	7,236
Change in net interest income	$ 62,523	$ 15,316	$ 77,839	$ 42,784	$ (4,656)	$ 38,128

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

Provision for Credit Losses

The provision for credit losses represents the charge against current earnings that is determined by management, through a credit review process, as the amount needed to maintain an allowance for loan losses and an allowance for off-balance sheet unfunded credit commitments that management believes to be sufficient to absorb credit losses inherent in the Bank's loan portfolio and credit commitments. The Bank recorded a negative $2.5 million provision for credit losses in 2017 compared with a negative $15.7 million in 2016, and a negative $11.4 million in 2015. Net recoveries for 2017 were $6.8 million, or 0.06% of average loans, compared to net charge-offs for 2016 of $4.3 million, or 0.04% of average loans, and net charge-offs for 2015 of $11.1 million, or 0.12% of average loans.

Non-interest Income

Non-interest income increased $2.9 million, or 8.8%, to $36.3 million for 2017, from $33.4 million for 2016, compared to $32.7 million for 2015. Non-interest income includes depository service fees, letters of credit commissions, securities gains (losses), gains (losses) from loan sales, gains from sale of premises and equipment, gains on acquisition, and other sources of fee income. These other fee-based services include wire transfer fees, safe deposit fees, fees on loan-related activities, fee income from our Wealth Management division, and foreign exchange fees.

Comparison of 2017 with 2016

The increase in non-interest income from 2016 to 2017 was primarily due to a $5.6 million gain from our acquisition of SinoPac Bancorp and its subsidiary Far East National Bank and a $810,000 increase in income from venture capital investment, offset by a $3.9 million decrease in gains on sale of securities. We sold securities of $111.7 million in 2017 compared to $605.5 million in 2016. In 2017, gains of $1.7 million and losses of $710,000 were realized on sales of investment securities compared with gains of $5.1 million and no losses realized in 2016. No other-than-temporary write-down was recorded in 2017 compared to a $206,000 write-down on one equity security in 2016.

Comparison of 2016 with 2015

The increase in non-interest income from 2015 to 2016 was primarily due to an $8.2 million increase in securities gains offset by a $4.1 million decrease in wealth management commissions, by a $2.4 million decrease in venture capital gains, and by a $1.0 million decrease in commissions from foreign exchange transactions. We sold securities of $605.5 million in 2016 compared to $1.0 billion in 2015. In 2016, gains of $5.1 million and no losses were realized on sales of investment securities compared with gains of $2.4 million and losses of $1.9 million realized in 2015. An other-than-temporary write-down of $206,000 on one equity security was recorded in 2016 compared to a $3.9 million write-down on agency preferred stock in 2015.

Non-interest Expense

Comparison of 2017 with 2016

Non-interest expense includes expenses related to salaries and benefits of employees, occupancy expenses, marketing expenses, computer and equipment expenses, amortization of core deposit intangibles, amortization of investment is affordable housing and alternative energy partnerships, and other operating expenses. Non-interest expense totaled $236.2 million in 2017 compared to $224.7 million in 2016. The increase of $11.5 million, or 5.1%, in non-interest expense in 2017 compared to 2016 was primarily due to a combination of the following:

- Salaries and employee benefits increased $12.1 million, or 12.4%, due primarily to higher salaries and benefits and additional employee costs from our acquisition of Far East National Bank.
- Amortization of investments in affordable housing and alternative energy partnerships decreased $13.0 million, or 32.4%, primarily due to the higher amortization on alternative energy partnerships in 2016.
- OREO expenses decreased $2.5 million primarily due to gains on sale of OREO.
- Professional service expenses increased $1.8 million, or 9.4%, and data processing expenses increased $2.2 million, or 24.9%, primarily due to our acquisition of SinoPac Bancorp.
- Occupancy expenses increased $2.1 million, or 11.5% and computer and equipment expenses increased $1.1 million, or 10.9%, primarily due to added costs associated with the addition of Far East National Bank branches.
- Marketing expenses increased $1.1 million, or 21.8%, primarily due to increases in media, promotion and donation.
- One time acquisition and integration expenses of $4.1 million related to our acquisition of SinoPac Bancorp.

The efficiency ratio, defined as non-interest expense divided by the sum of net interest income before provision for loan losses plus non-interest income, decreased to 44.40% in 2017 compared to 49.79% in 2016 due primarily to higher net interest income as explained above.

Comparison of 2016 with 2015

Non-interest expense includes expenses related to salaries and benefits of employees, occupancy expenses, marketing expenses, computer and equipment expenses, amortization of core deposit intangibles, and other operating expenses. Non-interest expense totaled $224.7 million in 2016 compared to $202.7 million in 2015. The increase of $22.0 million, or 10.8%, in non-interest expense in 2016 compared to 2015 was primarily due to a combination of the following:

- Salaries and employee benefits increased $7.4 million, or 8.2%, due primarily to higher salaries and benefits, our acquisition of Asia Bank and the hiring of new employees.
- Amortization of investments in affordable housing and alternative energy partnerships increased $6.9 million, or 20.8%, primarily due to the investment in one additional alternative energy partnership in 2016.
- OREO expenses increased $1.7 million primarily due to decreases in gains on sale of OREO.
- Professional service expenses increased $1.4 million, or 7.9%, primarily due to increases in legal collection expenses.
- Occupancy expenses increased $1.3 million, or 7.6%, due primarily to our acquisition of Asia Bank.
- Data processing service expenses increased $1.3 million, or 16.4%, primarily due to increases in business transaction volume.

The efficiency ratio, defined as non-interest expense divided by the sum of net interest income before provision for loan losses plus non-interest income, increased to 49.79% in 2016 compared to 49.15% in 2015 due primarily to higher non-interest expense as explained above.

Income Tax Expense

Income tax expense was $122.3 million in 2017, compared to $67.1 million in 2016, and $60.0 million in 2015. The effective tax rate was 41.0% for 2017, 27.7% for 2016, and 27.1% for 2015. The effective tax rate differed from the composite statutory rate of 42% primarily due to $23.4 million of additional income tax expense related to the revaluation of the Company’s deferred tax assets as a result of the enactment of the 2017 Tax Cuts and Jobs Act in addition to alternative energy tax credits, low income housing and other tax credits totaling $20.7 million recognized in 2017, $37.9 million recognized in 2016, and $31.0 million recognized in 2015.

Our tax returns are open for audits by the Internal Revenue Service back to 2014 and by the California Franchise Tax Board back to 2013. From time to time, there may be differences of opinion with respect to the tax treatment accorded transactions. When, and if, such differences occur and the related tax effects become probable and estimable, such amounts will be recognized.

Financial Condition

Total assets were $15.6 billion at December 31, 2017, an increase of $1.1 billion, or 7.7%, from $14.5 billion at December 31, 2016, primarily due to an increase of $1.7 billion in gross loans, excluding loans held for sale, offset by a decrease of $674.3 million in short-term investments.

Investment Securities

Investment securities were $1.3 billion and represented 8.5% of total assets at December 31, 2017, compared with $1.3 billion and 9.1% of total assets at December 31, 2016. The following table summarizes the carrying value of our portfolio of securities for each of the past two years:

	As of December 31,	
	2017	2016
	(In thousands)	
Securities Available-for-Sale:		
U.S. treasury securities	$ 249,520	$ 489,017
U.S. government agency entities	8,988	-
U.S. government sponsored entities	390,336	390,331
State and municipal securities	1,914	-
Mortgage-backed securities	571,969	336,260
Collateralized mortgage obligations	1,516	28
Corporate debt securities	81,281	74,350
Mutual funds	6,230	6,230
Preferred stock of government sponsored entities	10,102	7,308
Other equity securities	11,770	10,821
Total securities available-for-sale	$ 1,333,626	$ 1,314,345

ASC Topic 320 requires an entity to assess whether it has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. If either of these conditions is met, an entity must recognize an other-than-temporary impairment ("OTTI") to its investment securities. If an entity does not intend to sell the debt security and will not be required to sell the debt security, the entity must consider whether it will recover the amortized cost basis of the security. If the present value of expected cash flows is less than the amortized cost basis of the security, OTTI shall be considered to have occurred. OTTI is then separated into the amount of the total impairment related to credit losses and the amount of the total impairment related to all other factors. An entity determines the impairment related to credit losses by comparing the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. OTTI related to the credit loss is thereafter recognized in earnings. OTTI related to all other factors is recognized in other comprehensive income. OTTI not related to the credit loss for a held-to-maturity security should be recognized separately in a new category of other comprehensive income and amortized over the remaining life of the debt security as an increase in the carrying value of the security only when the entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its remaining amortized cost basis. The Company has both the ability and the intent to hold and it is not more likely than not that the Company will be required to sell those securities with unrealized losses before recovery of their amortized cost basis.

The temporarily impaired securities represent 88.6% of the fair value of investment securities as of December 31, 2017. Unrealized losses for securities with unrealized losses for less than twelve months represent 0.6%, and securities with unrealized losses for twelve months or more represent 2.1%, 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, 2017, 24 issues of securities had unrealized losses for 12 months or longer and 63 issues of securities had unrealized losses of less than 12 months.

Total unrealized losses of $16.7 million at December 31, 2017, were primarily caused by increases in interest rates or 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, 2017, management believed the impairment was temporary and, accordingly, no impairment loss on debt securities has been recognized in our 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.

The tables below show the fair value and unrealized losses of the temporarily impaired securities in our investment securities portfolio as of December 31, 2017, and December 31, 2016:

	As of December 31, 2017 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	$ 199,823	$ 62	4	$ 49,697	$ 295	2	$ 249,520	$ 357	6
U.S. government agency entities	5,711	70	3	-	-	-	5,711	70	3
U.S. government sponsored entities	-	-	-	390,336	9,664	8	390,336	9,664	8
State and municipal securities	1,914	30	2	-	-	-	1,914	30	2
Mortgage-backed securities	342,436	3,147	48	178,617	3,112	13	521,053	6,259	61
Collateralized mortgage obligations	1,516	17	5	-	-	-	1,516	17	5
Corporate debt securities	5,015	17	1	-	-	-	5,015	17	1
Mutual funds	-	-	-	6,230	270	1	6,230	270	1
Total securities available-for-sale	$ 556,415	$ 3,343	63	$ 624,880	$ 13,341	24	$ 1,181,295	$ 16,684	87

	As of December 31, 2016 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	$ 299,088	$ 857	6	$ -	$ -	-	$ 299,088	$ 857	6
U.S. government sponsored entities	390,331	9,669	8	-	-	-	390,331	9,669	8
Mortgage-backed securities	328,236	3,288	16	62	2	3	328,298	3,290	19
Collateralized mortgage obligations	-	-	-	28	20	1	28	20	1
Corporate debt securities	-	-	-	29,138	862	2	29,138	862	2
Mutual funds	-	-	-	6,230	270	1	6,230	270	1
Total securities available-for-sale	$ 1,017,655	$ 13,814	30	$ 35,458	$ 1,154	7	$ 1,053,113	$ 14,968	37

The scheduled maturities and taxable-equivalent yields by security type are presented in the following table:

Securites Portfolio Maturity Distribution and Yield Analysis:

	As of December 31, 2017				
	One Year or Less	After One Year to Five Years	After Five Years to Ten Years	Over Ten Years	Total
			(Dollars in thousands)		
Maturity Distribution:					
Securities Available-for-Sale:					
U.S. treasury securities	$ 249,520	$ -	$ -	$ -	$ 249,520
U.S. government agency entities	-	-	-	8,988	8,988
U.S. government sponsored entities	-	390,336	-	-	390,336
State and municipal securities	-	-	1,914	-	1,914
Mortgage-backed securities [(1)]	656	241	5,484	565,588	571,969
Collateralized mortgage obligations [(1)]	-	1	564	951	1,516
Corporate debt securities	15,055	66,226	-	-	81,281
Mutual funds [(2)]	-	-	-	6,230	6,230
Preferred stock of government sponsored entities [(2)]	-	-	-	10,102	10,102
Other equity securities [(2)]	-	-	-	11,770	11,770
Total securities available-for-sale	$ 265,231	$ 456,804	$ 7,962	$ 603,629	$ 1,333,626
Weighted-Average Yield:					
Securities Available-for-Sale:					
U.S. treasury securities	1.08%	0.00%	0.00%	0.00%	1.08%
U.S. government agency entities	-	-	-	1.73	1.73
U.S. government sponsored entities	-	1.66	-	-	1.66
State and municipal securities(3)	-	-	5.32	-	5.32
Mortgage-backed securities [(1)]	4.64	6.12	2.91	2.30	2.31
Collateralized mortgage obligations [(1)]	-	8.14	2.24	3.18	2.84
Corporate debt securities	2.49	2.58	-	-	2.56
Mutual funds [(2)]	-	-	-	2.17	2.17
Total securities available-for-sale	1.17%	1.80%	3.44%	2.21%	1.90%

(1) Securities reflect stated maturities and do not reflect the impact of anticipated prepayments.
(2) There is no stated maturity for mutual funds and equity securities.

Loans

Loans represented 87.5% of average interest-earning assets during 2017, compared with 86.0% during 2016. Gross loans, excluding loans held for sale, increased by $1.7 billion, or 14.9%, to $12.9 billion at December 31, 2017, compared with $11.2 billion at December 31, 2016. The increase in gross loans was primarily attributable to the following:

- Commercial mortgage loans increased $697.4 million, or 12.1%, to $6.5 billion at December 31, 2017, compared to $5.79 billion at December 31, 2016. Total commercial mortgage loans accounted for 50.4% of gross loans at December 31, 2017, compared to 51.7% at December 31, 2016. Commercial mortgage loans consist primarily of commercial retail properties, shopping centers, owner-occupied industrial facilities, office buildings, multiple-unit apartments, hotels, and multi-tenanted industrial properties, and are typically secured by first deeds of trust on such commercial properties.

- Total residential mortgage loans increased by $618.0 million, or 25.3%, to $3.1 billion at December 31, 2017, compared to $2.4 billion at December 31, 2016, primarily due to the low level of interest rates, the originations of mortgages to non-US residents secured by residential real estate in the United States, loan promotion, and loan purchase.

- Commercial loans increased $213.1 million, or 9.5%, to $2.5 billion at December 31, 2017, compared to $2.2 billion at December 31, 2016. Commercial loans consist primarily of short-term loans (typically with a maturity of one year or less) to support general business purposes, or to provide working capital to businesses in the form of lines of credit, trade-finance loans, loans for commercial purposes secured by cash, and SBA loans.

- Real estate construction loans increased $130.7 million, or 23.8%, to $678.8 million at December 31, 2017, compared to $548.1 million at December 31, 2016.

Our lending relates predominantly to activities in the states of California, New York, Texas, Washington, Massachusetts, Illinois, New Jersey, Maryland, and Nevada. We also lend to domestic clients who are engaged in international trade. Loans outstanding in our branch in Hong Kong were $235.8 million as of December 31, 2017, compared to $214.6 million as of December 31, 2016.

The classification of loans by type and amount outstanding as of December 31 for each of the past five years is presented below:

Loan Type and Mix

	As of December 31,				
	2017	2016	2015	2014	2013
			(In thousands)		
Commercial loans	$ 2,461,266	$ 2,248,187	$ 2,316,863	$ 2,382,493	$ 2,298,724
Residential mortgage loans and equity lines	3,242,354	2,615,759	2,101,335	1,742,938	1,526,532
Commercial mortgage loans	6,482,695	5,785,248	5,301,218	4,486,443	4,023,051
Real estate construction loans	678,805	548,088	441,543	298,654	221,701
Installment and other loans	5,170	3,993	2,493	3,552	14,555
Gross loans	12,870,290	11,201,275	10,163,452	8,914,080	8,084,563
Less:					
Allowance for loan losses	(123,279)	(118,966)	(138,963)	(161,420)	(173,889)
Unamortized deferred loan fees	(3,245)	(4,994)	(8,262)	(12,392)	(13,487)
Total loans and leases, net	$ 12,743,766	$ 11,077,315	$ 10,016,227	$ 8,740,268	$ 7,897,187
Loans held for sale	$ 8,000	$ 7,500	$ 6,676	$ 973	$ -

The loan maturities in the table below are based on contractual maturities. As is customary in the banking industry, loans that meet underwriting criteria can be renewed by mutual agreement between us and the borrower. Because we are unable to estimate the extent to which our borrowers will renew their loans, the table is based on contractual maturities. As a result, the data shown below should not be viewed as an indication of future cash flows.

Contractual Maturity of Loan Portfolio

	Within One Year	One to Five Years	Over Five Years	Total
		(In thousands)		
Commercial loans				
Floating rate	$ 1,692,182	$ 472,675	$ 148,485	$ 2,313,342
Fixed rate	112,901	32,357	2,666	147,924
Residential mortgage loans and equity lines				
Floating rate	26	431	1,647,366	1,647,823
Fixed rate	7,596	10,472	1,576,463	1,594,531
Commercial mortgage loans				
Floating rate	477,307	1,177,837	3,050,570	4,705,714
Fixed rate	268,911	1,136,243	371,827	1,776,981
Real estate construction loans				
Floating rate	509,237	156,735	-	665,972
Fixed rate	12,833	-	-	12,833
Installment and other loans				
Floating rate	-	-	-	-
Fixed rate	3,093	2,077	-	5,170
Total Loans	$ 3,084,086	$ 2,988,827	$ 6,797,377	$ 12,870,290
Floating rate	$ 2,678,752	$ 1,807,678	$ 4,846,421	$ 9,332,851
Fixed rate	405,334	1,181,149	1,950,956	3,537,439
Total Loans	3,084,086	2,988,827	6,797,377	12,870,290
Allowance for loan losses				(123,279)
Unamortized deferred loan fees				(3,245)
Net loans				$ 12,743,766
Loans held for sale				$ 8,000

Deposits

The Bank primarily uses customer deposits to fund its operations, and to a lesser extent borrowings in the form of securities sold under agreements to repurchase, advances from the Federal Home Loan Bank, and other borrowings. The Bank's deposits are generally obtained from the Bank's geographic market area. The Bank utilizes traditional marketing methods to attract new customers and deposits, by offering a wide variety of products and services and utilizing various forms of advertising media. Although the vast majority of the Bank's deposits are retail in nature, the Bank does engage in certain wholesale activities, primarily accepting deposits generated by brokers or Internet listing services. The Bank considers wholesale deposits to be an alternative borrowing source rather than a customer relationship and, as such, their levels are determined by management's decisions as to the most economic funding sources. Brokered-deposits totaled $756.1 million, or 6.0%, of total deposits, at December 31, 2017, compared to $632.9 million, or 5.4%, at December 31, 2016.

The Company's total deposits increased $1.0 billion, or 8.7%, to $12.7 billion at December 31, 2017, from $11.7 billion at December 31, 2016, primarily due to a $343.5 million, or 6.8%, increase in time deposits, a $305.0 million, or 12.3%, increase in non-interest bearing demand deposits, a $180.1 million, or 14.6%, increase in NOW deposits, a $137.3 million, or 19.1%, increase in savings deposits a $49.3 million, or 2.2%, increase in money market deposits. The following table displays the deposit mix for the past three years:

Deposit Mix

	Year Ended December 31,					
	2017		2016		2015	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
	(Dollars in thousands)					
Demand deposits	$ 2,783,127	21.9%	$ 2,478,107	21.2%	$ 2,033,048	19.4%
NOW deposits	1,410,519	11.1	1,230,445	10.6	966,404	9.2
Money market deposits	2,248,271	17.7	2,198,938	18.8	1,905,719	18.1
Savings deposits	857,199	6.8	719,949	6.2	618,164	5.9
Time deposits	5,390,777	42.5	5,047,287	43.2	4,985,752	47.4
Total	$ 12,689,893	100%	$ 11,674,726	100%	$ 10,509,087	100%

Average total deposits increased $1.3 billion, or 12.0%, to $12.0 billion in 2017, compared with average total deposits of $10.8 billion in 2016.

The following table displays average deposits and rates for the past five years:

Average Deposits and Average Rates

	Year Ended December 31,									
	2017		2016		2015		2014		2013	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(Dollars in thousands)									
Demand deposits	$ 2,599,109	-%	$ 2,199,274	-%	$ 1,781,981	-%	$ 1,535,461	-%	$ 1,325,781	-%
NOW deposits	1,304,052	0.17	1,046,046	0.17	860,513	0.16	721,435	0.17	634,506	0.16
Money market deposits	2,360,188	0.64	2,059,823	0.65	1,677,065	0.60	1,407,053	0.61	1,215,347	0.58
Savings deposits	834,973	0.21	636,422	0.16	590,987	0.15	532,184	0.15	488,932	0.08
Time deposits	4,947,052	0.95	4,810,746	0.90	4,673,862	0.84	4,257,736	0.82	3,993,508	0.80
Total	$ 12,045,374	0.55%	$ 10,752,311	0.55%	$ 9,584,408	0.54%	$ 8,453,869	0.54%	$ 7,658,074	0.53%

Management considers the Bank time deposits of $250,000 or more, which totaled $2.0 billion at December 31, 2017, to be generally less volatile than other wholesale funding sources primarily because approximately 83% of the Bank's CDs of $250,000 or more have been on deposit with the Bank for two years or more. Management monitors the CDs of $250,000 or more portfolio to help identify any changes in the deposit behavior in the market and of the customers the Bank is serving.

Of our CDs, approximately 88% mature within one year as of December 31, 2017. The following tables display time deposits by maturity:

Time Deposits by Maturity

	At December 31, 2017		
	Time Deposits -under $100,000	Time Deposits - $100,000 and over	Total Time Deposits
	(Dollars in thousands)		
Less than three months	$ 509,182	$ 1,077,836	$ 1,587,018
Three to six months	371,084	595,123	966,207
Six to twelve months	285,819	1,885,045	2,170,864
Over one year	257,425	409,263	666,688
Total	$ 1,423,510	$ 3,967,267	$ 5,390,777
Percent of total deposits	11.2%	31.3%	42.5%

The following table displays time deposits with a remaining term of more than one year at December 31, 2017:

Maturities of Time Deposits with a Remaining Term of More Than One Year for Each of the Five Years Following December 31, 2017

	(In thousands)
2019	$ 532,188
2020	133,824
2021	73
2022	592
2023	11

Borrowings

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

Securities sold under agreements to repurchase were $100.0 million with a weighted average rate of 2.86% at December 31, 2017, compared to $350.0 million with a weighted average rate of 4.06% at December 31, 2016. As of December 31, 2017, two fixed rate non-callable securities sold under agreements to repurchase totaled $100 million with a weighted average rate of 2.86%, compared to three fixed rate non-callable securities sold under agreements to repurchase totaling $150 million with a weighted average rate of 2.81% as of December 31, 2016. Final maturity for the two fixed rate non-callable securities sold under agreements to repurchase is $50.0 million in June 2018 and $50.0 million in July 2018.

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 $108.4 million as of December 31, 2017, and $372.0 million as of December 31, 2016.

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

	2017	2016	2015
		(Dollars in thousands)	
Average amount outstanding during the year [1]	$ 136,849	$ 381,967	$ 400,822
Maximum amount outstanding at month-end [2]	150,000	400,000	400,000
Balance, December 31	100,000	350,000	400,000
Rate, December 31	2.86%	4.06%	3.89%
Weighted average interest rate for the year	3.11%	4.01%	3.95%

(1) Average balances were computed using daily averages.
(2) Highest month-end balances were January 2017, January 2016, and January 2015.

As of December 31, 2017, over-night borrowings from the FHLB were $325.0 million at a rate of 1.41% compared to $275.0 million at a rate of 0.55% at December 31, 2016. As of December 31, 2017, the advances from the FHLB were $105 million at a rate of 1.41% compared to $75 million at a rate of 1.48% as of December 31, 2016. As of December 31, 2017, final maturity for the FHLB advances is $30 million in March 2018, $15 million in April 2018, $5 million in July 2018, and $5 million in October 2018, and $50 million in December 2019.

Pursuant to the Stock Purchase Agreement with Bank SinoPac Co. Ltd, the Company paid $100 million of the purchase price on November 14, 2017, 30 days after receipt of regulatory approval for the merger of FENB into Cathay Bank. The residual payable balance of $35.2 million has a floating rate of three-month LIBOR rate plus 150 basis points. As of December 31, 2017, outstanding payable balance of $35.2 million is accruing interest at a rate of 2.8% of which 50%, 30%, and 20% will be disbursed annually over three years on the anniversary dates, respectively.

Long-term Debt

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

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

At December 31, 2017, Junior Subordinated Notes totaled $119.1 million with a weighted average interest rate of 3.78%, compared to $119.1 million with a weighted average rate of 3.15% at December 31, 2016. The Junior Subordinated Notes have a stated maturity term of 30 years. As of December 31, 2017, the Company's assets grew past the $15 billion threshold which no longer qualifies the Junior Subordinated Notes as Tier 1 capital for regulatory reporting purposes. The Junior Subordinated Notes qualify as Tier 1 capital for regulatory reporting purposes at December 31, 2016 and 2015. The trusts are not consolidated with the Company in accordance with an accounting pronouncement that took effect in December 2003.

Off-Balance-Sheet Arrangements, Commitments, Guarantees, and Contractual Obligations

The following table summarizes our contractual obligations and commitments to make future payments as of December 31, 2017. Payments for deposits and borrowings do not include interest. Payments related to leases are based on actual payments specified in the underlying contracts. Loan commitments and standby letters of credit are presented at contractual amounts; however, since many of these commitments are expected to expire unused or only partially used, the total amounts of these commitments do not necessarily reflect future cash requirements.

	Payment Due by Period				
	1 year or less	More than 1 year but less than 3 years	3 years or more but less than 5 years	5 years or more	Total
			(In thousands)		
Contractual obligations:					
Securities sold under agreements to repurchase	$ 100,000	$ -	$ -	$ -	$ 100,000
Advances from the Federal Home Loan Bank	380,000	50,000	-	-	430,000
Other borrowings	17,702	17,702	-	17,481	52,885
Long-term debt	4,688	70,312	-	119,136	194,136
Operating leases	10,076	13,559	9,008	7,463	40,106
Deposits with stated maturity dates leases	4,724,089	666,012	665	11	5,390,777
Total contractual obligations and other commitments	$ 5,236,555	$ 817,585	$ 9,673	$ 144,091	$ 6,207,904
Other commitments:					
Commitments to extend credit	1,142,839	864,810	151,201	207,518	2,366,368
Standby letters of credit	51,984	14,124	74,247	459	140,814
Commercial letters of credit	27,353	-	-	-	27,353
Bill of lading guarantees	24	-	-	-	24
Total contractual obligations and other commitments	$ 1,222,200	$ 878,934	$ 225,448	$ 207,977	$ 2,534,559

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

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

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

Capital Resources

Stockholders' Equity

Total equity was $1.97 billion at December 31, 2017, an increase of $144.8 million, or 7.9%, from $1.83 billion at December 31, 2016, primarily due to net income of $176.0 million, equity consideration for our acquisition of SinoPac Bancorp of $34.9 million, proceeds from dividend reinvestment of $2.5 million, proceeds from exercise of stock options of $1.1 million, and other comprehensive income of $1.2 million, offset by shares withheld related to net share settlement of RSUs of $6.8 million and common stock cash dividends of $69.9 million. The Company paid cash dividends of $0.87 per common share in 2017, $0.75 per common share in 2016, and $0.56 per common share in 2015.

The U.S. Treasury received warrants to purchase common stock of 1,846,374 shares at an exercise price of $20.96, which will expire on December 5, 2018, as part of the Company's participation in the U.S. Treasury Troubled Asset Relief Program Capital Purchase Program. As a result of the anti-dilution adjustments under the warrant, the exercise price at December 31, 2017, has been adjusted to $20.41 and the number of warrants increased by 1.03%. At December 31, 2017, 943,327 warrants remain exercisable compared to 943,345 warrants at December 31, 2016.

In August 2015, the Company resumed stock repurchases under the November 2007 repurchase program and repurchased the remaining 622,500 shares for $18.1 million, or an average price of $29.08 per share. Also, in August 2015, the Board of Directors approved a stock repurchase program for the Company to buy back up to two million shares of our common stock, and 1,366,750 shares were repurchased during 2015. In January and February of 2016, the Company repurchased the remaining 633,250 shares under the August 2015 repurchase program for $17.0 million, or an average price of $26.82 per share.

On February 1, 2016, the Board of Directors approved a new stock repurchase program to buy back up to $45.0 million of our common stock. In 2016, the Company repurchased 1,380,578 shares for $37.5 million, or $27.13 per share under the February 2016 repurchase program. As of December 31, 2017, the Company may repurchase up to $7.5 million of its common stock under the February 2016 repurchase program.

Capital Adequacy

Management seeks to retain our capital at a level sufficient to support future growth, protect depositors and stockholders, and comply with various regulatory requirements. The primary measure of capital adequacy is based on the ratio of risk-based capital to risk-weighted assets. At December 31, 2017, the Company's common equity Tier 1 capital ratio of 12.19%, Tier 1 risk-based capital ratio of 12.19%, total risk-based capital ratio of 14.11%, and Tier 1 leverage capital ratio of 10.35%, calculated under the new Basel III capital rules that became effective January 1, 2015, continue to place the Company in the "well capitalized" category for regulatory purposes, which is defined as institutions with 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, 2016, the Company's common equity Tier 1 capital ratio was 12.84%, Tier 1 risk-based capital ratio was 13.85%, total risk-based capital ratio was 14.97%, and Tier 1 leverage capital ratio was 11.57%.

A table displaying the Bancorp's and the Bank's capital and leverage ratios at December 31, 2017, and 2016, is included in Note 21 to the Consolidated Financial Statements.

Dividend Policy

Holders of common stock are entitled to dividends as and when declared by our Board of Directors out of funds legally available for the payment of dividends. Although we have historically paid cash dividends on our common stock, we are not required to do so. We increased the common stock dividend from $.18 per share in the fourth quarter of 2015, to $.21 per share in the fourth quarter of 2016, and to $.24 per share in the fourth quarter of 2017. The amount of future dividends will depend on our earnings, financial condition, capital requirements and other factors, and will be determined by our Board of Directors. The terms of our Junior Subordinated Notes also limit our ability to pay dividends. If we are not current in our payment of dividends on our Junior Subordinated Notes, we may not pay dividends on our common stock.

Substantially all of the revenues of the Company available for payment of dividends derive from amounts paid to it by the Bank. The Bank paid dividends to the Bancorp totaling $208.2 million during 2017, $113.4 million during 2016, and $163.3 million during 2015. In October 2017, Far East National Bank paid a dividend of $57.0 million to the Bancorp.

The Federal Reserve Board issued Federal Reserve Supervision and Regulation Letter SR-09-4 that states that bank holding companies are expected to inform and consult with the Federal Reserve supervisory staff prior to declaring and paying a dividend that exceeds earnings for the period for which the dividend is being paid.

Under California State banking law, the Bank may not without regulatory approval pay a cash dividend which 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, 2017, was restricted to approximately $39.3 million.

Risk Elements of the Loan Portfolio

Non-performing Assets

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

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

Total non-performing portfolio assets decreased $11.5 million, or 16.5%, to $58.2 million at December 31, 2017, compared to $69.8 million at December 31, 2016, primarily due to a $10.6 million decrease in OREO and a $0.9 million decrease in non-accrual loans.

As a percentage of gross loans, excluding loans held for sale, plus OREO, our non-performing assets decreased to 0.45% at December 31, 2017, from 0.62% at December 31, 2016. The non-performing portfolio loan, excluding loans held for sale, coverage ratio, defined as the allowance for credit losses to non-performing loans, excluding loans held for sale, decreased to 262.1% at December 31, 2017, from 245.9% at December 31, 2016. The following table presents the breakdown of total non-accrual, past due, and restructured loans for the past five years:

Non-accrual, Past Due and Restructured Loans

	As of December 31,				
	2017	**2016**	**2015**	**2014**	**2013**
	(Dollars in thousands)				
Accruing loans past due 90 days or more	$ -	$ -	$ -	$ -	$ 982
Non-accrual loans	48,787	49,682	52,130	70,163	83,183
Total non-performing loans	48,787	49,682	52,130	70,163	84,165
Real estate acquired in foreclosure and other assets	9,442	20,070	24,701	31,477	52,985
Total non-performing assets	$ 58,229	$ 69,752	$ 76,831	$ 101,640	$ 137,150
Accruing troubled debt restructurings (TDRs)	$ 68,565	$ 65,393	$ 81,680	$ 104,356	$ 117,597
Non-accrual TDRs (included in non-accrual loans	$ 33,416	$ 29,722	$ 39,923	$ 41,618	$ 38,769
Non-accrual loans held for sale	$ 8,000	$ 7,500	$ 5,944	$ 973	$ -
Non-performing assets as a percentage of gross loans and OREO at year-end	0.45%	0.62%	0.75%	1.14%	1.69%
Allowance for credit losses as a percentage of gross loans	0.99%	1.09%	1.38%	1.83%	2.17%
Allowance for credit losses as a percentage of non-performing loans	262.09%	245.94%	269.44%	232.84%	208.22%

The effect of non-accrual loans on interest income for the past five years is presented below:

	Year Ended December 31,				
	2017	**2016**	**2015**	**2014**	**2013**
	(In thousands)				
Non-accrual Loans					
Contractual interest due	$ 3,254	$ 1,573	$ 5,732	$ 6,663	$ 5,851
Interest recognized	86	95	119	217	22
Net interest foregone	$ 3,168	$ 1,478	$ 5,613	$ 6,446	$ 5,829

As of December 31, 2017, there were no commitments to lend additional funds to those borrowers whose loans had been restructured, were considered impaired, or were on non-accrual status.

Non-accrual Loans

Total non-accrual portfolio loans, excluding loans held for sale, of $48.8 million at December 31, 2017, decreased $0.9 million, or 1.8%, from $49.7 million at December 31, 2016. The allowance for the collateral-dependent impaired loans is calculated by the difference between the outstanding loan balance and the value of the collateral as determined by recent appraisals, sales contracts, or other available market price information. The allowance for collateral-dependent impaired loans varies from loan to loan based on the collateral coverage of the loan at the time of designation as non-performing. We continue to monitor the collateral coverage, based on recent appraisals, on these loans on a quarterly basis and adjust the allowance accordingly.

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

	December 31, 2017		December 31, 2016	
	Real Estate (1)	Commercial	Real Estate (1)	Commercial
	(In thousands)			
Type of Collateral				
Single/Multi-family residence	$ 14,952	$ 7,575	$ 9,368	$ 218
Commercial real estate	19,540	-	24,321	-
Land	-	-	283	-
Personal property (UCC)	-	6,721	-	15,492
Total	$ 34,492	$ 14,296	$ 33,972	$ 15,710

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

	December 31, 2017		December 31, 2016	
	Real Estate (1)	Commercial	Real Estate (1)	Commercial
	(In thousands)			
Type of Business				
Real estate development	$ 16,672	$ -	$ 13,804	$ -
Wholesale/Retail	11,429	7,743	12,312	9,213
Food/Restaurant	137	-	153	-
Import/Export	-	6,553	-	6,174
Other	6,254	-	7,703	323
Total	$ 34,492	$ 14,296	$ 33,972	$ 15,710

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

Troubled Debt Restructurings

A troubled debt restructuring (“TDR”) is a formal modification of the terms of a loan when the Bank, for economic or legal reasons related to the borrower’s financial difficulties, grants a concession to the borrower. The concessions may be granted in various forms, including reduction of the stated interest rate, reduction of the amount of principal amortization, forgiveness of a portion of a loan balance or accrued interest, or an extension of the maturity date. Although these loan modifications are considered under ASC Subtopic 310-40 to be TDRs, the loans must have, pursuant to the Bank’s policy, performed under the restructured terms and have demonstrated sustained performance under the modified terms for six months before being returned to accrual status. The sustained performance considered by management pursuant to its policy includes the periods prior to the modification if the prior performance met or exceeded the modified terms. This would include cash paid by the borrower prior to the restructure to set up interest reserves.

A summary of TDRs by type of loan and by accrual/non-accrual status is shown below:

Accruing TDRs	December 31, 2017			
	Payment Deferral	Rate Reduction	Rate Reduction and Payment Deferral	Total
	(In thousands)			
Commercial loans	$ 29,199	$ -	$ -	$ 29,199
Commercial mortgage loans	11,504	5,871	15,468	32,843
Residential mortgage loans	3,416	335	2,772	6,523
Total accruing TDRs	$ 44,119	$ 6,206	$ 18,240	$ 68,565

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

Accruing TDRs	December 31, 2016			
	Payment Deferral	Rate Reduction	Rate Reduction and Payment Deferral	Total
	(In thousands)			
Commercial loans	$ 7,971	$ -	$ 4,081	$ 12,052
Commercial mortgage loans	25,979	5,961	12,452	44,392
Residential mortgage loans	5,104	789	3,056	8,949
Total accruing TDRs	$ 39,054	$ 6,750	$ 19,589	$ 65,393

Non-accrual TDRs	December 31, 2016			
	Payment Deferral	Rate Reduction	Rate Reduction and Payment Deferral	Total
	(In thousands)			
Commercial loans	$ 14,565	$ -	$ -	$ 14,565
Commercial mortgage loans	2,510	1,795	10,328	14,633
Residential mortgage loans	356	-	168	524
Total non-accrual TDRs	$ 17,431	$ 1,795	$ 10,496	$ 29,722

The activity within our TDR loans for 2017, 2016, and 2015 is shown below:

Accruing TDRs	2017	2016	2015
		(In thousands)	
Beginning balance	$ 65,393	$ 81,680	$ 104,356
New restructurings	73,426	26,965	17,752
Restructured loans restored to accrual status	-	10,303	723
Charge-offs	-	(88)	(104)
Payments	(54,095)	(24,192)	(30,858)
Restructured loans placed on non-accrual	(13,919)	(13,984)	(10,189)
Expiration of loan concession	(2,240)	(15,291)	-
Ending balance	$ 68,565	$ 65,393	$ 81,680

Non-accrual TDRs	2017	2016	2015
		(In thousands)	
Beginning balance	$ 29,722	$ 39,923	$ 41,618
New restructurings	4,009	6,940	2,006
Restructured loans placed on non-accrual	13,919	13,984	10,189
Charge-offs	(1,650)	(5,271)	(3,246)
Payments	(11,341)	(15,551)	(9,921)
Foreclosures	(1,243)	-	-
Restructured loans restored to accrual status	-	(10,303)	(723)
Ending balance	$ 33,416	$ 29,722	$ 39,923

Impaired Loans

A loan is considered impaired when it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement based on current circumstances and events. The assessment for impairment occurs when and while such loans are on non-accrual as a result of delinquency of over 90 days or receipt of information indicating that full collection of principal is doubtful, or when the loan has been restructured in a troubled debt restructuring. Those loans with a balance less than our defined selection criteria, generally when a loan amount is $500,000 or less, are treated as a homogeneous portfolio. If loans meeting the defined criteria are not collateral dependent, we measure the impairment based on the present value of the expected future cash flows discounted at the loan's effective interest rate. If loans meeting the defined criteria are collateral dependent, we measure the impairment by using the loan's observable market price or the fair value of the collateral. We obtain an appraisal to determine the amount of impairment at the date that the loan becomes impaired. The appraisals are based on "as is" or bulk sale valuations. To ensure that appraised values remain current, we generally obtain an updated appraisal every twelve months from qualified independent appraisers. If the fair value of the collateral is less than the recorded amount of the loan, we then recognize impairment by creating or adjusting an existing valuation allowance with a corresponding charge to the provision for loan losses. If an impaired loan is expected to be collected through liquidation of the collateral, the amount of impairment, excluding disposal costs, which range between 3% to 6% of the fair value, depending on the size of impaired loan, is charged off against the allowance for loan losses. Non-accrual impaired loans are not returned to accruing status unless the unpaid interest has been brought current and full repayment of the recorded balance is expected or if the borrower has made six consecutive monthly payments of the scheduled amounts due, and are continued to be reviewed for impairment until they are no longer reported as TDRs.

We identified impaired loans with a recorded investment of $117.4 million at December 31, 2017, compared to $115.1 million at December 31, 2016. The average balance of impaired loans was $127.1 million in 2017 and $131.0 million in 2016. We considered all non-accrual loans to be impaired. Interest recognized on impaired loans totaled $3.3 million in 2017 and $3.5 million in 2016. As of December 31, 2017, $34.5 million, or 70.7%, of the $48.8 million of non-accrual portfolio loans, excluding loans held for sale, was secured by real estate. As of December 31, 2016, $34.0 million, or 68.4%, of the $49.7 million of non-accrual portfolio loans, excluding loans held for sale, was secured by real estate. The Bank obtains current appraisals or other available market price information to assist in evaluating potential loss exposure.

At December 31, 2017, $2.1 million of the $123.3 million allowance for loan losses was allocated for impaired loans and $121.1 million was allocated to the general allowance. At December 31, 2016, $2.8 million of the $119.0 million allowance for loan losses was allocated for impaired loans and $116.2 million was allocated to the general allowance. In 2017, net loan recoveries were $6.8 million, or 0.06%, of average loans, compared to net loan charge-offs of $4.3 million, or 0.04%, of average loans in 2016.

The allowance for loan losses to non-performing loans, excluding loans held for sale, was 252.7% at December 31, 2017, compared to 239.5% at December 31, 2016. Non-accrual loans also include those TDRs that do not qualify for accrual status.

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

	Impaired Loans					
	As of December 31, 2017			As of December 31, 2016		
	Unpaid Principal Balance	Recorded Investment	Allowance	Unpaid Principal Balance	Recorded Investment	Allowance
	(In thousands)					
With no allocated allowance						
Commercial loans	$ 43,483	$ 42,702	$ -	$ 24,037	$ 23,121	$ -
Real estate construction loans	8,821	8,185	-	5,776	5,458	-
Commercial mortgage loans	37,825	31,029	-	60,522	54,453	-
Residential mortgage and equity lines	1,301	1,301	-	5,472	5,310	-
Subtotal	$ 91,430	$ 83,217	$ -	$ 95,807	$ 88,342	$ -
With allocated allowance						
Commercial loans	$ 891	$ 793	$ 43	$ 5,216	$ 4,640	$ 1,827
Commercial mortgage loans	21,733	21,635	1,738	10,158	10,017	573
Residential mortgage and equity lines	13,022	11,708	353	13,263	12,075	396
Subtotal	$ 35,646	$ 34,136	$ 2,134	$ 28,637	$ 26,732	$ 2,796
Total impaired loans	$ 127,076	$ 117,353	$ 2,134	$ 124,444	$ 115,074	$ 2,796

Loan Interest Reserves

In accordance with customary banking practice, construction loans and land development loans are originated where interest on the loan is disbursed from pre-established interest reserves included in the total original loan commitment. Our construction and land development loans generally include optional renewal terms after the maturity of the initial loan term. New appraisals are typically obtained prior to extension or renewal of these loans in part to determine the appropriate interest reserve to be established for the new loan term. Loans with interest reserves are underwritten to the same criteria, including loan to value and, if applicable, pro forma debt service coverage ratios, as loans without interest reserves. Construction loans with interest reserves are monitored on a periodic basis to gauge progress towards completion. Interest reserves are frozen if it is determined that additional draws would result in a loan to value ratio that exceeds policy maximums based on collateral type. Our policy limits in this regard are consistent with supervisory limits and range from 65% in the case of land to 85% in the case of 1- to 4-family residential construction projects.

As of December 31, 2017, construction loans of $545.0 million were disbursed with pre-established interest reserves of $72.3 million compared to $500.2 million of such loans disbursed with pre-established interest reserves of $58.9 million at December 31, 2016. The balance for construction loans with interest reserves which have been renewed was $62.1 million with pre-established interest reserves of $2.0 million at December 31, 2017, compared to $113.1 million with pre-established interest reserves of $2.1 million at December 31, 2016. Land loans of $32.7 million were disbursed with pre-established interest reserves of $1.3 million at December 31, 2017, compared to $51.3 million land loans disbursed with pre-established interest reserves of $1.0 at December 31, 2016. The balance for land loans with interest reserves which have been renewed was $6.9 million at December 31, 2017 with pre-established interest reserves of $221,000, compared to $2.0 million land loans with pre-established interest reserves of $40,000 at December 31, 2016.

At December 31, 2017, the Bank had no loans on non-accrual status with available interest reserves. At December 31, 2017, $8.2 million non-accrual non-residential construction loans and $8.0 million of non-accrual land loans had been originated with pre-established interest reserves. At December 31, 2016, $5.5 million of non-accrual non-residential construction loans and $7.8 million of non-accrual land loans had been originated with pre-established interest reserves. While loans with interest reserves are typically expected to be repaid in full according to the original contractual terms, some loans require one or more extensions beyond the original maturity. Typically, these extensions are required due to construction delays, delays in the sale or lease of property, or some combination of these two factors.

Loan Concentration

Most of our business activity is with customers located in the predominantly Asian areas of California; New York City; Dallas and Houston, Texas; Seattle, Washington; Boston, Massachusetts; Chicago, Illinois; Nevada; New Jersey; and Maryland. We have no specific industry concentration, and generally our loans are collateralized with real property or other pledged collateral. 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. We experienced no loan concentrations to multiple borrowers in similar activities that exceeded 10% of total loans as of December 31, 2017.

The Federal banking regulatory agencies issued final guidance on December 6, 2006, regarding risk management practices for financial institutions with high or increasing concentrations of commercial real estate ("CRE") loans on their balance sheets. The regulatory guidance reiterates the need for sound internal risk management practices for those institutions that have experienced rapid growth in CRE lending, have notable exposure to specific types of CRE, or are approaching or exceeding the supervisory criteria used to evaluate the CRE concentration risk, but the guidance is not to be construed as a limit for CRE exposure. The supervisory criteria are: (1) total reported loans for construction, land development, and other land represent 100% of the institution's total risk-based capital, and (2) both total CRE loans represent 300% or more of the institution's total risk-based capital and the institution's CRE loan portfolio has increased 50% or more within the last thirty-six months. The Bank’s loans for construction, land development, and other land represented 41% of total risk-based capital as of December 31, 2017, and 40% as of December 31, 2016. Total CRE loans represented 293% of total risk-based capital as of December 31, 2017, and 300% as of December 31, 2016, which were within the Bank’s internal limit of 400%, of total capital. See Part I — Item 1A — “Risk Factors” for a discussion of some of the factors that may affect us.

Allowance for Credit Losses

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

In addition, the Board of Directors of the Bank has established a written credit policy that includes a credit review and control system that it believes should be effective in ensuring that the Bank maintains an appropriate allowance for credit losses. The Board of Directors provides oversight for the allowance evaluation process, including quarterly evaluations, and determines whether the allowance is appropriate to absorb losses in the credit portfolio. The determination of the amount of the allowance for credit losses and the provision for credit losses is based on management's current judgment about the credit quality of the loan portfolio and takes into consideration known relevant internal and external factors that affect collectability when determining the appropriate level for the allowance for credit losses. The nature of the process by which the Bank determines the appropriate allowance for credit losses requires the exercise of considerable judgment. Additions or reductions to the allowance for credit losses are made by charges or credits to the provision for credit losses. Identified credit exposures that are determined to be uncollectible are charged against the allowance for credit losses. Recoveries of previously charged off amounts, if any, are credited to the allowance for credit losses. A weakening of the economy or other factors that adversely affect asset quality can result in an increase in the number of delinquencies, bankruptcies, and defaults, and a higher level of non-performing assets, net charge-offs, and provision for loan losses. See Part I — Item 1A — "Risk Factors" for additional factors that could cause actual results to differ materially from forward-looking statements or historical performance.

The allowance for loan losses was $123.3 million and the allowance for off-balance sheet unfunded credit commitments was $4.6 million at December 31, 2017, which represented the amount believed by management to be appropriate to absorb credit losses inherent in the loan portfolio. The allowance for credit losses, which is the sum of the allowances for loan losses and for off-balance sheet unfunded credit commitments, was $127.9 million at December 31, 2017, compared to $122.2 million at December 31, 2016, an increase of $5.7 million, or 4.6%. The allowance for credit losses represented 0.99% of period-end gross loans and 262.1% of non-performing loans at December 31, 2017. The comparable ratios were 1.09% of period-end gross loans and 245.9% of non-performing loans at December 31, 2016.

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

Allowance for Credit Losses

	Amount Outstanding as of December 31,				
	2017	2016	2015	2014	2013
	(Dollars in thousands)				
Allowance for loan losses					
Balance at beginning of year	$ 118,966	$ 138,963	$ 161,420	$ 173,889	$ 183,322
Reversal for credit losses	(2,500)	(15,650)	(11,400)	(10,800)	(3,000)
(Reversal)/provision for reserve for off-balance sheet credit commitments	-	-	-	(372)	-
Charge-offs :					
Commercial loans	(3,313)	(12,955)	(16,426)	(7,875)	(15,625)
Construction loans-residential	-	-	-	(2,382)	-
Construction loans-other	-	-	-	(4,365)	-
Real estate loans	(860)	(1,486)	(3,355)	(7,613)	(3,499)
Real estate land loans	-	(4,462)	(646)	-	(1,318)
Total charge-offs	(4,173)	(18,903)	(20,427)	(22,235)	(20,442)
Recoveries:					
Commercial loans	3,402	4,144	4,619	12,517	2,739
Construction loans-residential	-	500	-	48	1,201
Construction loans-other	229	7,417	202	2,499	1,083
Real estate loans	7,336	1,542	4,283	5,752	5,978
Real estate land loans	-	953	266	109	2,997
Installment loans and other loans	19	-	-	13	11
Total recoveries	10,986	14,556	9,370	20,938	14,009
Balance at end of year	$ 123,279	$ 118,966	$ 138,963	$ 161,420	$ 173,889
Reserve for off-balance sheet credit commitments					
Balance at beginning of year	$ 3,224	$ 1,494	$ 1,949	$ 1,363	$ 1,363
Provision/(Reversal) for credit losses	1,364	1,730	(455)	586	-
Balance at end of year	$ 4,588	$ 3,224	$ 1,494	$ 1,949	$ 1,363
Average loans outstanding during the year (1)	$ 11,936,389	$ 10,620,819	$ 9,593,448	$ 8,532,245	$ 7,630,530
Ratio of net charge-offs to average loans outstanding during the year (1)	-0.06%	0.04%	0.12%	0.02%	0.08%
(Reversal)/provision for credit losses to average loans outstanding during the year (1)	-0.02%	-0.15%	-0.12%	-0.13%	-0.04%
Allowance for credit losses to non-performing portfolio loans at year-end (2)	262.09%	245.94%	269.44%	232.84%	208.22%
Allowance for credit losses to gross loans at year-end (1)	0.99%	1.09%	1.38%	1.83%	2.17%

(1) Excluding loans held for sale
(2) Excluding non-accrual loans held for sale

Our allowance for loan losses consists of the following:

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

- General allowance: The unclassified portfolio is segmented on a group basis. Segmentation is determined by loan type and common risk characteristics. The non-impaired loans are grouped into 19 segments: two commercial segments, ten commercial real estate segments, one residential construction segment, one non-residential construction segment, one SBA segment, one installment loans segment, one residential mortgage segment, one equity lines of credit segment, and one overdrafts segment. The allowance is provided for each segmented group based on the group's historical loan loss experience aggregated based on loan risk classifications which take into account the current financial condition of the borrowers and guarantors, the prevailing value of the underlying collateral if collateral dependent, charge-off history, management's knowledge of the portfolio, general economic conditions, environmental factors including the trends in delinquency and non-accrual, and other significant factors, such as the national and local economy, volume and composition of the portfolio, strength of management and loan staff, underwriting standards, and concentration of credit. In addition, management reviews reports on past-due loans to ensure appropriate classification. In the third quarter of 2014, management reevaluated the look-back period and restored the five year look-back period in order to capture a sufficient history of loss data. Additionally, risk factor calculations for pass rated loans included a specified loss emergence period and were determined based on five-year average of observed net losses, unless trends would indicate that a different weighting would be appropriate. In the fourth quarter of 2016, management reevaluated the look back period and increase the period from five to eight years to capture additional history that would incorporate the losses from the last recession. In light of the changes above, the relevant environmental factors were reduced. These refinements maintained the Bank's allowance at a level consistent with the prior quarter.

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

Allocation of Allowance for Loan Losses
As of December 31,

	2017		2016		2015		2014		2013	
	Amount	Percentage of Loans in Each Category to Average Gross Loans	Amount	Percentage of Loans in Each Category to Average Gross Loans	Amount	Percentage of Loans in Each Category to Average Gross Loans	Amount	Percentage of Loans in Each Category to Average Gross Loans	Amount	Percentage of Loans in Each Category to Average Gross Loans
	(Dollars in thousands)									
Type of Loans:										
Commercial loans	$ 49,796	19.1%	$ 49,203	21.1%	$ 56,199	24.9%	$ 47,501	27.2%	$ 65,103	28.2%
Residential mortgage loans and equity lines	11,013	24.5	11,620	22.0	11,145	19.7	11,578	19.2	12,005	18.6
Commercial mortgage loans	37,610	51.2	34,864	52.2	49,440	51.5	74,673	50.2	84,753	50.7
Real estate construction loans	24,838	5.2	23,268	4.7	22,170	3.9	27,652	3.2	11,999	2.3
Installment and other loans	22	0.0	11	0.0	9	0.0	16	0.2	29	0.2
Total	$ 123,279	100.0%	$ 118,966	100.0%	$ 138,963	100.0%	$ 161,420	100.0%	$ 173,889	100.0%

The allowance allocated to commercial loans was $49.8 million at December 31, 2017, compared to $49.2 million at December 31, 2016. The increase is due primarily to commercial loan growth.

The allowance allocated to residential mortgage loans and equity lines was $11.0 million at December 31, 2017, compared to $11.6 million at December 31, 2016 as a result of the decrease in the amount of general allowance determined to be required for residential mortgage loans.

The allowance allocated to commercial mortgage loans increased from $34.9 million at December 31, 2016, to $37.6 million at December 31, 2017, as a result of the increase in the amount of general allowance determined to be required for commercial mortgage loans.

The allowance allocated for construction loans increased to $24.8 million at December 31, 2017, compared to $23.3 million at December 31, 2016, as a result of the increase in the amount of general allowance determined to be required for construction loans.

Also, see Part I — Item 1A — "Risk Factors" for additional factors that could cause actual results to differ materially from forward-looking statements or historical performance.

Liquidity

Liquidity is our ability to maintain sufficient cash flow to meet maturing financial obligations and customer credit needs, and to take advantage of investment opportunities as they are presented in the marketplace. Our principal sources of liquidity are growth in deposits, proceeds from the maturity or sale of securities and other financial instruments, repayments from securities and loans, Federal funds purchased, securities sold under agreements to repurchase, and advances from the FHLB. For December 2017, our average monthly liquidity ratio (defined as net cash plus short-term and marketable securities to net deposits and short-term liabilities) was 12.1% compared to 12.6% for December 2016.

The Bank is a shareholder of the FHLB, which enables the Bank to have access to lower-cost FHLB financing when necessary. At December 31, 2017, the Bank had an approved credit line with the FHLB of San Francisco totaling $5.7 billion. Total advances from the FHLB of San Francisco were $430.0 million and standby letter of credits issued by FHLB on the Company's behalf were $100.7 million as of December 31, 2017. These borrowings bear fixed rates and are secured by loans. See Note 9 to the Consolidated Financial Statements. At December 31, 2017, the Bank pledged $36.1 million of its commercial loans to the Federal Reserve Bank's Discount Window under the Borrower-in-Custody program. The Bank had borrowing capacity of $36.0 million from the Federal Reserve Bank Discount Window at December 31, 2017.

Liquidity can also be provided through the sale of liquid assets, which consist of federal funds sold, securities purchased under agreements to resell, and securities available-for-sale. At December 31, 2017, investment securities totaled $1.3 billion, with $272.2 million pledged as collateral for borrowings and other commitments. The remaining $1.1 billion was available as additional liquidity or to be pledged as collateral for additional borrowings.

Approximately 88% of our time deposits mature within one year or less as of December 31, 2017. Management anticipates that there may be some outflow of these deposits upon maturity due to the keen competition in the Bank's marketplace. However, based on our historical runoff experience, we expect the outflow will not be significant and can be replenished through our normal growth in deposits. Management believes all the above-mentioned sources will provide adequate liquidity during the next twelve months for the Bank to meet its operating needs.

The business activities of the Bancorp consist primarily of the operation of the Bank and limited activities in other investments. The Bancorp obtains funding for its activities primarily through dividend income contributed by the Bank, proceeds from the issuance of the Bancorp common stock through our Dividend Reinvestment Plan and the exercise of stock options. Dividends paid to the Bancorp by the Bank are subject to regulatory limitations. Management believes the Bancorp's liquidity generated from its prevailing sources is sufficient to meet its operational needs.

Also, see Note 13 to the Consolidated Financial Statements regarding commitments and contingencies.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The new guidance replaces existing revenue recognition guidance for contracts to provide goods or services to customers and amends existing guidance related to recognition of gains and losses on the sale of certain nonfinancial assets such as real estate. ASU 2014-09 clarifies the principles for recognizing revenue and replaces nearly all existing revenue recognition guidance in U.S. GAAP. Quantitative and qualitative disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers are also required. ASU 2014-09 as amended by ASU 2015-14, ASU 2016-08, ASU 2016-10 and ASU 2016-12, is effective for interim and annual periods beginning after December 15, 2017 and is applied on either a modified retrospective or full retrospective basis. Our revenue is primarily comprised of net interest income on financial assets and financial liabilities, which is explicitly excluded from the scope of ASU 2014-09, and non-interest income. We expect that ASU 2014-09 will require us to change how we recognize certain recurring revenue streams for certain fee income products, however, we expect these changes will not have a material impact on our financial statements. The Company adopted this guidance on January 1, 2018. The adoption impacts certain revenue streams, which did not have a material impact on our financial statements.

In January 2016, the FASB issued ASU 2016-01, "*Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*." This update requires an entity to measure equity investments with readily determinable fair values at fair value with changes in fair value recognized in net income. Equity investment without readily determinable fair values will be measured at fair value either upon the occurrence of an observable price change or upon identification of an impairment and any amount by which the carrying value exceeding the fair value will be recognized as an impairment in net income. This update also requires an entity to disclose fair value of financial instruments measured at amortized cost on the balance sheet to measure that fair value using the exit price option. In addition, this update requires separate presentation in comprehensive income for changes in the fair value of a liability and in the balance sheet by measurement category and form of financial asset. ASU 2016-01 becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of the amendment resulted in approximately $8.7 million being reclassified from accumulated other comprehensive income to retained earnings, representing an increase to retained earnings as of January 1, 2018.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which is intended to increase transparency and comparability in the accounting for lease transactions. ASU 2016-02 requires lessees to recognize all leases longer than twelve months on the Consolidated Balance Sheet as lease assets and lease liabilities and quantitative and qualitative disclosures regarding key information about leasing arrangements. Lessor accounting is largely unchanged. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years with an option to early adopt. ASU 2016-02 mandates a modified retrospective transition method for all entities. The Company is evaluating the impact of ASU 2016-02 and has determined that the majority of our leases are operating leases. We expect, upon adoption, the Company will record a liability for the remaining obligation under the lease agreements and a corresponding right-of-use asset in the consolidated financial statements. ASU 2016-02 will be effective for us on January 1, 2019 and will require transition using a modified retrospective approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements.

In March 2016, the FASB issued ASU 2016-06, "*Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments*." This update requires an entity to perform a four-step decision sequence when assessing whether contingent call or put options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. The four-step decision sequence is: (i) the payoff is adjusted based on changes in an index; (ii) the payoff is indexed to an underlying other than interest rates or credit risk; (iii) the debt involves a substantial premium or discount; and the call or put option is contingently exercisable. ASU 2016-06 became effective for interim and annual periods beginning after December 15, 2016 and must be implemented using a modified retrospective basis. Early adoption is permitted. The adoption of this guidance did not have a material impact on the Consolidated Financial Statements.

In March 2016, the FASB issued ASU 2016-07, "Investments Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting." This update eliminates the requirement to retroactively adopt the equity method of accounting. It requires that an equity method investor add the cost of acquiring the additional interest to the current basis of the previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The retroactive adjustment of the investment is no longer required. ASU 2016-07 became effective for interim and annual periods beginning after December 15, 2016 and should be applied prospectively. Early adoption is not permitted. The adoption of this guidance will not have a material impact on the Consolidated Financial Statements.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 will be effective on January 1, 2020. We are currently evaluating the potential impact of ASU 2016-13 on our financial statements. In that regard, we have formed a cross-functional working group, under the direction of our Chief Risk Officer. We are currently developing an implementation plan to include assessment of processes, portfolio segmentation, model development, system requirements and the identification of data and resource needs, among other things. The adoption of ASU 2016-13 is likely to result in an increase in the allowance for loan losses as a result of changing from an "incurred loss" model, which encompasses allowances for current known and inherent losses within the portfolio, to an "expected loss" model, which encompasses allowances for losses expected to be incurred over the life of the portfolio. While we are currently unable to reasonably estimate the impact of adopting ASU 2016-13, we expect that the impact of adoption will be significantly influenced by the composition, characteristics and quality of our loan portfolio as well as the prevailing economic conditions and forecasts as of the adoption date.

In August 2016, the FASB issued ASU 2016-15, "*Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments.*" This update provides guidance on eight cash flow issues with the objective of reducing the existing diversity in practice related to debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, distributions received from equity method investees, beneficial interest in securitization transactions, separately identifiable cash flows and application of the predominance principle. The amendments reduce current and potential future diversity in practice. The amendments in this update apply to all entities that are required to present a statement of cash flows under Topic 230. ASU 2016-15 became effective for interim and annual periods beginning after December 15, 2017. The Company does not expect the adoption of this guidance to have a material impact on its Consolidated Financial Statements.

In October 2016, the FASB issued ASU 2016-16, *"Income Taxes – Intra-Entity Transfers of Assets Other Than Inventory."* This update will allow the income tax consequences of intra-entity transfers of assets other than inventory when the transfer occurs. The amendments in this update are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. The Company does not expect the adoption of this guidance to have a material impact on its Consolidated Financial Statements.

In November 2016, the FASB issued ASU 2016-18, *"Statement of Cash Flows – Restricted Cash."* This update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this update do not provide a definition of restricted cash or restricted cash equivalents. The amendments in this update are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company is currently evaluating the impact on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, *"Business Combinations (Topic 805) – Clarifying the Definition of a Business."* This update clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. Under the current implementation guidance in Topic 805, there are three elements of a business—inputs, processes, and outputs. While an integrated set of assets and activities (collectively referred to as a "set") that is a business usually has outputs, outputs are not required to be present. In addition, all the inputs and processes that a seller uses in operating a set are not required if market participants can acquire the set and continue to produce outputs, for example, by integrating the acquired set with their own inputs and processes. The amendments in this update also provide a screen to determine when a set is not a business. The amendments in this update affect all reporting entities that must determine whether they have acquired or sold a business. The amendments in this update are to be applied to annual periods beginning after December 15, 2017. Adoption of ASU 2017-01 is not expected to have a significant impact on the Company's consolidated financial statements.

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

In February 2017, the FASB issued ASU 2017-05, *"Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets."* This update clarifies that a financial asset is within the scope of Subtopic 610-20 if it meets the definition of an in substance nonfinancial asset. The amendments define the term "in substance nonfinancial asset", in part, as a financial asset promised to a counterparty in a contract if substantially all of the fair value of the assets (recognized and unrecognized) that are promised to the counterparty in the contract is concentrated in nonfinancial assets, then all of the financial assets promised to the counterparty are in substance nonfinancial assets with the scope of Subtopic 610-20. The amendments in this update clarify that an entity should identify each distinct nonfinancial asset or in substance nonfinancial asset promised to a counterparty and derecognize each asset when a counterparty obtains control of it. The amendments also clarify that an entity should allocate consideration to each distinct asset by applying the guidance in Topic 606 on allocating the transaction price to performance obligations. The amendments are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Adoption of ASU 2017-05 is not expected to have a significant impact on the Company's consolidated financial statements.

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

In May 2017, the FASB issued ASU 2017-09, *"Compensation – Stock Compensation (Topic 718): Modification Accounting."* The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The amendments in this update affect any entity that changes the terms or conditions of a share-based payment award. The amendments should be applied prospectively to an award modified on or after the adoption date. The amendments in this update are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Adoption of ASU 2017-09 is not expected to have a significant impact on the Company's consolidated financial statements.

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

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

In February 2018, FASB issued Accounting Standards Update ("ASU") 2018-02 to help organizations address certain stranded income tax effects in accumulated other comprehensive income ("AOCI") resulting from the Tax Legislation. The amendment provides financial statement preparers with an option to reclassify stranded tax effects within AOCI to retained earnings in each period in which the effect of the changes in the U.S. federal corporate income tax rate in the Tax Legislation (or portion thereof) is recorded. The amendment also includes disclosure requirements regarding the issuer's accounting policy for releasing income tax effects from AOCI. The amendment is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted, and organizations should apply the provisions of the amendment either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Legislation is recognized. The Company is currently evaluating the provisions of the amendment and the impact on its future consolidated financial statements.

See Note 1 to the Consolidated Financial Statements for details of recent accounting pronouncements and their expected impact, if any, on the Consolidated Financial Statements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

Market Risk

Market risk is the risk of loss from adverse changes in market prices and rates. The principal market risk to the Company is the interest rate risk inherent in our lending, investing, deposit taking and borrowing activities, due to the fact that interest-earning assets and interest-bearing liabilities do not re-price at the same rate, to the same extent, or on the same basis.

We monitor and manage our interest rate risk through analyzing the re-pricing characteristics of our loans, securities, deposits, and borrowings on an on-going basis. The primary objective is to minimize the adverse effects of changes in interest rates on our earnings, and ultimately the underlying market value of equity, while structuring our asset-liability composition to obtain the maximum spread. Management uses certain basic measurement tools in conjunction with established risk limits to regulate its interest rate exposure. Due to the limitations inherent in any individual risk management tool, we use a simulation model to measure and quantify the impact to our profitability as well as to estimate changes to the market value of our assets and liabilities.

We use a net interest income simulation model to measure the extent of the differences in the behavior of the lending, investing, and funding rates to changing interest rates, so as to project future earnings or market values under alternative interest rate scenarios. Interest rate risk arises primarily through the traditional business activities of extending loans, investing securities, accepting deposits, and borrowings. Many factors, including economic and financial conditions, movements in interest rates, and consumer preferences affect the spread between interest earned on assets and interest paid on liabilities. The net interest income simulation model is designed to measure the volatility of net interest income and net portfolio value, defined as net present value of assets and liabilities, under immediate rising or falling interest rate scenarios in 25 basis points increments.

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

We establish a tolerance level in our policy for net interest income volatility of plus or minus 5% when the hypothetical rate change is plus or minus 200 basis points. When the net interest rate simulation projects that our tolerance level will be met or exceeded, we seek corrective action after considering, among other things, market conditions, customer reaction, and the estimated impact on profitability. At December 31, 2017, if interest rates were to increase instantaneously by 100 basis points, the simulation indicated that our net interest income over the next twelve months would increase by 3.8%, and if interest rates were to increase instantaneously by 200 basis points, the simulation indicated that our net interest income over the next twelve months would increase by 7.5%. Conversely, if interest rates were to decrease instantaneously by 100 basis points, the simulation indicated that our net interest income over the next twelve months would decrease by 4.5%, and if interest rates were to decrease instantaneously by 200 basis points, the simulation indicated that our net interest income over the next twelve months would decrease by 10.0%.

Our simulation model also projects the net market value of our portfolio of assets and liabilities. We have established a tolerance level to value the net market value of our portfolio of assets and liabilities in our policy to a change of not less than 0% when the hypothetical rate change is plus or minus 200 basis points. At December 31, 2017, if interest rates were to increase instantaneously by 200 basis points, the simulation indicated that the net market value of our portfolio of assets and liabilities would increase by 3.2%, and conversely, if interest rates were to decrease instantaneously by 200 basis points, the simulation indicated that the net market value of our assets and liabilities would decrease by 1.9%.

Quantitative Information about Interest Rate Risk

The following table shows the carrying value of our financial instruments that are sensitive to changes in interest rates, categorized by expected maturity, as well as the instruments' total fair values at December 31, 2017, and 2016. For assets, expected maturities are based on contractual maturity. For liabilities, we use our historical experience and decay factors to estimate the deposit runoffs of interest-bearing transactional deposits. We use certain assumptions to estimate fair values and expected maturities which are described in Note 16 to the Consolidated Financial Statements. Off-balance sheet commitments to extend credit, letters of credit, and bill of lading guarantees represent the contractual unfunded amounts. Off-balance sheet financial instruments represent fair values. The results presented may vary if different assumptions are used or if actual experience differs from the assumptions used.

	Average Interest Rate	Expected Maturity Date at December 31,						December 31, 2017		December 31, 2016	
		2018	2019	2020	2021	2022	Thereafter	Total	Fair Value	Total	Fair Value
		(Dollars in thousands)									
Interest-Sensitive Assets:											
Mortgage-backed securities and collateralized mortgage obligations	2.31%	$ 86,223	$ 76,886	$ 67,717	$ 58,294	$ 50,093	$ 234,272	$ 573,485	$ 573,485	$ 336,288	$ 336,288
Other investment securities	1.58	264,575	-	20,300	363,524	72,738	39,004	760,141	760,141	978,057	978,057
Loans held for sale	6.00	8,000	-	-	-	-	-	8,000	8,000	7,500	7,500
Loans	4.60	3,084,086	1,064,201	657,278	564,614	702,733	6,797,378	12,870,290	12,778,857	11,201,275	11,124,286
Interest Sensitive Liabilities:											
Other interest-bearing deposits	0.41	539,178	312,042	175,238	61,237	1,814,774	1,613,521	4,515,990	4,515,990	4,149,332	4,149,332
Time deposits	1.04	4,724,089	532,188	133,824	73	592	11	5,390,777	5,401,970	5,047,287	5,052,913
Securities sold under agreements to repurchase	2.86	100,000	-	-	-	-	-	100,000	100,163	350,000	351,989
Advances from the Federal Home Loan Bank	1.41	380,000	50,000	-	-	-	-	430,000	429,482	350,000	350,062
Other borrowings	2.80	17,702	10,621	7,081	-	-	17,481	52,885	51,075	17,662	15,944
Long-term debt	3.53	4,688	18,750	51,562	-	-	119,136	194,136	141,865	119,136	63,169
Off-Balance Sheet Financial Instruments:											
Commitments to extend credit		1,142,839	657,578	207,232	88,809	62,392	207,518	2,366,368	(7,244)	2,062,241	(6,025)
Standby letters of credit		51,984	13,332	792	73,488	759	459	140,814	(1,805)	75,396	(668)
Other letters of credit		27,353	-	-	-	-	-	27,353	(52)	37,283	(16)
Bill of lading guarantees		24	-	-	-	-	-	24	(0)	75	(0)

Country Risk Exposures

The Company's total assets were $15.6 billion and total foreign country risk net exposures were $439.1 million at December 31, 2017, compared to total assets of $14.5 billion and total foreign country risk net exposures of $503.9 million at December 31, 2016. Total foreign country risk net exposures at December 31, 2017, were comprised primarily of $295.8 million from Hong Kong, $31.1 million from Australia, $26.2 million from China, $25.4 million from France, $13.8 million from Germany, $13.2 million from Singapore, $10.1 million from Virgin Island, $7.0 million from England, $5.0 million from Cayman Island $3.5 million from Canada, $2.5 million from Indonesia, $1.4 million from Vietnam, $1.3 million from Japan, $1.3 million from Taiwan, $0.9 million from Switzerland, and $0.3 million from Venezuela. Total foreign country risk net exposures at December 31, 2016, were comprised primarily of $298.5 million from Hong Kong, $79.6 million from China, $29.9 million from Australia, $26.2 million from Germany, $24.3 million from France, $13.3 million from Singapore, $12.0 million from England, $10.0 million from the Philippines, $3.7 million from Macau, $1.8 million from Taiwan, $1.4 million from Canada, $1.1 million from Switzerland, $1.0 million from Japan, $0.7 million from Indonesia, and $0.3 million from Venezuela.

All foreign country risk net exposures were to non-sovereign counterparties except $9.9 million due from the Hong Kong Monetary Authority at December 31, 2017 and $14.0 million at December 31, 2016.

Unfunded exposures were $1.7 million at December 31, 2017, and were comprised of a $720,000 of unfunded loan to a borrower in Taiwan, a $711,000 of unfunded loan to a borrower in Canada and a $250,000 of unfunded loan to a borrower in China. Unfunded exposures were $21.5 million at December 31, 2016, and were comprised of $20.0 million of unfunded loans to two financial institutions in China, a $720,000 of unfunded loan to a borrower in Taiwan, and a $711,000 of unfunded loans to borrowers in Canada.

Financial Derivatives

It is our policy not to speculate on the future direction of interest rates. However, we enter into financial derivatives in order to seek mitigation of exposure to interest rate risks related to our interest-earning assets and interest-bearing liabilities. We believe that these transactions, when properly structured and managed, may provide a hedge against inherent interest rate risk in our assets or liabilities and against risk in specific transactions. In such instances, we may protect our 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, we seek 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.

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

In May 2014, the Bancorp entered into five interest rate swap contracts in the notional amount of $119.1 million for a period of ten years. The objective of these interest rate swap contracts, which were designated as hedging instruments in cash flow hedges, was to hedge the quarterly interest payments on the Bancorp's $119.1 million of Junior Subordinated Debentures that had been issued to five trusts, throughout the ten-year period beginning in June 2014 and ending in June 2024, from the risk of variability of these payments resulting from changes in the three-month LIBOR interest rate. The Bancorp pays a weighted average fixed interest rate of 2.61% and receives a variable interest rate of the three-month LIBOR at a weighted average rate of 1.6%. As of December 31, 2017, the notional amount of cash flow interest rate swaps was $119.1 million and their unrealized loss of $1.5 million, net of taxes, was included in other comprehensive income compared to unrealized loss of $2.2 million at December 31, 2016. For the year ended December 31, 2017, the periodic net settlement of interest rate swaps included in interest expense was $1.7 million compared to $2.3 million in 2016. As of December 31, 2017, and 2016, the ineffective portion of these interest rates swaps was not significant.

As of December 31, 2017, the Bank's outstanding interest rate swap contracts had a notional amount of $540.4 million for various terms from two to ten years. The Bank entered into these interest rate swap contracts that are matched to individual fixed-rate commercial real estate loans in the Bank's loan portfolio. These contracts have been designated as hedging instruments to hedge the risk of changes in the fair value of the underlying commercial real estate loans due to changes in interest rates. The swap contracts are structured so that the notional amounts reduce over time to match the contractual amortization of the underlying loan and allow prepayments with the same pre-payment penalty amounts as the related loan. The Bank pays a weighted average fixed rate of 4.6% and receives a variable rate at the one month LIBOR rate plus a weighted average spread of 289 basis points, or at a weighted average rate of 4.3%. As of December 31, 2017, and 2016, the notional amount of fair value interest rate swaps was $540.4 million and $361.5 million with unrealized gains of $5.0 million and $938,000, respectively, included in other non-interest income. The amount of periodic net settlement of interest rate swaps reducing interest income was $2.4 million in 2017 compared to $3.6 million in 2016. As of December 31, 2017, and 2016, the ineffective portion of these interest rate swaps was not significant.

Interest rate swap contracts involve the risk of dealing with institutional derivative counterparties and their ability to meet contractual terms. Institutional counterparties must have a strong credit profile and be approved by the Company's Board of Directors. The Company's credit exposure on interest rate swaps is limited to the net favorable value and interest payments of all swaps by each counterparty. Credit exposure may be reduced by the amount of collateral pledged by the counterparty. The Bancorp's interest rate swaps have been assigned by the counterparties to a derivatives clearing organization and daily margin is indirectly maintained with the derivatives clearing organization. Cash posted as collateral by the Bancorp related to derivative contracts totaled $4.5 million as of December 31, 2017 and $6.9 million as of December 31, 2016.

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 Consolidated Balance Sheet. 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, 2017, the notional amount of option contracts totaled $1.0 million with a net negative fair value of $9,000. At December 31, 2017, spot, forward, and swap contracts in the total notional amount of $108.5 million had a positive fair value of $1.8 million. Spot, forward, and swap contracts in the total notional amount of $32.1 million had a negative fair value of $453,000 at December 31, 2017. At December 31, 2016, the notional amount of option contracts totaled $12.1 million with a net negative fair value of $121,000. At December 31, 2016, spot, forward, and swap contracts in the total notional amount of $82.4 million had a positive fair value of $1.3 million. Spot, forward, and swap contracts in the total notional amount of $89.5 million had a negative fair value of $3.1 million at December 31, 2016.

Item 8. Financial Statements and Supplementary Data.

For financial statements, see "Index to Consolidated Financial Statements" on page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not Applicable.

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

The Company's principal executive officer and principal financial officer have evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, (the "Exchange Act") as of the end of the period covered by this Annual Report on Form 10-K. Based upon their evaluation, the principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports filed or submitted by it under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

There have not been any changes in the Company's disclosure controls and procedures that occurred during its fourth fiscal quarter of 2017 that have materially affected, or are reasonably likely to materially affect, these controls and procedures.

Management's Report on Internal Control over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Rule 13a-15(f) under the Exchange Act. The Company's internal control over financial reporting is a process designed under the supervision of the Company's Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As of December 31, 2017, under the supervision and with the participation of the Company's management, including the Company's principal executive officer and principal financial officer, the Company assessed the effectiveness of its internal control over financial reporting based on the criteria for effective internal control over financial reporting established in "Internal Control — Integrated Framework (2013)," issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management determined that the Company maintained effective internal control over financial reporting as of December 31, 2017.

On July 14, 2017, the Company acquired Sinopac Bancorp, and its wholly-owned subsidiary Far East National Bank, and management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2017, loans of $627.5 million acquired from Sinopac Bancorp and the related accrued interest receivable of $1.5 million and interest income of $15.7 million, and deposits of $675.2 million consisting of non-interest bearing demand deposits of $163.0 million, NOW deposits of $39.2 million, money market deposits of $198.7 million, savings deposits of $53.3 million and time deposits of $220.8 million, assumed from Sinopac Bancorp and the related accrued interest payable of $723,000, time deposit interest expense of $917,000 and other deposit interest expense of $497,000, included in the consolidated financial statements of the Company as of and for the year ended December 31, 2017.

KPMG LLP, the independent registered public accounting firm that audited the Company's Consolidated Financial Statements included in this Annual Report on Form 10-K, has also issued an audit report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2017. The report, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2017, is included in this Item under the heading "Report of Independent Registered Public Accounting Firm" below.

Changes in Internal Control over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act, that occurred during the fourth fiscal quarter of 2017 that have materially affected, or are reasonably likely to materially effect, the Company's internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Cathay General Bancorp:

Opinion on Internal Control Over Financial Reporting

We have audited Cathay General Bancorp and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2017 and 2016, the related consolidated statements of operations and comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes (collectively, the consolidated financial statements), and our report dated March 1, 2018 expressed an unqualified opinion on those consolidated financial statements.

On July 14, 2017, the Company acquired Sinopac Bancorp, and its wholly-owned subsidiary Far East National Bank, and management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2017, loans of $627.5 million acquired from Sinopac Bancorp and the related accrued interest receivable of $1.5 million and interest income of $15.7 million, and deposits of $675.2 million consisting of non-interest bearing demand deposits of $163.0 million, NOW deposits of $39.2 million, money market deposits of $198.7 million, savings deposits of $53.3 million and time deposits of $220.8 million, assumed from Sinopac Bancorp and the related accrued interest payable of $723,000, time deposit interest expense of $917,000 and other deposit interest expense of $497,000, included in the consolidated financial statements of the Company as of and for the year ended December 31, 2017. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the aforementioned amounts.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Los Angeles, California
March 1, 2018

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this item concerning our executive officers, directors, compliance with Section 16 of the Securities Exchange Act of 1934, the code of ethics that applies to our principal executive officer, principal financial officer and principal accounting officer, and matters relating to corporate governance is incorporated herein by reference from the information set forth under the captions "Proposal One—Election of Directors," "Section 16(a) Beneficial Ownership Reporting Compliance," "Board of Directors and Corporate Governance" and "Code of Ethics" in our Definitive Proxy Statement relating to our 2018 Annual Meeting of Stockholders (our "Proxy Statement").

Item 11. Executive Compensation.

The information required by this item is incorporated herein by reference from the information set forth under the captions "Board of Directors and Corporate Governance—Compensation of Directors," "Executive Compensation," and "Potential Payments Upon Termination or Change in Control" in our Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth certain information as of December 31, 2017, with respect to compensation plans under which equity securities of the Company were authorized for issuance.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights (a)	Weighted-average Exercise Price of Outstanding Options, Warrants, and Rights (b)	Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans [Excluding Securities Reflected in Column (a)] (c)
Equity Compensation Plans Approved by Security Holders	35,880	$ 23.37	2,776,289
Equity Compensation Plans Not Approved by Security Holders	-	-	-
Total	35,880	$ 23.37	2,776,289

Security Ownership of Certain Beneficial Owners and Management

The information required by this item is incorporated herein by reference from the information set forth under the captions "Security Ownership of Certain Beneficial Owners" and "Proposal One—Election of Directors— Security Ownership of Nominees, Continuing Directors, and Named Executive Officers" in our Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this item is incorporated herein by reference to the information set forth under the captions "Transactions with Related Persons, Promoters and Certain Control Persons" and "Board of Directors and Corporate Governance— Director Independence" in our Proxy Statement.

Item 14. Principal Accounting Fees and Services.

The information required by this item is incorporated herein by reference from the information set forth under the caption "Principal Accounting Fees and Services" in our Proxy Statement.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

Documents Filed as Part of this Report

(a)(1) Financial Statements

See "Index to Consolidated Financial Statements" on page F-1.

(a)(2) Financial Statement Schedules

Schedules have been omitted since they are not applicable, they are not required, or the information required to be set forth in the schedules is included in the Consolidated Financial Statements or Notes thereto.

(b) Exhibits

3.1	Restated Certificate of Incorporation. Previously filed with the Securities and Exchange Commission on March 16, 2010, as an exhibit to Bancorp's Annual Report on Form 10-K for the year ended December 31, 2009, and incorporated herein by reference.
3.1.1	Amendment to Restated Certificate of Incorporation. Previously filed with the Securities and Exchange Commission on March 16, 2010, as an exhibit to Bancorp's Annual Report on Form 10-K for the year ended December 31, 2009, and incorporated herein by reference.

3.2	Amended and Restated Bylaws, effective February 16, 2017. Previously filed with the Securities and Exchange Commission on February 17, 2017 as an exhibit to the Bancorp's Current Report on Form 8-K and incorporated herein by reference.
3.3	Certificate of Designation of Series A Junior Participating Preferred Stock. Previously filed with the Securities and Exchange Commission on February 28, 2012, as an exhibit to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 2011, and incorporated herein by reference.
3.4	Certificate of Designation of Fixed Rate Cumulative Perpetual Preferred Stock, Series B. Previously filed with the Securities and Exchange Commission on March 3, 2014 as an exhibit to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 2013 and incorporated herein by reference.
4.1	Indenture, dated as of March 30, 2007, between Cathay General Bancorp and LaSalle Bank National Association (including form of debenture). Previously filed with the Securities and Exchange Commission on March 1, 2013, as an exhibit to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 2012, and incorporated herein by reference.
4.1.1	Amended and Restated Declaration of Trust of Cathay Capital Trust III, dated as of March 30, 2007. Previously filed with the Securities and Exchange Commission on March 1, 2013, as an exhibit to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 2012, and incorporated herein by reference.
4.1.2	Guarantee Agreement, dated as of March 30, 2007, between Cathay General Bancorp and LaSalle Bank National Association. Previously filed with the Securities and Exchange Commission on March 1, 2013, as an exhibit to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 2012, and incorporated herein by reference.
4.1.3	Form of Capital Securities of Cathay Capital Trust III (included within Exhibit 4.1.1).
4.2	Warrant to purchase up to 1,846,374 shares of Common Stock, issued on December 5, 2008. Previously filed with the Securities and Exchange Commission on March 3, 2014 as an exhibit to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 2013 and incorporated herein by reference.
4.2.1	Warrant Agreement, dated as of December 4, 2013. Previously filed with the Securities and Exchange Commission on December 4, 2013, as an exhibit to the Bancorp's Registration Statement on Form 8-A, and incorporated herein by reference.
4.2.2	Form of Warrant (included within Exhibit 4.2.1).
10.1	Form of Indemnity Agreements between the Bancorp and its directors and certain officers. Previously filed with the Securities and Exchange Commission on February 28, 2012, as an exhibit to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 2011, and incorporated herein by reference.
10.2	Cathay Bank Employee Stock Ownership Plan, as amended and restated effective December 22, 2015.**+

10.2.1	Amendment No. 1 to the Cathay Bank Employee Stock Ownership Plan, as amended and restated effective December 22, 2015.**+
10.2.2	Amendment No. 2 to the Cathay Bank Employee Stock Ownership Plan, as amended and restated effective December 22, 2015.**+
10.3	Dividend Reinvestment Plan and Stock Purchase Plan (Amended and Restated) of the Bancorp. Previously filed with the Securities and Exchange Commission on July 27, 2015, as an exhibit to Registration Statement No. 333-205888, and incorporated herein by reference.
10.4	Cathay Bank Bonus Deferral Agreement (Amended and Restated). Previously filed with the Securities and Exchange Commission on March 1, 2013, as an exhibit to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 2012, and incorporated herein by reference.**
10.5	Cathay General Bancorp 2005 Incentive Plan. Previously filed with the Securities and Exchange Commission on March 1, 2013, as an exhibit to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 2012, and incorporated herein by reference.**
10.5.1	Form of Cathay General Bancorp 2005 Incentive Plan Restricted Stock Award Agreement. Previously filed with the Securities and Exchange Commission on March 1, 2013, as an exhibit to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 2012, and incorporated herein by reference.**

10.5.2	Form of Cathay General Bancorp 2005 Incentive Plan Stock Option Agreement (Nonstatutory). Previously filed with the Securities and Exchange Commission on March 1, 2013, as an exhibit to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 2012, and incorporated herein by reference.**
10.5.3	Form of Cathay General Bancorp 2005 Incentive Plan Stock Option Agreement (Nonstatutory) (Nonemployee Director). Previously filed with the Securities and Exchange Commission on March 1, 2013, as an exhibit to Bancorp's Annual Report on Form 10-K for the year ended December 31, 2012, and incorporated herein by reference.**
10.5.4	Form of Cathay General Bancorp 2005 Incentive Plan Restricted Stock Unit Agreement. Previously filed with the Securities and Exchange Commission on March 1, 2013, as an exhibit to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 2012, and incorporated herein by reference.**
10.5.5	Form of Cathay General Bancorp 2005 Incentive Plan Restricted Stock Unit Agreement (Performance Shares – EPS), used to award performance-based restricted stock units. Previously filed with the Securities and Exchange Commission on December 24, 2013, as an exhibit to the Bancorp's Current Report on Form 8-K, and incorporated herein by reference.**
10.5.6	Form of Cathay General Bancorp 2005 Incentive Plan Restricted Stock Unit Agreement (Performance Shares – TSR), used to award performance-based restricted stock units. Previously filed with the Securities and Exchange Commission on December 24, 2013, as an exhibit to the Bancorp's Current Report on Form 8-K, and incorporated herein by reference.**
10.5.7	Form of Cathay General Bancorp 2005 Incentive Restricted Stock Unit Agreement (Clawback Rider), used in connection with award of performance-based restricted stock units. Previously filed with the Securities and Exchange Commission on December 24, 2013, as an exhibit to the Bancorp's Current Report on Form 8-K, and incorporated herein by reference.**
10.5.8	Executive Officer Annual Cash Bonus Program under the Company's 2005 Incentive Plan. Previously filed with the Securities and Exchange Commission on March 28, 2014 as an exhibit to the Bancorp's Current Report on Form 8-K/A, and incorporated herein by reference.**
10.5.9	Cathay General Bancorp 2005 Incentive Plan (As Amended and Restated). Previously filed with the Securities and Exchange Commission on February 29, 2016 as an exhibit to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 2015, and incorporated herein by reference.**
10.5.10	Form of Cathay General Bancorp 2005 Incentive Plan (As Amended and Restated) Restricted Stock Unit Agreement (Performance Shares – EPS), used to award performance-based restricted stock units. Previously filed with the Securities and Exchange Commission on December 29, 2016, as an exhibit to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 2015, and incorporated herein by reference.**
10.5.11	Form of Cathay General Bancorp 2005 Incentive Plan (As Amended and Restated) Restricted Stock Unit Agreement (Performance Shares – TSR), used to award performance-based restricted stock units. Previously filed with the Securities and Exchange Commission on December 29, 2016, as an exhibit to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 2015, and incorporated herein by reference.**
10.5.12	Form of Cathay General Bancorp 2005 Incentive Plan (As Amended and Restated) Restricted Stock Unit Agreement (Performance Shares – ROA), used to award performance-based restricted stock units. Previously filed with the Securities and Exchange Commission on December 21, 2016, as an exhibit to the Bancorp's Current Report on Form 8-K, and incorporated herein by reference.**

10.5.13	Form of Cathay General Bancorp 2005 Incentive Plan (As Amended and Restated) Restricted Stock Unit Agreement (Clawback Rider), used in connection with award of performance-based restricted stock units. Previously filed with the Securities and Exchange Commission on December 29, 2016, as an exhibit to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 2015, and incorporated herein by reference.**
10.6	Amended and Restated Change of Control Employment Agreement for Dunson K. Cheng dated as of December 18, 2008. Previously filed with the Securities and Exchange Commission on March 3, 2014 as an exhibit to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 2013 and incorporated herein by reference.**
10.6.1	Amended and Restated Change of Control Employment Agreement for Heng W. Chen dated as of December 18, 2008. Previously filed with the Securities and Exchange Commission on March 3, 2014 as an exhibit to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 2013 and incorporated herein by reference.**
10.6.2	Amended and Restated Change of Control Employment Agreement for Irwin Wong dated as of December 18, 2008. Previously filed with the Securities and Exchange Commission on March 3, 2014 as an exhibit to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 2013 and incorporated herein by reference.**
10.6.3	Amended and Restated Change of Control Employment Agreement for Kim Bingham dated as of December 18, 2008. Previously filed with the Securities and Exchange Commission on March 3, 2014 as an exhibit to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 2013 and incorporated herein by reference.**
10.6.4	Amended and Restated Change of Control Employment Agreement for Pin Tai dated as of December 18, 2008. Previously filed with the Securities and Exchange Commission on November 7, 2014 as an exhibit to the Bancorp's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014 and incorporated herein by reference**
10.6.4.1	First Amendment to Amended and Restated Change of Control Employment Agreement for Pin Tai, dated as of May 3, 2017. Previously filed with the Securities and Exchange Commission on May 4, 2017 as an exhibit to the Bancorp's Current Report on Form 8-K and incorporated herein by reference. **

10.7	Employment Agreement for Pin Tai dated as of August 18, 2016. Previously filed with the Securities and Exchange Commission on August 19, 2016 as an exhibit to the Bancorp's Current Report on Form 8-K, and incorporated herein by reference. **
21.1	Subsidiaries of the Bancorp.+
23.1	Consent of Independent Registered Public Accounting Firm.+
24.1	Power of Attorney.+
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.+
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.+
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.++
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.++
101.INS	XBRL Instance Document***
101.SCH	XBRL Taxonomy Extension Schema Document***
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document***
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document***
101.LAB	XBRL Taxonomy Extension Label Linkbase Document***
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document***

** Management contract or compensatory plan or arrangement.

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

+ Filed herewith.

++ Furnished herewith.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Cathay General Bancorp

By: /s/ Pin Tai
Pin Tai
Chief Executive Officer and President

Date: March 1, 2018

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Pin Tai Pin Tai	Chief Executive Officer, President, and Director (principal executive officer)	March 1, 2018
/s/ Heng W. Chen Heng W. Chen	Executive Vice President, Chief Financial Officer/Treasurer (principal financial officer) (principal accounting officer)	March 1, 2018
/s/ Dunson K. Cheng Dunson K. Cheng	Executive Chairman of the Board	March 1, 2018
/s/ Peter Wu Peter Wu	Vice Chairman of the Board	March 1, 2018
/s/ Anthony M. Tang Anthony M. Tang	Vice Chairman of the Board	March 1, 2018
/s/ Kelly L. Chan Kelly L. Chan	Director	March 1, 2018
/s/ Michael M.Y. Chang Michael M.Y. Chang	Director	March 1, 2018
/s/ Nelson Chung Nelson Chung	Director	March 1, 2018
/s/ Felix S. Fernandez Felix S. Fernandez	Director	March 1, 2018

/s/ Jane Jelenko	Director	March 1, 2018
Jane Jelenko		
/s/ Ting Liu	Director	March 1, 2018
Ting Liu		
/s/ Joseph C.H. Poon	Director	March 1, 2018
Joseph C.H. Poon		
/s/ Richard Sun	Director	March 1, 2018
Richard Sun		

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Parent-only condensed financial information of Cathay General Bancorp is included in Note 19 to the Consolidated Financial Statements in this Annual Report on Form 10-K	F - 51

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Cathay General Bancorp:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Cathay General Bancorp and subsidiaries (the Company) as of December 31, 2017 and 2016, the related consolidated statements of operations and comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 1, 2018 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 1991.

Los Angeles, California
March 1, 2018

CATHAY GENERAL BANCORP AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	As of December 31,	
	2017	2016
	(In thousands, except share and per share data)	
Assets		
Cash and due from banks	$ 247,056	$ 218,017
Short-term investments and interest bearing deposits	292,745	967,067
Securities available-for-sale (amortized cost of $1,336,345 in 2017 and $1,317,012 in 2016)	1,333,626	1,314,345
Loans held for sale	8,000	7,500
Loans	12,870,290	11,201,275
Less: Allowance for loan losses	(123,279)	(118,966)
Unamortized deferred loan fees, net	(3,245)	(4,994)
Loans, net	12,743,766	11,077,315
Federal Home Loan Bank stock	23,085	17,250
Other real estate owned, net	9,442	20,070
Affordable housing investments and alternative energy partnerships, net	272,871	251,077
Premises and equipment, net	103,064	105,607
Customers' liability on acceptances	13,482	12,182
Accrued interest receivable	45,307	37,299
Goodwill	372,189	372,189
Other intangible assets, net	8,062	2,949
Other assets	167,491	117,902
Total assets	$ 15,640,186	$ 14,520,769
Liabilities and Stockholders' Equity		
Deposits		
Non-interest-bearing demand deposits	$ 2,783,127	$ 2,478,107
Interest-bearing deposits:		
NOW deposits	1,410,519	1,230,445
Money market deposits	2,248,271	2,198,938
Savings deposits	857,199	719,949
Time deposits	5,390,777	5,047,287
Total deposits	12,689,893	11,674,726
Securities sold under agreements to repurchase	100,000	350,000
Advances from the Federal Home Loan Bank	430,000	350,000
Other borrowings for affordable housing investments	17,481	17,662
Long-term debt	194,136	119,136
Deferred payments from acquisition	35,404	-
Acceptances outstanding	13,482	12,182
Other liabilities	186,486	168,524
Total liabilities	13,666,882	12,692,230
Commitments and contingencies	-	-
Stockholders' Equity		
Common stock, $0.01 par value, 100,000,000 shares authorized, 89,104,022 issued and 80,893,379 outstanding at December 31, 2017, and 87,820,920 issued and 79,610,277 outstanding at December 31, 2016	891	878
Additional paid-in-capital	932,874	895,480
Accumulated other comprehensive loss, net	(2,511)	(3,715)
Retained earnings	1,281,639	1,175,485
Treasury stock, at cost (8,210,643 shares at December 31, 2017, and at December 31, 2016)	(239,589)	(239,589)
Total equity	1,973,304	1,828,539
Total liabilities and equity	$ 15,640,186	$ 14,520,769

See accompanying notes to Consolidated Financial Statements.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	Year Ended December 31,		
	2017	2016	2015
		(In thousands, except share and per share data)	
INTEREST AND DIVIDEND INCOME			
Loan receivable	$ 549,291	$ 473,782	$ 427,621
Investment securities	20,531	21,426	21,523
Federal Home Loan Bank stock	1,798	2,099	3,164
Federal funds sold and securities purchased under agreement to resell	110	-	-
Deposits with banks	4,421	1,763	1,398
Total interest and dividend income	576,151	499,070	453,706
INTEREST EXPENSE			
Time deposits	46,768	43,327	39,443
Other deposits	19,076	16,094	12,445
Interest on securities sold under agreements to repurchase	4,250	15,329	15,813
Advances from the Federal Home Loan Bank	2,712	659	487
Long-term debt	5,775	5,791	5,776
Deferred payments from acquisition	1,861	-	-
Total interest expense	80,442	81,200	73,964
Net interest income before reversal for credit losses	495,709	417,870	379,742
Reversal for credit losses	(2,500)	(15,650)	(11,400)
Net interest income after reversal for credit losses	498,209	433,520	391,142
NON-INTEREST INCOME			
Securities gains/(losses), net	1,006	4,898	(3,349)
Letters of credit commissions	4,860	4,939	5,545
Depository service fees	5,624	5,478	5,348
Gain from acquisition	5,628	-	-
Other operating income	19,179	18,055	25,130
Total non-interest income	36,297	33,370	32,674
NON-INTEREST EXPENSE			
Salaries and employee benefits	109,458	97,348	89,960
Occupancy expense	20,429	18,315	17,018
Computer and equipment expense	10,846	9,777	9,828
Professional services expense	20,439	18,686	17,316
Data processing service expense	11,190	8,957	7,698
FDIC and State assessments	10,633	9,712	9,087
Marketing expense	6,200	5,092	4,926
Other real estate owned income/(loss)	(1,649)	856	(800)
Operations of investments in affordable housing and alternative energy partnerships, net	27,212	40,264	33,335
Amortization of core deposit premium	930	689	667
Acquisition and integration costs	4,121	-	-
Other operating expense	16,390	14,994	13,685
Total non-interest expense	236,199	224,690	202,720
Income before income tax expense	298,307	242,200	221,096
Income tax expense	122,265	67,101	59,987
Net income attributable to common stockholders	$ 176,042	$ 175,099	$ 161,109
Other comprehensive income/(loss), net of tax:			
Unrealized holding gains/(losses) on securities available for sale	1,068	6,725	(4,200)
Unrealized holding gains/(losses) on cash flow hedge derivatives	719	825	(598)
Less: reclassification adjustment for gains/(losses) included in net income	583	2,839	(1,941)
Total other comprehensive income/(loss), net of tax	1,204	4,711	(2,857)
Total comprehensive income	$ 177,246	$ 179,810	$ 158,252
Net income attributable to common stockholders per common share			
Basic	$ 2.19	$ 2.21	$ 2.00
Diluted	$ 2.17	$ 2.19	$ 1.98
Basic average common shares outstanding	80,262,782	79,153,762	80,563,577
Diluted average common shares outstanding	81,004,550	79,929,262	81,294,796

See accompanying notes to Consolidated Financial Statements.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2017, 2016, and 2015
(In thousands, except number of shares)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income/(Loss)	Retained Earnings	Treasury Stock	Total Stockholders' Equity
	Number of Shares	Amount					
Balance at December 31, 2014	79,814,553	$ 840	$ 789,519	$ (5,569)	$ 943,834	$ (125,736)	$ 1,602,888
Dividend Reinvestment Plan	148,582	2	4,173	-	-	-	4,175
Restricted stock units vested	18,955	-	-	-	-	-	-
Warrant exercised	369	-	-	-	-	-	-
Shares withheld related to net share settlement of RSUs	-	-	(227)	-	-	-	(227)
Stock issued to directors	17,974	-	495	-	-	-	495
Stock options exercised	214,580	2	5,012	-	-	-	5,014
Equity consideration for acquisition	2,580,353	26	82,743	-	-	-	82,769
Purchases of treasury stock	(1,989,250)	-	-	-	-	(59,412)	(59,412)
Tax short-fall from stock options	-	-	(5,348)	-	-	-	(5,348)
Stock -based compensation	-	-	4,455	-	-	-	4,455
Cash dividends of $0.56 per share	-	-	-	-	(45,283)	-	(45,283)
Change in other comprehensive loss	-	-	-	(2,857)	-	-	(2,857)
Net income	-	-	-	-	161,109	-	161,109
Balance at December 31, 2015	80,806,116	$ 870	$ 880,822	$ (8,426)	$ 1,059,660	$ (185,148)	$ 1,747,778
Dividend Reinvestment Plan	72,231	1	2,276	-	-	-	2,277
Restricted stock units vested	10,325	-	-	-	-	-	-
Warrant exercised	388,001	4	(4)	-	-	-	-
Shares withheld related to net share settlement of RSUs	-	-	(103)	-	-	-	(103)
Stock issued to directors	19,602	-	550	-	-	-	550
Stock options exercised	327,830	3	7,658	-	-	-	7,661
Purchases of treasury stock	(2,013,828)	-	-	-	-	(54,441)	(54,441)
Tax short-fall from stock options	-	-	(132)	-	-	-	(132)
Stock -based compensation	-	-	4,413	-	-	-	4,413
Cash dividends of $0.75 per share	-	-	-	-	(59,274)	-	(59,274)
Change in other comprehensive loss	-	-	-	4,711	-	-	4,711
Net income	-	-	-	-	175,099	-	175,099
Balance at December 31, 2016	79,610,277	$ 878	$ 895,480	$ (3,715)	$ 1,175,485	$ (239,589)	$ 1,828,539
Dividend Reinvestment Plan	65,044	1	2,527	-	-	-	2,528
Restricted stock units vested	224,995	2	-	-	-	-	2
Warrants exercised	4,681	-	-	-	-	-	-
Shares withheld related to net share settlement of RSUs	-	-	(6,813)	-	-	-	(6,813)
Stock issued to directors	15,400	-	550	-	-	-	550
Stock options exercised	46,790	1	1,093	-	-	-	1,094
Equity consideration for acquisition	926,192	9	34,853	-	-	-	34,862
Stock -based compensation	-	-	5,184	-	-	-	5,184
Cash dividends of $0.87 per share	-	-	-	-	(69,888)	-	(69,888)
Change in other comprehensive loss	-	-	-	1,204	-	-	1,204
Net income	-	-	-	-	176,042	-	176,042
Balance at December 31, 2017	80,893,379	$ 891	$ 932,874	$ (2,511)	$ 1,281,639	$ (239,589)	$ 1,973,304

See accompanying notes to Consolidated Financial Statements.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2017	2016	2015
		(In thousands)	
Cash Flows from Operating Activities			
Net income	$ 176,042	$ 175,099	$ 161,109
Adjustments to reconcile net income to net cash provided by operating activities:			
Reversal for credit losses	(2,500)	(15,650)	(11,400)
Provision for losses on other real estate owned	691	176	547
Deferred tax liability.	34,554	15,949	2,004
Depreciation and amortization	7,265	7,490	7,574
Net gains on sale and transfers of other real estate owned	(2,661)	(546)	(2,012)
Net gains on sale of loans	-	(285)	(786)
Proceeds from sale of loans	7,500	20,079	32,530
Originations of loans held for sale	-	(12,665)	(37,447)
Amortization on alternative energy partnerships, venture capital and other investments	4,572	28,897	25,058
Write-down on impaired securities	-	206	3,875
Gain on sales and calls of securities	(1,006)	(5,104)	(526)
Other non-cash interest income	(1,740)	(1,272)	(332)
Amortization of security premiums, net	2,945	6,371	5,140
Excess tax short-fall from stock options	-	-	5,348
Stock based and stock issued to officers and directors compensation expense	5,734	4,963	4,950
Net change in accrued interest receivable and other assets	25,747	13,478	(3,429)
Gain from acquisition	(5,628)	-	-
Net change in other liabilities	(2,641)	(2,784)	(15,506)
Net cash provided by operating activities	248,874	234,402	176,697
Cash Flows from Investing Activities			
Decrease/(increase) in short-term investments and interest bearing deposits	796,322	(430,187)	(47,266)
Purchase of investment securities available-for-sale	(339,814)	(941,327)	(295,497)
Proceeds from maturity and call of investment securities available-for-sale	490,950	460,000	165,000
Proceeds from sale of investment securities available-for-sale	111,704	294	385,234
Purchase of mortgage-backed securities available-for-sale	(267,760)	-	(1,280,870)
Proceeds from repayment and sale of mortgage-backed securities available-for-sale	71,645	758,271	749,219
Purchase of Federal Home Loan Bank stock	(8,160)	(1,650)	-
Redemption of Federal Home Loan Bank stock	13,482	1,650	13,535
Redemption of Federal Reserve Bank stock	8,733	-	-
Net increase in loans	(963,858)	(1,051,952)	(829,501)
Purchase of premises and equipment	(3,188)	(3,523)	(3,518)
Proceeds from sales of premises and equipment	5,598	12	602
Proceeds from sales of other real estate owned	18,357	7,699	12,154
Increase in investment in affordable housing and alternative energy partnerships	(40,284)	(82,966)	(53,235)
Acquisitions, net of cash acquired	(118,392)	-	6,572
Net cash used in investing activities	(224,665)	(1,283,679)	(1,177,571)
Cash Flows from Financing Activities			
Net increase in deposits	201,224	1,166,044	1,305,255
Net decrease in federal funds purchased and securities sold under agreements to repurchase	(250,000)	(50,000)	(50,000)
Advances from Federal Home Loan Bank	4,823,000	3,555,000	5,092,000
Repayment of Federal Home Loan Bank borrowings	(4,773,000)	(3,480,000)	(5,242,000)
Cash dividends	(69,888)	(59,274)	(45,283)
Purchase of treasury stock	-	(54,441)	(59,412)
Proceeds from issuance of long-term debt and other borrowings	75,000	-	-
Proceeds from shares issued to Dividend Reinvestment Plan	2,528	2,277	4,175
Proceeds from exercise of stock options	1,094	7,661	5,014
Taxes paid related to net share settlement of RSUs	(5,128)	(103)	(227)
Excess tax short-fall from share-based payment arrangements	-	-	(5,348)
Net cash provided by financing activities	4,830	1,087,164	1,004,174
Increase in cash and cash equivalents	29,039	37,887	3,300
Cash and cash equivalents, beginning of the year	218,017	180,130	176,830
Cash and cash equivalents, end of the year	$ 247,056	$ 218,017	$ 180,130

See accompanying notes to Consolidated Financial Statements.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS-(Continued)

	Year Ended December 31,		
	2017	2016	2015
		(In thousands)	
Supplemental disclosure of cash flow information			
Cash paid during the year for:			
Interest	$ 81,069	$ 81,793	$ 72,870
Income taxes	$ 76,709	$ 38,671	$ 69,074
Non-cash investing and financing activities:			
Net change in unrealized holding gain/(loss) on securities available-for-sale, net of tax	$ 485	$ 3,886	$ (2,259)
Net change in unrealized gain/(loss) on interest rate swaps designated as cash flow hedges	$ 719	$ 825	$ (598)
Transfers to other real estate owned from loans held for investment	$ 1,243	$ 2,698	$ 866
Loans transferred to loans held for sale	$ 8,000	$ 7,953	$ 6,684
Loans to facilitate the sale of other real estate owned	$ 10,500	$ 2,616	$ -
Issuance of stock related to acquisition	$ 34,862	$ -	$ 82,857
Supplemental disclosure for acquisitions			
Cash and cash equivalents	$ 166,932	$ -	$ 63,579
Short-term investments	122,000	-	-
Securities available-for-sale	88,044	-	2,370
FHLB and FRB stock	19,890	-	-
Loans	705,792	-	419,219
Premises and equipment	6,239	-	13,291
Other real estate owned	-	-	3,048
Cash surrender value of life insurance	46,083	-	-
Deferred tax assets, net	40,690	-	-
Goodwill	-	-	55,849
Core deposit intangible	6,122	-	1,302
Accrued interest receivable and other assets	10,689	-	2,884
Total assets acquired	1,212,481	-	561,542
Deposits	813,888	-	420,623
Advances from Federal Home Loan Bank	30,000	-	-
Accrued interest payable and other liabilities	8,512	-	1,056
Total liabilities assumed	852,400	-	421,679
Net assets acquired	$ 360,081	$ -	$ 139,863
Cash paid	$ 285,324	$ -	$ 57,006
Fair value of common stock issued	34,862	-	82,857
Total consideration paid	$ 320,186	$ -	$ 139,863

See accompanying notes to Consolidated Financial Statements.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The accompanying Consolidated Financial Statements include the accounts of Cathay General Bancorp (the "Bancorp"), a Delaware corporation, its wholly-owned subsidiaries, Cathay Bank (the "Bank"), a California state-chartered bank, eight limited partnerships investing in affordable housing projects, Asia Realty Corp., and GBC Venture Capital, Inc. (together, the "Company"). All significant inter-company transactions and balances have been eliminated in consolidation. The Consolidated Financial Statements of the Company are prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and general practices within the banking industry.

Organization and Background. The business activities of the Bancorp consist primarily of the operations of the Bank, which owns 100% of the common securities of the following subsidiaries: Cathay Holdings LLC, Cathay Holdings 2, LLC, and Cathay Holdings 3, LLC and Cathay New Asia Community Development Corporation.

There are limited operating business activities currently at the Bancorp. The Bank is a commercial bank, servicing primarily the individuals, professionals, and small to medium-sized businesses in the local markets in which its branches are located. Its operations include the acceptance of checking, savings, and time deposits, and the making of commercial, real estate, and consumer loans. The Bank also offers trade financing, letters of credit, wire transfer, foreign currency spot and forward contracts, Internet banking, investment services, and other customary banking services to its customers.

Use of Estimates. The preparation of the Consolidated Financial Statements in accordance with GAAP requires management of the Company to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. The significant estimates subject to change relate to the allowance for loan losses.

Concentrations. The Bank was incorporated in California and started its business from California. Therefore, loans originated and deposits solicited were mainly from California. As of December 31, 2017, gross loans were primarily comprised of 50.4% of commercial mortgage loans, 23.8% of residential mortgage loans, and 19.1% of commercial loans. As of December 31, 2017, approximately 61% of the Bank's residential mortgages were for properties located in California.

Allowance for Loan Losses. The determination of the amount of the provision for loan losses charged to operations reflects management's current judgment about the credit quality of the loan portfolio and takes into consideration changes in lending policies and procedures, changes in economic and business conditions, changes in the nature and volume of the portfolio and in the terms of loans, changes in the experience, ability and depth of lending management, changes in the volume and severity of past due, non-accrual and adversely classified or graded loans, changes in the quality of the loan review system, changes in the value of underlying collateral for collateral-dependent loans, the existence and effect of any concentrations of credit and the effect of competition, legal and regulatory requirements, and other external factors. The nature of the process by which loan losses is determined and the appropriate allowance for loan losses requires the exercise of considerable judgment. The allowance is increased or decreased by the provision or credit to the allowance for loan losses and decreased by charge-offs when management believes the uncollectability of a loan is confirmed.

Subsequent recoveries, if any, are credited to the allowance. A weakening of the economy or other factors that adversely affect asset quality could result in an increase in the number of delinquencies, bankruptcies, or defaults, and a higher level of non-performing assets, net charge-offs, and provision for loan losses in future periods.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

The total allowance for loan losses consists of two components: specific allowances and general allowances. To determine the appropriateness of the allowance in each of these two components, two primary methodologies are employed, the individual loan review analysis methodology and the classification migration methodology. These methodologies support the basis for determining allocations between the various loan categories and the overall appropriateness of our allowance to provide for probable losses inherent in the loan portfolio. These methodologies are further supported by additional analysis of relevant factors such as the historical losses in the portfolio, and environmental factors which include trends in delinquency and non-accrual, and other significant factors, such as the national and local economy, the volume and composition of the portfolio, strength of management and loan staff, underwriting standards, and the concentration of credit.

The Bank's management allocates a specific allowance for "Impaired Credits," in accordance with Accounting Standard Codification ("ASC") Section 310-10-35. For non-Impaired Credits, a general allowance is established for those loans internally classified and risk graded Pass, Watch, Special Mention, or Substandard based on historical losses in the specific loan portfolio and a reserve based on environmental factors determined for that loan group. The level of the general allowance is established to provide coverage for management's estimate of the credit risk in the loan portfolio by various loan segments not covered by the specific allowance.

Securities. Securities are classified as held-to-maturity when management has the ability and intent to hold these securities until maturity. Securities are classified as available-for-sale when management intends to hold the securities for an indefinite period of time, or when the securities may be utilized for tactical asset/liability purposes, and may be sold from time to time to manage interest rate exposure and resultant prepayment risk and liquidity needs. Securities are classified as trading securities when management intends to sell the securities in the near term. Securities purchased are designated as held-to-maturity, available-for-sale, or trading securities at the time of acquisition.

Securities held-to-maturity are stated at cost, adjusted for the amortization of premiums and the accretion of discounts on a level-yield basis. The carrying value of these assets is not adjusted for temporary declines in fair value since the Company has the positive intent and ability to hold them to maturity. Securities available-for-sale are carried at fair value, and any unrealized holding gains or losses are excluded from earnings and reported as a separate component of stockholders' equity, net of tax, in accumulated other comprehensive income until realized. Realized gains or losses are determined on the specific identification method. Premiums and discounts are amortized or accreted as adjustment of yield on a level-yield basis.

ASC Topic 320 requires an entity to assess whether the entity has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. If either of these conditions is met, an entity must recognize an other-than-temporary impairment ("OTTI"). If an entity does not intend to sell the debt security and will not be required to sell the debt security, the entity must consider whether it will recover the amortized cost basis of the security. If the present value of expected cash flows is less than the amortized cost basis of the security, OTTI shall be considered to have occurred. OTTI is then separated into the amount of the total impairment related to credit losses and the amount of the total impairment related to all other factors. An entity determines the impairment related to credit losses by comparing the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. OTTI related to the credit loss is then recognized in earnings. OTTI related to all other factors is recognized in other comprehensive income. OTTI not related to the credit loss for a held-to-maturity security should be recognized separately in a new category of other comprehensive income and amortized over the remaining life of the debt security as an increase in the carrying value of the security only when the entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its remaining amortized cost basis. The Company has both the ability and the intent to hold and it is not more likely than not that the Company will be required to sell those securities with unrealized losses before recovery of their amortized cost basis.

Trading securities are reported at fair value, with unrealized gains or losses included in income.

Investment in Federal Home Loan Bank ("FHLB") Stock. As a member of the FHLB system the Bank is required to maintain an investment in the capital stock of the FHLB. The amount of investment is also affected by the outstanding advances under the line of credit the Bank maintains with the FHLB. FHLB stock is carried at cost and is pledged as collateral to the FHLB. FHLB stock is periodically evaluated for impairment based on ultimate recovery of par value. The carrying amount of the FHLB stock was $23.1 million at December 31, 2017, and $17.3 million at December 31, 2016. As of December 31, 2017, the Company owned 230,850 shares of FHLB stock, which exceeded the minimum stock requirement of 150,000 shares.

Loans Held for Investment. Loans receivable that the Company has the intent and ability to hold for the foreseeable future or until maturity are stated at their outstanding principal, reduced by an allowance for loan losses and net of deferred loan fees or costs on originated loans and unamortized premiums or discounts on purchased loans. Nonrefundable fees and direct costs associated with the origination or purchase of loans are deferred and netted against outstanding loan balances. The deferred net loan fees and costs are recognized in interest income as an adjustment to yield over the loan term using the effective interest method or straight-line method. Discounts or premiums on purchased loans are accreted or amortized to interest income using the effective interest method or straight-line method over the remaining period to contractual maturity. Interest on loans is calculated using the simple-interest method on daily balances of the principal amounts outstanding based on an actual or 360-day basis. Generally, loans are placed on nonaccrual status when they become 90 days past due. Loans are considered past due when contractually required principal or interest payments have not been made on the due dates. Loans are also placed on nonaccrual status when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that full collection of principal or interest becomes uncertain, regardless of the length of past due status. Once a loan is placed on nonaccrual status, interest accrual is discontinued and all unpaid accrued interest is reversed against interest income. Interest payments received on nonaccrual loans are reflected as a reduction of principal and not as interest income. A loan is returned to accrual status when the borrower has demonstrated a satisfactory payment trend subject to management's assessment of the borrower's ability to repay the loan.

Loans held for sale are carried at the lower of aggregate cost or fair value. Gains and losses are recorded in non-interest income based on the difference between sales proceeds, net of sales commissions, and carrying value. When a determination is made at the time of commitment to originate or purchase loans as held-for-investment, it is the Company's intent to hold these loans to maturity or for the "foreseeable future," subject to periodic review under the Company's management evaluation processes, including asset/liability management. When the Company subsequently changes its intent to hold certain loans, the loans are transferred from the loans held-for-investment portfolio to the loans held-for-sale portfolio at lower of aggregate cost or fair value.

Impaired Loans. A loan is considered impaired when it is probable that the Bank will be unable to collect all amounts due (i.e. both principal and interest) according to the contractual terms of the loan agreement. The measurement of impairment may be based on (1) the present value of the expected future cash flows of the impaired loan discounted at the loan's original effective interest rate, (2) the observable market price of the impaired loan or (3) the fair value of the collateral of a collateral-dependent loan. The amount by which the recorded investment in the loan exceeds the measure of the impaired loan is recognized by recording a valuation allowance with a corresponding charge to the provision for loan losses. The Company stratifies its loan portfolio by size and treats smaller non-performing loans with an outstanding balance based on the Company's defined criteria, generally where the loan amount is $500,000 or less, as a homogenous portfolio. Once a loan has been identified as a possible problem loan, the Company conducts a periodic review of such loan in order to test for impairment. When loans are placed on an impaired status, previously accrued but unpaid interest is reversed against current income and subsequent payments received are generally first applied toward the outstanding principal balance of the loan.

Troubled Debt Restructured Loan ("TDR"). A TDR is a formal modification of the terms of a loan when the lender, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower. The concessions may be granted in various forms, including reduction in the stated interest rate, reduction in the loan balance or accrued interest, or extension of the maturity date. Although these loan modifications are considered TDRs, TDR loans that have, pursuant to the Bank's policy, performed under the restructured terms and have demonstrated sustained performance under the modified terms for six months are returned to accrual status. The sustained performance considered by management pursuant to its policy includes the periods prior to the modification if the prior performance met or exceeded the modified terms. This would include cash paid by the borrower prior to the restructure to set up interest reserves. Loans classified as TDRs are reported as impaired loans.

Unfunded Loan Commitments. Unfunded loan commitments are generally related to providing credit facilities to clients of the Bank, and are not actively traded financial instruments. These unfunded commitments are disclosed as off-balance sheet financial instruments in Note 13 in the Notes to Consolidated Financial Statements.

Letter of Credit Fees. Issuance and commitment fees received for the issuance of commercial or standby letters of credit are recognized over the term of the instruments.

Premises and Equipment. Premises and equipment are carried at cost, less accumulated depreciation. Depreciation is computed on the straight-line method based on the following estimated useful lives of the assets:

Type	Estimated Useful Life (years)
Buildings	15 to 45
Building improvements	5 to 20
Furniture, fixtures, and equipment	3 to 25
Leasehold improvements	Shorter of useful lives or the terms of the leases

Improvements are capitalized and amortized to occupancy expense based on the above table. Construction in process is carried at cost and includes land acquisition cost, architectural fees, general contractor fees, capitalized interest and other costs related directly to the construction of a property.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

Other Real Estate Owned. Real estate acquired in the settlement of loans is initially recorded at fair value, less estimated costs to sell. Specific valuation allowances on other real estate owned are recorded through charges to operations to recognize declines in fair value subsequent to foreclosure. Gain or loss on sale is recognized when certain criteria relating to the buyer's initial and continuing investment in the property are met.

Investments in Affordable Housing Partnerships and Other Tax Credit Investments. The Company is a limited partner in limited partnerships that invest in low-income housing projects that qualify for Federal and/or State income tax credits and limited partnerships that invests in alternative energy systems. As further discussed in Note 6, the partnership interests are accounted for utilizing the equity method of accounting. As of December 31, 2017, eight 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 Company therefore consolidated the financial statements of these eight limited partnerships into its Consolidated Financial Statements. The tax credits from these partnerships are recognized in the consolidated financial statements to the extent they are utilized on the Company's income tax returns. The investments are reviewed for impairment on an annual basis or on an interim basis if an event occurs that would trigger potential impairment.

Investments in Venture Capital. The Company invests in limited partnerships that invest in nonpublic companies. These are commonly referred to as venture capital investments. These limited partnership interests are carried under the cost method with other-than-temporary impairment charged against net income.

Goodwill and Goodwill Impairment. Goodwill represents the excess of costs over fair value of assets of businesses acquired. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead are tested for impairment at least annually in accordance with the provisions of ASC Topic 350. ASC Topic 350 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with ASC Topic 360.

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

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

The Company has identified two reporting units for its business: the Commercial Lending unit and the Retail Banking unit. The reporting unit fair values were determined based on an equal weighting of (1) a market approach using a combination of price to earnings multiples determined based on a representative peer group applied to 2017 and forecasted 2018 and 2019 earnings, and a price to book multiple and (2) a dividend discount model with the discount rate determined using the same representative peer group. A control premium was then applied to the unit fair values so determined as of December 31, 2017. As a result of this analysis, the Company determined that there was no goodwill impairment at December 31, 2017 as the fair value of all reporting units exceeded the current carrying amount of the units. No assurance can be given that goodwill will not be written down in future periods.

Core Deposit Intangible. Core deposit intangible, which represents the purchase price over the fair value of the deposits acquired from other financial institutions, is amortized over its estimated useful life to its residual value in proportion to the economic benefits consumed. If a pattern of consumption cannot be reliably determined, straight-line amortization is used. The Company assesses the recoverability of this intangible asset by determining whether the amortization of the premium balance over its remaining life can be recovered through the remaining deposit portfolio and amortizes core deposit premium over its estimated useful life.

Securities Sold Under Agreements to Repurchase. The Company sells certain securities under agreements to repurchase. The agreements are treated as collateralized financing transactions and the obligations to repurchase securities sold are reflected as a liability in the accompanying Consolidated Balance Sheets. The securities underlying the agreements remain in the applicable asset accounts.

Stock-Based Compensation. Stock option compensation expense is calculated based on the fair value of the award at the grant date for those options expected to vest, and is recognized as an expense over the vesting period of the grant using the straight-line method. The Company uses the Black-Scholes option pricing model to estimate the value of granted options. This model takes into account the option exercise price, the expected life, the current price of the underlying stock, the expected volatility of the Company’s stock, expected dividends on the stock and a risk-free interest rate. The Company estimates the expected volatility based on the Company’s historical stock prices for the period corresponding to the expected life of the stock options. Restricted stock units are valued at the closing price of the Company’s stock on the date of the grant.

Derivatives. 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 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.

Foreign Exchange Forwards and Foreign Currency Option Contracts. We enter into foreign exchange forward contracts and foreign currency option contracts with correspondent banks to mitigate the risk of fluctuations in foreign currency exchange rates for foreign currency certificates of deposit, foreign exchange contracts or foreign currency option contracts entered into with our clients. These contracts are not designated as hedging instruments and are recorded at fair value in our Consolidated Balance Sheets. Changes in the fair value of these contracts as well as the related foreign currency certificates of deposit, foreign exchange contracts or foreign currency option contracts, are recognized immediately in net income as a component of non-interest income. Period end gross positive fair values are recorded in other assets and gross negative fair values are recorded in other liabilities.

Income Taxes. The provision for income taxes is based on income reported for financial statement purposes, and differs from the amount of taxes currently payable, since certain income and expense items are reported for financial statement purposes in different periods than those for tax reporting purposes. The Company accounts for income taxes using the asset and liability approach, the objective of which is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled. A valuation allowance is established for deferred tax assets if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Comprehensive Income/(loss). Comprehensive income/(loss) is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. Comprehensive income/(loss) generally includes net income/(loss), unrealized gains and losses on investments in securities available-for-sale, and cash flow hedges. Comprehensive income/(loss) and its components are reported and displayed in the Company's consolidated statements of operations and comprehensive income/(loss).

Net Income per Common Share. Earnings per share ("EPS") is computed on a basic and diluted basis. Basic EPS excludes dilution and is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shares in the earnings of the Company. Potential dilution is excluded from computation of diluted per-share amounts when a net loss from operations exists.

Foreign Currency Translation. The Company considers the functional currency of its foreign operations to be the United States dollar. Accordingly, the Company remeasures monetary assets and liabilities at year-end exchange rates, while nonmonetary items are remeasured at historical rates. Income and expense accounts are remeasured at the average rates in effect during the year, except for depreciation, which is remeasured at historical rates. Foreign currency transaction gains and losses are recognized in income in the period of occurrence.

Statement of Cash Flows. Cash and cash equivalents include short-term highly-liquid investments that generally have an original maturity of three months or less.

Segment Information and Disclosures. Accounting principles generally accepted in the United States of America establish standards to report information about operating segments in annual financial statements and require reporting of selected information about operating segments in interim reports to stockholders. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. The Company has concluded it has one operating segment.

Accounting Standards adopted in 2017

In March 2016, the FASB issued ASU 2016-09, "Compensation--Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." ASU 2016-09 changes aspects of the accounting for share-based payment award transactions, including: (1) accounting for income taxes; (2) classification of excess tax benefits on the statement of cash flows; (3) forfeitures; (4) minimum statutory tax withholding requirements; and (5) classification of employee taxes paid on the statement of cash flows when an employer withholds shares for tax-withholding purposes. ASU 2016-09 became effective for interim and annual periods beginning on January 1, 2017. The method of adoption differs for each of the topics covered by the ASU. The Company elected to apply all topics covered by the ASU on a prospective basis and has elected to continue to estimate forfeitures expected to occur in determining the amount of compensation cost to be recognized each period.

Under ASU 2016-09, all excess tax benefits and tax deficiencies from share based payments are recognized as income tax expense or benefit in the income statement instead of the previous accounting which credited excess tax benefits to additional paid-in capital and tax deficiencies as a charge to income tax expense or as an offset to accumulated excess tax benefits, if any. Excess tax benefits or deficiencies are included in income tax expense as discrete items in the period in which they occur. For diluted earnings per share calculations, excess tax benefits are no longer included in assumed proceeds when determining average diluted shares outstanding under the treasury stock method. ASU 2016-09 resulted in a $3.8 million tax benefit from the distribution of restricted stock units in the year ended 2017.

2. Acquisition

On July 14, 2017, the Company completed the acquisition of SinoPac Bancorp, the parent of Far East National Bank (FENB), pursuant to a Stock Purchase Agreement, dated as of July 8, 2016, by and between the Company and Bank SinoPac Co. Ltd. Under the terms of the Stock Purchase Agreement, the Company purchased all of the issued and outstanding share capital of SinoPac Bancorp for an aggregate purchase price of $351.6 million plus additional post closing payments based on the realization of certain assets of FENB. The Company issued 926,192 shares of common stock as consideration and the remainder of the consideration is payable in cash of which $100 million was deferred and paid on November 14, 2017 and $35.4 million was deferred and will be released over the next three years. On December 12, 2017, additional cash consideration of $4.1 million was paid based on the realized gain from the sale of the building that housed FENB's former Alhambra, California branch. SinoPac Bancorp was merged into Cathay General Bancorp on July 17, 2017 and subsequently, on October 27, 2017, FENB was merged into Cathay Bank. Founded in 1974, FENB offers a wide range of financial services. The acquisition allowed the Company to expand its number of branches in California. As of July 14, 2017, FENB operated nine branches in California, and a representative office in Beijing. The acquisition will be accounted for as a business combination, subject to the provisions of ASC 805-10-50, Business Combinations.

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

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

		SinoPac Bancorp
Assets acquired:		
Cash and cash equivalents	$	166,932
Short-term investments		122,000
Securities available-for-sale		88,044
FHLB and FRB stock		19,890
Loans		705,792
Premises and equipment		6,239
Cash surrender value of life insurance		46,083
Deferred tax assets, net		40,690
Core deposit intangible		6,122
Accrued interest receivable and other assets		10,689
Total assets acquired		1,212,481
Liabilities assumed:		
Deposits		813,888
Advances from the Federal Home Loan Bank		30,000
Accrued interest payable and other liabilities		8,512
Total liabilities assumed		852,400
Net assets acquired	$	360,081
Cash paid	$	285,324
Fair value of common stock issued		34,862
Total consideration paid	$	320,186
Purchase price payable to SinoPac		34,267
Total consideration	$	354,453
Gain from acquisition	$	5,628

3. Cash and Cash Equivalents

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

The Company is required to maintain reserves with the Federal Reserve Bank. Reserve requirements are based on a percentage of deposit liabilities. The average reserve balances required were $7.5 million for 2017 and $1.9 million for 2016. The average excess balance with Federal Reserve Bank was $359.5 million in 2017 and $338.5 million in 2016. At December 31, 2017, the Bancorp had $4.5 million on deposit in a cash margin account that serves as collateral for the Bancorp’s interest rate swaps.

4. Investment Securities

Investment Securities. The following tables reflect the amortized cost, gross unrealized gains, gross unrealized losses, and fair values of investment securities as of December 31, 2017, and December 31, 2016:

	As of December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Securities Available-for-Sale				
U.S. treasury securities	$ 249,877	$ -	$ 357	$ 249,520
U.S. government agency entities	9,047	11	70	8,988
U.S. government sponsored entities	400,000	-	9,664	390,336
State and municipal securities	1,944		30	1,914
Mortgage-backed securities	577,987	241	6,259	571,969
Collateralized mortgage obligations	1,533	-	17	1,516
Corporate debt securities	80,007	1,291	17	81,281
Mutual funds	6,500	-	270	6,230
Preferred stock of government sponsored entities	5,842	4,260	-	10,102
Other equity securities	3,608	8,162	-	11,770
Total securities available-for-sale	$ 1,336,345	$ 13,965	$ 16,684	$ 1,333,626

	As of December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Securities Available-for-Sale				
U.S. treasury securities	$ 489,839	$ 35	$ 857	$ 489,017
U.S. government sponsored entities	400,000	-	9,669	390,331
Mortgage-backed securities	339,241	309	3,290	336,260
Collateralized mortgage obligations	48	-	20	28
Corporate debt securities	74,965	247	862	74,350
Mutual funds	6,500	-	270	6,230
Preferred stock of government sponsored entities	2,811	4,497	-	7,308
Other equity securities	3,608	7,213	-	10,821
Total securities available-for-sale	$ 1,317,012	$ 12,301	$ 14,968	$ 1,314,345

The amortized cost and fair value of investment securities at December 31, 2017, by contractual maturities are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or repayment penalties.

	Securities Available-for-Sale	
	Amortized Cost	Fair Value
	(In thousands)	
Due in one year or less	$ 265,550	$ 265,231
Due after one year through five years	465,195	456,804
Due after five years through ten years	8,056	7,962
Due after ten years (1)	597,544	603,629
Total	$ 1,336,345	$ 1,333,626

(1) Equity securities are reported in this category

There were no sales of mortgage-backed securities during 2017. Proceeds of $71.6 million were from repayments, maturities and calls of mortgage-backed securities during 2017 compared to proceeds from sales of $605.2 million and proceeds of $153.0 million from repayments, maturities, and calls during 2016. Proceeds from sales of other investment securities were $111.7 million during 2017 compared to $294,000 during 2016. Proceeds from maturities and calls of other investment securities were $491.0 million during 2017 compared to $460.0 million during 2016. In 2017, gains of $1.7 million and losses of $710,000 were realized on sales and calls of investment securities compared with gains of $5.1 million and no losses realized in 2016.

The temporarily impaired securities represent 88.6% of the fair value of investment securities as of December 31, 2017. Unrealized losses for securities with unrealized losses for less than twelve months represent 0.6%, and securities with unrealized losses for twelve months or more represent 2.1%, 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, 2017, 24 issues of securities had unrealized losses for 12 months or longer and 63 issues of securities had unrealized losses of less than 12 months.

Total unrealized losses of $16.7 million at December 31, 2017, were primarily caused by increases in interest rates or 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, 2017, management believed the impairment was temporary and, accordingly, no impairment loss on debt securities has been recognized in our 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.

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, 2017, and December 31, 2016:

As of December 31, 2017 — Temporarily Impaired Securities (Dollars in thousands)

	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
Securities Available-for-Sale									
U.S. treasury securities	$ 199,823	$ 62	4	$ 49,697	$ 295	2	$ 249,520	$ 357	6
U.S. government agency entities	5,711	70	3	-	-	-	5,711	70	3
U.S. government sponsored entities	-	-	-	390,336	9,664	8	390,336	9,664	8
State and municipal securities	1,914	30	2	-	-	-	1,914	30	2
Mortgage-backed securities	342,436	3,147	48	178,617	3,112	13	521,053	6,259	61
Collateralized mortgage obligations	1,516	17	5	-	-	-	1,516	17	5
Corporate debt securities	5,015	17	1	-	-	-	5,015	17	1
Mutual funds	-	-	-	6,230	270	1	6,230	270	1
Total securities available-for-sale	$ 556,415	$ 3,343	63	$ 624,880	$ 13,341	24	$ 1,181,295	$ 16,684	87

As of December 31, 2016 — Temporarily Impaired Securities (Dollars in thousands)

	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
Securities Available-for-Sale									
U.S. treasury securities	$ 299,088	$ 857	6	$ -	$ -	-	$ 299,088	$ 857	6
U.S. government sponsored entities	390,331	9,669	8	-	-	-	390,331	9,669	8
Mortgage-backed securities	328,236	3,288	16	62	2	3	328,298	3,290	19
Collateralized mortgage obligations	-	-	-	28	20	1	28	20	1
Corporate debt securities	-	-	-	29,138	862	2	29,138	862	2
Mutual funds	-	-	-	6,230	270	1	6,230	270	1
Total securities available-for-sale	$ 1,017,655	$ 13,814	30	$ 35,458	$ 1,154	7	$ 1,053,113	$ 14,968	37

Investment securities having a carrying value of $272.2 million at December 31, 2017, and $649.1 million at December 31, 2016, were pledged to secure public deposits, other borrowings, treasury tax and loan, 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.

The components of loans in the Consolidated Balance Sheets as of December 31, 2017, and December 31, 2016, were as follows:

	2017	2016
	(In thousands)	
Type of Loans:		
Commercial loans	$ 2,461,266	$ 2,248,187
Real estate construction loans	678,805	548,088
Commercial mortgage loans	6,482,695	5,785,248
Residential mortgage loans	3,062,050	2,444,048
Equity lines	180,304	171,711
Installment and other loans	5,170	3,993
Gross loans	12,870,290	11,201,275
Less:		
Allowance for loan losses	(123,279)	(118,966)
Unamortized deferred loan fees	(3,245)	(4,994)
Total loans and leases, net	$ 12,743,766	$ 11,077,315
Loans held for sale	$ 8,000	$ 7,500

The Company pledged real estate loans of $8.4 billion at December 31, 2017, and $7.8 billion at December 31, 2016, to the Federal Home Loan Bank of San Francisco under its blanket lien pledging program. In addition, the Bank pledged $36.1 million at December 31, 2017, and $30.0 million at December 31, 2016, 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, 2017, totaled $384.3 million and were comprised of $116.9 million of residential mortgages, $87.7 million of commercial real estate loans, $138.3 million of construction loans, and $41.4 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"). All loans to Related Parties were current as of December 31, 2017. An analysis of the activity with respect to loans to Related Parties for the years indicated is as follows:

	December 31,	
	2017	2016
	(In thousands)	
Balance at beginning of year	$ 51,327	$ 91,620
Additional loans made	53,584	62,206
Payment received	(38,318)	(102,499)
Balance at end of year	$ 66,593	$ 51,327

At December 31, 2017, recorded investment in impaired loans totaled $117.4 million and was comprised of nonaccrual loans, excluding loans held for sale, of $48.8 million and accruing TDR's of $68.6 million. At December 31, 2016, recorded investment in impaired loans totaled $115.1 million and was comprised of nonaccrual loans, excluding loans held for sale, of $49.7 million and accruing TDR's of $65.4 million. The average balance of impaired loans was $127.1 million in 2017 and $131.0 million in 2016. We considered all non-accrual loans and TDRs to be impaired. Interest recognized on impaired loans totaled $3.3 million in 2017 and $3.5 million in 2016. 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 7.2% and 8.4% of the contractual balances for impaired loans at December 31, 2017 and 2016, respectively.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

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

	Impaired Loans					
	As of December 31, 2017			As of December 31, 2016		
	Unpaid Principal Balance	Recorded Investment	Allowance	Unpaid Principal Balance	Recorded Investment	Allowance
	(In thousands)					
With no allocated allowance						
Commercial loans	$ 43,483	$ 42,702	$ -	$ 24,037	$ 23,121	$ -
Real estate construction loans	8,821	8,185	-	5,776	5,458	-
Commercial mortgage loans	37,825	31,029	-	60,522	54,453	-
Residential mortgage and equity lines	1,301	1,301	-	5,472	5,310	-
Subtotal	$ 91,430	$ 83,217	$ -	$ 95,807	$ 88,342	$ -
With allocated allowance						
Commercial loans	$ 891	$ 793	$ 43	$ 5,216	$ 4,640	$ 1,827
Commercial mortgage loans	21,733	21,635	1,738	10,158	10,017	573
Residential mortgage and equity lines	13,022	11,708	353	13,263	12,075	396
Subtotal	$ 35,646	$ 34,136	$ 2,134	$ 28,637	$ 26,732	$ 2,796
Total impaired loans	$ 127,076	$ 117,353	$ 2,134	$ 124,444	$ 115,074	$ 2,796

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,					
	2017	2016	2015	2017	2016	2015
	Average Recorded Investment			Interest Income Recognized		
	(In thousands)					
Commercial loans	$ 26,957	$ 21,199	$ 23,960	$ 1,303	$ 767	$ 546
Real estate construction loans	26,695	10,362	22,066	-	-	261
Commercial mortgage loans	58,635	81,905	100,118	1,618	2,214	2,708
Residential mortgage and equity lines	14,780	17,553	16,801	381	481	482
Subtotal	$ 127,067	$ 131,019	$ 162,945	$ 3,302	$ 3,462	$ 3,997

The following is a summary of non-accrual loans as of December 31, 2017, 2016, and 2015 and the related net interest foregone for the years then ended:

	2017	2016	2015
	(In thousands)		
Non-accrual portfolio loans	$ 48,787	$ 49,682	$ 52,130
Non-accrual loans held-for-sale	8,000	7,500	5,944
Total non-accrual loans	$ 56,787	$ 57,182	$ 58,074
Contractual interest due	$ 3,254	$ 1,573	$ 5,732
Interest recognized	86	95	119
Net interest foregone	$ 3,168	$ 1,478	$ 5,613

The following tables present the aging of the loan portfolio by type as of December 31, 2017, and December 31, 2016:

	As of December 31, 2017						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Non-accrual Loans	Total Past Due	Loans Not Past Due	Total
Type of Loans:				(In thousands)			
Commercial loans	$ 11,079	$ 5,192	$ -	$ 14,296	$ 30,567	$ 2,430,699	$ 2,461,266
Real estate construction loans	3,028	-	-	8,185	11,213	667,592	678,805
Commercial mortgage loans	17,573	5,602	-	19,820	42,995	6,439,700	6,482,695
Residential mortgage loans	6,613	732	-	6,486	13,831	3,228,523	3,242,354
Installment and other loans	103	-	-	-	103	5,067	5,170
Total loans	$ 38,396	$ 11,526	$ -	$ 48,787	$ 98,709	$ 12,771,581	$ 12,870,290

	As of December 31, 2016						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Non-accrual Loans	Total Past Due	Loans Not Past Due	Total
Type of Loans:				(In thousands)			
Commercial loans	$ 22,753	$ 27,190	$ -	$ 15,710	$ 65,653	$ 2,182,534	$ 2,248,187
Real estate construction loans	10,390	5,835	-	5,458	21,683	526,405	548,088
Commercial mortgage loans	5,886	700	-	20,078	26,664	5,758,584	5,785,248
Residential mortgage loans	4,390	-	-	8,436	12,826	2,602,933	2,615,759
Installment and other loans	-	-	-	-	-	3,993	3,993
Total loans	$ 43,419	$ 33,725	$ -	$ 49,682	$ 126,826	$ 11,074,449	$ 11,201,275

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.

At December 31, 2017, accruing TDRs were $68.6 million and non-accrual TDRs were $33.4 million compared to accruing TDRs of $65.4 million and non-accrual TDRs of $29.7 million at December 31, 2016. The Company has allocated specific reserves of $1.9 million to accruing TDRs and $83,000 to non-accrual TDRs at December 31, 2017, and $1.3 million to accruing TDRs and $1.1 million to non-accrual TDRs at December 31, 2016. The following table presents TDRs that were modified during 2017, their specific reserve at December 31, 2017, and charge-offs during 2017:

.	No. of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Specific Reserve	Charge-offs
			(Dollars in thousands)		
Commercial loans	16	$ 29,590	$ 29,590	$ 7	$ -
Real estate construction loans	2	27,683	27,683	-	-
Commercial mortgage loans	9	19,380	19,075	1,496	305
Residential mortgage and equity lines	4	1,088	1,088	53	-
Total	31	$ 77,741	$ 77,436	$ 1,556	$ 305

The following table presents TDRs that were modified during 2016, their specific reserve at December 31, 2016, and charge-offs during 2016:

	No. of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Specific Reserve	Charge-offs
	(Dollars in thousands)				
Commercial loans	24	$ 30,215	$ 29,385	$ 1,746	$ 830
Commercial mortgage loans	4	4,153	4,153	34	-
Residential mortgage and equity lines	2	367	367	-	-
Total	30	$ 34,735	$ 33,905	$ 1,780	$ 830

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-off
	(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	1,522	1,374	42	148
Total	28	$ 19,907	$ 19,759	$ 752	$ 148

A summary of TDRs by type of concession and by type of loans as of December 31, 2017, and December 31, 2016, are shown below:

	December 31, 2017			
Accruing TDRs	**Payment Deferral**	**Rate Reduction**	**Rate Reduction and Payment Deferral**	**Total**
	(In thousands)			
Commercial loans	$ 29,199	$ -	$ -	$ 29,199
Commercial mortgage loans	11,504	5,871	15,468	32,843
Residential mortgage loans	3,416	335	2,772	6,523
Total accruing TDRs	$ 44,119	$ 6,206	$ 18,240	$ 68,565

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

	December 31, 2016			
Accruing TDRs	Payment Deferral	Rate Reduction	Rate Reduction and Payment Deferral	Total
	(In thousands)			
Commercial loans	$ 7,971	$ -	$ 4,081	$ 12,052
Commercial mortgage loans	25,979	5,961	12,452	44,392
Residential mortgage loans	5,104	789	3,056	8,949
Total accruing TDRs	$ 39,054	$ 6,750	$ 19,589	$ 65,393

	December 31, 2016			
Non-accrual TDRs	Payment Deferral	Rate Reduction	Rate Reduction and Payment Deferral	Total
	(In thousands)			
Commercial loans	$ 14,565	$ -	$ -	$ 14,565
Commercial mortgage loans	2,510	1,795	10,328	14,633
Residential mortgage loans	356	-	168	524
Total non-accrual TDRs	$ 17,431	$ 1,795	$ 10,496	$ 29,722

The activity within our TDR loans for 2017, 2016, and 2015 are shown below:

Accruing TDRs	2017	2016	2015
		(In thousands)	
Beginning balance	$ 65,393	$ 81,680	$ 104,356
New restructurings	73,426	26,965	17,752
Restructured loans restored to accrual status	-	10,303	723
Charge-offs	-	(88)	(104)
Payments	(54,095)	(24,192)	(30,858)
Restructured loans placed on non-accrual	(13,919)	(13,984)	(10,189)
Expiration of loan concession	(2,240)	(15,291)	-
Ending balance	$ 68,565	$ 65,393	$ 81,680

Non-accrual TDRs	2017	2016	2015
		(In thousands)	
Beginning balance	$ 29,722	$ 39,923	$ 41,618
New restructurings	4,009	6,940	2,006
Restructured loans placed on non-accrual	13,919	13,984	10,189
Charge-offs	(1,650)	(5,271)	(3,246)
Payments	(11,341)	(15,551)	(9,921)
Foreclosures	(1,243)	-	-
Restructured loans restored to accrual status	-	(10,303)	(723)
Ending balance	$ 33,416	$ 29,722	$ 39,923

A loan is considered to be in payment default once it is 60 to 90 days contractually past due under the modified terms. One commercial real estate loan of $582,000 which was modified as TDRs during the previous twelve months that subsequently defaulted as of December 31, 2017.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

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, 2017, 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.
- **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, 2017, and as of December 31, 2016:

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

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

	As of December 31, 2016				
	Pass/Watch	Special Mention	Substandard	Doubtful	Total
			(In thousands)		
Commercial loans	$ 2,023,114	$ 140,682	$ 84,293	$ 98	$ 2,248,187
Real estate construction loans	469,909	44,129	34,050	-	548,088
Commercial mortgage loans	5,410,623	250,221	124,404	-	5,785,248
Residential mortgage and equity lines	2,605,834	-	9,925	-	2,615,759
Installment and other loans	3,993	-	-	-	3,993
Total gross loans	$ 10,513,473	$ 435,032	$ 252,672	$ 98	$ 11,201,275
Loans held for sale	$ -	$ -	$ 7,500	$ -	$ 7,500

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

The following table presents the balance in the allowance for loan losses by portfolio segment and based on impairment method as of December 31, 2017, and as of December 31, 2016.

	Commercial Loans	Real Estate Construction Loans	Commercial Mortgage Loans	Residential Mortgage and Equity Lines	Consumer and Other	Total
			(In thousands)			
December 31, 2017						
Loans individually evaluated for impairment						
Allowance	$ 43	$ -	$ 1,738	$ 353	$ -	$ 2,134
Balance	$ 43,495	$ 8,185	$ 52,664	$ 13,009	$ -	$ 117,353
Loans collectively evaluated for impairment						
Allowance	$ 49,753	$ 24,838	$ 35,872	$ 10,660	$ 22	$ 121,145
Balance	$ 2,417,771	$ 670,620	$ 6,430,031	$ 3,229,345	$ 5,170	$ 12,752,937
Total allowance	$ 49,796	$ 24,838	$ 37,610	$ 11,013	$ 22	$ 123,279
Total balance	$ 2,461,266	$ 678,805	$ 6,482,695	$ 3,242,354	$ 5,170	$ 12,870,290
December 31, 2016						
Loans individually evaluated for impairment						
Allowance	$ 1,827	$ -	$ 573	$ 396	$ -	$ 2,796
Balance	$ 27,761	$ 5,458	$ 64,470	$ 17,385	$ -	$ 115,074
Loans collectively evaluated for impairment						
Allowance	$ 47,376	$ 23,268	$ 34,291	$ 11,224	$ 11	$ 116,170
Balance	$ 2,220,426	$ 542,630	$ 5,720,778	$ 2,598,374	$ 3,993	$ 11,086,201
Total allowance	$ 49,203	$ 23,268	$ 34,864	$ 11,620	$ 11	$ 118,966
Total balance	$ 2,248,187	$ 548,088	$ 5,785,248	$ 2,615,759	$ 3,993	$ 11,201,275

The following table details activity in the allowance for loan losses by portfolio segment for the years ended December 31, 2017 and 2016. 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)			
2016 Beginning Balance	$ 56,199	$ 22,170	$ 49,440	$ 11,145	$ 9	$ 138,963
Provision/(reversal) for loan losses	1,815	(6,819)	(11,123)	475	2	(15,650)
Charge-offs	(12,955)	-	(5,948)	-	-	(18,903)
Recoveries	4,144	7,917	2,495	-	-	14,556
Net (Charge-offs)/Recoveries	(8,811)	7,917	(3,453)	-	-	(4,347)
2016 Ending Balance	$ 49,203	$ 23,268	$ 34,864	$ 11,620	$ 11	$ 118,966
Reserve for impaired loans	$ 1,827	$ -	$ 573	$ 396	$ -	$ 2,796
Reserve for non-impaired loans	$ 47,376	$ 23,268	$ 34,291	$ 11,224	$ 11	$ 116,170
Reserve for off-balance sheet credit commitments	$ 2,091	$ 940	$ 41	$ 146	$ 6	$ 3,224
2017 Beginning Balance	$ 49,203	$ 23,268	$ 34,864	$ 11,620	$ 11	$ 118,966
Provision/(reversal) for loan losses	117	955	(2,778)	(798)	4	(2,500)
Charge-offs	(3,313)	-	(860)	-	-	(4,173)
Recoveries	3,402	229	7,329	19	7	10,986
Net (Charge-offs)/Recoveries	89	229	6,469	19	7	6,813
2017 Ending Balance	$ 49,796	$ 24,838	$ 37,610	$ 11,013	$ 22	$ 123,279
Reserve for impaired loans	$ 43	$ -	$ 1,738	$ 353	$ -	$ 2,134
Reserve for non-impaired loans	$ 49,753	$ 24,838	$ 35,872	$ 10,660	$ 22	$ 121,145
Reserve for off-balance sheet credit commitments	$ 2,919	$ 1,360	$ 114	$ 190	$ 5	$ 4,588

An analysis of the activity in the allowance for credit losses for the years ended December 31, 2017, 2016, and 2015 is as follows:

	For the year ended December 31,		
	2017	2016	2015
Allowance for Loan Losses		(In thousands)	
Balance at beginning of year	$ 118,966	$ 138,963	$ 161,420
Reversal for credit losses	(2,500)	(15,650)	(11,400)
Loans charged off	(4,173)	(18,903)	(20,427)
Recoveries of charged off loans	10,986	14,556	9,370
Balance at end of year	$ 123,279	$ 118,966	$ 138,963
Reserve for Off-balance Sheet Credit Commitments			
Balance at beginning of year	$ 3,224	$ 1,494	$ 1,949
Provision/(reversal) for credit losses and transfers	1,364	1,730	(455)
Balance at end of year	$ 4,588	$ 3,224	$ 1,494

Residential mortgage loans in process of formal foreclosure proceedings were $3.5 million at December 31, 2017, compared to $3.6 million at December 31, 2016.

6. 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. In addition, in May 2017, March 2016 and April 2015, the Company invested in alternative energy partnerships that qualify for energy tax credits. The Company's investments in these partnerships, net, are presented in the table below:

(In thousands)	As of December 31, 2017	2016
Investments in affordable housing partnerships, net	$ 260,112	$ 236,787
Other borrowings for affordable housing limited partnerships	$ 17,481	$ 17,661
Investments in affordable housing pertnerships, unfunded commitments	$ 124,657	$ 115,038
Investments in alternative energy tax credit partnerships, net	$ 12,759	$ 14,290

At December 31, 2017, eight 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 $23.6 million at December 31, 2017, and by $23.7 million at December 31, 2016. Recourse in other borrowings for affordable housing limited partnerships is limited to the assets of the limited partnerships. Unfunded commitments for affordable housing limited partnerships were recorded under other liabilities.

The Company's unfunded commitments related to investments in qualified affordable housing partnerships, net, are estimated to be paid as follows:

Year Ending December 31,	Amount (In thousands)
2018	$ 54,817
2019	37,921
2020	16,528
2021	11,238
2022	728
Thereafter	3,425
Total unfunded commitments	$ 124,657

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 $190.6 million for Federal and $2.7 million for state as of December 31, 2017. 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. In 2017, the Bank took a $2.6 million pretax write-down of low income housing tax credit investments, as a result of the enactment of the Tax Cuts and Jobs Act.

The following table summarizes the Company’s usage of affordable housing and other tax credits including energy tax credits.

(In thousands)	As of December 31, 2017	2016	2015
Affordable housing and other tax credits recognized	$ 17,727	$ 13,422	$ 10,100
Alternative energy tax credit usage	$ 3,301	$ 24,472	$ 21,000

7. Premises and Equipment

Premises and equipment consisted of the following as of December 31, 2017, and December 31, 2016:

	As of December 31, 2017	2016
	(In thousands)	
Land and land improvements	$ 42,476	$ 42,455
Building and building improvements	79,179	78,463
Furniture, fixtures and equipment	53,529	51,654
Leasehold improvement	15,496	15,546
Construction in process	335	703
	191,015	188,821
Less: Accumulated depreciation/amortization	87,951	83,214
Premises and equipment, net	$ 103,064	$ 105,607

The amount of depreciation/amortization included in operating expense was $6.5 million in 2017, $6.8 million in 2016, and $7.0 million in 2015.

8. Deposits

The following table displays deposit balances as of December 31, 2017, and December 31, 2016:

	As of December 31, 2017	2016
	(In thousands)	
Demand	$ 2,783,127	$ 2,478,107
NOW accounts	1,410,519	1,230,445
Money market accounts	2,248,271	2,198,938
Saving accounts	857,199	719,949
Time deposits	5,390,777	5,047,287
Total	$ 12,689,893	$ 11,674,726

Time deposits outstanding as of December 31, 2017, mature as follows.

	Expected Maturity Date at December 31,						
	2018	2019	2020	2021	2022	Thereafter	Total
	(In thousands)						
Time deposits	$ 4,724,089	$ 532,188	$ 133,824	$ 73	$ 592	$ 11	$ 5,390,777

Accrued interest payable on customer deposits was $4.4 million at December 31, 2017, $2.9 million at December 31, 2016, and $3.4 million at December 31, 2015. The following table summarizes the interest expense on deposits by account type for the years ended December 31, 2017, 2016, and 2015:

	Year Ended December 31,		
	2017	2016	2015
	(In thousands)		
Interest bearing demand	$ 2,242	$ 1,740	$ 1,406
Money market accounts	15,062	13,308	10,138
Saving accounts	1,772	1,046	901
Time deposits	46,768	43,327	39,443
Total	$ 65,844	$ 59,421	$ 51,888

The aggregate amount of domestic time deposits in denominations that meet or exceed the current FDIC insurance limit of $250,000 was $1.9 billion and $1.8 billion as of December 31, 2017 and 2016, respectively. Foreign offices time deposits of $152.0 million and $137.7 million as of December 31, 2017 and 2016, respectively, were in denominations of $250,000 or more.

9. Borrowed Funds

Securities Sold under Agreements to Repurchase. Securities sold under agreements to repurchase were $100.0 million with a weighted average rate of 2.86% at December 31, 2017, compared to $350.0 million with a weighted average rate of 4.06% at December 31, 2016. As of December 31, 2017, two fixed rate non-callable securities sold under agreements to repurchase totaled $100 million with a weighted average rate of 2.86%, compared to three fixed rate non-callable securities sold under agreements to repurchase totaling $150 million with a weighted average rate of 2.81% as of December 31, 2016. Final maturity for the two fixed rate non-callable securities sold under agreements to repurchase is $50.0 million in June 2018 and $50.0 million in July 2018.

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 $108.4 million as of December 31, 2017, and $372.0 million as of December 31, 2016.

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

	2017	2016	2015
		(Dollars in thousands)	
Average amount outstanding during the year (1)	$ 136,849	$ 381,967	$ 400,822
Maximum amount outstanding at month-end (2)	150,000	400,000	400,000
Balance, December 31	100,000	350,000	400,000
Rate, December 31	2.86%	4.06%	3.89%
Weighted average interest rate for the year	3.11%	4.01%	3.95%

(1) Average balances were computed using daily averages.
(2) Highest month-end balances were January 2017, January 2016, and January 2015.

As of December 31, 2017, over-night borrowings from the FHLB were $325.0 million at a rate of 1.41% compared to $275.0 million at a rate of 0.55% at December 31, 2016. As of December 31, 2017, the advances from the FHLB were $105 million at a rate of 1.41% compared to $75 million at a rate of 1.48% as of December 31, 2016. As of December 31, 2017, final maturity for the FHLB advances is $30 million in March 2018, $15 million in April 2018, $5 million in July 2018, and $5 million in October 2018, and $50 million in December 2019.

Pursuant to the Stock Purchase Agreement with Bank SinoPac Co. Ltd, the Company paid $100 million of the purchase price on November 14, 2017. The residual payable balance of $35.2 million has a floating rate of three-month LIBOR rate plus 150 basis points. As of December 31, 2017, outstanding payable balance of $35.2 million is accruing interest at a rate of 2.8% of which 50%, 30%, and 20% will be disbursed annually over three years on the anniversary date, respectively.

On October 12, 2017, the Bank entered into a term loan agreement of $75.0 million with U.S. Bank. The loan has a floating rate of one-month LIBOR plus 175 basis points. As of December 31, 2017, the term loan has an interest rate of 3.125%. The principal amount of the long-term debt from U.S. Bank is due and payable in consecutive quarterly installments in the amount of $4.7 million each on the last day of each calendar quarter commencing December 31, 2018, with the final installment due and payable on October 12, 2020.

Other Liabilities. On November 23, 2004, the Company entered into an agreement with Mr. Dunson K. Cheng, pursuant to which he 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 his separation from service from the Company or the first day of the seventh month following his separation from service from the Company. 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 Mr. Cheng 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 his separation from service from the Company or the first day of the seventh month following his separation from service from the Company. 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 $87,000 during 2017, $83,000 during 2016, and $79,000 during 2015 was accrued on the deferred bonuses. The balance was $1.8 million at December 31, 2017, and $1.7 million at December 31, 2016.

10. Capital Resources

Total equity was $1.97 billion at December 31, 2017, an increase of $144.8 million, or 7.9%, from $1.83 billion at December 31, 2016, primarily due to increases in net income of $176.0 million, equity consideration for the acquisition of SinoPac Bancorp of $34.9 million, proceeds from dividend reinvestment of $2.5 million, proceeds from exercise of stock options of $1.1 million, and in other comprehensive income of $1.2 million offset by shares withheld related to net share settlement of RSUs of $6.8 million and common stock cash dividends of $69.9 million. The Company paid cash dividends of $0.87 per common share in 2017 and $0.75 per common share in 2016.

The U.S. Treasury received warrants to purchase common stock of 1,846,374 shares at an exercise price of $20.96, which will expire on December 5, 2018, as part of the Company's participation in the U.S. Treasury Troubled Asset Relief Program Capital Purchase Program. As a result of the anti-dilution adjustments under the warrant, the exercise price at December 31, 2017, has been adjusted to $20.41 and the number of warrants increased by 1.03%. At December 31, 2017, 943,327 warrants remain exercisable compared to 943,345 warrants at December 31, 2016.

In August 2015, the Company resumed stock repurchases under the November 2007 repurchase program and repurchased the remaining 622,500 shares for $18.1 million, or an average price of $29.08 per share. Also, in August 2015, the Board of Directors approved a stock repurchase program for the Company to buy back up to two million shares of our common stock, and 1,366,750 shares were repurchased during 2015. In January and February of 2016, the Company repurchased the remaining 633,250 shares under the August 2015 repurchase program for $17.0 million, or an average price of $26.82 per share.

On February 1, 2016, the Board of Directors approved a new stock repurchase program to buy back up to $45.0 million of our common stock. In 2016, the Company repurchased 1,380,578 shares for $37.5 million, or $27.13 per share under the February 2016 repurchase program. As of December 31, 2017, the Company may repurchase up to $7.5 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, all of which were issued before May 19, 2010, are currently included in the Tier 2 capital of the Bancorp for regulatory capital purposes. Under the Dodd-Frank Act, trust preferred securities issued before May 19, 2010 by bank holding companies with assets of less than $15 billion as of December 31, 2019 continue to qualify for Tier 1 capital treatment. As of December 31, 2017, the Company's assets grew past the $15 billion threshold which no longer qualifies the Junior Subordinated Notes as Tier 1 capital for regulatory reporting purposes. The Junior Subordinated Notes qualify as Tier 1 capital for regulatory reporting purposes at December 31, 2016 and 2015. Interest expense, excluding impact of cash flow interest rate swaps entered into during June 2014, on the Junior Subordinated Notes was $4.1 million for 2017, $3.5 million for 2016, and $3.0 million for 2015.

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, 2017:

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%	4.84%	December 30, 2017	March 30 June 30 September 30 December 30
Cathay Statutory Trust I	September 17, 2003	20,619	September 17, 2008	September 17, 2033	3-month LIBOR + 3.00%	4.60%	December 18, 2017	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%	4.59%	December 30, 2017	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%	3.07%	December 15, 2017	March 15 June 15 September 15 December 15
Cathay Capital Trust IV	May 31, 2007	18,619	September 6, 2012	September 6, 2037	3-month LIBOR + 1.4%	2.91%	December 6, 2017	March 6 June 6 September 6 December 6
Total Junior Subordinated Notes		$ 119,136						

11. Income Taxes

For the years ended December 31, 2017, 2016, and 2015, the current and deferred amounts of the income tax expense are summarized as follows:

	Year Ended December 31,		
	2017	2016	2015
		(In thousands)	
Current:			
Federal	$ 59,433	$ 28,788	$ 31,587
State	28,278	22,364	26,396
Total Current	$ 87,711	$ 51,152	$ 57,983
Deferred:			
Federal	$ 31,818	11,775	$ 3,738
State	2,736	4,174	(1,734)
Total Deferred	$ 34,554	$ 15,949	$ 2,004
Total income tax expense	$ 122,265	$ 67,101	$ 59,987

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, 2017, and at December 31, 2016, are included in other assets in the accompanying Consolidated Balance Sheets and are as follows:

	As of December 31,	
	2017	2016
	(In thousands)	
Deferred Tax Assets		
Loan loss allowance, due to differences in computation of bad debts	$ 37,157	$ 51,192
Share-based compensation	2,630	4,729
Accrual for bonuses	630	6,095
Non-accrual interest	2,100	4,246
Write-down on equity securities and venture capital investments	2,561	4,437
Depreciation and amortization	1,564	8,334
State tax	6,783	6,426
Unrealized loss on interest rate swaps	1,158	1,763
Unrealized loss on securities available-for-sale, net	-	1,121
Investment in affordable housing partnerships	580	-
Basis difference in acquired assets	1,676	-
Tax credits carried forward	9,278	-
Net operating loss carried forward	18,375	-
Other, net	3,279	3,598
Gross deferred tax assets	87,771	91,941
Deferred Tax Liabilities		
Deferred loan costs	(7,655)	(8,695)
Investment in affordable housing partnerships	-	(2,659)
Basis difference in acquired assets	-	(4,841)
Dividends on Federal Home Loan Bank common stock	(1,021)	(1,322)
Other, net	(3,758)	(3,228)
Gross deferred tax liabilities	(12,434)	(20,745)
Net deferred tax assets	$ 75,337	$ 71,196

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.

The Company had income tax refunds receivables of $7.2 million at December 31, 2017, and $14.6 million at December 31, 2016. These income tax receivables are included in other assets in the accompanying Consolidated Balance Sheets.

On December 22, 2017, the Tax Cuts and Jobs Act, was enacted into law and as a result, during the fourth quarter of 2017, the Company recorded $23.4 million of additional income tax expense related to the revaluation of the Company's deferred tax assets and a $2.6 million pretax write-down of low income housing tax credit investments.

The Company's tax returns are open for audits by the Internal Revenue Service back to 2014 and by the California Franchise Tax Board back to 2013. 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:

	Year Ended December 31,					
	2017		2016		2015	
	(Dollars in thousands)					
Tax provision at Federal statutory rate	$ 104,407	35.0%	$ 84,770	35.0%	$ 77,384	35.0%
State income taxes, net of Federal income tax benefit	20,616	6.9	17,250	7.1	14,656	6.6
Deferred taxes write-down due to Tax Cuts and Jobs Act	23,365	7.8	-	-	-	-
Excess deduction for stock option and RSUs	(3,146)	(1.0)	-	-	-	-
Non-taxable bargain purchase gain	(1,970)	(0.7)	-	-	-	-
Low income housing and other tax credits	(20,656)	(6.9)	(37,901)	(15.6)	(30,986)	(14.0)
Non-deductible stock options expense	-	-	3,469	1.4	-	-
Other, net	(351)	(0.1)	(487)	(0.2)	(1,067)	(0.5)
Total income tax expense	$ 122,265	41.0%	$ 67,101	27.7%	$ 59,987	27.1%

12. 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, 2017, is restricted to approximately $39.3 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, 2017, and 2016 was as follows:

	2017			2016		
	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			$ (1,545)			$ (5,431)
Cash flow hedge derivatives			(2,170)			(2,995)
Total			$ (3,715)			$ (8,426)
Net unrealized gains arising during the period						
Securities available-for-sale	$ 1,843	$ 775	$ 1,068	$ 11,603	$ 4,878	$ 6,725
Cash flow hedge derivatives	1,241	522	719	1,423	598	825
Total	3,084	1,297	1,787	13,026	5,476	7,550
Reclassification adjustment for net gains included in net income						
Securities available-for-sale	(1,006)	(423)	(583)	(4,898)	(2,059)	(2,839)
Cash flow hedge derivatives	-	-	-	-	-	-
Total	(1,006)	(423)	(583)	(4,898)	(2,059)	(2,839)
Total other comprehensive income						
Securities available-for-sale	837	352	485	6,705	2,819	3,886
Cash flow hedge derivatives	1,241	522	719	1,423	598	825
Total	$ 2,078	$ 874	$ 1,204	$ 8,128	$ 3,417	$ 4,711
Ending balance, loss, net of tax						
Securities available-for sale			$ (1,060)			$ (1,545)
Cash flow hedge derivatives			(1,451)			(2,170)
Total			$ (2,511)			$ (3,715)

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:

	2017			2016			2015		
	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	$ 176,042			$ 175,099			$ 161,109		
Basic EPS, income	$ 176,042	80,262,782	$ 2.19	$ 175,099	79,153,762	$ 2.21	$ 161,109	80,563,577	$ 2.00
Effect of dilutive stock options		741,768			775,500			731,219	
Diluted EPS, income	$ 176,042	81,004,550	$ 2.17	$ 175,099	79,929,262	$ 2.19	$ 161,109	81,294,796	$ 1.98

Options to purchase an additional 20,443 shares at December 31, 2017, and 242,419 shares at December 31, 2016, were not included in the computation of diluted earnings per share because their inclusion would have had an anti-dilutive effect.

13. 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,	
	2017	2016
	(In thousands)	
Commitments to extend credit	$ 2,366,368	$ 2,062,241
Standby letters of credit	140,814	75,396
Commercial letters of credit	27,353	37,283
Bill of lading guarantees	24	75
Total	$ 2,534,559	$ 2,174,995

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, 2017, 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, 2017, commitments to extend credit of $2.4 billion include commitments to fund fixed rate loans of $99.1 million and adjustable rate loans of $2.3 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.

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 $12.0 million for 2017, $10.2 million for 2016, and $9.3 million for 2015. The following table shows future minimum payments under operating leases with terms in excess of one year as of December 31, 2017.

Year Ending December 31,	Commitments (In thousands)
2018	$ 10,076
2019	7,720
2020	5,839
2021	4,996
2022	4,012
Thereafter	7,463
Total minimum lease payments	$ 40,106

Rental income was $0.4 million for 2017, $0.4 million for 2016, and $0.3 million for 2015. The following table shows future rental payments to be received under operating leases with terms in excess of one year as of December 31, 2017:

Year Ending December 31,	Commitments (In thousands)
2018	$ 337
2019	186
2020	91
2021	49
Thereafter	25
Total minimum lease payments to be received	$ 688

14. 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.

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

In May 2014, the Bancorp entered into five interest rate swap contracts in the notional amount of $119.1 million for a period of ten years. The objective of these interest rate swap contracts, which were designated as hedging instruments in cash flow hedges, was to hedge the quarterly interest payments on the Bancorp’s $119.1 million of Junior Subordinated Debentures that had been issued to five trusts, throughout the ten-year period beginning in June 2014 and ending in June 2024, from the risk of variability of these payments resulting from changes in the three-month LIBOR interest rate. The Bancorp pays a weighted average fixed interest rate of 2.61% and receives a variable interest rate of the three-month LIBOR at a weighted average rate of 1.6%. As of December 31, 2017, the notional amount of cash flow interest rate swaps was $119.1 million and their unrealized loss of $1.5 million, net of taxes, was included in other comprehensive income compared to unrealized loss of $2.2 million at December 31, 2016. For the year ended December 31, 2017, the periodic net settlement of interest rate swaps included in interest expense was $1.7 million compared to $2.3 million in 2016. As of December 31, 2017, and 2016, the ineffective portion of these interest rates swaps was not significant.

As of December 31, 2017, the Bank’s outstanding interest rate swap contracts had a notional amount of $540.4 million for various terms from two to ten years. The Bank entered into these interest rate swap contracts that are matched to individual fixed-rate commercial real estate loans in the Bank’s loan portfolio. These contracts have been designated as hedging instruments to hedge the risk of changes in the fair value of the underlying commercial real estate loans due to changes in interest rates. The swap contracts are structured so that the notional amounts reduce over time to match the contractual amortization of the underlying loan and allow prepayments with the same pre-payment penalty amounts as the related loan. The Bank pays a weighted average fixed rate of 4.6% and receives a variable rate at the one month LIBOR rate plus a weighted average spread of 289 basis points, or at a weighted average rate of 4.3%. As of December 31, 2017, and 2016, the notional amount of fair value interest rate swaps was $540.4 million and $361.5 million with unrealized gains of $5.0 million and $938,000, respectively, were included in other non-interest income. The amount of periodic net settlement of interest rate swaps reducing interest income was $2.4 million in 2017 compared to $3.6 million in 2016. As of December 31, 2017, and 2016, the ineffective portion of these interest rate swaps was not significant.

Interest rate swap contracts involve the risk of dealing with institutional derivative counterparties and their ability to meet contractual terms. Institutional counterparties must have a strong credit profile and be approved by the Company’s Board of Directors. The Company’s credit exposure on interest rate swaps is limited to the net favorable value and interest payments of all swaps by each counterparty. Credit exposure may be reduced by the amount of collateral pledged by the counterparty. The Bancorp’s interest rate swaps have been assigned by the counterparties to a derivatives clearing organization and daily margin is indirectly maintained with the derivatives clearing organization. Cash posted as collateral by the Bancorp related to derivative contracts totaled $4.5 million as of December 31, 2017 and $6.9 million as of December 31, 2016.

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 Consolidated Balance Sheet. 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, 2017, the notional amount of option contracts totaled $1.0 million with a net negative fair value of $9,000. At December 31, 2017, spot, forward, and swap contracts in the total notional amount of $108.5 million had a positive fair value of $1.8 million. Spot, forward, and swap contracts in the total notional amount of $32.1 million had a negative fair value of $453,000 at December 31, 2017. At December 31, 2016, the notional amount of option contracts totaled $12.1 million with a net negative fair value of $121,000. At December 31, 2016, spot, forward, and swap contracts in the total notional amount of $82.4 million had a positive fair value of $1.3 million. Spot, forward, and swap contracts in the total notional amount of $89.5 million had a negative fair value of $3.1 million at December 31, 2016.

15. 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, U.S. Treasury securities, and other equity securities, the Company measures the fair value based on quoted market prices in active exchange markets at the reporting date, a Level 1 measurement. 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.

Interest Rate Swaps. The Company measures the fair value of interest rate swaps using third party models with observable market data, a Level 2 measurement.

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

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

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

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.

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, which range from 4 to 10 years, 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. The weighted average amortization period and the remaining amortization is considered minor.

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.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

The following tables present the Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis at December 31, 2017, and at December 31, 2016:

As of December 31, 2017	Fair Value Measurements Using			Total at Fair Value
	Level 1	Level 2	Level 3	
	(In thousands)			
Assets				
Securities available-for-sale				
U.S. Treasury securities	$ 249,520	$ -	$ -	$ 249,520
U.S. government agency entities	-	8,988	-	8,988
U.S. government sponsored entities	-	390,336	-	390,336
State and municipal securities	-	1,914	-	1,914
Mortgage-backed securities	-	571,969	-	571,969
Collateralized mortgage obligations	-	1,516	-	1,516
Corporate debt securities	-	81,281	-	81,281
Mutual funds	6,230	-	-	6,230
Preferred stock of government sponsored entities	10,102	-	-	10,102
Other equity securities	11,770	-	-	11,770
Total securities available-for-sale	277,622	1,056,004	-	1,333,626
Warrants	-	-	91	91
Interest rate swaps	-	5,218	-	5,218
Foreign exchange contracts	-	1,832	-	1,832
Total assets	$ 277,622	$ 1,063,054	$ 91	$ 1,340,767
Liabilities				
Option contracts	$ -	$ 9	$ -	$ 9
Interest rate swaps	-	2,699	-	2,699
Foreign exchange contracts	-	453	-	453
Total liabilities	$ -	$ 3,161	$ -	$ 3,161

As of December 31, 2016	Fair Value Measurements Using			Total at Fair Value
	Level 1	Level 2	Level 3	
	(In thousands)			
Assets				
Securities available-for-sale				
U.S. Treasury securities	$ 489,017	$ -	$ -	$ 489,017
U.S. government sponsored entities	-	390,331	-	390,331
Mortgage-backed securities	-	336,260	-	336,260
Collateralized mortgage obligations	-	28	-	28
Corporate debt securities	-	74,350	-	74,350
Mutual funds	6,230	-	-	6,230
Preferred stock of government sponsored entities	7,308	-	-	7,308
Other equity securities	10,821	-	-	10,821
Total securities available-for-sale	513,376	800,969	-	1,314,345
Warrants	-	-	79	79
Interest rate swaps	-	938	-	938
Foreign exchange contracts	-	1,302	-	1,302
Total assets	$ 513,376	$ 803,209	$ 79	$ 1,316,664
Liabilities				
Option contracts	$ -	$ 121	$ -	$ 121
Interest rate swaps	-	3,744	-	3,744
Foreign exchange contracts	-	3,132	-	3,132
Total liabilities	$ -	$ 6,997	$ -	$ 6,997

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, 2017 and 2016, 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, 2017, and at December 31, 2016, and the total losses for the periods indicated:

	As of December 31, 2017				Total Losses/(Gains)	
	Fair Value Measurements Using			Total at	For the Twelve Months Ended	
	Level 1	Level 2	Level 3	Fair Value	December 31, 2017	December 31, 2016
				(In thousands)		
Assets						
Impaired loans by type:						
Commercial loans	$ -	$ -	$ 18,097	$ 18,097	$ 25	$ 322
Commercial mortgage loans	-	-	31,459	31,459	-	-
Residential mortgage and equity lines	-	-	11,355	11,355	-	-
Total impaired loans	-	-	60,911	60,911	25	322
Other real estate owned (1)	-	5,677	4,322	9,999	457	9
Investments in venture capital and private company stock	-	-	2,583	2,583	392	976
Total assets	$ -	$ 5,677	$ 67,816	$ 73,493	$ 874	$ 1,307

(1) Other real estate owned balance of $9.4 million in the Consolidated Balance Sheets is net of estimated disposal costs.

	As of December 31, 2016				Total Losses/(Gains)	
	Fair Value Measurements Using			Total at	For the Twelve Months Ended	
	Level 1	Level 2	Level 3	Fair Value	December 31, 2016	December 31, 2015
				(In thousands)		
Assets						
Impaired loans by type:						
Commercial loans	$ -	$ -	$ 2,813	$ 2,813	$ 322	$ 806
Commercial mortgage loans	-	-	9,444	9,444	-	598
Residential mortgage and equity lines	-	-	11,679	11,679	-	146
Total impaired loans	-	-	23,936	23,936	322	1,550
Other real estate owned (1)	-	6,006	4,372	10,378	9	404
Investments in venture capital and private company stock	-	-	3,667	3,667	976	553
Total assets	$ -	$ 6,006	$ 31,975	$ 37,981	$ 1,307	$ 2,507

(1) Other real estate owned balance of $20.1 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 55% in the case of accounts receivable collateral to 65% in the case of inventory collateral.

The significant unobservable inputs used in the fair value measurement of 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 6 years, risk-free interest rate from 1.83% to 2.57%, and stock volatility of the Company from 4.7% to 12.4%.

16. 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, U.S. Treasury securities, and other equity securities, the Company measures the fair value based on quoted market prices in active exchange markets at the reporting date, a Level 1 measurement. 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.

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.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

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 and therefore do not represent an "exit price". 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.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

Fair Value of Financial Instruments

	December 31, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Financial Assets				
Cash and due from banks	$ 247,056	$ 247,056	$ 218,017	$ 218,017
Short-term investments	292,745	292,745	967,067	967,067
Securities available-for-sale	1,333,626	1,333,626	1,314,345	1,314,345
Loans held for sale	8,000	8,000	7,500	7,500
Loans, net	12,743,766	12,663,049	11,077,315	11,006,344
Investment in Federal Home Loan Bank stock	23,085	23,085	17,250	17,250
Warrants	91	91	79	79
	Notional Amount	Fair Value	Notional Amount	Fair Value
Foreign exchange contracts	$ 108,530	$ 1,832	$ 82,439	$ 1,302
Interest rate swaps	514,159	5,218	361,526	938
Financial Liabilities	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Deposits	$ 12,689,893	$ 12,700,674	$ 11,674,726	$ 11,680,017
Securities sold under agreements to repurchase	100,000	100,163	350,000	351,989
Advances from Federal Home Loan Bank	430,000	429,482	350,000	350,062
Other borrowings	52,885	51,075	17,662	15,944
Long-term debt	194,136	141,865	119,136	63,169
	Notional Amount	Fair Value	Notional Amount	Fair Value
Option contracts	$ 1,014	$ 9	$ 12,117	$ 121
Foreign exchange contracts	32,127	453	89,545	3,132
Interest rate swaps	145,399	2,699	119,136	3,744
	Notional Amount	Fair Value	Notional Amount	Fair Value
Off-Balance Sheet Financial Instruments				
Commitments to extend credit	$ 2,366,368	$ (7,224)	$ 2,062,241	$ (6,025)
Standby letters of credit	140,814	(1,805)	75,396	(668)
Other letters of credit	27,353	(52)	37,283	(16)
Bill of lading guarantees	24	(0)	75	(0)

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, 2017, and December 31, 2016.

	As of December 31, 2017			
	Estimated Fair Value Measurements	Level 1	Level 2	Level 3
	(In thousands)			
Financial Assets				
Cash and due from banks	$ 247,056	$ 247,056	$ -	$ -
Short-term investments	292,745	292,745	-	-
Securities available-for-sale	1,333,626	277,622	1,056,004	-
Loans held-for-sale	8,000	-	-	8,000
Loans, net	12,663,049	-	-	12,663,049
Investment in Federal Home Loan Bank stock	23,085	-	23,085	-
Warrants	91	-	-	91
Financial Liabilities				
Deposits	12,700,674	-	-	12,700,674
Securities sold under agreement to repurchase	100,163	-	100,163	-
Advances from Federal Home Loan Bank	429,482	-	429,482	-
Other borrowings	51,075	-	-	51,075
Long-term debt	141,865	-	141,865	-

	As of December 31, 2016			
	Estimated Fair Value Measurements	Level 1	Level 2	Level 3
	(In thousands)			
Financial Assets				
Cash and due from banks	$ 218,017	$ 218,017	$ -	$ -
Short-term investments	967,067	967,067	-	-
Securities available-for-sale	1,314,345	513,376	800,969	-
Loans held-for-sale	7,500	-	-	7,500
Loans, net	11,006,344	-	-	11,006,344
Investment in Federal Home Loan Bank stock	17,250	-	17,250	-
Warrants	79	-	-	79
Financial Liabilities				
Deposits	11,680,017	-	-	11,680,017
Securities sold under agreement to repurchase	351,989	-	351,989	-
Advances from Federal Home Loan Bank	350,062	-	350,062	-
Other borrowings	15,944	-	-	15,944
Long-term debt	63,169	-	63,169	-

17. 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 16,458 shares in 2017, 19,377 shares in 2016, and 18,012 shares in 2015, of the Bancorp's common stock at an aggregate cost of $646,000 in 2017, $600,000 in 2016, and $541,000 in 2015. The distribution of benefits to participants totaled 57,014 shares in 2017, 103,367 shares in 2016, and 107,202 shares in 2015. As of December 31, 2017, the ESOP owned 865,167 shares, or 1.1%, of the Company's outstanding common stock.

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 the first of each month. 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 $2.3 million in 2017, $2.1 million in 2016, and $2.0 million in 2015. 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.

18. Equity Incentive Plans

In May 2015, the stockholders of the Company approved, the amended, and restated 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, 2017, 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). 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 2017. 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 $1.1 million for 46,790 shares in 2017, $7.7 million for 327,830 shares in 2016, and $5.0 million for 214,580 shares in 2015. Aggregate intrinsic value for options exercised was $663,000 in 2017 compared to $4.0 million in 2016.

A summary of stock option activity for 2017, 2016, and 2015 follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
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
Exercised	(327,830)	$ 23.37		
Forfeited	(620,670)	36.50		
Balance, December 31, 2016	82,670	23.37	1.1	$ 1,211
Exercised	(46,790)	$ 23.37		
Balance, December 31, 2017	35,880	23.37	0.1	$ 675
Exercisable, December 31, 2017	35,880	$ 23.37	0.1	$ 675

At December 31, 2017, 2,776,289 shares were available under the 2005 Incentive Plan for future grants.

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 87,781 shares at an average closing price of $38.59 per share in 2017, 88,693 shares at an average closing price of $30.37 per share in 2016, and for 72,900 shares at an average closing price of $28.11 per share in 2015. The restricted stock units granted 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. In December 2016, in addition to TSR and EPS awards, the Company granted performance share unit awards in which the number of units earned is determined by comparison to the targeted return of assets ROA as defined in the award for December 2016. Performance TSR restricted stock units for 119,840 shares and performance EPS restricted stock units for 116,186 shares were granted to eight executive officers 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 seven 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. In December 2016, the Company granted additional performance TSR restricted stock units for 30,319 shares, performance EPS restricted stock units for 58,241 shares, and performance ROA restricted stock units for 29,119 shares were granted to seven executive officers. In December 2017, the Company granted additional performance TSR restricted stock units for 23,556 shares and performance ROA restricted stock units for 22,377 shares to six executive officers. Performance TSR, performance EPS, and performance ROA share awarded are scheduled to vest three years from grant date.

The following table presents restricted stock unit activity for 2017, 2016, and 2015:

	Units
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
Granted	206,372
Vested	(13,780)
Cancelled or forfeited	(7,548)
Balance at December 31, 2016	727,419
Granted	247,045
Vested	(395,502)
Cancelled or forfeited	(17,352)
Balance at December 31, 2017	561,610

All awards are deemed probable of issuance and the compensation expense recorded for restricted stock units was $5.2 million in 2017, $4.4 million in 2016, and $4.5 million in 2015. Unrecognized stock-based compensation expense related to restricted stock units was $9.5 million at December 31, 2017, and is expected to be recognized over the next two years.

The Company adopted ASU 2016-09 in 2017 where all excess tax benefits and tax deficiencies from share based payments are recognized as income tax expense or benefit in the income statement instead of the previous accounting which credited excess tax benefits to additional paid-in capital and tax deficiencies as a charge to income tax expense or as an offset to accumulated excess tax benefits, if any. In 2015, the Company recognized a short-fall of tax deductions in excess of grant-date fair value of $5.4 million and a benefit of tax deductions on grant-date fair value of $6.5 million for a total benefit of tax deductions of $1.1 million.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

19. Condensed Financial Information of Cathay General Bancorp

The condensed financial information of the Bancorp as of December 31, 2017, and December 31, 2016, and for the years ended December 31, 2017, 2016, and 2015 is as follows:

Balance Sheets

	As of December 31,	
	2017	2016
	(In thousands, except share and per share data)	
Assets		
Cash	$ 44,645	$ 34,596
Cash pledged as margin for interest rate swaps	4,506	6,895
Short-term certificates of deposit	327	325
Securities available for sale	19,806	18,129
Investment in Cathay Bank subsidiary	2,134,445	1,879,868
Investment in non-bank subsidiaries	4,799	5,448
Other assets	6,831	6,674
Total assets	$ 2,215,359	$ 1,951,935
Liabilities		
Junior subordinated debt	$ 119,136	$ 119,136
Long-term Debt	75,000	-
Deferred payments from acquisition	35,404	-
Other liabilities	12,515	4,260
Total liabilities	242,055	123,396
Commitments and contingencies	-	-
Stockholders' equity		
Common stock, $0.01 par value, 100,000,000 shares authorized, 89,104,022 issued and 80,893,379 outstanding at December 31, 2017, and 87,820,920 issued and 79,610,277 outstanding at December 31, 2016	891	878
Additional paid-in-capital	932,874	895,480
Accumulated other comprehensive loss, net	(2,511)	(3,715)
Retained earnings	1,281,639	1,175,485
Treasury stock, at cost (8,210,643 shares at December 31, 2017, and at December 31, 2016)	(239,589)	(239,589)
Total stockholders' equity	1,973,304	1,828,539
Total liabilities and stockholders' equity	$ 2,215,359	$ 1,951,935

Statements of Operations

	Year Ended December 31,		
	2017	2016	2015
		(In thousands)	
Cash dividends from Cathay Bank and Far East National Bank	$ 265,207	$ 113,448	$ 163,301
Cash dividends from GBC Venture Capital	-	950	-
Interest income	221	48	68
Interest expense	7,637	5,791	5,776
Non-interest income/(loss)	1,909	(488)	(1,858)
Gain from acquisition	5,628	-	-
Non-interest expense	6,726	3,756	4,644
Income before income tax benefit	258,602	104,411	151,091
Income tax benefit	(5,687)	(4,199)	(5,134)
Income before undistributed earnings of subsidiaries	264,289	108,610	156,225
Undistributed earnings of subsidiary	(88,247)	66,489	4,884
Net income	$ 176,042	$ 175,099	$ 161,109

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

Statements of Cash Flows

	Year Ended December 31,		
	2017	2016	2015
		(In thousands)	
Cash flows from Operating Activities			
Net income	$ 176,042	$ 175,099	$ 161,109
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiaries	88,247	(67,770)	(4,884)
Dividends in excess of earnings of non-bank subsidiaries	-	1,281	-
Write-downs on venture capital and other investments	254	503	468
Write-downs on impaired securities	-	206	-
Loss in fair value of warrants	(12)	(17)	-
Stock issued to directors as compensation	550	550	495
Excess tax short-fall from stock options	-	-	5,348
Net change in other assets	(2,138)	(1,136)	619
Net change in other liabilities	5,949	(756)	(5,438)
Net cash provided by operating activities	268,892	107,960	157,717
Cash flows from Investment Activities			
(Increase)/decrease in short-term investment	(2)	23,999	(1,121)
Proceeds from sale of available-for-sale securities	12,580	294	-
Purchase of available-for-sale securities	(2,759)	-	(410)
Venture capital and other investments	671	134	-
Acquisitions, net of cash acquired	(275,328)	-	(57,006)
Net cash (used in)/provided by investment activities	(264,838)	24,427	(58,537)
Cash flows from Financing Activities			
Proceeds of issuance of long-term debt	75,000	-	-
Cash dividends	(69,888)	(59,274)	(45,283)
Proceeds from shares issued under the Dividend Reinvestment Plan	2,528	2,277	4,175
Proceeds from exercise of stock options	1,094	7,661	5,014
Taxes paid related to net share settlement of RSUs	(5,128)	(103)	(227)
Excess tax short-fall from share-based payment arrangements	-	-	(5,348)
Purchase of treasury stock	-	(54,441)	(59,412)
Net cash used in financing activities	3,606	(103,880)	(101,081)
Increase/(Decrease) in cash and cash equivalents	7,660	28,507	(1,901)
Cash and cash equivalents, beginning of the year	41,491	12,984	14,885
Cash and cash equivalents, end of the year	$ 49,151	$ 41,491	$ 12,984

20. 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 65,044 shares for $2.5 million in 2017, 72,231 shares for $2.3 million in 2016, and 148,582 shares for $4.2 million in 2015.

21. 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.

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, 2017 and 2016, 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, 2017, and December 31, 2016, are presented in the tables below:

	Cathay General Bancorp				Cathay Bank			
	December 31, 2017		December 31, 2016		December 31, 2017		December 31, 2016	
(Dollars in thousands)	Balance	%	Balance	%	Balance	%	Balance	%
Common equity Tier 1 capital (to risk-weighted assets)	$ 1,572,025	12.19	$ 1,459,351	12.84	$ 1,734,719	13.46	$ 1,515,096	13.35
Common equity Tier 1 capital minimum requirement	580,552	4.50	511,590	4.50	579,921	4.50	510,582	4.50
Excess	$ 991,473	7.69	$ 947,761	8.34	$ 1,154,798	8.96	$ 1,004,514	8.85
Tier 1 capital (to risk-weighted assets)	$ 1,572,025	12.19	$ 1,574,806	13.85	$ 1,734,719	13.46	$ 1,515,096	13.35
Tier 1 capital minimum requirement	774,070	6.00	682,120	6.00	773,229	6.00	680,776	6.00
Excess	$ 797,955	6.19	$ 892,686	7.85	$ 961,490	7.46	$ 834,320	7.35
Total capital (to risk-weighted assets)	$ 1,820,860	14.11	$ 1,702,144	14.97	$ 1,862,806	14.45	$ 1,637,286	14.43
Total capital minimum requirement	1,032,093	8.00	909,493	8.00	1,030,971	8.00	907,701	8.00
Excess	$ 788,767	6.11	$ 792,651	6.97	$ 831,835	6.45	$ 729,585	6.43
Tier 1 capital (to average assets) – Leverage ratio	$ 1,572,025	10.35	$ 1,574,806	11.57	$ 1,734,719	11.82	$ 1,515,096	11.16
Minimum leverage requirement	607,349	4.00	544,614	4.00	586,959	4.00	543,059	4.00
Excess	$ 964,676	6.35	$ 1,030,192	7.57	$ 1,147,760	7.82	$ 972,037	7.16
Risk-weighted assets	$ 12,901,161		$ 11,368,663		$ 12,887,142		$ 11,346,260	
Total average assets [(1)]	$ 15,183,720		$ 13,615,348		$ 14,673,981		$ 13,576,477	

(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.

22. 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, 2017, and December 31, 2016, 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, 2017			(In thousands)			
Assets:						
Derivatives	$ 5,218	$ -	$ 5,218	$ -	$ -	$ 5,218
Liabilities:						
Securities sold under agreements to repurchase	$ 100,000	$ -	$ 100,000	$ -	$ (100,000)	$ -
Derivatives	$ 2,699	$ -	$ 2,699	$ -	$ (2,699)	$ -
December 31, 2016						
Assets:						
Derivatives	$ 938	$ -	$ 938	$ -	$ -	$ 938
Liabilities:						
Securities sold under agreements to repurchase	$ 350,000	$ -	$ 350,000	$ -	$ (350,000)	$ -
Derivatives	$ 3,744	$ -	$ 3,744	$ -	$ (3,744)	$ -

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

23. Quarterly Results of Operations (Unaudited)

The following table sets forth selected unaudited quarterly financial data:

	Summary of Operations							
	2017				2016			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(In thousands, except per share data)							
Interest income	$ 155,640	$ 154,078	$ 135,629	$ 130,804	$ 130,668	$ 124,155	$ 121,902	$ 122,345
Interest expense	22,593	20,882	18,277	18,690	20,766	20,331	20,126	19,977
Net interest income	133,047	133,196	117,352	112,114	109,902	103,824	101,776	102,368
Reversal for credit losses	-	-	-	(2,500)	-	-	(5,150)	(10,500)
Net-interest income after reversal for loan losses	133,047	133,196	117,352	114,614	109,902	103,824	106,926	112,868
Non-interest income	10,466	12,961	6,152	6,718	7,961	8,811	9,057	7,541
Non-interest expense	66,407	61,248	56,658	51,886	53,503	50,737	68,879	51,571
Income before income tax expense	77,106	84,909	66,846	69,446	64,360	61,898	47,104	68,838
Income tax expense	51,166	35,163	15,431	20,505	16,345	15,808	12,273	22,675
Net income	$ 25,940	$ 49,746	$ 51,415	$ 48,941	$ 48,015	$ 46,090	$ 34,831	$ 46,163
Net income per common share								
Basic	$ 0.32	$ 0.62	$ 0.64	$ 0.61	$ 0.61	$ 0.58	$ 0.44	$ 0.58
Diluted	$ 0.32	$ 0.61	$ 0.64	$ 0.61	$ 0.60	$ 0.58	$ 0.44	$ 0.57

24. Subsequent Events

Dividend Declared

On February 15, 2018, the Company's Board declared first quarter 2018 dividends for the Company's common stock. The common stock cash dividend of $0.24 per share will be paid on March 12, 2018 to stockholders of record on March 1, 2018.

The Company has evaluated the effect of events that have occurred subsequent to December 31, 2017, through the date of issuance of the Consolidated Financial Statements, and there have been no material events that would require recognition in the Consolidated Financial Statements or disclosure in the notes to the Consolidated Financial Statements.

CATHAY BANK

EMPLOYEE STOCK OWNERSHIP PLAN

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CATHAY BANK

EMPLOYEE STOCK OWNERSHIP PLAN

Cathay General Bancorp has adopted the following complete amendment and restatement of its employee stock ownership plan that evidences the plan portion of an employee stock ownership plan and trust for the benefit of the qualified employees of the Company. The terms of the Plan are as follows:

ARTICLE I
NAME, DEFINITIONS & FUNDING POLICY

Section 1.1: Full Name. This plan shall be known as the:

CATHAY BANK
EMPLOYEE STOCK OWNERSHIP PLAN

It is hereby designated as constituting a defined contribution plan intended to qualify as a stock bonus plan under Code Section 401 and to constitute an employee stock ownership plan as described in ERISA Section 407(d)(6)(A) and Code Section 4975(e)(7). The Plan is designed to invest primarily in qualifying employer securities as defined in Code Section 409(l). The Trust established in connection with the Plan shall be known as the:

CATHAY BANK
EMPLOYEE STOCK OWNERSHIP TRUST

Section 1.2: Definitions. As used in this document and in the Trust, the following words and phrases shall have the following meanings, unless a different meaning is specified or clearly indicated by the context:

"Accounts" shall mean, collectively, the Stock Account and the Cash Account that may be established under the Plan for a Participant. If both of such Accounts are not established for a Participant, then, as to such a Participant, "Accounts" shall mean the one of such Accounts that is established for such Participant.

"Adjustment Factor" shall mean the cost of living adjustment factor prescribed by the Secretary of the Treasury under Code Section 415(d), as applied to such items and in such manner as the Secretary of the Treasury shall provide.

"Affiliated Company" shall mean:

(a) a member of a controlled group of corporations of which the Company is a member, as determined in accordance with Code Section 414(b) and the applicable Regulations;

(b) an unincorporated trade or business that is under common control with the Company, as determined in accordance with Code Section 414(c) and the applicable Regulations;

(c) a member of an affiliated service group of which the Company is a member, as determined in accordance with Code Section 414(m) and the applicable Regulations; or

(d) any other entity required to be aggregated with the Company pursuant to the Regulations under Code Section 414(o).

"Anniversary Date" shall mean the last day of each Plan Year.

"Article" shall mean an Article of the Plan.

"Beneficiary" shall mean the person or persons, as the context requires, last designated by a Participant to receive any benefit specified in the Plan that is payable upon such Participant's death. If there is no designated Beneficiary or surviving Beneficiary, the Beneficiary shall be the Participant's surviving spouse; or, if none, the Participant's surviving descendants (including adopted persons), who shall take on the principle of representation; or, if none, the Participant's estate; or, if there is no legal representative appointed to represent the Participant's estate and if the Participant's vested interest does not exceed $2,000, a person (or the persons) selected by the Committee who is related to the Participant by blood, adoption or marriage. To be entitled to receive any distribution, a Beneficiary must survive the Participant (or any entity designated as a Beneficiary, such as a trust, must be in existence at the time of the Participant's death). If the order of the deaths of a Participant and any Beneficiary cannot be determined or have occurred within 120 hours of each other, the Beneficiary shall be deemed to have predeceased the Participant. If the death of a Participant or any Beneficiary is the result of a criminal act involving any other Beneficiary, any person convicted of such criminal act will not be entitled to receive any portion of the deceased Participant's benefits.

"Board of Directors" shall mean the Board of Directors of the Company.

"Break in Service" shall mean a computation period in which an Employee has failed to complete more than 500 Hours of Service (unless due to an authorized, unpaid leave of absence granted by the Company in a nondiscriminatory manner). The computation period shall be, for eligibility and vesting purposes, the same computation period used in determining an Employee's Years of Service. Solely for purposes of determining whether a Break in Service has occurred in any computation period, an individual who is absent from work for maternity or paternity reasons shall receive credit for the Hours of Service that would otherwise have been credited to such individual but for such absence (or, in any case in which such Hours of Service cannot be determined, eight Hours of Service per work day of such absence). An absence from work for maternity or paternity reasons means an absence (a) by reason of the pregnancy of the individual, (b) by reason of a birth of a child of the individual, (c) by reason of the placement of a child with the individual in connection with the adoption of such child by such individual, or (d) for purposes of caring for such child for a period beginning immediately following such birth or placement. The Hours of Service credited under this provision shall in no event exceed 501 hours, and they shall be credited (1) in the computation period in which the absence begins if such crediting is necessary to prevent a Break in Service in that period, or (2) in all other cases, in the following computation period.

"Cash Account" shall mean the Account maintained by the Committee for each Participant that is to be credited with such Participant's share of the Trust's assets (other than Stock) that are allocated to Participants.

"Code" shall mean the Internal Revenue Code of 1986, as amended, and its successors.

"Committee" shall mean the Committee appointed pursuant to **Article X**.

"Company" shall mean, prior to October 20, 2003, Cathay Bancorp, Inc., and effective on and after October 20, 2003, Cathay General Bancorp.

"Compensation" shall mean a Participant's Earnings during the Plan Year (except as provided elsewhere in the Plan). In addition to other applicable limitations set forth in the Plan, and despite any other provision of the Plan, the Compensation of each Participant shall not exceed the Compensation Limitation (defined below). The Compensation Limitation is $265,000 (for 2015 and 2016), as adjusted for increases in the cost of living in accordance with Code Section 401(a)(17)(B). Annual Compensation means Compensation during the Plan Year or such other consecutive 12-month period over which Compensation is otherwise determined under the Plan (the "determination period"). The cost-of-living adjustment in effect for a calendar year applies to annual Compensation for the determination period that begins with or within such calendar year. If such a determination period consists of fewer than 12 months, the Compensation Limitation will be multiplied by a fraction, the numerator of which is the number of months in such determination period, and the denominator of which is 12. If Compensation for any prior determination period is taken into account in determining a Participant's benefits accruing in the current Plan Year, the Compensation for such prior determination period is subject to the Compensation Limitation in effect for such prior determination period.

"Current Obligation" shall mean any obligation of the Trust arising from the extension of credit to the Trust in connection with the purchase by the Trust of Stock and that is either (a) payable in cash within one year from the date of reference pursuant to the terms of the applicable credit agreement, or (b) designated by the Committee as subject to current payment with Trust assets available therefore pursuant to the terms of the Plan.

"Defined Benefit Plan" and "Defined Contribution Plan" shall have the same meanings as given these terms under ERISA.

"Earnings" shall mean a Participant's annual "compensation", as that term is defined in Code Section 415, that is actually paid or made available to the Participant within the Plan Year, except as otherwise provided below. A Participant's Earnings shall include such Participant's wages, salaries, differential wage payments under Code Section 3401(h), fees for professional services and other amounts received (without regard to whether or not an amount is paid in cash) for personal services actually rendered in the course of employment with the Company or any Affiliated Company to the extent that the amounts are includable in gross income under the Code (including, but not limited to, commissions paid salespersons, compensation for services on the basis of a percentage of profits, commissions on insurance premiums, tips, bonuses, fringe benefits, and reimbursements or other expense allowances under a nonaccountable plan, as described in Regulation Section 1.62-2(c)).

"Earnings" shall also include (i) amounts described in Code Sections 104(a)(3), 105(a), or 105(h), but only to the extent that these amounts are includable in the gross income of the Participant, (ii) amounts paid or reimbursed by the Company for moving expenses incurred by a Participant, but only to the extent that, at the time of the payment, it is reasonable to believe that these amounts are not deductible by the Participant under Code Section 217, (iii) the value of a non-statutory option (which is an option other than a statutory option defined in Regulations section 1.421-1(b)) granted to a Participant by the Company, but only to the extent that the value of the option is includable in the gross income of the Participant for the taxable year in which granted, (iv) the amount includable in the gross income of a Participant upon making the election described in Code Section 83(b), and (v) amounts that are includable in the gross income of a Participant under the rules of Code Section 409A or Code Section 457(f)(1)(A) or because the amounts are constructively received by the Participant.

"Earnings" shall not include:

(a) Any contribution made (other than elective contributions described in Code Sections 402(e)(3), 408(k)(6), 408(p)(2)(A)(i), or 457(b)) by the Company to a plan of deferred compensation (including a simplified employee pension described in Code Section 408(k) or a simple retirement account described in Code Section 408(p), whether or not qualified) to the extent that the contributions are not includable in the gross income of the Participant for the taxable year in which contributed. In addition, any distributions from a plan of deferred compensation (whether or not qualified) are not considered Earnings, regardless of whether such amounts are includable in the gross income of the Participant when distributed. However, any amount received by a Participant pursuant to a non-qualified unfunded deferred compensation plan may be considered Earnings in the year such amounts are actually received but only to the extent includable in the gross income of the Participant.

(b) Any amount realized from the exercise of a non-statutory stock option (which is an option other than a statutory option described in Regulation Section 1.421-1(b)), or when restricted stock (or property) held by a Participant either becomes freely transferable or is no longer subject to a substantial risk of forfeiture under Code Section 83 and the Regulations thereunder.

(c) Any amount realized from the sale, exchange or other disposition of stock acquired under a statutory stock option (as defined in Regulation Section 1.421-1(b)).

(d) Any other amount that receives special tax benefits, such as premiums for group term life insurance (but only to the extent that the premiums are not includable in the gross income of the Participant and are not salary reduction amounts described in Code Section 125).

(e) Other items of remuneration that are similar to any of the items listed in **subsections (a)** through **(d)** above.

(f) Despite the foregoing, "Earnings" with respect to a Participant who is a non-resident alien (within the meaning of Section 7701(b) of the Code) shall mean wages within the meaning of Section 3401(a) of the Code, but determined without regard to any rules that limit the remuneration included in wages based on the nature or location of the employment or the services performed (such as the exception for agricultural labor in Code Section 3401(a)(2)).

Earnings paid or made available during any Plan Year shall include any elective deferral (as defined in Code Section 402(e)(3)), and any amount that is contributed or deferred by the Company at the election of the Participant and that is not includable in the gross income of the Participant by reason of Code Section 125(a), 132(f)(4), 402(h)(1)(B), 402(k), or 457(b). Earnings shall not include "deemed Section 125 compensation." Deemed Section 125 compensation is an amount that is excludable under Code Section 106 that is not available to a Participant in cash in lieu of group health coverage because the Participant is unable to certify that he or she has other health coverage. Amounts are deemed Section 125 compensation only if the Company does not request or otherwise collect information regarding the Participant's other health coverage as part of the enrollment process for the health plan.

In general, Earnings for a Limitation Year are the Earnings actually paid or made available in gross income during such Limitation Year. Notwithstanding the preceding sentence, Earnings for a Participant in a Defined Contribution Plan who is permanently and totally disabled (as defined in Code Section 22(e)(3)) are the Earnings such Participant would have received for the Limitation Year if the Participant had been paid at the rate of Earnings paid immediately before becoming permanently and totally disabled if the conditions under the Regulations are met. In addition, for Limitation Years beginning on or after July 1, 2007, payments made within the later of (i) 2½ months after severance from employment (within the meaning of Regulation Section 1.415(a)-1(f)(5)), or (ii) the end of the Limitation Year that contains the date of severance (the "Post Severance Period") will be Earnings within the meaning of Code Section 415(c)(3) if they are payments that, absent a severance from employment, would have been paid to the Participant while the Participant continued in employment with the Company and are regular compensation for services during the Participant's regular working hours, compensation for services outside the Participant's regular working hours (such as overtime or shift differential), commissions, bonuses, or other similar compensation, and payments for accrued bona fide sick, vacation, or other leave, but only if the Participant would have been able to use the leave if employment had continued. In addition, Earnings includes amounts received by a Participant pursuant to a nonqualified unfunded deferred compensation plan, but only if the payment would have been paid to the Participant at the same time if the Participant had continued in employment with the Company and only to the extent that the payment is includable in the Participant's gross income, and the amount is paid during the Post Severance Period. Any payments not described above are not considered Earnings if paid after severance from employment, even if they are paid within the Post Severance Period, except for payments (i) to an individual who does not currently perform services for the Company by reason of qualified military service (within the meaning of Code Section 414(u)(1)) to the extent these payments do not exceed the amounts the individual would have received if the individual had continued to perform services for the Company rather than entering qualified military service, or (ii) a Participant who is permanently and totally disabled (as defined in Code Section 22(e)(3)), provided that either the Participant is not a highly compensated employee (as defined in Code Section 414(q)) immediately before becoming disabled, or the Plan provides for the continuation of Compensation on behalf of all Participants who are permanently and totally disabled for a fixed and determinable period.

Back pay, within the meaning of Regulation Section 1.415(c)-2(g)(8), shall be treated as Earnings for the Limitation Year to which the back pay relates to the extent the back pay represents wages and compensation that would otherwise be included under this definition.

"Effective Date" shall mean January 1, 2015, which is the effective date of this complete amendment and restatement, except as otherwise provided. Despite the foregoing, those provisions of the Plan that relate to the Pension Protection Act of 2006 ("PPA"), the Heroes Earnings Assistance and Relief Tax Act of 2008 ("HEART"), the Worker, Retiree and Employer Recovery Act of 2008 ("WRERA"), the Small Business Jobs Act of 2010 ("SBJA"), the Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act of 2010 ("PRA 2010"), the Moving Ahead for Progress in the 21st Century Act ("MAP-21"), the American Taxpayer Relief Act of 2012 ("ATRA"), the Highway and Transportation Funding Act of 2014 ("HATFA"), and the Cooperative and Small Employer Charity Pension Flexibility Act ("CSEC") shall be applicable as of the dates required by PPA, HEART, WRERA, SBJA, PRA 2010, MAP-21, ATRA, HATFA, and CSEC, respectively. Except as set forth in the prior sentence, the terms of the Plan in effect for periods before the Effective Date shall be as set forth in the prior Plan document.

"Eligibility Computation Period" for each Employee shall mean a 12 consecutive month period beginning on such Employee's Employment Commencement Date.

"Eligible Participant" shall mean, as of any Anniversary Date, (a) each Participant who has completed at least 1,000 Hours of Service on such Anniversary Date, and (b) each Participant who ceased to be an Employee during the Plan Year ending with such Anniversary Date by reason of his or her retirement on or after his or her Normal Retirement Date, death, or Total Disability.

"Employee" shall mean every common law employee of the Company and any Affiliated Company that has adopted the Plan with the permission of the Board of Directors who is classified in the payroll records of the Company or any such Affiliated Company as a salaried employee. The term "Employee" shall not include any person who is (a) employed by or through a leasing, temporary, or similar agency or company, or (b) classified by the Company or any Affiliated Company as a leased employee of the Company or any such Affiliated Company, or (c) classified by the Company or any Affiliated Company as an independent contractor or other status that is not a common law employee. For this purpose, a "leased employee" is a person whose services are performed under the primary direction or control by the Company or any Affiliated Company on a substantially full time basis for a period of at least one year in accordance with Code Section 414(n)(2). If any person described in the preceding two sentences is determined to be a common law employee of the Company or any Affiliated Company by court decision or otherwise, such person shall nonetheless continue to be treated as not being an Employee.

"Employer" shall mean, with respect to an Employee, the Company, any Predecessor Employer, and any Affiliated Company.

"Employment Commencement Date" for each Employee shall mean the date such Employee is first credited with an Hour of Service.

"Entry Date" shall mean the first day of the first month or the first day of the seventh month (whichever applies) of each Plan Year.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time, and its successors.

"Fiduciary" shall mean a person who:

(a) exercises any discretionary authority, discretionary control, or discretionary responsibility respecting the management or administration of the Plan;

(b) exercises any authority or control respecting management or disposition of the Plan's assets; or

(c) renders investment advice for a fee or other compensation, direct or indirect, with respect to any asset of the Plan, or has any authority or responsibility to do so.

"Financial Institution" shall mean a bank, trust company, or other financial institution that is regulated by the United States or any State.

"Freely Tradable Stock" shall mean, effective for Plan Years beginning on and after January 1, 2012, Stock that, at the time of reference, is readily tradable on an established securities market within the meaning of Regulation Section 1.401(a)(35)-1(f)(5), or any successor thereto.

"Hour of Service" shall mean:

(a) Each hour for which an Employee was paid by, or entitled to payment from, an Employer. Hours under this **subsection (a)** shall be credited to an Employee for the computation period or periods in which the services were performed. Generally, Hours of Service shall be determined from the Employer's employment records. Despite the foregoing, if an Employee's Compensation is not determined on the basis of certain amounts for each hour worked (such as salaried, commission or piece-work employees) and if his or her hours are not required to be counted and recorded by any federal law (such as the Fair Labor Standards Act), such Employee's Hours of Service need not be determined from employment records. Instead, such Employee may be credited with 190 Hours of Service for each month in which he or she would be credited with at least one Hour of Service pursuant to this **subsection (a)**;

(b) Each hour for which an Employee was paid by, or entitled to payment from, an Employer on account of a period during which no services were performed (irrespective of whether the employment relationship had terminated) due to vacation, holiday, illness, incapacity (including disability), layoff, jury duty, military duty or leave of absence. No more than 501 Hours of Service shall be credited under this **subsection (b)** for any single continuous period (whether or not such period occurs in a single computation period);

(c) Each hour for which back pay (irrespective of mitigation of damages) is either awarded against, or agreed to by, an Employer. The same Hours of Service shall not be credited under either **subsection (a)** or **(b)**, whichever is applicable, and under this **subsection (c)**. Hours of Service under this **subsection (c)** shall be credited for the computation period(s) to which the award or agreement pertains, rather than the computation period in which the award, agreement or payment is made; and

(d) Hours under **subsections (a)** through **(c)** above shall be calculated and credited pursuant to Section 2530.200b-2 of the Department of Labor Regulations, which is incorporated here by reference.

(e) Each hour for which an individual:

(i) employed by Great Eastern Bank (New York) ("GEB") on May 15, 2006 and who became an Employee on May 16, 2006, was paid by, or entitled to payment from, GEB, effective as of July 1, 2006 pursuant to the Agreement and Plan of Merger among Cathay General Bancorp, Cathay Bank and Great Eastern Bank dated as of February 16, 2006;

(ii) employed by New Asia Bank (Chicago) ("NAB") on October 17, 2006 and who became an Employee on October 18, 2006, was paid by, or entitled to payment from, NAB; and

(iii) employed by United Heritage Bank (New Jersey) ("UHB") on March 30, 2007 and who became an Employee on April 1, 2007, was paid by, or entitled to payment from, UHB.

"Individual Medical Benefit Account" shall have the same meaning as is given that term under Code Section 415(l)(2).

"Investment Manager" shall mean a person or entity who (that) is (a) registered as an investment advisor under the Investment Advisor's Act of 1940, (b) defined as a bank under that Act, or (c) an insurance company qualified under the laws of more than one state to manage, acquire and dispose of trust assets, and who has acknowledged in writing that he (she or it) is a Fiduciary with respect to the Plan.

"Leveraged Stock" shall mean any Stock that is acquired by the Trustee on an installment contract from, or with the proceeds of a loan made or guaranteed by, the Company or other disqualified person within the meaning of Code Section 4975(e)(2).

"Named Fiduciary" shall have the same meaning as under Section 402(a) of ERISA and shall be determined as provided in **Section 10.3**.

"Net Profits" shall mean, with respect to any Plan Year, the Company's net income or profit for such Plan Year, as determined on the basis of the Company's books of account in accordance with generally accepted accounting principles, before reduction for income taxes or contributions made by the Company to the Plan.

"Non-allocation Period" shall mean, with respect to a transaction for which an election under Code Section 1042(a) is made, the period beginning on the date of the sale of the Stock and ending on the later of (a) the date that is ten years after the date of the purchase of the Company Stock, or (b) the date of the Plan allocation attributable to the final payment of acquisition indebtedness incurred in connection with such sale.

"Normal Retirement Age" shall mean a Participant's 65th birthday.

"Normal Retirement Date" shall mean the first day of the month that coincides with or immediately follows a Participant's Normal Retirement Age.

"Participant" shall mean any Employee who becomes eligible for participation in accordance with the provisions of the Plan, and, unless the context indicates otherwise, includes former Participants.

"Plan" shall mean this document and the plan created by this document (including, unless the context indicates to the contrary, the Trust established in connection with the Plan), as it may be amended from time to time.

"Plan Year" shall mean the calendar year. The Plan Year shall be the fiscal year of the Plan. The Plan Year shall be the "limitation year" for the Plan as defined in the Code (the "Limitation Year"). If the Plan is terminated effective as of a date other than the last day of the Limitation Year, the Plan is deemed to have been amended to change its Limitation Year. As a result of such deemed amendment, the Code Section 415(c)(1)(A) dollar limit must be prorated under the short Limitation Year rules under the Regulations.

"Predecessor Employer" shall mean any predecessor employer of an Employee that maintained the Plan.

"Prohibited Allocation Group" shall mean all persons who, with respect to a transaction for which an election under Code Section 1042(a) is made, are within any one or more of the following categories:

(a) During the Non-allocation Period, the seller of the Stock.

(b) During the Non-allocation Period, any person who is related to such seller (within the meaning of Code Section 267(b)), except that it shall not include any lineal descendant of such seller if 5% or less of the shares of Stock (or other assets of the Plan in lieu thereof) attributable to such shares is allocated to all such lineal descendants. If the allocation provisions of **Article IV** would result in more than such 5% being so allocated, the Committee may limit such allocation to such 5% so that such lineal descendants are not included in the Prohibited Allocation Group.

(c) Any other person who owns (after the application of Code Section 318(a)) more than 25% of (i) any class of outstanding stock of the Company or any Affiliated Company, or (ii) the total value of any class of outstanding stock of the Company or any Affiliated Company. For this purpose, such person shall be deemed to own all Stock allocated to him or her in this or any other qualified employee benefit plan. Such person shall be included in the Prohibited Allocation Group if he or she meets such test either (i) at any time during the one-year period ending on the date of purchase of the Company Stock by the Trust, or (ii) on the date as of which such Stock is allocated to Participants.

"Qualified Holder" shall mean (a) any Participant or any Beneficiary(ies) or personal representative of a deceased Participant who has received a distribution of Stock from the Plan), (b) any other party to whom such Stock is transferred by gift or by reason of death, and (c) any trustee of an individual retirement account (as defined under Code Section 408) to which all or any portion of such distributed Stock is transferred pursuant to a Rollover Contribution.

"Regulations" shall mean the regulations issued under the Code or ERISA, or both of them, as well as under any other legislation that applies to the Plan. References to a Regulation include future amendments, and successors, to it.

"Rollover Contribution" shall mean a qualified rollover contribution as defined in Code Sections 402(c), 403(a)(4), 403(b)(8), 408(d)(3), and 457(e)(16), but shall not include a rollover contribution that is attributable to contributions made on behalf of a Key Employee in a Top-heavy Plan, unless such a rollover contribution is permissible under the Code or applicable Regulations.

"S Corporation" shall have the same meaning as given that term under the Code. It is noted that the Company has not made an S Corporation election.

"Section" shall mean, when used in conjunction with some other reference (such as the Code or ERISA), a section of such other reference. When not used in conjunction with some other reference, Section shall refer to a section of the Plan or Trust, as the context requires. References to a Section include future amendments, and successors, to it.

"Secretary" shall mean the Secretary or an Assistant Secretary of the Committee.

"Secretary of the Treasury" shall mean the Secretary of the Treasury, as defined in Code Section 7701(a)(11).

"Signature Page" shall mean the page(s) at the end of the Plan entitled "Signature Page."

"Stock" shall mean common stock issued by the Company (or by a corporation that is a member of the same controlled group of corporations) that is readily tradable on an established securities market; or if there is no such common stock, then common stock having a combination of voting power and dividend rights equal to or in excess of:

(a) that class of common stock of the Company (or of any other such corporation) having the greatest voting power, and

(b) that class of common stock of the Company (or of any other such corporation) having the greatest dividend rights.

"Stock Account" shall mean the Account maintained by the Committee for each Participant that is to be credited with such Participant's share of the Stock held in the Trust that is allocated to Participants.

"Total Disability" or "Totally Disabled" shall each refer to a physical or mental impairment that results in the Participant's receipt of long-term disability benefits under the Company's long-term disability plan, or if such plan is not applicable to such Participant or does not exist, under the Social Security Act.

"Trust" shall mean the trust established in connection with the Plan, as it may be amended from time to time.

"Trustee" shall mean the person(s) or entity, or combination of them, serving from time to time as the trustee(s) of the Trust.

"Unallocated Stock Account" shall mean the Account maintained by the Committee for the purpose of holding any Leveraged Stock (until such Stock is released and allocated pursuant to the applicable provisions of the Plan).

"Welfare Benefit Fund" shall have the same meaning as is given that term in Code Section 419(e).

"Year of Service" shall mean a computation period in which an Employee has completed at least 1,000 Hours of Service. The initial computation period shall be an Employee's Eligibility Computation Period, and shall thereafter be the 12 consecutive month period beginning on the annual anniversary date of such Employee's Employment Commencement Date.

"1% Owner" shall be determined in the same manner as a 5% Owner, defined below.

"5% Owner" shall mean a Participant who (a) owns more than 5% of the outstanding stock (or owns stock possessing more than 5% of the total combined voting power of all classes of stock) of the Company (or any Affiliated Company), if the Company (or the Affiliated Company, whichever applies) is a corporation; or (b) owns more than 5% of the capital or profit interest in the Company (or the Affiliated Company, whichever applies), if the Company (or the Affiliated Company, whichever applies) is not a corporation. In making this determination of a 5% Owner, (i) the Code Section 318(a)(2) corporate attribution rules, as modified by Code Section 416(i)(1)(B)(iii), shall apply, and (ii) the business aggregation rules of Code Section 414 shall not apply. A similar rule shall apply to the determination of a "1% Owner."

Section 1.3: Other Definitions. As used in this document and in the Trust, the following words and phrases shall have the meanings set forth in the indicated Sections, unless a different meaning is specified or clearly indicated by the context:

Term	Section
"Aggregate Account"	8.2
"Aggregation Group"	8.2
"Annual Addition"	4.13
"Claimant"	12.1
"Committee"	10.1
"Determination Date"	8.2
"Disqualified Person"	4.14
"Eligible Retirement Plan"	6.6
"Eligible Rollover Distribution	6.6
"Key Employee"	8.2
"Non-Key Employee"	8.2
"Nonallocation Year"	4.14
"Present Value of Accrued Benefit"	8.2
"Qualified Election Period"	9.4
"Qualified Participant"	9.4
"Synthetic Equity"	4.14
"Top-heavy Group"	8.2
"Top-heavy Plan"	8.2
"Total Distribution"	7.1
"Valuation Date"	8.2
"USERRA"	13.14

Section 1.4: Funding Policy. The Plan is to be funded primarily through the Company's contributions as provided for in the Plan. The Trust's assets shall be invested as provided for in the trust document in an effort to safely maximize potential retirement benefits (consistent with the Plan's designation as an employee stock ownership plan), which shall be paid to Participants and Beneficiaries as provided for in the Plan.

ARTICLE II
PARTICIPATION

Section 2.1: Eligibility Requirements.

(a) Each Employee shall become eligible to participate in the Plan on the Entry Date coincident with or next following the date on which such Employee shall have completed two Years of Service, provided that he or she is still an Employee on such Entry Date.

(b) Despite any other provision of the Plan, effective January 1, 2007, each individual receiving prior service credit under **subsection (e)** of the definition of "Hour of Service" in **Section 1.2** shall be eligible to participate in the Plan on the applicable Entry Date following the date such individual became an Employee and otherwise completed two Years of Service, provided that he or she is still an Employee on such Entry Date; and provided further, however, that this **Section 2.1(b)** shall be effective as of July 1, 2006 for each individual receiving prior service credit under **subsection (e)(i)** of the definition of "Hour of Service" in **Section 1.2**.

(c) Effective as of January 1, 1997, each individual who was an employee of First Public Savings Bank ("FPSB") on November 17, 1996, became an Employee on November 18, 1996, and remained an Employee until January 1, 1997, shall receive credit under the Plan for Years of Service such individual had with FPSB. Effective as of January 1, 2004, each individual who was an employee of General Bank Corporation ("GBC") or its Subsidiaries immediately prior to the Effective Time (as such terms are defined in the Agreement and Plan of Merger by and among General Bank, GBC Bancorp, Cathay Bank, and Cathay Bancorp, Inc., dated May 6, 2003), became an Employee at the Effective Time, and remained an Employee until January 1, 2004, shall receive credit under the Plan for Years of Service such individual had with GBC or its Subsidiaries.

(d) Despite any other provision of the Plan, any Participant who is included in a unit of employees covered by a collective bargaining agreement wherein retirement benefits were the subject of good faith bargaining (within the meaning of Code Section 410(b)(3)(A)) shall for the Plan Year(s) of such inclusion, cease to share in future contributions to the Plan, unless such collective bargaining agreement expressly provides for participation in the Plan; provided, however, that as to any benefits already earned, such Participant shall remain a Participant, subject to all the terms of the Plan.

(e) Notwithstanding any other provision of the Plan, no Employees who are nonresident aliens (within the meaning of Code Section 7701(b)(1)(B)) and who receive no earned income (within the meaning of Code Section 911(d)(2)) from the Company that constitutes income from sources within the United States (within the meaning of Code Section 861(a)(3)) shall be eligible to participate in the Plan.

Section 2.2: Application For Participation And Beneficiary Designation.

(a) Each Employee who becomes eligible to participate in the Plan shall complete such form or forms, whether written or electronic, as determined by the Committee, to evidence such Employee's participation in the Plan. These forms shall, among other things, allow such Employee to designate the Beneficiary whom he or she desires to receive benefits in the event of his or her death. A Participant may, from time to time, change his or her designated Beneficiary by filing a new designation with the Committee. A Participant's designation of a Beneficiary (including the failure to effectively name a Beneficiary such that the default Beneficiary provisions in the definition of "Beneficiary" in Plan **Section 1.2** apply) shall be the exclusive means of determining the distribution of a Participant's death benefit, except in the case of a "qualified disclaimer" under the Code or a valid QDRO. The Company, the Trustee, and the Committee may rely upon the designation of a Beneficiary that was last filed in accordance with the Plan.

(b) Despite the provisions of **subsection (a)** above, a married Participant's Beneficiary shall in all events be such Participant's surviving spouse, unless such spouse consents to such Participant's designation of a Beneficiary other than such spouse. A spouse's consent to such a designation must satisfy the following requirements: (i) it must be in writing; (ii) it must acknowledge the effect of the Participant's designation of a Beneficiary other than the spouse; and (iii) it must be witnessed by a designated Plan representative or a notary public.

(c) Upon the Committee's being provided with written notice of the dissolution of marriage of a Participant, any designation of such Participant's former spouse as a Beneficiary shall be treated as though the Participant's former spouse had predeceased the Participant, unless prior to the payment of benefits on behalf of such Participant (i) the Participant executed another Beneficiary designation after the date of such dissolution in accordance with **Section 2.2** that clearly names such former spouse as a Beneficiary, or (ii) an appropriate order issued by a court of competent jurisdiction is presented to the Committee that explicitly requires that the former spouse be treated as a Beneficiary. In any case in which the Participant's former spouse is treated under the Participant's Beneficiary designation as having predeceased the Participant, no heirs or other Beneficiaries of the former spouse (other than heirs or other Beneficiaries of the Participant) shall receive benefits from the Plan as a Beneficiary of the Participant, except as otherwise provided in the Participant's Beneficiary designation.

Section 2.3: Participation. The participation of a Participant in the Plan shall begin as of his or her Entry Date and shall continue until the Participant's entire benefit has been distributed in accordance with the Plan's terms. A Participant (or his or her Beneficiary) may not receive any distribution of benefits except as provided for in the Plan.

Section 2.4: Break In Service Rules For Eligibility Purposes.

(a) Except as otherwise provided in this Section, all Years of Service of an Employee shall be counted in determining such Employee's eligibility to participate in the Plan.

(b) In the case of any Employee who has incurred a Break in Service, such Employee's Years of Service that were completed before such Break in Service shall not be counted until he or she has completed a Year of Service after such Break in Service.

(c) This subsection shall apply to any Participant who does not have any nonforfeitable right to any accrued benefit that is attributable to the Company's contributions. Such a Participant's Years of Service before any period of consecutive Breaks in Service shall not be counted if the number of such consecutive Breaks in Service within such period equals or exceeds the greater of (i) five or (ii) the aggregate number of such Participant's Years of Service before such period. Such aggregate number of Years of Service shall not include any Year of Service that is disregarded under the preceding sentence by reason of such Participant's prior Breaks in Service.

(d) In addition to the foregoing, in the case of any Employee who incurs a Break in Service before satisfying the Plan's eligibility requirements, such Employee's Years of Service that were completed before such Break in Service shall not be counted. Further, a Participant who is re-employed shall participate immediately upon the date of his or her re-employment.

ARTICLE III
CONTRIBUTIONS

Section 3.1: Company Contributions. The Company has previously made substantial contributions to the Trust. Subject to the Plan's other provisions, for each Plan Year in which the Plan is in effect, the Company may contribute to the Trust, out of its current or accumulated Net Profits, such amount, if any, as shall be determined by the Company. Despite the foregoing, the Company shall be obligated to contribute such amount as shall be necessary to provide the Trust with funds sufficient to pay any Current Obligation (including principal, interest, and any acquisition charges) incurred for the purpose of acquiring Stock. The Company's contribution shall be paid in cash, Stock, or such other assets as the Company may determine; provided, however, that the Company shall contribute sufficient cash assets to the extent necessary to pay any Current Obligation. Furthermore, despite the foregoing, the Company's contributions are conditioned upon their deductibility under the Code.

Section 3.2: Payment Of Contributions To The Trustee. All payments of the Company's contributions shall be made directly to the Trustee and may be made on any date(s) selected by the Company. Despite the foregoing, the Company's total contribution for each Plan Year must be paid on or before the date on which the Company's federal income tax return is due, including any extensions of time obtained for the filing of such return.

Section 3.3: Participant Contributions. A Participant may not make nondeductible, voluntary contributions to the Plan. Similarly, a Participant may not make a Rollover Contribution to the Plan or a trustee-to-trustee transfer described in Code Section 401(a)(31).

Section 3.4: No Requirement For Profits. Despite any other provision of the Plan, the Company may make all contributions to the Plan for any Plan Year without regard to whether the Company has any Net Profits for the taxable year or years ending with or within such Plan Year.

ARTICLE IV
ALLOCATIONS TO PARTICIPANTS' ACCOUNTS

Section 4.1: Stock Account. The Committee shall open and maintain a Stock Account in the name of each Participant, and it shall be credited or charged with any Stock allocable to such Participant as set forth below.

Section 4.2: Cash Account. The Committee shall open and maintain a Cash Account in the name of each Participant, and it shall be credited or charged with any amount allocable to such Participant (other than Stock) as set forth below.

Section 4.3: Unallocated Stock Account. At such time as any Leveraged Stock is held in the Trust, the Committee shall open and maintain an Unallocated Stock Account, and it shall be credited with any unallocated Leveraged Stock until such Stock is released and allocated as set forth below.

Section 4.4: Allocation Of Gains And Losses. Subject to **Section 4.5(a)(i)** below, as of each Anniversary Date (but before any allocation is made of the Company's contributions, if any, for the Plan Year ending on such Anniversary Date, if, and to the extent, made prior to such date), the Committee shall credit any income and investment gains (whether realized or unrealized) of the Trust, other than with respect to Stock, and shall charge any losses (whether realized or unrealized) from such assets and unallocated expenses of the Trust, to the Participants' Cash Accounts in the same proportion that the balance in each such Cash Account as of such Anniversary Date bears to the total balance in all Cash Accounts as of such Anniversary Date. In determining the unrealized investment gains and losses to be credited or charged as of each Anniversary Date pursuant to this Section, the Trustee shall value the assets of the Trust at their fair market value as of each such Anniversary Date.

Section 4.5: Allocation Of Company Contributions.

(a) Subject to the limitations contained elsewhere in the Plan, as of each Anniversary Date, the Company's contribution (if any) made on account of the Plan Year ending on such Anniversary Date shall be allocated as follows:

(i) Any cash contribution shall be applied first to pay any Current Obligation of the Trust (as it becomes due) incurred for the purpose of acquiring Stock, and any excess remaining after such application (and any other asset contributed that is not Stock) shall, at the election of the Committee, either (A) be used to prepay any loan obligation of the Trust that arose in connection with the Trust's purchase of Stock, or (B) be allocated to the Cash Accounts of the Eligible Participants in accordance with the allocation formula set forth in **subsection (b)** below. Subject to **Section 4.6** below, for the purpose of determining the method of allocation of the excess, the Current Obligation shall be deemed to have been paid first with cash dividends, and, if any portion of the Current Obligation shall remain unpaid after the application of all the cash dividends, the balance due shall be deemed paid with Company cash contributions for the Plan Year.

(ii) Any contribution of Stock shall be allocated to the Stock Accounts of the Eligible Participants in accordance with the allocation formula set forth in **subsection (b)** below.

(b) For purposes of this Article, any item to be allocated pursuant to the formula set forth in this **subsection (b)** shall be allocated to the Cash Accounts, or Stock Accounts, as the case may be, of the Eligible Participants in the same ratio as each Eligible Participant's number of Units bears to the total number of Units of all such Eligible Participants. For purposes of this **subsection (b)**, each Eligible Participant shall be credited with one Unit for each full $100 of Compensation and with one Unit for each Year of Service.

Section 4.6: Allocation Of Cash Dividends On Stock.

(a) Any cash dividends received by the Trustee on account of the Stock shall, at the discretion of the Committee, either (a) be used to make any payment on any installment contract or loan used to acquire Leveraged Stock, or (b) be allocated to the Participants' Cash Accounts and the Unallocated Stock Account in proportion to the shares of Stock held in the Participants' Stock Accounts and the Unallocated Stock Account, respectively, as of the record date of such dividend. The Committee may not elect to use the method set forth in clause (a) above with respect to any Stock that is allocated to a Participant unless Stock with a fair market value of not less than the amount of such dividend is allocated to such Participant for the Plan Year that (but for clause (a)) such dividend would have been allocated to such Participant. Furthermore, if the Committee elects to use method (b) above, all cash dividends on Stock allocated to Participants' Stock Accounts shall be paid to the Plan and reinvested in Stock and allocated to the Participants' Stock Accounts except for cash dividends allocated to the Cash Accounts of any Participant or Beneficiary who elected to have such dividends distributed by the Plan in cash. The election to receive dividends in cash shall be made in the time and manner prescribed by the Committee. All amounts elected by a Participant or Beneficiary to be received in cash shall be distributed by the Plan to Participants or their Beneficiaries not later than 90 days after the close of the Plan Year in which it is paid.

(b) If the Stock is stock in an S Corporation, any distribution received by the Trustee on account of such Stock shall be allocated in accordance with **Section 4.6(a)(b)** above. Despite the foregoing, any distribution with respect to S Corporation Stock may be used to make any payment on any installment contract or loan used to acquire Leveraged Stock with respect to which such distribution is made (whether or not allocated to Participants). The preceding sentence shall not apply in the case of a distribution that is paid with respect to any Stock that is allocated to a Participant unless stock with a fair market value of not less than the amount of such distribution is allocated to such Participant for the Plan Year that (but for the preceding sentence) such distribution would have been allocated to such Participant.

Section 4.7: Allocation Of Stock Dividends. Any Stock received by the Trustee as a stock dividend (or stock split or as a result of a reorganization or other recapitalization of the Company) shall be credited to the Participants' Stock Accounts and to the Unallocated Stock Account in proportion to the shares of Stock held therein as of the record date of such dividend. Any cash received by the Trustee in lieu of fractional shares in connection with such a stock dividend shall be allocated as provided in **Section 4.6(a)(b)** above.

Section 4.8: Release And Allocation Of Leveraged Stock.

(a) All Leveraged Stock acquired by the Trust shall be held in the Unallocated Stock Account until released and allocated in accordance with the provisions of this Section. As of each Anniversary Date, Leveraged Stock acquired in a particular transaction shall be released from the Unallocated Stock Account as follows:

(i) Subject to the requirements of Treasury Regulation Section 54.4975-7(b)(8)(ii) and **subsection (ii)** below, for each Plan Year until any loan or installment obligation that was incurred to purchase Leveraged Stock (a "loan") is fully repaid, the number of shares of Leveraged Stock released from the Unallocated Stock Account shall equal the number of unreleased shares immediately before such release for the then current Plan Year multiplied by a fraction, the numerator of which is the amount of principal paid on such loan for such Plan Year and the denominator of which is the sum of such numerator plus the principal to be paid on such loan for all future years during the duration of the term of such loan (determined without reference to any possible extensions of renewals thereof). If the collateral includes more than one class of securities, the number of securities of each class to be released for a Plan Year must be determined by applying the same fraction to each class. Despite the foregoing, in the event such loan shall be repaid with the proceeds of a subsequent loan, such repayment shall not operate to release all such Leveraged Stock but rather such release shall be effected pursuant to the foregoing provisions of this Section on the basis of payments of principal on such substitute loan.

(ii) If the release is determined with reference to principal payments only pursuant to **subsection (i)**, the following three additional rules apply. The first rule is that the loan must provide for annual payments of principal and interest at a cumulative rate that is not less rapid at any time than level annual payments of such amounts for ten years. The second rule is that interest included in any payment is disregarded only to the extent that it would be determined to be interest under standard loan amortization tables. The third rule is that **subsection (i)** is not applicable from the time that, by reason of a renewal, extension, or refinancing, the sum of the expired duration of the exempt loan, the renewal period, the extension period, and the duration of a new exempt loan exceeds ten years. To the extent that **subsection (i)** is not applicable by reason of the foregoing, or if the Committee irrevocably so elects at the time of the first payment on any loan, then **subsection (i)** shall be applied with respect to all payments on such loan by deeming all references to "principal" therein to be references to "principal and interest." If the interest rate under the loan is variable, the interest to be paid in future years must be computed by using the interest rate applicable as of the end of the Plan Year.

(b) The Committee shall specify, and advise the Trustee with respect to:

(i) the amount (if any) of the Company's contribution that is to be applied (together with the earnings thereon) to pay any Current Obligation, and

(ii) the amount (if any) of cash dividends held pursuant to **Section 4.6** that is to be applied to pay any Current Obligation.

(c) As of each Anniversary Date, the value of any Leveraged Stock released from the Unallocated Stock Account for such Plan Year shall be allocated among the Eligible Participants in the same proportion as such Participants would have received allocations pursuant to **Section 4.5**, as if such released Stock had been contributed during such Plan Year.

(d) It is intended that the preceding provisions shall be applied and construed in a manner consistent with the requirements and provisions of Treasury Regulation Section 54.4975-7(b)(8).

Section 4.9: Notice Of Allocations.

(a) After the close of each Plan Year, the Committee shall notify each Participant as to the allocations made during the Plan Year pursuant to this **Article IV**, which notice shall include the information set forth below.

(b) The balance in the Participant's Cash Account and the number of shares held in the Participant's Stock Account as of the most recent Anniversary Date;

(c) The amount of Company Contributions and Leveraged Stock (if any) allocated to the Participant's Accounts for that Plan Year;

(d) The adjustment to the Participant's Accounts to reflect the Participant's share of undistributed dividends held at year end (if any) and the net income (or loss) of the Trust for that Plan Year;

(e) The new balance in the Participant's Cash Accounts and the number of shares held in the Participant's Stock Account, as of the Anniversary Date of that Plan Year; and

(f) Such other information as may be required by the applicable Regulations.

Section 4.10: Miscellaneous Allocation Rules.

(a) Allocations of all assets other than Stock shall be made on the basis of, and expressed in terms of, dollar value. Allocations of Stock shall be made on the basis of the number of shares of Stock (including fractional shares).

(b) The Committee may establish accounting procedures for the purpose of making the allocations, valuations and adjustments to Participants' Accounts provided for in this Article IV. From time to time, the Committee may modify such accounting procedures for the purpose of achieving equitable, nondiscriminatory, and administratively feasible allocations among the Accounts of Participants in accordance with the general concepts of the Plan and the provisions of this Article IV.

(c) Despite any other provision of the Plan, if shares of Stock are purchased by the Trust in a transaction for which an election pursuant to Code Section 1042(a) is made, none of such shares, nor any other assets of the Plan in lieu thereof, shall accrue for the benefit of or be allocated, directly or indirectly, under this Plan or any other qualified employee benefit plan of the Company or any Affiliated Company, to the Accounts of any member of the Prohibited Allocation Group. In the event that any member of the Prohibited Allocation Group is a Participant in the Plan, (i) if there are no Company contributions to be allocated as of an Anniversary Date other than shares of Stock and/or other assets which are subject to this provision, such Participant shall receive no allocation thereof, (ii) no portion of the Cash Account balance of such Participant may be used to acquire shares of Stock and/or other assets which are subject to this provision, and (iii) if there are Company contributions to be allocated as of an Anniversary Date and such includes both shares of Stock and/or other assets which are subject to this provision and share and/or other assets which are not subject to this provision, the allocation shall be made so that such Participant receives no allocation of Stock or other assets whatsoever to the extent of the percentage of Compensation received by the other Participants attributable to Stock and/or other assets which are subject to this provision, provided that if there is additional Stock and/or other assets to be allocated, then such additional allocations shall be made to all Participants as otherwise provided in the Article IV. All allocations of Stock and other assets shall in all respects comply with the provisions of Code Section 409(n) and the Regulations thereunder, all of which are incorporated herein by reference.

Section 4.11: Valuation Of Stock.

(a) If, on any Anniversary Date or other valuation date required under the terms of the Plan, Trust, or Regulation Section 54.4975-11(d)(5), the Stock is not Freely Tradable Stock, the Company shall furnish the Committee with a certificate of value setting forth the fair market value of the Stock as of such date. Such valuation shall be made (i) in good faith based on all relevant factors and in accordance with Regulation Section 54.4975-11(d)(5) and ERISA Section 3(18); and (ii) by an independent appraiser who satisfies the requirements of the Regulations under Code Section 170(a)(1). The Committee shall use such value for all purposes under the Plan until a new certificate of value is furnished to the Committee, or until the Stock becomes Freely Tradable Stock. If the Stock is Freely Tradable Stock, the Committee shall use the market price of the Stock as its value. This certificate of value shall be furnished to Qualified Holders of Stock that has been distributed to a terminated Participant or a Beneficiary. Despite the foregoing, in the case of a transaction between the Plan and a "disqualified person," as defined in Code Section 4975(e)(2), the valuation must be made as of the date of the transaction.

(b) Any Stock acquired by the Trust with cash shall be valued initially at the purchase price paid by the Trust. All such initial valuations are subject to revaluation as of any subsequent date of valuation that may apply pursuant to the terms of this Plan and/or applicable law.

Section 4.12: Accounts In General.

(a) The credits made to a Participant's Accounts shall not vest in such Participant any right, title or interest in the Trust, except to the extent, at the time or times, and upon the terms and conditions set forth in the Plan. Neither the Company, the Trustee, nor the Committee, to any extent, warrant, guarantee or represent that the value of any Participant's Accounts at any time will equal or exceed the amount previously allocated or contributed to such Accounts.

(b) If at any time there shall be allocated to a Participant's Stock Accounts more than one class of Stock, the Committee shall direct the Trustee with respect to whether sub-accounts for each such class of stock shall be maintained, and if so, all references in this Plan to Stock Accounts shall include and refer to all such sub-accounts.

Section 4.13: Limitation On Annual Additions.

(a) The limitations set forth below shall apply to the allocations to each Participant's Accounts in any Plan Year. If the Company contribution that would otherwise be contributed or allocated to a Participant's Accounts would cause the Annual Addition for the Limitation Year to exceed the maximum permissible amount set forth below, the amount contributed or allocated shall be reduced so that the Annual Addition for the Limitation Year will equal such maximum permissible amount.

(i) As used in the Plan, a Participant's "Annual Addition" shall mean the sum for any Plan Year of the following amounts allocated to a Participant's Accounts:

(A) Such Participant's share of the Company's and any Affiliated Company's contributions; plus

(B) Such Participant's voluntary, nondeductible contributions to the Plan (excluding any Rollover Contribution); plus

(C) Such Participant's share of any forfeiture, plus

(D) Such Participant's allocable share of the Company's or any Affiliated Company's contributions to any Individual Medical Benefit Account that is part of a pension or annuity plan maintained by the Company or any Affiliated Company; plus

(E) With respect to any Participant who is a Key Employee, any amount that is derived from the Company's and any Affiliated Company's contributions paid or accrued and that are attributable to post-retirement medical benefits allocated to such Participant's account under a Welfare Benefit Fund maintained by the Company or any Affiliated Company; and plus

(F) Such Participant's share of any allocations under a simplified employee pension maintained by the Company or any Affiliated Company.

(ii) Despite the foregoing and except in the case of an S Corporation, if, for any Plan Year, there is Leveraged Stock and no more than one-third of the Company's contributions are allocated to highly compensated employees (as defined in Code Section 414(q)), then the Annual Addition of a Participant shall not include (A) his or her share of the Company's contributions for such Plan Year that are deductible under Code Section 404(a)(9)(B), or (B) his or her share of forfeitures of Stock acquired with the proceeds of a loan or installment obligation described in Code Section 404(a)(9)(A).

(iii) Any excess amount applied under **subsection (b)** below in a Plan Year to reduce the Company's or any Affiliated Company's contributions on behalf of any Participant shall be considered to be an Annual Addition for such Participant for such Plan Year.

(iv) Subject to the adjustments set forth below, during any Plan Year the maximum Annual Addition for any Participant shall in no event exceed the lesser of:

(A) $53,000 (for 2015 and 2016), as adjusted by the Adjustment Factor; or

(B) 100% of the Participant's Earnings for such Plan Year.

(v) The earnings limitation referred to in **subsection (a)(iv)(B)** above shall not apply to (A) any contribution for medical benefits (within the meaning of Code Section 401(h) or 419A(f)(2)) after separation from service that is otherwise treated as an Annual Addition, or (B) any amount otherwise treated as an Annual Addition under Code Section 415(l)(1).

(vi) For purposes of the foregoing, the amount of Company contributions that are considered an Annual Addition for the Limitation Year with respect to Leveraged Stock is calculated with respect to Company contributions for such Limitation Year of both principal and interest used to repay the loan or installment obligation used to acquire such Leveraged Stock. Despite the foregoing, Annual Additions with respect to payments on such a loan or installment obligation are determined as the fair market value of shares released from the Unallocated Stock Account on account of the payment and allocated to Participants for the Limitation Year, if such amount is less than the amount determined in the preceding sentence.

(b) If, for any Plan Year, it is necessary to limit the Annual Addition of any Participant to comply with **subsection (a)** above, such methods as authorized pursuant to Code Section 415 Regulations shall be utilized.

(c) If a suspense account is in existence at any time during a Plan Year in connection with correcting a failure pursuant to **subsection (b)** above, it shall not participate in the Trust's income, gains and losses.

(d) The limitations of this Section with respect to any Participant who, at any time, has been a participant in any other Defined Contribution Plan (whether or not terminated) or in more than one Defined Benefit Plan (whether or not terminated) maintained by the Company or by an Affiliated Company shall apply as if all such Defined Contribution Plans or all such Defined Benefit Plans in which the Participant has been a participant were one plan.

(e) Restorative Payments. Annual Additions for purposes of Code Section 415 shall not include restorative payments. A restorative payment is a payment made to restore losses to the Plan resulting from actions by a fiduciary for which there is reasonable risk of liability for breach of a fiduciary duty under ERISA or under other applicable federal or state law, where Participants who are similarly situated are treated similarly with respect to the payments. Generally, payments are restorative payments only if the payments are made in order to restore some or all of the Plan's losses due to an action (or a failure to act) that creates a reasonable risk of liability for such a breach of fiduciary duty (other than a breach of fiduciary duty arising from failure to remit contributions to the Plan). This includes payments to the Plan made pursuant to a Department of Labor order, the Department of Labor's Voluntary Fiduciary Correction Program, or a court-approved settlement, to restore losses to a qualified defined contribution plan on account of the breach of fiduciary duty (other than a breach of fiduciary duty arising from failure to remit contributions to the Plan). Payments made to the Plan to make up for losses due merely to market fluctuations and other payments that are not made on account of a reasonable risk of liability for breach of a fiduciary duty under ERISA are not restorative payments and generally constitute contributions that are considered Annual Additions.

(f) Other Amounts. Annual Additions for purposes of Code Section 415 shall not include: (1) the direct transfer of a benefit or employee contributions from a qualified plan to this Plan; (2) rollover contributions (as described in Code Sections 401(a)(31), 402(c)(1), 403(a)(4), 403(b)(8), 408(d)(3), and 457(e)(16)); (3) repayments of loans made to a Participant from the Plan; and (4) repayments of amounts described in Code Section 411(a)(7)(B) (in accordance with Code Section 411(a)(7)(C)) and Code Section 411(a)(3)(D) or repayment of contributions to a governmental plan (as defined in Code Section 414(d)) as described in Code Section 415(k)(3), as well as Company restorations of benefits that are required pursuant to such repayments.

(g) The intent of this **Section 4.13** is to comply with the limitations of Code Section 415 and the Regulations thereunder, and it should be construed accordingly. Further, Code Section 415 and the Regulations thereunder are hereby incorporated by reference.

Section 4.14: Special Rules For S Corporation Stock.

(a) If the Plan holds Stock that is stock in an S Corporation, no portion of the assets of the Plan attributable to (or allocable in lieu of) such Stock may, during a Nonallocation Year, accrue (or be allocated directly or indirectly under any plan of the Company meeting the requirements of Code Section 401(a)) for the benefit of any Disqualified Person (a "Prohibited Allocation").

(b) For purposes of Code Section 409(p) and this Section, the term "Prohibited Allocation" means an "impermissible accrual" or an "impermissible allocation." The amount of the Prohibited Allocation is equal to the sum of the amount of the impermissible accrual plus the amount of the impermissible allocation.

(i) There is an impermissible accrual to the extent that Stock consisting of stock in an S Corporation owned by the Plan and any assets attributable thereto are held under the Plan for the benefit of a Disqualified Person during a Nonallocation Year. For this purpose, assets attributable to stock in an S Corporation owned by the Plan include any distributions, within the meaning of Code Section 1368, made on S Corporation stock held in a Disqualified Person's Account in the Plan (including earnings thereon), plus any proceeds from the sale of S Corporation securities held for a Disqualified Person's Account in the Plan (including any earnings thereon).

(ii) An impermissible allocation occurs during a Nonallocation Year to the extent that a contribution or other Annual Addition (within the meaning of Code Section 415(c)(2)) is made with respect to the Account of a Disqualified Person, or the Disqualified Person otherwise accrues additional benefits, directly or indirectly under the Plan or any other plan of the Company qualified under Code Section 401(a) (including a release and allocation of assets from a suspense account, as described at Sections 54.4975-11(c) and (d) of the Treasury Regulations that, for the Nonallocation Year, would have been added to the Account of the Disqualified Person under the Plan and invested in Stock consisting of stock in an S Corporation owned by the Plan but for a provision in the Plan that precludes such addition to the Account of the Disqualified Person, and investment in Stock during a Nonallocation Year.

(c) The term "Nonallocation Year" shall mean any Plan Year if, at any time during such Plan Year:

(i) the Plan holds Stock consisting of stock in an S Corporation; and

(ii) Disqualified Persons own at least 50% of the number of shares of Stock in the S Corporation.

For purposes of this **subsection (c)**, the rules of Code Section 318(a) shall apply for purposes of determining ownership, except that:

(i) in applying Code Section 318(a)(1), the members of an individual's family shall include (A) the individual's spouse, (B) ancestors or lineal descendants of the individual or the individual's spouse, (C) the brothers or sisters of the individual, the individual's spouse, or the lineal descendants of the individual's brothers or sisters, and (D) the spouse or any person described in clause (B) or (C) above. For purposes of the foregoing, "spouse" does not include a spouse who is legally separated under a decree of divorce or separate maintenance; and

(ii) Code Section 318(a)(4) shall not apply.

Notwithstanding the employee trust exception in Code Section 318(a)(2)(B)(i), an individual shall be treated as owning deemed-owned shares of the individual. Solely for purposes of applying **subsection (e)** below, this subsection shall be applied after the attribution rules of **subsection (e)** below have been applied.

(d) The term "Disqualified Person" shall mean any person if:

(i) the aggregate number of deemed-owned shares of such person and the members of such person's family is at least 20% of the number of deemed-owned shares of stock in the S Corporation; or

(ii) in the case of a person not described in clause (i) above, the number of deemed-owned shares of such person is at least 10% of the number of deemed-owned shares of stock in such corporation.

(iii) In the case of a Disqualified Person described in **subsection (d)(i)**, any member of such person's family with deemed-owned shares shall be treated as a Disqualified Person if not otherwise treated as a Disqualified Person under this **subsection (d)**.

(iv) The term "deemed-owned shares" shall mean, with respect to any person:

(A) the stock in the S Corporation constituting Stock held by the Plan that is allocated to such person under the Plan; and

(B) such person's share of the Stock in such S Corporation that is held by the Plan but that is not allocated under the Plan to Participants.

(v) For purposes of **subsection (iv)(B)** above, a person's share of unallocated S Corporation Stock held by the ESOP is the amount of the unallocated Stock that would be allocated to such person if the unallocated Stock were allocated to all Participants in the same proportions as the most recent Stock allocation under the ESOP.

(vi) For purposes of this subsection, the "member of the family" means, with respect to any individual:

(A) the spouse of the individual;

(B) an ancestor or lineal descendant of the individual or the individual's spouse;

(C) a brother or sister of the individual or the individual's spouse and any lineal descendant of the brother or sister; and

(D) the spouse of any individual described in **subsection (B)** or **(C)** above.

A spouse of an individual who is legally separated from such individual under a decree of divorce or separate maintenance shall not be treated as such individual's spouse for purposes of this subsection.

(e) For purposes of **subsections (c)** and **(d)** above, in the case of a person who owns Synthetic Equity in the S Corporation, except to the extent provided in the Regulations, the shares of stock in such corporation on which such Synthetic Equity is based shall be treated as outstanding stock in such corporation and deemed-owned shares of such person if such treatment of Synthetic Equity of one or more such persons results in:

(i) the treatment of any person as a Disqualified Person; or

(ii) the treatment of any Plan Year as a Nonallocation Year.

For purposes of this **subsection (e)**, Synthetic Equity shall be treated as owned by a person in the same manner as stock is treated as owned by a person under the rules of Code Section 318(a)(2) and (3). If, without regard to this **subsection (e)**, a person is treated as a Disqualified Person or a Plan Year is treated as a Nonallocation Year, this **subsection (e)** shall not be construed to result in the person or Plan Year not being so treated.

(f) The term "Synthetic Equity" means any stock option, warrant, restricted stock, deferred issuance stock right, or similar interest or right that gives the holder the right to acquire or receive stock of the S Corporation in the future. Except the extent provided in the Regulations, Synthetic Equity also includes a stock appreciation right, phantom stock unit, or similar right to a future cash payment based on the value of such stock or appreciation in value. In addition, Synthetic Equity also includes nonqualified deferred compensation as described in Treasury Regulation Section 1.409(p)-1(f)(2)(iv)(A).

Section 4.15: Non-ESOP Portion Of The Plan.

(a) Non-ESOP Portion. Despite any other provision of the Plan, assets held under the Plan in accordance with this **Section 4.15** are held under a portion of the Plan that is not an employee stock ownership plan ("ESOP"), within the meaning of Code Section 4975(e)(7). Amounts held in the portion of the Plan that is not an ESOP (the "Non-ESOP Portion") shall be held in Accounts that are separate from the Accounts for the amounts held in the remainder of the Plan (the "ESOP Portion"). The statements provided to Participants and Beneficiaries to show their interest in the Plan shall separately identify the amounts held in each such portion. Except as specifically set forth in this Section, all of the terms of the Plan apply to any amount held under the Non-ESOP Portion of the Plan in the same manner and to the same extent as to any other amount held under the Plan.

(b) Transfers from ESOP to Non-ESOP Portion of Plan. (i) In the case of any event that the Committee determines would cause a Nonallocation Year to occur (referred herein as a "nonallocation event"), shares of Stock held under the Plan before the date of the nonallocation event, shall be transferred from the ESOP Portion of the Plan to the Non-ESOP Portion of the Plan as provided in **subsection (b)(i)**. Actions that may cause a nonallocation event, include, but are not limited to, a contribution to the Plan in the form of shares of Stock, a distribution from the Plan in the form of shares of Stock, a change of investment within a Plan Account of a Disqualified Person that alters the number of shares of Stock held in the account of the Disqualified Person, or the issuance by the employer of Synthetic Equity as defined by Code Section 449(p)(6)(C) and Section 1.449(p)-1(f) of the Regulations. A nonallocation event occurs only if (A) the total number of shares of Stock that, held in the ESOP Account of those Participants who are or who would be Disqualified Persons after taking into account the Participant's Synthetic Equity and the nonallocation event, exceeds (B) 49.9% of the total number of shares of Stock outstanding after taking the nonallocation event into account (causing a Nonallocation Year to occur as described in **Section 4.14** of the Plan). No transfer under this Section shall be greater than the excess, if any, of (A) over (B). Before the nonallocation event occurs, the Committee shall determine the extent to which a transfer is required to be made and shall take steps to ensure that all action necessary to implement the transfer are taken before the nonallocation event occurs.

(ii)(A) Except as provided for in **subsection (ii)(B)**, at the date of the transfer, the total number of shares transferred, as provided for in **subsection (i)**, shall be charged against the Accounts of Participants who are Disqualified Persons (1) by first reducing the ESOP Account of the Participant who is a Disqualified Person whose Account has the largest number of shares (with the addition of Synthetic Equity shares) and (2) thereafter by reducing the ESOP Accounts of each succeeding Participant who is a Disqualified Person who has the largest number of shares in his or her their Account (with the addition of Synthetic Equity shares). Immediately following the transfer, the number of transferred shares charged against any Participant's Account in the ESOP Portion of the Plan shall be credited to an account established for that Participant in the Non-ESOP Portion of the Plan.

(B) Notwithstanding **subsection (ii)(A)**, the number of shares transferred shall be charged against the Accounts of Participants who are Disqualified Persons (1) by first reducing the Account of the Participant with the fewest shares (including Synthetic Equity) who is a Disqualified Person and who is a highly compensated employee (as defined in Code Section 414(q)) to cause the Participant not to be a Disqualified Person, and thereafter reducing the Account of each other Participant who is a Disqualified Person and a highly compensated employee (as defined in Code Section 414(q)), in order of who has the fewest ESOP shares (including Synthetic Equity). A transfer under this **subsection (ii)(B)** only applies to the extent that the transfer results in fewer shares being transferred than in a transfer under **subsection (ii)(A)**.

(iii)(A) If two or more Participants described in **subsection (ii)** have the same number of shares, the Account of the Participant with the longest service shall be reduced first.

(B) Beneficiaries of the Plan are treated as Plan Participants for purposes of this Section.

(c) Income Taxes. If the Trust owes income taxes as a result of unrelated business taxable income under Code Section 512(e) with respect to shares of Stock held in the Non-ESOP Portion of the Plan, the income tax payments made by the Trustee shall be charged against the Accounts of each Participant or Beneficiary who has an Account in the Non-ESOP Portion of the Plan in proportion to the ratio of the shares of Stock in such Participant's or Beneficiary's Account in the non-ESOP Portion of the Plan to the total shares of Stock in the non-ESOP Portion of the Plan. The Company shall purchase shares of Stock from the Trustee with cash (based on the fair market value of the shares so purchased) from each such Account to the extent necessary for the Trustee to make the income tax payments.

ARTICLE V
VESTING

Section 5.1: Vesting In Accounts. Each Participant shall at all times be 100% vested in his or her Accounts.

ARTICLE VI
DISTRIBUTION OF BENEFITS

Section 6.1: Distribution Of Benefits.

(a) Benefits become distributable to a Participant or to the Beneficiary of a deceased Participant upon the first to occur of (i) the Anniversary Date that coincides with or first follows such Participant's Normal Retirement Date, Total Disability, or death, or (ii) the third Anniversary Date that follows the date a Participant ceases to be an Employee prior to his or her Normal Retirement Date for a reason other than Total Disability or death. Such benefits shall be the vested amounts credited to his or her Accounts as of the Anniversary Date that coincides with or immediately precedes the first distribution of his or her benefits, adjusted as of such Anniversary Date if required by **Article IV**. However, a Participant (or the Beneficiary of a deceased Participant) must make a claim for such Participant's benefits prior to any distribution. Despite the foregoing, the Committee, in its sole discretion, may waive the claim requirement if such Participant or Beneficiary is unable to submit a claim.

(b) Despite the foregoing provisions, the Committee may, in its sole discretion, elect to pay a Participant who ceases to be an Employee prior to his or her Normal Retirement Date for a reason other than his or her death or Total Disability an immediate lump sum distribution of the amount specified in **subsection (a)** above. The Participant's consent to such a distribution is required if the portion of such distribution representing the vested portion in his or her Accounts is in excess of $5,000.

Section 6.2: Methods Of Distribution.

(a) When a Participant's benefits become distributable, the Committee shall with reasonable promptness direct the Trustee to distribute such Participant's benefit as follows:

(i) If a Participant's benefits become distributable by reason of his or her death, the benefit shall be distributed to such deceased Participant's Beneficiary as an immediate lump sum.

(ii) If a Participant's benefits become distributable for a reason other than his or her death, the benefit shall be distributed with such Participant's consent as an immediate lump sum or in installments as set forth below.

(A) The Participant may elect, by completing an appropriate form furnished by the Committee, that his or her benefits be distributed as follows:

(1) The Participant may elect that his or her benefits be distributed in up to five equal or nearly equal annual installments, paid monthly, quarterly, or annually.

(2) If the fair market value of a Participant's Stock Account exceeds $1,070,000 (for 2015 and 2016) multiplied by the Adjustment Factor, as of the date distribution is required to begin under **Section 6.3** below, the Participant may elect that his or her benefits be distributed in substantially equal annual payments over a period of five years plus an additional one year (up to an additional five years) for each $210,000 (for 2015 and 2016) increment (or fraction of such increment) by which the value of the Participant's Stock Account exceeds $1,070,000 (for 2015 and 2016), as adjusted.

(3) In addition, the Participant may elect that his or her benefits shall be paid in equal or nearly equal monthly, quarterly, semi-annual, or annual installments over a period not exceeding the life expectancy of the Participant, or the joint life and last survivor expectancy of the Participant and his or her Beneficiary. The expected return multiples of Section 1.72-9 of the Regulations under the Code shall be used to determine such life expectancy.

(B) Despite the foregoing, if the vested amount credited to such Participant's Accounts is not in excess of $5,000, the Committee may direct the Trustee to distribute such benefit as an immediate lump sum, without such Participant's consent.

(iii) If a Participant's benefits become distributable for a reason other than his or her death, and if such Participant dies before his or her entire benefits have been distributed, his or her Beneficiary shall receive a death benefit equal to the balance of the remaining installments (if any) or deferred lump sum (if any) due such deceased Participant.

(iv) Despite any other provision of the Plan, the benefits in the Participant's Stock Account that consist of Stock in an S Corporation shall be distributed in the form of cash and any remaining benefits shall be distributed in the form of Stock.

(v) Despite the foregoing provisions, the Committee may at any time, with the consent of a Participant or his or her Beneficiary, direct the Trustee to accelerate any installment payment to such Participant or Beneficiary or to reduce the period over which future installments are to be made, in which latter event the Trustee shall adjust the amount of such installments accordingly. In addition, a Participant may at any time withdraw any or all of his or her undistributed benefit, and a Participant's Beneficiary shall, unless such Participant provided otherwise, have a similar withdrawal right. If less than all of the undistributed benefit is withdrawn, the remaining installment payments shall be adjusted accordingly.

(vi) Notwithstanding any other provision in this Section, if a distribution of a Participant's benefit consists of more than one class of Leveraged Stock, the Participant must receive substantially the same proportion of each such class.

(b) The complete distribution of a Participant's benefit as provided for above shall constitute full payment and satisfaction of any obligation of the Company, the Trustee or the Committee to such Participant or to the Beneficiary of a deceased Participant.

(c) If a distribution is one to which Code Sections 401(a)(11) and 417 do not apply, such distribution may commence fewer than 30 days after the notice required under Section 1.411(a)-11(c) of the Regulations under the Code is given, provided that:

(i) the Committee clearly informs the Participant that the Participant has a right to a period of at least 30 days after receiving the notice to consider the decision of whether or not to elect a distribution (and, if applicable, a particular distribution option), and

(ii) the Participant, after receiving the notice, affirmatively elects a distribution.

Section 6.3: Timing Of Distributions.

(a) The provisions of this Section shall govern the timing of the distribution of a Participant's benefit. All distributions required under this Section shall be determined and made in accordance with the Regulations under Code Section 401(a)(9) and the minimum distribution incidental benefit requirement of Code Section 401(a)(9)(G). The provisions of this Section shall not be deemed to create any method of distribution or to delay a distribution that is not already provided in **Section 6.2** above.

(b) If a Participant's benefits become distributable because of his or her death or Total Disability, such benefits shall begin to be distributed as soon as is administratively practical following the Committee's receipt of written proof of such Participant's death or Total Disability. If a Participant's benefits become distributable for a reason other than his or her death or Total Disability, such Participant's benefits shall begin to be distributed as soon as is administratively practical after the date on which such Participant's benefits became distributable. Despite the foregoing, and subject to **subsections (c)** and **(d)** below, a Participant's benefit must begin to be distributed no later than 60 days after the latest of the close of the Plan Year in which:

(i) the Participant attained age 65 (or Normal Retirement Age, if earlier);

(ii) occurred the tenth anniversary of the year in which the Participant began participation in the Plan; or

(iii) the Participant ceased to be an Employee.

Despite the foregoing, a Participant may elect a later date on which the distribution of his or her benefit is to begin, in a manner consistent with the applicable Regulations. Any failure by a Participant (or, if he or she is married, such Participant's spouse in the event of such Participant's death) to consent to an immediate distribution of his or her benefit (provided that such benefit is otherwise then immediately distributable pursuant to the foregoing provisions) shall be deemed to be an election to defer distribution to the later of age 62 or such Participant's Normal Retirement Age. A description of the consequences of failing to defer receipt of a distribution shall be provided no less than 30 nor more than 180 days before the date of such distribution.

(c) Despite any other provision of the Plan, one of the following provisions shall apply:

(i) A Participant's benefit shall be distributed to him or her not later than April 1 of the calendar year following the later of (A) the calendar year in which the Participant attains age 70½, or (B) the calendar year in which the Participant retires, if such Participant is not a 5% Owner with respect to the Plan Year ending in the calendar year in which he or she attains age 70½; or

(ii) Alternatively, distributions to a Participant must begin no later than the date determined under **subsection (c)(i)** above and must be made, in accordance with the applicable Regulations, over the periods set forth below.

(d) Limits On Distribution Periods. Effective for calendar years beginning after December 31, 2002, as of the first distribution calendar year, distributions, if not made in a single sum, may only be made over one of the following periods:

(i) the life of the Participant;

(ii) the joint lives of the Participant and a designated Beneficiary;

(iii) a period certain not extending beyond the life expectancy of the Participant; or

(iv) a period certain not extending beyond the joint and last survivor expectancy of the Participant and a designated Beneficiary.

(e) Death Of Participant Before Distributions Begin. If the Participant dies before distributions begin, the Participant's entire interest will be distributed, or begin to be distributed, no later than as follows:

(i) If the Participant's surviving spouse is the Participant's sole designated Beneficiary, then distributions to the surviving spouse will begin by December 31 of the calendar year immediately following the calendar year in which the Participant died, or by December 31 of the calendar year in which the Participant would have attained age 70½, if later.

(ii) If the Participant's surviving spouse is not the Participant's sole designated Beneficiary, then distributions to the designated Beneficiary will begin by December 31 of the calendar year immediately following the calendar year in which the Participant died.

(iii) If there is no designated Beneficiary as of September 30 of the year following the year of the Participant's death, the Participant's entire interest will be distributed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

(iv) If the Participant's surviving spouse is the Participant's sole designated Beneficiary and the surviving spouse dies after the Participant but before distributions to the surviving spouse are required to begin, this **subsection (e)**, other than **subsection (e)(i)**, will apply as if the surviving spouse were the Participant.

For purposes of this **subsection (e)** and **subsections (i)** and **(j)**, unless **subsection (e)(iv)** applies, distributions are considered to begin on the Participant's required beginning date. If **subsection (e)(iv)** applies, distributions are considered to begin on the date distributions are required to begin to the surviving spouse under **subsection (e)(i)**. If distributions under an annuity purchased from an insurance company irrevocably commence to the Participant before the Participant's required beginning date (or to the Participant's surviving spouse before the date distributions are required to begin to the surviving spouse under **subsection (e)(i)**), the date distributions are considered to begin is the date distributions actually commence.

(f) Forms Of Distribution. Unless the Participant's interest is distributed in the form of an annuity purchased from an insurance company or in a single sum on or before the required beginning date, as of the first distribution calendar year distributions will be made in accordance with **subsections (g)**, **(h)**, **(i)**, and **(j)** of this Section. If the Participant's interest is distributed in the form of an annuity purchased from an insurance company, distributions thereunder will be made in accordance with the requirements of Code Section 401(a)(9) and the Regulations.

(g) Amount Of Required Minimum Distribution For Each Distribution Calendar Year. During the Participant's lifetime, the minimum amount that will be distributed for each distribution calendar year is the lesser of:

(i) the quotient obtained by dividing the Participant's Account balance by the distribution period set forth in the Uniform Lifetime Table found in Section 1.401(a)(9)-9 of the Regulations, Q&A-2, using the Participant's age as of the Participant's birthday in the distribution calendar year; or

(ii) if the Participant's sole designated Beneficiary for the distribution calendar year is the Participant's spouse, the quotient obtained by dividing the Participant's Account balance by the number in the Joint and Last Survivor Table set forth in Section 1.401(a)(9)-9 of the Regulations, Q&A-3, using the Participant's and spouse's attained ages as of the Participant's and spouse's birthdays in the distribution calendar year.

(h) Lifetime Required Minimum Distributions Continue Through Year Of Participant's Death. Required minimum distributions will be determined under this **subsection (h)** beginning with the first distribution calendar year and continuing up to, and including, the distribution calendar year that includes the Participant's date of death.

(i) Death On Or After Date Distributions Begin.

(i) Participant Survived By Designated Beneficiary. If the Participant dies on or after the date distributions begin and there is a designated Beneficiary, the minimum amount that will be distributed for each distribution calendar year after the year of the Participant's death is the quotient obtained by dividing the Participant's Account balance by the longer of the remaining life expectancy of the Participant or the remaining life expectancy of the Participant's designated Beneficiary, determined as follows:

(A) The Participant's remaining life expectancy is calculated using the age of the Participant in the year of death, reduced by one for each subsequent year.

(B) If the Participant's surviving spouse is the Participant's sole designated Beneficiary, the remaining life expectancy of the surviving spouse is calculated for each distribution calendar year after the year of the Participant's death using the surviving spouse's age as of the spouse's birthday in that year. For distribution calendar years after the year of the surviving spouse's death, the remaining life expectancy of the surviving spouse is calculated using the age of the surviving spouse as of the spouse's birthday in the calendar year of the spouse's death, reduced by one for each subsequent calendar year.

(C) If the Participant's surviving spouse is not the Participant's sole designated Beneficiary, the designated Beneficiary's remaining life expectancy is calculated using the age of the Beneficiary in the year following the year of the Participant's death, reduced by one for each subsequent year.

(ii) No Designated Beneficiary. If the Participant dies on or after the date distributions begin and there is no designated Beneficiary as of September 30 of the year after the year of the Participant's death, the minimum amount that will be distributed for each distribution calendar year after the year of the Participant's death is the quotient obtained by dividing the Participant's Account balance by the Participant's remaining life expectancy calculated using the age of the Participant in the year of death, reduced by one for each subsequent year.

(j) Death Before Date Distributions Begin.

(i) Participant Survived By Designated Beneficiary. If the Participant dies before the date distributions begin and there is a designated Beneficiary, the minimum amount that will be distributed for each distribution calendar year after the year of the Participant's death is the quotient obtained by dividing the Participant's Account balance by the remaining life expectancy of the Participant's designated Beneficiary, determined as provided in **subsection (i)**.

(ii) No Designated Beneficiary. If the Participant dies before the date distribution begins and there is no designated Beneficiary as of September 30 of the year following the year of the Participant's death, distribution of the Participant's entire interest will be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

(iii) Death Of Surviving Spouse Before Distributions To Surviving Spouse Are Required To Begin. If the Participant dies before the date distributions begin, the Participant's surviving spouse is the Participant's sole designated Beneficiary, and the surviving spouse dies before distributions are required to begin to the surviving spouse under **subsection (e)(i)**, this **subsection (j)** will apply as if the surviving spouse were the Participant.

(k) Definitions.

(i) Designated Beneficiary. The individual who is designated by the Participant (or the Participant's surviving spouse) as the Beneficiary of the Participant's interest under the Plan and who is the designated Beneficiary under Code Section 401(a)(9) and Section 1.401(a)(9)-4 of the Regulations.

(ii) Distribution Calendar Year. A calendar year for which a minimum distribution is required. For distributions beginning before the Participant's death, the first distribution calendar year is the calendar year immediately preceding the calendar year which contains the Participant's required beginning date. For distributions beginning after the Participant's death, the first distribution calendar year is the calendar year in which distributions are required to begin under **subsection (e)**. The required minimum distribution for the Participant's first distribution calendar year will be made on or before the Participant's required beginning date. The required minimum distribution for other distribution calendar years, including the required minimum distribution for the distribution calendar year in which the Participant's required beginning date occurs, will be made on or before December 31 of that distribution calendar year.

(iii) Life Expectancy. Life expectancy as computed by use of the Single Life Table found in Section 1.401(a)(9)-9, Q&A-1, of the Regulations.

(iv) Participant's Account Balance. The Account balance as of the last valuation date in the calendar year immediately preceding the distribution calendar year (valuation calendar year) increased by the amount of any contributions made and allocated or forfeitures allocated to the Account as of dates in the valuation calendar year after the valuation date and decreased by distributions made in the valuation calendar year after the valuation date. The Account balance for the valuation calendar year includes any amounts rolled over or transferred to the Plan either in the valuation calendar year or in the distribution calendar year if distributed or transferred in the valuation calendar year.

(v) 5% Owner. A Participant is treated as a 5% Owner for purposes of this Section is such Participant is a 5% Owner as defined in Code Section 416 at any time during the plan year ending with or within the calendar year in which such owner attains age 70½. Once distributions have begun to a 5% Owner under this Section, they must continue to be distributed, even if the Participant ceased to be a 5% Owner in a subsequent year.

(l) Waiver Of RMDs. Effective as of January 1, 2009, notwithstanding the foregoing provisions of this **Section 6.3**, a Participant or Beneficiary who would have been required to receive required minimum distributions for 2009 but for the enactment of Code Section 401(a)(9)(H) ("2009 RMDs"), and who would have satisfied that requirement by receiving distributions that are (1) equal to the 2009 RMDs or (2) one or more payments in a series of substantially equal distributions (that include the 2009 RMDs) made at least annually and expected to last for the life (or life expectancy) of the Participant, the joint lives (or joint life expectancy) of the Participant and the Participant's Beneficiary, or for a period of at least ten years ("Extended 2009 RMDs"), will receive those distributions for 2009 unless the Participant or Beneficiary chooses not to receive such distributions. Participants and Beneficiaries described in the preceding sentence will be given the opportunity to elect to stop receiving the distributions described in the preceding sentence. In addition, notwithstanding **Section 6.6** of the Plan, and solely for purposes of applying the direct rollover provisions of the Plan, the following additional distributions in 2009 will be treated as Eligible Rollover Distributions: A direct rollover will be offered only for distributions that would be Eligible Rollover Distributions without regard to Code Section 401(a)(9)(H).

(m) For all purposes of this **Section 6.3**, the benefit used in determining the required minimum distribution for a distribution calendar year is the Participant's Account balance, excluding the value of any qualifying longevity annuity contract ("QLAC"), as defined in Q&A-17 of Regulation Section 1.401(a)(9)-6, that is held under the Plan. This subsection applies only to contracts purchased on or after July 2, 2014.

Section 6.4: Postponed Retirement. If a Participant continues to be an Employee beyond his or her Normal Retirement Date, his or her corresponding participation in the Plan shall likewise continue. In such a case, to the extent permitted by law and the applicable Regulations, the distribution of such Participant's benefits will be postponed until he or she actually ceases to be an Employee. Such Participant's benefits will become distributable as of the first day of the month next following his or her actually ceasing to be an Employee.

Section 6.5: Distributions Due Missing Persons. If the Trustee is unable to distribute any benefit due to a missing Participant or Beneficiary, the Trustee shall so advise the Committee. The Committee shall then send a written notice to such Participant or Beneficiary at his or her last known address, as reflected in the Company's or Committee's records, or take other reasonable steps to try to locate such Participant or Beneficiary. If such Participant or Beneficiary shall not have presented himself or herself to the Company or to the Committee within a reasonable time after the date of such written notice, any undistributed benefit may be applied against and reduce the Company's future contributions to the Plan. Despite the foregoing, if at any subsequent time a valid claim for any undistributed benefit is presented to the Committee, such benefit that was so applied shall be restored and paid to such claimant.

Section 6.6: Transfers To Another Qualified Plan.

(a) If a Participant who is a distributee of any Eligible Rollover Distribution (as defined below) elects to have such distribution paid directly to an Eligible Retirement Plan and who specifies the Eligible Retirement Plan to which such distribution is to be paid (in such form and at such time as the Committee may prescribe), then such distribution shall be made in the form of a direct trustee-to-trustee transfer to such Eligible Retirement Plan, provided that such Eligible Retirement Plan accepts such a transfer. The foregoing sentence shall apply only to the extent that such Eligible Rollover Distribution would be includable in gross income if not transferred as provided in such sentence (determined without regard to Code Sections 402(c), 403(a)(4), 403(b)(8), and 457(e)(16)).

(b) "Eligible Rollover Distribution" shall mean any distribution of all or any portion of the balance to the credit of the distributee, except that an Eligible Rollover Distribution does not include: any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the distributee or the joint lives (or joint life expectancies) of the distributee and the distributee's designated Beneficiary, or for a specified period of ten years or more; any distribution to the extent such distribution is required under Code Section 401(a)(9); any hardship distribution; the portion of any other distribution that is not includable in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities); and any other distribution that is reasonably expected to total less than $200 during a year. A portion of a distribution shall not fail to be an Eligible Rollover Distribution merely because the portion consists of after-tax employee contributions that are not includable in gross income. However, such portion may be transferred only to (i) an individual retirement account or annuity described in Code Section 408(a) or (b), (ii) a Roth individual retirement account or annuity described in Code Section 408A, (iii) a qualified trust described in Code Section 401(a), or (iv) an annuity contract described in Code Section 403(b), provided such trust, account, or annuity agrees to separately account for amounts so transferred (and earnings thereon), including separately accounting for the portion of such distribution that is includable in gross income and the portion of such distribution that is not so includable.

(c) "Eligible Retirement Plan" shall mean an eligible plan under Code Section 457(b) which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state and which agrees to separately account for amounts transferred into such plan from this Plan, an individual retirement account described in Code Section 408(a), an individual retirement annuity described in Code Section 408(b), an annuity plan described in Code Section 403(a), an annuity contract described in Code Section 403(b), a qualified trust described in Code Section 401(a), or a Roth IRA described in Code Section 408(A)(b), that accepts the distributee's Eligible Rollover Distribution. The definition of Eligible Retirement Plan shall also apply in the case of a distribution to a surviving spouse, or to a spouse or former spouse who is the alternate payee under a qualified domestic relations order, as defined in Code Section 414(p). If any portion of an Eligible Rollover Distribution is attributable to payments or distributions from a designated Roth account, an Eligible Retirement Plan with respect to such portion shall include only another designated Roth account of the individual from whose account the payments or distributions were made, or a Roth IRA of such individual.

(d) A Participant's (i) surviving spouse and (ii) spouse or former spouse who is the alternate payee under a qualified domestic relations order, as defined in Code Section 414(p), are distributees with regard to the interest of the surviving spouse, spouse, or former spouse and shall have the same rights as a Participant to make a transfer in accordance with this **Section 6.6** as to the interest of the surviving spouse, spouse, or former spouse. For distributions after December 31, 2006, a distributee includes the Participant's or former Participant's non-spouse Beneficiary, in which case the distribution can only be transferred to a traditional or Roth individual retirement account established on behalf of the non-spouse Beneficiary for the purpose of receiving the distribution.

(e) If a nonspouse Beneficiary who is a distributee of any Eligible Rollover Distribution (i) elects to have such distribution paid directly to an individual retirement plan described in Code Sections 408(a) or 408(b) that is established for the purpose of receiving the distribution on behalf of a designated Beneficiary (as defined in Code Section 401(a)(9)(E)) who is a nonspouse Beneficiary (a "Nonspouse IRA") and (ii) specifies the Nonspouse IRA to which such distribution is to be paid (in such form and at such time as the Committee may prescribe), then such distribution shall be made in the form of a direct trustee-to-trustee transfer to such Nonspouse IRA, provided that such Nonspouse IRA accepts such a transfer. The foregoing sentence shall apply only to the extent that such Eligible Rollover Distribution would be includable in gross income if not transferred as provided in such sentence (determined without regard to Code Section 402(c)). The direct rollover must be made to a Nonspouse IRA on behalf of the designated Beneficiary that will be treated as an inherited IRA pursuant to the provisions of Code Section 402(c)(11).

(f) A nonspouse Beneficiary may not roll over an amount that is a required minimum distribution, as determined under applicable Treasury Regulations and other Internal Revenue Service guidance. If the Participant dies before his or her required beginning date and the nonspouse Beneficiary rolls over to Nonspouse IRA the maximum amount eligible for rollover, the Beneficiary may elect to use either the 5-year rule or the life expectancy rule, pursuant to Treasury Regulations Section 1.401(a)(9)-3, Q&A-4(c), in determining the required minimum distributions from the Nonspouse IRA that receives the nonspouse Beneficiary's distribution.

Section 6.7: Automatic Rollovers. In the event of a mandatory distribution greater than $1,000 in accordance with the provisions of **Article VI**, if the Participant does not elect to have such distribution paid directly to an Eligible Retirement Plan specified by the Participant in a direct rollover or to receive the distribution directly in accordance with **Article VI**, then the Committee will pay the distribution in a direct rollover to an individual retirement plan designated by the Committee.

ARTICLE VII
SALE OF STOCK

Section 7.1: Option To Sell Shares Of Stock.

(a) If a Qualified Holder receives a distribution consisting in whole or in part of Stock that is not Freely Tradable Stock at the time of distribution, then such distributed Stock shall be subject to a put option in the hands of the Qualified Holder, according to the provisions set forth below.

(b) During the 60-day period following any distribution of such Stock, a Qualified Holder shall have the right to require the Company to purchase all or any portion of such distributed Stock held by such Qualified Holder. A Qualified Holder shall exercise such right by giving written notice to the Company of the number of shares of distributed Stock that the Qualified Holder intends to sell to the Company. Such notice must be given within such 60-day period. The purchase price to be paid for any such option Stock shall be its fair market value determined as of the most recent valuation according to the valuation rules specified in **Article IV**.

(c) If a Qualified Holder fails to exercise his or her put option right under **subsection (b)**, he or she shall have an additional right to exercise such option in the first 60-day period of the next following Plan Year. If a Qualified Holder fails to exercise his or her put option in this 60-day period, such option right shall expire and the Qualified Holder shall have no further right to require the Company to purchase such distributed Stock.

(d) In the application of **subsections (b)** and **(c)**, the period during which a put option is exercisable does not include any time when a distributee is unable to exercise it because the party bound by the put option is prohibited from honoring it by applicable federal or state law.

(e) In the event that a Qualified Holder shall exercise a put option under this Section, then the Company shall pay the purchase price of such Stock as follows:

(i) If Stock is distributed to a Qualified Holder as part of a Total Distribution, then the Company shall pay the purchase price of such Stock in substantially equal installment payments made no less frequently than annually for no more than five years. The first such payment shall be made within 30 days after the date such put option is exercised. If the purchase price of the Stock is paid under this installment method, then the Company shall, at a minimum, (A) provide adequate security, and (B) state a reasonable rate of interest (at least equal to the imputed compound rate in effect as of the Exercise Date pursuant to the Regulations under Code Section 483 or 1274, whichever shall be applicable) for the full unpaid balance of the option price.

(ii) If Stock is distributed to a Qualified Holder other than as a Total Distribution (i.e., on an installment basis), then the Company shall pay the purchase price of such Stock within 30 days after the date the put option is exercised.

(iii) "Total Distribution" shall mean a distribution to a Participant or a Beneficiary, within one taxable year, of the Participant's entire Account balance to the credit of the Participant.

(f) The protections and rights provided in this Section are nonterminable and continue to exist despite (i) the repayment of any loan, the proceeds of which are used to purchase Leveraged Stock, and (ii) the cessation of the Plan's status as an employee stock ownership plan.

(g) The foregoing put options under **subsections (a)** and **(b)** shall be effective solely against the Company and shall not obligate the Plan or Trust in any manner; provided, however, that with the Company's consent, the Plan or Trust may elect to purchase any Stock that otherwise must be purchased by the Company pursuant to a Qualified Holder's exercise of any such option.

(h) At the time of distribution of Stock that is not Freely Tradable Stock to a Qualified Holder, the Company shall furnish to such Qualified Holder the most recent certificate of value prepared by the Company with respect to such Stock. In addition, the Company shall furnish to such Qualified Holder a copy of each subsequent certificate of value until the put options provided for in this Section with respect to such distributed Stock expire.

(i) Except as is expressly provided above with respect to any distributed Stock that is not Freely Tradable Stock, no Participant shall have any put option rights with respect to Stock distributed under this Plan, and neither the Company nor this Plan and Trust shall have any obligation whatsoever to purchase any such distributed Stock from any Participant or other Qualified Holder.

Section 7.2: Right Of First Refusal.

(a) In the event a Qualified Holder holds Stock that is not Freely Tradable Stock, the Qualified Holder may not transfer, assign or otherwise dispose of any Stock unless the Qualified Holder has given the Company and the Trustee of the Trust the right of first refusal in accordance with the provisions set forth below.

(b) The Qualified Holder must give written notice to the Company that the Qualified Holder has received an offer by a third party to purchase the Stock or that the Qualified Holder desires to transfer the Stock by gift, bequest or otherwise. The Company's right of first refusal shall lapse seven days after the Qualified Holder gives such notice to the Company.

(c) After the Company's right of first refusal lapses, the Trustee of the Trust shall have a right of first refusal, which will lapse seven days after the Company's right of first refusal lapses.

(d) If the Company and the Trustee do not exercise the right of first refusal within the respective seven-day periods, then following the expiration of the Trustee's seven-day period to purchase the Stock, the Qualified Holder may transfer the stock to a donee, or in the case of a sale, to a bona fide purchaser, in the same quantity, and at the same price and terms that the Stock was offered to the Company and the Trustee. The Qualified Holder must conclude such transfer within a reasonable time following the expiration of the seven-day period.

(e) The selling price of the Stock and other terms under the right of first refusal must not be less favorable to the Qualified Holder than the greater of (i) the value of the security as determined under Regulation Section 54.4975-11(d)(5), or (ii) if applicable, the purchase price and other terms offered by a buyer (other than the Company or the Plan) making a good faith offer to purchase the Stock.

(f) The Company may require that a Participant or Beneficiary entitled to a distribution of Stock sign an appropriate stock transfer agreement (that evidences the right of first refusal) prior to receiving a certificate for Stock.

ARTICLE VIII
TOP-HEAVY PLAN LIMITATIONS

Section 8.1: Application Of Top-Heavy Rules. If the Plan is or becomes a Top-heavy Plan, the limitations and requirements contained in this Article shall apply and shall supersede any conflicting provision of the Plan.

Section 8.2: Definitions.

(a) Top-heavy Plan. A "Top-heavy Plan" shall mean, with respect to any Plan Year, (i) any Defined Benefit Plan maintained by the Company or an Affiliated Company if, as of the Determination Date, the total Present Value of Accrued Benefits under such plan for Key Employees exceeds 60% of the total Present Value of Accrued Benefits under such plan for all participants in such plan; and (ii) any Defined Contribution Plan maintained by the Company or an Affiliated Company if, as of the Determination Date, the total Aggregate Accounts of Key Employees under the plan exceeds 60% of the total Aggregate Accounts of all participants under such plan. Each plan of the Company required to be included in an Aggregation Group shall be treated as a Top-heavy Plan if the Aggregation Group is a Top-heavy Group.

(b) Top-heavy Group. A "Top-heavy Group" shall mean any Aggregation Group if the sum of (i) the total Present Value of Accrued Benefits for Key Employees under all Defined Benefit Plans included in the Aggregation Group (determined as of the Determination Date for each such plan), and (ii) the total Aggregate Accounts of Key Employees under all Defined Contribution Plans included in the Aggregation Group (determined as of the Determination Date for each such plan) exceeds 60% of a similar sum determined for all participants in such plans. For purposes of determining whether the plans in a Top-heavy Group exceed the foregoing 60% test, the plans shall be aggregated by adding together the results for each plan as of the Determination Dates for such plans that fall within the same calendar year.

(c) Aggregation Group. An "Aggregation Group" shall mean each plan of the Company or of an Affiliated Company in which a Key Employee is a participant, and each plan of the Company or of an Affiliated Company that enables the plan(s) containing a Key Employee to meet the antidiscrimination requirements of Code Sections 401(a)(4) or 410, including terminating or terminated plans maintained within the last five years ending on the Determination Date that would, but for such plan termination, be part of the Aggregation Group. The Company can elect to include in the Aggregation Group any plan not otherwise required to be included, if such group, after such election, would continue to meet the antidiscrimination requirements of Code Sections 401(a)(4) and 410; provided, however, that any such plan will not be otherwise deemed a Top-heavy Plan by reason of such election.

(d) Determination Date. With respect to any plan year, "Determination Date" shall mean the last day of the preceding plan year or, in the case of the first plan year of any plan, the last day of such plan year.

(e) Present Value Of Accrued Benefit: A participant's "Present Value of Accrued Benefit" as of any Determination Date shall be calculated:

(i) as of the most recent valuation date ("Valuation Date") which is within the 12-month period ending on such Determination Date;

(ii) for the first plan year, as if (A) the participant terminated service as of the Determination Date, or (B) the participant terminated service as of the Valuation Date, but taking into account the estimated Present Value of Accrued Benefit as of the Determination Date;

(iii) for any other plan year, as if the participant terminated service as of the Valuation Date; and

(iv) using the interest rate and mortality assumptions set forth in the Defined Benefit Plan.

For the foregoing purposes, the Valuation Date must be the same valuation date used for computing the defined benefit plan minimum funding costs, regardless of whether a valuation is performed that year. Solely for the purposes of determining if the Plan, or any other plan included in the Aggregation Group, is a Top-heavy Plan, the accrued benefit of a Non-Key Employee shall be determined under (A) the method, if any, that uniformly applies for accrual purposes under all plans maintained by the Company and all Affiliated Companies, or (B) if there is no such method, as if such benefit accrued not more rapidly than the slowest accrual rate permitted under the fractional accrual rate of Code Section 411(b)(1)(C).

(f) Aggregate Account: A participant's "Aggregate Account" shall be determined as follows:

(i) For Defined Contribution Plans not subject to the minimum funding requirements of Code Section 412, a participant's Aggregate Account as of any Determination Date shall be the sum of:

(A) such participant's account balance as of the most recent valuation date ("Valuation Date") occurring within the 12-month period ending on such Determination Date; plus

(B) an adjustment for contributions due as of such Determination Date. Such adjustment is generally the amount of any contributions actually made after the Valuation Date but before the Determination Date. In the first plan year, such adjustment shall also reflect any contributions actually made after the Determination Date that are allocated as of a date in that first plan year.

(ii) For Defined Contribution Plans subject to the minimum funding requirements of Code Section 412, a participant's Aggregate Account as of any Determination Date shall be the sum of:

(A) such participant's account balance as of the most recent valuation date ("Valuation Date") occurring within the 12-month period ending on such Determination Date, including contributions that would be allocated as of a date not later than such Determination Date; plus

(B) an adjustment for contributions due as of such Determination Date. Such adjustment shall reflect the amount of any contribution actually made (or due to be made) after the Valuation Date but before the expiration of the extended payment period described in Code Section 412(c)(10).

(g) Key Employee. "Key Employee" shall mean any participant (including any former participant or deceased participant) of any plan maintained by the Company or an Affiliated Company who, at any time during the Plan Year, was:

(i) an officer of the Company or an Affiliated Company whose annual Earnings exceed $170,000 (for 2015 and 2016), as adjusted under Code Section 416(i)(1) (provided, however, that no more than 50 employees (or, if lesser, the greater of three employees or 10% of all employees) shall be treated as officers; provided further, however, that if the total number of officers exceeds this numerical limitation, only the highest compensated officers shall be included);

(ii) a 5% Owner of the Company or an Affiliated Company; or

(iii) a 1% Owner of the Company or an Affiliated Company whose annual Earnings exceed $150,000, or such other amount as may be allowed under Code Section 416(i) and the applicable Regulations.

For purposes of the foregoing definition, (i) the Beneficiary of a Key Employee shall be treated as a Key Employee, and (ii) the Beneficiary of a former Key Employee shall be treated as a former Key Employee. Inherited benefits will retain the character of the benefits of the Key Employee who performed the services for the Company. For purposes of the foregoing, the identification of a Key Employee will be determined in accordance with Code Section 416(i) and the Regulations thereunder.

(h) Non-Key Employee. "Non-Key Employee" shall mean any Participant who is not a Key Employee, including any Participant who is a former Key Employee.

Section 8.3: 60% Test - Special Rules. For purposes of applying the 60% test described in **Section 8.2(a)**, the following special rules shall apply:

(a) Participant Contributions. Benefits derived from both Participant contributions (whether voluntary or mandatory, but not deductible contributions) and the Company's contributions shall be considered.

(b) Previous Distributions. In determining the Present Value of Accrued Benefit or the Aggregate Account of any participant under any plan (or plans that form the Aggregation Group), such present value or account shall be increased by the aggregate of distributions made to such participant from such plan (or plans forming the Aggregation Group) during the one-year period ending on the Determination Date. For this purpose, "participant" shall include an employee who is no longer employed by the Company or an Affiliated Company. The preceding sentence shall also apply to distributions under a terminated plan which, had it not been terminated, would have been aggregated with the Plan under Code Section 416(g)(2)(A)(i). In the case of a distribution made for a reason other than severance from employment, death, or disability, this provision shall be applied by substituting "five-year period" for "one-year period." Despite the foregoing, any distribution to a participant that is made after the Valuation Date and before the Determination Date for any plan year shall not be considered a distribution to the extent it is already included in such participant's Present Value of Accrued Benefit or Aggregate Account as of such Valuation Date.

(c) Rollover Contributions. Rollover contributions shall be treated as follows:

(i) The following rules shall apply to related rollovers and plan-to-plan transfers (ones either not initiated by the participant or made to a plan maintained by the Company or any Affiliated Company). If the plan provides such rollover or plan-to-plan transfer, it shall not be counted as a distribution for purposes of this **Section 8.3**. If the plan receives such rollover or plan-to-plan transfer, it shall consider such rollover or plan-to-plan transfer as part of the participant's Present Value of Accrued Benefit or Aggregate Account, regardless of the date on which such rollover or plan-to-plan transfer was received.

(ii) The following rules shall apply to unrelated rollovers and plan-to-plan transfers (ones which are both initiated by a participant and made from a plan maintained by one employer to a plan maintained by another employer). If the plan provides such rollover or plan-to-plan transfer, it shall always consider such rollover or plan-to-plan transfer as a distribution for purposes of this **Section 8.3**. If the plan receives such rollover or plan-to-plan transfer, it shall not consider such rollover or plan-to-plan transfer as part of the participant's Present Value of Accrued Benefit or Aggregate Account if it was accepted after December 31, 1983.

(d) Change Of Status. The accrued benefit or Account of a Participant who was formerly a Key Employee, but who ceased to be a Key Employee in any plan year, will not be taken into account for such plan year.

(e) No Service For Last Year. If any individual has not performed services for the employer maintaining the Plan during the one-year period ending on the Determination Date, the accrued benefit or Account of such individual shall not be taken into account.

Section 8.4: Minimum Vesting Requirement. As the Plan's normal vesting schedule equals or exceeds the top-heavy vesting schedule, the normal vesting schedule shall continue to apply if the Plan becomes a Top-heavy Plan.

Section 8.5: Minimum Contribution Requirement.

(a) If the Plan is a Top-heavy Plan, then in no event shall the Company's annual contribution on behalf of any Non-Key Employee be less than 3% of such Participant's Earnings. This minimum contribution shall be made even though, under the other provisions of the Plan, the Participant would not otherwise be entitled to a contribution on his or her behalf, or would have received a lesser contribution for the Plan Year, because of (i) the Participant's failure to complete 1,000 Hours of Service, (ii) the Participant's failure to make mandatory employee contributions to the Plan, or (iii) the Participant's exclusion from the Plan because such Participant's Earnings is less than the Plan's stated amount. Despite the foregoing, no minimum contribution needs to be made under this Section on behalf of a Participant who was not an Employee on the last day of the Plan Year.

(b) Any Company contribution that is attributable to a salary reduction or similar arrangement shall be considered for purposes of satisfying the minimum contribution required by this Section. Elective contributions under Code Section 401(k) on behalf of Key Employees are taken into account in determining the minimum required contribution under Code Section 416(c)(2), but such contributions on behalf of Non-Key Employees may not be treated as employer contributions for purposes of the minimum contribution or benefit requirements of Code Section 416.

(c) If the Company maintains one or more qualified plans in addition to the Plan, and if the Plan is a Top-heavy Plan, then in accordance with the applicable Regulations, only one such plan need be designated by the Company to provide the minimum benefit provided for in this Section. If any Non-Key Employees also participate in a Defined Benefit Plan maintained by the Company, the minimum benefit provided to such Non-Key Employees shall be determined by the Committee, in the Committee's sole discretion, from among the safe harbor methods set forth in Regulation Section 1.416-1, Q&A M-12, or any successor thereto.

(d) Despite the foregoing, if (i) the total annual contribution allocated to the Accounts of each Key Employee is less than three percent (3%) of each Key Employee's Earnings and (ii) this Plan is not required to be included in an Aggregation Group to enable a Defined Benefit Plan to meet the requirements of Code Section 401(a)(4) or 410, then the total minimum annual contribution on behalf of each Non-Key Employee shall be equal to the largest percentage contribution on behalf of any Key Employee.

ARTICLE IX
INVESTMENTS

Section 9.1: Investment Of Company Contributions. The Plan is designed to invest primarily in Stock, and the Trustee is specifically authorized to invest up to 100% of the Trust's assets in Stock. All purchases of Stock shall be made at prices that, in the Committee's judgment, do not exceed the fair market value of the Stock, determined as required by **Section 4.11** above. The Trustee may purchase Stock for cash or on terms, as directed by the Committee. Despite the foregoing, sufficient liquidity shall be maintained to meet the reasonably anticipated requirements of the Trust for payment of expenses of administration, investment and management and for distribution of benefits to Participants and Beneficiaries. To the extent the Trustee is not directed to acquire Stock, the Trustee may, subject to the direction of the Committee, invest and reinvest the Trust's assets, together with the income therefrom, in assets other than Stock to the extent consistent with preserving the Plan's status as an employee stock ownership plan as defined under Code Section 4975(e)(7).

Section 9.2: Leveraged Stock Authorized.

(a) The Committee shall have the power to direct the Trustee to borrow or raise money, in such amounts and under such conditions and terms as directed by the Committee, for the purpose of purchasing or otherwise acquiring Stock. Any such borrowing may be made from the Company, any shareholder in the Company, or from any other party. In connection with any such borrowing, and subject to any applicable margin requirement rule, regulation or statute, the Committee may direct the Trustee to issue its promissory note on behalf of the Trust. No person lending money to the Trustee shall be obligated to see to the application of the money lent or to inquire into the validity, expediency or propriety of such borrowing. Any such borrowing from the Company, or from any other "disqualified person" (as defined in Code Section 4975(e)(2)), or any other "party in interest" (as defined in ERISA Section 3(14)), shall be subject to the provisions set forth below.

(b) The proceeds of the loan shall be used (within a reasonable period of time after receipt) only to acquire Stock, to pay any charges or fees incurred in connection with the stock acquisition or loan, and/or to make payments under any such loan (including prior loans).

(c) Other than the categories of assets specified in **subsection (d)** below, the loan shall be without recourse against the Plan or Trust. The only Trust assets which may be used as collateral for the loan shall be the Stock acquired with the proceeds of the loan or Stock used as collateral on a prior loan that was repaid with the current outstanding loan.

(d) No person entitled to payment under the loan shall have any recourse, for any payments due under the loan, against any Plan assets other than the following categories of assets:

(i) Unallocated Leveraged Stock (whether or not collateralized) acquired with the proceeds of the loan and held in the Unallocated Stock Account (but only prior to the release therefrom and allocation to Participants' Accounts as provided under this Plan);

(ii) Company contributions (other than contributions of Stock) made to meet obligations under the loan;

(iii) Earnings attributable to the unallocated Leveraged Stock while held in the Unallocated Stock Account (including dividends thereon while held in the Unallocated Stock Account); and

(iv) Earnings attributable to the investment of the Company contributions (other than contributions of Stock) made to meet obligations under the loan.

Recourse against such assets shall be permissible to the extent allowed under applicable law governing creditor's remedies, but in no event to an extent greater than permitted under **subsection (e)** below or such other applicable limitations as may be required in order for such loan transaction to qualify for the prohibited transaction exemption provided under Code Section 4975(d)(3). The payments made with respect to such a loan during a Plan Year shall not exceed an amount equal to the sum of Company contributions (other than contributions of Stock) made to meet obligations under the loan and the earnings referenced above received during or prior to such Plan Year, less such payments in prior years.

(e) The provisions of this **subsection (e)** shall apply in case of a default in the repayment of the loan:

(i) In the event of a default, the value of Plan assets transferred to the lender in satisfaction of such loan shall not exceed the amount of the default.

(ii) If the lender is a disqualified person (as defined in Code Section 4975(e)(2)), a transfer of Plan assets upon default shall be made only upon and to the extent of the failure of the Plan to meet the payment schedule of the loan.

(iii) For purposes of this **subsection (e)**, the making of a guarantee by the Company shall not be deemed to make the Company a lender; provided, however, that this provision shall not impose any personal liability on the Trustee.

(f) The terms of the loan must provide that shares of Stock purchased with the proceeds of the loan shall be placed in the Unallocated Stock Account. The shares in the Unallocated Stock Account shall be released from the Unallocated Stock Account (and allocated to the Stock Accounts) as set forth above. Despite the foregoing, in addition to or in lieu of pledging the acquired Stock as collateral for the repayment of any loan, the Company may guarantee the repayment and/or may use Company assets to secure the repayment, and nothing herein shall require that the repayment of the loan be secured by Stock acquired with the proceeds thereof.

(g) If the proceeds of a loan are used to acquire Leveraged Stock, the following items shall be accounted for separately in the books of account of the Plan until the loan is repaid:

(i) The contributions (other than contributions of Stock) that are made under the Plan to meet obligations under the loan;

(ii) The earnings attributable to unallocated Leveraged Stock (purchased with the proceeds of the loan) while held in the Unallocated Stock Account (including dividends thereon); and

(iii) Earnings attributable to the investment of the contributions made to meet obligations under the loan.

(h) In the event that there shall be more than one class of Stock, the class or classes of Leveraged Stock acquired by the Trustee with the proceeds of the loan, and the relative proportions of the classes of Stock held by the Trustee, shall comply with any applicable requirements established pursuant to Regulations under Code Section 4975 so as to insure that the loan and/or the acquisition of Leveraged Company does not constitute a prohibited transaction within the meaning of the applicable provisions of the Code and ERISA.

(i) The loan shall be primarily for the benefit of Participants and their Beneficiaries and shall bear no more than a reasonable rate of interest.

(j) The Committee shall determine, and advise the Trustee with respect to, the amount of interest charges that are due from time to time by reason of any variable interest rate (or other similar provision) under any loan used by the Trustee to acquire Leveraged Stock. The Trustee may rely on the Committee's determination and directions with respect to the amount of the interest charges, and the Trustee shall be released from any and all liability attributable to its reliance thereon.

(k) Any loan entered into by the Plan to purchase Stock shall be for a definite term, and shall not be payable upon demand of any person, except where there has been a default. Any such payment upon default shall be subject to the rules of **subsection (e)** above.

Section 9.3: Certain Nonterminable Provisions. Except as is expressly provided in the Plan with respect to any distributed Leveraged Stock that is not Freely Tradeable Stock, no such Leveraged Stock shall be subject to a put, call, or other option, or buy-sell or similar arrangement while held by and when distributed from the Plan, whether or not at such time the Plan constitutes an employee stock ownership plan. The provisions of this Section shall not terminate notwithstanding that the loan used to acquire such Leveraged Stock shall be repaid or that the Plan ceases at any time to constitute an employee stock ownership plan.

Section 9.4: Diversification Of Stock.

(a) Election By Qualified Participant. Despite any other provision of the Plan, each Participant who is a Qualified Participant may direct the Committee to distribute 25% of the value of the Participant's Stock Account balance, reduced by the amount of assets for which a prior election under this Section has been made. Such direction must be made within 90 days after the last day of each Plan Year during the Participant's Qualified Election Period. Within 90 days after the close of the last Plan Year in the Participant's Qualified Election Period, a Qualified Participant may direct the Committee to distribute 50% of the value of such account balance, reduced by the amount of assets for which a prior election under this Section has been made. The Qualified Participant's direction (i) shall be provided to the Committee in writing, and (ii) shall be effective no later than 180 days after the close of the Plan Year to which the direction applies.

(b) Definitions. For the purposes of this Section, the following definitions shall apply:

(i) "Qualified Participant" shall mean a Participant who has attained age 55 and who has completed at least ten years of participation in the Plan.

(ii) "Qualified Election Period" shall mean, with respect to any Participant, the six Plan Year period beginning with the first Plan Year in which the Participant first becomes a Qualified Participant.

(c) Timing Of Distributions. At the election of the Qualified Participant, the Committee shall direct the Trustee to distribute the portion of the Participant's account that is covered by the election within 90 days after the last day of the period during which the election can be made. Such distribution shall be subject to the put option and right of first refusal requirements set forth in Article VII. This **subsection (c)** shall apply despite any other provision of the Plan; provided, however, that if any distribution pursuant to this Section is in excess of $5,000, the Participant must consent to such distribution as set forth in the Plan.

Section 9.5: Voting Of Stock.

(a) Effective January 18, 1991, if the Trustee holds any Stock with voting rights, the Trustee shall vote such stock as follows:

(i) When notice of a stockholders' meeting must be mailed to stockholders, the Committee shall cause to be prepared and delivered to each Participant and Beneficiary who has Stock allocated to his or her Account, a notice that:

(A) states the full number of shares of Stock allocated to the Participant's Account, and

(B) instructs the Trustee as to how the Trustee shall vote the shares at the meeting or adjournment concerning each such matter.

The Committee shall instruct each Participant and Beneficiary to complete and return the notice to the Trustee.

(ii) The Trustee shall vote all shares of Company stock allocated to the Accounts of Participants as instructed in the notice.

(iii) Regarding Stock for which the Trustee has not received a notice that sets forth a Participant's or Beneficiary's instructed votes within five days prior to such meeting, including all fractional shares of Stock and all shares of Stock held in the Unallocated Stock Account, the Trustee shall vote such shares as directed by the Committee.

(b) The Committee shall in no event make any recommendation to any Participant regarding the exercise of the Participant's voting rights or any other rights under the provisions of this Section, nor shall the Committee make any recommendation as to whether any such rights should or should not be exercised by the Participant.

(c) All rights (other than voting rights) of Stock, such as tender rights, held in the Trust shall be exercised in the same manner and to the same extent as provided above with respect to the voting rights of the Stock.

ARTICLE X
THE COMMITTEE

Section 10.1: Members.

(a) The Committee shall consist of the number of members designated by the Board of Directors and shall be appointed by the Board of Directors. Its members shall serve at the pleasure of the Board of Directors. A person so appointed shall become a member by filing a written notice of acceptance with the Board of Directors. A member of the Committee may resign by delivering a written notice of resignation to the Board of Directors. The Board of Directors may remove any member of the Committee by delivering a written notice of such removal to him or her. A resignation or removal shall be effective on the date specified in such notice or resolution. The Trustee shall be promptly notified by the Board of Directors of any change in the membership of the Committee, and shall be supplied with specimen signatures of each Committee member.

(b) Vacancies in the membership of the Committee shall be filled promptly by the Board of Directors. If the Company is not in existence when a vacancy in the Committee membership arises, such vacancy shall be filled as follows, in the indicated order of priority:

1st: The remaining member(s) of the Committee shall appoint new member(s) to fill all vacancies.

2nd: If vacancies on the Committee are not filled pursuant to the foregoing, then a court of competent jurisdiction shall fill such vacancies. The Trust shall pay the expenses incurred in connection with such court appointment.

Section 10.2: Committee Action.

(a) The Committee shall choose a Secretary and an Assistant Secretary (either of whom is referred to below as the "Secretary") who shall keep minutes of the Committee's proceedings and all records and documents pertaining to the Committee's administration of the Plan. Any action of the Committee shall be taken pursuant to the vote of a majority, or pursuant to the written consent of a majority, of its members. A quorum of the Committee shall consist of two members. The Secretary may sign any certificate or other document on behalf of the Committee. The Trustee and all other persons dealing with the Committee may conclusively rely upon any certificate or other document that is signed by the Secretary and that purports to have been duly authorized by the Committee.

(b) A member of the Committee shall not vote or act upon any matter that relates solely to himself or herself as a Participant. If a matter arises affecting one member of the Committee as a Participant and the other members of the Committee are unable to agree on the disposition of such matter, the Board of Directors shall appoint a substitute member of the Committee in the place and stead of the affected member, for the sole purpose of passing upon and deciding that particular matter. If the Company is not in existence then, such substitute member of the Committee shall be appointed in the manner provided for in this Article when there is a vacancy in the Committee's membership.

Section 10.3: Rights And Duties.

(a) Except as otherwise set forth in **subsections (b)**, **(c)** and **(d)** below, all fiduciary responsibility respecting the management or administration of the Plan and its assets are vested in the Committee, and the Committee shall be the Named Fiduciary with respect to the Plan's assets, and the "administrator" of the Plan as defined in Section 3(16)(A) of ERISA.

(b) The Trustee shall (i) have custody of the Plan's assets, (ii) have the powers designated in the trust document, and (iii) be the Named Fiduciary with respect to the custody of the Plan's assets.

(c) The Committee may designate one or more Investment Managers (including the Trustee, if the Trustee is authorized to be an Investment Manager) to manage the investment of the Plan's assets, and such Investment Manager(s) shall be the Named Fiduciary with respect to the management and investment of the Plan's assets.

(d) The Committee may designate one or more persons or entities to carry out any of its functions under the Plan, other than those of managing and controlling the Plan's assets, which may only be done pursuant to **subsections (b)** or **(c)** immediately above.

(e) The Committee, on behalf of the Participants and their Beneficiaries, shall enforce the Plan in accordance with its terms, and shall be charged with the general administration of the Plan, except to the extent that powers are retained by the Company. The Committee shall have the discretion and authority to interpret the Plan. The Committee's powers shall include (without limitation) the power and discretion:

(i) to determine all questions relating to the eligibility of Employees to participate in the Plan;

(ii) to determine, compute and certify to the Trustee the amount and kind of benefits payable to the Participants and their Beneficiaries;

(iii) to authorize all disbursements by the Trustee from the Trust;

(iv) to direct the Trustee with respect to all investments of the principal or income of the Trust and with respect to other matters concerning the Trust's assets;

(v) to employ such agents and advisors as may be reasonably necessary or convenient and to pay them (or cause to be paid to them) reasonable compensation;

(vi) to maintain all the necessary records for the administration of the Plan, other than those maintained by the Trustee; and

(vii) to adopt, amend and interpret rules for the administration or regulation of the Plan that are not inconsistent with its terms and the applicable law and Regulations.

(f) Members of the Committee and other Fiduciaries shall discharge their duties with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of a like character and with like aims. Subject to any right of Participants to direct how their Accounts will be invested and other provisions of the Plan, the Committee shall diversify the Plan's investments so as to minimize the risk of large losses, unless, under the circumstances, it is clearly prudent not to do so, or unless the Plan specifically provides for the acquisition and holding of qualifying employer real property or securities, as defined in Sections 407(d)(4) and (5) of ERISA.

(g) A member of the Committee or other Fiduciary shall be liable for a breach of fiduciary responsibility of another member or another Fiduciary only if:

(i) such member or Fiduciary participates knowingly in, or knowingly undertakes to conceal, an act or omission of such other member or Fiduciary, knowing that such act or omission is a breach;

(ii) such member or Fiduciary has enabled such other member or Fiduciary to commit a breach by virtue of his or her failure to comply with the duty of care set forth above in the administration of such member's or Fiduciary's own responsibilities as a Fiduciary; or

(iii) such member or Fiduciary has knowledge of a breach by such other member or Fiduciary, unless such member or Fiduciary makes reasonable efforts under the circumstances to remedy such breach.

Section 10.4: Information. To enable the Committee to perform its functions, the Company shall supply complete and timely information to the Committee on all matters relating to the compensation of all Participants, their employment, their retirement, death, or the cause for termination of employment, and such other pertinent information as the Committee may require. The Committee shall advise the Trustee of such of the foregoing information as may be pertinent to the Trustee's administration of the Trust.

Section 10.5: Compensation, Indemnity And Liability.

(a) The members of the Committee shall serve without compensation for their services. No member of the Committee or other Fiduciary need be bonded, except as required by federal or state law or regulation. The Committee is authorized to employ such legal counsel or other persons as it may deem advisable to assist it in the performance of its duties under the Plan.

(b) The Company shall indemnify and hold each member of the Committee harmless against any and all expenses and liabilities arising out of membership on the Committee (including reasonable attorneys' fees and disbursements), excepting only expenses and liabilities arising out of such member's own willful misconduct or gross negligence. The provisions of this subsection shall survive the termination of the Plan and the resignation or removal of the Committee member who is entitled to the indemnity.

Section 10.6: Administrative Expenses Of The Plan. All reasonable expenses of administering the Plan, including, but not limited to, actuarial, administration, accounting, investment, recordkeeping, and legal fees and costs incurred in connection with such activities (including, without limitation, expenses incurred by the Committee under **Section 10.3**), shall be paid by the Trustee pursuant to the direction of the Committee and shall be a charge against the trust estate, except to the extent that such expenses may be paid by the Company. The Committee, in the Committee's sole discretion, shall determine whether each such charge shall be allocated pro rata or per capita to Participants' Accounts, and whether such a charge shall be allocated directly to the Accounts of the affected Participant. The expense of maintaining errors and omissions liability insurance, if any, covering members of the Committee, the Trustee, or any other Fiduciary shall be paid by the Company.

ARTICLE XI
AMENDMENT AND TERMINATION

Section 11.1: Amendments. The Company, acting through the Board of Directors, may amend the Plan from time to time, and may amend or cancel any such amendment. Each amendment must be set forth in a document that is signed by the Company, and the Plan shall be deemed to have been amended in the manner and at the time set forth in such document, and all Participants shall be bound by it. Despite the foregoing, any such amendment shall be subject to the following provisions:

(a) No amendment shall be effective that attempts to cause any asset of the Plan to be used for, or diverted to, purposes other than for the exclusive benefit of the Participants or their Beneficiaries, except for such changes, if any, that are required to permit the Plan to meet the applicable requirements of the Code, or as may be made to assure the deductibility for tax purposes of any contribution by the Company.

(b) No amendment shall have any retroactive effect that would deprive any Participant of any benefit already vested, nor shall the vesting provisions of the Plan be amended, unless each Participant with at least three Years of Service is permitted to elect to continue to have the prior vesting provisions apply to him or her, except for such changes, if any, that are required to permit the Plan to meet applicable requirements of the Code, or as may be made to assure the deductibility for tax purposes of any contribution by the Company. Any such election must be made during the period beginning with the date the amendment is adopted and ending 60 days after the latest of:

(i) the date the amendment is adopted;

(ii) the date the amendment becomes effective; or

(iii) the date on which the Participant receives written notice of the amendment from the Company or the Committee.

(c) No amendment shall create or effect any discrimination in favor of Participants who are highly compensated Employees.

(d) No amendment shall increase the duties or liabilities of the Trustee without the Trustee's written consent.

(e) No amendment shall decrease any Participant's Account balance. Notwithstanding the preceding sentence, a Participant's Account balance may be reduced to the extent permitted under Code Section 412(d)(2) or to the extent permitted under Regulation Sections 1.411(d)-3 and 1.411(d)-4.

(f) No amendment shall be effective to eliminate or restrict an optional form of benefit. The preceding sentence shall not apply to a Plan amendment that eliminates or restricts the ability of a Participant to receive payment of his or her Account balance under a particular optional form of benefit if the amendment provides a single-sum distribution form that is otherwise identical to the optional form of benefit being eliminated or restricted. For this purpose, a single-sum distribution form is otherwise identical only if the single-sum distribution form is identical in all respects to the eliminated or restricted optional form of benefit (or would be identical except that it provides greater rights to the Participant) except with respect to the timing of payments after commencement.

Section 11.2: Discontinuance Of Plan.

(a) The Company expects that the Plan and the Company's contributions under it will be continued indefinitely, and the Trust is irrevocable. However, continuance of the Plan is not assumed as a contractual obligation of the Company, and the Company reserves the right to reduce, temporarily suspend, or discontinue contributions under the Plan if, and to the extent, permitted under ERISA or the Code. Upon a complete discontinuance of the Company's contributions, the interest of each Participant in each of his or her Accounts shall become 100% vested, if it is not already fully vested. In addition, upon a partial termination (within the meaning of Code Section 411(d)(3)), the interest of each affected Participant in each of his or her Accounts shall become 100% vested, if it is not already fully vested.

(b) The Company, through its Board of Directors, may terminate the Plan at any time upon delivering a written notice to the Trustee. Upon the Plan's termination, the interest of each Participant in each of his or her Accounts shall become 100% vested, if it is not already fully vested. Then the Trustee, at the direction of the Committee, shall, as is necessary, liquidate the Trust's assets. After such liquidation, the Committee shall make, after deducting the estimated expenses of such liquidation and distribution, the allocations required under the Plan as though the date when such liquidation was completed were an Anniversary Date. After receiving appropriate instructions from the Committee, the Trustee shall promptly distribute the Trust's assets in accordance with such instructions.

(c) The Plan shall automatically terminate upon the happening of any of the following events:

(i) adjudication of the Company as a bankrupt;

(ii) general assignment by the Company to or for the benefit of creditors; or

(iii) dissolution of the business of the Company,

provided, however, that the Plan may be continued by any successor business organization or any business organization into which the Company is merged or consolidated that employs some or all of the Participants, if such business organization agrees with the Trustee in writing to accept the obligations of the Plan and to continue it in full force and effect in accordance with Section 13.10.

Section 11.3: Failure To Contribute. The Company's failure to contribute to the Trust for any Plan Year shall not, of itself, be a discontinuance of contributions to the Plan.

ARTICLE XII
CLAIMS PROCEDURE

Section 12.1: Presentation Of Claim. Any Participant or Beneficiary of a deceased Participant or duly authorized representative of either (such Participant or Beneficiary or duly authorized representative being referred to below as a "Claimant") may deliver to the Committee a written claim for a determination with respect to the amounts (i) credited to (or deducted from) such Claimant's Accounts, or (ii) distributable to such Claimant from the Plan. If such a claim relates to the contents of a notice received by the Claimant, the claim must be made within 60 days after such notice was received by the Claimant. The claim must state with particularity the benefit determination desired by the Claimant.

Section 12.2: Notification Of Decision. The Committee shall consider a Claimant's claim within a reasonable time, but not later than 90 days after receipt of the claim by the Plan, unless the Committee determines that special circumstances require an extension of time for processing the claim. If the Committee determines that an extension of time for processing is required, written notice of the extension shall be furnished to the Claimant prior to the termination of the initial 90-day period. In no event shall such extension exceed a period of 90 days from the end of such initial period. The extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Committee expects to render the benefit determination. Once the benefit determination is made in accordance with the foregoing, the Committee shall notify the Claimant in writing:

(a) that the Claimant's requested benefit determination has been made, and that the claim has been allowed in full; or

(b) that the Committee has reached a conclusion adverse, in whole or in part, to the Claimant's requested benefit determination. The Committee's notice of adverse benefit determination must be written in a manner calculated to be understood by the Claimant, and it must contain:

(i) the specific reason(s) for the adverse benefit determination;

(ii) reference to the specific provisions of the Plan upon which such adverse benefit determination was based;

(iii) a description of any additional material or information necessary for the Claimant to perfect the claim, and an explanation of why such material or information is necessary; and

(iv) a description of the Plan's claim review procedures set forth in Section 12.3 and the time limits applicable to such procedures, including a statement of the Claimant's right to bring a civil action under ERISA Section 502(a) following an adverse benefit determination on review.

Section 12.3: Review Of A Denied Claim. Within 60 days after receiving a notice from the Committee of an adverse benefit determination, a Claimant may file with the Board of Directors a written request for a review of such adverse determination. Thereafter, but not later than 30 days after the review procedure began, the Claimant:

(a) may submit written comments, documents, records, and other information relating to the claim for benefits;

(b) shall be provided, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the Claimant's claim for benefits; and/or

(c) may request a hearing, which the Board of Directors, in its discretion, may grant.

The Board of Directors shall take into account all comments, documents, records, and other information submitted by the Claimant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination.

Section 12.4: Decision On Review. The Board of Directors shall render its decision on review within a reasonable time, and not later than 60 days after the receipt of the Claimant's review request, unless a hearing is held or other special circumstances require additional time, in which case the Board of Directors' decision must be rendered within 120 days after the receipt of the Claimant's review request. If the Board of Directors determines that an extension of time for processing is required, written notice of the extension shall be furnished to the Claimant prior to the termination of the initial 60-day period. In no event shall such extension exceed a period of 60 days from the end of the initial period. The extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Board of Directors expects to render the benefit determination on review. The Board of Directors' decision must be written in a manner calculated to be understood by the Claimant, and it must contain:

(a) specific reasons for the decision;

(b) reference to the specific Plan provisions upon which the decision was based;

(c) a statement that the Claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the Claimant's claim for benefits;

(d) a statement of the Claimant's right to bring an action under ERISA Section 502(a) concerning an adverse benefit determination; and

(e) such other matters as the Board of Directors deems relevant.

For purposes of this Article, a document, record, or other information shall be considered "relevant" to a Claimant's claim if such document, record, or other information was relied upon in making the benefit determination; was submitted, considered, or generated in the course of making the benefit determination, without regard to whether such document, record, or other information was relied upon in making the benefit determination; or demonstrates compliance with the administrative processes and safeguards required under ERISA in making the benefit determination.

ARTICLE XIII
MISCELLANEOUS

Section 13.1: Contributions Not Recoverable. Subject to the next two sentences, it shall be impossible for any part of the Trust's principal or income to be used for, or diverted to, purposes other than the exclusive benefit of the Participants or their Beneficiaries. Despite any other provision of the Plan, the Company shall be entitled to recover (within one year of the specified event):

(a) any contribution made to the Trust if (i) the Commissioner of Internal Revenue, or his delegate, determines that the Plan and the Trust do not meet the applicable requirements of the Code upon their initial qualification, with the result that the Trust is not exempt from federal income tax, (ii) such contribution was conditioned on such initial qualification of the Plan and Trust, (iii) the application for determination of such initial qualification was made within the time prescribed by law for filing the Company's tax return for the taxable year in which the Plan and Trust was adopted, or such later date as the Secretary of the Treasury may prescribe, and (iv) such contribution is returned to the Company within one year after the date the initial qualification is denied;

(b) any contribution by the Company that was made by a mistake of fact, provided that such a contribution is returned to the Company within one year of the contribution;

(c) any contribution by the Company (or any portion of it) that was disallowed by the Internal Revenue Service as a deduction, provided that such contribution (or such portion of it), to the extent disallowed, is returned to the Company within one year of the disallowance of the deduction; and

(d) upon termination of the Plan, any assets held in a suspense account pursuant to **Section 4.13(c)**.

Subsections (b), **(c)**, and **(d)** above shall be operative only if, and to the extent, expressly authorized by the applicable Regulations, or a Revenue Ruling, Revenue Procedure, or other official promulgation of the Internal Revenue Service.

Section 13.2: Limitation On Participants' Rights. Participation in the Plan and Trust shall not give any Employee the right to be retained in the Company's employ or any right or interest in the Trust other than as provided in the Plan. The Company reserves the right to dismiss any Employee without any liability for any claim against the Trust (except to the extent provided in the Plan) or against the Company. All benefits payable under the Plan shall be provided solely from the assets of the Trust.

Section 13.3: Receipt Or Release. Any payment to any Participant or Beneficiary pursuant to the Plan shall, to the extent of it, be in full satisfaction of all claims against the Trustee, the Committee, the Board of Directors, and the Company, and the Committee may require such Participant or Beneficiary, as a condition precedent to such payment, to sign a receipt and release to such effect.

Section 13.4: Nonassignability.

(a) None of the benefits, payments, proceeds or claims of any Participant or Beneficiary shall be subject to any claim of any creditor and, in particular, they shall not be subject to attachment or garnishment or other legal process by any creditor. In addition, no Participant or Beneficiary shall have any right to alienate, anticipate, commute, pledge, encumber or assign any of the benefits or payments or proceeds that he or she may expect to receive, contingently or otherwise, under the Plan.

(b) Any restriction or prohibition against the assignment or alienation of benefits under the Plan shall not apply to (i) a "qualified domestic relations order" ("QDRO"), as that term is defined in Code Section 414(p), or (ii) a benefit reduction or offset in accordance with Code Section 401(a)(13)(C). To the extent provided in any QDRO, a former spouse of a Participant shall be treated as the spouse or surviving spouse of such Participant for all purposes under the Plan. Notwithstanding any other provision in this Plan, a lump sum distribution may be made to an alternate payee under a QDRO at any time after the Committee has determined that such QDRO satisfies the requirements of Code Section 414(p) and Section 206(d) of ERISA, and regardless of whether or not the Participant who is a party to such QDRO is then eligible to receive a distribution under the Plan.

Section 13.5: Governing Law. The Plan and the Trust shall be construed, administered, and governed in all respects under and by applicable federal law and, if they are not inconsistent with federal law, the laws of the State of California. If any provision is susceptible to more than one interpretation, the controlling interpretation shall be the one that is consistent with the Plan being a qualified plan under Code Section 401. If any provision of the Plan is held by a court of competent jurisdiction to be invalid or unenforceable, the other provisions shall continue to be fully effective.

Section 13.6: Headings. Headings and subheadings in the Plan are inserted for convenience of reference only, and they are not to be considered in construing the provisions of the Plan.

Section 13.7: Counterparts. This Agreement may be signed in counterparts, each of which shall be deemed an original, and all such counterparts shall constitute but one and the same document, which may be sufficiently evidenced by any one counterpart.

Section 13.8: Successors And Assigns. This Agreement shall inure to the benefit of, and be binding upon, the parties to it, and their successors and assigns.

Section 13.9: Gender And Number. As used in the Plan, the masculine, feminine and neuter gender, and the singular and plural number, each include the other(s), unless the context indicates otherwise.

Section 13.10: Merger, Consolidation Or Transfer Of Plan Assets. The Plan shall not be merged or consolidated with, nor shall its assets or liabilities be transferred to, any other plan (the "new plan") unless each Participant would receive in such new plan a benefit immediately after such merger, consolidation or transfer, if such new plan were then terminated, that is equal to, or greater than, the benefit he or she would have been entitled to receive immediately before such merger, consolidation or transfer, if the Plan had been terminated then.

Section 13.11: Joinder Of Parties. In any action or other judicial proceeding affecting the Plan, it shall be necessary to join as parties only the Trustee, the Committee and the Company, and no Participant or other person having an interest in the Plan shall be entitled to any notice or service of process.

Section 13.12: The Trust. This Plan and the Trust are both part of and constitute a single integrated employee benefit plan and trust and shall be construed together.

Section 13.13: Participation By Affiliated Companies. Upon the written consent of the Board of Directors, any Affiliated Company may adopt the Plan. Any Affiliated Company that executes the Signature Page of the Plan shall, without the need for any further act, be deemed to have adopted the Plan with the consent of the Board of Directors.

Section 13.14: Special Requirements For USERRA.

(a) Despite any other provision of the Plan, an Employee re-employed under Chapter 43 of Title 38, United States Code ("USERRA") shall not incur a Break in Service by reason of such Employee's period of Qualified Military Service.

(b) Each period of Qualified Military Service served by an Employee shall, upon reemployment under USERRA with the Company, constitute service with the Company for the purpose of determining the nonforfeitability of the Employee's accrued benefits under the Plan and for the purpose of determining the accrual of benefits under the Plan.

(c) An Employee re-employed under USERRA shall be entitled to accrued benefits that are contingent on the making of, or derived from, employee contributions or elective deferrals only to the extent the Employee makes payment to the Plan with respect to such contributions or deferrals. No such payment may exceed the amount the Employee would have been permitted or required to contribute had the Employee remained continuously employed by the Company throughout the period of Qualified Military Service. Any payment to the Plan shall be made during the period beginning on the date of reemployment and whose duration is three times the period of the Qualified Military Service (but not greater than five years).

(d) In the case of a Participant who dies while performing Qualified Military Service, the survivors of such Participant shall be entitled to any additional benefits (other than benefit accruals relating to the period of Qualified Military Service) provided under the Plan had the Participant resumed employment and then immediately terminated employment on account of death.

(e) If an individual on Qualified Military Service receives a differential wage payment, (i) he or she shall be treated as an Employee of the Company making the payment, (ii) the differential wage payment shall be treated as Compensation, and (iii) the Plan shall not be treated as failing to meet the requirements of any provision described in Code Section 414(u)(1)(C) by reason of any contribution or benefit that is based on the differential wage payment, provided, however, in the case of **subsection (iii)** above, the special nondiscrimination requirements of Code Section 414(u)(12)(C) are met. The special distribution rule of Code Section 414(u)(12)(B) shall also apply. For purposes of the foregoing, "differential wage payment" shall have the meaning given such term by Code Section 3401(h)(2). The receipt by an individual of a differential wage payment shall not affect any determination of whether such person has had a severance from employment for other purposes of the Plan.

(f) For purposes of this Section, "Qualified Military Service" shall mean any service in the uniformed services (as defined in USERRA) by any Employee if such Employee is entitled to reemployment rights under USERRA with respect to such service.

Section 13.15: Facility Of Payment. If any payee under the Plan is a minor, or if the Committee reasonably believes that any payee is legally incapable of giving valid receipt and discharge for any payment due him or her, the Committee may have such payment, or any part thereof, made to the person (or persons or institution) whom it reasonably believes is caring for or supporting such payee unless it has received due notice of claim therefore from a duly appointed guardian or conservator of the estate of such payee. Any such payment shall be a payment for the account of such payee and shall, to the extent thereof, be a complete discharge of any liability under the Plan to such payee.

Section 13.16: Electronic Media. Any notice, Participant consent, or other document required under the Plan or applicable law may be made or given through the means of electronic media, provided such electronic media complies with applicable requirements of the Code, ERISA, their applicable Regulations, and other applicable interpretations thereof.

* * * * * * * *

[Signature Page Follows]

Signature Page

The Company has signed the Plan on the date indicated below, to be effective as of the Effective Date.

"Company"

Dated: December 22, 2015

CATHAY GENERAL BANCORP

By /s/ Dunson K. Cheng

Its Chairman, President and CEO

Dated: December 22, 2015

CATHAY BANK

By /s/ Dunson K. Cheng

Its Chairman and CEO

EXHIBIT 10.2.1

AMENDMENT NO. 1
TO THE
CATHAY BANK
EMPLOYEE STOCK OWNERSHIP PLAN

Cathay General Bancorp (the "Company") hereby amends the above-named plan (the "Plan"), effective as of August 1, 2016, as follows:

1. Section 6.1 (b) of the Plan is hereby amended by deleting the reference to "$5,000" where it appears and replacing it with "$1,000."

2. Section 6.2(a)(ii)(B) of the Plan is hereby amended by deleting the reference to "$5,000" where it appears and replacing it with "$1 ,000."

3. Section 6.7 of the Plan is hereby deleted in its entirety.

4. Section 9.4(c) of the Plan is hereby amended by deleting the reference to "$5,000" where it appears and replacing it with "$1,000."

* * * * * * * *

The Company has caused this Amendment No. 1 to be signed on the date indicated below, to be effective as indicated above.

"Company"

Dated: August 18, 2016

CATHAY GENERAL BANCORP

By /s/ Dunson K. Cheng

Its Chairman, CEO and President

EXHIBIT 10.2.2

AMENDMENT NO.2
TO THE
CATHAY BANK
EMPLOYEE STOCK OWNERSHIP PLAN

Cathay General Bancorp (the "Company") hereby amends the above-named plan (the "Plan"), effective as of January 1, 2017, as follows:

1. Subsection (iv) of Section 6.2(a) of the Plan is hereby amended in its entirety to read as follows:

"(iv) Despite any other provision of the Plan, the benefits in the Participant's Stock Account that consist of Stock in an S Corporation shall be distributed in the form of cash. Any benefits in the Participant's Stock Account that do not consist of Stock in an S Corporation shall also be distributed in the form of cash, unless such Participant elects to receive his or her benefits in the form of Stock."

* * * * * * * *

The Company has caused this Amendment No. 2 to be signed on the date indicated below, to be effective as indicated above.

"Company"

Dated: August 18, 2017

CATHAY GENERAL BANCORP

By /s/ Pin Tai

Its CEO and President

Subsidiaries of Cathay General Bancorp	State of Incorporation
Cathay Bank	California
Cathay Capital Trust I	Delaware
Cathay Capital Trust II	Delaware
Cathay Capital Trust III	Delaware
Cathay Capital Trust IV	Delaware
Cathay Statutory Trust I	Connecticut
GBC Venture Capital, Inc.	California
Asia Realty Corp.	New York
Subsidiaries of Cathay Bank	
Cathay Holdings LLC	Texas
Cathay Holdings 2, LLC	Texas
Cathay Holding 3, LLC	Texas
Cathay New Asia Community Development Corporation	Illinois

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Cathay General Bancorp:

We consent to the incorporation by reference in the registration statements (Nos. 333-133570, 333-156552, 333-161591, 333-162445, 333-163070, 333-192636, 333-205888, and 333-218973) on Form S-3 and the registrations statements (Nos. 333-87225, 333-110008, 333-110009, 333-127762, and 333-205889) on Form S-8 of Cathay General Bancorp and subsidiaries (the Company) of our reports dated March 1, 2018, with respect to the consolidated balance sheets of the Company as of December 31, 2017 and 2016, and the related consolidated statements of operations and comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes (collectively, the "consolidated financial statements"), and the effectiveness of internal control over financial reporting as of December 31, 2017, which reports appear in the December 31, 2017 annual report on Form 10-K of Cathay General Bancorp.

Our report dated March 1, 2018, on the effectiveness of internal control over financial reporting as of December 31, 2017, contains an explanatory paragraph that states: on July 14, 2017, the Company acquired Sinopac Bancorp, and its wholly-owned subsidiary Far East National Bank, and management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2017, loans of $627.5 million acquired from Sinopac Bancorp and the related accrued interest receivable of $1.5 million and interest income of $15.7 million, and deposits of $675.2 million consisting of non-interest bearing demand deposits of $163.0 million, NOW deposits of $39.2 million, money market deposits of $198.7 million, savings deposits of $53.3 million and time deposits of $220.8 million, assumed from Sinopac Bancorp and the related accrued interest payable of $723,000, time deposit interest expense of $917,000 and other deposit interest expense of $497,000, included in the consolidated financial statements of the Company as of and for the year ended December 31, 2017. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the aforementioned amounts.

/s/ KPMG LLP

Los Angeles, California
March 1, 2018

Exhibit 24.1

POWER OF ATTORNEY

The undersigned directors and officers of Cathay General Bancorp, a Delaware corporation (the Company), hereby constitute and appoint Pin Tai and Heng W. Chen, and each of them, with full power to act without the other, as the undersigned's true and lawful attorney-in-fact, with full power of substitution and resubstitution, for the undersigned and in the undersigned's name, place and stead in the undersigned's capacity as an officer and/or director of the Company, to execute in the name and on behalf of the undersigned an annual report of the Company on Form 10-K for the fiscal year ended December 31, 2017, (the Report), under the Securities Exchange Act of 1934, as amended, and to file such Report, with exhibits thereto and other documents in connection therewith and any and all amendments thereto, with the Securities and Exchange Commission, granting unto said attorneys-in-fact, and each of them, full power and authority to do and perform each and every act and thing necessary or desirable to be done and to take any other action of any type whatsoever in connection with the foregoing which, in the opinion of such attorney-in-fact, may be of benefit to, in the best interest of, or legally required of, the undersigned, it being understood that the documents executed by such attorney-in-fact on behalf of the undersigned pursuant to this Power of Attorney shall be in such form and shall contain such terms and conditions as such attorney-in-fact may approve in such attorney-in-fact's discretion.

IN WITNESS WHEREOF, we have hereunto set our hands this 15th day of February, 2018.

Signature	Title
/s/ Dunson K. Cheng Dunson K. Cheng	Executive Chairman of the Board
/s/ Peter Wu Peter Wu	Vice Chairman of the Board
/s/ Anthony M. Tang Anthony M. Tang	Vice Chairman of the Board
/s/ Kelly L. Chan Kelly L. Chan	Director
/s/ Michael M.Y. Chang Michael M.Y. Chang	Director
/s/ Thomas C.T. Chiu Thomas C.T. Chiu	Director
/s/ Nelson Chung Nelson Chung	Director
/s/ Felix S. Fernandez Felix S. Fernandez	Director
/s/ Jane Jelenko Jane Jelenko	Director
/s/ Ting Y. Liu Ting Y. Liu	Director
/s/ Joseph C.H. Poon Joseph C.H. Poon	Director
/s/ Richard Sun Richard Sun	Director
/s/ Pin Tai Pin Tai	Director

Exhibit 31.1

I, Pin Tai, certify that:

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

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

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

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

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

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

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

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

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

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

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

/s/ Pin Tai .
Pin Tai
Chief Executive Officer and
President

Date: March 1, 2018

Exhibit 31.2

I, Heng W. Chen, certify that:

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

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

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

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

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

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

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

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

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

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

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

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

Date: March 1, 2018

Exhibit 32.1

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

In connection with the Annual Report of Cathay General Bancorp (the "Company") on Form 10-K for the period ended December 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Pin Tai, chief executive officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Pin Tai .
Pin Tai
Chief Executive Officer and
President

Date: March 1, 2018

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

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

In connection with the Annual Report of Cathay General Bancorp (the “Company”) on Form 10-K for the period ended December 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Heng W. Chen, chief financial officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

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

Date: March 1, 2018

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.