

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

FORM 10-Q

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

For the quarterly period ended

September 30, 2021

OR

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

For the transition period from

to

Commission file number

001-31830

CATHAY GENERAL BANCORP

(Exact name of registrant as specified in its charter)

Delaware

(State of 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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer

Non-accelerated filer

Emerging growth company

Accelerated filer

Smaller reporting company

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

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

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

Common stock, \$.01 par value, 77,223,495 shares outstanding as of October 31, 2021.

CATHAY GENERAL BANCORP AND SUBSIDIARIES
3RD QUARTER 2021 REPORT ON FORM 10-Q
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Forward-Looking Statements

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

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

- local, regional, national and international economic and market conditions and events and the impact they may have on us, our customers and our operations, assets and liabilities;
- the impact on our business, operations, financial condition, liquidity, results of operations, prospects and trading prices of our shares arising out of the COVID-19 pandemic;
- possible additional provisions for loan losses and charge-offs;
- credit risks of lending activities and deterioration in asset or credit quality;
- extensive laws and regulations and supervision that we are subject to, including potential supervisory action by bank supervisory authorities;
- increased costs of compliance and other risks associated with changes in regulation, including the implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”);
- higher capital requirements from the implementation of the Basel III capital standards;
- compliance with the Bank Secrecy Act and other money laundering statutes and regulations;
- potential goodwill impairment;
- liquidity risk;
- fluctuations in interest rates;
- risks associated with acquisitions and the expansion of our business into new markets;
- inflation and deflation;
- real estate market conditions and the value of real estate collateral;
- environmental liabilities;
- our ability to generate anticipated returns from our investments and/or financings in certain tax advantaged-projects;

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- our ability to compete with larger competitors;
- our ability to retain key personnel;
- successful management of reputational risk;
- natural disasters, public health crises (including the occurrence of a contagious disease or illness, such as COVID-19) and geopolitical events;
- failures, interruptions, or security breaches of our information systems;
- our ability to adapt our systems to the expanding use of technology in banking;
- risk management processes and strategies;
- adverse results in legal proceedings;
- the impact of regulatory enforcement actions, if any;
- certain provisions in our charter and bylaws that may affect acquisition of the Company;
- changes in accounting standards or tax laws and regulations;
- market disruption and volatility;
- fluctuations in the Bancorp's stock price;
- restrictions on dividends and other distributions by laws and regulations and by our regulators and our capital structure;
- issuances of preferred stock;
- capital level requirements and successfully raising additional capital, if needed, and the resulting dilution of interests of holders of Bancorp common stock; and
- the soundness of other financial institutions.

These and other factors are further described in Bancorp's Annual Report on Form 10-K for the year ended December 31, 2020 (Item 1A in particular), other reports and registration statements filed with the Securities and Exchange Commission ("SEC"), and other filings Bancorp makes with the SEC from time to time. Actual results in any future period may also vary from the past results discussed in this report. Given these risks and uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements. We have no intention and undertake no obligation to update any forward-looking statement or to announce publicly any revision of any forward-looking statement to reflect developments, events, occurrences or circumstances after the date of such statement, except as required by law.

Bancorp's filings with the SEC are available at the website maintained by the SEC at <http://www.sec.gov>, or by request directed to Cathay General Bancorp, 9650 Flair Drive, El Monte, California 91731, Attention: Investor Relations (626) 279-3296.

PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)
CATHAY GENERAL BANCORP AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	<u>September 30, 2021</u>	<u>December 31, 2020</u>
	(In thousands, except share and per share data)	
Assets		
Cash and due from banks	\$ 156,287	\$ 138,616
Short-term investments and interest-bearing deposits	1,667,875	1,282,462
Securities available-for-sale (amortized cost of \$1,073,074 at September 30, 2021 and \$1,019,230 at December 31, 2020)	1,079,216	1,036,550
Loans	15,976,781	15,644,396
Less: Allowance for loan losses	(131,945)	(166,538)
Unamortized deferred loan fees, net	(3,835)	(2,494)
Loans, net	15,841,001	15,475,364
Equity securities	20,117	23,744
Federal Home Loan Bank stock	17,250	17,250
Other real estate owned, net	5,251	4,918
Affordable housing investments and alternative energy partnerships, net	313,517	309,016
Premises and equipment, net	100,344	102,998
Customers' liability on acceptances	13,185	13,753
Accrued interest receivable	56,844	59,032
Goodwill	372,189	372,189
Other intangible assets, net	4,831	5,434
Right-of-use assets - operating leases	29,179	30,919
Other assets	183,354	170,889
Total assets	\$ 19,860,440	\$ 19,043,134
Liabilities		
Deposits:		
Non-interest-bearing demand deposits	\$ 4,024,504	\$ 3,365,086
Interest-bearing deposits:		
NOW deposits	2,202,956	1,926,135
Money market deposits	4,132,912	3,359,191
Savings deposits	920,138	785,672
Time deposits	5,726,360	6,673,317
Total deposits	17,006,870	16,109,401
Advances from the Federal Home Loan Bank	20,000	150,000
Other borrowings of affordable housing investments	23,197	23,714
Long-term debt	119,136	119,136
Acceptances outstanding	13,185	13,753
Lease liabilities - operating leases	32,028	33,484
Other liabilities	182,733	175,502
Total liabilities	17,397,149	16,624,990
Commitments and contingencies	—	—
Stockholders' Equity		
Common stock, \$0.01 par value, 100,000,000 shares authorized; 90,850,175 issued and 77,240,215 outstanding at September 30, 2021, and 90,643,206 issued and 79,508,265 outstanding at December 31, 2020	909	906
Additional paid-in-capital	969,719	964,734
Accumulated other comprehensive income, net	(368)	5,310
Retained earnings	1,935,831	1,789,325
Treasury stock, at cost (13,609,960 shares at September 30, 2021, and 11,134,941 shares at December 31, 2020)	(442,800)	(342,131)
Total equity	2,463,291	2,418,144
Total liabilities and equity	\$ 19,860,440	\$ 19,043,134

See accompanying Notes to Consolidated Financial Statements.

CATHAY GENERAL BANCORP AND SUBSIDIARIES
**CONSOLIDATED STATEMENTS OF OPERATIONS AND
COMPREHENSIVE INCOME**

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
	(In thousands, except share and per share data)			
Interest and Dividend Income				
Loans receivable, including loan fees	\$ 163,948	\$ 167,556	\$ 485,162	\$ 513,575
Investment securities	3,707	4,115	9,963	17,130
Federal Home Loan Bank stock	258	216	730	735
Deposits with banks	714	347	1,467	1,538
Total interest and dividend income	<u>168,627</u>	<u>172,234</u>	<u>497,322</u>	<u>532,978</u>
Interest Expense				
Time deposits	9,299	26,247	33,363	92,213
Other deposits	5,243	5,761	16,302	19,671
Advances from Federal Home Loan Bank	146	1,251	1,036	4,119
Long-term debt	1,455	1,456	4,318	4,336
Deferred payments from acquisition	—	15	—	115
Short-term borrowings	—	—	—	234
Total interest expense	<u>16,143</u>	<u>34,730</u>	<u>55,019</u>	<u>120,688</u>
Net interest income before provision for credit losses	152,484	137,504	442,303	412,290
Provision for credit losses	3,050	12,500	(19,508)	62,500
Net interest income after provision for credit losses	<u>149,434</u>	<u>125,004</u>	<u>461,811</u>	<u>349,790</u>
Non-Interest Income				
Net gain/(loss) from equity securities	3	(1,605)	(3,628)	(1,928)
Securities losses, net	—	—	853	1,153
Letters of credit commissions	1,764	1,792	5,236	4,992
Depository service fees	1,401	1,263	4,107	3,678
Other operating income	9,048	8,527	28,231	23,474
Total non-interest income	<u>12,216</u>	<u>9,977</u>	<u>34,799</u>	<u>31,369</u>
Non-Interest Expense				
Salaries and employee benefits	33,437	33,341	98,917	92,477
Occupancy expense	5,136	5,295	15,142	15,435
Computer and equipment expense	3,175	3,044	10,093	8,218
Professional services expense	6,232	5,241	16,698	15,586
Data processing service expense	3,524	3,772	10,422	11,004
FDIC and regulatory assessments	1,830	1,993	5,195	6,854
Marketing expense	945	1,089	5,270	3,890
Other real estate owned (income)/expense	(88)	423	197	(3,229)
Amortization of investments in low income housing and alternative energy partnerships	12,411	16,173	34,663	42,997
Amortization of core deposit intangibles	172	172	515	515
Costs associated with debt redemption	—	—	732	—
Acquisition, integration and reorganization costs	476	—	476	—
Other operating expense	4,965	5,454	15,005	14,672
Total non-interest expense	<u>72,215</u>	<u>75,997</u>	<u>213,325</u>	<u>208,419</u>
Income before income tax expense	89,435	58,984	283,285	172,740
Income tax expense	17,038	2,190	60,305	14,773
Net income	<u>\$ 72,397</u>	<u>\$ 56,794</u>	<u>\$ 222,980</u>	<u>\$ 157,967</u>
Other Comprehensive Income, net of tax				
Unrealized holding (loss)/gain on securities available-for-sale	(3,232)	(2,496)	(7,271)	8,880
Unrealized holding gain/(loss) on cash flow hedge derivatives	492	532	2,194	(3,981)
Less: reclassification adjustments for losses included in net income	—	—	601	812
Total other comprehensive (loss)/gain, net of tax	<u>(2,740)</u>	<u>(1,964)</u>	<u>(5,678)</u>	<u>4,087</u>
Total other comprehensive income	<u>\$ 69,656</u>	<u>\$ 54,830</u>	<u>\$ 217,302</u>	<u>\$ 162,054</u>
Net Income Per Common Share:				
Basic	\$ 0.93	\$ 0.71	\$ 2.83	\$ 1.98
Diluted	\$ 0.93	\$ 0.71	\$ 2.82	\$ 1.98
Cash dividends paid per common share	\$ 0.31	\$ 0.31	\$ 0.93	\$ 0.93
Average Common Shares Outstanding:				
Basic	77,846,424	79,628,372	78,841,899	79,599,288
Diluted	78,153,408	79,764,318	79,128,644	79,758,943

See accompanying Notes to Consolidated Financial Statements.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

 CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
 (Unaudited)

Three months ended	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income		Retained Earnings	Treasury Stock	Total Stockholders' Equity
	Number of Shares	Amount						
	(In thousands, except share data)							
Balance at June 30, 2021	78,158,590	\$ 908	\$ 967,166	\$ 2,372	\$ 1,887,571	\$ (405,660)	\$ 2,452,357	
Dividend Reinvestment Plan	22,267	—	894	—	—	—	894	
Restricted stock units vested	1,971	—	—	—	—	—	—	
Shares withheld related to net share settlement of RSUs	—	—	(38)	—	—	—	(38)	
Stock issued to directors	—	—	—	—	—	—	—	
Purchases of treasury stock	(942,613)	—	—	—	—	(37,139)	(37,139)	
Stock-based compensation	—	—	1,697	—	—	—	1,697	
Cash dividends of \$0.31 per share	—	—	—	—	(24,137)	—	(24,137)	
Other comprehensive loss	—	—	—	(2,740)	—	—	(2,740)	
Net income	—	—	—	—	72,397	—	72,397	
Balance at September 30, 2021	77,240,215	\$ 908	\$ 969,719	\$ (368)	\$ 1,935,831	\$ (442,799)	\$ 2,463,291	

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income		Retained Earnings	Treasury Stock	Total Stockholders' Equity
	Number of Shares	Amount						
	(In thousands, except share data)							
Balance at June 30, 2020	79,619,984	\$ 903	\$ 953,616	\$ 8,353	\$ 1,710,994	\$ (331,418)	\$ 2,342,448	
Dividend Reinvestment Plan	37,420	1	866	—	—	—	867	
Restricted stock units vested	1,992	—	—	—	—	—	—	
Shares withheld related to net share settlement of RSUs	—	—	(4)	—	—	—	(4)	
Stock issued to directors	—	—	—	—	—	—	—	
Stock-based compensation	—	—	1,264	—	—	—	1,264	
Cash dividends of \$0.31 per share	—	—	—	—	(24,682)	—	(24,682)	
Other comprehensive income	—	—	—	(1,964)	—	—	(1,964)	
Net income	—	—	—	—	56,794	—	56,794	
Balance at September 30, 2020	79,659,396	\$ 904	\$ 955,742	\$ 6,389	\$ 1,743,106	\$ (331,418)	\$ 2,374,723	

See accompanying Notes to Consolidated Financial Statements.

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

Nine months ended	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income		Retained Earnings	Treasury Stock	Total Stockholders' Equity
	Number of Shares	Amount						
	(In thousands, except share data)							
Balance at December 31, 2020	79,508,265	\$ 906	\$ 964,734	\$ 5,310	\$ 1,789,325	\$ (342,131)		\$ 2,418,144
Cumulative effect of change in accounting principle related to ASC 326, net of tax	—	—	—	—	(3,139)	—		(3,139)
Dividend Reinvestment Plan	62,326	1	2,618	—	—	—		2,619
Restricted stock units vested	123,893	1	—	—	—	—		1
Shares withheld related to net share settlement of RSUs	—	—	(2,632)	—	—	—		(2,632)
Stock issued to directors	20,750	—	850	—	—	—		850
Purchases of treasury stock	(2,475,019)	—	—	—	—	(100,668)		(100,668)
Stock-based compensation	—	—	4,149	—	—	—		4,149
Cash dividends of \$0.93 per share	—	—	—	—	(73,335)	—		(73,335)
Other comprehensive loss	—	—	—	(5,678)	—	—		(5,678)
Net income	—	—	—	—	222,980	—		222,980
Balance at September 30, 2021	<u>77,240,215</u>	<u>\$ 908</u>	<u>\$ 969,719</u>	<u>\$ (368)</u>	<u>\$ 1,935,831</u>	<u>\$ (442,799)</u>		<u>\$ 2,463,291</u>

Nine months ended	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income		Retained Earnings	Treasury Stock	Total Stockholders' Equity
	Number of Shares	Amount						
	(In thousands, except share data)							
Balance at December 31, 2019	79,729,419	\$ 900	\$ 950,466	\$ 2,302	\$ 1,659,153	\$ (318,538)		\$ 2,294,283
Dividend Reinvestment Plan	109,988	2	2,571	—	—	—		2,573
Restricted stock units vested	188,879	2	—	—	—	—		2
Shares withheld related to net share settlement of RSUs	—	—	(1,903)	—	—	—		(1,903)
Stock issued to directors	31,110	—	800	—	—	—		800
Purchases of treasury stock	(400,000)	—	—	—	—	(12,880)		(12,880)
Stock-based compensation	—	—	3,808	—	—	—		3,808
Cash dividends of \$0.93 per share	—	—	—	—	(74,014)	—		(74,014)
Other comprehensive income	—	—	—	4,087	—	—		4,087
Net income	—	—	—	—	157,967	—		157,967
Balance at September 30, 2020	<u>79,659,396</u>	<u>\$ 904</u>	<u>\$ 955,742</u>	<u>\$ 6,389</u>	<u>\$ 1,743,106</u>	<u>\$ (331,418)</u>		<u>\$ 2,374,723</u>

See accompanying Notes to Consolidated Financial Statements.

CATHAY GENERAL BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine months ended September 30,	
	2021	2020
	(In thousands)	
Cash Flows from Operating Activities		
Net income	\$ 222,980	\$ 157,967
Adjustments to reconcile net income to net cash provided by operating activities:		
(Reversal)/provision for credit losses	(15,710)	62,500
(Reversal)/Provision for losses on other real estate owned	(8)	717
Deferred tax (benefit)/ provision	8,867	(10,305)
Depreciation and amortization	5,942	5,644
Amortization of right-of-use asset	5,972	6,624
Change in operating lease liabilities	(1,456)	(757)
Net gains on sale and transfer of other real estate owned	(120)	(4,216)
Net gains on sale of loans	(357)	(219)
Proceeds from sales of loans	5,351	6,406
Originations of loans held for sale	(4,994)	(6,187)
Amortization on alternative energy partnerships, venture capital and other investments	31,610	42,904
Net gain on sales and calls of securities	(853)	(1,153)
Amortization/accretion of security premiums/discounts, net	6,128	6,211
Loss on sales or disposal of fixed assets	55	45
Unrealized loss on equity securities	3,628	1,928
Stock-based compensation and stock issued to officers as compensation	4,999	4,608
Net change in accrued interest receivable and other assets	(21,607)	(13,000)
Net change in other liabilities	(12,880)	(26,597)
Net cash provided by operating activities	237,547	233,120
Cash Flows from Investing Activities		
Purchase of investment securities available-for-sale	(406,750)	(272,961)
Proceeds from sale of investment securities available-for-sale	21,102	107,539
Proceeds from sale of equity securities	—	3,112
Proceeds from repayments, maturities and calls of investment securities available-for-sale	326,527	543,114
Purchase of Federal Home Loan Bank stock	—	(840)
Redemptions of Federal Home Loan Bank stock	—	1,680
Net increase in loans	(349,924)	(496,732)
Purchase of premises and equipment	(2,828)	(4,372)
Benefits received from bank owned life insurance policies	2,752	—
Proceeds from sales of other real estate owned	—	4,308
Net increase in investment in affordable housing and alternative energy partnerships	(19,039)	(60,129)
Net cash used for investing activities	(428,160)	(175,281)
Cash Flows from Financing Activities		
Net increase in deposits	897,713	1,342,019
Advances from Federal Home Loan Bank	50,000	1,450,000
Repayment of Federal Home Loan Bank borrowings	(180,000)	(1,890,000)
Cash dividends paid	(73,335)	(74,014)
Repayment of other borrowings	—	(7,663)
Purchases of treasury stock	(100,668)	(12,880)
Repayment of short-term borrowings	—	(25,683)
Proceeds from shares issued under Dividend Reinvestment Plan	2,619	2,573
Taxes paid related to net share settlement of RSUs	(2,632)	(1,903)
Net cash provided by financing activities	593,697	782,449
Decrease in cash, cash equivalents, and restricted cash	403,084	840,288
Cash, cash equivalents, and restricted cash, beginning of the period	1,421,078	593,778
Cash, cash equivalents, and restricted cash, end of the period	\$ 1,824,162	\$ 1,434,066
Supplemental disclosure of cash flow information		
Cash paid during the period:		
Interest	\$ 61,574	\$ 133,151
Income taxes paid	\$ 65,291	\$ 35,490
Non-cash investing and financing activities:		
Net change in unrealized holding (loss)/gain on securities available-for-sale, net of tax	\$ (7,872)	\$ 8,068
Net change in unrealized holding gain/(loss) on cash flow hedge derivatives	\$ 2,194	\$ (3,981)
Transfers to other real estate owned from loans held for investment	\$ 205	\$ —

See accompanying Notes to Consolidated Financial Statements.

CATHAY GENERAL BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Business

Cathay General Bancorp (“Bancorp”) is the holding company for Cathay Bank (the “Bank” and, together, with Bancorp, the “Company”), ten limited partnerships investing in affordable housing investments in which the Bank is the sole limited partner, and GBC Venture Capital, Inc. Bancorp also owns 100% of the common stock of five statutory business trusts created for the purpose of issuing capital securities. The Bank was founded in 1962 and offers a wide range of financial services. As of September 30, 2021, the Bank operates 24 branches in Southern California, 13 branches in Northern California, 10 branches in New York State, four in Washington State, two in Illinois, two in Texas, one in Maryland, Massachusetts, Nevada, and New Jersey, one in Hong Kong, and a representative office in Taipei, Beijing, and Shanghai. Deposit accounts at the Hong Kong branch are not insured by the Federal Deposit Insurance Corporation (the “FDIC”).

2. Basis of Presentation and Summary of Significant Accounting Policies

The accompanying unaudited Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2021. For further information, refer to the audited Consolidated Financial Statements and Notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2020 filed with the SEC on March 1, 2021 (the “2020 Form 10-K”).

The preparation of the Consolidated Financial Statements in accordance with GAAP requires management of the Company to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities at the date of the Consolidated Financial Statements. Actual results could differ from those estimates. The Company expects that the most significant estimates subject to change are the allowance for loan losses.

Summary of Significant Accounting Policies

With the exception of the updated accounting policies listed below, the accompanying unaudited interim Consolidated Financial Statements have been prepared on a consistent basis with the accounting policies described in Consolidated Financial Statements and Supplementary Data - Note 1 - “Summary of Significant Accounting Policies” under Part II, Item 8 of our 2020 Form 10K.

Securities Available for Sale

Prior to January 1, 2021, available-for-sale (“AFS”) debt securities were measured at fair value and declines in the fair value were reviewed to determine whether the impairment was other-than-temporary. If we did not expect to recover the entire amortized cost basis of the security, then an other-than-temporary impairment (“OTTI”) was considered to have occurred. The cost basis of the security was written down to its estimated fair value and the amount of the write-down was recognized through a charge to earnings. If the amount of the amortized cost basis expected to be recovered increased in a future period, the cost basis of the security was not increased but rather recognized prospectively through interest income.

Effective January 1, 2021, upon the adoption of ASU 2016-13, debt securities AFS are measured at fair value and subject to impairment testing. When an AFS debt security is considered impaired, the Company must determine if the decline in fair value has resulted from a credit-related loss or other factors and then, (1) recognize an allowance for credit loss by a charge to earnings for the credit-related component (if any) of the decline in fair value, and (2) recognize in other comprehensive income (loss) any non-credit related components of the fair value change. If the amount of the amortized cost basis expected to be recovered increases in a future period, the valuation reserve would be reduced, but not more than the amount of the current existing reserve for that security.

Interest income includes amortization of premiums and discounts as an adjustment of yield on a level-yield basis. Premiums on callable debt securities are amortized to their earliest call date. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

A debt security is placed on nonaccrual status at the time any principal or interest payments become delinquent by 90 days or greater. Interest accrued but not received for a security placed on non-accrual is reversed against interest income. No interest was reversed against interest income during the period.

Allowance for Credit Losses on Available for Sale Securities

For AFS debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value with the credit component of the unrealized loss of the impaired AFS debt security recognized as an allowance for credit losses, and a corresponding provision for credit losses on the consolidated statement of income and the non-credit component is recognized in other comprehensive income (loss), net of applicable taxes. For AFS debt securities that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, the payment structure of the security, failure of the issuer of the security to make scheduled interest or principal payments, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. Any fair value changes that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

Changes in the allowance for credit losses are recorded as provision for credit loss expense. Losses are charged against the allowance when management believes the uncollectability of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

The amortized cost of the Company's AFS debt securities excludes accrued interest, which is included in "accrued interest receivable" on the Consolidated Balance Sheets. The Company has made an accounting policy election not to measure an allowance for credit losses for accrued interest receivables on AFS debt securities since the Company timely reverses any previously accrued interest when the debt security remains in default for an extended period. As each AFS debt security has a unique security structure, where the accrual status is clearly determined when certain criteria listed in the terms are met, the Company assesses the default status of each security as defined by the debt security's specific security structure.

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

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. As a result, accrued interest receivable does not carry a credit loss reserve. 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

Held for sale loans 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 at amortized cost to the loans held-for-sale portfolio at lower of aggregate cost or fair value and the existing ACL on the loans transferred is reversed.

Allowance for Credit Losses on Loans Held for Investment.

Effective January 1, 2021, and upon the adoption of ASU 2016-13, the Company replaced the incurred loss accounting approach with the current expected credit loss ("CECL") approach for financial instruments measured at amortized cost and other commitments to extend credit. CECL requires the immediate recognition of estimated credit losses expected to occur over the estimated remaining life of the asset. The forward-looking concept of CECL requires loss estimates to consider historical experience, current conditions and reasonable and supportable economic forecasts of future events and circumstances.

The ACL on loans held for investment is the combination of the allowance for loan losses and the reserve for unfunded loan commitments. The allowance for loan losses is reported as a reduction of the amortized cost basis of loans, while the reserve for unfunded loan commitments is included within "other liabilities" on the Consolidated Balance Sheets (Unaudited). The amortized cost basis of loans does not include accrued interest receivable, which is included in "accrued interest receivable" on the Consolidated Balance Sheets. The "Provision for credit losses" on the Consolidated Statements of Operations and Comprehensive Income (Unaudited) is a combination of the provision for loan losses and the provision for unfunded loan commitments.

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Under the Company's CECL approach, management estimates the ACL using relevant available information from internal and external sources, relating to past events, current conditions, and reasonable and supportable economic forecasts that vary by loan portfolio. We use economic forecasts from Moody's Analytics in this process. The economic forecast is updated monthly; therefore, the one used for each quarter-end calculation is generally based on a one-month lag based on the timing of when the forecast is released. The Company does not consider a one-month lag to create a material difference but will consider any subsequent material changes to our estimated loss forecasts as deemed appropriate. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in gross domestic product (or "GDP"), unemployment rates, property values, or other relevant factors.

Under the CECL methodology, quantitative and qualitative loss factors are applied to our population of loans on a collective pool basis when similar risk characteristics exist. When loans do not share similar risk characteristics, the Company would evaluate the loan for expected credit losses on an individual basis. The Company evaluates loans for expected credit losses on an individual basis if, based on current information and events, the loan does not share similar credit risk characteristics with other loans. The Company may choose to measure expected credit losses on an individual loan basis by using one of the following methods: (1) the present value of the expected future cash flows of the loan discounted at the loan's original effective interest rate, or (2) if the loan is collateral dependent, the fair value of the collateral less costs to sell. For loans that are not collateral-dependent, the Company will use the present value of future cash flows.

Under the Company's CECL methodology, nine portfolio segments with similar risk characteristics are evaluated for expected loss. Six portfolios are modeled using econometric models and three smaller portfolios are evaluated using a simplified loss-rate method that calculates lifetime expected credit losses for the respective pools (simplified approach). The six portfolios subject to econometric modeling include residential mortgages; commercial and industrial loans ("C&I"); construction loans; commercial real estate ("CRE") for multifamily loans; CRE for owner-occupied loans; and other CRE loans. We estimate the probability of default during the reasonable and supportable forecast period using separate econometric regression models developed to correlate macroeconomic variables, (GDP, unemployment, CRE prices and residential mortgage prices) to historical credit performance for each of the six loan portfolios from 2007 to the fourth quarter of 2020. Loss given default rates would be computed based on the net charge-offs recognized divided by the expected exposure at default of defaulted loans starting with the fourth quarter of 2007 through the fourth quarter of 2020. The probability of default and the loss given default rates are applied to the expected amount at default at the loan level based on contractual scheduled payments and estimated prepayments. The amounts so calculated comprise the quantitative portion of the allowance for credit losses.

The Company's CECL methodology utilizes an eight-quarter reasonable and supportable ("R&S") forecast period, and a four-quarter reversion period. Management relies on multiple forecasts, blending them into a single loss estimate. Generally speaking, the blended scenario approach would include the Baseline, the Alternative Scenario 1 – Upside – 10th Percentile and the Alternative Scenario 3 – Downside – 90th Percentile forecasts. After the R&S period, the Company will revert linearly for the four-quarter reversion period to the long-term loss rates for each of the six portfolios of loans.

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The Company's CECL methodology estimates expected credit losses over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: (i) management has a reasonable expectation at the reporting date that a troubled debt restructuring will be executed with an individual borrower or (ii) the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company.

The simplified approach portfolios include Small Business Administration ("SBA") loans, Home Equity Lines of Credit ("HELOCs") and cash-secured loans, which are not modelled econometrically due to the low loss history for these three pools of loans. The forecasted loss rate is based on the forecasted GDP and unemployment rates during the first eight quarters of the portfolio's contractual life, reversion loss rates for the next four quarters of the portfolio's contractual life on a linear declining rate, and the long-term loss rate projected over the remainder of the portfolio's contractual life.

Under the Company's CECL methodology, the qualitative portion of the reserve on pooled loans represents management's judgment of additional considerations to account for internal and external risk factors that are not adequately measured in the quantitative reserve. The qualitative loss factors consider idiosyncratic risk factors, conditions that may not be reflected in quantitatively derived results, or other relevant factors to seek to ensure the allowance for credit losses reflects our best estimate of current expected credit losses. The qualitative reserves include reserves for policy exceptions, experience of management and staff, level of competition in the lending environment, weak risk identification, lack of historical experience with residential mortgage loans made to non-U.S. residents, oil and gas, included as part of the C&I loan portfolio, and the higher risk characteristics of purchased syndicated loans. Current and forecasted economic trends and underlying market values for collateral dependent loans also are considered within the econometric models described above.

The Company's CECL methodology requires a significant amount of management judgment in determining the appropriate allowance for credit losses. Several of the steps in the methodology involve judgment and are subjective in nature including, among other things: segmenting the loan portfolio; determining the amount of loss history to consider; selecting predictive econometric regression models that use appropriate macroeconomic variables; determining the methodology to forecast prepayments; selecting the most appropriate economic forecast scenario; determining the length of the R&S forecast and reversion periods; estimating expected utilization rates on unfunded loan commitments; and assessing relevant and appropriate qualitative factors. In addition, the CECL methodology is dependent on economic forecasts that are inherently imprecise and will change from period to period. Although the allowance for credit losses is considered by management to be appropriate, there can be no assurance that it will be sufficient to absorb future losses.

Management believes the allowance for credit losses is appropriate for the CECL in our loan portfolio and associated unfunded commitments, and the credit risk ratings and inherent loss rates currently assigned are reasonable and appropriate as of the reporting date.

Individually Evaluated Loans

Loans that do not share similar risk characteristics with other financial assets are individually evaluated for impairment and excluded from loan pools used within the collective evaluation of estimated credit losses. We defined the following criteria for what constitutes a “default”, which results in a loan no longer sharing similar risk characteristics with other loans, and therefore requires an individual evaluation for expected credit losses. The criteria for default may include any one of the following: on nonaccrual status, modified under a troubled debt restructuring, or payment delinquency of 90 days or more.

Impaired Loans

Prior to January 1, 2021, a loan or lease was considered impaired when it was probable that we would be unable to collect all amounts due according to the contractual terms of the loan or lease 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. 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 individually evaluated loans.

The allowance for credit loss on a TDR is measured using the same method as all other loans held for investment, except when the value of a concession cannot be measured using a method other than the discounted cash flow method. When the value of a concession is measured using the discounted cash flow method, the allowance for credit loss is determined by discounting the expected future cash flows at the original interest rate of the loan.

The Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) as extended by the Consolidated Appropriation Act, 2021 (“CAA”) permits financial institutions to suspend requirements under GAAP for loan modifications to borrowers affected by COVID-19 and is intended to provide interpretive guidance as to conditions that would constitute a short-term modification that would not meet the definition of a TDR. Such conditions include the following (i) the loan modification is made between March 1, 2020 and the earlier of January 1, 2022 or 60 days after the end of the coronavirus emergency declaration and (ii) the applicable loan was not more than 30 days past due as of December 31, 2019.

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 9 in the Notes to Consolidated Financial Statements (Unaudited).

The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company, using the same loss factors as used for the allowance for loan losses. The reserve for unfunded loan commitments uses the expected historical usage rate of the unfunded commitments during the contractual life of the commitments. The allowance for unfunded commitments is included in "other liabilities" on the Consolidated Balance Sheets. Changes in the allowance for unfunded commitments are included in the provision for loan losses.

3. Recent Accounting Pronouncements

Accounting Standards Adopted in 2021

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

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

Effective January 1, 2021, the Company adopted ASU 2016-13 and the related amendments to Accounting Standards Codification ("ASC") Topic 326, Financial Instruments - Credit Losses, to replace the incurred loss accounting approach with a CECL approach for financial instruments measured at amortized cost and other commitments to extend credit. The new standard is generally intended to require earlier recognition of credit losses. While the standard changes the measurement of the allowance for credit losses, it does not change the credit risk of our lending portfolios or the ultimate losses in those portfolios.

Under the CECL approach, the standard requires immediate recognition of estimated credit losses expected to occur over the estimated remaining life of the asset. The forward-looking concept of CECL requires loss estimates to consider historical experience, current conditions and reasonable and supportable forecasts. The standard modifies the other-than-temporary impairment model for available-for-sale debt securities to require entities to record an allowance when recognizing credit losses for available-for-sale securities, rather than reducing the amortized cost of the securities by direct write-offs.

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The Company adopted the new standard using the modified retrospective approach and recognized a cumulative effect adjustment to decrease retained earnings by \$3.1 million, net of taxes, and decrease the allowance for loan losses by \$1.6 million and increase the reserve for unfunded loan commitments by \$6.0 million without restating prior periods and applied the requirements of the new standard prospectively. There was no cumulative effect adjustment related to available-for-sale securities at adoption. The Company elected to account for accrued interest receivable separately from the amortized cost of loans and investment securities. Accrued interest receivable is included in "accrued interest receivables" on the Consolidated Balance Sheets. The Company elected the practical expedient to use the fair value of the collateral at the reporting date when determining the allowance for credit losses for a financial asset for which the repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower is experiencing financial difficulty based on the entity's assessment as of the reporting date (collateral dependent financial asset). Additionally, the Company implemented new business processes, new internal controls, and modified existing and/or implemented new internal models and tools to facilitate the ongoing application of the new standard. See Note 8. *Loans* for further details.

The following table sets forth the cumulative effect of the changes to the Company's unaudited Consolidated Balance Sheets at January 1, 2021, for the adoption of ASC 326:

	<u>Balance at</u> <u>December 31, 2020</u>		<u>Adjustments due to</u> <u>Adoption of ASC 326</u>		<u>Balance at</u> <u>January 1, 2021</u>
	(In thousands)				
Assets:					
Allowance for credit losses on loans	\$	166,538	\$	(1,560)	\$ 164,978
Deferred tax assets		85,610		1,319	86,929
Liabilities:					
Allowance for unfunded commitments	\$	5,880	\$	6,018	\$ 11,898
Stockholders' equity:					
Retained earnings, net of tax	\$	2,418,144	\$	(3,140)	\$ 2,415,004

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 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 addresses the difficulty in navigating Topic 480, Distinguishing Liabilities from Equity, because of the existence of extensive pending content in the FASB ASC. 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. Adoption of ASU 2017-11 did not have a material impact on the Company's Consolidated Financial Statements.

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

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

Other Accounting Standards Pending Adoption

In March 2020, the FASB issued ASU No. 2020-04, “Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting.” ASU No. 2020-04 is effective for all entities as of March 12, 2020, through December 31, 2022. This ASU provides temporary optional guidance to ease the potential burden in accounting for reference rate reform. The new guidance provides optional expedients and exceptions for applying GAAP to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. The ASU is intended to help stakeholders during the global market-wide reference rate transition period. Therefore, it will be in effect for a limited time through December 31, 2022. In January 2021, the FASB issued ASU 2021-01 as subsequent amendments, which expanded the scope of Topic 848 to include all affected derivatives and clarified certain optional expedients and exceptions regarding the hedge accounting for derivative contracts affected by the discounting transition. Based on our current assessment, we will plan to offer SOFR as the primary alternative reference rate but may consider alternate rates based on customer demands and/or the type of loan or financial instrument. The Company will also continue to assess impacts to our operations, financial models, data and technology as part of our transition plan. The adoption of this guidance is not expected to have a material impact on the Company’s consolidated financial statements.

4. Cash, Cash Equivalents and Restricted Cash

The Company manages its cash and cash equivalents based upon the Company’s operating, investment, and financing activities. Cash and cash equivalents, including for purposes of reporting cash flows, consist of cash on hand, amounts due from banks, and short-term investments with original maturity of three months or less.

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 zero and \$60 thousand for the nine months ended September 30, 2021 and for the year ended December 31, 2020, respectively. As of September 30, 2021 and December 31, 2020, the Company had \$31.9 million and \$34.7 million, respectively, on deposit in a cash margin account that serves as collateral for interest rate swaps. These amounts included \$8.0 million and \$11.9 million as of September 30, 2021 and December 31, 2020, respectively, on deposit in a cash margin account that serves as collateral for the Bancorp’s interest rate swaps. As of September 30, 2021 and December 31, 2020, the Company held \$1.0 million and \$9.3 million, respectively, in a restricted escrow account with a major bank for its alternative energy investments.

5. Earnings per Share

Basic earnings per share excludes dilution and is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock and resulted in the issuance of common stock that then shared in earnings. Restricted stock units (“RSUs”) with anti-dilutive effect were not included in the computation of diluted earnings per share. The following table sets forth earnings per common share calculations:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
	(In thousands, except share and per share data)			
Net income	\$ 72,397	\$ 56,794	\$ 222,980	\$ 157,967
Weighted-average shares:				
Basic weighted-average number of common shares outstanding	77,846,424	79,628,372	78,841,899	79,599,288
Dilutive effect of weighted-average outstanding common share equivalents RSUs	306,984	135,946	286,745	159,655
Diluted weighted-average number of common shares outstanding	78,153,408	79,764,318	79,128,644	79,758,943
Average restricted stock units with anti-dilutive effect	884	117,621	30,130	97,110
Earnings per common share:				
Basic	\$ 0.93	\$ 0.71	\$ 2.83	\$ 1.98
Diluted	\$ 0.93	\$ 0.71	\$ 2.82	\$ 1.98

6. Stock-Based Compensation

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

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

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

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

The following table presents RSU activity during the nine months ended September 30, 2021:

	Time-Based RSUs		Performance-Based RSUs	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value
Balance at December 31, 2020	292,670	\$ 33.37	302,802	\$ 32.55
Granted	60,666	41.11	113,764	37.13
Vested	(96,869)	41.72	(76,292)	42.56
Forfeited	(23,324)	29.92	(7,768)	40.60
Balance at September 30, 2021	233,143	\$ 32.26	332,506	\$ 31.63

The compensation expense recorded for RSUs was \$1.7 million and \$1.3 million for the three months ended September 30, 2021, and 2020, respectively. For the nine months ended September 30, 2021 and 2020, the compensation expense recorded for RSUs was \$4.1 million and \$3.8 million, respectively. Unrecognized stock-based compensation expense related to RSUs was \$10.3 million and \$8.0 million as of September 30, 2021 and 2020, respectively. As of September 30, 2021, these costs are expected to be recognized over the next 1.9 years for time-based and performance-based RSUs.

As of September 30, 2021, 1,863,749 shares were available for future grants under the Company’s 2005 Incentive Plan, as amended and restated.

7. Investment Securities

The following tables set forth the amortized cost, gross unrealized gains, gross unrealized losses, and fair value of securities available-for-sale as of September 30, 2021, and December 31, 2020:

	September 30, 2021			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
	(In thousands)			
Securities Available-for-Sale				
U.S. treasury securities	\$ 40,206	\$ 5	\$ —	\$ 40,211
U.S. government agency entities	89,823	1,255	135	90,943
Mortgage-backed securities	798,905	12,490	6,328	805,067
Collateralized mortgage obligations	9,792	—	231	9,561
Corporate debt securities	134,348	514	1,428	133,434
Total	\$ 1,073,074	\$ 14,264	\$ 8,122	\$ 1,079,216

	December 31, 2020			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
	(In thousands)			
Securities Available-for-Sale				
U.S. treasury securities	\$ 80,948	\$ 6	\$ 6	\$ 80,948
U.S. government agency entities	99,944	441	546	99,839
Mortgage-backed securities	709,709	17,965	606	727,068
Collateralized mortgage obligations	10,358	—	34	10,324
Corporate debt securities	118,271	367	267	118,371
Total	\$ 1,019,230	\$ 18,779	\$ 1,459	\$ 1,036,550

As of September 30, 2021, the amortized cost of AFS debt securities excluded accrued interest receivables of \$2.6 million, which are included in “accrued interest receivables” on the Consolidated Balance Sheets. For the Company’s accounting policy related to AFS debt securities’ accrued interest receivable, see *Note 2. Basis of Presentation and Summary of Significant Accounting Policies* to the Consolidated Financial Statements in this Form 10Q.

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The amortized cost and fair value of securities available-for-sale as of September 30, 2021, by contractual maturities, are set forth in the tables below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or repayment penalties.

	September 30, 2021	
	Securities Available-For-Sale	
	Amortized Cost	Fair Value
	(In thousands)	
Due in one year or less	\$ 45,215	\$ 45,234
Due after one year through five years	117,088	115,615
Due after five years through ten years	149,474	153,657
Due after ten years	761,297	764,710
Total	\$ 1,073,074	\$ 1,079,216

Equity Securities - The Company recognized a net gain of \$3 thousand for the three months ended September 30, 2021, due to the increase in fair value during the quarter of equity investments with readily determinable fair values compared to a net gain of \$1.6 million for the three months ended September 30, 2020. The Company recognized a net loss of \$3.6 million for the nine months ended September 30, 2021, due to the decrease in fair value, year to date, of equity investments with readily determinable fair values compared to a net loss of \$1.9 million for the nine months ended September 30, 2020. Equity securities were \$20.1 million and \$23.7 million as of September 30, 2021, and December 31, 2020, respectively.

The following tables set forth the gross unrealized losses and related fair value of the Company's investment portfolio, aggregated by investment category and the length of time that individual security has been in a continuous unrealized loss position, as of September 30, 2021, and December 31, 2020:

	September 30, 2021					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)					
Securities Available-for-Sale						
U.S. government agency entities	\$ —	\$ —	\$ 2,403	\$ 135	\$ 2,403	\$ 135
Mortgage-backed securities	399,470	5,632	7,038	696	406,508	6,328
Collateralized mortgage obligations	9,418	219	144	12	9,562	231
Corporate debt securities	91,870	1,144	19,716	284	111,586	1,428
Total	\$ 500,758	\$ 6,995	\$ 29,301	\$ 1,127	\$ 530,059	\$ 8,122

	December 31, 2020					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)					
Securities Available-for-Sale						
U.S. treasury securities	\$ 40,952	\$ 6	\$ —	\$ —	\$ 40,952	\$ 6
U.S. government agency entities	26,390	102	40,009	444	66,399	546
Mortgage-backed securities	1,694	23	8,093	583	9,787	606
Collateralized mortgage obligations	10,131	25	193	9	10,324	34
Corporate debt securities	58,405	267	—	—	58,405	267
Total	\$ 137,572	\$ 423	\$ 48,295	\$ 1,036	\$ 185,867	\$ 1,459

Allowance for Credit Losses

The securities that were in an unrealized loss position at September 30, 2021, were evaluated to determine whether the decline in fair value below the amortized cost basis resulted from a credit loss or other factors. For a discussion of the factors and criteria the Company uses in analyzing securities for impairment related to credit losses, see *Note 2 Basis of Presentation and Summary of Significant Accounting Policies - Allowance for Credit Losses on Available for Sale Securities* to the Consolidated Financial Statements in this Form 10Q.

The Company concluded the unrealized losses were primarily attributed to yield curve movement, together with widened liquidity spreads and credit spreads. The issuers have not, to the Company's knowledge, established any cause for default on these securities. The Company expects to recover the amortized cost basis of its securities and has no present intent to sell and will not be required to sell available-for-sale securities that have declined below their cost before their anticipated recovery. Accordingly, no allowance for credit losses was recorded as of September 30, 2021, against these securities, and there was no provision for credit losses recognized for the nine months ended September 30, 2021. For the nine months ended September 30, 2020, there was no credit loss recognized.

Securities available-for-sale having a carrying value of \$30.9 million and \$22.7 million as of September 30, 2021, and December 31, 2020, respectively, were pledged to secure public deposits, other borrowings, treasury tax and loan.

8. Loans

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

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The types of loans in the Company's Consolidated Balance Sheets as of September 30, 2021 and December 31, 2020, were as follows:

	<u>September 30, 2021</u>	<u>December 31, 2020</u>
	(In thousands)	
Commercial loans	\$ 2,871,693	\$ 2,836,833
Residential mortgage loans	4,144,789	4,145,389
Commercial mortgage loans	7,835,528	7,555,027
Real estate construction loans	688,195	679,492
Equity lines	433,206	424,555
Installment and other loans	3,370	3,100
Gross loans	<u>\$ 15,976,781</u>	<u>\$ 15,644,396</u>
Allowance for loan losses	(131,945)	(166,538)
Unamortized deferred loan fees, net	(3,835)	(2,494)
Total loans, net	<u>\$ 15,841,001</u>	<u>\$ 15,475,364</u>

As of September 30, 2021, recorded investment in non-accrual loans was \$68.7 million. As of December 31, 2020, recorded investment in impaired loans totaled \$95.4 million and was comprised of non-accrual loans of \$67.7 million and accruing TDRs of \$27.7 million. For non-accrual loans, the amounts previously charged off represent 10.6% of the contractual balances for non-accrual loans as of September 30, 2021. For impaired loans, the amounts previously charged off represent 7.1% of the contractual balances for impaired loans as of December 31, 2020.

The following table presents the average recorded investment and interest income recognized on non-accrual loans for the period indicated:

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30, 2021</u>		<u>September 30, 2021</u>	
	<u>Average</u>	<u>Interest Income</u>	<u>Average</u>	<u>Interest Income</u>
	<u>Recorded</u>	<u>Recognized</u>	<u>Recorded</u>	<u>Recognized</u>
	<u>Investment</u>	<u>Recognized</u>	<u>Investment</u>	<u>Recognized</u>
	(In thousands)			
Commercial loans	\$ 16,379	\$ —	\$ 22,989	\$ —
Real estate construction loans	4,548	50	4,310	220
Commercial mortgage loans	37,017	140	37,964	297
Residential mortgage loans and equity lines	9,831	7	8,976	23
Total non-accrual loans	<u>\$ 67,775</u>	<u>\$ 197</u>	<u>\$ 74,239</u>	<u>\$ 540</u>

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In connection with the adoption of ASU 2016-13, the Company no longer provides information on impaired loans. The following table presents the average recorded investment and interest income recognized on individually evaluated loans for the period indicated:

	Three Months Ended		Nine Months Ended	
	September 30, 2020		September 30, 2020	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
(In thousands)				
Commercial loans	\$ 30,346	\$ 148	\$ 30,723	\$ 242
Real estate construction loans	4,368	98	4,444	245
Commercial mortgage loans	40,708	268	37,730	966
Residential mortgage loans and equity lines	16,609	74	15,240	200
Total impaired loans	\$ 92,031	\$ 588	\$ 88,137	\$ 1,653

The following table presents non-accrual loans and the related allowance as of September 30, 2021:

	September 30, 2021		
	Unpaid Principal Balance	Recorded Investment	Allowance
(In thousands)			
With no allocated allowance			
Commercial loans	\$ 13,897	\$ 10,442	\$ —
Real estate construction loans	7,201	5,491	—
Commercial mortgage loans	19,356	18,407	—
Residential mortgage loans and equity lines	6,989	6,813	—
Subtotal	\$ 47,443	\$ 41,153	\$ —
With allocated allowance			
Commercial loans	\$ 16,739	\$ 6,656	\$ 1,301
Commercial mortgage loans	18,664	18,561	5,229
Residential mortgage loans and equity lines	2,892	2,312	—
Subtotal	\$ 38,295	\$ 27,529	\$ 6,530
Total non-accrual loans	\$ 85,738	\$ 68,682	\$ 6,530

In connection with the adoption of ASU 2016-13, the Company no longer provides information on impaired loans. The following table presents impaired loans and the related allowance as of December 31, 2020:

	December 31, 2020		
	Unpaid Principal Balance	Recorded Investment (In thousands)	Allowance
With no allocated allowance			
Commercial loans	\$ 23,784	\$ 20,698	\$ —
Real estate construction loans	5,776	4,286	—
Commercial mortgage loans	22,877	22,287	—
Residential mortgage loans and equity lines	6,379	6,307	—
Subtotal	<u>\$ 58,816</u>	<u>\$ 53,578</u>	<u>\$ —</u>
With allocated allowance			
Commercial loans	\$ 13,703	\$ 6,372	\$ 1,030
Commercial mortgage loans	31,134	31,003	5,254
Residential mortgage loans and equity lines	5,005	4,452	145
Subtotal	<u>\$ 49,842</u>	<u>\$ 41,827</u>	<u>\$ 6,429</u>
Total impaired loans	<u>\$ 108,658</u>	<u>\$ 95,405</u>	<u>\$ 6,429</u>

The following tables present the aging of the loan portfolio by type as of September 30, 2021, and as of December 31, 2020:

	September 30, 2021						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Non-accrual Loans	Total Past Due	Loans Not Past Due	Total
	(In thousands)						
Commercial loans	\$ 15,391	\$ 2,326	\$ 2,861	\$ 17,098	\$ 37,676	\$ 2,834,017	\$ 2,871,693
Real estate construction loans	—	—	—	5,491	5,491	682,704	688,195
Commercial mortgage loans	458	—	1,472	36,968	38,898	7,796,630	7,835,528
Residential mortgage loans and equity lines	—	2,451	—	9,125	11,576	4,566,419	4,577,995
Installment and other loans	8	—	—	—	8	3,362	3,370
Total loans	<u>\$ 15,857</u>	<u>\$ 4,777</u>	<u>\$ 4,333</u>	<u>\$ 68,682</u>	<u>\$ 93,649</u>	<u>\$ 15,883,132</u>	<u>\$ 15,976,781</u>
	December 31, 2020						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Non-accrual Loans	Total Past Due	Loans Not Past Due	Total
	(In thousands)						
Commercial loans	\$ 52,601	\$ 3,182	\$ 2,947	\$ 23,087	\$ 81,817	\$ 2,755,016	\$ 2,836,833
Real estate construction loans	6,257	—	—	4,286	10,543	668,949	679,492
Commercial mortgage loans	45,186	18,069	2,035	33,715	99,005	7,456,022	7,555,027
Residential mortgage loans and equity lines	14,315	4,223	—	6,596	25,134	4,544,810	4,569,944
Installment and other loans	43	—	—	—	43	3,057	3,100
Total loans	<u>\$ 118,402</u>	<u>\$ 25,474</u>	<u>\$ 4,982</u>	<u>\$ 67,684</u>	<u>\$ 216,542</u>	<u>\$ 15,427,854</u>	<u>\$ 15,644,396</u>

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

The allowance for credit loss on a TDR is measured using the same method as all other loans held for investment, except when the value of a concession cannot be measured using a method other than the discounted cash flow method. When the value of a concession is measured using the discounted cash flow method, the allowance for credit loss is determined by discounting the expected future cash flows at the original interest rate of the loan.

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The Company establishes a specific reserve for individually evaluated loans that do not share similar risk characteristics with the loans included in the quantitative baseline. These individually evaluated loans are removed from the pooling approach discussed in the “*Basis of Presentation and Summary of Significant Accounting Policies*” above, for the quantitative baseline, and include non-accrual loans, TDRs, and other loans as deemed appropriate by management. In addition, the Company individually evaluates “reasonably expected” TDRs, which are identified by the Company as a commercial loan expected to be classified as a TDR. Individually evaluated loans also includes “reasonably expected” TDRs, identified by the Company as a consumer loan for which a borrower’s application of loan modification due to hardship has been received by the Company. Management judgment is utilized to make this determination.

Although the Company took steps to incorporate the impact of the COVID-19 pandemic on the economic conditions and other factors utilized to determine the expected loan losses, if the economic conditions or other factors worsen relative to the assumptions the Company utilized, the expected loan losses will increase accordingly in future periods.

As of September 30, 2021, accruing TDRs were \$24.4 million and non-accrual TDRs were \$8.3 million compared to accruing TDRs of \$27.7 million and non-accrual TDRs of \$9.0 million as of December 31, 2020. The Company allocated \$181 thousand in reserves to accruing TDRs and \$24 thousand to non-accrual TDRs as of September 30, 2021, compared to \$122 thousand to accruing TDRs and \$24 thousand to non-accrual TDRs as of December 31, 2020. The following tables set forth TDRs that were modified during the three and nine months ended September 30, 2021 and 2020, their specific reserves as of September 30, 2021, and 2020, and charge-offs for the three and nine months ended September 30, 2021, and 2020:

	Three Months Ended September 30, 2021			September 30, 2021	
	No. of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment (In thousands)	Charge-offs	Specific Reserve
Commercial loans	—	\$ —	\$ —	\$ —	\$ —
Residential mortgage loans and equity lines	1	479	479	—	14
Total	1	\$ 479	\$ 479	\$ —	\$ 14

	<u>Three Months Ended September 30, 2020</u>				<u>September 30, 2020</u>
	<u>No. of Contracts</u>	<u>Pre-Modification Outstanding Recorded Investment</u>	<u>Post-Modification Outstanding Recorded Investment</u> (In thousands)	<u>Charge-offs</u>	<u>Specific Reserve</u>
Commercial loans	2	\$ 2,983	\$ 2,983	\$ —	\$ 203
Residential mortgage loans and equity lines	—	—	—	—	—
Total	2	\$ 2,983	\$ 2,983	\$ —	\$ 203

	<u>Nine Months Ended September 30, 2021</u>				<u>September 30, 2021</u>
	<u>No. of Contracts</u>	<u>Pre-Modification Outstanding Recorded Investment</u>	<u>Post-Modification Outstanding Recorded Investment</u> (In thousands)	<u>Charge-offs</u>	<u>Specific Reserve</u>
Commercial loans	1	\$ 686	\$ 686	\$ —	\$ —
Residential mortgage loans and equity lines	1	479	479	—	14
Total	2	\$ 1,165	\$ 1,165	\$ —	\$ 14

	<u>Nine Months Ended September 30, 2020</u>				<u>September 30, 2020</u>
	<u>No. of Contracts</u>	<u>Pre-Modification Outstanding Recorded Investment</u>	<u>Post-Modification Outstanding Recorded Investment</u> (In thousands)	<u>Charge-offs</u>	<u>Specific Reserve</u>
Commercial loans	5	\$ 5,417	\$ 5,417	\$ —	\$ 204
Residential mortgage loans and equity lines	—	—	—	—	—
Total	5	\$ 5,417	\$ 5,417	\$ —	\$ 204

Modifications of the loan terms in the nine months ended September 30, 2021, were in the form of extensions of maturity dates, which ranged generally from three to twelve months from the modification date.

We expect that the TDRs on accruing status as of September 30, 2021, which were all performing in accordance with their restructured terms, will continue to comply with the restructured terms because of the reduced principal or interest payments on these loans. The ongoing impact of the COVID pandemic, however, could increase the risk of such TDRs becoming non-accrual due to the borrowers' inability to continue to comply with their restructured terms.

A summary of TDRs by type of concession and by type of loan, as of September 30, 2021, and December 31, 2020, is set forth in the table below:

September 30, 2021				
	Payment Deferral	Rate Reduction	Rate Reduction and Payment Deferral	Total
(In thousands)				
Accruing TDRs				
Commercial loans	\$ 1,453	\$ —	\$ —	\$ 1,453
Commercial mortgage loans	441	5,552	13,114	19,107
Residential mortgage loans	1,726	251	1,869	3,846
Total accruing TDRs	\$ 3,620	\$ 5,803	\$ 14,983	\$ 24,406
September 30, 2021				
	Payment Deferral	Rate Reduction	Rate Reduction and Payment Deferral	Total
(In thousands)				
Non-accrual TDRs				
Commercial loans	\$ 7,784	\$ —	\$ —	\$ 7,784
Commercial mortgage loans	—	—	—	—
Residential mortgage loans	500	—	—	500
Total non-accrual TDRs	\$ 8,284	\$ —	\$ —	\$ 8,284
December 31, 2020				
	Payment Deferral	Rate Reduction	Rate Reduction and Payment Deferral	Total
(In thousands)				
Accruing TDRs				
Commercial loans	\$ 3,983	\$ —	\$ —	\$ 3,983
Commercial mortgage loans	515	5,635	13,425	19,575
Residential mortgage loans	1,724	275	2,164	4,163
Total accruing TDRs	\$ 6,222	\$ 5,910	\$ 15,589	\$ 27,721
December 31, 2020				
	Payment Deferral	Rate Reduction	Rate Reduction and Payment Deferral	Total
(In thousands)				
Non-accrual TDRs				
Commercial loans	\$ 8,462	\$ —	\$ —	\$ 8,462
Residential mortgage loans	523	—	—	523
Total non-accrual TDRs	\$ 8,985	\$ —	\$ —	\$ 8,985

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

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
	(In thousands)			
Accruing TDRs				
Beginning balance	\$ 27,261	\$ 31,671	\$ 27,721	\$ 35,336
New restructurings	(208)	2,983	479	5,417
Restructured loans restored to accrual status	—	263	—	263
Charge-offs	—	—	—	—
Payments	(2,406)	(6,330)	(3,553)	(12,429)
Restructured loans placed on non-accrual status	(241)	—	(241)	—
Ending balance	\$ 24,406	\$ 28,587	\$ 24,406	\$ 28,587
	(In thousands)			
Non-accrual TDRs				
Beginning balance	\$ 8,402	\$ 12,670	\$ 8,985	\$ 18,048
New restructurings	—	—	—	—
Restructured loans placed on non-accrual status	234	—	241	—
Charge-offs	—	—	—	(4,970)
Payments	(352)	(2,488)	(710)	(2,896)
Restructured loans restored to accrual status	—	(263)	(232)	(263)
Ending balance	\$ 8,284	\$ 9,919	\$ 8,284	\$ 9,919

The Company considers a loan to be in payment default once it is 60 to 90 days contractually past due under the modified terms. The Company did not have any loans that were modified as a TDR during the previous twelve months and which had subsequently defaulted as of September 30, 2021.

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

As of September 30, 2021, there were no commitments to lend additional funds to those borrowers whose loans had been restructured, were considered individually evaluated, or were on non-accrual status.

The CARES Act, signed into law on March 27, 2020, and as extended by the CAA, permits financial institutions to suspend requirements under GAAP for loan modifications to borrowers affected by COVID-19 that would otherwise be characterized as TDRs and suspend any determination related thereto if (i) the loan modification is made between March 1, 2020, and the earlier of January 1, 2022 or 60 days after the end of the coronavirus emergency declaration and (ii) the applicable loan was not more than 30 days past due as of December 31, 2019. In addition, federal bank regulatory authorities have issued guidance to encourage financial institutions to make loan modifications for borrowers affected by COVID-19 and have assured financial institutions that they will neither receive supervisory criticism for such prudent loan modifications, nor be required by examiners to automatically categorize COVID-19-related loan modifications as TDRs. The Company is applying this guidance to qualifying loan modifications.

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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 sources of repayment, the borrower's current financial and liquidity status and 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 loan is currently protected but adverse trends are apparent that, if not corrected, may affect ability to repay. Primary source of loan repayment remains viable but there is increasing reliance on collateral or guarantor support.
- **Substandard** – These loans are inadequately protected by current sound net worth, paying capacity, or collateral. Well-defined weaknesses exist that could jeopardize repayment of debt. Loss may not be imminent, but if weaknesses are not corrected, there is a good possibility of some loss.
- **Doubtful** – The possibility of loss is extremely high, but due to identifiable and important pending events (which may strengthen the loan), a loss classification is deferred until the situation is better defined.
- **Loss** – These loans are considered uncollectible and of such little value that to continue to carry the loan as an active asset is no longer warranted.

In connection with the adoption of ASU 2016-13, the Company no longer provides information on impaired loans. The following table presents loan portfolio by risk rating as of December 31, 2020:

December 31, 2020					
	Pass/Watch	Special Mention	Substandard	Doubtful	Total
	(In thousands)				
Commercial loans	\$ 2,581,128	\$ 141,344	\$ 108,788	\$ 5,573	\$ 2,836,833
Real estate construction loans	593,196	82,010	4,286	—	679,492
Commercial mortgage loans	7,202,568	186,283	166,176	—	7,555,027
Residential mortgage loans and equity lines	4,547,052	11,647	11,245	—	4,569,944
Installment and other loans	3,100	—	—	—	3,100
Total gross loans	\$ 14,927,044	\$ 421,284	\$ 290,495	\$ 5,573	\$ 15,644,396

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The following table summarizes the Company's loan held for investment by loan portfolio segments, internal risk ratings and vintage year. The vintage year is the year of origination, renewal or major modification:

September 30, 2021	Loans Amortized Cost Basis by Origination Year						Revolving Loans	Revolving Converted to Term Loans	Total
	2021	2020	2019	2018	2017	Prior			
	(In thousands)								
Commercial loans									
Pass/Watch	\$ 552,079	\$ 309,944	\$ 245,936	\$ 188,790	\$ 87,579	\$ 69,354	\$ 1,266,946	\$ 7,650	\$ 2,728,278
Special Mention	93	570	4,506	1,703	2,871	—	22,073	89	31,905
Substandard	31	6,286	21,896	16,829	13,077	5,319	39,457	6,089	108,984
Doubtful	—	—	—	—	—	—	901	—	901
Loss	—	—	—	—	—	—	—	—	—
Total	\$ 552,203	\$ 316,800	\$ 272,338	\$ 207,322	\$ 103,527	\$ 74,673	\$ 1,329,377	\$ 13,828	\$ 2,870,068
YTD period charge-offs	\$ —	\$ 927	\$ 507	\$ 366	\$ —	\$ 50	\$ 17,649	\$ —	\$ 19,499
YTD period recoveries	—	—	—	(75)	—	(169)	(1,301)	—	(1,545)
Net	\$ —	\$ 927	\$ 507	\$ 291	\$ —	\$ (119)	\$ 16,348	\$ —	\$ 17,954
Real estate construction loans									
Pass/Watch	\$ 160,357	\$ 213,737	\$ 152,626	\$ 64,908	\$ 30,272	\$ —	\$ —	\$ —	\$ 621,900
Special Mention	4,772	22,233	11,800	17,306	—	—	—	—	56,111
Substandard	—	—	3,344	—	—	4,066	—	—	7,410
Doubtful	—	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—	—
Total	\$ 165,129	\$ 235,970	\$ 167,770	\$ 82,214	\$ 30,272	\$ 4,066	\$ —	\$ —	\$ 685,421
YTD period charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
YTD period recoveries	—	—	—	—	—	(76)	—	—	(76)
Net	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (76)	\$ —	\$ —	\$ (76)
Commercial mortgage loans									
Pass/Watch	\$ 1,256,784	\$ 1,266,048	\$ 1,284,803	\$ 1,089,005	\$ 813,707	\$ 1,473,901	\$ 177,509	\$ —	\$ 7,361,757
Special Mention	18,826	52,416	45,281	104,703	42,329	82,614	2,499	—	348,668
Substandard	1,116	235	10,906	46,149	1,590	62,095	856	—	122,947
Doubtful	—	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—	—
Total	\$ 1,276,726	\$ 1,318,699	\$ 1,340,990	\$ 1,239,857	\$ 857,626	\$ 1,618,610	\$ 180,864	\$ —	\$ 7,833,372
YTD period charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
YTD period recoveries	—	—	(180)	—	—	(21)	(83)	—	(284)
Net	\$ —	\$ —	\$ (180)	\$ —	\$ —	\$ (21)	\$ (83)	\$ —	\$ (284)
Residential mortgage loans									
Pass/Watch	\$ 722,013	\$ 663,292	\$ 731,803	\$ 544,362	\$ 474,271	\$ 992,504	\$ —	\$ —	\$ 4,128,245
Special Mention	—	140	4,369	1,448	839	589	—	—	7,385
Substandard	479	167	1,921	2,520	1,167	4,466	—	—	10,720
Doubtful	—	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—	—
Total	\$ 722,492	\$ 663,599	\$ 738,093	\$ 548,330	\$ 476,277	\$ 997,559	\$ —	\$ —	\$ 4,146,350
YTD period charge-offs	\$ —	\$ —	\$ —	\$ —	\$ 3	\$ —	\$ —	\$ —	\$ 3
YTD period recoveries	—	—	—	—	—	(208)	—	—	(208)
Net	\$ —	\$ —	\$ —	\$ —	\$ 3	\$ (208)	\$ —	\$ —	\$ (205)
Equity lines									
Pass/Watch	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 7	\$ 400,991	\$ 31,677	\$ 432,675
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	1,240	450	1,690
Doubtful	—	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—	—
Total	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 7	\$ 402,231	\$ 32,127	\$ 434,365
YTD period charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
YTD period recoveries	—	—	—	—	—	—	(8)	(58)	(66)
Net	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (8)	\$ (58)	\$ (66)
Installment and other loans									
Pass/Watch	\$ 2,120	\$ 1,250	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 3,370
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—	—
Total	\$ 2,120	\$ 1,250	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 3,370
YTD period charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
YTD period recoveries	—	—	—	—	—	—	—	—	—
Net	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Total loans	\$ 2,718,670	\$ 2,536,318	\$ 2,519,191	\$ 2,077,723	\$ 1,467,702	\$ 2,694,915	\$ 1,912,472	\$ 45,955	\$ 15,972,946
Net charge-offs/(recoveries)	\$ —	\$ 927	\$ 327	\$ 291	\$ 3	\$ (424)	\$ 16,257	\$ (58)	\$ 17,323

Revolving loans that are converted to term loans presented in the table above are excluded from the term loans by vintage year columns.

The following table sets forth the balance in the allowance for loan losses by portfolio segment and based on impairment method as of December 31, 2020. This table is no longer presented after December 31, 2020, given the adoption of ASU 2016-13, which has a single impairment methodology.

	December 31, 2020					Total
	Commercial Loans	Real Estate Construction Loans	Commercial Mortgage Loans	Residential Mortgage Loans and Equity Lines	Installment and Other Loans	
	(In thousands)					
Loans individually evaluated for impairment						
Allowance	\$ 1,030	\$ —	\$ 5,254	\$ 145	\$ —	\$ 6,429
Balance	\$ 27,070	\$ 4,286	\$ 53,289	\$ 10,760	\$ —	\$ 95,405
Loans collectively evaluated for impairment						
Allowance	\$ 67,712	\$ 30,854	\$ 43,951	\$ 17,592	\$ —	\$ 160,109
Balance	\$ 2,809,763	\$ 675,206	\$ 7,501,738	\$ 4,559,184	\$ 3,100	\$ 15,548,991
Total allowance	\$ 68,742	\$ 30,854	\$ 49,205	\$ 17,737	\$ —	\$ 166,538
Total balance	\$ 2,836,833	\$ 679,492	\$ 7,555,027	\$ 4,569,944	\$ 3,100	\$ 15,644,396

The following tables set forth activity in the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2021, and September 30, 2020. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

Three months ended September 30, 2021 and 2020

	Commercial Loans	Real Estate Construction Loans	Commercial Mortgage Loans	Residential Mortgage Loans and Equity Lines	Installment and Other Loans	Total
	(In thousands)					
June 30, 2021 Ending Balance	\$ 40,067	\$ 6,119	\$ 58,026	\$ 27,043	\$ 1	\$ 131,256
Provision/(reversal) for possible credit losses	674	149	2,786	(609)	—	3,000
Charge-offs	(2,649)	—	—	(3)	—	(2,652)
Recoveries	121	76	144	—	—	341
Net (charge-offs)/recoveries	(2,528)	76	144	(3)	—	(2,311)
September 30, 2021 Ending Balance	\$ 38,213	\$ 6,344	\$ 60,956	\$ 26,431	\$ 1	\$ 131,945
Allowance for unfunded credit commitments June 30, 2021	\$ 4,388	\$ 3,581	\$ 81	\$ —	\$ —	\$ 8,050
Provision/(reversal) for possible credit losses	329	(396)	117	—	—	50
Allowance for unfunded credit commitments September 30, 2021	\$ 4,717	\$ 3,185	\$ 198	\$ —	\$ —	\$ 8,100
	Commercial Loans	Real Estate Construction Loans	Commercial Mortgage Loans	Residential Mortgage Loans and Equity Lines	Installment and Other Loans	Total
	(In thousands)					
June 30, 2020 Ending Balance	\$ 82,256	\$ 26,700	\$ 41,132	\$ 19,592	\$ —	\$ 169,680
Provision/(reversal) for possible credit losses	298	6,012	5,438	752	—	12,500
Charge-offs	(6,956)	—	—	—	—	(6,956)
Recoveries	3,796	—	95	15	—	3,906
Net (charge-offs)/recoveries	(3,160)	—	95	15	—	(3,050)
September 30, 2020 Ending Balance	\$ 79,394	\$ 32,712	\$ 46,665	\$ 20,359	\$ —	\$ 179,130

Nine months ended September 30, 2021 and 2020

	Commercial Loans	Real Estate Construction Loans	Commercial Mortgage Loans	Residential Mortgage Loans and Equity Lines	Installment and Other Loans	Total
	(In thousands)					
2021 Beginning Balance	\$ 68,742	\$ 30,854	\$ 49,205	\$ 17,737	\$ —	\$ 166,538
Impact of ASU 2016-13 adoption	(31,466)	(24,307)	34,993	19,211	9	(1,560)
Allowance for loan losses, January 1, 2021	37,276	6,547	84,198	36,948	9	164,978
Provision/(reversal) for possible credit losses	18,891	(279)	(23,526)	(10,788)	(8)	(15,710)
Charge-offs	(19,499)	—	—	(3)	—	(19,502)
Recoveries	1,545	76	284	274	—	2,179
Net (charge-offs)/recoveries	(17,954)	76	284	271	—	(17,323)
September 30, 2021 Ending Balance	\$ 38,213	\$ 6,344	\$ 60,956	\$ 26,431	\$ 1	\$ 131,945
Allowance for unfunded credit commitments						
December 31, 2020	\$ 4,802	\$ 690	\$ 101	\$ 284	\$ 3	\$ 5,880
Impact of ASU 2016-13 adoption	3,236	3,135	(66)	(284)	(3)	6,018
Allowance for loan losses, January 1, 2021	8,038	3,825	35	—	—	11,898
Provision/(reversal) for possible credit losses	(3,321)	(640)	163	—	—	(3,798)
Allowance for unfunded credit commitments						
September 30, 2021	\$ 4,717	\$ 3,185	\$ 198	\$ —	\$ —	\$ 8,100
	Commercial Loans	Real Estate Construction Loans	Commercial Mortgage Loans	Residential Mortgage Loans and Equity Lines	Installment and Other Loans	Total
	(In thousands)					
2020 Beginning Balance	\$ 57,021	\$ 19,474	\$ 33,602	\$ 13,108	\$ 19	\$ 123,224
Provision/(reversal) for possible credit losses	29,402	13,238	12,718	7,161	(19)	62,500
Charge-offs	(13,383)	—	—	—	—	(13,383)
Recoveries	6,354	—	345	90	—	6,789
Net (charge-offs)/recoveries	(7,029)	—	345	90	—	(6,594)
September 30, 2020 Ending Balance	\$ 79,394	\$ 32,712	\$ 46,665	\$ 20,359	\$ —	\$ 179,130
Reserve for impaired loans	\$ 7,704	\$ —	\$ 582	\$ 209	\$ —	\$ 8,495
Reserve for non-impaired loans	\$ 71,690	\$ 32,712	\$ 46,083	\$ 20,150	\$ —	\$ 170,635
Reserve for off-balance sheet credit commitments	\$ 4,297	\$ 896	\$ 172	\$ 294	\$ 4	\$ 5,663

The U. S. economy has gradually recovered from the COVID-19 pandemic with improving gross national product and a declining unemployment rate in the first half of 2021. This contributed to a positive economic outlook and forecasts that resulted in a decrease to the allowance for credit losses.

Despite the gradual recovery in the first half of 2021, the ongoing COVID-19 pandemic has caused significant disruption in the United States and international economies and financial markets. Although banks have generally been permitted to continue operating, the COVID-19 pandemic has caused disruptions to our business and could cause material disruptions to our business and operations in the future. The Company has continued its efforts to support its customers affected by the pandemic and to maintain asset quality and balance sheet strength, including the following:

- The Company has provided loans through the SBA's Paycheck Protection Program, (or "PPP"). As of September 30, 2021, 1,514 PPP loans with a current balance of \$169.4 million were outstanding and an additional \$264.4 million have been forgiven by the U.S. Government. These loans do not carry an allowance for loan losses.
- The Company has outstanding COVID-19 modifications on approximately six CRE loans totaling \$44.8 million as of September 30, 2021, which represented 0.6% of the Bank's CRE loans and three commercial loans, totaling \$2.8 million, which represented 0.1% of the total commercial loans.
- As of September 30, 2021, there were seven COVID-19 residential mortgage loan modifications outstanding, or \$5.1 million, that represented 0.1% of the total residential mortgage portfolio.

9. Commitments and Contingencies

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

Although the Company establishes accruals for legal proceedings when information related to the loss contingencies represented by those matters indicates both that a loss is probable and that the amount of loss can be reasonably estimated, the Company does not have accruals for all legal proceedings where there is a risk of loss. In addition, amounts accrued may not represent the ultimate loss to the Company from the legal proceedings in question. Thus, ultimate losses may be higher or lower, and possibly significantly so, than the amounts accrued for legal loss contingencies.

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

The Company's unfunded commitments related to investments in qualified affordable housing and alternative energy partnerships were \$119.0 million and \$103.1 million as of September 30, 2021, and December 31, 2020, respectively.

10. Leases

The Company determines if a contract arrangement is a lease at inception and primarily enters into operating lease contracts for its branch locations, office space and certain equipment. As part of its property lease agreements, the Company may seek to include options to extend or terminate a lease when it is reasonably certain that the Company will exercise those options. The Right-of-Use ("ROU") lease asset also includes any lease payments made and lease incentives. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Company does not possess any leases that have variable lease payments or residual value guarantees as of September 30, 2021.

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ASU 2016-02, “Leases (Topic 842),” as amended by ASU No. 2018-01, “Land Easement Practical Expedient for Transition to Topic 842”; ASU No. 2018-10, “Codification Improvements to Topic 842, Leases”; and ASU No. 2018-11, “Targeted Improvements,” establishes a ROU model that requires a lessee to recognize an ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. The standard provides a number of optional practical expedients in transition. We have elected the “package of practical expedients,” which permits us not to reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs. We also elected all of the new standard’s available transition practical expedients, including the short-term lease recognition exemption that includes not recognizing ROU assets or lease liabilities for existing short-term leases, and the practical expedient to not separate lease and non-lease components for all of our leases. The Company uses its incremental borrowing rate to determine the present value of its lease liabilities.

The following table presents the operating lease amounts reported on the Consolidated Balance Sheets, and other supplemental information as of September 30, 2021 and December 31, 2020:

	<u>September 30, 2021</u>		<u>December 31, 2020</u>
	(In millions)		
Operating Leases:			
ROU assets	\$	29.2	\$ 30.9
Lease liabilities	\$	32.0	\$ 33.5
Weighted-average remaining lease term (in years)		4.5	4.7
Weighted-average discount rate		2.62%	2.77%

Operating lease expense was \$3.2 million and \$3.1 million for the three months ended September 30, 2021 and 2020, respectively, and includes short-term leases that were immaterial. Operating lease expense was \$9.5 million and \$8.8 million for the nine months ended September 30, 2021 and September 30, 2020, respectively, and includes short-term leases that were immaterial. Operating cash flows from operating leases were \$2.5 million and \$2.2 million for the three months ended September 30, 2021 and 2020, respectively. Operating cash flows from operating leases were \$7.4 million and \$6.8 million for the nine months ended September 30, 2021 and 2020, respectively. In the nine months ended September 30, 2021 the Company recognized an ROU asset impairment of \$187 thousand related to an early termination of a lease agreement. This amount was included in other expenses in the Consolidated Statement of Operations and Comprehensive Income.

The following table presents a maturity analysis of the Company’s operating lease liabilities as of September 30, 2021, and December 31, 2020, respectively.

	As of September 30, 2021	
	Operating Leases	
	(In thousands)	
Remaining 2021	\$	2,374
2022		9,432
2023		7,996
2024		5,565
2025		3,307
Thereafter		5,352
Total lease payments		34,026
Less amount of payment representing interest		(1,998)
Total present value of lease payments	\$	32,028

	As of December 31, 2020	
	Operating Leases	
	(In thousands)	
2021	\$	9,384
2022		8,335
2023		6,890
2024		4,635
2025		2,520
Thereafter		4,153
Total lease payments		35,917
Less amount of payment representing interest		(2,433)
Total present value of lease payments	\$	33,484

11. Borrowed Funds

Borrowings from the Federal Home Loan Bank (“FHLB”) – There were no over-night borrowings from the FHLB as of September 30, 2021, and December 31, 2020. Advances from the FHLB were \$20.0 million at a weighted average rate of 2.89% as of September 30, 2021, and \$150.0 million at a weighted average rate of 2.15% as of December 31, 2020. As of September 30, 2021, FHLB advances of \$20.0 million will mature in May 2023.

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

At September 30, 2021, Junior Subordinated Notes totaled \$119.1 million with a weighted average interest rate of 2.36%, compared to \$119.1 million with a weighted average rate of 2.40% at December 31, 2020. The Junior Subordinated Notes have a stated maturity term of 30 years.

12. Income Taxes

The effective tax rate for the first nine months of 2021 was 21.3% compared to 8.6% for the first nine months of 2020. The effective tax rate includes the impact of low-income housing and alternative energy investment tax credits.

The Company's tax returns are open for audit by the Internal Revenue Service back to 2018 and by the California Franchise Tax Board back to 2017.

It is reasonably possible that unrecognized tax benefits could change significantly over the next twelve months. The Company does not expect that any such changes would have a material impact on its annual effective tax rate.

13. Fair Value Measurements and Fair Value of Financial Instruments

The Company uses fair value to measure certain assets and liabilities on a recurring basis, primarily securities available-for-sale and derivatives. For assets measured at the lower of cost or fair value, the fair value measurement criteria may or may not be met during a reporting period and such measurements are therefore considered "nonrecurring" for purposes of disclosing our fair value measurements. Fair value is used on a nonrecurring basis to adjust carrying values for individually evaluated loans and other real estate owned and also to record impairment on certain assets, such as goodwill, CDI, and other long-lived assets.

The Company used valuation methodologies to measure assets at fair value under ASC Topic 820 and ASC Topic 825, as amended by ASU 2016-01 and ASU 2018-03, to estimate the fair value of financial instruments not recorded at fair value. The fair value of the Company's assets and liabilities is classified and disclosed in one of the following three categories:

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

The classification of assets and liabilities within the hierarchy is based on whether inputs to the valuation methodology used are observable or unobservable, and the significance of those inputs in the fair value measurement. The Company's assets and liabilities are classified in their entirety based on the lowest level of input that is significant to their fair value measurements.

Financial assets and liabilities measured at fair value on a recurring basis

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 and Equity Securities - 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, U.S. Government sponsored entities, state and municipal securities, mortgage-backed securities (“MBS”), collateralized mortgage obligations and corporate bonds.

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

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

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

The following tables present financial assets and liabilities that are measured at fair value on a recurring basis as of September 30, 2021 and December 31, 2020:

	September 30, 2021			Total Fair Value Measurements
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	
	(In thousands)			
Assets				
Securities available-for-sale				
U.S. Treasury securities	\$ 40,211	\$ —	\$ —	\$ 40,211
U.S. government agency entities	—	90,943	—	90,943
Mortgage-backed securities	—	805,067	—	805,067
Collateralized mortgage obligations	—	9,561	—	9,561
Corporate debt securities	—	133,434	—	133,434
Total securities available-for-sale	40,211	1,039,005	—	1,079,216
Equity securities				
Mutual funds	6,289	—	—	6,289
Preferred stock of government sponsored entities	1,493	—	—	1,493
Other equity securities	12,335	—	—	12,335
Total equity securities	20,117	—	—	20,117
Warrants	—	—	22	22
Interest rate swaps	—	5,187	—	5,187
Foreign exchange contracts	—	1,319	—	1,319
Total assets	\$ 60,328	\$ 1,045,511	\$ 22	\$ 1,105,861
Liabilities				
Interest rate swaps	\$ —	\$ 9,037	\$ —	\$ 9,037
Foreign exchange contracts	—	1,723	—	1,723
Total liabilities	\$ —	\$ 10,760	\$ —	\$ 10,760

	December 31, 2020			Total Fair Value Measurements
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	
	(In thousands)			
Assets				
Securities available-for-sale				
U.S. Treasury securities	\$ 80,948	\$ —	\$ —	\$ 80,948
U.S. government agency entities	—	99,839	—	99,839
Mortgage-backed securities	—	727,068	—	727,068
Collateralized mortgage obligations	—	10,324	—	10,324
Corporate debt securities	—	118,371	—	118,371
Total securities available-for-sale	80,948	955,602	—	1,036,550
Equity securities				
Mutual funds	6,413	—	—	6,413
Preferred stock of government sponsored entities	5,485	—	—	5,485
Other equity securities	11,846	—	—	11,846
Total equity securities	23,744	—	—	23,744
Warrants	—	—	21	21
Interest rate swaps	—	3,409	—	3,409
Foreign exchange contracts	—	4,658	—	4,658
Total assets	\$ 104,692	\$ 963,669	\$ 21	\$ 1,068,382
Liabilities				
Interest rate swaps	\$ —	\$ 10,286	\$ —	\$ 10,286
Foreign exchange contracts	—	2,200	—	2,200
Total liabilities	\$ —	\$ 12,486	\$ —	\$ 12,486

Financial assets and liabilities measured at estimated fair value on a non-recurring basis:

Certain assets or liabilities are required to be measured at estimated fair value on a nonrecurring basis subsequent to initial recognition. Generally, these adjustments are the result of lower-of-cost-or-fair value or other impairment write-downs of individual assets. In determining the estimated fair values during the period, the Company determined that substantially all the changes in estimated fair value were due to declines in market conditions versus instrument specific credit risk. For the periods ended September 30, 2021, and December 31, 2020, there were no material adjustments to fair value for the Company's assets and liabilities measured at fair value on a nonrecurring basis in accordance with GAAP.

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For financial assets measured at fair value on a nonrecurring basis that were still reflected in the Consolidated Balance Sheets as of September 30, 2021, the following tables set forth the level of valuation assumptions used to determine each adjustment, the carrying value of the related individual assets as of September 30, 2021, and December 31, 2020, and the total losses for the periods indicated:

	As of September 30, 2021				Total Losses			
	Fair Value Measurements Using			Total Fair Value Measurements	For the Three Months Ended		For the Nine Months Ended	
	Level 1	Level 2	Level 3		September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
	(In thousands)							
Assets								
Loans held-for-investment:								
Commercial loans	\$ —	\$ —	\$ 5,355	\$ 5,355	\$ —	\$ 6,950	\$ 2,037	\$ 6,950
Commercial mortgage loans	—	—	13,332	13,332	—	—	—	—
Residential mortgage loans and equity lines	—	—	2,277	2,227	—	—	—	—
Total loans held-for-investment	—	—	20,964	20,914	—	6,950	2,037	6,950
Other real estate owned ⁽¹⁾	—	—	5,497	5,497	(55)	—	(8)	717
Investments in venture capital and private company stock	—	—	1,007	1,007	8	3	143	107
Total assets	\$ —	\$ —	\$ 27,468	\$ 27,418	\$ (47)	\$ 6,953	\$ 2,172	\$ 7,774

(1) Other real estate owned balance of \$5.3 million in the Consolidated Balance Sheets is net of estimated disposal costs.

	As of December 31, 2020			
	Fair Value Measurements Using			Total Fair Value Measurements
	Level 1	Level 2	Level 3	
	(In thousands)			
Assets				
Impaired loans by type:				
Commercial loans	\$ —	\$ —	\$ 5,342	\$ 5,342
Commercial mortgage loans	—	—	25,749	25,749
Residential mortgage loans and equity lines	—	—	4,307	4,307
Total impaired loans	—	—	35,398	35,398
Other real estate owned ⁽¹⁾	—	—	5,141	5,141
Investments in venture capital and private company stock	—	—	1,381	1,381
Total assets	\$ —	\$ —	\$ 41,920	\$ 41,920

(1) Other real estate owned balance of \$4.9 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 individually evaluated loans are primarily based on the appraised value of collateral adjusted by estimated sales cost and commissions. The Company generally obtains new appraisal reports every twelve months as appropriate. As the Company's primary objective in the event of default would be to monetize the collateral to settle the outstanding balance of the loan, less marketable collateral would receive a larger discount. In the current year, the Company used borrower specific collateral discounts with various discount levels.

The fair value of individually evaluated loans is calculated based on the net realizable fair value of the collateral or the observable market price of the most recent sale or quoted price from loans held for sale. The Company does not record loans at fair value on a recurring basis. Nonrecurring fair value adjustments to collateral dependent individually evaluated loans are recorded based on the current appraised value of the collateral, a Level 2 measurement, or management's judgment and estimation of value using discounted future cash flows or old appraisals which are then adjusted based on recent market trends, a Level 3 measurement.

The significant unobservable inputs (Level 3) used in the fair value measurement of other real estate owned ("OREO") are primarily based on the appraised value of OREO adjusted by estimated sales cost and commissions. The Company applies estimated sales cost and commissions ranging from 3% to 6% of the collateral value of individually evaluated loans, quoted price, or loan sale price of loans held for sale, and appraised value of OREO.

The significant unobservable inputs in the Black-Scholes option pricing model for the fair value of warrants are their expected life ranging from one to five years, risk-free interest rate from 0.18% to 1.16%, and stock volatility from 14.86% to 20.34%.

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

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The following table sets forth the carrying and notional amounts and estimated fair value of financial instruments as of September 30, 2021, and December 31, 2020:

	September 30, 2021		December 31, 2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(In thousands)				
Financial Assets				
Cash and due from banks	\$ 156,287	\$ 156,287	\$ 138,616	\$ 138,616
Short-term investments	1,667,875	1,667,875	1,282,462	1,282,462
Securities available-for-sale	1,079,216	1,079,216	1,036,550	1,036,550
Loans, net	15,976,781	16,301,993	15,475,364	16,103,471
Equity securities	20,117	20,117	23,744	23,744
Investment in Federal Home Loan Bank stock	17,250	17,250	17,250	17,250
Warrants	22	22	21	21
	Notional Amount	Fair Value	Notional Amount	Fair Value
Foreign exchange contracts	\$ 161,535	\$ 1,319	\$ 151,244	\$ 4,658
Interest rate swaps	664,288	5,187	96,889	3,409
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Liabilities				
Deposits	\$ 17,006,870	\$ 17,007,694	\$ 16,109,401	\$ 16,125,808
Advances from Federal Home Loan Bank	20,000	20,856	150,000	155,133
Other borrowings	23,197	19,164	23,714	19,632
Long-term debt	119,136	62,274	119,136	65,487
	Notional Amount	Fair Value	Notional Amount	Fair Value
Foreign exchange contracts	\$ 70,184	\$ 1,723	\$ 132,813	\$ 2,200
Interest rate swaps	788,802	9,037	679,648	10,286
	Notional Amount	Fair Value	Notional Amount	Fair Value
Off-Balance Sheet Financial Instruments				
Commitments to extend credit	\$ 3,255,421	\$ (11,020)	\$ 2,977,528	\$ (8,432)
Standby letters of credit	248,958	(2,172)	234,200	(1,630)
Other letters of credit	25,205	(15)	16,821	(16)
Bill of lading guarantees	—	—	238	—

The following tables set forth the level in the fair value hierarchy for the estimated fair values of financial instruments as of September 30, 2021, and December 31, 2020.

	As of September 30, 2021			
	Estimated Fair Value Measurements	Level 1	Level 2	Level 3
	(In thousands)			
Financial Assets				
Cash and due from banks	\$ 156,287	\$ 156,287	\$ —	\$ —
Short-term investments	1,667,875	1,667,875	—	—
Securities available-for-sale	1,079,216	40,211	1,039,005	—
Loans, net	16,301,993	—	—	16,301,993
Equity securities	20,117	20,117	—	—
Investment in Federal Home Loan Bank stock	17,250	—	17,250	—
Warrants	22	—	—	22
Financial Liabilities				
Deposits	17,007,694	—	—	17,007,694
Advances from Federal Home Loan Bank	20,856	—	20,856	—
Other borrowings	19,164	—	—	19,164
Long-term debt	62,274	—	62,274	—

	As of December 31, 2020			
	Estimated Fair Value Measurements	Level 1	Level 2	Level 3
	(In thousands)			
Financial Assets				
Cash and due from banks	\$ 138,616	\$ 138,616	\$ —	\$ —
Short-term investments	1,282,462	1,282,462	—	—
Securities available-for-sale	1,036,550	80,948	955,602	—
Loans, net	16,103,471	—	—	16,103,471
Equity securities	23,744	23,744	—	—
Investment in Federal Home Loan Bank stock	17,250	—	17,250	—
Warrants	21	—	—	21
Financial Liabilities				
Deposits	16,125,808	—	—	16,125,808
Advances from Federal Home Loan Bank	155,133	—	155,133	—
Other borrowings	19,632	—	—	19,632
Long-term debt	65,487	—	65,487	—

14. Goodwill and Goodwill Impairment

Total goodwill was \$372.2 million as of both September 30, 2021 and December 31, 2020. The Company's policy is to assess goodwill for impairment at the reporting unit level on an annual basis or between annual assessments if a triggering event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. The Company completed its annual goodwill impairment testing as of December 31, 2020 and determined there was no goodwill impairment.

15. Financial Derivatives

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

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

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

In May 2014, Bancorp entered into interest rate swap contracts in the notional amount of \$119.1 million for a period of ten years. The objective of these interest rate swap contracts, which were designated as hedging instruments in cash flow hedges, was to hedge the quarterly interest payments on Bancorp's \$119.1 million of Junior Subordinated Debentures that had been issued to five trusts, throughout the ten-year period beginning in June 2014 and ending in June 2024, from the risk of variability of these payments resulting from changes in the three-month LIBOR interest rate. As of September 30, 2021, and 2020, the ineffective portion of these interest rate swaps was not significant. The notional amount and net unrealized loss of the Company's cash flow derivative financial instruments as of September 30, 2021, and December 31, 2020, were as follows:

	<u>September 30, 2021</u>		<u>December 31, 2020</u>	
	(In thousands)			
Cash flow swap hedges:				
Notional	\$	119,136	\$	119,136
Weighted average fixed rate-pay		2.61%		2.61%
Weighted average variable rate-receive		0.15%		0.44%
Unrealized loss, net of taxes ⁽¹⁾	\$	(4,696)	\$	(6,890)
	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>September 30, 2021</u>	<u>September 30, 2020</u>	<u>September 30, 2021</u>	<u>September 30, 2020</u>
Periodic net settlement of swaps ⁽²⁾	\$	754	\$	702
			\$	2,196
			\$	1,471

(1) Included in other comprehensive income.

(2) the amount of periodic net settlement of interest rate swaps was included in interest expense.

As of September 30, 2021, the Bank's outstanding interest rate swap contracts had a notional amount of \$779.4 million for various terms from three to ten years. The Bank entered into these interest rate swap contracts that are matched to fixed-rate CRE 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 CRE loans due to changes in interest rates. The swap contracts are structured so that the notional amounts reduce over time to match the contractual amortization of the underlying loan and allow prepayments with the same pre-payment penalty amounts as the related loan. As of September 30, 2021, and 2020, the ineffective portion of these interest rate swaps was not significant. The notional amount and net unrealized loss of the Company's fair value derivative financial instruments as of September 30, 2021, and December 31, 2020, were as follows:

	<u>September 30, 2021</u>		<u>December 31, 2020</u>	
	(In thousands)			
Fair value swap hedges:				
Notional	\$	779,392	\$	478,266
Weighted average fixed rate-pay		2.48%		4.56%
Weighted average variable rate spread		1.22%		2.46%
Weighted average variable rate-receive		1.31%		3.11%
Net unrealized loss ⁽¹⁾	\$	(8,255)	\$	(15,082)
	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>September 30, 2021</u>	<u>September 30, 2020</u>	<u>September 30, 2021</u>	<u>September 30, 2020</u>
Periodic net settlement of swaps ⁽²⁾	\$	(2,363)	\$	(2,510)
			\$	(7,137)
			\$	(5,307)

(1) the amount is included in other non-interest income.

(2) the amount of periodic net settlement of interest rate swaps was included in interest income.

The Company has designated as a partial-term hedging election \$404.7 million notional as last-of-layer hedge on pools of loans with a notational value of \$816.7 million as of September 30, 2021. The loans are not expected to be affected by prepayment, defaults, or other factors affecting the timing and amount of cash flows under the last-of-layer method. The Company has entered into these pay-fixed and receive 1-Month LIBOR interest rate swaps to convert the last-of-layer \$404.7 million portion of \$816.7 million fixed rate loan pools in order to reduce the Company's exposure to higher interest rates for the last-of-layer tranches. As of September 30, 2021, the last-of-layer loan tranche had a fair value basis adjustment of \$943 thousand. The interest rate swap converts this last-of-layer tranche into a floating rate instrument. The Company's risk management objective with respect to this last-of-layer interest rate swap is to reduce interest rate exposure as to the last-of-layer tranche.

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Interest rate swap contracts involve the risk of dealing with institutional derivative counterparties and their ability to meet contractual terms. Institutional counterparties must have a strong credit profile and be approved by the Company's Board of Directors. The Company's credit exposure on interest rate swaps is limited to the net favorable value and interest payments of all swaps by each counterparty. Credit exposure may be reduced by the amount of collateral pledged by the counterparty. Bancorp's interest rate swaps have been assigned by the counterparties to a derivative clearing organization and daily margin is indirectly maintained with the derivative clearing organization. Cash posted as collateral by Bancorp related to derivative contracts totaled \$24.3 million as of September 30, 2021 and \$11.9 million as of December 31, 2020.

From time to time, 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 Sheets. Changes in the fair value of these contracts as well as the related foreign exchange certificates of deposit and foreign exchange contracts are recognized immediately in net income as a component of non-interest income. Period end gross positive fair values are recorded in other assets and gross negative fair values are recorded in other liabilities. The notional amount and fair value of the Company's derivative financial instruments not designated as hedging instruments as of September 30, 2021, and December 31, 2020, were as follows:

	<u>September 30, 2021</u>	<u>December 31, 2020</u>
	(In thousands)	
Derivative financial instruments not designated as hedging instruments:		
Notional amounts:		
Spot, forward, and swap contracts with positive fair value	\$ 161,535	\$ 151,244
Spot, forward, and swap contracts with negative fair value	\$ 70,184	\$ 132,813
Fair value:		
Spot, forward, and swap contracts with positive fair value	\$ 1,319	\$ 4,658
Spot, forward, and swap contracts with negative fair value	\$ 1,723	\$ (2,200)

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

Financial instruments that are eligible for offset in the Consolidated Balance Sheets, as of September 30, 2021, and December 31, 2020, are set forth in the following table:

	Gross Amounts Recognized	Gross Amounts Offset in the Balance Sheet	Net Amounts Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet		
				Financial Instruments	Collateral Posted	Net Amount
(In thousands)						
September 30, 2021						
Assets:						
Derivatives	\$ 5,187	\$ —	\$ 5,187	\$ —	\$ —	\$ 5,187
Liabilities:						
Derivatives	\$ 20,107	\$ (11,067)	\$ 9,040	\$ —	\$ —	\$ 9,040
December 31, 2020						
Assets:						
Derivatives	\$ 3,409	\$ —	\$ 3,409	\$ —	\$ —	\$ 3,409
Liabilities:						
Derivatives	\$ 28,258	\$ (17,972)	\$ 10,286	\$ —	\$ —	\$ 10,286

17. Revenue from Contracts with Customers

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

	Three months Ended September 30,		Nine months Ended September 30,	
	2021	2020	2021	2020
(In thousands)				
Non-interest income, in-scope:				
Fees and service charges on deposit accounts	\$ 2,130	\$ 2,018	\$ 6,386	\$ 5,945
Wealth management fees	3,578	2,628	11,074	7,974
Other service fees ⁽¹⁾	3,735	3,676	11,109	10,038
Total noninterest income	9,443	8,322	28,569	23,957
Noninterest income, not in-scope ⁽²⁾	2,773	1,655	6,230	7,412
Total noninterest income	\$ 12,216	\$ 9,977	\$ 34,799	\$ 31,369

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

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

Fees and Services Charges on Deposit Accounts

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

Wealth Management Fees

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

Practical Expedients and Exemptions

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

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

18. Stockholders' Equity

Total equity was \$2.46 billion as of September 30, 2021, an increase of \$45.1 million, from \$2.42 billion as of December 31, 2020, primarily due to net income of \$223.0 million, stock-based compensation of \$4.1 million, and proceeds from dividend reinvestment of \$2.6 million, partially offset by purchases of treasury stock of \$100.7 million, common stock cash dividends of \$73.3 million and a decrease in other comprehensive income of \$5.7 million.

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Activity in accumulated other comprehensive income, net of tax, and reclassification out of accumulated other comprehensive income for the three and nine months ended September 30, 2021, and June 30, 2020, was as follows:

	Three months ended September 30, 2021			Three months ended September 30, 2020		
	Pre-tax	Tax expense/ (benefit)	Net-of-tax	Pre-tax	Tax expense/ (benefit)	Net-of-tax
	(In thousands)					
Beginning balance, gain/(loss), net of tax						
Securities available-for-sale			\$ 7,560			\$ 16,278
Cash flow hedge derivatives			(5,188)			(7,925)
Total			<u>\$ 2,372</u>			<u>\$ 8,353</u>
Net unrealized gains/(losses) arising during the period						
Securities available-for-sale	\$ (4,588)	\$ (1,356)	\$ (3,232)	\$ (3,543)	\$ (1,047)	\$ (2,496)
Cash flow hedge derivatives	698	206	492	755	223	532
Total	<u>\$ (3,890)</u>	<u>\$ (1,150)</u>	<u>\$ (2,740)</u>	<u>\$ (2,788)</u>	<u>\$ (824)</u>	<u>\$ (1,964)</u>
Reclassification adjustment for net losses in net income						
Securities available-for-sale	—	—	—	—	—	—
Cash flow hedge derivatives	—	—	—	—	—	—
Total	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total other comprehensive income/(loss)						
Securities available-for-sale	\$ (4,588)	\$ (1,356)	\$ (3,232)	\$ (3,543)	\$ (1,047)	\$ (2,496)
Cash flow hedge derivatives	698	206	492	755	223	532
Total	<u>\$ (3,890)</u>	<u>\$ (1,150)</u>	<u>\$ (2,740)</u>	<u>\$ (2,788)</u>	<u>\$ (824)</u>	<u>\$ (1,964)</u>
Ending balance, gain/(loss), net of tax						
Securities available-for-sale			\$ 4,328			\$ 13,782
Cash flow hedge derivatives			(4,696)			(7,393)
Total			<u>\$ (368)</u>			<u>\$ 6,389</u>
	Nine months ended September 30, 2021			Nine months ended September 30, 2020		
	Pre-tax	Tax expense/ (benefit)	Net-of-tax	Pre-tax	Tax expense/ (benefit)	Net-of-tax
	(In thousands)					
Beginning balance, gain/(loss), net of tax						
Securities available-for-sale			\$ 12,200			\$ 5,714
Cash flow hedge derivatives			(6,890)			(3,412)
Total			<u>\$ 5,310</u>			<u>\$ 2,302</u>
Net unrealized gains/(losses) arising during the period						
Securities available-for-sale	\$ (10,322)	\$ (3,051)	\$ (7,271)	\$ 12,607	\$ 3,727	\$ 8,880
Cash flow hedge derivatives	3,115	921	2,194	(5,652)	(1,671)	(3,981)
Total	<u>\$ (7,207)</u>	<u>\$ (2,130)</u>	<u>\$ (5,077)</u>	<u>\$ 6,955</u>	<u>\$ 2,056</u>	<u>\$ 4,899</u>
Reclassification adjustment for net losses in net income						
Securities available-for-sale	(853)	(252)	(601)	(1,153)	(341)	(812)
Cash flow hedge derivatives	—	—	—	—	—	—
Total	<u>(853)</u>	<u>(252)</u>	<u>(601)</u>	<u>(1,153)</u>	<u>(341)</u>	<u>(812)</u>
Total other comprehensive income/(loss)						
Securities available-for-sale	\$ (11,175)	\$ (3,303)	\$ (7,872)	\$ 11,454	\$ 3,386	\$ 8,068
Cash flow hedge derivatives	3,115	921	2,194	(5,652)	(1,671)	(3,981)
Total	<u>\$ (8,060)</u>	<u>\$ (2,382)</u>	<u>\$ (5,678)</u>	<u>\$ 5,802</u>	<u>\$ 1,715</u>	<u>\$ 4,087</u>
Ending balance, gain/(loss), net of tax						
Securities available-for-sale			\$ 4,328			\$ 13,782
Cash flow hedge derivatives			(4,696)			(7,393)
Total			<u>\$ (368)</u>			<u>\$ 6,389</u>

19. Stock Repurchase Program

On April 1, 2021, the Board of Directors approved a new stock repurchase program to buy back up to \$75.0 million of the Company's common stock. The \$75.0 million share repurchase program was completed and terminated on August 5, 2021 with the repurchase of 1,832,481 shares for a total of \$74.9 million, at an average cost of \$40.93 per share in the nine months ended September 30, 2021.

On September 2, 2021, the Board of Directors approved a new stock repurchase program to buy back up to \$125.0 million of the Company's common stock. During the quarter ended September 30, 2021, the Company repurchased 942,613 shares of common stock for a total of \$37.1 million, at an average cost of \$39.40 per share.

20. Subsequent Events

The Company has evaluated the effect of events that have occurred subsequent to September 30, 2021, through the date of issuance of the Condensed Consolidated Financial Statements, and, based on such evaluation, the Company believes that there have been no material events during such period that would require recognition in the Condensed Consolidated Financial Statements or disclosure in the Notes to the Condensed Consolidated Financial Statements.

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

The following discussion is based on the assumption that the reader has access to and has read the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

Critical Accounting Policies

The discussion and analysis of the Company's financial condition and results of operations are based upon its unaudited 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 the Consolidated Financial Statements. Actual results may differ from these estimates under different assumptions or conditions.

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

Accounting for the allowance for loan losses involves significant judgments and assumptions by management, which have a material impact on, among other things, the carrying value of net loans. The judgments and assumptions used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances as described in "Allowance for Credit Losses" under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies" in the 2020 Form 10-K. For more information, please also see Note 2 to the Company's unaudited Consolidated Financial Statements.

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

The ongoing COVID-19 pandemic has significantly heightened the level of challenges, risks and uncertainties facing our Company and its operations.

Additional potential impacts arising from, and our anticipated responses to, the COVID-19 pandemic are set forth below. See also the COVID-related risk factors as previously disclosed in Part I, Item 1A, of the 2020 Form 10-K.

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

September 30, 2021		
Industry ⁽¹⁾	Loan Balance	Percent of Total Loan Portfolio
Restaurants	\$ 153.8	0.1%
Hotels/motels	299.7	1.1
Retail businesses/properties	1,738.7	2.4
	<u>\$ 2,192.2</u>	<u>3.6%</u>

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

While we have not experienced disproportionate impacts among our business segments as of September 30, 2021, borrowers in the industries detailed in the table above (and potentially other industries) could have greater sensitivity to the economic downturn resulting from the COVID-19 pandemic with potentially longer recovery periods than other business lines.

Loan modifications

We began receiving requests from our borrowers for loan deferrals in March 2020 following the onset of the pandemic. Modifications include the deferral of principal payments or the deferral of principal and interest payments for terms generally 90 - 180 days. Requests are evaluated individually, and approved modifications are based on the unique circumstances of each borrower. We are committed to working with our clients to allow time to work through the challenges of this pandemic. At this time, it is uncertain what future impact loan modifications related to COVID-19 difficulties will have on our financial condition, results of operations and reserve for loan losses.

As of September 30, 2021, there were seven COVID-19 residential mortgage loan modifications outstanding, or \$5.1 million, with a weighted average loan to value ratio of 58.6% that represented 0.1% of the total residential mortgage loan portfolio and three, or \$2.8 million, in commercial loan balances that represented 0.1% of total commercial loans.

As of September 30, 2021, there were six CRE loan modifications outstanding of \$44.8 million, with a weighted average loan to value ratio of 40.1% that represent 0.6% of the total CRE loan portfolio. All of these \$44.8 million of real estate loan modifications are paying interests.

The CARES Act, as extended by the CAA, permits financial institutions to suspend requirements under GAAP for loan modifications to borrowers affected by COVID-19 and is intended to provide interpretive guidance as to conditions that would constitute a short-term modification that would not meet the definition of a TDR. This includes the following (i) the loan modification is made between March 1, 2020, and the earlier of January 1, 2022, or 60 days after the end of the coronavirus emergency declaration and (ii) the applicable loan was not more than 30 days past due as of December 31, 2019. The Company is applying this guidance to qualifying loan modifications and anticipates that it will continue to experience an increase in short-term modifications.

Paycheck Protection Program ("PPP")

As part of the CARES Act, the SBA has been authorized to guarantee loans under the PPP through September 30, 2021 for small businesses who meet the necessary eligibility requirements in order to keep their workers on the payroll. One of the notable features of the PPP is that borrowers are eligible for loan forgiveness if borrowers, among other conditions, maintain their staff and payroll and if loan amounts are used to cover payroll, mortgage interest, rents and utilities payments. These loans have a two-to-five-year term and earn interest at a rate of 1%. We began accepting applications on April 3, 2020. As of September 30, 2021, our outstanding PPP loans had a current balance of \$169.4 million and \$264.4 million of PPP loans had been forgiven by the U.S. Treasury. PPP loans are guaranteed by the SBA and therefore we believe PPP loans generally do not represent a material credit risk.

Highlights

- Total loans, excluding PPP loans, increased by 9.1% annualized.
- The net interest margin increased to 3.22% in the third quarter of 2021 from 3.02% in third quarter of 2020.
- Quarterly earnings per share increased 31.0% compared to the same quarter in 2020.
- Total deposits, excluding time deposits, increased for the quarter by \$686.3 million, or 25.9% annualized.

Quarterly Statement of Operations Review**Net Income**

Net income for the quarter ended September 30, 2021, was \$72.4 million, an increase of \$15.6 million, or 27.5%, compared to net income of \$56.8 million for the same quarter a year ago. Diluted earnings per share for the quarter ended September 30, 2021, was \$0.93 per share compared to \$0.71 per share for the same quarter a year ago.

Return on average stockholders' equity was 11.61% and return on average assets was 1.45% for the quarter ended September 30, 2021, compared to a return on average stockholders' equity of 9.53% and a return on average assets of 1.18% for the same quarter a year ago.

Financial Performance

	Three months ended	
	September 30, 2021	September 30, 2020
Net income (in millions)	\$ 72.4	\$ 56.8
Basic earnings per common share	\$ 0.93	\$ 0.71
Diluted earnings per common share	\$ 0.93	\$ 0.71
Return on average assets	1.45%	1.18%
Return on average total stockholders' equity	11.61%	9.53%
Efficiency ratio	43.85%	51.53%

Net Interest Income Before Provision for Credit Losses

Net interest income before provision for credit losses increased \$15.0 million, or 10.9%, to \$152.5 million during the third quarter of 2021, compared to \$137.5 million during the same quarter a year ago. The increase was due primarily to a decrease in interest expense from deposits.

The net interest margin was 3.22% for the third quarter of 2021 compared to 3.02% for the third quarter of 2020 and 3.24% for the second quarter of 2021.

For the third quarter of 2021, the yield on average interest-earning assets was 3.56%, the cost of funds on average interest-bearing liabilities was 0.48%, and the cost of interest-bearing deposits was 0.44%. In comparison, for the third quarter of 2020, the yield on average interest-earning assets was 3.78%, the cost of funds on average interest-bearing liabilities was 1.04%, and the cost of interest-bearing deposits was 0.99%. The decrease in the yield on average interest-earning assets resulted mainly from lower lending rates. The decrease in average interest-bearing liabilities was a result of the renewal of maturing higher rate certificates of deposit at lower rates and the continuing run off of brokered CD's during the quarter. The net interest spread, defined as the difference between the yield on average interest-earning assets and the cost of funds on average interest-bearing liabilities, was 3.08% for the quarter ended September 30, 2021, compared to 2.74% for the same quarter a year ago.

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The following table sets forth information concerning average interest-earning assets, average interest-bearing liabilities, and the average yields and rates paid on those assets and liabilities for the three months ended September 30, 2021, and 2020. Average outstanding amounts included in the table are daily averages.

	Interest-Earning Assets and Interest-Bearing Liabilities					
	Three months ended September 30,					
	2021			2020		
Average Balance	Interest Income/Expense	Average Yield/Rate ⁽¹⁾⁽²⁾	Average Balance	Interest Income/Expense	Average Yield/Rate ⁽¹⁾⁽²⁾	
(In thousands)						
Interest-earning assets:						
Total loans ⁽¹⁾	\$ 15,798,496	\$ 163,948	4.12%	\$ 15,592,536	\$ 167,556	4.28%
Investment securities	1,058,004	3,707	1.39	1,145,092	4,115	1.43
Federal Home Loan Bank stock	17,250	258	5.93	17,250	216	4.99
Interest-bearing deposits	1,893,785	714	0.15	1,385,535	347	0.10
Total interest-earning assets	18,767,535	168,627	3.56	18,140,413	172,234	3.78
Non-interest earning assets:						
Cash and due from banks	155,604			136,671		
Other non-earning assets	1,027,921			1,064,371		
Total non-interest earning assets	1,183,525			1,201,042		
Less: Allowance for loan losses	(131,316)			(172,225)		
Deferred loan fees	(7,302)			(5,010)		
Total assets	\$ 19,812,442			\$ 19,164,220		
Interest-bearing liabilities:						
Interest-bearing demand accounts	\$ 2,109,632	\$ 524	0.10%	\$ 1,695,882	\$ 724	1.74%
Money market accounts	4,228,025	4,554	0.43	3,119,091	4,833	0.62
Savings accounts	914,540	164	0.07	766,521	204	0.11
Time deposits	5,882,576	9,299	0.63	7,281,403	26,247	1.43
Total interest-bearing deposits	13,134,773	14,541	0.44	12,862,897	32,008	0.99
Other borrowings	43,246	146	1.34	263,306	1,266	1.91
Long-term debt	119,136	1,455	4.84	119,136	1,456	4.86
Total interest-bearing liabilities	13,297,155	16,142	0.48	13,245,339	34,730	1.04
Non-interest bearing liabilities:						
Demand deposits	3,830,485			3,301,253		
Other liabilities	211,636			246,811		
Total equity	2,473,166			2,370,817		
Total liabilities and equity	\$ 19,812,442			\$ 19,164,220		
Net interest spread			3.08%			2.74%
Net interest income		\$ 152,485			\$ 137,504	
Net interest margin			3.22%			3.02%

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

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

The following table summarizes the changes in interest income and interest expense attributable to changes in volume and changes in interest rates for the three months ended September 30, 2021 and 2020:

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

	Three months ended September 30, 2021-2020		
	Increase/(Decrease) in Net Interest Income Due to:		
	Changes in Volume	Changes in Rate	Total Change
	(In thousands)		
Interest-earning assets:			
Loans	\$ 2,292	\$ (5,900)	\$ (3,608)
Investment securities	(299)	(109)	(408)
Federal Home Loan Bank stock	—	42	42
Deposits with other banks	155	213	368
Total changes in interest income	<u>2,148</u>	<u>(5,754)</u>	<u>(3,606)</u>
Interest-bearing liabilities:			
Interest-bearing demand accounts	149	(349)	(200)
Money market accounts	1,433	(1,712)	(279)
Savings accounts	34	(74)	(40)
Time deposits	(4,314)	(12,634)	(16,948)
Other borrowed funds	(824)	(296)	(1,120)
Long-term debt	—	1	1
Total changes in interest expense	<u>(3,522)</u>	<u>(15,064)</u>	<u>(18,586)</u>
Changes in net interest income	<u>\$ 5,670</u>	<u>\$ 9,310</u>	<u>\$ 14,980</u>

(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.

(Reversal)/provision for credit losses

As permitted under the CARES Act and as extended by the CAA, the Company adopted the CECL methodology for estimated credit losses effective as of January 1, 2021. The Company recorded a provision for credit losses of \$3.1 million in the third quarter of 2021 compared to a reversal for credit losses of \$9.0 million in the second quarter of 2021 and a \$12.5 million provision for loan losses in the third quarter of 2020. The third quarter provision for credit losses were primarily driven by the net charge-offs during the period and growth of loans. As of September 30, 2021, the allowance for loan losses increased by \$689 thousand to \$131.9 million, or 0.83% of gross loans, compared to \$131.3 million, or 0.84% of gross loans, as of June 30, 2021. The change in the allowance for loan losses included a \$3 million provision for loan losses for the third quarter of 2021, and \$2.3 million in net charge-offs. In the third quarter of 2020, a provision for loan losses of \$12.5 million was recorded under the incurred loss method, which includes management's projection of the potential impacts from the COVID-19 pandemic at that time. The Company will continue to monitor the continuing impact of the COVID-19 pandemic on credit risks and losses, as well as on customer deposits and other liabilities and assets.

The following table sets forth the charge-offs and recoveries for the periods indicated:

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
	(In thousands)			
Charge-offs:				
Commercial loans	\$ 2,649	\$ 6,956	\$ 19,499	\$ 13,383
Real estate loans ⁽¹⁾	3	—	3	—
Total charge-offs	<u>2,652</u>	<u>6,956</u>	<u>19,502</u>	<u>13,383</u>
Recoveries:				
Commercial loans	121	3,796	1,545	6,354
Construction loans	76	—	76	—
Real estate loans ⁽¹⁾	144	110	558	435
Total recoveries	<u>341</u>	<u>3,906</u>	<u>2,179</u>	<u>6,789</u>
Net charge-offs	<u>\$ 2,311</u>	<u>\$ 3,050</u>	<u>\$ 17,323</u>	<u>\$ 6,594</u>

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

Non-Interest Income

Non-interest income, which includes revenues from depository service fees, letters of credit commissions, securities gains (losses), wire transfer fees, and other sources of fee income, was \$12.2 million for the third quarter of 2021, an increase of \$2.2 million, or 22.0%, compared to \$10.0 million for the third quarter of 2020. The increase was primarily due to a \$1.6 million decrease in net loss from equity securities, a \$1.0 million increase in wealth management fees and commissions offset, in part by, a \$1.4 million decrease in gain on low-income housing investments, when compared to the same quarter a year ago.

Non-Interest Expense

Non-interest expense decreased \$3.8 million, or 5.0%, to \$72.2 million in the third quarter of 2021 compared to \$76.0 million in the same quarter a year ago. The decrease in non-interest expense in the third quarter of 2021 was primarily due to \$3.8 million in higher amortization expense of investments in low-income housing and alternative energy partnerships in the third quarter of 2020 compared to the third quarter of 2021. The efficiency ratio was 43.85% in the third quarter of 2021 compared to 51.53% for the same quarter a year ago.

Income Taxes

The effective tax rate for the third quarter of 2021 was 19.05% compared to 3.7% for the third quarter of 2020. In the second quarter of 2020, the Company made a new alternative energy investment which resulted in a lower full year effective tax rate for 2020 resulting from tax credits generated from the new alternative energy investment. The effective tax rate includes the impact of alternative energy investments and low-income housing tax credits.

Year-to-Date Statement of Operations Review

Net income for the nine months ended September 30, 2021, was \$223.0 million, an increase of \$65.0 million, or 41.1%, compared to net income of \$158.0 million for the same period a year ago. Diluted earnings per share was \$2.82 compared to \$1.98 per share for the same period a year ago. The net interest margin for the nine months ended September 30, 2021, was 3.22% compared to 3.12% for the same period a year ago.

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Return on average stockholders' equity was 12.11% and return on average assets was 1.54% for the nine months ended September 30, 2021, compared to a return on average stockholders' equity of 8.99% and a return on average assets of 1.13% for the same period a year ago. The efficiency ratio for the nine months ended September 30, 2021, was 44.71% compared to 46.98% for the same period a year ago.

The following table sets forth information concerning average interest-earning assets, average interest-bearing liabilities, and the average yields and rates paid on those assets and liabilities for the nine months ended September 30, 2021, and 2020. Average outstanding amounts included in the table are daily averages.

	Interest-Earning Assets and Interest-Bearing Liabilities					
	Nine months ended September 30,					
	2021			2020		
Average Balance	Interest Income/ Expense	Average Yield/ Rate ⁽¹⁾⁽²⁾	Average Balance	Interest Income/ Expense	Average Yield/ Rate ⁽¹⁾⁽²⁾	
(In thousands)						
Interest-earning assets:						
Total loans ⁽¹⁾	\$ 15,725,324	\$ 485,159	4.12%	\$ 15,477,883	\$ 513,575	4.43%
Investment securities	1,010,328	9,963	1.32	1,263,937	17,130	1.81
Federal Home Loan Bank stock	17,250	730	5.66	17,317	735	5.67
Interest-bearing deposits	1,605,851	1,467	0.12	894,302	1,538	0.23
Total interest-earning assets	<u>18,358,753</u>	<u>497,319</u>	<u>3.62</u>	<u>17,653,439</u>	<u>532,978</u>	<u>4.03</u>
Non-interest earning assets:						
Cash and due from banks	153,790			149,777		
Other non-earning assets	1,034,752			1,048,008		
Total non-interest earning assets	1,188,542			1,197,785		
Less: Allowance for loan losses	(146,640)			(148,437)		
Deferred loan fees	(6,224)			(1,787)		
Total assets	<u>\$ 19,394,431</u>			<u>\$ 18,701,000</u>		
Interest-bearing liabilities:						
Interest-bearing demand accounts	\$ 1,989,833	\$ 1,819	0.12%	\$ 1,557,371	\$ 2,176	0.19%
Money market accounts	3,913,073	13,893	0.47	2,772,463	16,712	0.81
Savings accounts	885,863	590	0.09	746,870	783	0.14
Time deposits	6,105,604	33,362	0.73	7,463,821	92,213	1.65
Total interest-bearing deposits	<u>12,894,373</u>	<u>49,664</u>	<u>0.51</u>	<u>12,540,525</u>	<u>111,884</u>	<u>1.19</u>
Other borrowings	86,410	1,037	1.60	355,758	4,468	1.68
Long-term debt	119,136	4,318	4.85	119,136	4,336	4.86
Total interest-bearing liabilities	<u>13,099,919</u>	<u>55,019</u>	<u>0.56</u>	<u>13,015,419</u>	<u>120,688</u>	<u>1.24</u>
Non-interest bearing liabilities:						
Demand deposits	3,613,026			3,089,578		
Other liabilities	219,591			249,954		
Total equity	2,461,895			2,346,049		
Total liabilities and equity	<u>\$ 19,394,431</u>			<u>\$ 18,701,000</u>		
Net interest spread			<u>3.06%</u>			<u>2.79%</u>
Net interest income	<u>\$ 442,300</u>			<u>\$ 412,290</u>		
Net interest margin			<u>3.22%</u>			<u>3.12%</u>

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

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

The following table summarizes the changes in interest income and interest expense attributable to changes in volume and changes in interest rates:

Taxable-Equivalent Net Interest Income — Changes Due to Volume and Rate⁽¹⁾			
Nine months ended September 30, 2021-2020			
Increase/(Decrease) in Net Interest Income Due to:			
	Changes in Volume	Changes in Rate	Total Change
(In thousands)			
Interest-earning assets:			
Loans	\$ 8,044	\$ (36,458)	\$ (28,414)
Investment securities	(3,044)	(4,123)	(7,167)
Federal Home Loan Bank stock	(3)	(2)	(5)
Deposits with other banks	864	(935)	(71)
Total changes in interest income	5,861	(41,518)	(35,657)
Interest-bearing liabilities:			
Interest-bearing demand accounts	512	(869)	(357)
Money market accounts	5,469	(8,288)	(2,819)
Savings accounts	128	(321)	(193)
Time deposits	(14,486)	(44,365)	(58,851)
Other borrowed funds	(3,243)	(188)	(3,431)
Long-term debt	—	(18)	(18)
Total changes in interest expense	(11,620)	(54,049)	(65,669)
Changes in net interest income	\$ 17,481	\$ 12,531	\$ 30,012

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

Non-Interest Income

Non-interest income, which includes revenues from depository service fees, letters of credit commissions, equity securities gains (losses), wire transfer fees, and other sources of fee income, was \$34.8 million for the nine months ended September 30, 2021, an increase of \$3.4 million, or 10.8%, compared to \$31.4 million for the nine months ended September 30, 2020. The increase was primarily due to a \$3.1 million increase in wealth management fees and commissions, a \$1.9 million increase in derivative fees, offset, in part, by a \$2.0 million increase in net losses from equity securities when compared to the same period a year ago.

Non-Interest Expense

Non-interest expense increased \$4.9 million, or 2.4%, to \$213.3 million for the nine months ended September 30, 2021, compared to \$208.4 million for the same period a year ago. The increase was primarily due to a \$6.4 million increase in salaries and employee benefits, a \$3.4 million decrease in other real estate owned income, a \$1.9 million increase in computer and equipment expense and a \$1.4 million increase in marketing expense, offset, in part, by a decrease of \$8.3 million in amortization expense of investments in low-income housing and alternative energy partnerships, when compared to the same period a year ago.

Income Taxes

The effective tax rate for the nine months ended September 30, 2021 was 21.3% compared to 8.6% for the nine months ended September 30, 2020. The effective tax rate was lower in 2020 due to the impact of higher tax credits from alternative energy investment tax credits.

Balance Sheet Review

Assets

Total assets were \$19.9 billion as of September 30, 2021, an increase of \$817.3 million, or 4.3%, from \$19.0 billion as of December 31, 2020, primarily due to an increase in short-term investments and commercial mortgage loans.

Securities Available-for-Sale

Prior to January 1, 2021, debt securities available-for-sale were measured at fair value and declines in the fair value were reviewed to determine whether the impairment was other-than-temporary. If we did not expect to recover the entire amortized cost basis of the security, then an other-than-temporary impairment ("OTTI") was considered to have occurred. The cost basis of the security was written down to its estimated fair value and the amount of the write-down was recognized through a charge to earnings. If the amount of the amortized cost basis expected to be recovered increased in a future period, the cost basis of the security was not increased but rather recognized prospectively through interest income.

Effective January 1, 2021, upon the adoption of ASU 2016-13, Financial Instruments - Credit Losses, debt securities available-for-sale are measured at fair value and subject to impairment testing. When an available-for-sale debt security is considered impaired, the Company must determine if the decline in fair value has resulted from a credit-related loss or other factors and then, (1) recognize an allowance for credit losses by a charge to earnings for the credit-related component (if any) of the decline in fair value, and (2) recognize in other comprehensive income (loss) any non-credit related components of the fair value change. If the amount of the amortized cost basis expected to be recovered increases in a future period, the valuation reserve would be reduced, but not more than the amount of the current existing reserve for that security.

For available-for-sale ("AFS") debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value with the credit component of the unrealized loss of the impaired AFS debt security recognized as an allowance for credit losses, and a corresponding provision for credit losses on the consolidated statement of income. For AFS debt securities that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, the payment structure of the security, failure of the issuer of the security to make scheduled interest or principal payments, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. Any fair value changes that have not been recorded through an allowance for credit losses is recognized in other comprehensive income. In the current period, management evaluated the securities in an unrealized loss position and determined that their unrealized losses were a result of the level of market interest rates relative to the types of securities and pricing changes caused by shifting supply and demand dynamics and not a result of downgraded credit ratings or other indicators of deterioration of the underlying issuers' ability to repay. Accordingly, we determined the unrealized losses were not credit-related and recognized the unrealized losses in "other comprehensive income" in stockholders' equity. Although we periodically sell securities for portfolio management purposes, we do not foresee having to sell any impaired securities strictly for liquidity needs and believe that it is more likely than not we would not be required to sell any impaired securities before recovery of their amortized cost.

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Securities available-for-sale represented 5.4% of total assets as of September 30, 2021, compared to 5.4% of total assets as of December 31, 2020. Securities available-for-sale were \$1.1 billion as of September 30, 2021, compared to \$1.0 billion as of December 31, 2020.

The following tables set forth the amortized cost, gross unrealized gains, gross unrealized losses, and fair value of securities available-for-sale as of September 30, 2021, and December 31, 2020:

	September 30, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(In thousands)				
Securities Available-for-Sale				
U.S. treasury securities	\$ 40,206	\$ 5	\$ —	\$ 40,211
U.S. government agency entities	89,823	1,255	135	90,943
Mortgage-backed securities	798,905	12,490	6,328	805,067
Collateralized mortgage obligations	9,792	—	231	9,561
Corporate debt securities	134,348	514	1,428	133,434
Total	\$ 1,073,074	\$ 14,264	\$ 8,122	\$ 1,079,216

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(In thousands)				
Securities Available-for-Sale				
U.S. treasury securities	\$ 80,948	\$ 6	\$ 6	\$ 80,948
U.S. government agency entities	99,944	441	546	99,839
Mortgage-backed securities	709,709	17,965	606	727,068
Collateralized mortgage obligations	10,358	—	34	10,324
Corporate debt securities	118,271	367	267	118,371
Total	\$ 1,019,230	\$ 18,779	\$ 1,459	\$ 1,036,550

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

Securities available-for-sale having a carrying value of \$30.1 million as of September 30, 2021, and \$22.7 million as of December 31, 2020, were pledged to secure public deposits, other borrowings and treasury tax and loan.

Equity Securities

The Company recognized a net gain of \$3 thousand for the three months ended September 30, 2021, due to the increase in fair value of equity investments with readily determinable fair values compared to a net loss of \$1.6 million for the three months ended September 30, 2020. The Company recognized a net loss of \$3.7 million for the nine months ended September 30, 2021, due to the decrease in fair value of equity investments with readily determinable fair values compared to a net loss of \$1.9 million for the six months ended September 30, 2020. Equity securities were \$20.1 million and \$23.7 million as of September 30, 2021, and December 31, 2020, respectively.

Losses are charged against the allowance when management believes the uncollectability of an AFS debt security is confirmed or when either of the criteria regarding intent or requirement to sell is met. Changes in the allowance for credit losses are recorded as provision for credit loss expense.

The amortized cost of the Company's AFS debt securities excludes accrued interest, which is included in "accrued interest income" on the Consolidated Balance Sheets. The Company has made an accounting policy election not to measure an allowance for credit losses for accrued interest receivables on AFS debt securities since the Company timely reverses any previously accrued interest when the debt security remains in default for an extended period. As each AFS debt security has a unique security structure, where the accrual status is clearly determined when certain criteria listed in the terms are met, the Company assesses the default status of each security as defined by the debt security's specific security structure. At September 30, 2021, no AFS debt securities were in default.

Loans

Gross loans were \$16.0 billion at September 30, 2021, an increase of \$332.4 million, or 2.1%, from \$15.6 billion at December 31, 2020. The increase was primarily due to increases of \$280.5 million, or 3.71%, in commercial mortgage loans, and a \$106.4 million increase, or 4.1%, in commercial loans. The loan balances and composition at September 30, 2021, compared to December 31, 2020 are set forth below:

	<u>September 30, 2021</u>	<u>% of Gross Loans</u>	<u>December 31, 2020</u>	<u>% of Gross Loans</u>	<u>% Change</u>
			(in thousands)		
Commercial loans	\$ 2,871,693	18.0%	\$ 2,836,833	18.1%	1.2%
Residential mortgage loans	4,144,789	25.9	4,145,389	26.5	(0.0)
Commercial mortgage loans	7,835,528	49.1	7,555,027	48.3	3.7
Real estate construction loans	688,195	4.3	679,492	4.4	1.3
Equity lines	433,206	2.7	424,555	2.7	2.0
Installment and other loans	3,370	0.0	3,100	0.0	8.7
Gross loans	<u>\$ 15,976,781</u>	<u>100%</u>	<u>\$ 15,644,396</u>	<u>100%</u>	<u>2.1%</u>
Allowance for loan losses	(131,945)		(166,538)		(20.8)
Unamortized deferred loan fees	(3,835)		(2,494)		53.8
Total loans, net	<u>\$ 15,841,001</u>		<u>\$ 15,475,364</u>		<u>2.4%</u>

Non-performing Assets

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

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

The ratio of non-performing assets to total assets was 0.4% at September 30, 2021, compared to 0.4% at December 31, 2020. Total non-performing assets increased \$0.7 million, or 0.9%, to \$78.3 million at September 30, 2021, compared to \$77.6 million at December 31, 2020, primarily due to an increase of \$1.0 million, or 1.5%, in non-accruing loans.

As a percentage of gross loans plus OREO, our non-performing assets were 0.49% as of September 30, 2021, compared to 0.50% as of December 31, 2020. The non-performing loan portfolio coverage ratio, defined as the allowance for credit losses to non-performing loans, decreased to 191.8% as of September 30, 2021, from 237.3% as of December 31, 2020.

The following table sets forth the changes in non-performing assets and TDRs as of September 30, 2021, compared to December 31, 2020, and to September 30, 2020:

	<u>September 30, 2021</u>	<u>December 31, 2020</u>	<u>% Change</u>	<u>September 30, 2020</u>	<u>% Change</u>
	(in thousands)				
Non-performing assets					
Accruing loans past due 90 days or more	\$ 4,333	\$ 4,982	(13)	\$ 2,868	51
Non-accrual loans:					
Construction loans	5,491	4,286	28	4,335	27
Commercial mortgage loans	36,968	33,715	10	33,782	9
Commercial loans	17,098	23,087	(26)	29,757	(43)
Residential mortgage loans	9,125	6,596	38	9,317	(2)
Total non-accrual loans	<u>\$ 68,682</u>	<u>\$ 67,684</u>	1	<u>\$ 77,191</u>	(11)
Total non-performing loans	<u>73,015</u>	<u>72,666</u>	0	<u>80,059</u>	(9)
Other real estate owned	5,251	4,918	7	4,918	7
Total non-performing assets	<u>\$ 78,266</u>	<u>\$ 77,584</u>	1	<u>\$ 84,977</u>	(8)
Accruing troubled debt restructurings	\$ 24,406	\$ 27,721	(12)	\$ 28,587	(15)
Allowance for loan losses	\$ 131,945	\$ 166,538	(21)	\$ 179,130	(26)
Total gross loans outstanding, at period-end	\$ 15,976,781	\$ 15,644,396	2	\$ 15,565,779	3
Allowance for loan losses to non-performing loans, at period-end	180.71%	229.18%		223.75%	
Allowance for loan losses to gross loans, at period-end	0.83%	1.06%		1.15%	

Non-accrual Loans

At September 30, 2021, total non-accrual loans were \$68.7 million, an increase of \$1.0 million, or 1.5%, from \$67.7 million at December 31, 2020, and a decrease of \$8.5 million, or 11.0%, from \$77.2 million at September 30, 2020. The allowance for the collateral-dependent loans is calculated based on the difference between the outstanding loan balance and the value of the collateral as determined by recent appraisals, sales contracts, or other available market price information, less cost to sell. The allowance for collateral-dependent loans varies from loan to loan based on the collateral coverage of the loan at the time of designation as non-performing. We continue to monitor the collateral coverage of these loans, based on recent appraisals, on a quarterly basis and adjust the allowance accordingly. Non-accrual loans also include those TDRs that do not qualify for accrual status.

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

	September 30, 2021		December 31, 2020	
	Real Estate ⁽¹⁾	Commercial	Real Estate ⁽¹⁾	Commercial
	(In thousands)			
Type of Collateral				
Single/multi-family residence	\$ 12,148	\$ 7,707	\$ 7,126	\$ 9,031
Commercial real estate	39,436	338	37,471	338
Land	—	2,734	—	2,634
Personal property (UCC)	—	6,318	—	11,084
Total	\$ 51,584	\$ 17,097	\$ 44,597	\$ 23,087

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

	September 30, 2021		December 31, 2020	
	Real Estate ⁽¹⁾	Commercial	Real Estate ⁽¹⁾	Commercial
	(In thousands)			
Type of Business				
Real estate development	\$ 15,523	\$ —	\$ 12,875	\$ 33
Wholesale/Retail	26,958	13,006	25,291	11,290
Import/Export	—	3,190	—	6,191
Other	9,103	901	6,431	5,573
Total	\$ 51,584	\$ 17,097	\$ 44,597	\$ 23,087

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

Impaired Loans

Prior to January 1, 2021, a loan was considered to be impaired when it was probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement based on current circumstances and events. The assessment for impairment occurs when and while such loans are on non-accrual as a result of delinquency status of over 90 days or our receipt of information otherwise indicating that full collection of principal is doubtful, or when the loan has been restructured in a TDRs. Those loans with a balance less than our defined selection criteria, generally a loan amount less than \$500 thousand, are treated as a homogeneous portfolio. If loans meeting the defined criteria are not collateral dependent, we measure the impairment based on the present value of the expected future cash flows discounted at the loan's effective interest rate. If loans meeting the defined criteria are collateral dependent, we measure the impairment by using the loan's observable market price or the fair value of the collateral. We generally obtain an appraisal to determine the amount of impairment at the date that the loan becomes impaired. The appraisals are generally based on "as is" or bulk sale valuations. To ensure that appraised values remain current, we generally obtain an updated appraisal every twelve months from qualified independent appraisers. If the fair value of the collateral, less cost to sell, is less than the recorded amount of the loan, we then recognize impairment by creating or adjusting an existing valuation allowance with a corresponding charge to the provision for loan losses. If an impaired loan is expected to be collected through liquidation of the collateral, the amount of impairment, excluding disposal costs (which generally range between 3% to 6% of the fair value, depending on the size of the impaired loan), is charged off against the allowance for loan losses. Non-accrual impaired loans, including TDRs, are not returned to accrual status unless the unpaid interest has been brought current and full repayment of the recorded balance is expected or if the borrower has made six consecutive monthly payments of the scheduled amounts due, and TDRs are reviewed for continued impairment until they are no longer reported as TDRs.

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As of September 30, 2021, recorded investment in non-accrual loans was \$68.7 million. As of December 31, 2020, recorded investment in impaired loans totaled \$95.4 million and was comprised of non-accrual loans of \$67.7 million and accruing TDRs of \$27.7 million. For non-accrual loans, the amounts previously charged off represent 10.6% of the contractual balances for non-accrual loans as of September 30, 2021. For impaired loans, the amounts previously charged off represent 7.1% as of December 31, 2020, of the contractual balances for impaired loans. As of September 30, 2021, \$51.6 million, or 75.1%, of the \$68.7 million of non-accrual loans were secured by real estate compared to \$44.6 million, or 65.9%, of the \$67.7 million of non-accrual loans that were secured by real estate as of December 31, 2020. The Bank generally seeks to obtain current appraisals, sales contracts, or other available market price information intended to provide updated factors in evaluating potential loss.

As of September 30, 2021, \$6.5 million of the \$131.9 million allowance for loan losses was allocated for non-accrual loans and \$125.4 million was allocated to the general allowance. As of December 31, 2020, \$6.4 million of the \$166.5 million allowance for loan losses was allocated for impaired loans and \$160.1 million was allocated to the general allowance.

The allowance for loan losses to non-performing loans was 180.7% as of September 30, 2021, compared to 229.2% as of December 31, 2020, primarily due to an increase in the non-accrual loans. Non-accrual loans also include those TDRs that do not qualify for accrual status.

The following table presents non-accrual loans and the related allowance as of September 30, 2021:

	September 30, 2021		
	Unpaid Principal Balance	Recorded Investment (In thousands)	Allowance
With no allocated allowance			
Commercial loans	\$ 13,897	\$ 10,442	\$ —
Real estate construction loans	7,201	5,491	—
Commercial mortgage loans	19,356	18,407	—
Residential mortgage loans and equity lines	6,989	6,813	—
Subtotal	<u>\$ 47,443</u>	<u>\$ 41,153</u>	<u>\$ —</u>
With allocated allowance			
Commercial loans	\$ 16,739	\$ 6,656	\$ 1,301
Commercial mortgage loans	18,664	18,561	5,229
Residential mortgage loans and equity lines	2,892	2,312	—
Subtotal	<u>\$ 38,295</u>	<u>\$ 27,529</u>	<u>\$ 6,530</u>
Total non-accrual loans	<u>\$ 85,738</u>	<u>\$ 68,682</u>	<u>\$ 6,530</u>

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In connection with the adoption of ASU 2016-13, the Company no longer provides information on impaired loans. The following table presents impaired loans and the related allowance as of December 31, 2020:

	December 31, 2020		
	Unpaid Principal Balance	Recorded Investment	Allowance
		(In thousands)	
With no allocated allowance			
Commercial loans	\$ 23,784	\$ 20,698	\$ —
Real estate construction loans	5,776	4,286	—
Commercial mortgage loans	22,877	22,287	—
Residential mortgage loans and equity lines	6,379	6,307	—
Subtotal	<u>\$ 58,816</u>	<u>\$ 53,578</u>	<u>\$ —</u>
With allocated allowance			
Commercial loans	\$ 13,703	\$ 6,372	\$ 1,030
Commercial mortgage loans	31,134	31,003	5,254
Residential mortgage loans and equity lines	5,005	4,452	145
Subtotal	<u>\$ 49,842</u>	<u>\$ 41,827</u>	<u>\$ 6,429</u>
Total impaired loans	<u>\$ 108,658</u>	<u>\$ 95,405</u>	<u>\$ 6,429</u>

Loan Interest Reserves

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

As of September 30, 2021, construction loans of \$583.4 million were disbursed with pre-established interest reserves of \$48.0 million, compared to \$643.5 million with pre-established interest reserves of \$71.0 million at December 31, 2020. The balance for construction loans with interest reserves that have been extended was \$50.2 million with pre-established interest reserves of \$1.9 million at September 30, 2021, compared to \$127.0 million with pre-established interest reserves of \$4.4 million at December 31, 2020. Land loans of \$38.5 million were disbursed with pre-established interest reserves of \$1.4 million at September 30, 2021, compared to \$24.7 million of land loans disbursed with pre-established interest reserves of \$486 thousand at December 31, 2020. The balance for land loans with interest reserves that have been extended was \$942 thousand at September 30, 2021 with pre-established interest reserves of \$58 thousand, compared to \$942 thousand in land loans with pre-established interest reserves of \$58 thousand at December 31, 2020.

At September 30, 2021 and December 31, 2020, the Bank had no loans on non-accrual status with available interest reserves. At September 30, 2021 and December 31, 2020, there was \$4.1 million and \$4.3 million of non-accrual non-residential construction loans that were originated with pre-established interest reserves, respectively. While we typically expect loans with interest reserves to be repaid in full according to the original contractual terms, some loans may require one or more extensions beyond the original maturity before full repayment. Typically, these extensions are required due to construction delays, delays in the sale or lease of the property, or some combination of these two factors.

Loan Concentration

Most of the Company's business activities are with customers located in the high-density Asian-populated areas of Southern and Northern California; New York City, New York; Dallas and Houston, Texas; Seattle, Washington; Boston, Massachusetts; Chicago, Illinois; Edison, New Jersey; Rockville, Maryland; and Las Vegas, Nevada. The Company also has loan customers in Hong Kong. The Company has no specific industry concentration, and generally its loans, when secured, are collateralized with real property or other pledged collateral of the borrowers. The Company generally expects loans to be paid off from the operating profits of the borrowers, refinancing by another lender, or through sale by the borrowers of the collateral. There were no loan concentrations to multiple borrowers in similar activities that exceeded 10% of total loans as of September 30, 2021, or as of December 31, 2020.

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 CRE loans on their balance sheets. The regulatory guidance reiterates the need for sound internal risk management practices for those institutions that have experienced rapid growth in CRE lending, have notable exposure to specific types of CRE, or are approaching or exceeding the supervisory criteria used to evaluate the CRE concentration risk, but the guidance is not to be construed as a limit for CRE exposure. The supervisory criteria are: (1) total reported loans for construction, land development, and other land represent 100% of the institution's total risk-based capital, and (2) total CRE loans represent 300% or more of the institution's total risk-based capital and the institution's CRE loan portfolio has increased 50% or more within the last thirty-six months. Total loans for construction, land development, and other land represented 34% of the Bank's total risk-based capital as of September 30, 2021, and 35% as of December 31, 2020. Total CRE loans represented 276% of total risk-based capital as of September 30, 2021, and 273% as of December 31, 2020 and were below the Bank's internal limit for CRE loans of 400% of total capital at both dates.

Allowance for Credit Losses

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

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

The allowance for loan losses was \$131.9 million and the allowance for off-balance sheet unfunded credit commitments was \$8.1 million at September 30, 2021, which represented the amount believed by management to be appropriate to absorb credit losses inherent in the loan portfolio, including unfunded credit commitments. The allowance for loan losses represented 0.83% of period-end gross loans and 180.7% of non-performing loans at September 30, 2021. The comparable ratios were 1.06% of period-end gross loans and 229.18% of non-performing loans at December 31, 2020.

Critical Accounting Policies and Estimates

Our accounting policies are fundamental to understanding management's discussion and analysis of results of operations and financial condition. We identify critical policies and estimates as those that require management to make particularly difficult, subjective, and/or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts would be reported under different conditions or using different assumptions. We have identified the policy and estimates relate to the allowance for credit losses on loans as a critical accounting policy.

Our critical accounting policies and estimates are described in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations included in the 2020 Form 10-K. For more information, please also see Note 2 to the Company's unaudited Consolidated Financial Statements.

Expected Credit Losses Estimate for Loans

The allowance for credit losses on loans held for investment is the combination of the allowance for loan losses and the reserve for unfunded loan commitments. The allowance for loan losses is reported as a reduction of the amortized cost basis of loans, while the reserve for unfunded loan commitments is included within "Other liabilities" on the Consolidated Balance Sheets. The amortized cost basis of loans does not include interest receivable, which is included in "Other assets" on the Consolidated Balance Sheets. The "Provision for credit losses" on the Consolidated Statement of Operations and Comprehensive Income is a combination of the provision for loan losses and the provision for unfunded loan commitments.

Under the CECL methodology, expected credit losses reflect losses over the remaining contractual life of an asset, considering the effect of prepayments and available information about the collectability of cash flows, including information about relevant historical experience, current conditions, and reasonable and supportable forecasts of future events and circumstances. Thus, the CECL methodology incorporates a broad range of information in developing credit loss estimates. For further information regarding the calculation of the allowance for credit losses on loans held for investment using the CECL methodology effective January 1, 2021, see Notes 2 and 3 to the unaudited Consolidated Financial Statements contained in "Item 1. Consolidated Financial Statements."

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In calculating our allowance for credit losses in the third quarter of 2021, the change in Moody's forecast of future GDP, unemployment rates, CRE and home price indexes, resulted in a small increase in the allowance for credit losses. Our methodology and framework along with the 8-quarter reasonable and supportable forecast period and the 4-quarter reversion period have remained consistent since the implementation of CECL on January 1, 2021. Certain management assumptions are reassessed every quarter based on current expectations for credit losses, while other assumptions are assessed and updated on at least an annual basis.

The use of different economic forecasts, whether based on different scenarios, the use of multiple or single scenarios, or updated economic forecasts and scenarios, can change the outcome of the calculations. In addition to the economic forecasts, there are numerous components and assumptions that are integral to the overall estimation of allowance for credit losses.

The determination of the allowance for credit losses is complex and dependent on numerous models, assumptions, and judgments made by management. Management's current expectation for credit losses as quantified in the allowance for credit losses, considers the impact of assumptions and is reflective of historical credit experience, economic forecasts viewed to be reasonable and supportable, current loan composition, and relative credit risks known as of the balance sheet date.

Management believes the allowance for credit losses is appropriate for the current expected credit losses in our loan portfolio and associated unfunded commitments, and the credit risk ratings and inherent loss rates currently assigned are reasonable and appropriate as of the reporting date. It is possible that others, given the same information, may at any point in time reach different conclusions that could result in a significant impact to the Company's financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
	(In thousands)			
Allowance for loan losses				
Balance at beginning of period	\$ 131,256	\$ 169,680	\$ 166,538	\$ 123,224
Impact of ASU 2016-13 adoption	—	—	(1,560)	—
Adjusted beginning balance	131,256	169,680	164,978	123,224
(Reversal)/provision for credit losses	3,000	12,500	(15,710)	62,500
Charge-offs:				
Commercial loans	(2,649)	(6,956)	(19,499)	(13,383)
Real estate loans	(3)	—	(3)	—
Total charge-offs	(2,652)	(6,956)	(19,502)	(13,383)
Recoveries:				
Commercial loans	121	3,796	1,545	6,354
Construction loans	76	—	76	—
Real estate loans	144	110	558	435
Total recoveries	341	3,906	2,179	6,789
Balance at end of period	\$ 131,945	\$ 179,130	\$ 131,945	\$ 179,130
Reserve for off-balance sheet credit commitments				
Balance at beginning of period	\$ 8,050	\$ 4,663	\$ 5,880	\$ 3,855
Impact of ASU 2016-13 adoption	—	—	6,018	—
Adjusted beginning balance	8,050	4,663	11,898	3,855
(Reversal)/provision for credit losses	50	1,000	(3,798)	1,808
Balance at end of period	\$ 8,100	\$ 5,663	\$ 8,100	\$ 5,663
Average loans outstanding during the period	\$ 15,798,261	\$ 15,592,536	\$ 15,725,324	\$ 15,477,883
Total gross loans outstanding, at period-end	\$ 15,976,781	\$ 15,565,779	\$ 15,976,781	\$ 15,565,779
Total non-performing loans, at period-end	\$ 73,015	\$ 80,059	\$ 73,015	\$ 80,059
Ratio of net recoveries/(charge-offs) to average loans outstanding during the period	0.06%	(0.08%)	0.15%	(0.06%)
Provision for credit losses to average loans outstanding during the period	0.08%	0.34%	(0.17%)	0.55%
Allowance for credit losses to non-performing loans, at period-end	191.80%	230.82%	191.80%	230.82%
Allowance for credit losses to gross loans, at period-end	0.88%	1.19%	0.88%	1.19%

Prior to January 1, 2021, 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 CRE segments, one residential construction segment, one non-residential construction segment, one SBA segment, one installment loans segment, one residential mortgage segment, one equity lines of credit segment, and one overdrafts segment. The allowance is provided for each segmented group based on the group’s historical loan loss experience aggregated based on loan risk classifications which take into account, among other things, the current financial condition of the borrowers and guarantors, the prevailing value of the underlying collateral if collateral dependent, charge-off history, management’s knowledge of the portfolio, general economic conditions, environmental factors, trends in delinquency and non-accrual, and other significant factors, such as the national and local economy, volume and composition of the portfolio, strength of management and loan staff, underwriting standards, and concentration of credit. In addition, management reviews reports on past-due loans to check for appropriate classification.

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

	September 30, 2021		December 31, 2020	
	Amount	Percentage of Loans in Each Category to Average Gross Loans	Amount	Percentage of Loans in Each Category to Average Gross Loans
	(In thousands)			
Type of Loan:				
Commercial loans	\$ 38,213	18.5%	\$ 68,742	18.8%
Real estate construction loans	6,344	4.3	30,854	4.0
Commercial mortgage loans	60,956	48.4	49,205	47.8
Residential mortgage loans and equity lines	26,431	28.8	17,737	29.4
Installment and other loans	1	0.0	—	—
Total loans	\$ 131,945	100%	\$ 166,538	100%

The allowance allocated to commercial loans decreased \$30.5 million, or 44.4%, to \$38.2 million at September 30, 2021, from \$68.7 million at December 31, 2020. The decrease is due primarily to a decrease in the allowance of \$31.5 million from the adoption of ASU 2016-13 and net charge-offs of \$18.0 million offset by a provision for loan losses of \$18.9 million.

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The allowance allocated to real estate construction loans decreased \$24.5 million, or 79.3%, to \$6.3 million at September 30, 2021, from \$30.9 million at December 31, 2020. The decrease is due primarily to a decrease in the allowance of \$24.3 million from the adoption of ASU 2016-13. The \$24.3 million decrease in allowance was primarily due to a change in methodology from the incurred loss model in 2020 to CECL based modeling in 2021. Under the CECL based modeling, the allowance is determined using actual loss experience, average life of loans, loan-to-collateral value among other factors, as compared to only historical loss experience used in incurred loss model.

The allowance allocated to commercial mortgage loans increased \$11.8 million, or 24.0%, to \$61.0 million at September 30, 2021, from \$49.2 million at December 31, 2020. The increase is due primarily to an increase in the allowance of \$35.0 million from the adoption of ASU 2016-13 offset by a reversal for loan losses of \$23.4 million related to the improvements in projected future macro-economic conditions in the nine months ended September 30, 2021.

The allowance allocated for residential mortgage loans and equity lines increased by \$8.7 million, or 49.0%, to \$26.4 million as of September 30, 2021, from \$17.7 million at December 31, 2020. The increase is due primarily to an increase in the allowance of \$19.2 million from the adoption of ASU 2016-13 offset by a reversal for loan losses of \$10.9 million related to improvements in projected future macro-economic conditions in the nine months ended September 30, 2021.

Deposits

Total deposits were \$17.0 billion at September 30, 2021, an increase of \$897.5 million, or 5.6%, from \$16.1 billion at December 31, 2020. The following table sets forth the deposit mix as of the dates indicated:

	September 30, 2021		December 31, 2020	
	Amount	Percentage	Amount	Percentage
	(In thousands)			
Deposits				
Non-interest-bearing demand deposits	\$ 4,024,504	23.7%	\$ 3,365,086	20.9%
Interest bearing demand deposits	2,202,956	13.0	1,926,135	12.0
Money market deposits	4,132,912	24.3	3,359,191	20.8
Savings deposits	920,138	5.4	785,672	4.9
Time deposits	5,726,360	33.6	6,673,317	41.4
Total deposits	\$ 17,006,870	100.0%	\$ 16,109,401	100.0%

The following table sets forth the maturity distribution of time deposits at September 30, 2021:

	At September 30, 2021		
	Time Deposits - under \$100,000	Time Deposits - \$100,000 and over	Total Time Deposits
	(In thousands)		
Less than three months	\$ 187,913	\$ 1,331,317	\$ 1,519,230
Three to six months	398,779	1,641,597	2,040,376
Six to twelve months	184,602	1,771,945	1,956,547
Over one year	68,130	142,077	210,207
Total	\$ 839,424	\$ 4,886,936	\$ 5,726,360
Percent of total deposits	4.9%	28.7%	33.7%

Borrowings

Borrowings include federal funds purchased, funds obtained as advances from the FHLB of San Francisco, and borrowings from other financial institutions.

Borrowings from the FHLB – There were no over-night borrowings from the FHLB as of September 30, 2021, and December 31, 2020. Advances from the FHLB were \$20.0 million at an average rate of 2.89% as of September 30, 2021, compared to \$150.0 million at an average rate of 2.15% as of December 31, 2020. As of September 30, 2021, FHLB advances of \$20.0 million will mature in May 2023.

Junior Subordinated Notes – At September 30, 2021, Junior Subordinated Notes totaled \$119.1 million with a weighted average interest rate of 2.36%, compared to \$119.1 million with a weighted average rate of 2.40% at December 31, 2020. The Junior Subordinated Notes have a stated maturity term of 30 years. The trusts are not consolidated with the Company in accordance with an accounting pronouncement that took effect in December 2003.

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

Off-Balance-Sheet Arrangements and Contractual Obligations

The following table summarizes the Company’s contractual obligations to make future payments as of September 30, 2021. Payments for deposits and borrowings do not include interest. Payments related to leases are based on actual payments specified in the underlying contracts.

	Payment Due by Period				
	1 year or less	More than 1 year but less than 3 years	3 years or more but less than 5 years	5 years or more	Total
	(In thousands)				
Contractual obligations:					
Deposits with stated maturity dates	\$ 5,516,154	\$ 203,360	\$ 6,833	\$ 13	\$ 5,726,360
Advances from the Federal Home Loan Bank	—	20,000	—	—	20,000
Other borrowings	—	—	—	23,197	23,197
Long-term debt	—	—	—	119,136	119,136
Operating leases	9,577	14,696	6,452	3,338	34,063
Total contractual obligations and other commitments	\$ 5,525,731	\$ 238,056	\$ 13,285	\$ 145,684	\$ 5,922,756

In the normal course of business, we enter into various transactions, which, in accordance with GAAP, are not included in our Consolidated Balance Sheets. We typically 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 seek to minimize our exposure to loss under these commitments by subjecting them to credit approval and monitoring procedures. Management assesses the credit risk associated with certain commitments to extend credit in determining the level of the allowance for credit losses.

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

Capital Resources

Total equity was \$2.46 billion as of September 30, 2021, an increase of \$45.1 million, from \$2.42 billion as of December 31, 2020, primarily due to net income of \$223.0 million, stock-based compensation of \$4.1 million, and proceeds from dividend reinvestment of \$2.6 million, offset, in part, by purchases of treasury stock of \$100.7 million, common stock cash dividends of \$73.3 million and a decrease in other comprehensive income of \$5.7 million.

The following table summarizes changes in total equity for the nine months ended September 30, 2021:

	Nine months ended September 30, 2021
	(In thousands)
Net income	\$ 222,980
Cumulative effect of change in accounting principle related to ASC 326, net of tax	(3,139)
Proceeds from shares issued through the Dividend Reinvestment Plan	2,619
RSUs distributed	1
Shares withheld related to net share settlement of RSUs	(2,632)
Stock issued to directors	850
Purchase of treasury stock	(100,668)
Share-based compensation	4,149
Cash dividends paid to common stockholders	(73,335)
Other comprehensive income	(5,678)
Net increase in total equity	\$ 45,147

Capital Adequacy Review

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

The following tables set forth actual and required capital ratios as of September 30, 2021 and December 31, 2020 for Bancorp and the Bank under the Basel III Capital Rules. The Basel III Capital Rules became fully phased-in on January 1, 2019. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules. See the 2020 Form 10-K for a more detailed discussion of the Basel III Capital Rules.

	Actual		Minimum Capital Required - Basel III		Required to be Considered Well Capitalized	
	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
(In thousands)						
September 30, 2021						
Common Equity Tier 1 to Risk-Weighted Assets						
Cathay General Bancorp	\$ 2,070,291	13.29	\$ 1,090,278	7.00	\$ 1,012,401	6.50
Cathay Bank	2,137,383	13.73	1,089,593	7.00	1,011,765	6.50
Tier 1 Capital to Risk-Weighted Assets						
Cathay General Bancorp	2,070,291	13.29	1,323,909	8.50	1,246,032	8.00
Cathay Bank	2,137,383	13.73	1,323,078	8.50	1,245,250	8.00
Total Capital to Risk-Weighted Assets						
Cathay General Bancorp	2,325,836	14.93	1,635,417	10.50	1,557,540	10.00
Cathay Bank	2,277,428	14.63	1,634,390	10.50	1,556,562	10.00
Leverage Ratio						
Cathay General Bancorp	2,070,291	10.67	776,410	4.00	970,513	5.00
Cathay Bank	2,137,383	11.02	775,500	4.00	969,375	5.00
(In thousands)						
December 31, 2020						
Common Equity Tier 1 to Risk-Weighted Assets						
Cathay General Bancorp	\$ 2,016,448	13.53	\$ 1,042,967	7.00	\$ 968,470	6.50
Cathay Bank	2,059,056	13.83	1,041,911	7.00	967,489	6.50
Tier 1 Capital to Risk-Weighted Assets						
Cathay General Bancorp	2,016,448	13.53	1,266,460	8.50	1,191,963	8.00
Cathay Bank	2,059,056	13.83	1,265,178	8.50	1,190,755	8.00
Total Capital to Risk-Weighted Assets						
Cathay General Bancorp	2,304,366	15.47	1,564,451	10.50	1,489,953	10.00
Cathay Bank	2,231,474	14.99	1,562,866	10.50	1,488,444	10.00
Leverage Ratio						
Cathay General Bancorp	2,016,448	10.94	737,382	4.00	921,727	5.00
Cathay Bank	2,059,056	11.19	736,317	4.00	920,396	5.00

As of September 30, 2021, capital levels at Bancorp and the Bank exceed all capital adequacy requirements under the fully phased-in Basel III Capital Rules. Based on the ratios presented above, capital levels as of September 30, 2021 at Bancorp and the Bank exceed the minimum levels necessary to be considered “well capitalized.”

Dividend Policy

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

The Company declared a cash dividend of \$0.31 per share on 77,860,539 shares outstanding on August 19, 2021 for distribution to holders of our common stock on September 9, 2021. The Company declared a cash dividend of \$0.31 per share on 79,188,570 shares outstanding on May 28, 2021, for distribution to holders of our common stock on June 7, 2021. The Company declared a cash dividend of \$0.31 per share on 79,514,076 shares outstanding on March 1, 2021, for distribution to holders of our common stock on March 11, 2021. The Company paid total cash dividends of \$73.3 million in the first nine months of 2021.

Financial Derivatives

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

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

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

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In May 2014, Bancorp entered into interest rate swap contracts in the notional amount of \$119.1 million for a period of ten years. The objective of these interest rate swap contracts, which were designated as hedging instruments in cash flow hedges, was to hedge the quarterly interest payments on Bancorp's \$119.1 million of Junior Subordinated Debentures that had been issued to five trusts, throughout the ten-year period beginning in June 2014 and ending in June 2024, from the risk of variability of these payments resulting from changes in the three-month LIBOR interest rate. As of September 30, 2021, and 2020, the ineffective portion of these interest rate swaps was not significant. The notional amount and net unrealized loss of the Company's cash flow derivative financial instruments as of September 30, 2021, and December 31, 2020, were as follows:

	<u>September 30, 2021</u>		<u>December 31, 2020</u>	
	(In thousands)			
Cash flow swap hedges:				
Notional	\$	119,136	\$	119,136
Weighted average fixed rate-pay		2.61%		2.61%
Weighted average variable rate-receive		0.15%		0.44%
Unrealized loss, net of taxes ⁽¹⁾	\$	(4,696)	\$	(6,890)
	Three months ended		Nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Periodic net settlement of swaps ⁽²⁾	\$	754	\$	702
			\$	2,196
			\$	1,471

(1) Included in other comprehensive income.

(2) the amount of periodic net settlement of interest rate swaps was included in interest expense.

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As of September 30, 2021, the Bank's outstanding interest rate swap contracts had a notional amount of \$779.4 million for various terms from three to ten years. The Bank entered into these interest rate swap contracts that are matched to fixed-rate CRE 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 CRE loans due to changes in interest rates. The swap contracts are structured so that the notional amounts reduce over time to match the contractual amortization of the underlying loan and allow prepayments with the same pre-payment penalty amounts as the related loan. As of September 30, 2021, and 2020, the ineffective portion of these interest rate swaps was not significant. The notional amount and net unrealized loss of the Company's fair value derivative financial instruments as of September 30, 2021, and December 31, 2020, were as follows:

	September 30, 2021		December 31, 2020	
	(In thousands)			
Fair value swap hedges:				
Notional	\$	779,392	\$	478,266
Weighted average fixed rate-pay		2.48%		4.56%
Weighted average variable rate spread		1.22%		2.46%
Weighted average variable rate-receive		1.31%		3.11%
Net unrealized loss ⁽¹⁾	\$	(8,255)	\$	(15,082)

	Three months ended		Nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Periodic net settlement of swaps ⁽²⁾	\$	(2,363)	\$	(2,510)
			\$	(7,137)
			\$	(5,307)

(1) the amount is included in other non-interest income.

(2) the amount of periodic net settlement of interest rate swaps was included in interest income.

The Company has designated as a partial-term hedging election \$404.7 million notional as last-of-layer hedge on pools of loans with a notational value of \$816.7 million as of September 30, 2021. The loans are not expected to be affected by prepayment, defaults, or other factors affecting the timing and amount of cash flows under the last-of-layer method. The Company has entered into these pay-fixed and receive 1-Month LIBOR interest rate swaps to convert the last-of-layer \$404.7 million portion of \$816.7 million fixed rate loan pools in order to reduce the Company's exposure to higher interest rates for the last-of-layer tranches. As of September 30, 2021, the last-of-layer loan tranche had a fair value basis adjustment of \$943 thousand. The interest rate swap converts this last-of-layer tranche into a floating rate instrument. The Company's risk management objective with respect to this last-of-layer interest rate swap is to reduce interest rate exposure as to the last-of-layer tranche.

Interest rate swap contracts involve the risk of dealing with institutional derivative counterparties and their ability to meet contractual terms. Institutional counterparties must have a strong credit profile and be approved by our Board of Directors. The Company's credit exposure on interest rate swaps is limited to the net favorable value and interest payments of all swaps by each counterparty. Credit exposure may be reduced by the amount of collateral pledged by the counterparty. Bancorp's interest rate swaps have been assigned by the counterparties to a derivative clearing organization and daily margin is indirectly maintained with the derivative clearing organization. Cash posted as collateral by Bancorp related to derivative contracts totaled \$24.3 million as of September 30, 2021 and \$11.9 million as of December 31, 2020.

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The Company from time to time enters into foreign exchange forward contracts with various counterparties to mitigate the risk of fluctuations in foreign currency exchange rates for foreign exchange certificates of deposit or foreign exchange contracts entered into with our clients. These contracts are not designated as hedging instruments and are recorded at fair value in our Consolidated Balance Sheets. Changes in the fair value of these contracts as well as the related foreign exchange certificates of deposit and foreign exchange contracts are recognized immediately in net income as a component of non-interest income. Period end gross positive fair values are recorded in other assets and gross negative fair values are recorded in other liabilities. The notional amount and fair value of the Company's derivative financial instruments not designated as hedging instruments as of September 30, 2021, and December 31, 2020, were as follows:

	<u>September 30, 2021</u>	<u>December 31, 2020</u>
	(In thousands)	
Derivative financial instruments not designated as hedging instruments:		
Notional amounts:		
Spot, forward, and swap contracts with positive fair value	\$ 161,535	\$ 151,244
Spot, forward, and swap contracts with negative fair value	\$ 70,184	\$ 132,813
Fair value:		
Spot, forward, and swap contracts with positive fair value	\$ 1,319	\$ 4,658
Spot, forward, and swap contracts with negative fair value	\$ 1,723	\$ (2,200)

Liquidity

Liquidity is our ability to maintain sufficient cash flow to meet maturing financial obligations and customer credit needs, and to take advantage of investment opportunities as they are presented in the marketplace. Our principal sources of liquidity are growth in deposits, proceeds from the maturity or sale of securities and other financial instruments, repayments from securities and loans, federal funds purchased, securities sold under agreements to repurchase, and advances from the FHLB. As of September 30, 2021, our average monthly liquidity ratio (defined as net cash plus short-term and marketable securities to net deposits and short-term liabilities) was 18.1% compared to 14.7% as of December 31, 2020.

The Bank is a shareholder of the FHLB, which enables the Bank to have access to lower-cost FHLB financing when necessary. At September 30, 2021, the Bank had an approved credit line with the FHLB of San Francisco totaling \$4.8 billion. Total advances from the FHLB of San Francisco were \$20.0 million and standby letter of credits issued by the FHLB on the Company's behalf were \$675.4 million as of September 30, 2021. These borrowings bear fixed rates and are secured by the Bank's loans. See Note 11 to the Consolidated Financial Statements. At September 30, 2021, the Bank pledged \$820 thousand of its commercial loans and \$1.9 million of securities to the Federal Reserve Bank's Discount Window under the Borrower-in-Custody program. The Bank had borrowing capacity of \$2.6 million from the Federal Reserve Bank Discount Window at September 30, 2021.

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 September 30, 2021, investment securities totaled \$1.1 billion, with \$30.9 million pledged as collateral for borrowings and other commitments. The remaining \$1.0 billion was available as additional liquidity or to be pledged as collateral for additional borrowings.

Approximately 96% of our time deposits mature within one year or less as of September 30, 2021. Management anticipates that there may be some outflow of these deposits upon maturity due to the keen competition in the Bank's marketplace. However, based on our historical runoff experience, we expect the outflow will not be significant and can be replenished through our normal growth in deposits. As of September 30, 2021, management believes all the above-mentioned sources will provide adequate liquidity during the next twelve months for the Bank to meet its operating needs. Deposits and other sources of liquidity, however, may be adversely impacted by the COVID-19 pandemic.

The business activities of Bancorp consist primarily of the operation of the Bank and limited activities in other investments. The Bank paid dividends to Bancorp totaling \$155 million and \$96.0 million during the first nine months of 2021 and 2020, respectively.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

The table below shows the estimated impact of changes in interest rates on net interest income and market value of equity as of September 30, 2021:

Change in Interest Rate (Basis Points)	Net Interest Income Volatility ⁽¹⁾	Market Value of Equity Volatility ⁽²⁾
+200	18.2	14.5
+100	8.6	7.0
-100	-0.8	-3.7
-200	-0.9	-1.7

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

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

ITEM 4. CONTROLS AND PROCEDURES.

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

There has not been any change in our internal control over financial reporting that occurred during the third quarter of 2021 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

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

ITEM 1A. RISK FACTORS.

The Company is not aware of any material change to the risk factors as previously disclosed in Part I, Item 1A, of the Company's 2020 Form 10-K. In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors disclosed in Part I, Item 1A, of the Company's 2020 Form 10-K, which could materially and adversely affect the Company's business, financial condition, results of operations and stock price. The risk factors disclosed in the 2020 Form 10-K are not the only risks facing the Company. Additional risks and uncertainties, including those not presently known to the Company or that the Company presently believes not to be material, could also materially and adversely affect the Company's business, financial condition, and results of operations and stock price.

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

Issuer Purchases of Equity Securities				
Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
(July 1, 2021 - July 31, 2021)	90,000	\$38.26	90,000	\$8,028,035
(August 1, 2021 - August 31, 2021)	210,075	\$38.21	210,075	\$0
(September 1, 2021 - September 30, 2021)	642,538	\$39.95	642,538	\$99,331,597
Total	942,613	\$39.40	942,613	\$99,331,597

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

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ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

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

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

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

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

Exhibit 101.INS XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document*

Exhibit 101.SCH Inline XBRL Taxonomy Extension Schema Document*

Exhibit 101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document*

Exhibit 101.DEF Inline XBRL Taxonomy Extension Definition Linkbase Document*

Exhibit 101.LAB Inline XBRL Taxonomy Extension Label Linkbase Document*

Exhibit 101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document*

Exhibit 104 Cover Page Interactive Data File – the cover page XBRL tags are embedded within the Inline XBRL document*

+ Filed herewith.

++ Furnished herewith.

* Filed electronically herewith.

SIGNATURES

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

Cathay General Bancorp
(Registrant)

Date: November 8, 2021

/s/ Chang M. Liu

Chang M. Liu
President and Chief Executive Officer

Date: November 8, 2021

/s/ Heng W. Chen

Heng W. Chen
Executive Vice President and
Chief Financial Officer

I, Chang M. Liu, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cathay General Bancorp;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's Board of Directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Chang M. Liu

Chang M. Liu

President and Chief Executive Officer

Date: November 8, 2021

I, Heng W. Chen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cathay General Bancorp;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's Board of Directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Heng W. Chen

Heng W. Chen

Executive Vice President and

Chief Financial Officer

Date: November 8, 2021

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

In connection with the Quarterly Report of Cathay General Bancorp (the "Company") on Form 10-Q for the period ended September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Chang M. Liu, 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/ Chang M. Liu

Chang M. Liu

President and Chief Executive Officer

Date: November 8, 2021

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

In connection with the Quarterly Report of Cathay General Bancorp (the “Company”) on Form 10-Q for the period ended September 30, 2021 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: November 8, 2021