CATHAY GENERAL BANCORP
Form 10-K
February 29, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015

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

Commission file number 001-31830

Cathay General Bancorp

(Exact name of Registrant as specified in its charter)

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

Registrant’s telephone number, including area code:

(213) 625-4700

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

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

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

None

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

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

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

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

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

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the price at which the common equity was last sold as of the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2015) was $2,403,753,285. This value is estimated solely for the purposes of this cover page. The market value of shares held by registrant's directors, executive officers, and Employee Stock Ownership Plan have been excluded because they may be considered to be affiliates of the registrant.

As of February 16, 2016, there were 79,595,563 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

- Portions of Registrant's definitive proxy statement relating to Registrant's 2016 Annual Meeting of Stockholders which will be filed within 120 days of the fiscal year ended December 31, 2015, are incorporated by reference into Part III.

CATHAY GENERAL BANCORP

2015 ANNUAL REPORT ON FORM 10-K

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Forward-Looking Statements

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

U.S. and international business and economic conditions;

possible additional provisions for loan losses and charge-offs;

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

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

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

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

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

potential goodwill impairment;

liquidity risk;

fluctuations in interest rates;

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

inflation and deflation;

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

environmental liabilities;

our ability to compete with larger competitors;

our ability to retain key personnel;

successful management of reputational risk;

natural disasters and geopolitical events;

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

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

our ability to adapt our systems to technological changes;

risk management processes and strategies;

adverse results in legal proceedings;

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

changes in accounting standards or tax laws and regulations;

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market disruption and volatility;

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

issuance of preferred stock;

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

the soundness of other financial institutions.

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

PART I

Item 1. Business.

Business of Bancorp

Overview

Cathay General Bancorp is a corporation that was organized in 1990 under the laws of the State of Delaware. We are the holding company of Cathay Bank, a California state-chartered commercial bank ("Cathay Bank" or the "Bank"), seven limited partnerships investing in affordable housing investments in which the Bank is the sole limited partner, GBC Venture Capital, Inc, and Asia Realty Corp. We also own 100% of the common stock of five statutory business trusts created for the purpose of issuing capital securities. In the future, we may become an operating company or acquire savings institutions, other banks, or companies engaged in bank-related activities and may engage in such other activities or acquire such other businesses as may be permitted by applicable law. Our principal place of business is currently located at 777 North Broadway, Los Angeles, California 90012, and our telephone number at that location is (213) 625-4700. In addition, certain of our administrative offices are located in El Monte, California, and our address there is 9650 Flair Drive, El Monte, California 91731. Our common stock is traded on the NASDAQ Global Select Market and our trading symbol is "CATY".

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

Subsidiaries of Bancorp

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

Cathay Capital Trust I, Cathay Statutory Trust I, Cathay Capital Trust II, Cathay Capital Trust III and Cathay Capital Trust IV. The Bancorp established Cathay Capital Trust I in June 2003, Cathay Statutory Trust I in September 2003, Cathay Capital Trust II in December 2003, Cathay Capital Trust III in March 2007, and Cathay Capital Trust IV in May 2007 (collectively, the "Trusts") as wholly-owned subsidiaries. The Trusts are statutory business trusts. The

Trusts issued capital securities representing undivided preferred beneficial interests in the assets of the Trusts. The Trusts exist for the purpose of issuing the capital securities and investing the proceeds thereof, together with proceeds from the purchase of the common securities of the Trusts by the Bancorp, in a certain series of securities issued by us, with similar terms to the relevant series of securities issued by each of the Trusts, which we refer to as “Junior Subordinated Notes.” The Bancorp guarantees, on a limited basis, payments of distributions on the capital securities of the Trusts and payments on redemption of the capital securities of the Trusts. The Bancorp is the owner of all the beneficial interests represented by the common securities of the Trusts. The purpose of issuing the capital securities was to provide the Company with a cost-effective means of obtaining Tier 1 capital for regulatory purposes. Because the Bancorp is not the primary beneficiary of the Trusts, the financial statements of the Trusts are not included in our Consolidated Financial Statements.

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

Asia Realty Corp. Asia Realty Corp. was incorporated in January 2013 for the purpose of holding other real estate owned and became a subsidiary of the Bancorp as a result of the acquisition of Asia Bancshares. Asia Realty Corp. owned one foreclosed property with a carrying value of $3.0 million at December 31, 2015

Competition

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

Employees

Due to the limited nature of the Bancorp's activities as a bank holding company, the Bancorp currently does not employ any persons other than the Bancorp's management, which includes the Chief Executive Officer and President, the Chief Financial Officer, Executive Vice Presidents, the Secretary and General Counsel, and the Assistant Secretary. See also "Business of the Bank — *Employees*" below under this Item 1.

Business of the Bank

General

Cathay Bank was incorporated under the laws of the State of California on August 22, 1961, is licensed by the California Department of Business Oversight ("DBO") (previously known as the California Department of Financial Institutions or California State Banking Department), and commenced operations as a California state-chartered bank on April 19, 1962. Cathay Bank is an insured bank under the Federal Deposit Insurance Act by the FDIC, but it is not a member of the Federal Reserve.

The Bank's head office is located in the Chinatown area of Los Angeles, at 777 North Broadway, Los Angeles, California 90012. In addition, as of December 31, 2015, the Bank had branch offices in Southern California (21 branches), Northern California (12 branches), New York (12 branches), Illinois (three branches), Washington (three branches), Texas (two branches), Maryland (one branch), Massachusetts (one branch), Nevada (one branch), New Jersey (one branch), and Hong Kong (one branch) and a representative office in Shanghai and in Taipei. Deposit accounts at the Hong Kong branch are not insured by the FDIC. Each branch has loan approval rights subject to the branch manager's authorized lending limits. Current activities of the Shanghai and Taipei representative offices are limited to coordinating the transportation of documents to the Bank's head office and performing liaison services.

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

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

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

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

Securities

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

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

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

Loans

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

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

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

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

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

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

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

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

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

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

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

Asset Quality

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

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

Information concerning non-performing loans, restructured loans, allowance for credit losses, loans charged-off, loan recoveries, and other real estate owned is included in Part II — Item 7 — "Management's Discussion and Analysis of Financial Condition and Results of Operations," and in Note 5 and Note 6 to the Consolidated Financial Statements.

Deposits

The Bank offers a variety of deposit products in order to meet its customers' needs. As of December 31, 2015, the Bank offered passbook accounts, checking accounts, money market deposit accounts, certificates of deposit, individual retirement accounts, college certificates of deposit, and public funds deposits. These products are priced in order to promote growth of deposits.

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

Operations,” and in Note 9 to the Consolidated Financial Statements.

Borrowings

Borrowings from time to time include securities sold under agreements to repurchase, the purchase of federal funds, funds obtained as advances from the FHLB, borrowing from other financial institutions, and the issuance of Junior Subordinated Notes. Information concerning the types, amounts, and maturity of borrowings is included in in Part II — Item 7 — “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and in Note 10 and Note 11 to the Consolidated Financial Statements.

Return on Equity and Assets

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

Interest Rates and Differentials

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

Analysis of Changes in Net Interest Income

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

Commitments and Letters of Credit

Information concerning the Bank's outstanding loan commitments and letters of credit is included in Note 14 to the Consolidated Financial Statements.

Expansion

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

On July 31, 2015 the Company completed the acquisition of New York-based Asia Bancshares, Inc., parent of Asia Bank. Asia Bank operated three branch locations in New York City and one branch location in the state of Maryland. The acquisition allowed the Company to expand its number of branches in New York City and to enter the state of Maryland. The purchase consideration consisted of fifty-five percent in Bancorp stock and forty-five percent in cash. The fair value of the consideration was $139.9 million, which consisted of 2,580,359 shares of Bancorp common stock valued at $82.9 million at the date of acquisition and $57.0 million in cash.

Subsidiaries of Cathay Bank

Cathay Community Development Corporation (“CCDC”) is a wholly-owned subsidiary of the Bank and was incorporated in September 2006. The primary mission of CCDC is to help in the development of low-income neighborhoods in the Bank’s California and New York service areas by providing or facilitating the availability of capital to businesses and real estate developers working to renovate these neighborhoods. In October 2006, CCDC formed a wholly-owned subsidiary, Cathay New Asia Community Development Corporation (“CNACDC”), for the purpose of assuming New Asia Bank’s pre-existing New Markets Tax Credit activities in the greater Chicago area by providing or facilitating the availability of capital to businesses and real estate developers working to renovate these neighborhoods.

Cathay Holdings LLC (“CHLLC”) was incorporated in December 2007, Cathay Holdings 2 LLC (“CHLLC2”) was incorporated in January 2008, and Cathay Holdings 3 LLC (“CHLLC3”) was incorporated in December 2008. They are wholly-owned subsidiaries of the Bank. The purpose of these subsidiaries is to hold other real estate owned in the state of Texas that was transferred from the Bank. As of December 31, 2015, CHLLC owned a property with a carrying value of $526,000. CHLLC2 and CHLLC3 did not own property at December 31, 2015.

Competition

We face substantial competition for deposits, loans and other banking services, as well as acquisitions, throughout our market area from the major banks and financial institutions that dominate the commercial banking industry. We also compete for loans and deposits, as well as other banking services, such as payment services, with savings and loan associations, savings banks, brokerage houses, insurance companies, mortgage companies, credit unions, credit card companies and other financial and non-financial institutions and entities.

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

To compete with other financial institutions in its primary service areas, the Bank relies principally upon local promotional activities, personal contacts by its officers, directors, employees, and stockholders, extended hours on weekdays, Saturday banking in certain locations, Internet banking, an Internet website (*www.cathaybank.com*), and certain other specialized services. The content of our website is not incorporated into and is not part of this Annual Report on Form 10-K.

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

Employees

As of December 31, 2015, the Bank and its subsidiaries employed approximately 1,122 persons, including 533 banking officers. None of the employees are represented by a union. We believe that our employer-employee relations are good.

Available Information

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

Regulation and Supervision

General

The Bancorp and the Bank are subject to significant regulation and restrictions by federal and state laws and regulatory agencies. This regulation is intended primarily for the protection of depositors and the deposit insurance fund, secondarily for the stability of the U.S. banking system, and not for the protection of stockholders. The following discussion of statutes and regulations is a summary and does not purport to be complete nor does it address all applicable statutes and regulations. This discussion is also qualified in its entirety by reference to the full text and to the implementation and enforcement of the statutes and regulations referred to in this discussion.

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

The Dodd-Frank Wall Street Reform and Consumer Protection Act

The Dodd-Frank Act financial reform legislation significantly revised and expanded the rulemaking, supervisory and enforcement authority of the federal bank regulatory agencies. The numerous rules and regulations promulgated pursuant to the Dodd-Frank Act have significantly impacted our operations and compliance costs. Various provisions of the Dodd-Frank Act are now effective and have been fully implemented, including the revisions in the deposit insurance assessment base for FDIC insurance and the permanent increase in coverage to $250,000; the permissibility of paying interest on business checking accounts; the removal of barriers to interstate branching; and required disclosure and shareholder advisory votes on executive compensation. Implementation in 2015 of additional Dodd-Frank Act regulatory provisions included aspects of (i) the final new capital rules, and (ii) the so called “Volcker Rule” restrictions on certain proprietary trading and investment activities.

Capital Adequacy Requirements

Bank holding companies and banks are subject to various regulatory capital requirements administered by state and federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations (See “Prompt Corrective Action Provisions” below), involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting, and other factors. The risk-based capital guidelines for bank holding companies and banks require capital ratios that vary based on the perceived degree of risk associated with a banking organization’s operations for both transactions reported on the balance sheet as assets, such as loans, and those recorded as off-balance sheet items, such as commitments, letters of credit and recourse arrangements. The risk-based capital ratio is determined by classifying assets and certain off-balance sheet financial instruments into weighted categories, with higher levels of capital being required for those categories perceived as representing greater risks and dividing its qualifying capital by its total risk-adjusted assets and off-balance sheet items. Bank holding companies and banks engaged in significant trading activity may also be subject to the market risk capital guidelines and be required to incorporate additional market and interest rate risk components into their risk-based capital standards. Under Basel III rules that became effective January 1, 2015 discussed under “New Capital Rules” below, there are four fundamental capital ratios: (i) a common equity Tier 1capital ratio, (ii) a total risk-based capital ratio, (iii) a Tier 1 risk-based capital ratio and (iv) a Tier 1 leverage ratio. To be deemed “well capitalized” a bank holding company or bank must have (i) a common equity Tier 1 capital ratio equal to or greater than 6.5%, (ii) a Tier 1 risk-based capital ratio equal to or greater than 8.0%, (iii) a total risk-based capital ratio equal to or greater than 10.0%, and (iv) a Tier 1 leverage capital ratio equal to or greater than 5.0%. At December 31, 2015, (i) the Bancorp’s and the Bank’s common equity Tier 1 capital ratios were 12.95% and 13.54%, respectively; (ii) their total risk-based capital ratios were, respectively, 15.30% and 14.79%; (iii) their Tier 1 risk-based capital ratios were, respectively, 14.03% and 13.54%; and (iv) their leverage capital ratios were, respectively, 11.95% and 11.53%, all of which ratios exceeded the minimum percentage requirements to be deemed “well-capitalized” for regulatory purposes. The federal banking agencies may require banks and bank holding companies subject to enforcement actions to maintain capital ratios in excess of the minimum ratios otherwise required to be deemed “well-capitalized.”

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

New Capital Rules

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

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

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

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

While the new capital rules set higher regulatory capital standards for the Bancorp and the Bank, bank regulators may also continue their past policies of expecting banks to maintain additional capital beyond the new minimum requirements. The implementation of the new capital rules or more stringent requirements to maintain higher levels of capital or to maintain higher levels of liquid assets could adversely impact the Bancorp’s net income and return on equity, restrict the ability of the Bank and/or the Bancorp to pay dividends or executive bonuses and require the raising of additional capital.

As of December 31, 2015, the Bancorp and the Bank met all applicable capital requirements under the new capital rules on a fully phased-in basis if such requirements were currently in effect.

Liquidity Requirements

In response to the endemic liquidity problems that accompanied the 2008 financial crisis and as part of the Basel III initiative, the federal regulatory agencies promulgated regulations in 2014 requiring the largest financial institutions to maintain an amount of high-quality liquid assets at least equal to those institutions’ estimated net cash outflows over a 30-day stressed liquidity period. This ratio is referred to as the “liquidity coverage ratio” or “LCR.” The LCR requirement generally applies only to banking organizations with $250 billion or more in assets (or total consolidated on-balance sheet foreign exposure of $10 billion or more), and any subsidiary depository institution of such an organization with $10 billion or more in consolidated assets. In addition, pursuant to the authority granted to federal regulators under the Dodd- Frank Act to require enhanced prudential standards from banking organizations, bank holding companies with $50 billion or more in consolidated assets are subject to specific liquidity risk management requirements and liquidity stress testing and buffer requirements. Although smaller banking organizations, such as the Bancorp, are not subject to such specific liquidity requirements, appropriate liquidity management (including liquidity stress testing) has become an increasingly important focus of prudential regulation of smaller institutions by federal and state bank regulators. This emphasis had led many financial institutions to hold a higher percentage of lower-yielding, short term assets than they may have held in past years.

Final Volcker Rule

In December 2013, the federal bank regulatory agencies adopted final rules that implement a part of the Dodd-Frank Act commonly referred to as the "Volcker Rule." Under these rules and subject to certain exceptions, banking entities, including the Company and the Bank and its subsidiaries, will be restricted from engaging in activities that are considered proprietary trading and from sponsoring or investing in certain entities, including hedge or private equity funds that are considered "covered funds." Bank holding companies and banks were generally required to conform their activities to the Volcker rule on or before July 21, 2015 although certain provisions are subject to delayed effectiveness under rules promulgated by the Federal Reserve.

Except for divesting some investments aggregating less than $5 million as of December 31, 2015, we believe that the new rules will not require any material changes in our operations or business or security holdings.

CFPB Actions

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

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

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

Enhanced Prudential Standards

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

As a bank holding company with more than $10 billion in assets, we are also required under the Dodd-Frank Act to conduct annual stress tests using various scenarios established by the Federal Reserve, including a baseline, adverse and severely adverse economic conditions (known as "Dodd Frank Act Stress Tests" or "DFAST"). The stress tests are designed to determine whether our capital planning, assessment of capital adequacy and risk management practices adequately protect the Bancorp and its affiliates in the event of an economic downturn. The Bancorp must establish adequate internal controls, documentation, policies and procedures to ensure the annual stress adequately meets these objectives. The Board of Directors must review our policies and procedures at least annually. We are required to report the results of our annual stress tests to the Federal Reserve, and we are required to consider the results of our stress tests as part of our capital planning and risk management practices.

Interchange Fees

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

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

On July 31, 2013, the U.S. District Court for the District of Columbia found the interchange fee cap and the exclusivity provision adopted by the Federal Reserve to be invalid. The U.S. Court of Appeals for the District of Columbia, or D.C. Circuit, reversed this decision on March 21, 2014, generally upholding the Federal Reserve’s interpretation of the Durbin Amendment and the Federal Reserve’s rules implementing it. On August 18, 2014, the plaintiffs in this litigation filed a petition for a writ of certiorari asking the U.S. Supreme Court to review the D.C. Circuit’s decision with respect to the interchange fee cap. The petition was denied on January 23, 2015. With the U.S. Supreme Court's denial of certiorari, the U.S. Court of Appeals decision will stand. We continue to monitor developments in the litigation surrounding these rules.

Bank Holding Company and Bank Regulation

The Bancorp is a bank holding company within the meaning of the Bank Holding Company Act and is registered as such with the Federal Reserve. The Bancorp is also a bank holding company within the meaning of Section 1280 of the California Financial Code. Therefore, the Bancorp and any of its subsidiaries are subject to examination by, and may be required to file reports with, the DBO. As a California commercial bank the deposits of which are insured by the FDIC, the Bank is subject to regulation, supervision, and regular examination by the DBO and by the FDIC, as the Bank’s primary federal regulator, and must additionally comply with certain applicable regulations of the Federal Reserve.

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

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

Requirements that bank holding companies and banks file periodic reports.

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

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

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

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

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

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

Compliance with the Community Reinvestment Act ("CRA"). The CRA requires that banks help meet the credit needs in their communities, including the availability of credit to low and moderate income individuals. If the Bank fails to adequately serve its communities, restrictions may be imposed, including denials of applications for branches, for adding subsidiaries or affiliate companies, for engaging in new activities or for the merger with or purchase of other financial institutions. In its last reported examination by the FDIC in July 2013, the Bank received a CRA rating of "Satisfactory."

Compliance with the Bank Secrecy Act, the USA Patriot Act, and other anti-money laundering laws. These laws and regulations require financial institutions to assist U.S. government agencies in detecting and preventing money laundering and other illegal acts by maintaining policies, procedures and controls designed to detect and report money laundering, terrorist financing, and other suspicious activity. Regulatory authorities routinely examine financial institutions for compliance with these obligations, and failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required. Regulatory authorities have imposed cease and desist orders and civil money penalties against institutions found to be violating these obligations.

Compliance with the regulations of the U.S. Treasury Department’s Office of Foreign Assets Control (“OFAC”). OFAC administers and enforces economic and trade sanctions against targeted foreign countries and regimes, under authority of various laws, including designated foreign countries, nationals and others. OFAC publishes lists of specially designated targets and countries. We and our bank are responsible for, among other things, blocking accounts of, and transactions with, such targets and countries, prohibiting unlicensed trade and financial transactions with them and reporting blocked transactions after their occurrence. Failure to comply with these sanctions could have serious legal and reputational consequences, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required.

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

Limitations on transactions with affiliates.

Restrictions on the nature and amount of any investments in, and the ability to underwrite, certain securities.

Requirements for opening of intra- and interstate branches.

Compliance with truth in lending and other consumer protection and disclosure laws to ensure equal access to credit and to protect consumers in credit transactions.

Compliance with provisions of the Gramm-Leach-Bliley Act of 1999 (“GLB Act”) and other federal and state laws dealing with privacy for nonpublic personal information of customers. The federal bank regulators have adopted rules limiting the ability of banks and other financial institutions to disclose non-public information about consumers to unaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to an unaffiliated third party. These regulations affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors.

Under Section 1280 *et seq*. of the California Financial Code, California-based bank holding companies and their subsidiaries are subject to examination and supervision by, and may be required to file reports with, the DBO. DBO approvals are also required for bank holding companies to acquire control of banks.

Additional Restrictions on Bancorp and Bank Activities

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

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

Regulation of the Bank

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

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

Enforcement Authority

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

Require affirmative action to correct any conditions resulting from any violation or practice;

Direct an increase in capital and the maintenance of higher specific minimum capital ratios, which may preclude the Bank from being deemed "well-capitalized" and restrict its ability to accept certain brokered deposits, among other things;

Restrict the Bank's growth geographically, by products and services, or by mergers and acquisitions;

Issue, or require the Bank to enter into, informal or formal enforcement actions, including required Board resolutions, memoranda of understanding, written agreements and consent or cease and desist orders or prompt corrective action orders to take corrective action and cease unsafe and unsound practices;

Require prior approval of senior executive officer or director changes, remove officers and directors, and assess civil monetary penalties; and

Terminate FDIC insurance, revoke the Bank's charter, take possession of, close and liquidate the Bank, or appoint the FDIC as receiver.

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

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

Deposit Insurance

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

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

Pursuant to the Dodd-Frank Act, the FDIC has established 2.0% as the designated reserve ratio (DRR), that is, the ratio of the DIF to insured deposits. The FDIC has adopted a plan under which it will meet the statutory minimum DRR of 1.35% (formerly 1.15%) by September 30, 2020, the deadline imposed by the Dodd-Frank Act. The Dodd-Frank requires the FDIC to offset the effect of the increase in the statutory minimum DRR to 1.35% on institutions with assets less than $10 billion. The FDIC has not yet announced how it will implement this offset or how larger institutions will be affected by it.

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

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

Prompt Corrective Action Provisions

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

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

Dividends

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

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

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

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

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

Operations and Consumer Compliance Laws

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

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

Federal Home Loan Bank System

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

Impact of Monetary Policies

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

Securities and Corporate Governance

The Bancorp is subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, both as administered by the SEC. As a company listed on the NASDAQ Global Select Market, the Company is subject to NASDAQ listing standards for listed companies. The Bancorp is also subject to the Sarbanes-Oxley Act of 2002, provisions of the Dodd-Frank Act, and other federal and state laws and regulations which address, among other issues, required executive certification of financial presentations, corporate governance requirements for board audit and compensation committees and their members, and disclosure of controls and procedures and internal control over financial reporting, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. NASDAQ has also adopted corporate governance rules, which are intended to allow stockholders and investors to more easily and efficiently monitor the performance of companies and their directors. Under the Sarbanes-Oxley Act, management and the Bancorp's independent registered public accounting firm are required to assess the effectiveness of the Bancorp's internal control over financial reporting as of December 31, 2015. These assessments are included in Part II — Item 9A — "Controls and Procedures."

Federal Banking Agency Compensation Guidelines

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

In addition, the Dodd-Frank Act requires the federal bank regulatory agencies and the SEC to establish joint regulations or guidelines prohibiting certain incentive-based payment arrangements. These regulators must establish regulations or guidelines requiring enhanced disclosure to regulators of incentive-based compensation arrangements. The agencies proposed such regulations in April 2011, but the regulations have not been finalized.

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

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

Audit Requirements

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

Regulation of Non-Bank Subsidiaries

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

Item 1A. Risk Factors.

Difficult business and economic conditions can adversely affect our industry and business.

Our financial performance generally, and the ability of borrowers to pay interest on and repay the principal of outstanding loans and the value of the collateral securing those loans, as well as demand for loans and other products and services we offer, is highly dependent upon the business and economic conditions in the markets in which we operate and in the United States as a whole. Although the U.S. economy has recently showed signs of improvement following a prolonged economic recession, consumer spending and gross domestic product growth have been less robust than expected. Since the recession, economic growth has been slow and uneven, business growth across a wide range of industries and regions in the United States remains reduced, local governments and many businesses continue to experience financial difficulty and there are continuing concerns related to the level of U.S. government debt and fiscal actions that may be taken to address that debt. Recovery by many businesses has been impaired by lower consumer spending. More recently, the volatility in the stock exchanges and real estate markets in the U.S. and abroad may negatively impact asset values and the profitability and liquidity of our customers, potentially increasing the risk of borrower defaults. Oil prices also have declined significantly, with the price of oil decreasing to below $30 per barrel, from a high of $110 per barrel in 2011. In addition, concerns about the performance of international economies, especially in Europe and emerging markets, and economic conditions in Asia, particularly the economies of China and Taiwan, can impact the economy and financial markets here in the United States. Concerns about the economy have also resulted in decreased lending by financial institutions to their customers and to each other. These economic pressures on consumers and businesses may continue to adversely affect our business, financial condition, results of operations and stock price. In particular, we may face the following risks in connection with these events:

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

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

We face increased regulation of our industry, including changes by Congress or federal regulatory agencies to the banking and financial institutions regulatory regime and heightened legal standards and regulatory requirements that may be adopted in the future. Compliance with such regulation may increase our costs and limit our ability to pursue business opportunities.

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

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

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

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

At December 31, 2015, our allowance for loan losses totaled $139.0 million and we had net charge-offs of $11.1 million for 2015. Although economic conditions in the real estate market in portions of Los Angeles, San Diego, Riverside, and San Bernardino counties and the Central Valley of California where many of our commercial real estate and construction loan customers are based, have improved, the economic recovery in these areas of California is uneven and in some areas rather slow, with relatively high and persistent unemployment. Moreover, rising interest rates may adversely affect real estate sales. As of December 31, 2015, we had approximately $5.7 billion in commercial real estate and construction loans. Any deterioration in the real estate market generally and in the commercial real estate and residential building segments in particular could result in additional loan charge-offs and provisions for loan losses in the future, which could have a material adverse effect on our financial condition, net income, and capital.

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

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

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

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

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

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

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

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

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

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

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

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

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

We may experience goodwill impairment.

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

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

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

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

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

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

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

We seek to minimize the adverse effects of changes in interest rates by structuring our asset-liability composition to obtain the maximum spread. We use interest rate sensitivity analysis and a simulation model to assist us in estimating the optimal asset-liability composition. However, such management tools have inherent limitations that impair their effectiveness. Moreover, the long-term effects of the Federal Reserve’s unprecedented quantitative easing and tapering of it is unknown and, while interest rates have begun to increase, they remain at historically low levels and are not expected to increase significantly in the near future. There can be no assurance that we will be successful in minimizing the adverse effects of changes in interest rates.

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

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

Our earnings, financial condition, and prospects after a merger or acquisition depend in part on our ability to successfully integrate the operations of the acquired company. We may be unable to integrate operations successfully or to achieve expected cost savings. Any cost savings which are realized may be offset by losses in revenues or other charges to earnings.

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

Inflation and deflation may adversely affect our financial performance.

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

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

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

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

Our loan portfolio is largely secured by real estate, which has adversely affected and may continue to adversely affect our results of operations.

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

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

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

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

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

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

We face substantial competition from our competitors.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

actual or anticipated quarterly fluctuations in our operating results and financial condition and prospects;

changes in revenue or earnings estimates or publication of research reports and recommendations by financial analysts;

failure to meet analysts’ revenue or earnings estimates;

speculation in the press or investment community;

strategic actions by us or our competitors, such as acquisitions or restructurings;

acquisitions of other banks or financial institutions;

actions by institutional stockholders;

fluctuations in the stock price and operating results of our competitors;

general market conditions and, in particular, developments related to market conditions for the financial services industry;

proposed or adopted regulatory changes or developments;

anticipated or pending investigations, proceedings, or litigation that involve or affect us;

successful management of reputational risk; and

domestic and international economic factors, such as interest or foreign exchange rates, stock, commodity, credit, or asset valuations or volatility, unrelated to our performance.

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

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

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

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

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

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

The restrictions described above, together with the potentially dilutive impact of the warrant initially issued to the U.S. Treasury in connection with our participation in the TARP Capital Purchase Program and subsequently sold by the U.S. Treasury in a secondary public offering, could have a negative effect on the value of our common stock.

Moreover, holders of our common stock are entitled to receive dividends only when, as and if declared by our Board of Directors. Although we have historically paid cash dividends on our common stock, we are not required to do so and our Board of Directors could reduce or eliminate our common stock dividend in the future, which could adversely affect the market price of our common stock.

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

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

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

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

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

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

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

The soundness of other financial institutions could adversely affect us.

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

Item 1B. Unresolved Staff Comments.

The Company has not received written comments regarding its periodic or current reports from the staff of the Securities and Exchange Commission that were issued not less than 180 days before the end of its 2015 fiscal year and that remain unresolved.

Item 2. Properties.

Cathay General Bancorp

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

Cathay Bank

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

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

The other branch and representative offices and other properties are leased by the Bank under leases with expiration dates ranging from April 2016 to December 2024, exclusive of renewal options. As of December 31, 2015, the Bank's investment in premises and equipment totaled $108.9 million, net of accumulated depreciation. See Note 8 and Note 14 to the Consolidated Financial Statements.

Item 3. Legal Proceedings.

The Company and its subsidiaries and their property are not currently a party or subject to any material pending legal proceeding.

Item 4. Mine Safety Disclosures.

Not Applicable.

Executive Officers of the Registrant.

The table below sets forth the names, ages, and positions at the Bancorp and the Bank of all executive officers of the Company as of February 16, 2016.

Name	Age	Present Position and Principal Occupation During the Past Five Years
Dunson K. Cheng	71	Chairman of the Board of Directors of Bancorp and the Bank since 1994; Director, President, and Chief Executive Officer of Bancorp since 1990; Director of the Bank since 1982; President of the Bank from 1985 to March 2015.
Pin Tai	62	Director and President of the Bank since April 2015; Chief Lending Officer of the Bank from 2013 to March 2015; Executive Vice President of the Bank from 2006 to 2015; Deputy Chief Lending Officer and General Manager of Eastern Regions of the Bank from 2010 to 2013; General Manager of Eastern Regions of the Bank from 2006 to 2009.
Irwin Wong	67	Chief Operating Officer of the Bank since April 2015; Senior Executive Vice President since 2014, Chief Retail Administration and Regulatory Affairs Officer of the Bank from January 2014 to March 2015; Executive Vice President and Chief Risk Officer of the Bank from 2011 to 2013; Executive Vice President-Branch Administration of the Bank from 1999 to 2011.
Heng W. Chen	63	Executive Vice President, Chief Financial Officer, and Treasurer of Bancorp since 2003; Executive Vice President of the Bank since 2003; Chief Financial Officer of the Bank since 2004.
Donald S. Chow	65	Executive Vice President and Chief Credit Officer of the Bank since 2014; Consultant of the Office of the President from August to December 2013; Executive Vice President and Senior Credit Supervisor of East West Bank from 2009 to 2013; and President of Desert Community Bank, a division of East West Bank, from 2007 to 2009.
Kim R. Bingham	59	Chief Risk Officer of the Bank since 2014; Executive Vice President of the Bank since 2004; Chief Credit Officer of the Bank from 2004 to 2013.

PART II

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

Market Information

Our common stock is listed on the NASDAQ Global Select Market under the symbol "CATY." The closing price of our common stock on February 16, 2016, was $27.51 per share, as reported by the NASDAQ Global elect Market.

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

	2015		2014	
	High	Low	High	Low
First quarter	$28.45	$23.07	$26.37	$22.76
Second quarter	33.37	28.32	26.47	23.10
Third quarter	34.14	27.73	26.81	24.81
Fourth quarter	34.52	29.36	27.02	24.04

Holders

As of February 16, 2016, there were approximately 1,534 holders of record of our common stock.

Dividends

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

	Year Ended December 31,	
	2015	**2014**
First quarter	$0.10	$0.05
Second quarter	0.14	0.07
Third quarter	0.14	0.07
Fourth quarter	0.18	0.10
Total	$0.56	$0.29

For information concerning restrictions on the payment of dividends, see Part II — Item 7 — "Management's Discussion and Analysis of Financial Condition and Results of Operations — Capital Resources — Dividend Policy," and Note 13 to the Consolidated Financial Statements.

Performance Graph

The graph and accompanying information furnished below shows the cumulative total stockholder return over the past five years assuming the investment of $100 on December 31, 2010 (and the reinvestment of dividends thereafter) in each of our common stock, the SNL Western Bank Index and the S&P 500 Index. The SNL Western Bank Index is a market-weighted index comprised of publicly traded banks and bank holding companies (including the Company) most of which are based in California and the remainder of which are based in eight other western states, including Oregon, Washington, and Nevada. We will furnish, without charge, on the written request of any person who is a stockholder of record as of the record date for the 2016 annual meeting of stockholders, a list of the companies included in the SNL Western Bank Index. Requests for this information should be addressed to Lisa L. Kim, Secretary, Cathay General Bancorp, 777 North Broadway, Los Angeles, California 90012.

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

	Period Ending					
Index	**12/31/10**	**12/31/11**	**12/31/12**	**12/31/13**	**12/31/14**	**12/31/15**
Cathay General Bancorp	100.00	89.64	117.54	161.40	156.31	194.93
SNL Western Bank	100.00	90.34	114.01	160.41	192.51	199.46
S&P 500	100.00	102.11	118.45	156.82	178.28	180.75

Source: SNL Financial LC, Charlottesville, VA © 2015

Unregistered Sales of Equity Securities

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

Issuer Purchases of Equity Securities

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

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

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

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

Issuer Purchases of Equity Securities

Period	**(a) Total Number of Shares (or Units) Purchased**	**(b) Average Price Paid per Share (or Unit)**	**(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs**	**(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs**
(October 1, 2015 - October 31, 2015)	-	-	-	915,250
(November 1, 2015 - November 30, 2015)	-	-	-	915,250
(December 1, 2015 - December 31, 2015)	282,000	$ 30.89	282,000	633,250
Total	282,000	$ 30.89	282,000	633,250

Item 6. Selected Financial Data.

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

Selected Consolidated Financial Data

	Year Ended December 31,				
	2015	2014	2013	2012	2011
	(Dollars in thousands, except share and per share data)				
Income Statement					
Interest income	$453,706	$418,647	$406,996	$429,744	$453,571
Interest expense	73,964	75,866	82,300	108,491	139,881
Net interest income before provision for credit losses	379,742	342,781	324,696	321,253	313,690
(Reversal)/Provision for credit losses	(11,400)	(10,800)	(3,000)	(9,000)	27,000
Net interest income after provision for credit losses	391,142	353,581	327,696	330,253	286,690
Securities (losses)/gains	(3,349)	6,748	27,362	18,026	21,131
Other non-interest income	36,023	33,779	32,945	28,481	29,761
Non-interest expense	202,720	174,313	193,833	192,589	185,566
Income before income tax expense	221,096	219,795	194,170	184,171	152,016
Income tax expense	59,987	81,965	70,435	66,128	51,261
Net income	161,109	137,830	123,735	118,043	100,755
Less: net income attributable to noncontrolling interest	-	-	592	605	605
Net income attributable to Cathay General Bancorp	161,109	137,830	123,143	117,438	100,150
Dividends on preferred stock	-	-	(9,685)	(16,488)	(16,437)
Net income attributable to common stockholders	$161,109	$137,830	$113,458	$100,950	$83,713
Net income attributable to common stockholders per common share					
Basic	$2.00	$1.73	$1.44	$1.28	$1.06
Diluted	$1.98	$1.72	$1.43	$1.28	$1.06
Cash dividends paid per common share	$0.56	$0.29	$0.08	$0.04	$0.04
Weighted-average common shares					
Basic	80,563,577	79,661,571	78,954,898	78,719,133	78,633,317
Diluted	81,294,796	80,106,895	79,137,983	78,723,297	78,640,652
Statement of Condition					
Investment securities	$1,586,352	$1,318,935	$1,586,668	$2,065,248	$2,447,982
Net loans (1)	10,016,227	8,740,268	7,897,187	7,235,587	6,844,483
Loans held for sale	6,676	973	-	-	760
Total assets	13,254,126	11,516,846	10,989,286	10,694,089	10,644,864
Deposits	10,509,087	8,783,460	7,981,305	7,383,225	7,229,131
Federal funds purchased and securities sold under agreements to repurchase	400,000	450,000	800,000	1,250,000	1,400,000
	275,000	425,000	521,200	146,200	225,000

Advances from the Federal Home Loan Bank					
Long-term debt	119,136	119,136	121,136	171,136	171,136
Total equity	1,747,778	1,602,888	1,458,971	1,629,504	1,515,633
Common Stock Data					
Shares of common stock outstanding	80,806,116	79,814,553	79,589,869	78,778,288	78,652,557
Book value per common share	$21.46	$20.00	$18.24	$17.12	$15.75
Profitability Ratios					
Return on average assets	1.34 %	1.26 %	1.17 %	1.11 %	0.94 %
Return on average stockholders' equity	9.52	8.95	8.00	7.48	6.78
Dividend payout ratio	28.11	16.76	5.15	2.68	3.14
Average equity to average assets ratio	14.04	14.04	14.73	14.87	13.98
Efficiency ratio	49.15	45.48	50.35	52.37	50.90

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

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

General

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

The Bank offers a wide range of financial services. It currently operates 21 branches in Southern California, 12 branches in Northern California, 12 branches in New York State, one branch in Massachusetts, two branches in Texas, three branches in Washington State, three branches in Illinois, one branch in New Jersey, one branch in Maryland, one branch in Nevada, one branch in Hong Kong and two representative offices (one in Shanghai, China, and one in Taipei, Taiwan). The Bank is a commercial bank, servicing primarily individuals, professionals, and small to medium-sized businesses in the local markets in which its branches are located.

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

Critical Accounting Policies

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

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

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

Allowance for Credit Losses

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

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

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

Investment Securities

The classification and accounting for investment securities are discussed in detail in Note 1 to the Consolidated Financial Statements. Under ASC Topic 320, “*Accounting for Certain Investments in Debt and Equity Securities,”* investment securities must be classified as held-to-maturity, available-for-sale, or trading. The appropriate classification is based partially on our ability to hold the securities to maturity and largely on management's intentions with respect to either holding or selling the securities. The classification of investment securities is significant since it directly impacts the accounting for unrealized gains and losses on securities. Unrealized gains and losses on trading securities flow directly through earnings during the periods in which they arise, whereas available-for-sale securities are recorded as a separate component of stockholders' equity (accumulated other comprehensive income or loss) and do not affect earnings until realized. The fair values of our investment securities are generally determined by reference to quoted market prices and reliable independent sources. We are obligated to assess, at each reporting date, whether there is an "other-than-temporary" impairment to our investment securities. ASC Topic 320 requires us to assess whether we have the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. Other-than-temporary impairment related to credit losses will be recognized in earnings. Other-than-temporary impairment related to all other factors will be recognized in other comprehensive income.

Income Taxes

The provision for income taxes is based on income reported for financial statement purposes, and differs from the amount of taxes currently payable, since certain income and expense items are reported for financial statement purposes in different periods than those for tax reporting purposes. Taxes are discussed in more detail in Note 12 to the Consolidated Financial Statements. Accrued taxes represent the net estimated amount due or to be received from taxing authorities. In estimating accrued taxes, we assess the relative merits and risks of the appropriate tax treatment of transactions taking into account statutory, judicial, and regulatory guidance in the context of our tax position.

We account for income taxes using the asset and liability approach, the objective of which is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the tax basis of our assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled. A valuation allowance is established for deferred tax assets if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Goodwill and Goodwill Impairment

Goodwill represents the excess of costs over fair value of assets of businesses acquired. ASC Topic 805, "*Business Combinations (Revised 2007),"* requires an entity to recognize the assets, liabilities, and any non-controlling interest at fair value as of the acquisition date. Contingent consideration is required to be recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of that consideration may be determinable beyond a reasonable doubt. ASC Topic 805 also requires an entity to expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed. Contingent considerations are to be recognized at fair value on the acquisition date in a business combination and would be subject to the probable and estimable recognition criteria of ASC Topic 450, "*Accounting for Contingencies*." Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead are tested for impairment at least annually in accordance with the provisions of ASC Topic 350. ASC Topic 350 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with ASC Topic 360, "*Accounting for Impairment or Disposal of Long-Lived Assets."*

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

The Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in ASC Topic 350. The two-step impairment testing process conducted by us, if needed, begins by assigning net assets and goodwill to our reporting units. We then complete "step one" of the impairment test by comparing the fair value of each reporting unit (as determined in Note 1 to the Consolidated Financial Statements) with the recorded book value (or "carrying amount") of its net assets, with goodwill included in the computation of the carrying amount. If the fair value of a reporting unit exceeds its carrying amount, goodwill of that reporting unit is not considered impaired, and "step two" of the impairment test is not necessary. If the carrying amount of a reporting unit exceeds its fair value, step two of the impairment test is performed to determine the amount of impairment. Step two of the impairment test compares the carrying amount of the reporting unit's goodwill to the "implied fair value" of that goodwill. The implied fair value of goodwill is computed by assuming all assets and liabilities of the reporting unit would be adjusted to the current fair value, with the offset as an adjustment to goodwill. This adjusted goodwill balance is the implied fair value used in step two. An impairment charge is recognized for the amount by which the carrying amount of goodwill exceeds its implied fair value.

Valuation of Other Real Estate Owned (OREO)

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

Results of Operations

Overview

For the year ended December 31, 2015, we reported net income attributable to common stockholders of $161.1 million, or $1.98 per diluted share, compared to net income attributable to common stockholders of $137.8 million, or $1.72 per share, in 2014, and net income attributable to common stockholders of $113.5 million, or $1.43 per share, in 2013. The $23.3 million increase in net income from 2014 to 2015 was primarily the result of increases in net interest income, and decreases in costs associated with debt redemption, partially offset by decreases in securities gains, increases in operation expenses from amortization of investments in affordable housing and alternative energy partnerships and in occupancy expenses and professional expenses. The return on average assets in 2015 was 1.34%, compared to 1.26% in 2014, and to 1.17% in 2013. The return on average stockholders' equity was 9.52% in 2015, compared to 8.95% in 2014, and to 8.00% in 2013.

Highlights

Diluted earnings per share increased 15.1% to $1.98 per share for the year ended December 31, 2015 compared to $1.72 per share for the year ended December 31, 2014.

Total loans increased $1.2 billion, or 14.0%, excluding loans held for sale, during 2015, to $10.2 billion at December 31, 2015, compared to $8.9 billion at December 31, 2014.

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

	2015		**2014**		**2013**	
	(Dollars in thousands, except per share data)					
Net income	$161,109		$137,830		$123,143	
Dividends on preferred stock	-		-		(9,685	)
Net income available to common stockholders	$161,109		$137,830		$113,458	
Basic earnings per common share	$2.00		$1.73		$1.44	
Diluted earnings per common share	$1.98		$1.72		$1.43	
Return on average assets	1.34	%	1.26	%	1.17	%
Return on average stockholders' equity	9.52	%	8.95	%	8.00	%
Total average assets	$12,056,531		$10,974,890		$10,506,842	
Total average equity	$1,692,826		$1,540,564		$1,548,179	
Efficiency ratio	49.15	%	45.48	%	50.35	%
Effective income tax rate	27.13	%	37.29	%	36.39	%

Net Interest Income

Net interest income increased $36.9 million, or 10.8%, from $342.8 million in 2014 to $379.7 million in 2015. The increase in net interest income was due primarily to the increase in loan interest income and the decrease in interest expense from securities sold under agreements to repurchase, offset by the decrease in interest income from available-for-sale securities and increases in interest expense from time deposits.

Average loans for 2015 were $9.59 billion, a $1.06 billion, or a 12.4%, increase from $8.53 billion in 2014. Compared with 2014, average commercial mortgage loans increased $658.1 million, or 15.4%, average residential mortgage loans increased $247.3 million, or 15.1%, average real estate construction loans increased $97.4 million, or 35.8% and average commercial loans increased $67.2 million, or 2.9%. Average investment securities were $1.38 billion in 2015, a decrease of $38.4 million, or 2.7%, from 2014, due primarily to decreases in U.S. Treasury securities of $153.4 million and in corporate debt securities of $42.6 million, offset by increases in agency mortgage-backed securities of $125.1 million and increases in U.S. government sponsored agency securities of $31.3 million.

Average interest bearing deposits were $7.80 billion in 2015, an increase of $884.0 million, or 12.8%, from $6.92 billion in 2014, primarily due to increases of $416.1 million, or 9.8%, in time deposits, $270.0 million, or 19.2%, in money market deposits, $139.1 million, or 19.3%, in interest bearing demand deposits, and $58.8 million, or 11.1%, in saving deposits. Average securities sold under agreements to repurchase decreased $228.5 million, or 36.3%, to $400.8 million in 2015 from $629.3 million in 2014, primarily due to maturities and prepayments of securities sold under agreements to repurchase. Average other borrowings decreased $40.8 million, or 27.9%, to $105.4 million in 2015 from $146.1 million in 2014, primarily due to decreases in FHLB advances.

Interest income increased $35.1 million, or 8.4%, from $418.6 million in 2014 to $453.7 million in 2015 primarily due to increases in the volume of loans offset by a decline in rate of loans and investment securities and by a change in the mix of interest-earning assets as discussed below:

Changes in volume: Average interest-earning assets increased $965.6 million, or 9.4%, to $11.19 billion in 2015, compared with the average interest-earning assets of $10.22 billion in 2014. The increase in average loans of $1.06 billion in 2015 offset by a decrease in average investment securities of $38.4 million and in average interest bearing cash on deposits with financial institutions of $49.3 million contributed to the increase in interest income. The increase of $45.8 million in interest income due to volume were resulted primarily from a $47.5 million increase in interest income from the loan volume increase offset by a $1.7 million decrease in interest income caused by the decrease in the volume of investment securities, FHLB stock, and deposits with other banks.

Decrease in rate: The average yield of interest bearing assets decreased to 4.06% in 2015 from 4.10% in 2014. The rate on taxable investment securities decreased 15 basis points to 1.56% in 2015 from 1.71% in 2014. The decrease in taxable investment securities yields caused a $2.1 million decline in interest income. The rate on loans decreased 12 basis points to 4.46% in 2015 from 4.58% in 2014. The decrease in loan yield caused a $10.3 million decline in interest income.

Change in the mix of interest-earning assets: Average gross loans, which generally have a higher yield than other types of investments, comprised 85.8% of total average interest-earning assets in 2015, an increase from 83.5% in 2014. Average investment securities comprised 12.3% of total average interest-bearing assets in 2015, a decrease from 13.9% in 2014.

Interest expense decreased by $1.9 million, or 2.5%, to $74.0 million in 2015, compared with $75.9 million in 2014, primarily due to decreased cost from securities sold under agreements to repurchase offset by increased cost from time deposits, long-term debt and money market deposits. The overall decrease in interest expense was primarily due to decreases in volume on securities sold under agreements to repurchase offset by increases in volume on interest bearing deposits and by increases in rate on long-term debt and time deposits as discussed below:

Changes in volume: Average securities sold under agreements to repurchase decreased $228.5 million, or 36.3%, in 2015 and contributed to a $9.0 million decrease in interest expense. Average time deposits increased $416.1 million, or 9.8%, and average money market deposits increased $270.0 million, or 19.2%, causing interest expense to increase by $5.1 million. The changes in volume contributed to a decrease in interest expense of $3.8 million

Increase in rate: The average cost of interest bearing deposits increased to 0.67% in 2015 from 0.66% in 2014. The average cost of securities sold under agreements to repurchase increased to 3.95% in 2015 from 3.92% in 2014. The average cost of long-term debt increased to 4.85% in 2015 from 3.73% in 2014 primarily due to the full year impact of cash flow interest rate swaps entered into during June 2014. The increases in rate caused interest expense to increase by $1.9 million.

Change in the mix of interest-bearing liabilities: Average interest bearing deposits of $7.80 billion increased to 92.6% of total interest-bearing liabilities in 2015 compared to 88.5% in 2014. Offsetting the increase, average securities sold under agreements to repurchase decreased to 4.8% of total interest-bearing liabilities in 2015 compared to 8.1% in 2014.

Net interest margin, defined as net interest income to average interest-earning assets, increased to 3.39% in 2015 from 3.35% in 2014. The increase in the net interest margin was primarily due to the impact from the increase in loans and the decrease in securities sold under agreements to repurchase offset by the increase in time deposits and money market deposits.

Net interest income increased $18.1 million, or 5.6%, from $324.7 million in 2013 to $342.8 million in 2014. Interest income on tax-exempt securities was zero in 2014 compared to $1.0 million, or $1.5 million on a tax-equivalent basis, in 2013. The increase in net interest income was due primarily to the increase in loan interest income and the decrease in interest expense from securities sold under agreements to repurchase, offset by the decrease in interest income from available-for-sale securities.

Average loans for 2014 were $8.53 billion, a $901.7 million, or 11.8%, increase from $7.63 billion in 2013. Compared with 2013, average commercial mortgage loans increased $411.4 million, or 10.6%, average residential mortgage loans increased $222.8 million, or 15.7%, average commercial loans increased $173.8 million, or 8.1%, and average real estate construction loans increased $95.4 million, or 53.9%. Average investment securities were $1.42 billion in 2014, a decrease of $515.6 million, or 26.7%, from 2013, due primarily to decreases in agency mortgage-backed securities of $483.4 million, or 38.6%.

Average interest bearing deposits were $6.92 billion in 2014, an increase of $586.1 million, or 9.3%, from $6.33 billion in 2013, primarily due to increases of $264.2 million, or 6.6%, in time deposits, $191.7 million, or 15.8%, in money market deposits, $86.9 million, or 13.7%, in interest bearing demand deposits, and $43.3 million, or 8.9%, in savings deposits. Average securities sold under agreements to repurchase decreased $343.0 million, or 35.3%, to $629.3 million in 2014 from $972.3 million in 2013, primarily due to maturities and prepayments of securities sold under agreements to repurchase in 2014. Average other borrowings increased $73.4 million, or 101%, to $146.1 million in 2014 from $72.7 million in 2013, primarily due to increases in FHLB advances. Average long term debt decreased $49.7 million, or 29.3%, to $119.8 million in 2014 from $169.5 million in 2013.

Taxable-equivalent interest income increased $11.1 million, or 2.7%, to $418.6 million in 2014 from $407.5 million in 2013, primarily due to increases in volume of loans offset by a decline in volume of investment securities and by a change in the mix of interest-earning assets as discussed below:

Changes in volume: Average interest-earning assets increased $439.5 million, or 4.5%, to $10.22 billion in 2014, compared with average interest-earning assets of $9.78 billion in 2013. The increase in average loans of $901.7 million in 2014 offset by a decrease in average investment securities of $515.6 million primarily contributed to the increase in interest income. The increase of $30.5 million in interest income due to volume primarily resulted from a $41.5 million increase in interest income from the loan volume increase offset by a $9.7 million decrease in interest income caused by the decrease in investment securities volume.

Decrease in rate: The average yield of interest bearing assets decreased 7 basis points to 4.10% in 2014 from 4.17% in 2013. The rate on taxable investment securities decreased 57 basis points to 1.71% in 2014 from 2.28% in 2013. The decrease in taxable investment securities yields caused a $9.5 million decline in interest income. The rate on loans decreased 14 basis points to 4.58% in 2014 from 4.72% in 2013. The decrease in loan yield caused a $11.0 million decline in interest income.

Change in the mix of interest-earning assets: Average gross loans, which generally have a higher yield than other types of investments, comprised 83.5% of total average interest-earning assets in 2014, an increase from 78.1% in 2013. Average investment securities comprised 13.9% of total average interest-bearing assets in 2014, a decrease from 19.8% in 2013.

Interest expense decreased by $6.4 million, or 7.8%, to $75.9 million in 2014, compared with $82.3 million in 2013, primarily due to decreased cost from securities sold under agreements to repurchase offset by increased cost from time deposits and money market deposits. The overall decrease in interest expense was primarily due to decreases in volume on securities sold under agreements to repurchase offset by increases on rate and volume on interest bearing deposits as discussed below:

Changes in volume: Average securities sold under agreements to repurchase decreased $343.0 million, or 35.3%, in 2014 and contributed to a $13.5 million decrease in interest expense. Average time deposits increased $264.2 million, or 6.6%, and average money market deposits increased $191.7 million, or 15.8%, causing interest expense to increase by $3.3 million. The changes in volume contributed to decreases in interest expense of $10.8 million.

Increase in rate: The average cost of interest bearing deposits increased to 0.66% in 2014 from 0.64% in 2013. The average cost of securities sold under agreements to repurchase increased to 3.92% in 2014 from 3.88% in 2013. The average cost of long-term debt increased to 3.73% in 2014 from 2.18% in 2013. The increase in rate caused interest expense to increase by $4.3 million.

Change in the mix of interest-bearing liabilities: Average interest bearing deposits of $6.92 billion increased to 88.5% of total interest-bearing liabilities in 2014 compared to 83.9% in 2013. Offsetting the increase, average securities sold under agreements to repurchase decreased to 8.1% of total interest-bearing liabilities in 2014 compared to 12.9% in 2013.

Our taxable-equivalent net interest margin, defined as taxable-equivalent net interest income to average interest-earning assets, increased to 3.35% in 2014 from 3.33% in 2013. The increase in the net interest margin was due to the impact from increases in loans and decreases in securities sold under agreements to repurchase offset by decreases in investment securities.

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

Interest-Earning Assets and Interest-Bearing Liabilities

	2015 Average Balance	**Interest Income/ Expense (4)**	**Average Yield/ Rate (1)(2)**	**2014 Average Balance**	**Interest Income/ Expense (4)**	**Average Yield/ Rate (1)(2)**	**2013 Average Balance**	**Interest Income/ Expense (4)**	**Average Yield/ Rate (1)(2)**
	(Dollars in thousands)								
Interest-Earning Assets:									
Commercial loans	$2,389,776	$90,980	3.81 %	$2,322,563	$89,994	3.87%	$2,148,763	$84,680	3.94%
Residential mortgages	1,890,558	85,537	4.52	1,643,239	77,231	4.70	1,420,434	66,229	4.66
Commercial mortgages	4,938,397	229,292	4.64	4,280,255	207,235	4.84	3,868,837	198,904	5.14
Real estate construction loans	369,928	21,717	5.87	272,479	15,889	5.83	177,093	10,010	5.65
Other loans	4,789	95	1.98	13,712	91	0.66	15,403	136	0.88
Loans (1)	9,593,448	427,621	4.46	8,532,248	390,440	4.58	7,630,530	359,959	4.72
Taxable securities	1,378,641	21,523	1.56	1,417,007	24,237	1.71	1,903,541	43,412	2.28
Tax-exempt securities (3)	-	-	-	-	-	-	29,076	1,531	5.27
FHLB stock	21,480	3,164	14.73	29,487	1,974	6.69	33,446	1,480	4.43
Interest-bearing deposits	192,763	1,398	0.73	242,037	1,996	0.82	184,654	1,150	0.62
Total interest-earning assets	$11,186,332	$453,706	4.06	$10,220,779	$418,647	4.10	$9,781,247	$407,532	4.17
Non-interest Earning Assets:									
Cash and due from banks	213,882			177,129			149,196		
Other non-earning assets	822,326			762,535			769,388		
Total non-interest earning assets	1,036,208			939,664			918,584		

Less:									
Allowance for loan losses	(155,683)			(172,377)			(181,272)		
Deferred loan fees	(10,326)			(13,176)			(11,717)		
Total Assets	$12,056,531			$10,974,890			$10,506,842		
Interest-Bearing Liabilities:									
Interest-bearing demand deposits	$860,513	$1,406	0.16	$721,435	$1,229	0.17	$634,506	$1,017	0.16
Money market deposits	1,677,065	10,138	0.60	1,407,053	8,627	0.61	1,215,347	7,034	0.58
Savings deposits	590,987	901	0.15	532,184	802	0.15	488,932	374	0.08
Time deposits	4,673,862	39,443	0.84	4,257,736	35,111	0.82	3,993,508	31,964	0.80
Total interest-bearing deposits	7,802,427	51,888	0.67	6,918,408	45,769	0.66	6,332,293	40,389	0.64
Securities sold under agreements to repurchase	400,822	15,813	3.95	629,315	24,685	3.92	972,329	37,692	3.88
FHLB advances and other borrowings	105,367	487	0.46	146,120	945	0.65	72,687	528	0.73
Long-term debt	119,136	5,776	4.85	119,785	4,467	3.73	169,492	3,691	2.18
Total interest-bearing liabilities	8,427,752	73,964	0.88	7,813,628	75,866	0.97	7,546,801	82,300	1.09
Non-interest Bearing Liabilities:									
Demand deposits	1,781,981			1,535,461			1,325,781		
Other liabilities	153,972			85,237			86,081		
Stockholders' equity	1,692,826			1,540,564			1,548,179		
Total liabilities and stockholders' equity	$12,056,531			$10,974,890			$10,506,842		
Net interest spread (4)			3.18 %			3.13%			3.08%
Net interest income (4)		$379,742			$342,781			$325,232	
Net interest margin (4)			3.39 %			3.35%			3.33%

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

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

	2015 - 2014 Increase/(Decrease) in Net Interest Income Due to:			2014 - 2013 Increase/(Decrease) in Net Interest Income Due to:		
	Change in Volume	Change in Rate	Total Change	Change in Volume	Change in Rate	Total Change
	(In thousands)					
Interest-Earning Assets						
Deposits with other banks	$(376)	$(222)	$(598)	$414	$432	$846
Taxable securities	(643)	(2,071)	(2,714)	(9,694)	(9,481)	(19,175)
Tax-exempt securities (2)	-	-	-	(1,531)	-	(1,531)
FHLB stock	(655)	1,845	1,190	(192)	686	494
Loans	47,519	(10,338)	37,181	41,521	(11,040)	30,481
Total increase/(decrease) in interest income	45,845	(10,786)	35,059	30,518	(19,403)	11,115
Interest-Bearing Liabilities						
Interest-bearing demand deposits	229	(52)	177	145	67	212
Money market deposits	1,634	(123)	1,511	1,157	436	1,593
Savings deposits	90	9	99	36	392	428
Time deposits	3,496	836	4,332	2,159	988	3,147
Securities sold under agreements to repurchase	(9,014)	142	(8,872)	(13,450)	443	(13,007)
FHLB advances and other borrowings	(226)	(232)	(458)	481	(64)	417
Long-term debt	(24)	1,333	1,309	(1,307)	2,083	776
Total decrease/(increase) in interest expense	(3,815)	1,913	(1,902)	(10,779)	4,345	(6,434)
Change in net interest income	$49,660	$(12,699)	$36,961	$41,297	$(23,748)	$17,549

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

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

Provision for Credit Losses

The provision for credit losses represents the charge against current earnings that is determined by management, through a credit review process, as the amount needed to maintain an allowance for loan losses and an allowance for off-balance sheet unfunded credit commitments that management believes to be sufficient to absorb credit losses inherent in the Bank’s loan portfolio and credit commitments. The Bank recorded a negative $11.4 million provision for credit losses in 2015 compared with a negative $10.8 million in 2014, and a negative $3.0 million in 2013. Net charge-offs for 2015 were $11.1 million, or 0.12% of average loans, compared to net charge-offs for 2014 of $1.3 million, or 0.02% of average loans, and net charge-offs for 2013 of $6.4 million, or 0.08% of average loans.

Non-interest Income

Non-interest income decreased $7.8 million, or 19.4%, to $32.7 million for 2015, from $40.5 million for 2014, compared to $60.3 million for 2013. Non-interest income includes depository service fees, letters of credit commissions, securities gains (losses), gains (losses) from loan sales, gains from sale of premises and equipment, and other sources of fee income. These other fee-based services include wire transfer fees, safe deposit fees, fees on loan-related activities, fee income from our Wealth Management division, and foreign exchange fees.

The decrease in non-interest income from 2014 to 2015 was primarily due to a $10.1 million decrease in securities gains and a $1.1 million decrease in wealth management commissions offset by increases in venture capital gains of $1.9 million and in other fees and commissions of $1.6 million. We sold securities of $1.03 billion in 2015 compared to $859.0 million in 2014. In 2015, gains of $2.4 million and losses of $1.9 million were realized on sales of investment securities compared with gains of $18.0 million and losses of $10.5 million realized in 2014. Other-than-temporary write-downs on agency preferred stock were $3.9 million in 2015 compared to $0.8 million in 2014.

The decrease in non-interest income from 2013 to 2014 was primarily due to a $20.6 million decrease in securities gains offset by a $1.4 million increase in wealth management commissions. We sold securities of $859.0 million in 2014 compared to $1.0 billion in 2013. In 2014, gains of $18.0 million and losses of $10.5 million were realized on sales of investment securities compared with gains of $29.0 million and losses of $1.6 million realized in 2013.

Non-interest Expense

Non-interest expense includes expenses related to salaries and benefits of employees, occupancy expenses, marketing expenses, computer and equipment expenses, amortization of core deposit intangibles, and other operating expenses. Non-interest expense totaled $202.7 million in 2015 compared to $174.3 million in 2014. The increase of $28.4 million, or 16.3%, in non-interest expense in 2015 compared to 2014 was primarily due to a combination of the following:

Amortization of investments in affordable housing and alternative energy partnerships increased $26.3 million to $33.3 million in 2015 from $7.0 million in 2014 primarily due to the investment in an alternative energy partnership in 2015.

Occupancy expenses increased $1.3 million, or 8.2%, due primarily to increases in higher rental expenses resulting from the acquisition of Asia Bank and from new branches.

Professional service expenses increased $2.4 million primarily due to increases in data processing expenses and expenses related to the conversion of Asia Bank customers to our data processing systems.

Marketing expenses increased $0.8 million primarily due to increases in media and promotion expenses.

OREO expenses increased $0.5 million primarily due to decreases in gains on sale and transfer of OREO offset by decreases in the provision for OREO losses and expenses.

Offsetting the above increases were a decrease of $3.3 million in costs associated with debt redemptions during 2014 for prepayment penalties on securities sold under agreements to repurchase.

The efficiency ratio, defined as non-interest expense divided by the sum of net interest income before provision for loan losses plus non-interest income, increased to 49.15% in 2015 compared to 45.48% in 2014 due primarily to higher non-interest expense as explained above.

Non-interest expense totaled $174.3 million in 2014 compared to $193.8 million in 2013. The decrease of $19.5 million, or 10.1%, in non-interest expense in 2014 compared to 2013 was primarily due to a combination of the following:

Costs associated with debt redemptions due to prepayment penalties on securities sold under agreements to repurchase and Federal Home Loan Bank advances decreased $19.2 million, or 85%, to $3.3 million in 2014 from $22.6 million in 2013.

Amortization of core deposit intangibles decreased $3.8 million, or 84%, to $719,000 in 2014 from $4.5 million in 2013 as a result of the full amortization of the core deposit premium from the General Bank acquisition.

Professional service expense decreased $1.9 million, or 7.9%, due primarily to the decreases in legal collection expense and consulting expense.

OREO expense decreased $1.1 million primarily due to gains on sale of OREO in 2014.

Offsetting the above decreases were a $1.6 million increase in salaries and employee benefits, a $1.5 million increase in litigation expense, and a $1.4 million increase in FDIC and state assessments.

The efficiency ratio, defined as non-interest expense divided by the sum of net interest income before provision for loan losses plus non-interest income, decreased to 45.48% in 2014 compared to 50.35% in 2013 due primarily to lower non-interest expense as explained above.

Income Tax Expense

Income tax expense was $60.0 million in 2015, compared to $82.0 million in 2014, and $70.4 million in 2013. The effective tax rate was 27.1% for 2015, 37.3% for 2014, and 36.4% for 2013. The effective tax rate differed from the composite statutory composite rate of 42% primarily as a result of alternative energy tax credits, low income housing and other tax credits totaling $31.0 million recognized in 2015, $10.2 million recognized in 2014, and $10.1 million recognized in 2013.

Our tax returns are open for audits by the Internal Revenue Service back to 2012 and by the California Franchise Tax Board back to 2008. The Company is under audit by the California Franchise Tax Board for the years 2008 to 2011. From time to time, there may be differences of opinion with respect to the tax treatment accorded transactions. When, and if, such differences occur and the related tax effects become probable and estimable, such amounts will be recognized.

Financial Condition

Total assets were $13.3 billion at December 31, 2015, an increase of $1.8 billion, or 15.1%, from $11.5 billion at December 31, 2014, primarily due to an increase of $1.2 billion in gross loans, excluding loans held for sale, and an increase of $267.4 million in investment securities.

Investment Securities

Investment securities were $1.6 billion and represented 12.0% of total assets at December 31, 2015, compared with $1.3 billion and 11.5% of total assets at December 31, 2014. The following table summarizes the carrying value of our portfolio of securities for each of the past two years:

	As of December 31,	
	2015	**2014**
	(In thousands)	
Securities Available-for-Sale:		
U.S. treasury securities	$284,288	$664,004
U.S. government sponsored entities	148,160	-
Mortgage-backed securities	1,062,269	544,303
Collateralized mortgage obligations	36	45
Corporate debt securities	73,855	94,472
Mutual funds	5,833	5,866
Preferred stock of government sponsored entities	3,216	3,224
Other equity securities	8,695	7,021
Total securities available-for-sale	$1,586,352	$1,318,935

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

The temporarily impaired securities represent 92.0% of the fair value of investment securities as of December 31, 2015. Unrealized losses for securities with unrealized losses for less than twelve months represent 1.0%, and securities with unrealized losses for twelve months or more represent 3.3%, of the historical cost of these securities. Unrealized losses on these securities generally resulted from increases in interest rates or spreads subsequent to the date that these securities were purchased. At December 31, 2015, seven issues of securities had unrealized losses for 12 months or longer and 47 issues of securities had unrealized losses of less than 12 months.

Total unrealized losses of $15.9 million at December 31, 2015, were primarily caused by increases in interest rates subsequent to the date that these securities were purchased or caused by the widening of credit and liquidity spreads since the dates of acquisition. The contractual terms of those investments do not permit the issuers to settle the security at a price less than the amortized cost of the investment.

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

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

	As of December 31, 2015								
	Temporarily Impaired Securities								
	Less than 12 months			**12 months or longer**			**Total**		
	Fair Value	**Unrealized Losses**	**No. of Issuances**	**Fair Value**	**Unrealized Losses**	**No. of Issuances**	**Fair Value**	**Unrealized Losses**	**No. of Issuances**
	(Dollars in thousands)								
Securities Available-for-Sale									
U.S. treasury securities	$224,289	$395	5	$-	$-	-	$224,289	$395	5
U.S. government sponsored entities	148,160	1,840	3	-	-	-	$148,160	$1,840	3
Mortgage-backed securities	1,025,342	11,398	35	6	1	2	1,025,348	11,399	37
Collateralized mortgage obligations	-	-	-	36	27	1	36	27	1
Corporate debt securities	9,950	50	1	43,525	1,475	3	53,475	1,525	4
Mutual funds	-	-	-	5,833	167	1	5,833	167	1
Preferred stock of government sponsored entities	2,488	228	2	-	-	-	2,488	228	2
Other equity securities	158	342	1	-	-	-	158	342	1
Total securities available-for-sale	$1,410,387	$14,253	47	$49,400	$1,670	7	$1,459,787	$15,923	54

	As of December 31, 2014								
	Temporarily Impaired Securities								
	Less than 12 months			**12 months or longer**			**Total**		
	Fair Value	**Unrealized Losses**	**No. of Issuances**	**Fair Value**	**Unrealized Losses**	**No. of Issuances**	**Fair Value**	**Unrealized Losses**	**No. of Issuances**
	(Dollars in thousands)								
Securities Available-for-Sale									
U.S. treasury securities	$374,153	$265	6	$-	$-	-	$374,153	$265	6
Mortgage-backed securities	-	-	-	425,090	6,386	16	425,090	6,386	16

Collateralized mortgage obligations	-	-	-	45	34	1	45	34	1
Corporate debt securities	-	-	-	63,753	1,247	4	63,753	1,247	4
Mutual funds	-	-	-	5,866	134	1	5,866	134	1
Preferred stock of government sponsored entities	2,448	3,733	2	-	-	-	2,448	3,733	2
Total securities available-for-sale	$376,601	$ 3,998	8	$494,754	$ 7,801	22	$871,355	$ 11,799	30

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

Securites Portfolio Maturity Distribution and Yield Analysis:

	As of December 31, 2015				
	One Year or Less	After One Year to Five Years	After Five Years to Ten Years	Over Ten Years	Total
	(Dollars in thousands)				
Maturity Distribution:					
Securities Available-for-Sale:					
U.S. treasury securities	$184,956	$99,332	$-	$-	$284,288
U.S. government sponsored entities	-	-	148,160	-	148,160
Mortgage-backed securities (1)	-	6,262	606	1,055,401	1,062,269
Collateralized mortgage obligations (1)	-	-	-	36	36
Corporate debt securities	-	30,330	43,525	-	73,855
Mutual funds (2)	-	-	-	5,833	5,833
Preferred stock of government sponsored entities (2)	-	-	-	3,216	3,216
Other equity securities (2)	-	-	-	8,695	8,695
Total securities available-for-sale	$184,956	$135,924	$192,291	$1,073,181	$1,586,352
Weighted-Average Yield:					
Securities Available-for-Sale:					
U.S. treasury securities	0.39 %	0.69 %	-	-	0.49 %
U.S. government sponsored entities	-	-	1.98	-	1.98
Mortgage-backed securities (1)	-	4.70	5.96	2.04	2.06
Collateralized mortgage obligations (1)	-	-	-	3.50	3.50
Corporate debt securities	-	1.38	1.47	-	1.43
Mutual funds (2)	-	-	-	2.12	2.12
Total securities available-for-sale	0.39 %	1.03 %	1.88 %	2.02 %	1.74 %

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

Loans

Loans represented 85.8% of average interest-earning assets during 2015, compared with 83.5% during 2014. Gross loans, excluding loans held for sale, increased by $1.2 billion, or 14.0%, to $10.16 billion at December 31, 2015, compared with $8.91 billion at December 31, 2014. These figures include total gross loans of $419.7 million from the acquisition of Asia Bank on July 31, 2015. The increase in gross loans was primarily attributable to the following:

- Commercial mortgage loans increased $814.8 million, or 18.2%, to $5.30 billion at December 31, 2015, compared to $4.49 billion at December 31, 2014. The acquisition of Asia Bank added $402.0 million in commercial mortgage loans. Total commercial mortgage loans accounted for 52.2% of gross loans at December 31, 2015, compared to 50.3% at December 31, 2014. Commercial mortgage loans consist primarily of commercial retail properties, shopping centers, and owner-occupied industrial facilities, and, secondarily, of office buildings, multiple-unit apartments, hotels, and multi-tenanted industrial properties, and are typically secured by first deeds of trust on such commercial properties. In addition, the Bank provides medium-term commercial real estate loans secured by commercial or industrial buildings where the borrower either uses the property for business purposes or derives income from tenants.

- Total residential mortgage loans increased by $362.3 million, or 23.1%, to $1.93 billion at December 31, 2015, compared to $1.57 billion at December 31, 2014, primarily due to the low level of interest rates and the originations of mortgages to non-US residents secured by residential real estate in the United States.

- Real estate construction loans increased $142.9 million, or 47.8%, to $441.5 million at December 31, 2015, compared to $298.7 million at December 31, 2014.

- Commercial loans decreased $65.6 million, or 2.8%, to $2.32 billion at December 31, 2015, compared to $2.38 billion at December 31, 2014. Commercial loans consist primarily of short-term loans (typically with a maturity of one year or less) to support general business purposes, or to provide working capital to businesses in the form of lines of credit, trade-finance loans, loans for commercial purposes secured by cash, and SBA loans.

Our lending relates predominantly to activities in the states of California, Nevada, New York, Texas, Washington, Massachusetts, Illinois, New Jersey, and Maryland, although we have some loans to domestic clients who are engaged in international trade. Loans outstanding in our branch in Hong Kong were $216.2 million as of December 31, 2015, compared to $227.6 million as of December 31, 2014.

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

Loan Type and Mix

	As of December 31,				
	2015	**2014**	**2013**	**2012**	**2011**
	(In thousands)				
Commercial loans	$2,316,863	$2,382,493	$2,298,724	$2,127,107	$1,868,275
Residential mortgage loans and equity lines	2,101,335	1,742,938	1,526,532	1,340,082	1,186,969
Commercial mortgage loans	5,301,218	4,486,443	4,023,051	3,768,452	3,748,897
Real estate construction loans	441,543	298,654	221,701	180,950	237,372
Installment and other loans	2,493	3,552	14,555	12,556	17,699
Gross loans	10,163,452	8,914,080	8,084,563	7,429,147	7,059,212
Less:					
Allowance for loan losses	(138,963)	(161,420)	(173,889)	(183,322)	(206,280)
Unamortized deferred loan fees	(8,262)	(12,392)	(13,487)	(10,238)	(8,449)
Total loans and leases, net	$10,016,227	$8,740,268	$7,897,187	$7,235,587	$6,844,483
Loans held for sale	$6,676	$973	$-	$-	$760

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

Contractual Maturity of Loan Portfolio

	Within One Year	**One to Five Years**	**Over Five Years**	**Total**
	(In thousands)			
Commercial loans				
Floating rate	$1,701,172	$409,420	$65,392	$2,175,984
Fixed rate	96,345	32,735	11,799	140,879
Residential mortgage loans and equity lines				
Floating rate	13	822	578,984	579,819
Fixed rate	2,044	14,140	1,505,332	1,521,516
Commercial mortgage loans				
Floating rate	431,684	1,199,250	2,314,833	3,945,767
Fixed rate	127,258	955,344	272,849	1,355,451
Real estate construction loans				
Floating rate	253,442	153,391	5,776	412,609
Fixed rate	28,934	-	-	28,934
Installment and other loans				
Floating rate	93	-	-	93
Fixed rate	2,141	259	-	2,400
Total Loans	$2,643,126	$2,765,361	$4,754,965	$10,163,452
Floating rate	$2,386,404	$1,762,883	$2,964,985	$7,114,272
Fixed rate	256,722	1,002,478	1,789,980	3,049,180
Total Loans	2,643,126	2,765,361	4,754,965	10,163,452
Allowance for loan losses				(138,963)
Unamortized deferred loan fees				(8,262)
Net loans				$10,016,227
Loans held for sale				$6,676

Deposits

The Bank primarily uses customer deposits to fund its operations, and to a lesser extent borrowings in the form of securities sold under agreements to repurchase, advances from the Federal Home Loan Bank, and other borrowings. The Bank’s deposits are generally obtained from the Bank’s geographic market area. The Bank utilizes traditional marketing methods to attract new customers and deposits, by offering a wide variety of products and services and utilizing various forms of advertising media. Although the vast majority of the Bank’s deposits are retail in nature, the Bank does engage in certain wholesale activities, primarily accepting deposits generated by brokers or Internet listing services. The Bank considers wholesale deposits to be an alternative borrowing source rather than a customer relationship and, as such, their levels are determined by management’s decisions as to the most economic funding sources. Brokered-deposits totaled $684.2 million, or 6.5%, of total deposits, at December 31, 2015, compared to $497.4 million, or 5.7%, at December 31, 2014.

The Company's total deposits increased $1.73 billion, or 19.7%, to $10.51 billion at December 31, 2015, from $8.78 billion at December 31, 2014, primarily due to a $718.0 million, or 16.8%, increase in time deposits, a $368.1 million, or 22.1%, increase in non-interest bearing demand deposits, a $367.5 million, or 23.9%, increase in money market deposits, a $187.7 million, or 24.1%, increase in NOW deposits, and a $84.2 million, or 15.8% increase in savings deposits. These figures include total deposits of $420.6 million from the acquisition of Asia Bank on July 31, 2015. The following table displays the deposit mix for the past three years:

Deposit Mix

	Year Ended December 31,								
	2015			**2014**			**2013**		
	Amount	**Percentage**		**Amount**	**Percentage**		**Amount**	**Percentage**	
	(Dollars in thousands)								
Demand deposits	$2,033,048	19.4	%	$1,664,914	19.0	%	$1,441,858	18.1	%
NOW deposits	966,404	9.2		778,691	8.9		683,873	8.6	
Money market deposits	1,905,719	18.1		1,538,187	17.5		1,286,338	16.1	
Savings deposits	618,164	5.9		533,940	6.1		499,520	6.2	
Time deposits	4,985,752	47.4		4,267,728	48.5		4,069,716	51.0	
Total	$10,509,087	100	%	$8,783,460	100	%	$7,981,305	100.0	%

Average total deposits increased $1.13 billion, or 13.4%, to $9.58 billion in 2015, compared with average total deposits of $8.45 billion in 2014.

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

Average Deposits and Average Rates

	Year Ended December 31,														
	2015			**2014**			**2013**			**2012**			**2011**		
	Amount	**%**		**Amount**	**%**		**Amount**	**%**		**Amount**	**%**		**Amount**	**%**	
	(Dollars in thousands)														
Demand deposits	$1,781,981	-	%	$1,535,461	-	%	$1,325,781	-	%	$1,157,343	-	%	$996,215	-	%
	860,513	0.16		721,435	0.17		634,506	0.16		516,246	0.15		426,252	0.18	

NOW deposits										
Money market deposits	1,677,065	0.60	1,407,053	0.61	1,215,347	0.58	1,059,841	0.56	979,253	0.75
Savings deposits	590,987	0.15	532,184	0.15	488,932	0.08	451,022	0.08	411,953	0.12
Time deposits	4,673,862	0.84	4,257,736	0.82	3,993,508	0.80	4,197,906	0.96	4,323,833	1.24
Total	$9,584,408	0.54%	$8,453,869	0.54%	$7,658,074	0.53%	$7,382,358	0.64%	$7,137,506	0.87%

Management considers the Bank’s time deposits of $250,000 or more, which totaled $1.79 billion at December 31, 2015, to be generally less volatile than other wholesale funding sources primarily because approximately 71% of the Bank’s CDs of $250,000 or more have been on deposit with the Bank for two years or more. Management monitors the CDs of $250,000 or more portfolio to identify any changes in the deposit behavior in the market and of the customers the Bank is serving.

Of our CDs, approximately 74.1% mature within one year as of December 31, 2015. The following tables display time deposits by maturity:

Time Deposits by Maturity

	At December 31, 2015 (In thousands)
Less than three months	$ 1,478,505
Three to six months	816,977
Six to twelve months	1,399,682
Over one year	1,290,588
Total	$ 4,985,752

The following table displays time deposits with a remaining term of more than one year at December 31, 2015:

Maturities of Time Deposits with a Remaining Term

of More Than One Year for Each

of the Five Years Following December 31, 2015

2017	$ 997,735
2018	249,147
2019	42,788
2020	907
2021	11

Borrowings

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

Securities sold under agreements to repurchase were $400.0 million with a weighted average rate of 3.89% at December 31, 2015, compared to $450.0 million with a weighted average rate of 3.85% at December 31, 2014. In 2014, the Company prepaid securities sold under agreements to repurchase totaling $100 million with a weighted average rate of 3.5% and incurred prepayment penalties of $3.4 million compared to no repayments in 2015. As of December 31, 2015, four floating-to-fixed rate agreements totaling $200.0 million with weighted average rate of 5.0% and final maturity in January 2017 have initial floating rates for one year, with floating rates of the three-month LIBOR rate minus 340 basis points. Thereafter, the rates are fixed for the remainder of the term, with interest rates ranging from 4.89% to 5.07%. As of December 31, 2015, and December 31, 2014, four fixed rate non-callable securities sold under agreements to repurchase totaled $200.0 million with a weighted average rate of 2.78%. Final maturity for the four fixed rate non-callable securities sold under agreements to repurchase is $50.0 million in August 2016, $50.0 million in July 2017, $50.0 million in June 2018, and $50.0 million in July 2018.

These transactions are accounted for as collateralized financing transactions and recorded at the amounts at which the securities were sold. The Company may have to provide additional collateral for the repurchase agreements, as necessary. The underlying collateral pledged for the repurchase agreements consists of U.S. Treasury securities and mortgage-backed securities with a fair value of $430.2 million as of December 31, 2015, and $516.3 million as of December 31, 2014.

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

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

(1) Average balances were computed using daily averages.

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

As of December 31, 2015, over-night borrowings from the FHLB were $250.0 million at a rate of 0.27% compared to $400.0 million at a rate of 0.27% at December 31, 2014. At December 31, 2015 and 2014, a $25 million advance from the FHLB at a rate of 1.13% was outstanding and will mature in March 2018.

Long-term Debt

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

At December 31, 2015, Junior Subordinated Notes totaled $119.1 million with a weighted average interest rate of 2.70%, compared to $119.1 million with a weighted average rate of 2.42% at December 31, 2014. The Company prepaid Junior Subordinated Notes of $2 million and incurred income of $555,000 in April 2014. The Junior Subordinated Notes have a stated maturity term of 30 years. The Junior Subordinated Notes qualify as Tier 1 capital for regulatory reporting purposes at both December 31, 2015 and 2014. The trusts are not consolidated with the Company in accordance with an accounting pronouncement that took effect in December 2003.

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

The following table summarizes our contractual obligations and commitments to make future payments as of December 31, 2015. Payments for deposits and borrowings do not include interest. Payments related to leases are based on actual payments specified in the underlying contracts. Loan commitments and standby letters of credit are presented at contractual amounts; however, since many of these commitments are expected to expire unused or only partially used, the total amounts of these commitments do not necessarily reflect future cash requirements.

	Payment Due by Period				
	1 year or less	**More than 1 year but less than 3 years**	**3 years or more but less than 5 years**	**5 years or more**	**Total**
	(In thousands)				
Contractual obligations:					
Securities sold under agreements to repurchase (1)	$-	$200,000	$-	$-	$200,000
Securities sold under agreements to repurchase (2)	50,000	150,000	-	-	200,000
Advances from the Federal Home Loan Bank	250,000	25,000	-	-	275,000
Other borrowings	-	-	-	18,593	18,593
Long-term debt	-	-	-	119,136	119,136
Operating leases	7,887	11,383	4,795	4,869	28,934
Deposits with stated maturity dates	3,695,164	1,246,882	43,695	11	4,985,752
Total contractual obligations and other commitments	$4,003,051	$1,633,265	$48,490	$142,609	$5,827,415
Other commitments:					
Commitments to extend credit	1,041,386	708,917	96,173	125,372	1,971,848
Standby letters of credit	47,851	596	176	458	49,081
Commercial letters of credit	38,039	-	92	-	38,131
Bill of lading guarantees	454	-	-	-	454
Total contractual obligations and other commitments	$1,127,730	$709,513	$96,441	$125,830	$2,059,514

(1) These repurchase agreements have a final maturity of 10-years from origination date but are callable on a quarterly basis.
(2) These repurchase agreements are non-callable.

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

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

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

Capital Resources

Stockholders' Equity

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

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

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

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

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

Capital Adequacy

Management seeks to retain our capital at a level sufficient to support future growth, protect depositors and stockholders, and comply with various regulatory requirements. The primary measure of capital adequacy is based on the ratio of risk-based capital to risk-weighted assets. At December 31, 2015, the Company's common equity Tier 1 capital ratio of 12.95%, Tier 1 risk-based capital ratio of 14.03%, total risk-based capital ratio of 15.30%, and Tier 1 leverage capital ratio of 11.95%, calculated under the new Basel III capital rules that became effective January 1, 2015, continue to place the Company in the "well capitalized" category for regulatory purposes, which is defined as institutions with a common equity Tier 1 capital ratio equal to or greater than 6.5%, a Tier 1 risk-based capital ratio equal to or greater than 8%, a total risk-based capital ratio equal to or greater than 10%, and a Tier 1 leverage capital ratio equal to or greater than 5%. At December 31, 2014, the Company's Tier 1 risk-based capital ratio was 14.96%, total risk-based capital ratio was 16.22%, and Tier 1 leverage capital ratio was 12.99%, calculated based on the prior Basel I capital rules.

A table displaying the Bancorp's and the Bank's capital and leverage ratios at December 31, 2015, and 2014, is included in Note 22 to the Consolidated Financial Statements.

Dividend Policy

Holders of common stock are entitled to dividends as and when declared by our Board of Directors out of funds legally available for the payment of dividends. Although we have historically paid cash dividends on our common stock, we are not required to do so. We increased the common stock dividend from $.01 per share to $.05 per share in the fourth quarter of 2013, to $.07 per share in the second quarter of 2014, to $.10 per share in the fourth quarter of 2014, to $.14 per share in the second quarter of 2015, and to $.18 per share in the fourth quarter of 2015. The amount of future dividends will depend on our earnings, financial condition, capital requirements and other factors, and will be determined by our Board of Directors. The terms of our Junior Subordinated Notes also limit our ability to pay dividends. If we are not current in our payment of dividends on our Junior Subordinated Notes, we may not pay dividends on our common stock.

Substantially all of the revenues of the Company available for payment of dividends derive from amounts paid to it by the Bank. The Bank paid dividends to Bancorp totaling $163.3 million during 2015, $30.0 million during 2014, and $138.0 million during 2013.

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

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

Risk Elements of the Loan Portfolio

Non-performing Assets

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

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

Total non-performing portfolio assets decreased $24.8 million, or 24.4%, to $76.8 million at December 31, 2015, compared to $101.6 million at December 31, 2014, primarily due to an $18.1 million decrease in non-accrual loans and a $6.8 million decrease in OREO.

As a percentage of gross loans, excluding loans held for sale, plus OREO, our non-performing assets decreased to 0.75% at December 31, 2015, from 1.14% at December 31, 2014. The non-performing portfolio loan, excluding loans held for sale, coverage ratio, defined as the allowance for credit losses to non-performing loans, excluding loans held for sale, increased to 269.4% at December 31, 2015, from 232.8% at December 31, 2014.

The following table presents the breakdown of total non-accrual, past due, and restructured loans for the past five years:

Non-accrual, Past Due and Restructured Loans

	As of December 31,				
	2015	**2014**	**2013**	**2012**	**2011**
	(Dollars in thousands)				
Accruing loans past due 90 days or more	$-	$-	$982	$630	$6,726
Non-accrual loans	52,130	70,163	83,183	103,902	201,197
Total non-performing loans	52,130	70,163	84,165	104,532	207,923
Real estate acquired in foreclosure and other assets	24,701	31,477	52,985	46,384	92,713
Total non-performing assets	$76,831	$101,640	$137,150	$150,916	$300,636
Accruing troubled debt restructurings (TDRs)	$81,680	$104,356	$117,597	$144,695	$120,016
Non-accrual TDRs (included in non-accrual loans)	$39,923	$41,618	$38,769	$47,731	$50,870
Non-accrual loans held for sale	$5,944	$973	$-	$-	$760
Non-performing assets as a percentage of gross loans and OREO at year-end	0.75 %	1.14 %	1.69 %	2.02 %	4.20 %
Allowance for credit losses as a percentage of gross loans	1.38 %	1.83 %	2.17 %	2.49 %	2.95 %
Allowance for credit losses as a percentage of non-performing loans	269.44 %	232.84 %	208.22 %	176.68 %	100.20 %

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

	Year Ended December 31,				
	2015	**2014**	**2013**	**2012**	**2011**
	(In thousands)				
Non-accrual Loans					
Contractual interest due	$5,732	$6,663	$5,851	$6,621	$13,049
Interest recognized	119	217	22	1,006	71
Net interest foregone	$5,613	$6,446	$5,829	$5,615	$12,978

As of December 31, 2015, there were no commitments to lend additional funds to those borrowers whose loans had been restructured, were considered impaired, or were on non-accrual status.

Non-accrual Loans

Total non-accrual portfolio loans, excluding loans held for sale, of $52.1 million at December 31, 2015, decreased $18.1 million, or 25.7%, from $70.2 million at December 31, 2014. The allowance for the collateral-dependent impaired loans is calculated by the difference between the outstanding loan balance and the value of the collateral as determined by recent appraisals, sales contracts, or other available market price information. The allowance for collateral-dependent impaired loans varies from loan to loan based on the collateral coverage of the loan at the time of designation as non-performing. We continue to monitor the collateral coverage, based on recent appraisals, on these loans on a quarterly basis and adjust the allowance accordingly.

Non-accrual portfolio loans, excluding loans held for sale, at December 31, 2015, consisted of 29 commercial real estate loans totaling $16.0 million, two residential construction loans of $15.8 million, 33 residential mortgage loans totaling $7.0 million, 12 commercial loans totaling $3.5 million, two land loans totaling $9.3 million, and one non-farm non-residential construction loan of $500,000. Non-accrual loans also include those troubled debt restructurings that do not qualify for accrual status. The comparable numbers for 2014 were 32 commercial real estate loans totaling $29.8 million, two non-farm non-residential construction loans totaling $19.5 million, 39 residential mortgage loans totaling $7.6 million, 18 commercial loans totaling $7.0 million, two land loans totaling $5.9 million, and one mixed use construction loan of $500,000.

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

	December 31, 2015		December 31, 2014	
	Real Estate (1)	Commercial	Real Estate (1)	Commercial
	(In thousands)			
Type of Collateral				
Single/Multi-family residence	$8,727	$ -	$9,068	$ 1,184
Commercial real estate	30,588	834	48,256	903
Land	9,270	-	5,856	-
Personal property (UCC)	-	2,711	-	4,896
Total	$48,585	$ 3,545	$63,180	$ 6,983

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

	December 31, 2015		December 31, 2014	
	Real Estate (1)	Commercial	Real Estate (1)	Commercial
	(In thousands)			
Type of Business				
Real estate development	$29,174	$ 834	$35,299	$ 860
Wholesale/Retail	13,414	780	20,658	4,078
Food/Restaurant	293	-	650	144
Import/Export	-	1,931	-	1,901
Other	5,704	-	6,573	-
Total	$48,585	$ 3,545	$63,180	$ 6,983

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

Other Real Estate Owned

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

At December 31, 2014, OREO located in California was $4.1 million and was comprised primarily of one residential property of $2.0 million, four commercial use buildings of $1.2 million, one residential construction project of $526,000, one parcel of land zoned for residential purpose of $243,000, and one parcel of land zoned for commercial purpose of $235,000. OREO located in Texas was $15.7 million and was comprised of three parcels of land zoned for commercial purpose of $12.3 million, one medical office building of $1.6 million, a retail store of $761,000, a commercial building construction project of $752,000, and a shopping center of $304,000. OREO located in Illinois was $4.0 million and was comprised of two multi-family residential properties of $3.1 million and an office building of $921,000. OREO located in the state of Washington was an office and commercial use building of $3.8 million. OREO located in the state of New York was $3.8 million and was comprised of one residential property of $2.7 million and a retail store of $1.1 million.

Troubled Debt Restructurings

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

TDRs on accrual status totaled $81.7 million at December 31, 2015, and were comprised of 59 loans, a decrease of $22.7 million, compared to 60 loans totaling $104.4 million at December 31, 2014. TDRs at December 31, 2015, were comprised of 15 non-farm non-residential commercial mortgage loans of $44.9 million, six commercial loans of $10.0 million, 32 single family residential mortgage loans of $9.4 million, one multi-family residential commercial mortgage loan of $6.0 million, four single family residential commercial mortgage loans of $5.7 million, and one construction loan of $5.7 million. We expect that the troubled debt restructuring loans on accruing status as of December 31, 2015, which are all performing in accordance with their restructured terms, will continue to comply with the restructured terms because of the reduced principal or interest payments on these loans. The comparable TDRs at December 31, 2014, were comprised of nine commercial loans of $16.5 million, three hotel loans of $15.7 million, 31 single family residential loans of $13.6 million, two industrial and manufactural use building loans of $12.2 million, two land loans for residential purpose of $10.2 million, four commercial condo loans of $10.1 million, three retail shopping and commercial use building loans of $9.0 million, one multi-family residential loan of $6.1 million, one shopping center construction loan of $5.8 million, three office building loans of $3.5 million, and one warehouse loan of $1.6 million. A summary of TDRs by type of loan and by accrual/non-accrual status is shown below:

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

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

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

	December 31, 2014			
Non-accrual TDRs	**Payment Deferral**	**Rate Reduction**	**Rate Reduction and Payment Deferral**	**Total**
Commercial loans	$1,423	$ 860	$ 1,269	$3,552
Real estate construction loans	-	-	19,462	19,462
Commercial mortgage loans	15,917	-	973	16,890

Residential mortgage loans	1,026	-	688	1,714
Total non-accrual TDRs	$18,366	$ 860	$ 22,392	$41,618

The activity within our TDR loans for 2015, 2014, and 2013 is shown below:

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

Non-accrual TDRs	2015	2014	2013
	(In thousands)		
Beginning balance	$41,618	$38,769	$47,731
New restructurings	2,006	1,331	6,226
Restructured loans placed on non-accrual	10,189	24,688	2,891
Charge-offs	(3,246)	(8,938)	(2,124)
Payments	(9,921)	(11,710)	(4,295)
Foreclosures	-	(1,560)	(4,809)
Restructured loans restored to accrual status	(723)	(962)	(6,851)
Ending balance	$39,923	$41,618	$38,769

Impaired Loans

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

We identified impaired loans with a recorded investment of $133.8 million at December 31, 2015, compared to $174.5 million at December 31, 2014. The average balance of impaired loans was $162.9 million in 2015 and $190.2 million in 2014. We considered all non-accrual loans to be impaired. Interest recognized on impaired loans totaled $4.0 million in 2015 and $5.3 million in 2014. As of December 31, 2015, $48.6 million, or 93.2%, of the $52.1 million of non-accrual portfolio loans, excluding loans held for sale, was secured by real estate. As of December 31, 2014, $63.2 million, or 90.1%, of the $70.2 million of non-accrual loans was secured by real estate. The Bank obtains current appraisals or other available market price information which provides updated factors in evaluating potential loss.

At December 31, 2015, $7.8 million of the $139.0 million allowance for loan losses was allocated for impaired loans and $131.2 million was allocated to the general allowance. At December 31, 2014, $11.8 million of the $161.4 million allowance for loan losses was allocated for impaired loans and $149.6 million was allocated to the general allowance. In 2015, net loan charge-offs were $11.1 million, or 0.12%, of average loans, compared to $1.3 million, or 0.02%, of average loans in 2014.

The allowance for loan losses to non-performing loans, excluding loans held for sale, was 266.6% at December 31, 2015, compared to 230.1% at December 31, 2014. Non-accrual loans also include those TDRs that do not qualify for accrual status.

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

	Impaired Loans					
	As of December 31, 2015			**As of December 31, 2014**		
	Unpaid Principal Balance	**Recorded Investment**	**Allowance**	**Unpaid Principal Balance**	**Recorded Investment**	**Allowance**
	(Dollars in thousands)					
With no allocated allowance						
Commercial loans	$15,493	$ 6,721	$ -	$19,479	$ 18,452	$ -
Real estate construction loans	51,290	22,002	-	32,924	17,025	-
Commercial mortgage loans	59,954	54,625	-	77,474	75,172	-
Residential mortgage and equity lines	3,233	3,026	-	2,518	2,518	-
Subtotal	$129,970	$ 86,374	$ -	$132,395	$ 113,167	$ -
With allocated allowance						