

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended

September 30, 2022

OR

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

For the transition period from

to

Commission file number

001-31830

CATHAY GENERAL BANCORP

(Exact name of registrant as specified in its charter)

Delaware

95-4274680

(State of other jurisdiction of incorporation  
or organization)

(I.R.S. Employer  
Identification No.)

777 North Broadway, Los Angeles, California

90012

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code:

(213) 625-4700

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

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

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

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

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

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

Large accelerated filer

Non-accelerated filer

Smaller reporting company

Accelerated filer

Emerging growth company

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

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

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

Common stock, \$.01 par value, 74,413,792 shares outstanding as of October 31, 2022.

**CATHAY GENERAL BANCORP AND SUBSIDIARIES**  
**3<sup>RD</sup> QUARTER 2022 REPORT ON FORM 10-Q**  
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## Forward-Looking Statements

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

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

- local, regional, national, and international economic and market conditions and events and the impact they may have on us, our customers and our operations, assets and liabilities;
- the impact on our business, operations, financial condition, liquidity, results of operations, prospects and trading prices of our shares arising out of the COVID-19 pandemic and its related economic impacts;
- 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;
- higher capital requirements from the implementation of the Basel III capital standards;
- compliance with the Bank Secrecy Act and other money laundering statutes and regulations;
- potential goodwill impairment;
- liquidity risk;
- fluctuations in interest rates;
- risks associated with acquisitions and the expansion of our business into new markets;
- inflation and deflation;
- real estate market conditions and the value of real estate collateral;
- environmental liabilities;
- our ability to generate anticipated returns from our investments and/or financings in certain tax advantaged-projects;
- our ability to compete with larger competitors;

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

These and other factors are further described in Bancorp's Annual Report on Form 10-K for the year ended December 31, 2021 (Item 1A in particular), other reports and registration statements filed with the Securities and Exchange Commission ("SEC"), and other filings Bancorp makes with the SEC from time to time. Actual results in any future period may also vary from the past results discussed in this report. Given these risks and uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements. We have no intention and undertake no obligation to update any forward-looking statement or to announce publicly any revision of any forward-looking statement to reflect developments, events, occurrences, or circumstances after the date of such statement, except as required by law.

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

**PART I – FINANCIAL INFORMATION**

**Item 1. FINANCIAL STATEMENTS (Unaudited)**

**CATHAY GENERAL BANCORP AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)**

	<b>September 30, 2022</b>	<b>December 31, 2021</b>
	(In thousands, except share and per share data)	
<b>Assets</b>		
Cash and due from banks	\$ 200,051	\$ 134,141
Short-term investments and interest-bearing deposits	1,063,294	2,315,563
Securities available-for-sale (amortized cost of \$1,577,311 at September 30, 2022, and \$1,126,867 at December 31, 2021)	1,414,411	1,127,309
Loans	18,106,803	16,342,479
Less: Allowance for loan losses	(148,817)	(136,157)
Unamortized deferred loan fees, net	(6,936)	(4,321)
Loans, net	17,951,050	16,202,001
Equity securities	23,123	22,319
Federal Home Loan Bank stock	17,250	17,250
Other real estate owned, net	4,067	4,368
Affordable housing investments and alternative energy partnerships, net	325,439	299,211
Premises and equipment, net	96,419	99,402
Customers' liability on acceptances	6,899	8,112
Accrued interest receivable	71,177	56,994
Goodwill	375,696	372,189
Other intangible assets, net	6,948	4,627
Right-of-use assets - operating leases	30,679	27,834
Other assets	303,628	195,403
<b>Total assets</b>	<b>\$ 21,890,131</b>	<b>\$ 20,886,723</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Deposits:</b>		
Non-interest-bearing demand deposits	\$ 4,398,152	\$ 4,492,054
Interest-bearing deposits:		
NOW deposits	2,570,036	2,522,442
Money market deposits	4,935,266	4,611,579
Savings deposits	1,128,823	915,515
Time deposits	5,543,474	5,517,252
Total deposits	18,575,751	18,058,842
Advances from the Federal Home Loan Bank	360,000	20,000
Other borrowings of affordable housing investments	22,651	23,145
Long-term debt	119,136	119,136
Acceptances outstanding	6,899	8,112
Lease liabilities - operating leases	33,931	30,694
Other liabilities	352,204	180,543
<b>Total liabilities</b>	<b>19,470,572</b>	<b>18,440,472</b>
Commitments and contingencies	—	—
<b>Stockholders' Equity</b>		
Common stock, \$0.01 par value, 100,000,000 shares authorized; 91,067,423 issued and 73,411,960 outstanding at September 30, 2022, and 90,871,860 issued and 75,750,862 outstanding at December 31, 2021	911	909
Additional paid-in-capital	978,433	972,474
Accumulated other comprehensive loss, net	(112,874)	(3,065)
Retained earnings	2,172,098	1,985,168
Treasury stock, at cost (17,655,463 shares at September 30, 2022, and 15,120,998 shares at December 31, 2021)	(619,009)	(509,235)
<b>Total equity</b>	<b>2,419,559</b>	<b>2,446,251</b>
<b>Total liabilities and equity</b>	<b>\$ 21,890,131</b>	<b>\$ 20,886,723</b>

See accompanying Notes to Consolidated Financial Statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
	(In thousands, except share and per share data)			
<b>Interest and Dividend Income</b>				
Loans receivable	\$ 211,541	\$ 163,948	\$ 558,657	\$ 485,162
Investment securities	7,483	3,707	18,059	9,963
Federal Home Loan Bank stock	258	258	774	730
Deposits with banks	6,732	714	10,003	1,467
Total interest and dividend income	<u>226,014</u>	<u>168,627</u>	<u>587,493</u>	<u>497,322</u>
<b>Interest Expense</b>				
Time deposits	10,218	9,299	22,002	33,363
Other deposits	13,871	5,243	25,894	16,302
Advances from Federal Home Loan Bank	2,941	146	3,396	1,036
Long-term debt	1,455	1,455	4,318	4,318
Total interest expense	<u>28,485</u>	<u>16,143</u>	<u>55,610</u>	<u>55,019</u>
Net interest income before provision/(reversal) for credit losses	197,529	152,484	531,883	442,303
Provision/(reversal) for credit losses	2,000	3,050	13,143	(19,508)
Net interest income after provision/(reversal) for credit losses	<u>195,529</u>	<u>149,434</u>	<u>518,740</u>	<u>462,795</u>
<b>Non-Interest Income</b>				
Net (losses)/gains from equity securities	(3,661)	3	1,358	(3,628)
Securities losses, net	—	—	—	853
Letters of credit commissions	1,609	1,764	4,767	5,236
Depository service fees	1,690	1,401	4,993	4,107
Wealth management fees	4,184	3,578	12,494	11,074
Other operating income	6,054	5,470	21,114	17,157
Total non-interest income	<u>9,876</u>	<u>12,216</u>	<u>44,726</u>	<u>34,799</u>
<b>Non-Interest Expense</b>				
Salaries and employee benefits	34,677	33,437	107,453	98,917
Occupancy expense	5,975	5,136	17,150	15,142
Computer and equipment expense	3,509	3,175	9,762	10,093
Professional services expense	6,337	6,232	20,738	16,698
Data processing service expense	3,484	3,524	9,813	10,422
FDIC and regulatory assessments	2,003	1,830	5,999	5,195
Marketing expense	2,005	945	4,692	5,270
Other real estate owned expense/(income)	55	(88)	93	197
Amortization of investments in low income housing and alternative energy partnerships	11,949	12,411	27,471	34,663
Amortization of core deposit intangibles	250	172	724	515
Cost associated with debt redemption	—	—	—	732
Acquisition, integration and restructuring costs	59	476	4,086	476
Other operating expense	5,085	4,965	14,227	15,005
Total non-interest expense	<u>75,388</u>	<u>72,215</u>	<u>222,208</u>	<u>213,325</u>
<b>Income before income tax expense</b>	<b>130,017</b>	<b>89,435</b>	<b>341,258</b>	<b>283,285</b>
Income tax expense	30,982	17,038	78,217	60,305
<b>Net income</b>	<b><u>\$ 99,035</u></b>	<b><u>\$ 72,397</u></b>	<b><u>\$ 263,041</u></b>	<b><u>\$ 222,980</u></b>
<b>Other Comprehensive Income, net of tax</b>				
Net holding losses on securities available-for-sale	(43,191)	(3,232)	(115,612)	(7,872)
Net holding gains on cash flow hedge derivatives	1,645	492	5,803	2,194
Total other comprehensive loss, net of tax	<u>(41,546)</u>	<u>(2,740)</u>	<u>(109,809)</u>	<u>(5,678)</u>
<b>Total other comprehensive income</b>	<b><u>\$ 57,489</u></b>	<b><u>\$ 69,657</u></b>	<b><u>\$ 153,232</u></b>	<b><u>\$ 217,302</u></b>
<b>Net Income Per Common Share:</b>				
Basic	\$ 1.35	\$ 0.93	\$ 3.53	\$ 2.83
Diluted	\$ 1.35	\$ 0.93	\$ 3.52	\$ 2.82
Cash dividends paid per common share	\$ 0.34	\$ 0.31	\$ 1.02	\$ 0.93
<b>Average Common Shares Outstanding:</b>				
Basic	73,158,096	77,846,424	74,475,032	78,841,899
Diluted	73,444,096	78,153,408	74,799,324	79,128,644

See accompanying Notes to Consolidated Financial Statements.

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

Three months ended	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive loss		Retained Earnings	Treasury Stock	Total Stockholders' Equity
	Number of Shares	Amount						
	(In thousands, except share data)							
<b>Balance at June 30, 2022</b>	74,421,884	\$ 910	\$ 976,547	\$ (71,328)	\$ 2,098,122	\$ (572,719)	\$ 2,431,532	
Dividend Reinvestment Plan	21,880	1	919	—	—	—	920	
Restricted stock units vested	47,736	—	—	—	—	—	—	
Shares withheld related to net share settlement of RSUs	—	—	(849)	—	—	—	(849)	
Purchases of treasury stock	(1,079,540)	—	—	—	—	(46,290)	(46,290)	
Stock-based compensation	—	—	1,816	—	—	—	1,816	
Cash dividends of \$0.34 per share	—	—	—	—	(25,059)	—	(25,059)	
Other comprehensive loss	—	—	—	(41,546)	—	—	(41,546)	
Net income	—	—	—	—	99,035	—	99,035	
<b>Balance at September 30, 2022</b>	<b>73,411,960</b>	<b>\$ 911</b>	<b>\$ 978,433</b>	<b>\$ (112,874)</b>	<b>\$ 2,172,098</b>	<b>\$ (619,009)</b>	<b>\$ 2,419,559</b>	

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

See accompanying Notes to Consolidated Financial Statements.

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

Nine months ended	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive loss		Retained Earnings	Treasury Stock	Total Stockholders' Equity
	Number of Shares	Amount						
	(In thousands, except share data)							
<b>Balance at December 31, 2021</b>	75,750,862	\$ 909	\$ 972,474	\$ (3,065)	\$ 1,985,168	\$ (509,235)	\$	2,446,251
Dividend Reinvestment Plan	65,142	1	2,791	—	—	—	—	2,792
Restricted stock units vested	110,641	1	—	—	—	—	—	1
Stock issued to directors	19,780	—	849	—	—	—	—	849
Shares withheld related to net share settlement of RSUs	—	—	(2,864)	—	—	—	—	(2,864)
Purchases of treasury stock	(2,534,465)	—	—	—	—	(109,774)	—	(109,774)
Stock-based compensation	—	—	5,183	—	—	—	—	5,183
Cash dividends of \$1.02 per share	—	—	—	—	(76,111)	—	—	(76,111)
Other comprehensive loss	—	—	—	(109,809)	—	—	—	(109,809)
Net income	—	—	—	—	263,041	—	—	263,041
<b>Balance at September 30, 2022</b>	<b>73,411,960</b>	<b>\$ 911</b>	<b>\$ 978,433</b>	<b>\$ (112,874)</b>	<b>\$ 2,172,098</b>	<b>\$ (619,009)</b>	<b>\$</b>	<b>2,419,559</b>

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

See accompanying Notes to Consolidated Financial Statements.



**CATHAY GENERAL BANCORP AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

	<b>Nine months ended September 30,</b>	
	<b>2022</b>	<b>2021</b>
	(In thousands)	
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 263,041	\$ 222,980
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision/(reversal) for credit losses	13,143	(19,508)
Provision for losses on other real estate owned	—	(8)
Deferred tax (benefit)/provision	(713)	8,867
Depreciation and amortization	6,847	5,942
Amortization of right-of-use asset	7,446	5,972
Change in operating lease liabilities	(3,216)	(1,456)
Net gains on sale and transfer of other real estate owned	(6)	(120)
Net gains on sale of loans	(1)	(357)
Proceeds from sales of loans	33	5,351
Originations of loans held for sale	—	(4,994)
Loss on sales or disposal of fixed assets	46	55
Amortization on alternative energy partnerships, venture capital and other investments	27,471	31,610
Net gain on sales and calls of securities	(101)	(853)
Amortization/accretion of security premiums/discounts, net	2,875	6,128
Unrealized (gain)/loss on equity securities	(1,257)	3,628
Stock-based compensation and stock issued to officers as compensation	6,032	4,999
Net change in accrued interest receivable and other assets	(77,012)	(21,607)
Net change in other liabilities	125,345	(9,082)
<b>Net cash provided by operating activities</b>	<b>369,973</b>	<b>237,547</b>
<b>Cash Flows from Investing Activities</b>		
Purchase of investment securities available-for-sale	(583,992)	(406,750)
Proceeds from repayments, maturities and calls of investment securities available-for-sale	130,673	326,527
Proceeds from sale of investment securities available-for-sale	553	21,102
Net increase in loans	(1,122,519)	(349,924)
Purchase of premises and equipment	(3,093)	(2,828)
Benefits received from bank owned life insurance policies	—	2,752
Proceeds from sales of other real estate owned	307	—
Net increase in investment in affordable housing and alternative energy partnerships	(107)	(19,039)
Acquisition, net of cash acquired	(73,882)	—
<b>Net cash used for investing activities</b>	<b>(1,652,060)</b>	<b>(428,160)</b>
<b>Cash Flows from Financing Activities</b>		
Net (decrease)/increase in deposits	(58,316)	897,713
Advances from Federal Home Loan Bank	340,000	50,000
Repayment of Federal Home Loan Bank borrowings	—	(180,000)
Cash dividends paid	(76,111)	(73,335)
Purchases of treasury stock	(109,774)	(100,668)
Proceeds from shares issued under Dividend Reinvestment Plan	2,793	2,619
Taxes paid related to net share settlement of RSUs	(2,864)	(2,632)
<b>Net cash provided by financing activities</b>	<b>95,728</b>	<b>593,697</b>
(Decrease)/Increase in cash, cash equivalents, and restricted cash	(1,186,359)	403,084
Cash, cash equivalents, and restricted cash, beginning of the period	2,449,704	1,421,078
<b>Cash, cash equivalents, and restricted cash, end of the period</b>	<b>\$ 1,263,345</b>	<b>\$ 1,824,162</b>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid during the period:		
Interest	\$ 52,147	\$ 61,574
Income taxes paid	\$ 59,981	\$ 65,291
Non-cash investing and financing activities:		
Net change in unrealized holding loss on securities available-for-sale, net of tax	\$ (115,612)	\$ (7,872)
Net change in unrealized holding gain on cash flow hedge derivatives	\$ 5,803	\$ 2,194
Loans transferred from held-for-investment to held-for-sale	\$ 32	\$ —
Transfers to other real estate owned from loans held for investment	\$ —	\$ 205

See accompanying Notes to Consolidated Financial Statements.

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

**1. Business**

Cathay General Bancorp (“Bancorp”) is the holding company for Cathay Bank (the “Bank” and, together, with Bancorp, the “Company”), ten limited partnerships investing in affordable housing investments in which the Bank is the sole limited partner, and GBC Venture Capital, Inc. Bancorp also owns 100% of the common stock of five statutory business trusts created for the purpose of issuing capital securities. The Bank was founded in 1962 and offers a wide range of financial services. As of September 30, 2022, the Bank operates 25 branches in Southern California, 19 branches in Northern California, 9 branches in New York State, four in Washington State, two in Illinois, two in Texas, one in Maryland, Massachusetts, Nevada, and New Jersey, one in Hong Kong, and a representative office in Taipei, Beijing, and Shanghai. Deposit accounts at the Hong Kong branch are not insured by the Federal Deposit Insurance Corporation (the “FDIC”).

**2. Business Combinations**

The Company’s subsidiary bank, Cathay Bank completed the purchase of HSBC Bank USA, National Association’s West Coast mass retail market consumer banking business and retail business banking business on February 7, 2022. As a result of the acquisition, Cathay Bank added 10 retail branches in California and additional loans with principal balance of \$646.1 million and deposits with a balance of \$575.2 million.

The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the February 7, 2022 acquisition date. The assets acquired and liabilities assumed have been accounted for under the acquisition method of accounting. We have included the financial results of the business combinations in the Consolidated Statements of Operations and Comprehensive Income beginning on the acquisition date. The purchase accounting adjustments are preliminary and subject to finalization during the one-year measurement period from the date of the acquisition.

The fair value of the assets and the liabilities acquired as of February 7, 2022 are shown below:

	Balance Sheet (In thousands)
<b>Assets:</b>	
Cash and cash equivalents	\$ 473
Loans	641,839
Right-of-use assets - operating leases	6,453
Core deposit intangible	3,138
Other	561
Total assets	<b>\$ 652,464</b>
<b>Liabilities assumed:</b>	
Deposits	\$ 575,163
Lease liabilities	6,453
Total liabilities assumed	<b>\$ 581,616</b>
<b>Net assets acquired</b>	<b>\$ 70,848</b>
<b>Total cash paid at closing</b>	<b>\$ 74,355</b>
<b>Goodwill</b>	<b>\$ 3,507</b>

### **3. Basis of Presentation and Summary of Significant Accounting Policies**

The accompanying unaudited Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2022. For further information, refer to the audited Consolidated Financial Statements and Notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021 filed with the SEC on February 28, 2022 (the “2021 Form 10-K”).

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

For comparability, the Company has adjusted consolidated prior period amounts to conform to the current periods presentation.

### **4. Recent Accounting Pronouncements**

In March 2020, the FASB issued ASU No. 2020-04, “Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting.” ASU No. 2020-04 is effective for all entities as of March 12, 2020, through December 31, 2022. This ASU provides temporary optional guidance to ease the potential burden in accounting for reference rate reform. The new guidance provides optional expedients and exceptions for applying GAAP to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. The ASU is intended to help stakeholders during the global market-wide reference rate transition period. Therefore, it will be in effect for a limited time through December 31, 2022. In January 2021, the FASB issued ASU 2021-01 as subsequent amendments, which expanded the scope of Topic 848 to include all affected derivatives and clarified certain optional expedients and exceptions regarding the hedge accounting for derivative contracts affected by the discounting transition. Based on our current assessment, we will plan to offer SOFR as the primary alternative reference rate but may consider alternate rates based on customer demands and/or the type of loan or financial instrument. The Company will also continue to assess impacts to our operations, financial models, data and technology as part of our transition plan. The Company adopted ASU 2020-04 and ASU 2021-01 on a prospective basis on January 1, 2021. At the time of adoption, the guidance did not have a material impact on the Company’s Consolidated Financial Statements. The Company will continue to track the exposure as of each reporting period and to assess the impact as the reference rate transition occurs through the cessation of LIBOR.

In March 2022, the FASB issued ASU 2022-01, “Derivatives and Hedging (Topic 815): Fair Value Hedging - Portfolio Layer Method.” Under prior guidance, entities can apply the last-of-layer hedging method to hedge the exposure of a closed portfolio of prepayable financial assets to fair value changes due to changes in interest rates for a portion of the portfolio that is not expected to be affected by prepayments, defaults, and other events affecting the timing and amount of cash flows. ASU 2022-01 expands the last-of-layer method, which permits only one hedge layer, to allow multiple hedged layers of a single closed portfolio. To reflect that expansion, the last-of-layer method is renamed the portfolio layer method. ASU 2022-01 also (i) expands the scope of the portfolio layer method to include non-prepayable financial assets, (ii) specifies eligible hedging instruments in a single-layer hedge, (iii) provides additional guidance on the accounting for and disclosure of hedge basis adjustments under the portfolio layer method and (iv) specifies how hedge basis adjustments should be considered when determining credit losses for the assets included in the closed portfolio. ASU 2022-01 will be effective for us on January 1, 2023 though early adoption is permitted. The adoption of ASU 2022-01 is not expected to have a significant impact on our financial statements.

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In March 2022, ASU 2022-02, “Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures.” ASU 2022-02 eliminates the accounting guidance for troubled debt restructurings in Accounting Standards Codification (“ASC”) Subtopic 310-40, Receivables - Troubled Debt Restructurings by Creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. Additionally, ASU 2022-02 requires entities to disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases within the scope of ASC Subtopic 326-20, Financial Instruments - Credit Losses - Measured at Amortized Cost. ASU 2022-02 will be effective for us on January 1, 2023 though early adoption is permitted. The adoption of ASU 2022-02 is not expected to have a significant impact on our financial statements.

In June 2022, ASU 2022-03, “Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions.” ASU 2022-03 clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. ASU 2022-03 also clarifies that an entity cannot, as a separate unit of account, recognize and measure a contractual sale restriction and requires certain new disclosures for equity securities subject to contractual sale restrictions. ASU 2022-03 will be effective for us on January 1, 2024 though early adoption is permitted. The adoption of ASU 2022-03 is not expected to have a significant impact on our financial statements.

### **5. Cash, Cash Equivalents and Restricted Cash**

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

The Company had average excess balance with Federal Reserve Bank of \$1.3 billion for the nine months ended September 30, 2022 and \$1.6 billion for the year ended December 31, 2021. As of September 30, 2022 and December 31, 2021, the Company had zero and \$24.3 million, respectively, on deposit in a cash margin account that serves as collateral for interest rate swaps. These amounts included zero and \$5.9 million as of September 30, 2022 and December 31, 2021, respectively, on deposit in a cash margin account that serves as collateral for the Bancorp’s interest rate swaps. As of September 30, 2022 and December 31, 2021, the Company held \$32.7 million and \$690 thousand, respectively, in a restricted escrow account with a major bank for its alternative energy investments.

**6. Earnings per Share**

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

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	(In thousands, except share and per share data)			
Net income	\$ 99,035	\$ 72,397	\$ 263,041	\$ 222,980
<b>Weighted-average shares:</b>				
Basic weighted-average number of common shares outstanding	73,158,096	77,846,424	74,475,032	78,841,899
<b>Dilutive effect of weighted-average outstanding common share equivalents:</b>				
RSUs	286,000	306,984	324,292	286,745
<b>Diluted weighted-average number of common shares outstanding</b>	<b>73,444,096</b>	<b>78,153,408</b>	<b>74,799,324</b>	<b>79,128,644</b>
Average restricted stock units with anti-dilutive effect	—	884	—	30,130
<b>Earnings per common share:</b>				
Basic	\$ 1.35	\$ 0.93	\$ 3.53	\$ 2.83
Diluted	\$ 1.35	\$ 0.93	\$ 3.52	\$ 2.82

**7. Stock-Based Compensation**

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

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

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

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

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The following table presents RSU activity during the nine months ended September 30, 2022:

	Time-Based RSUs		Performance-Based RSUs	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value
<b>Balance at December 31, 2021</b>	235,944	\$ 32.38	332,506	\$ 31.82
Granted	65,389	46.85	112,393	40.24
Vested	(87,554)	40.89	(81,934)	44.52
Forfeited	(11,182)	33.31	—	—
<b>Balance at September 30, 2022</b>	<b>202,597</b>	<b>\$ 33.32</b>	<b>362,965</b>	<b>\$ 31.56</b>

The compensation expense recorded for RSUs was \$1.8 million and \$1.7 million for the three months ended September 30, 2022, and 2021, respectively. For the nine months ended September 30, 2022 and 2021, the compensation expense recorded for RSUs was \$5.2 million and \$4.1 million, respectively. Unrecognized stock-based compensation expense related to RSUs was \$10.7 million and \$10.3 million as of September 30, 2022 and 2021, respectively. As of September 30, 2022, these costs are expected to be recognized over the next 1.9 years for time-based and performance-based RSUs.

As of September 30, 2022, 1,659,495 shares were available for future grants under the Company's 2005 Incentive Plan, as amended and restated.

**8. Investment Securities**

The following tables set forth the amortized cost, gross unrealized gains, gross unrealized losses, and fair value of securities available-for-sale as of September 30, 2022, and December 31, 2021:

	September 30, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
<b>Securities Available-for-Sale</b>				
U.S. treasury securities	\$ 242,510	\$ —	\$ 1,110	\$ 241,400
U.S. government agency entities	68,712	526	126	69,112
Mortgage-backed securities	1,001,832	58	140,402	861,488
Collateralized mortgage obligations	35,378	—	3,669	31,709
Corporate debt securities	228,879	—	18,177	210,702
<b>Total</b>	<b>\$ 1,577,311</b>	<b>\$ 584</b>	<b>\$ 163,484</b>	<b>\$ 1,414,411</b>

	December 31, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
<b>Securities Available-for-Sale</b>				
U.S. government agency entities	\$ 86,475	\$ 1,169	\$ 135	\$ 87,509
Mortgage-backed securities	886,614	9,465	7,414	888,665
Collateralized mortgage obligations	9,547	—	430	9,117
Corporate debt securities	144,231	441	2,654	142,018
<b>Total</b>	<b>\$ 1,126,867</b>	<b>\$ 11,075</b>	<b>\$ 10,633</b>	<b>\$ 1,127,309</b>

As of September 30, 2022, the amortized cost of AFS debt securities excluded accrued interest receivables of \$4.5 million, which are included in “accrued interest receivable” on the Consolidated Balance Sheets. For the Company’s accounting policy related to AFS debt securities’ accrued interest receivable, see *Note 1 - Summary of Significant Accounting Policies – Securities Available for Sale – Allowance for Credit Losses on Available for Sale Securities* to the Consolidated Financial Statements in the Company’s 2021 Form 10-K.

The amortized cost and fair value of securities available-for-sale as of September 30, 2022, by contractual maturities, are set forth in the tables below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or repayment penalties.

	September 30, 2022	
	Securities Available-For-Sale	
	Amortized Cost	Fair Value
	(In thousands)	
Due in one year or less	\$ 282,514	\$ 280,897
Due after one year through five years	176,541	159,389
Due after five years through ten years	147,198	138,428
Due after ten years	971,058	835,697
<b>Total</b>	<b>\$ 1,577,311</b>	<b>\$ 1,414,411</b>

**Equity Securities** - The Company recognized a net loss of \$3.7 million for the three months ended September 30, 2022, due to the decrease in fair value during the quarter of equity investments with readily determinable fair values compared to a net gain of \$3 thousand for the three months ended September 30, 2021. The Company recognized a net gain of \$1.3 million for the nine months ended September 30, 2022 due to the increase in fair value of equity investments with readily determinable fair values compared to a net loss of \$3.6 million for the nine months ended September 30, 2021. Equity securities were \$23.1 million and \$22.3 million as of September 30, 2022, and December 31, 2021, respectively.

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The following tables set forth the gross unrealized losses and related fair value of the Company's investment portfolio, aggregated by investment category and the length of time that individual security has been in a continuous unrealized loss position, as of September 30, 2022, and December 31, 2021:

	September 30, 2022					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)					
<b>Securities Available-for-Sale</b>						
U.S. treasury securities	\$ 241,400	\$ 1,110	\$ —	\$ —	\$ 241,400	\$ 1,110
U.S. government agency entities	—	—	2,155	126	2,155	126
Mortgage-backed securities	551,053	69,037	309,737	71,365	860,790	140,402
Collateralized mortgage obligations	24,901	1,794	6,809	1,875	31,710	3,669
Corporate debt securities	118,913	4,364	91,790	13,813	210,703	18,177
<b>Total</b>	<b>\$ 936,267</b>	<b>\$ 76,305</b>	<b>\$ 410,491</b>	<b>\$ 87,179</b>	<b>\$ 1,346,758</b>	<b>\$ 163,484</b>

	December 31, 2021					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)					
<b>Securities Available-for-Sale</b>						
U.S. government agency entities	\$ —	\$ —	\$ 2,337	\$ 135	\$ 2,337	\$ 135
Mortgage-backed securities	527,276	6,659	6,496	755	533,772	7,414
Collateralized mortgage obligations	8,989	417	128	13	9,117	430
Corporate debt securities	103,720	2,122	19,468	532	123,188	2,654
<b>Total</b>	<b>\$ 639,985</b>	<b>\$ 9,198</b>	<b>\$ 28,429</b>	<b>\$ 1,435</b>	<b>\$ 668,414</b>	<b>\$ 10,633</b>

As of September 30, 2022, the Company had a total of 195 AFS debt securities in a gross unrealized loss position with no credit impairment, consisting primarily of 160 U.S. government-sponsored mortgage-backed securities, and 21 Corporate debt securities. In comparison, as of December 31, 2021, the Company has a total of 88 AFS debt securities in a gross unrealized loss position with no impairment, consisting primarily of 70 U.S. government-sponsored mortgage-backed securities, and 12 Corporate debt securities.

**Allowance for Credit Losses**

The securities that were in an unrealized loss position at September 30, 2022, were evaluated to determine whether the decline in fair value below the amortized cost basis resulted from a credit loss or other factors. For a discussion of the factors and criteria the Company uses in analyzing securities for impairment related to credit losses, see Note 1 - Summary of Significant Accounting Policies - Allowance for Credit Losses on Available for Sale Securities to the Consolidated Financial Statements in the Company's 2021 Form 10-K.

The Company concluded the unrealized losses were primarily attributed to yield curve movement, together with widened liquidity spreads and credit spreads. The issuers have not, to the Company's knowledge, established any cause for default on these securities. The Company expects to recover the amortized cost basis of its securities and has no present intent to sell and will not be required to sell available-for-sale securities that have declined below their cost before their anticipated recovery. Accordingly, no allowance for credit losses was recorded as of September 30, 2022, against these securities, and there was no provision for credit losses recognized for the three months and nine months ended September 30, 2022. For the three months and nine months ended September 30, 2021, there were no credit losses recognized.



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Securities available-for-sale having a carrying value of \$144.3 million and \$30.5 million as of September 30, 2022, and December 31, 2021, respectively, were pledged to secure public deposits and other borrowings.

### 9. Loans

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

The types of loans in the Company's Consolidated Balance Sheets as of September 30, 2022 and December 31, 2021, were as follows:

	<u>September 30, 2022</u>	<u>December 31, 2021</u>
	(In thousands)	
Commercial loans	\$ 3,367,437	\$ 2,982,399
Real estate construction loans	573,421	611,031
Commercial mortgage loans	8,677,733	8,143,272
Residential mortgage loans	5,130,650	4,182,006
Equity lines	350,448	419,487
Installment and other loans	7,114	4,284
Gross loans	<u>\$ 18,106,803</u>	<u>\$ 16,342,479</u>
Allowance for loan losses	(148,817)	(136,157)
Unamortized deferred loan fees, net	(6,936)	(4,321)
<b>Total loans, net</b>	<b><u>\$ 17,951,050</u></b>	<b><u>\$ 16,202,001</u></b>

As of September 30, 2022, recorded investment in non-accrual loans was \$68.1 million. As of December 31, 2021, recorded investment in non-accrual loans totaled \$65.8 million. For non-accrual loans, the amounts previously charged off represent 12.2% and 10.7% of the contractual balances for non-accrual loans as of September 30, 2022 and December 31, 2021.

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

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30, 2022</u>		<u>September 30, 2022</u>	
	<u>Average</u>	<u>Interest</u>	<u>Average</u>	<u>Interest</u>
	<u>Recorded</u>	<u>Income</u>	<u>Recorded</u>	<u>Income</u>
	<u>Investment</u>	<u>Recognized</u>	<u>Investment</u>	<u>Recognized</u>
	(In thousands)			
Commercial loans	\$ 26,809	\$ —	\$ 28,691	\$ —
Commercial mortgage loans	18,861	191	28,878	508
Residential mortgage loans and equity lines	16,743	7	14,838	20
Installment and other loans	61	—	35	—
<b>Total non-accrual loans</b>	<b>\$ 62,474</b>	<b>\$ 198</b>	<b>\$ 72,442</b>	<b>\$ 528</b>

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

The following table presents non-accrual loans and the related allowance as of September 30, 2022 and December 31, 2021:

	<b>September 30, 2022</b>		
	<b>Unpaid Principal Balance</b>	<b>Recorded Investment</b>	<b>Allowance</b>
	(In thousands)		
<b>With no allocated allowance</b>			
Commercial loans	\$ 10,171	\$ 6,887	\$ —
Commercial mortgage loans	14,148	10,956	—
Residential mortgage loans and equity lines	5,582	5,407	—
Installment and other loans	10	9	—
Subtotal	<u>\$ 29,911</u>	<u>\$ 23,259</u>	<u>\$ —</u>
<b>With allocated allowance</b>			
Commercial loans	\$ 32,426	\$ 19,717	\$ 4,013
Commercial mortgage loans	16,002	15,955	2,146
Residential mortgage loans and equity lines	9,951	9,194	39
Subtotal	<u>\$ 58,379</u>	<u>\$ 44,866</u>	<u>\$ 6,198</u>
<b>Total non-accrual loans</b>	<u><b>\$ 88,290</b></u>	<u><b>\$ 68,125</b></u>	<u><b>\$ 6,198</b></u>
	<b>December 31, 2021</b>		
	<b>Unpaid Principal Balance</b>	<b>Recorded Investment</b>	<b>Allowance</b>
	(In thousands)		
<b>With no allocated allowance</b>			
Commercial loans	\$ 15,879	\$ 11,342	\$ —
Commercial mortgage loans	24,437	21,209	—
Residential mortgage loans and equity lines	6,020	5,850	—
Subtotal	<u>\$ 46,336</u>	<u>\$ 38,401</u>	<u>\$ —</u>
<b>With allocated allowance</b>			
Commercial loans	\$ 14,294	\$ 5,217	\$ 894
Commercial mortgage loans	17,930	16,964	3,631
Residential mortgage loans and equity lines	6,048	5,264	22
Subtotal	<u>\$ 38,272</u>	<u>\$ 27,445</u>	<u>\$ 4,547</u>
<b>Total non-accrual loans</b>	<u><b>\$ 84,608</b></u>	<u><b>\$ 65,846</b></u>	<u><b>\$ 4,547</b></u>

The following tables present the aging of the loan portfolio by type as of September 30, 2022, and as of December 31, 2021:

	September 30, 2022						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Non-accrual Loans	Total Past Due	Loans Not Past Due	Total
(In thousands)							
<b>Type of Loans:</b>							
Commercial loans	\$ 7,223	\$ 3,151	\$ 1,112	\$ 26,604	\$ 38,090	\$ 3,329,347	\$ 3,367,437
Real estate construction loans	—	—	—	—	—	573,421	573,421
Commercial mortgage loans	—	1,107	2,060	26,911	30,078	8,647,655	8,677,733
Residential mortgage loans and equity lines	3,383	4,690	—	14,601	22,674	5,458,424	5,481,098
Installment and other loans	35	—	—	9	44	7,070	7,114
<b>Total loans</b>	<b>\$ 10,641</b>	<b>\$ 8,948</b>	<b>\$ 3,172</b>	<b>\$ 68,125</b>	<b>\$ 90,886</b>	<b>\$ 18,015,917</b>	<b>\$ 18,106,803</b>

  

	December 31, 2021						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Non-accrual Loans	Total Past Due	Loans Not Past Due	Total
(In thousands)							
<b>Type of Loans:</b>							
Commercial loans	\$ 4,294	\$ 9,877	\$ 1,439	\$ 16,558	\$ 32,168	\$ 2,950,231	\$ 2,982,399
Real estate construction loans	—	—	—	—	—	611,031	611,031
Commercial mortgage loans	8,389	—	—	38,173	46,562	8,096,710	8,143,272
Residential mortgage loans and equity lines	20,129	3,138	—	11,115	34,382	4,567,111	4,601,493
Installment and other loans	—	—	—	—	—	4,284	4,284
<b>Total loans</b>	<b>\$ 32,812</b>	<b>\$ 13,015</b>	<b>\$ 1,439</b>	<b>\$ 65,846</b>	<b>\$ 113,112</b>	<b>\$ 16,229,367</b>	<b>\$ 16,342,479</b>

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

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

The Company establishes a specific reserve for individually evaluated loans that do not share similar risk characteristics with the loans included in the quantitative baseline. These individually evaluated loans are removed from the pooling approach discussed in *Note 1 - Summary of Significant Accounting Policies* – to the Consolidated Financial Statements of the Company’s 2021 Form 10-K, for the quantitative baseline, and include non-accrual loans, TDRs, and other loans as deemed appropriate by management. In addition, the Company individually evaluates “reasonably expected” TDRs, which are identified by the Company as a commercial loan expected to be classified as a TDR. Individually evaluated loans also includes “reasonably expected” TDRs, identified by the Company as a consumer loan for which a borrower’s application of loan modification due to hardship has been received by the Company. Management judgment is utilized to make this determination.

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

As of September 30, 2022, accruing TDRs were \$15.2 million and non-accrual TDRs were \$6.4 million compared to accruing TDRs of \$12.8 million and non-accrual TDRs of \$8.2 million as of December 31, 2021. The Company allocated \$10 thousand in reserves to accruing TDRs and \$499 thousand to non-accrual TDRs as of September 30, 2022, compared to seven thousand to accruing TDRs and three thousand to non-accrual TDRs as of December 31, 2021.

The following tables set forth TDRs that were modified during the three months and nine months ended September 30, 2022 and 2021, their specific reserves as of September 30, 2022, and 2021, and charge-offs for the three months and six months ended September 30, 2022, and 2021:

	Three Months Ended September 30, 2022				September 30, 2022	
	No. of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Charge-offs	Specific Reserve	
		(In thousands)				
Commercial mortgage loans	2	\$ 2,572	\$ 2,572	\$ —	\$ —	
Residential mortgage loans and equity lines	4	1,466	1,442	—	—	
<b>Total</b>	<b>6</b>	<b>\$ 4,038</b>	<b>\$ 4,014</b>	<b>\$ —</b>	<b>\$ —</b>	

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

	Nine Months Ended September 30, 2022				September 30, 2022	
	No. of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Charge-offs	Specific Reserve	
		(In thousands)				
Commercial loans	4	\$ 6,115	\$ 6,115	\$ —	\$ 2,566	
Commercial mortgage loans	2	2,572	2,572	—	—	
Residential mortgage loans and equity lines	8	2,190	2,162	—	4	
<b>Total</b>	<b>14</b>	<b>\$ 10,877</b>	<b>\$ 10,849</b>	<b>\$ —</b>	<b>\$ 2,570</b>	

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

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Modifications of the loan terms in the three and nine months ended September 30, 2022, were in the form of extensions of maturity dates, which ranged generally from three to twelve months from the modification date.

We expect that the TDRs on accruing status as of September 30, 2022, which were all performing in accordance with their restructured terms, will continue to comply with the restructured terms because of the reduced principal or interest payments on these loans. The ongoing impact of the COVID pandemic or worsening economy, however, could increase the risk that such TDRs become non-accrual due to the borrowers' inability to continue to comply with their restructured terms.

A summary of TDRs by type of concession and by type of loan, as of September 30, 2022, and December 31, 2021, is set forth in the table below:

	September 30, 2022			
	Payment Deferral	Rate Reduction	Rate Reduction and Payment Deferral	Total
	(In thousands)			
<b>Accruing TDRs</b>				
Commercial loans	\$ 2,643	\$ —	\$ —	\$ 2,643
Commercial mortgage loans	2,734	—	5,874	8,608
Residential mortgage loans	2,198	459	1,300	3,957
<b>Total accruing TDRs</b>	<b>\$ 7,575</b>	<b>\$ 459</b>	<b>\$ 7,174</b>	<b>\$ 15,208</b>

	September 30, 2022			
	Payment Deferral	Rate Reduction	Rate Reduction and Payment Deferral	Total
	(In thousands)			
<b>Non-accrual TDRs</b>				
Commercial loans	\$ 4,805	\$ —	\$ —	\$ 4,805
Residential mortgage loans	1,635	—	—	1,635
<b>Total non-accrual TDRs</b>	<b>\$ 6,440</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 6,440</b>

December 31, 2021				
	Payment Deferral	Rate Reduction	Rate Reduction and Payment Deferral	Total
(In thousands)				
<b>Accruing TDRs</b>				
Commercial loans	\$ 3,368	\$ —	\$ —	\$ 3,368
Commercial mortgage loans	438	5,522	168	6,128
Residential mortgage loans	1,464	249	1,628	3,341
<b>Total accruing TDRs</b>	<b>\$ 5,270</b>	<b>\$ 5,771</b>	<b>\$ 1,796</b>	<b>\$ 12,837</b>

December 31, 2021				
	Payment Deferral	Rate Reduction	Rate Reduction and Payment Deferral	Total
(In thousands)				
<b>Non-accrual TDRs</b>				
Commercial loans	\$ 7,717	\$ —	\$ —	\$ 7,717
Residential mortgage loans	458	—	—	458
<b>Total non-accrual TDRs</b>	<b>\$ 8,175</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 8,175</b>

The Company considers a loan to be in payment default once it is 60 to 90 days contractually past due under the modified terms. The Company did not have any loans that were modified as a TDR during the previous twelve months and which had subsequently defaulted as of September 30, 2022.

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

As of September 30, 2022, there were no commitments to lend additional funds to those borrowers whose loans had been restructured, were considered individually evaluated, or were on non-accrual status.

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

As part of the on-going monitoring of the credit quality of our loan portfolio, the Company utilizes a risk grading matrix to assign a risk grade to each loan. Loans are risk rated based on analysis of the current state of the borrower's credit quality. The analysis of credit quality includes a review of sources of repayment, the borrower's current financial and liquidity status and other relevant information. The risk rating categories can be generally described by the following grouping for non-homogeneous loans:

- **Pass/Watch** – These loans range from minimal credit risk to lower than average, but still acceptable, credit risk. ● **Special Mention** – Borrower is fundamentally sound, and loan is currently protected but adverse trends are apparent that, if not corrected, may affect ability to repay. Primary source of loan repayment remains viable but there is increasing reliance on collateral or guarantor support.
- **Substandard** – These loans are inadequately protected by current sound net worth, paying capacity, or collateral. Well-defined weaknesses exist that could jeopardize repayment of debt. Loss may not be imminent, but if weaknesses are not corrected, there is a good possibility of some loss.
- **Doubtful** – The possibility of loss is extremely high, but due to identifiable and important pending events (which may strengthen the loan), a loss classification is deferred until the situation is better defined.
- **Loss** – These loans are considered uncollectible and of such little value that to continue to carry the loan as an active asset is no longer warranted.



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The following table summarizes the Company's loan held for investment as of September 30, 2022 and December 31, 2021, presented by loan portfolio segments, internal risk ratings and vintage year. The vintage year is the year of origination, renewal or major modification:

September 30, 2022	Loans Amortized Cost Basis by Origination Year						Revolving Loans	Revolving Converted to Term Loans	Total
	2022	2021	2020	2019	2018	Prior			
	(In thousands)								
<b>Commercial loans</b>									
Pass/Watch	\$ 440,389	\$ 487,748	\$ 201,540	\$ 127,595	\$ 115,076	\$ 131,652	\$ 1,749,754	\$ 6,429	\$ 3,260,183
Special Mention	1,212	4,494	2,869	72	2,697	11,418	22,703	250	45,715
Substandard	—	12,324	4,973	6,511	2,852	5,226	25,278	38	57,202
Doubtful	—	—	—	1,088	2,185	—	232	—	3,505
<b>Total</b>	<b>\$ 441,601</b>	<b>\$ 504,566</b>	<b>\$ 209,382</b>	<b>\$ 135,266</b>	<b>\$ 122,810</b>	<b>\$ 148,296</b>	<b>\$ 1,797,967</b>	<b>\$ 6,717</b>	<b>\$ 3,366,605</b>
YTD period charge-offs	\$ —	\$ 134	\$ 169	\$ 71	\$ 1,786	\$ —	\$ 202	\$ —	\$ 2,362
YTD period recoveries	(7)	—	(31)	—	(164)	(202)	(1,705)	—	(2,109)
<b>Net charge-offs/(recoveries)</b>	<b>\$ (7)</b>	<b>\$ 134</b>	<b>\$ 138</b>	<b>\$ 71</b>	<b>\$ 1,622</b>	<b>\$ (202)</b>	<b>\$ (1,503)</b>	<b>\$ —</b>	<b>\$ 253</b>
<b>Real estate construction loans</b>									
Pass/Watch	\$ 80,633	\$ 271,855	\$ 114,015	\$ 58,922	\$ 24,650	\$ —	\$ —	\$ —	\$ 550,075
Special Mention	—	—	8,579	—	—	—	—	—	8,579
Substandard	—	—	—	2,005	9,352	—	—	—	11,357
<b>Total</b>	<b>\$ 80,633</b>	<b>\$ 271,855</b>	<b>\$ 122,594</b>	<b>\$ 60,927</b>	<b>\$ 34,002</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 570,011</b>
YTD period charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
YTD period recoveries	—	—	—	—	—	(6)	—	—	(6)
<b>Net charge-offs/(recoveries)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (6)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (6)</b>
<b>Commercial mortgage loans</b>									
Pass/Watch	\$ 1,597,328	\$ 1,781,573	\$ 1,084,550	\$ 1,124,054	\$ 941,945	\$ 1,573,895	\$ 179,343	\$ —	\$ 8,282,688
Special Mention	43,636	51,488	25,686	42,685	18,952	63,473	1,300	—	247,220
Substandard	—	7,269	1,744	12,383	31,933	86,222	3,371	—	142,922
<b>Total</b>	<b>\$ 1,640,964</b>	<b>\$ 1,840,330</b>	<b>\$ 1,111,980</b>	<b>\$ 1,179,122</b>	<b>\$ 992,830</b>	<b>\$ 1,723,590</b>	<b>\$ 184,014</b>	<b>\$ —</b>	<b>\$ 8,672,830</b>
YTD period charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
YTD period recoveries	—	—	—	(180)	—	(7)	(83)	—	(270)
<b>Net charge-offs/(recoveries)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (180)</b>	<b>\$ —</b>	<b>\$ (7)</b>	<b>\$ (83)</b>	<b>\$ —</b>	<b>\$ (270)</b>
<b>Residential mortgage loans</b>									
Pass/Watch	\$ 995,736	\$ 976,137	\$ 595,493	\$ 610,410	\$ 433,398	\$ 1,495,370	\$ —	\$ —	\$ 5,106,544
Special Mention	—	—	33	1,552	755	911	—	—	3,251
Substandard	8	1,108	2,343	4,897	3,248	10,439	—	—	22,043
<b>Total</b>	<b>\$ 995,744</b>	<b>\$ 977,245</b>	<b>\$ 597,869</b>	<b>\$ 616,859</b>	<b>\$ 437,401</b>	<b>\$ 1,506,720</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 5,131,838</b>
YTD period charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 58	\$ —	\$ 58
YTD period recoveries	—	—	—	—	—	(45)	—	—	(45)
<b>Net charge-offs/(recoveries)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (45)</b>	<b>\$ 58</b>	<b>\$ —</b>	<b>\$ 13</b>
<b>Equity lines</b>									
Pass/Watch	\$ 878	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 325,751	\$ 23,229	\$ 349,858
Special Mention	28	—	—	—	—	—	—	—	28
Substandard	18	—	—	—	—	—	2,251	236	2,505
<b>Total</b>	<b>\$ 924</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 328,002</b>	<b>\$ 23,465</b>	<b>\$ 352,391</b>
YTD period charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
YTD period recoveries	—	—	—	—	—	—	(8)	(12)	(20)
<b>Net charge-offs/(recoveries)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (8)</b>	<b>\$ (12)</b>	<b>\$ (20)</b>
<b>Installment and other loans</b>									
Pass/Watch	\$ 1,246	\$ 4,848	\$ 98	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6,192
<b>Total</b>	<b>\$ 1,246</b>	<b>\$ 4,848</b>	<b>\$ 98</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 6,192</b>
YTD period charge-offs	\$ 80	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 80
YTD period recoveries	(1)	—	—	—	—	—	—	—	(1)
<b>Net charge-offs/(recoveries)</b>	<b>\$ 79</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 79</b>
<b>Total loans</b>	<b>\$ 3,161,112</b>	<b>\$ 3,598,844</b>	<b>\$ 2,041,923</b>	<b>\$ 1,992,174</b>	<b>\$ 1,587,043</b>	<b>\$ 3,378,606</b>	<b>\$ 2,309,983</b>	<b>\$ 30,182</b>	<b>\$ 18,099,867</b>
<b>Net charge-offs/(recoveries)</b>	<b>\$ 72</b>	<b>\$ 134</b>	<b>\$ 138</b>	<b>\$ (109)</b>	<b>\$ 1,622</b>	<b>\$ (260)</b>	<b>\$ (1,536)</b>	<b>\$ (12)</b>	<b>\$ 49</b>

December 31, 2021	Loans Amortized Cost Basis by Origination Year						Revolving Loans	Revolving Converted to Term Loans	Total
	2021	2020	2019	2018	2017	Prior			
	(In thousands)								
<b>Commercial loans</b>									
Pass/Watch	\$ 606,770	\$ 268,756	\$ 183,468	\$ 142,419	\$ 80,701	\$ 100,496	\$ 1,437,463	\$ 7,433	\$ 2,827,506
Special Mention	395	780	1,138	1,645	3,157	—	40,761	49	47,925
Substandard	450	5,879	22,513	16,423	14,309	5,221	34,713	5,716	105,224
Doubtful	—	—	—	—	—	—	900	—	900
<b>Total</b>	<b>\$ 607,615</b>	<b>\$ 275,415</b>	<b>\$ 207,119</b>	<b>\$ 160,487</b>	<b>\$ 98,167</b>	<b>\$ 105,717</b>	<b>\$ 1,513,837</b>	<b>\$ 13,198</b>	<b>\$ 2,981,555</b>
YTD period charge-offs	\$ —	\$ 1,478	\$ 507	\$ 366	\$ —	\$ 50	\$ 17,650	\$ —	\$ 20,051
YTD period recoveries	—	(1)	(29)	(124)	—	(191)	(1,361)	—	(1,706)
<b>Net</b>	<b>\$ —</b>	<b>\$ 1,477</b>	<b>\$ 478</b>	<b>\$ 242</b>	<b>\$ —</b>	<b>\$ (141)</b>	<b>\$ 16,289</b>	<b>\$ —</b>	<b>\$ 18,345</b>
<b>Real estate construction loans</b>									
Pass/Watch	\$ 199,188	\$ 188,782	\$ 125,316	\$ 24,548	\$ —	\$ —	\$ —	\$ —	\$ 537,834
Special Mention	—	23,107	27,672	17,374	—	—	—	—	68,153
Substandard	—	—	1,919	—	—	—	—	—	1,919
<b>Total</b>	<b>\$ 199,188</b>	<b>\$ 211,889</b>	<b>\$ 154,907</b>	<b>\$ 41,922</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 607,906</b>
YTD period charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
YTD period recoveries	—	—	—	—	—	(76)	—	—	(76)
<b>Net</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (76)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (76)</b>
<b>Commercial mortgage loans</b>									
Pass/Watch	\$ 1,893,807	\$ 1,201,825	\$ 1,253,548	\$ 1,031,191	\$ 727,916	\$ 1,313,882	\$ 198,869	\$ —	\$ 7,621,038
Special Mention	45,719	59,182	49,796	103,101	61,105	60,448	750	—	380,101
Substandard	1,110	—	13,483	42,803	1,580	76,906	3,297	—	139,179
<b>Total</b>	<b>\$ 1,940,636</b>	<b>\$ 1,261,007</b>	<b>\$ 1,316,827</b>	<b>\$ 1,177,095</b>	<b>\$ 790,601</b>	<b>\$ 1,451,236</b>	<b>\$ 202,916</b>	<b>\$ —</b>	<b>\$ 8,140,318</b>
YTD period charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
YTD period recoveries	—	—	(240)	—	—	(28)	(111)	—	(379)
<b>Net</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (240)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (28)</b>	<b>\$ (111)</b>	<b>\$ —</b>	<b>\$ (379)</b>
<b>Residential mortgage loans</b>									
Pass/Watch	\$ 978,375	\$ 622,999	\$ 678,775	\$ 502,325	\$ 453,992	\$ 929,846	\$ —	\$ —	\$ 4,166,312
Special Mention	—	46	1,576	1,064	836	438	—	—	3,960
Substandard	1,684	147	2,698	2,574	862	5,255	—	—	13,220
<b>Total</b>	<b>\$ 980,059</b>	<b>\$ 623,192</b>	<b>\$ 683,049</b>	<b>\$ 505,963</b>	<b>\$ 455,690</b>	<b>\$ 935,539</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 4,183,492</b>
YTD period charge-offs	\$ —	\$ —	\$ —	\$ —	\$ 3	\$ —	\$ —	\$ —	\$ 3
YTD period recoveries	—	—	—	—	—	(208)	—	—	(208)
<b>Net</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 3</b>	<b>\$ (208)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (205)</b>
<b>Equity lines</b>									
Pass/Watch	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 5	\$ 389,069	\$ 30,025	\$ 419,099
Substandard	—	—	—	—	—	—	1,230	273	1,503
<b>Total</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 5</b>	<b>\$ 390,299</b>	<b>\$ 30,298</b>	<b>\$ 420,602</b>
YTD period charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
YTD period recoveries	—	—	—	—	—	—	(10)	(64)	(74)
<b>Net</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (10)</b>	<b>\$ (64)</b>	<b>\$ (74)</b>
<b>Installment and other loans</b>									
Pass/Watch	\$ 4,117	\$ 168	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 4,285
<b>Total</b>	<b>\$ 4,117</b>	<b>\$ 168</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 4,285</b>
YTD period charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
YTD period recoveries	—	—	—	—	—	—	—	—	—
<b>Net</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>
<b>Total loans</b>	<b>\$ 3,731,615</b>	<b>\$ 2,371,671</b>	<b>\$ 2,361,902</b>	<b>\$ 1,885,467</b>	<b>\$ 1,344,458</b>	<b>\$ 2,492,497</b>	<b>\$ 2,107,052</b>	<b>\$ 43,496</b>	<b>\$ 16,338,158</b>
<b>Net charge-offs/(recoveries)</b>	<b>\$ —</b>	<b>\$ 1,477</b>	<b>\$ 238</b>	<b>\$ 242</b>	<b>\$ 3</b>	<b>\$ (453)</b>	<b>\$ 16,168</b>	<b>\$ (64)</b>	<b>\$ 17,611</b>

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

## **Allowance for Credit Losses**

The Company has an allowance framework under ASU 2016-13 for all financial assets measured at amortized cost and certain off-balance sheet credit exposures. The measurement of the allowance for credit losses is based on management's best estimate of lifetime expected credit losses inherent in the Company's relevant financial assets. The forward-looking concept of current expected credit loss ("CECL") approach requires loss estimates to consider historical experience, current conditions and reasonable and supportable economic forecasts of future events and circumstances.

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

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

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

### **Quantitative Factors**

Under the Company's CECL methodology, nine portfolio segments with similar risk characteristics are evaluated for expected loss. Six portfolios are modeled using econometric models and three smaller portfolios are evaluated using a simplified loss-rate method that calculates lifetime expected credit losses for the respective pools (simplified approach). The six portfolios subject to econometric modeling include residential mortgages; commercial and industrial loans ("C&I"); construction loans; commercial real estate ("CRE") for multifamily loans; CRE for owner-occupied loans; and other CRE loans. We estimate the probability of default during the reasonable and supportable forecast period using separate econometric regression models developed to correlate macroeconomic variables, (GDP, unemployment, CRE prices and residential mortgage prices) to historical credit performance for each of the six loan portfolios from the fourth quarter of 2007 to the first quarter of 2022. Loss given default rates are computed based on the charge-offs recognized divided by the exposure at default of defaulted loans starting with the fourth quarter of 2007 through the third quarter of 2022. The probability of default and the loss given default rates are applied to the expected amount at default at the loan level based on contractual scheduled payments and estimated prepayments. The amounts so calculated comprise the quantitative portion of the allowance for credit losses.

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

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

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

### Qualitative Factors

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

The Company's CECL methodology requires a significant amount of management judgment in determining the appropriate allowance for credit losses. Several of the steps in the methodology involve judgment and are subjective in nature including, among other things:

- Segmenting the loan portfolio
- Determining the amount of loss history to consider
- Selecting predictive econometric regression models that use appropriate macroeconomic variables
- Determining the methodology to forecast prepayments

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- Selecting the most appropriate economic forecast scenario
- Determining the length of the R&S forecast and reversion periods
- Estimating expected utilization rates on unfunded loan commitments
- Assessing relevant and appropriate qualitative factors.

In addition, the CECL methodology is dependent on economic forecasts that are inherently imprecise and will change from period to period. Although the allowance for credit losses is considered by management to be appropriate, there can be no assurance that it will be sufficient to absorb future losses.

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

### Individually Evaluated Loans

When a loan no longer shares similar risk characteristics with other loans, such as in the case of certain nonaccrual or TDR loans, the Company estimates the allowance for loan losses on an individual loan basis. Generally, the allowance for loan losses for individually evaluated loans is measured as the difference between the recorded value of the loans and the collaterals fair value. For loans evaluated individually, the Company uses one of three different asset valuation measurement methods: (1) the fair value of collateral less costs to sell; (2) the present value of expected future cash flows; and (3) the loan's observable market price. If an individually evaluated loan is determined to be collateral dependent, the Company applies the fair value of the collateral less costs to sell method. If an individually evaluated loan is determined not to be collateral dependent, the Company uses the present value of future cash flows or the observable market value of the loan.

### Unfunded Loan Commitments

Unfunded loan commitments are generally related to providing credit facilities to clients of the Bank and are not actively traded financial instruments. These unfunded commitments are disclosed as off-balance sheet financial instruments in Note 10 in the Notes to Consolidated Financial Statements (Unaudited).

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

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The following tables set forth activity in the allowance for loan losses by portfolio segment for the three months and nine months ended September 30, 2022, and September 30, 2021.

**Three months ended September 30, 2022 and 2021**

	<u>Commercial Loans</u>	<u>Real Estate Construction Loans</u>	<u>Commercial Mortgage Loans</u>	<u>Residential Mortgage Loans and Equity Lines</u>	<u>Installment and Other Loans</u>	<u>Total</u>
<b>Allowance for Loan Losses:</b>				(In thousands)		
<b>June 30, 2022 Ending Balance</b>	\$ 49,069	\$ 7,276	\$ 68,600	\$ 23,692	\$ 135	\$ 148,772
Provision/(reversal) for possible credit losses	1,845	(1,065)	1,362	(1,612)	72	602
Charge-offs	(2,091)	—	—	(58)	(79)	(2,228)
Recoveries	1,576	—	88	7	—	1,671
Net (charge-offs)/recoveries	(515)	—	88	(51)	(79)	(557)
<b>September 30, 2022 Ending Balance</b>	<b>\$ 50,399</b>	<b>\$ 6,211</b>	<b>\$ 70,050</b>	<b>\$ 22,029</b>	<b>\$ 128</b>	<b>\$ 148,817</b>
<b>Allowance for unfunded credit commitments:</b>						
<b>June 30, 2022 Ending Balance</b>	\$ 2,804	\$ 3,306	\$ 26	\$ —	\$ —	\$ 6,136
Provision/(reversal) for possible credit losses	1,576	(152)	(26)	—	—	1,398
<b>September 30, 2022 Ending Balance</b>	<b>\$ 4,380</b>	<b>\$ 3,154</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 7,534</b>

	<u>Commercial Loans</u>	<u>Real Estate Construction Loans</u>	<u>Commercial Mortgage Loans</u>	<u>Residential Mortgage Loans and Equity Lines</u>	<u>Installment and Other Loans</u>	<u>Total</u>
<b>Allowance for Loan Losses:</b>				(In thousands)		
<b>June 30, 2021 Ending Balance</b>	\$ 40,067	\$ 6,119	\$ 58,026	\$ 27,043	\$ 1	\$ 131,256
Provision/(reversal) for possible credit losses	674	149	2,786	(609)	—	3,000
Charge-offs	(2,649)	—	—	(3)	—	(2,652)
Recoveries	121	76	144	—	—	341
Net (charge-offs)/recoveries	(2,528)	76	144	(3)	—	(2,311)
<b>September 30, 2021 Ending Balance</b>	<b>\$ 38,213</b>	<b>\$ 6,344</b>	<b>\$ 60,956</b>	<b>\$ 26,431</b>	<b>\$ 1</b>	<b>\$ 131,945</b>
<b>Allowance for unfunded credit commitments:</b>						
<b>June 30, 2021 Ending Balance</b>	\$ 4,388	\$ 3,581	\$ 81	\$ —	\$ —	\$ 8,050
Provision/(reversal) for possible credit losses	329	(396)	117	—	—	50
<b>September 30, 2021 Ending Balance</b>	<b>\$ 4,717</b>	<b>\$ 3,185</b>	<b>\$ 198</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 8,100</b>

Nine months ended September 30, 2022 and 2021

	Commercial Loans	Real Estate Construction Loans	Commercial Mortgage Loans	Residential Mortgage Loans and Equity Lines	Installment and Other Loans	Total
(In thousands)						
<b>Allowance for Loan Losses:</b>						
<b>December 31, 2021 Ending Balance</b>	\$ 43,394	\$ 6,302	\$ 61,081	\$ 25,379	\$ 1	\$ 136,157
Provision/(reversal) for possible credit losses	7,258	(97)	8,699	(3,357)	206	12,709
Charge-offs	(2,362)	—	—	(58)	(80)	(2,500)
Recoveries	2,109	6	270	65	1	2,451
Net (charge-offs)/recoveries	(253)	6	270	7	(79)	(49)
<b>September 30, 2022 Ending Balance</b>	<b>\$ 50,399</b>	<b>\$ 6,211</b>	<b>\$ 70,050</b>	<b>\$ 22,029</b>	<b>\$ 128</b>	<b>\$ 148,817</b>

<b>Allowance for unfunded credit commitments:</b>						
<b>December 31, 2021 Ending Balance</b>	\$ 3,725	\$ 3,375	\$ —	\$ —	\$ —	\$ 7,100
Provision/(reversal) for possible credit losses	655	(221)	—	—	—	434
<b>September 30, 2022 Ending Balance</b>	<b>\$ 4,380</b>	<b>\$ 3,154</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 7,534</b>

	Commercial Loans	Real Estate Construction Loans	Commercial Mortgage Loans	Residential Mortgage Loans and Equity Lines	Installment and Other Loans	Total
(In thousands)						
<b>Allowance for Loan Losses:</b>						
<b>December 31, 2020 Ending Balance</b>	\$ 68,742	\$ 30,854	\$ 49,205	\$ 17,737	\$ —	\$ 166,538
Impact of ASU 2016-13 adoption	(31,466)	(24,307)	34,993	19,211	9	(1,560)
<b>January 1, 2021 Beginning Balance</b>	<b>37,276</b>	<b>6,547</b>	<b>84,198</b>	<b>36,948</b>	<b>9</b>	<b>164,978</b>
Provision/(reversal) for possible credit losses	18,891	(279)	(23,526)	(10,788)	(8)	(15,710)
Charge-offs	(19,499)	—	—	(3)	—	(19,502)
Recoveries	1,545	76	284	274	—	2,179
Net (charge-offs)/recoveries	(17,954)	76	284	271	—	(17,323)
<b>September 30, 2021 Ending Balance</b>	<b>\$ 38,213</b>	<b>\$ 6,344</b>	<b>\$ 60,956</b>	<b>\$ 26,431</b>	<b>\$ 1</b>	<b>\$ 131,945</b>

<b>Allowance for unfunded credit commitments:</b>						
<b>December 31, 2020 Ending Balance</b>	\$ 4,802	\$ 690	\$ 101	\$ 284	\$ 3	\$ 5,880
Impact of ASU 2016-13 adoption	3,236	3,135	(66)	(284)	(3)	6,018
<b>January 1, 2021 Beginning Balance</b>	<b>8,038</b>	<b>3,825</b>	<b>35</b>	<b>—</b>	<b>—</b>	<b>11,898</b>
Provision/(reversal) for possible credit losses	(3,321)	(640)	163	—	—	(3,798)
<b>September 30, 2021 Ending Balance</b>	<b>\$ 4,717</b>	<b>\$ 3,185</b>	<b>\$ 198</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 8,100</b>

**10. Commitments and Contingencies**

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

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

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

The Company's unfunded commitments related to investments in qualified affordable housing and alternative energy partnerships were \$152.2 million and \$107.7 million as of September 30, 2022, and December 31, 2021, respectively.

### **11. Borrowed Funds**

*Borrowings from the Federal Home Loan Bank ("FHLB")* – There were \$225.0 million over-night borrowings from the FHLB as of September 30, 2022, and no over-night borrowings as of December 31, 2021. Advances from the FHLB were \$360.0 million at a weighted average rate of 3.10% as of September 30, 2022, and \$20.0 million at a weighted average rate of 2.89% as of December 31, 2021. As of September 30, 2022, FHLB advances of \$325.0 million will mature in October 2022, \$20.0 million will mature in May 2023 and \$15.0 million will mature in September 2024.

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

At September 30, 2022, Junior Subordinated Notes totaled \$119.1 million with a weighted average interest rate of 5.59%, compared to \$119.1 million with a weighted average rate of 2.38% at December 31, 2021. The Junior Subordinated Notes have a stated maturity term of 30 years.

### **12. Income Taxes**

The effective tax rate for the first nine months of 2022 was 22.9% compared to 21.3% for the first nine months of 2021. The effective tax rate includes the impact of low-income housing and alternative energy investment tax credits.

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

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



### ***13. Fair Value Measurements and Fair Value of Financial Instruments***

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

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

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

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

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

The Company uses the following methodologies to measure the fair value of its financial assets and liabilities on a recurring basis:

*Securities Available-for-Sale and Equity Securities* - For certain actively traded agency preferred stocks, mutual funds, U.S. Treasury securities, and other equity securities, the Company measures the fair value based on quoted market prices in active exchange markets at the reporting date, a Level 1 measurement. The Company also measures securities by using quoted market prices for similar securities or dealer quotes, a Level 2 measurement. This category generally includes U.S. Government agency securities, U.S. Government sponsored entities, state and municipal securities, mortgage-backed securities (“MBS”), collateralized mortgage obligations and corporate bonds.

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

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

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

The following tables present financial assets and liabilities that are measured at fair value on a recurring basis as of September 30, 2022 and December 31, 2021:

	September 30, 2022			Total Fair Value Measurements
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	
	(In thousands)			
<b>Assets</b>				
<b>Securities available-for-sale</b>				
U.S. Treasury securities	\$ 241,400	\$ —	\$ —	\$ 241,400
U.S. government agency entities	—	69,112	—	69,112
Mortgage-backed securities	—	861,488	—	861,488
Collateralized mortgage obligations	—	31,709	—	31,709
Corporate debt securities	—	210,702	—	210,702
<b>Total securities available-for-sale</b>	<b>241,400</b>	<b>1,173,011</b>	<b>—</b>	<b>1,414,411</b>
<b>Equity securities</b>				
Mutual funds	5,497	—	—	5,497
Preferred stock of government sponsored entities	2,110	—	—	2,110
Other equity securities	15,516	—	—	15,516
<b>Total equity securities</b>	<b>23,123</b>	<b>—</b>	<b>—</b>	<b>23,123</b>
Warrants	—	—	46	46
Interest rate swaps	—	98,498	—	98,498
Foreign exchange contracts	—	752	—	752
<b>Total assets</b>	<b>\$ 264,523</b>	<b>\$ 1,272,261</b>	<b>\$ 46</b>	<b>\$ 1,536,830</b>
<b>Liabilities</b>				
Interest rate swaps	\$ —	\$ 54,443	\$ —	\$ 54,443
Foreign exchange contracts	—	2,054	—	2,054
<b>Total liabilities</b>	<b>\$ —</b>	<b>\$ 56,497</b>	<b>\$ —</b>	<b>\$ 56,497</b>
	December 31, 2021			
	Fair Value Measurements Using			Total Fair Value Measurements
	Level 1	Level 2	Level 3	
	(In thousands)			
<b>Assets</b>				
<b>Securities available-for-sale</b>				
U.S. government agency entities	\$ —	\$ 87,509	\$ —	\$ 87,509
Mortgage-backed securities	—	888,665	—	888,665
Collateralized mortgage obligations	—	9,117	—	9,117
Corporate debt securities	—	142,018	—	142,018
<b>Total securities available-for-sale</b>	<b>—</b>	<b>1,127,309</b>	<b>—</b>	<b>1,127,309</b>
<b>Equity securities</b>				
Mutual funds	6,230	—	—	6,230
Preferred stock of government sponsored entities	1,811	—	—	1,811
Other equity securities	14,278	—	—	14,278
<b>Total equity securities</b>	<b>22,319</b>	<b>—</b>	<b>—</b>	<b>22,319</b>
Warrants	—	—	23	23
Interest rate swaps	—	10,090	—	10,090
Foreign exchange contracts	—	1,113	—	1,113
<b>Total assets</b>	<b>\$ 22,319</b>	<b>\$ 1,138,512</b>	<b>\$ 23</b>	<b>\$ 1,160,854</b>
<b>Liabilities</b>				
Interest rate swaps	\$ —	\$ 12,642	\$ —	\$ 12,642
Foreign exchange contracts	—	327	—	327
<b>Total liabilities</b>	<b>\$ —</b>	<b>\$ 12,969</b>	<b>\$ —</b>	<b>\$ 12,969</b>

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

Certain assets or liabilities are required to be measured at estimated fair value on a nonrecurring basis subsequent to initial recognition. Generally, these adjustments are the result of lower-of-cost-or-fair value or other impairment write-downs of individual assets. In determining the estimated fair values during the period, the Company determined that substantially all the changes in estimated fair value were due to declines in market conditions versus instrument specific credit risk. For the periods ended September 30, 2022, and December 31, 2021, there were no material adjustments to fair value for the Company's assets and liabilities measured at fair value on a nonrecurring basis in accordance with GAAP.

For financial assets measured at fair value on a nonrecurring basis that were still reflected in the Consolidated Balance Sheets as of September 30, 2022, the following tables set forth the level of valuation assumptions used to determine each adjustment, the carrying value of the related individual assets as of September 30, 2022, and December 31, 2021, and the total losses for the periods indicated:

	As of September 30, 2022				Total Losses			
	Fair Value Measurements Using			Total Fair Value Measurements	For the Three Months Ended		For the Nine Months Ended	
	Level 1	Level 2	Level 3		September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
	(In thousands)							
<b>Assets</b>								
<b>Non accrual loans by type:</b>								
Commercial loans	\$ —	\$ —	\$ 6,887	\$ 6,887	\$ 1,786	\$ —	\$ 1,786	\$ 2,037
Commercial mortgage loans	—	—	10,956	10,956	—	—	—	—
Residential mortgage loans and equity lines	—	—	5,407	5,407	—	—	—	—
Other installment loans	—	—	9	9	—	—	—	—
<b>Total non accrual loans</b>	<b>—</b>	<b>—</b>	<b>23,259</b>	<b>23,259</b>	<b>1,786</b>	<b>—</b>	<b>1,786</b>	<b>2,037</b>
Other real estate owned <sup>(1)</sup>	—	—	4,269	4,269	—	(55)	—	(8)
Investments in venture capital	—	—	836	836	—	8	—	143
<b>Total assets</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 28,364</b>	<b>\$ 28,364</b>	<b>\$ 1,786</b>	<b>\$ (47)</b>	<b>\$ 1,786</b>	<b>\$ 2,172</b>

(1) Other real estate owned balance of \$4.1 million in the Consolidated Balance Sheets is net of estimated disposal costs.

	As of December 31, 2021				Total Losses	
	Fair Value Measurements Using			Total Fair Value Measurements	For the Twelve Months Ended	
	Level 1	Level 2	Level 3		December 31, 2021	December 31, 2020
	(In thousands)					
<b>Assets</b>						
<b>Non accrual loans by type:</b>						
Commercial loans	\$ —	\$ —	\$ 4,327	\$ 4,327	\$ 1,012	\$ 7,012
Commercial mortgage loans	—	—	13,335	13,335	—	—
Residential mortgage loans and equity lines	—	—	5,243	5,243	—	—
<b>Total non accrual loans</b>	<b>—</b>	<b>—</b>	<b>22,905</b>	<b>22,905</b>	<b>1,012</b>	<b>7,012</b>
Other real estate owned <sup>(1)</sup>	—	—	4,589	4,589	17	717
Investments in venture capital	—	—	952	952	143	107
<b>Total assets</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 28,446</b>	<b>\$ 28,446</b>	<b>\$ 1,172</b>	<b>\$ 7,836</b>

(1) Other real estate owned balance of \$4.4 million in the Consolidated Balance Sheets is net of estimated disposal costs.

The significant unobservable (Level 3) inputs used in the fair value measurement of collateral for collateral-dependent individually evaluated loans are primarily based on the appraised value of collateral adjusted by estimated sales cost and commissions. The Company generally obtains new appraisal reports every twelve months as appropriate. As the Company's primary objective in the event of default would be to monetize the collateral to settle the outstanding balance of the loan, less marketable collateral would receive a larger discount. In the current year, the Company used borrower specific collateral discounts with various discount levels.



	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Liabilities</b>				
Deposits	\$ 18,575,751	\$ 18,573,442	\$ 18,058,842	\$ 18,051,720
Advances from Federal Home Loan Bank	360,000	359,416	20,000	21,279
Other borrowings	22,651	18,357	23,145	18,945
Long-term debt	119,136	56,317	119,136	62,274

	Notional Amount	Fair Value	Notional Amount	Fair Value
Option contracts	\$ —	\$ —	\$ 676	\$ 3
Foreign exchange contracts	45,990	2,054	51,782	327
Interest rate swaps	691,872	54,443	872,400	12,642

	Notional Amount	Fair Value	Notional Amount	Fair Value
<b>Off-Balance Sheet Financial Instruments</b>				
Commitments to extend credit	\$ 3,537,547	\$ (14,650)	\$ 3,297,362	\$ (12,594)
Standby letters of credit	290,618	(2,048)	266,490	(2,640)
Other letters of credit	13,070	(12)	16,652	(13)

The following tables set forth the level in the fair value hierarchy for the estimated fair values of financial instruments as of September 30, 2022, and December 31, 2021.

	<b>As of September 30, 2022</b>			
	<b>Estimated Fair Value Measurements</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	(In thousands)			
<b>Financial Assets</b>				
Cash and due from banks	\$ 200,051	\$ 200,051	\$ —	\$ —
Short-term investments	1,063,294	1,063,294	—	—
Securities available-for-sale	1,414,411	241,400	1,173,011	—
Loans, net	17,676,365	—	—	17,676,365
Equity securities	23,123	23,123	—	—
Investment in Federal Home Loan Bank stock	17,250	—	17,250	—
Warrants	46	—	—	46
<b>Financial Liabilities</b>				
Deposits	18,573,442	—	—	18,573,442
Advances from Federal Home Loan Bank	359,416	—	359,416	—
Other borrowings	18,357	—	—	18,357
Long-term debt	56,317	—	56,317	—

As of December 31, 2021

	Estimated Fair Value Measurements	(In thousands)		
		Level 1	Level 2	Level 3
<b>Financial Assets</b>				
Cash and due from banks	\$ 134,141	\$ 134,141	\$ —	\$ —
Short-term investments	2,315,563	2,315,563	—	—
Securities available-for-sale	1,127,309	—	1,127,309	—
Loans, net	16,499,869	—	—	16,499,869
Equity securities	22,319	22,319	—	—
Investment in Federal Home Loan Bank stock	17,250	—	17,250	—
Warrants	23	—	—	23
<b>Financial Liabilities</b>				
Deposits	18,051,720	—	—	18,051,720
Advances from Federal Home Loan Bank	21,279	—	21,279	—
Other borrowings	18,945	—	—	18,945
Long-term debt	62,274	—	62,274	—

**14. Goodwill and Goodwill Impairment**

Total goodwill was \$375.7 million as of September 30, 2022 compared with \$372.2 million as of December 31, 2021. The increase of \$3.5 million is a result of the acquisition of HSBC's West Coast mass retail market consumer banking business and retail business banking business on February 7, 2022. The Company's policy is to assess goodwill for impairment at the reporting unit level on an annual basis or between annual assessments if a triggering event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value.

## ***15. Financial Derivatives***

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

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

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

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In May 2014, Bancorp entered into interest rate swap contracts in the notional amount of \$119.1 million for a period of ten years. The objective of these interest rate swap contracts, which were designated as hedging instruments in cash flow hedges, was to hedge the quarterly interest payments on Bancorp's \$119.1 million of Junior Subordinated Debentures that had been issued to five trusts, throughout the ten-year period beginning in June 2014 and ending in June 2024, from the risk of variability of these payments resulting from changes in the three-month LIBOR interest rate. As of September 30, 2022, and 2021, the ineffective portion of these interest rate swaps was not significant. The notional amount and net unrealized loss of the Company's cash flow derivative financial instruments as of September 30, 2022, and December 31, 2021, were as follows:

	<u>September 30, 2022</u>		<u>December 31, 2021</u>					
	(In thousands)							
<b>Cash flow swap hedges:</b>								
Notional	\$	119,136	\$	119,136				
Weighted average fixed rate-pay		2.61%		2.61%				
Weighted average variable rate-receive		2.07%		0.16%				
Unrealized gain/(loss), net of taxes (1)	\$	2,527	\$	(3,276)				
		<b>Three months ended</b>		<b>Nine months ended</b>				
		<u>September 30, 2022</u>	<u>September 30, 2021</u>	<u>September 30, 2022</u>	<u>September 30, 2021</u>			
Periodic net settlement of swaps (2)	\$	138	\$	754	\$	1,311	\$	2,196

(1) Included in other comprehensive income.

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

The Bank entered into interest rate swap contracts that are matched to fixed-rate CRE loans in the Bank's loan portfolio. These contracts have been designated as hedging instruments to hedge the risk of changes in the fair value of the underlying CRE loans due to changes in interest rates. As of September 30, 2022, the Bank's outstanding interest rate swap contracts had a notional amount of \$877.2 million for various terms from three to ten years. The swap contracts are structured so that the notional amounts reduce over time to match the contractual amortization of the underlying loan and allow prepayments with the same pre-payment penalty amounts as the related loan. As of September 30, 2022 and 2021, the ineffective portion of these interest rate swaps was not significant.

The Company has designated as a partial-term hedging election \$670.2 million notional as last-of-layer hedge on pools of loans with a notational value of \$1.2 billion as of September 30, 2022. The loans are not expected to be affected by prepayment, defaults, or other factors affecting the timing and amount of cash flows under the last-of-layer method. The Company has entered into these pay-fixed and receive 1-Month LIBOR interest rate swaps to convert the last-of-layer \$670.2 million portion of \$1.2 billion fixed rate loan pools in order to reduce the Company's exposure to higher interest rates for the last-of-layer tranches. As of September 30, 2022, the last-of-layer loan tranche had a fair value basis adjustment of \$32.8 million. The interest rate swap converts this last-of-layer tranche into a floating rate instrument. The Company's risk management objective with respect to this last-of-layer interest rate swap is to reduce interest rate exposure as to the last-of-layer tranche.

Interest rate swap contracts involve the risk of dealing with institutional derivative counterparties and their ability to meet contractual terms. Institutional counterparties must have a strong credit profile and be approved by the Company's Board of Directors. The Company's credit exposure on interest rate swaps is limited to the net favorable value and interest payments of all swaps by each counterparty. Credit exposure may be reduced by the amount of collateral pledged by the counterparty. Bancorp's interest rate swaps have been assigned by the counterparties to a derivative clearing organization and daily margin is indirectly maintained with the derivative clearing organization. There was no cash collateral deposit posted by Bancorp related to derivative contracts as of September 30, 2022 and \$5.9 million as of December 31, 2021.



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The notional amount and net unrealized loss of the Company's fair value derivative financial instruments as of September 30, 2022, and December 31, 2021, were as follows:

	<u>September 30, 2022</u>		<u>December 31, 2021</u>	
	(In thousands)			
<b>Fair value swap hedges:</b>				
Notional	\$	877,188	\$	729,280
Weighted average fixed rate-pay		2.14%		2.65%
Weighted average variable rate spread		0.54%		1.31%
Weighted average variable rate-receive		1.98%		1.43%
Unrealized gain/(loss), net of taxes (1)	\$	40,465	\$	(1,013)
		<b>Three months ended</b>		
		<u>September 30, 2022</u>	<u>September 30, 2021</u>	
		\$	\$	
		1,461	(2,363)	
		<b>Nine months ended</b>		
		<u>September 30, 2022</u>	<u>September 30, 2021</u>	
		\$	\$	
Periodic net settlement of swaps (2)		(1,628)	(7,137)	

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

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

The Company enters into foreign exchange forward contracts with various counterparties to mitigate the risk of fluctuations in foreign currency exchange rates for foreign exchange certificates of deposit or foreign exchange contracts entered into with our clients. These contracts are not designated as hedging instruments and are recorded at fair value in our Consolidated Balance Sheets. Changes in the fair value of these contracts as well as the related foreign exchange certificates of deposit and foreign exchange contracts are recognized immediately in net income as a component of non-interest income. Period end gross positive fair values are recorded in other assets and gross negative fair values are recorded in other liabilities.

The notional amount and fair value of the Company's derivative financial instruments not designated as hedging instruments as of September 30, 2022, and December 31, 2021, were as follows:

	<u>September 30, 2022</u>		<u>December 31, 2021</u>	
	(In thousands)			
<b>Derivative financial instruments not designated as hedging instruments:</b>				
<b>Notional amounts:</b>				
Option contracts	\$	-	\$	676
Spot, forward, and swap contracts with positive fair value	\$	162,518	\$	181,997
Spot, forward, and swap contracts with negative fair value	\$	45,990	\$	51,782
<b>Fair value:</b>				
Option contracts	\$	-	\$	3
Spot, forward, and swap contracts with positive fair value	\$	752	\$	1,113
Spot, forward, and swap contracts with negative fair value	\$	(2,054)	\$	(327)

### 16. Balance Sheet Offsetting

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

Financial instruments that are eligible for offset in the Consolidated Balance Sheets, as of September 30, 2022, and December 31, 2021, are set forth in the following table:

	Gross Amounts Recognized	Gross Amounts Offset in the Balance Sheet	Net Amounts Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet		
				Financial Instruments	Collateral Posted	Net Amount
(In thousands)						
<b>September 30, 2022</b>						
<b>Assets:</b>						
Derivatives	\$ 98,498	\$ —	\$ 98,498	\$ —	\$ 95,783	\$ 2,715
<b>Liabilities:</b>						
Derivatives	\$ 54,443	\$ —	\$ 54,443	\$ —	\$ —	\$ 54,443
<b>December 31, 2021</b>						
<b>Assets:</b>						
Derivatives	\$ 10,090	\$ —	\$ 10,090	\$ —	\$ —	\$ 10,090
<b>Liabilities:</b>						
Derivatives	\$ 15,748	\$ (3,106)	\$ 12,642	\$ —	\$ —	\$ 12,642

### 17. Revenue from Contracts with Customers

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

	Three months Ended September 30,		Nine months Ended September 30,	
	2022	2021	2022	2021
(In thousands)				
<b>Non-interest income, in-scope:</b>				
Fees and service charges on deposit accounts	\$ 2,398	\$ 2,130	\$ 7,156	\$ 6,386
Wealth management fees	4,184	3,578	12,494	11,074
Other service fees <sup>(1)</sup>	4,451	3,735	12,723	11,109
<b>Total noninterest income</b>	<b>11,033</b>	<b>9,443</b>	<b>32,373</b>	<b>28,569</b>
Noninterest income, not in-scope <sup>(2)</sup>	(1,157)	2,773	12,353	6,230
<b>Total noninterest income</b>	<b>\$ 9,876</b>	<b>\$ 12,216</b>	<b>\$ 44,726</b>	<b>\$ 34,799</b>

(1) Other service fees comprise of fees related to letters of credit, wire fees, fees on foreign exchange transactions and other immaterial individual revenue streams.

(2) These amounts primarily represent revenue from interest rate swap fees, unrealized net gains on equity securities and other miscellaneous income.

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

### Fees and Services Charges on Deposit Accounts

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

### Wealth Management Fees

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

### Practical Expedients and Exemptions

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

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

### ***18. Stockholders' Equity***

Total equity was \$2.42 billion as of September 30, 2022, a decrease of \$26.7 million, from \$2.45 billion as of December 31, 2021, primarily due to net income of \$263.0 million, stock-based compensation of \$5.2 million, proceeds from dividend reinvestment of \$2.8 million, and stock issued to directors of \$0.8 million offset by other comprehensive loss of \$109.8 million, purchases of treasury stock of \$109.8 million, common stock cash dividends of \$76.1 million and shares withheld related to net share settlement of RSUs of \$2.9 million.

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Activity in accumulated other comprehensive income/(loss), net of tax, and reclassification out of accumulated other comprehensive income/(loss) for the three and nine months ended September 30, 2022, and September 30, 2021, was as follows:

	Three months ended September 30, 2022			Three months ended September 30, 2021		
	Pre-tax	Tax expense/ (benefit)	Net-of-tax	Pre-tax	Tax expense/ (benefit)	Net-of-tax
<b>Beginning balance, gain/(loss), net of tax</b>	(In thousands)					
Securities available-for-sale			\$ (72,210)			\$ 7,560
Cash flow hedge derivatives			882			(5,188)
<b>Total</b>			<b>\$ (71,328)</b>			<b>\$ 2,372</b>
<b>Net unrealized gains/(losses) arising during the period</b>						
Securities available-for-sale	\$ (61,316)	\$ (18,125)	\$ (43,191)	\$ (4,588)	\$ (1,356)	\$ (3,232)
Cash flow hedge derivatives	2,677	791	1,886	2,224	657	1,567
<b>Total</b>	<b>\$ (58,639)</b>	<b>\$ (17,334)</b>	<b>\$ (41,305)</b>	<b>\$ (2,364)</b>	<b>\$ (699)</b>	<b>\$ (1,665)</b>
<b>Reclassification adjustment for net losses in net income</b>						
Securities available-for-sale	—	—	—	—	—	—
Cash flow hedge derivatives	(342)	(101)	(241)	(1,526)	(451)	(1,075)
<b>Total</b>	<b>(342)</b>	<b>(101)</b>	<b>(241)</b>	<b>(1,526)</b>	<b>(451)</b>	<b>(1,075)</b>
<b>Total other comprehensive income/(loss)</b>						
Securities available-for-sale	\$ (61,316)	\$ (18,125)	\$ (43,191)	\$ (4,588)	\$ (1,356)	\$ (3,232)
Cash flow hedge derivatives	2,335	690	1,645	698	206	492
<b>Total</b>	<b>\$ (58,981)</b>	<b>\$ (17,435)</b>	<b>\$ (41,546)</b>	<b>\$ (3,890)</b>	<b>\$ (1,150)</b>	<b>\$ (2,740)</b>
<b>Ending balance, gain/(loss), net of tax</b>						
Securities available-for-sale			\$ (115,401)			\$ 4,328
Cash flow hedge derivatives			2,527			(4,696)
<b>Total</b>			<b>\$ (112,874)</b>			<b>\$ (368)</b>
	Nine months ended September 30, 2022			Nine months ended September 30, 2021		
	Pre-tax	Tax expense/ (benefit)	Net-of-tax	Pre-tax	Tax expense/ (benefit)	Net-of-tax
<b>Beginning balance, gain/(loss), net of tax</b>	(In thousands)					
Securities available-for-sale			\$ 211			\$ 12,200
Cash flow hedge derivatives			(3,276)			(6,890)
<b>Total</b>			<b>\$ (3,065)</b>			<b>\$ 5,310</b>
<b>Net unrealized gains/(losses) arising during the period</b>						
Securities available-for-sale	\$ (164,128)	\$ (48,516)	\$ (115,612)	\$ (10,322)	\$ (3,051)	\$ (7,271)
Cash flow hedge derivatives	11,060	3,269	7,791	7,600	2,247	5,353
<b>Total</b>	<b>\$ (153,068)</b>	<b>\$ (45,247)</b>	<b>\$ (107,821)</b>	<b>\$ (2,722)</b>	<b>\$ (804)</b>	<b>\$ (1,918)</b>
<b>Reclassification adjustment for net losses in net income</b>						
Securities available-for-sale	—	—	—	(853)	(252)	(601)
Cash flow hedge derivatives	(2,822)	(834)	(1,988)	(4,485)	(1,326)	(3,159)
<b>Total</b>	<b>(2,822)</b>	<b>(834)</b>	<b>(1,988)</b>	<b>(5,338)</b>	<b>(1,578)</b>	<b>(3,760)</b>
<b>Total other comprehensive income/(loss)</b>						
Securities available-for-sale	\$ (164,128)	\$ (48,516)	\$ (115,612)	\$ (11,175)	\$ (3,303)	\$ (7,872)
Cash flow hedge derivatives	8,238	2,435	5,803	3,115	921	2,194
<b>Total</b>	<b>\$ (155,890)</b>	<b>\$ (46,081)</b>	<b>\$ (109,809)</b>	<b>\$ (8,060)</b>	<b>\$ (2,382)</b>	<b>\$ (5,678)</b>
<b>Ending balance, gain/(loss), net of tax</b>						
Securities available-for-sale			\$ (115,401)			\$ 4,328
Cash flow hedge derivatives			2,527			(4,696)
<b>Total</b>			<b>\$ (112,874)</b>			<b>\$ (368)</b>

***19. Stock Repurchase Program***

On May 26, 2022, the Board of Directors approved a new stock repurchase program to buy back up to \$125.0 million of the Company's common stock. The Company repurchased 1.08 million shares for \$46.3 million, at an average cost of \$42.88 per share during the three months ended September 30, 2022.

***20. Subsequent Events***

The Company has evaluated the effect of events that have occurred subsequent to September 30, 2022, through the date of issuance of the Consolidated Financial Statements, and, based on such evaluation, the Company believes that there have been no material events during such period that would require recognition in the Consolidated Financial Statements or disclosure in the Notes to the Consolidated Financial Statements.

**ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

The following discussion is based on the assumption that the reader has access to and has read the Company’s Annual Report on Form 10-K for the year ended December 31, 2021.

**Critical Accounting Policies**

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

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

Accounting for the allowance for loan losses involves significant judgments and assumptions by management, which have a material impact on, among other things, the carrying value of net loans. The judgments and assumptions used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances as described in “*Allowance for Credit Losses*” under “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies” in the 2021 Form 10-K. For more information, please also see Note 3 to the Company’s unaudited Consolidated Financial Statements.

**Highlights**

- Total loans increased to \$18.1 billion, or 7.8% annualized, in the third quarter.
- Net interest margin increased to 3.83% in the third quarter of 2022 from 3.22% in third quarter of 2021.
- Earnings per share increased 14.1% compared to second quarter of 2022 and 45.2% when compared to same quarter in 2021.

**Quarterly Statement of Operations Review**

**Net Income**

Net income for the quarter ended September 30, 2022, was \$99.0 million, an increase of \$26.6 million, or 36.7%, compared to net income of \$72.4 million for the same quarter a year ago. Diluted earnings per share for the quarter ended September 30, 2022, was \$1.35 per share compared to \$0.93 per share for the same quarter a year ago.

Return on average stockholders’ equity was 15.94% and return on average assets was 1.81% for the quarter ended September 30, 2022, compared to a return on average stockholders’ equity of 11.61% and a return on average assets of 1.45% for the same quarter a year ago.

**Financial Performance**

	Three months ended	
	September 30, 2022	September 30, 2021
Net income	\$99.0 million	\$72.4 million
Basic earnings per common share	\$ 1.35	\$ 0.93
Diluted earnings per common share	\$ 1.35	\$ 0.93
Return on average assets	1.81%	1.45%
Return on average total stockholders' equity	15.94%	11.61%
Efficiency ratio	36.35%	43.85%

**Net Interest Income Before Provision for Credit Losses**

Net interest income before provision for credit losses increased \$45.0 million, or 29.5%, to \$197.5 million during the third quarter of 2022, compared to \$152.5 million during the same quarter a year ago. The increase was due primarily to an increase in interest income from loans and securities and a decrease in interest expense from deposits.

The net interest margin was 3.83% for the third quarter of 2022 compared to 3.22% for the third quarter of 2021 and 3.52% for the second quarter of 2022.

For the third quarter of 2022, the yield on average interest-earning assets was 4.38%, the cost of funds on average interest-bearing liabilities was 0.78%, and the cost of interest-bearing deposits was 0.69%. In comparison, for the third quarter of 2021, the yield on average interest-earning assets was 3.56%, the cost of funds on average interest-bearing liabilities was 0.48%, and the cost of interest-bearing deposits was 0.44%. The increase in the yield on average interest-earning assets resulted mainly from higher interest rates. The net interest spread, defined as the difference between the yield on average interest-earning assets and the cost of funds on average interest-bearing liabilities, was 3.60% for the quarter ended September 30, 2022 compared to 3.08% for the same quarter a year ago.

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The following table sets forth information concerning average interest-earning assets, average interest-bearing liabilities, and the average yields and rates paid on those assets and liabilities for the three months ended September 30, 2022, and 2021. Average outstanding amounts included in the table are daily averages.

<b>Interest-Earning Assets and Interest-Bearing Liabilities</b>						
<b>Three months ended September 30,</b>						
<b>2022</b>			<b>2021</b>			
<b>Average Balance</b>	<b>Interest Income/ Expense</b>	<b>Average Yield/ Rate (1)(2)</b>	<b>Average Balance</b>	<b>Interest Income/ Expense</b>	<b>Average Yield/ Rate (1)(2)</b>	
(In thousands)						
<b>Interest-earning assets:</b>						
Total loans (1)	\$ 17,923,495	\$ 211,541	4.68%	\$ 15,798,496	\$ 163,948	4.12%
Investment securities	1,364,013	7,483	2.18	1,058,004	3,707	1.39
Federal Home Loan Bank stock	18,756	258	5.46	17,250	258	5.93
Deposits with banks	1,178,261	6,732	2.27	1,893,785	714	0.15
Total interest-earning assets	<u>20,484,525</u>	<u>226,014</u>	<u>4.38</u>	<u>18,767,535</u>	<u>168,627</u>	<u>3.56</u>
<b>Non-interest earning assets:</b>						
Cash and due from banks	174,298			155,604		
Other non-earning assets	1,156,141			1,027,921		
Total non-interest earning assets	1,330,439			1,183,525		
Less: Allowance for loan losses	(150,064)			(131,316)		
Deferred loan fees	(6,040)			(7,302)		
<b>Total assets</b>	<b><u>\$ 21,658,860</u></b>			<b><u>\$ 19,812,442</u></b>		
<b>Interest-bearing liabilities:</b>						
Interest-bearing demand accounts	\$ 2,508,526	\$ 1,913	0.30%	\$ 2,109,632	\$ 525	0.10%
Money market accounts	5,153,566	11,740	0.90	4,228,025	4,554	0.43
Savings accounts	1,151,126	218	0.07	914,540	164	0.07
Time deposits	5,013,213	10,218	0.81	5,882,576	9,299	0.63
Total interest-bearing deposits	<u>13,826,431</u>	<u>24,089</u>	<u>0.69</u>	<u>13,134,773</u>	<u>14,542</u>	<u>0.44</u>
Other borrowings	498,234	2,941	2.34	43,246	146	1.34
Long-term debt	119,136	1,455	4.85	119,136	1,455	4.84
Total interest-bearing liabilities	<u>14,443,801</u>	<u>28,485</u>	<u>0.78</u>	<u>13,297,155</u>	<u>16,143</u>	<u>0.48</u>
<b>Non-interest bearing liabilities:</b>						
Demand deposits	4,456,214			3,830,485		
Other liabilities	293,653			211,636		
Total equity	2,465,192			2,473,166		
<b>Total liabilities and equity</b>	<b><u>\$ 21,658,860</u></b>			<b><u>\$ 19,812,442</u></b>		
Net interest spread			<u>3.60%</u>			<u>3.08%</u>
Net interest income	<u>\$ 197,529</u>			<u>\$ 152,484</u>		
Net interest margin			<u>3.83%</u>			<u>3.22%</u>

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

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



The following table summarizes the changes in interest income and interest expense attributable to changes in volume and changes in interest rates for the three months ended September 30, 2022 and 2021:

**Taxable-Equivalent Net Interest Income — Changes Due to Volume and Rate<sup>(1)</sup>**

	Three months ended September 30, 2022-2021		
	Increase/(Decrease) in Net Interest Income Due to:		
	Changes in Volume	Changes in Rate	Total Change
	(In thousands)		
<b>Interest-earning assets:</b>			
Loans	\$ 23,551	\$ 24,042	\$ 47,593
Investment securities	1,277	2,499	3,776
Federal Home Loan Bank stock	21	(21)	—
Deposits with other banks	(365)	6,383	6,018
<b>Total changes in interest income</b>	<b>24,484</b>	<b>32,903</b>	<b>57,387</b>
<b>Interest-bearing liabilities:</b>			
Interest-bearing demand accounts	116	1,274	1,390
Money market accounts	1,179	6,006	7,185
Savings accounts	44	9	53
Time deposits	(1,494)	2,413	919
Other borrowed funds	2,608	187	2,795
<b>Total changes in interest expense</b>	<b>2,453</b>	<b>9,889</b>	<b>12,342</b>
<b>Changes in net interest income</b>	<b>\$ 22,031</b>	<b>\$ 23,014</b>	<b>\$ 45,045</b>

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

**Provision/(reversal) for credit losses**

As permitted under the Coronavirus Aid, Relief and Economic Security Act (the “CARES Act”) and as extended by the Consolidated Appropriations Act, 2021, the Company adopted the Current Expected Credit Losses (“CECL”) methodology for estimated credit losses effective as of January 1, 2021. The Company recorded a provision for credit losses of \$2.0 million in the third quarter of 2022 compared to a provision for credit losses of \$2.5 million in the second quarter of 2022 and a provision for credit losses of \$3.1 million in the third quarter of 2021. In 2022, the third quarter provision for credit losses were primarily driven by the growth in loans during the period. As of September 30, 2022, the allowance for loan losses increased by \$12.7 million to \$148.8 million, or 0.82% of gross loans, compared to \$136.2 million, or 0.83% of gross loans, as of December 31, 2021. The change in the allowance for loan losses during the third quarter of 2022 consisted of a \$602 thousand provision for loan losses, and \$557 thousand in net charge-offs. The Company will continue to monitor the continuing impact of the COVID-19 pandemic on credit risks and losses, as well as on customer deposits and other liabilities and assets.

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

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
	(In thousands)			
<b>Charge-offs:</b>				
Commercial loans	\$ 2,091	\$ 2,649	\$ 2,362	\$ 19,499
Real estate loans (1)	137	3	138	3
<b>Total charge-offs</b>	<u>2,228</u>	<u>2,652</u>	<u>2,500</u>	<u>19,502</u>
<b>Recoveries:</b>				
Commercial loans	1,576	121	2,109	1,545
Real estate loans (1)	95	76	336	76
Real estate Construction loans	—	144	6	558
<b>Total recoveries</b>	<u>1,671</u>	<u>341</u>	<u>2,451</u>	<u>2,179</u>
<b>Net charge-offs/(recoveries)</b>	<u>\$ 557</u>	<u>\$ 2,311</u>	<u>\$ 49</u>	<u>\$ 17,323</u>

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

#### **Non-Interest Income**

Non-interest income, which includes revenues from depository service fees, letters of credit commissions, securities gains (losses), wire transfer fees, and other sources of fee income, was \$9.9 million for the third quarter of 2022, a decrease of \$2.3 million, or 18.9%, compared to \$12.2 million for the third quarter of 2021. The decrease was primarily due to an increase of \$3.7 million in unrealized losses on equity securities, when compared to the same quarter a year ago.

#### **Non-Interest Expense**

Non-interest expense increased \$3.2 million, or 4.4%, to \$75.4 million in the third quarter of 2022 compared to \$72.2 million in the same quarter a year ago. The increase in non-interest expense in the third quarter of 2022 was primarily due to an increase of \$1.2 million in salaries and employee benefits, and an increase of \$1.1 million in marketing expense, when compared to the same quarter a year ago. The efficiency ratio was 36.4% in the third quarter of 2022 compared to 43.9% for the same quarter a year ago.

#### **Income Taxes**

The effective tax rate for the third quarter of 2022 was 23.8% compared to 19.1% for the third quarter of 2021. The effective tax rate includes the impact of alternative energy investments and low-income housing tax credits.

#### ***Year-to-Date Statement of Operations Review***

Net income for the nine months ended September 30, 2022, was \$263.0 million, an increase of \$40.1 million, or 18.0%, compared to net income of \$223.0 million for the same period a year ago. Diluted earnings per share was \$3.52 compared to \$2.82 per share for the same period a year ago. The net interest margin for the nine months ended September 30, 2022, was 3.54% compared to 3.22% for the same period a year ago.

Return on average stockholders' equity was 14.35% and return on average assets was 1.66% for the nine months ended September 30, 2022, compared to a return on average stockholders' equity of 12.11% and a return on average assets of 1.54% for the same period a year ago. The efficiency ratio for the nine months ended September 30, 2022, was 38.54% compared to 44.71% for the same period a year ago.

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The following table sets forth information concerning average interest-earning assets, average interest-bearing liabilities, and the average yields and rates paid on those assets and liabilities for the nine months ended September 30, 2022, and 2021. Average outstanding amounts included in the table are daily averages.

	Interest-Earning Assets and Interest-Bearing Liabilities					
	Nine months ended September 30,					
	2022			2021		
Average Balance	Interest Income/Expense	Average Yield/Rate (1)(2)	Average Balance	Interest Income/Expense	Average Yield/Rate (1)(2)	
(In thousands)						
<b>Interest-earning assets:</b>						
Total loans (1)	\$ 17,468,247	\$ 558,657	4.28%	\$ 15,725,324	\$ 485,162	4.12%
Investment securities	1,263,341	18,059	1.91	1,010,328	9,963	1.32
Federal Home Loan Bank stock	17,757	774	5.83	17,250	730	5.66
Interest-bearing deposits	1,332,491	10,003	1.00	1,605,851	1,467	0.12
Total interest-earning assets	20,081,836	587,493	3.91	18,358,753	497,322	3.62
<b>Non-interest earning assets:</b>						
Cash and due from banks	169,394			153,790		
Other non-earning assets	1,102,206			1,034,752		
Total non-interest earning assets	1,271,600			1,188,542		
Less: Allowance for loan losses	(144,284)			(146,640)		
Deferred loan fees	(5,234)			(6,224)		
<b>Total assets</b>	<b>\$ 21,203,918</b>			<b>\$ 19,394,431</b>		
<b>Interest-bearing liabilities:</b>						
Interest-bearing demand accounts	\$ 2,456,556	\$ 3,206	0.17%	\$ 1,989,833	\$ 1,819	0.12%
Money market accounts	5,088,227	22,078	0.58	3,913,073	13,893	0.47
Savings accounts	1,137,485	610	0.07	885,863	590	0.09
Time deposits	5,060,286	22,002	0.58	6,105,604	33,362	0.73
Total interest-bearing deposits	13,742,554	47,896	0.47	12,894,373	49,664	0.51
Other borrowings	209,679	3,396	2.17	86,410	1,037	1.60
Long-term debt	119,136	4,318	4.85	119,136	4,318	4.85
Total interest-bearing liabilities	14,071,369	55,610	0.53	13,099,919	55,019	0.56
<b>Non-interest bearing liabilities:</b>						
Demand deposits	4,403,195			3,613,026		
Other liabilities	278,704			219,591		
Total equity	2,450,650			2,461,895		
<b>Total liabilities and equity</b>	<b>\$ 21,203,918</b>			<b>\$ 19,394,431</b>		
Net interest spread			3.38%			3.06%
Net interest income		\$ 531,883			\$ 442,303	
Net interest margin			3.54%			3.22%

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

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

The following table summarizes the changes in interest income and interest expense attributable to changes in volume and changes in interest rates for the nine months ended September 30, 2022 and 2021:

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

	Nine months ended September 30, 2022-2021		
	Increase/(Decrease) in Net Interest Income Due to:		
	Changes in Volume	Changes in Rate	Total Change
	(In thousands)		
Interest-earning assets:			
Loans	\$ 55,251	\$ 18,244	\$ 73,495
Investment securities	2,896	5,200	8,096
Federal Home Loan Bank stock	22	22	44
Deposits with other banks	(293)	8,829	8,536
Total changes in interest income	57,876	32,295	90,171
Interest-bearing liabilities:			
Interest-bearing demand accounts	491	894	1,385
Money market accounts	4,705	3,481	8,186
Savings accounts	149	(128)	21
Time deposits	(5,180)	(6,181)	(11,361)
Other borrowed funds	1,890	470	2,360
Total changes in interest expense	2,055	(1,464)	591
Changes in net interest income	\$ 55,821	\$ 33,759	\$ 89,580

(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.

**Balance Sheet Review**

**Assets**

Total assets were \$21.9 billion as of September 30, 2022 an increase of \$1.0 billion or 4.8% from \$20.9 billion as of December 31, 2021.

**Securities Available-for-Sale**

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

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For available-for-sale (“AFS”) debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security’s amortized cost basis is written down to fair value. For AFS debt securities that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors with the credit component of the unrealized loss of the impaired AFS debt security recognized as an allowance for credit losses, and a corresponding provision for credit losses on the consolidated statement of income.

In making this assessment, management considers the extent to which fair value is less than amortized cost, the payment structure of the security, failure of the issuer of the security to make scheduled interest or principal payments, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. Any fair value changes that have not been recorded through an allowance for credit losses is recognized in other comprehensive income.

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

The amortized cost of the Company’s AFS debt securities exclude accrued interest, which is included in “accrued interest income” on the Consolidated Balance Sheets. The Company has made an accounting policy election not to measure an allowance for credit losses for accrued interest receivables on AFS debt securities since the Company timely reverses any previously accrued interest when the debt security remains in default for an extended period. As each AFS debt security has a unique security structure, where the accrual status is clearly determined when certain criteria listed in the terms are met, the Company assesses the default status of each security as defined by the debt security’s specific security structure. At September 30, 2022, no AFS debt securities were in default.

In the current period, management evaluated the securities in an unrealized loss position and determined that their unrealized losses were a result of the level of market interest rates relative to the types of securities and pricing changes caused by shifting supply and demand dynamics and not a result of downgraded credit ratings or other indicators of deterioration of the underlying issuers’ ability to repay. Accordingly, we determined the unrealized losses were not credit-related and recognized the unrealized losses in “other comprehensive income” in stockholders’ equity. Although we periodically sell securities for portfolio management purposes, we do not foresee having to sell any impaired securities strictly for liquidity needs and believe that it is more likely than not we would not be required to sell any impaired securities before recovery of their amortized cost.

Securities available-for-sale represented 6.5% of total assets as of September 30, 2022, compared to 5.4% of total assets as of December 31, 2021. Securities available-for-sale were \$1.4 billion as of September 30, 2022, compared to \$1.1 billion as of December 31, 2021.

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The following tables set forth the amortized cost, gross unrealized gains, gross unrealized losses, and fair value of securities available-for-sale as of September 30, 2022, and December 31, 2021:

	<b>September 30, 2022</b>			<b>Fair Value</b>
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	
	(In thousands)			
<b>Securities Available-for-Sale</b>				
U.S. treasury securities	\$ 242,510	\$ —	\$ 1,110	\$ 241,400
U.S. government agency entities	68,712	526	126	69,112
Mortgage-backed securities	1,001,832	58	140,402	861,488
Collateralized mortgage obligations	35,378	—	3,669	31,709
Corporate debt securities	228,879	—	18,177	210,702
<b>Total</b>	<b>\$ 1,577,311</b>	<b>\$ 584</b>	<b>\$ 163,484</b>	<b>\$ 1,414,411</b>

	<b>December 31, 2021</b>			<b>Fair Value</b>
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	
	(In thousands)			
<b>Securities Available-for-Sale</b>				
U.S. government agency entities	\$ 86,475	\$ 1,169	\$ 135	\$ 87,509
Mortgage-backed securities	886,614	9,465	7,414	888,665
Collateralized mortgage obligations	9,547	—	430	9,117
Corporate debt securities	144,231	441	2,654	142,018
<b>Total</b>	<b>\$ 1,126,867</b>	<b>\$ 11,075</b>	<b>\$ 10,633</b>	<b>\$ 1,127,309</b>

For additional information, see Note 8 to the Company's unaudited Consolidated Financial Statements.

Securities available-for-sale having a carrying value of \$144.3 million as of September 30, 2022, and \$30.5 million as of December 31, 2021, were pledged to secure public deposits and other borrowings.

## Equity Securities

The Company recognized a net loss of \$3.7 million for the three months ended September 30, 2022, due to the decrease in fair value of equity investments with readily determinable fair values compared to a net gain of \$3 thousand for the three months ended September 30, 2021. The Company recognized a net gain of \$1.3 million for the nine months ended September 30, 2022 due to the increase in fair value of equity investments with readily determinable fair values compared to a net loss of \$3.6 million for the nine months ended September 30, 2021. Equity securities were \$23.1 million and \$22.3 million as of September 30, 2022, and December 31, 2021, respectively.

## Loans

Gross loans were \$18.1 billion at September 30, 2022, an increase of \$1.8 billion, or 11.0%, from \$16.3 billion at December 31, 2021. The increase was primarily due to increases of \$385.0 million, or 12.9%, in commercial loans, an increase of \$948.6 million, or 22.7% in residential mortgage loans, which included \$568.5 million acquired from the acquisition of certain HSBC West Coast branches, and an increase of \$534.5 million, or 6.6% in commercial mortgage loans, offset, in part, by a decrease of \$69.0 million, or 16.5%, in home equity loans. For the third quarter of 2022, total loans, increased by \$318.9 million or 7.8% annualized.

The loan balances and composition at September 30, 2022, compared to December 31, 2021, are set forth below:

	<u>September 30, 2022</u>	<u>% of Gross Loans</u>	<u>December 31, 2021</u>	<u>% of Gross Loans</u>	<u>% Change</u>
			(in thousands)		
Commercial loans	\$ 3,367,437	18.6%	\$ 2,982,399	18.2%	12.9%
Residential mortgage loans and equity lines	5,481,098	30.3	4,601,493	28.2	19.1
Commercial mortgage loans	8,677,733	47.9	8,143,272	49.8	6.6
Real estate construction loans	573,421	3.2	611,031	3.8	(6.2)
Installment and other loans	7,114	0.0	4,284	0.0	66.1
Gross loans	<u>\$ 18,106,803</u>	100%	<u>\$ 16,342,479</u>	100%	10.8%
Allowance for loan losses	(148,817)		(136,157)		9.3
Unamortized deferred loan fees	(6,936)		(4,321)		60.5
<b>Total loans, net</b>	<b><u>\$ 17,951,050</u></b>		<b><u>\$ 16,202,001</u></b>		<b><u>10.8%</u></b>

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

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

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The ratio of non-performing assets to total assets was 0.3% as of September 30, 2022, compared to 0.3% as of December 31, 2021. Total non-performing assets increased \$3.7 million, or 5.2%, to \$75.4 million at September 30, 2022, compared to \$71.7 million at December 31, 2021, primarily due to an increase of \$2.3 million, or 3.5%, in non-accrual loans, and an increase of \$1.7 million, or 120.4% in accruing loans past due 90 days or more, offset in part, by decrease of \$301 thousand, or 6.9%, in other real estate owned.

As a percentage of gross loans, excluding loans held for sale, plus OREO, our non-performing assets were 0.42% as of September 30, 2022, compared to 0.44% as of December 31, 2021. The non-performing loan portfolio coverage ratio, defined as the allowance for credit losses to non-performing loans, increased to 219.3% as of September 30, 2022, from 212.9% as of December 31, 2021.

The following table sets forth the changes in non-performing assets and TDRs as of September 30, 2022, compared to December 31, 2021, and to September 30, 2021:

	<u>September 30, 2022</u>	<u>December 31, 2021</u>	<u>% Change</u>	<u>September 30, 2021</u>	<u>% Change</u>
	(in thousands)				
<b>Non-performing assets</b>					
Accruing loans past due 90 days or more	\$ 3,172	\$ 1,439	120	\$ 4,333	(27)
<b>Non-accrual loans:</b>					
Construction loans	—	—	-	5,491	(100)
Commercial mortgage loans	26,911	38,173	(30)	36,968	(27)
Commercial loans	26,604	16,558	61	17,098	56
Residential mortgage loans	14,601	11,115	31	9,125	60
Installment and other loans	9	—	-	—	-
<b>Total non-accrual loans</b>	<u>\$ 68,125</u>	<u>\$ 65,846</u>	3	<u>\$ 68,682</u>	(1)
Total non-performing loans	71,297	67,285	6	73,015	(2)
Other real estate owned	4,067	4,368	(7)	5,251	(23)
Total non-performing assets	<u>\$ 75,364</u>	<u>\$ 71,653</u>	5	<u>\$ 78,266</u>	(4)
Accruing troubled debt restructurings (TDRs)	\$ 15,208	\$ 12,837	18	\$ 24,406	(38)
Allowance for loan losses	\$ 148,817	\$ 136,157	9	\$ 131,945	13
<b>Total gross loans outstanding, at period-end</b>	<u>\$ 18,106,803</u>	<u>\$ 16,342,479</u>	11	<u>\$ 15,976,781</u>	13
Allowance for loan losses to non-performing loans, at period-end	208.73%	202.36%		180.71%	
Allowance for loan losses to gross loans, at period-end	0.82%	0.83%		0.83%	

**Non-accrual Loans**

As of September 30, 2022, total non-accrual loans were \$68.1 million, a decrease of \$2.3 million, or 3.5%, from \$65.8 million at December 31, 2021, and a decrease of \$557 thousand, or 0.8%, from \$68.7 million at September 30, 2021. The allowance for the collateral-dependent loans is calculated based on the difference between the outstanding loan balance and the value of the collateral as determined by recent appraisals, sales contracts, or other available market price information, less cost to sell. The allowance for collateral-dependent loans varies from loan to loan based on the collateral coverage of the loan at the time of designation as non-performing. We continue to monitor the collateral coverage of these loans, based on recent appraisals, on a quarterly basis and adjust the allowance accordingly.



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

	September 30, 2022			December 31, 2021	
	Real Estate (1)	Commercial	Other	Real Estate (1)	Commercial
	(In thousands)				
<b>Type of Collateral</b>					
Single/multi-family residence	\$ 15,893	\$ 2,019	\$ —	\$ 12,456	\$ 7,697
Commercial real estate	25,619	151	—	36,832	338
Land	—	2,584	—	—	2,744
Personal property (UCC)	—	21,850	9	—	5,779
<b>Total</b>	<b>\$ 41,512</b>	<b>\$ 26,604</b>	<b>\$ 9</b>	<b>\$ 49,288</b>	<b>\$ 16,558</b>

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

	September 30, 2022			December 31, 2021	
	Real Estate (1)	Commercial	Other	Real Estate (1)	Commercial
	(In thousands)				
<b>Type of Business</b>					
Real estate development	\$ 25,020	\$ —	\$ —	\$ 13,775	\$ —
Wholesale/Retail	2,069	12,569	—	24,600	12,468
Food/Restaurant	90	—	—	—	—
Import/Export	—	13,803	—	—	3,190
Other	14,332	232	9	10,913	900
<b>Total</b>	<b>\$ 41,511</b>	<b>\$ 26,604</b>	<b>\$ 9</b>	<b>\$ 49,288</b>	<b>\$ 16,558</b>

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

As of September 30, 2022, recorded investment in non-accrual loans was \$68.1 million. As of December 31, 2021, recorded investment in non-accrual loans totaled \$65.8 million. For non-accrual loans, the amounts previously charged off represent 12.2% of the contractual balances for non-accrual loans as of September 30, 2022 and 10.7% as of December 31, 2021. As of September 30, 2022, \$41.5 million, or 60.9%, of the \$68.1 million of non-accrual loans were secured by real estate compared to \$49.3 million, or 74.9%, of the \$65.8 million of non-accrual loans that were secured by real estate as of December 31, 2021. The Bank generally seeks to obtain current appraisals, sales contracts, or other available market price information intended to provide updated factors in evaluating potential loss.

As of September 30, 2022, \$6.2 million of the \$148.8 million allowance for loan losses was allocated for non-accrual loans and \$142.6 million was allocated to the general allowance.

The allowance for loan losses to non-performing loans was 208.7% as of September 30, 2022, compared to 202.4% as of December 31, 2021, primarily due to an increase in the non-accrual loans. Non-accrual loans also include those TDRs that do not qualify for accrual status.

The following table presents non-accrual loans and the related allowance as of September 30, 2022 and December 31, 2021:

	September 30, 2022		
	Unpaid Principal Balance	Recorded Investment  (In thousands)	Allowance
<b>With no allocated allowance</b>			
Commercial loans	\$ 10,171	\$ 6,887	\$ —
Commercial mortgage loans	14,148	10,956	—
Residential mortgage loans and equity lines	5,582	5,407	—
Installment and other loans	10	9	—
Subtotal	<u>\$ 29,911</u>	<u>\$ 23,259</u>	<u>\$ —</u>
<b>With allocated allowance</b>			
Commercial loans	\$ 32,426	\$ 19,717	\$ 4,013
Commercial mortgage loans	16,002	15,955	2,146
Residential mortgage loans and equity lines	9,951	9,194	39
Subtotal	<u>\$ 58,379</u>	<u>\$ 44,866</u>	<u>\$ 6,198</u>
<b>Total non-accrual loans</b>	<u><b>\$ 88,290</b></u>	<u><b>\$ 68,125</b></u>	<u><b>\$ 6,198</b></u>
	December 31, 2021		
	Unpaid Principal Balance	Recorded Investment  (In thousands)	Allowance
<b>With no allocated allowance</b>			
Commercial loans	\$ 15,879	\$ 11,342	\$ —
Commercial mortgage loans	24,437	21,209	—
Residential mortgage loans and equity lines	6,020	5,850	—
Subtotal	<u>\$ 46,336</u>	<u>\$ 38,401</u>	<u>\$ —</u>
<b>With allocated allowance</b>			
Commercial loans	\$ 14,294	\$ 5,217	\$ 894
Commercial mortgage loans	17,930	16,964	3,631
Residential mortgage loans and equity lines	6,048	5,264	22
Subtotal	<u>\$ 38,272</u>	<u>\$ 27,445</u>	<u>\$ 4,547</u>
<b>Total non-accrual loans</b>	<u><b>\$ 84,608</b></u>	<u><b>\$ 65,846</b></u>	<u><b>\$ 4,547</b></u>

### **Loan Interest Reserves**

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

As of September 30, 2022, construction loans of \$400.1 million were disbursed with pre-established interest reserves of \$58.0 million, compared to \$520.5 million with pre-established interest reserves of \$51.1 million at December 31, 2021. The balance for construction loans with interest reserves that have been extended was \$33.1 million with pre-established interest reserves of \$0.4 million at September 30, 2022, compared to \$20.4 million with pre-established interest reserves of \$0.4 million at December 31, 2021. Land loans of \$43.5 million were disbursed with pre-established interest reserves of \$1.0 million at September 30, 2022, compared to \$46.2 million of land loans disbursed with pre-established interest reserves of \$0.6 million at December 31, 2021. At September 30, 2022 and December 31, 2021, the balance for land loans with interest reserves that have been extended was \$0.9 million with pre-established interest reserves of \$58 thousand.

At September 30, 2022 and December 31, 2021, the Bank had no loans on non-accrual status with available interest reserves. At September 30, 2022 and December 31, 2021, there were zero non-accrual non-residential construction loans, residential construction loans, and land loans that were originated with pre-established interest reserves. While we typically expect loans with interest reserves to be repaid in full according to the original contractual terms, some loans may require one or more extensions beyond the original maturity before full repayment. Typically, these extensions are required due to construction delays, delays in the sale or lease of the property, or some combination of these two factors.

### **Loan Concentration**

Most of the Company's business activities are with customers located in the high-density Asian-populated areas of Southern and Northern California; New York City, New York; Dallas and Houston, Texas; Seattle, Washington; Boston, Massachusetts; Chicago, Illinois; Edison, New Jersey; Rockville, Maryland; and Las Vegas, Nevada. The Company also has loan customers in Hong Kong. The Company has no specific industry concentration, and generally our loans are collateralized with real property or other pledged collateral of the borrowers. The Company generally expects loans to be paid off from the operating profits of the borrowers, refinancing by another lender, or through sale by the borrowers of the collateral. There were no loan concentrations to multiple borrowers in similar activities that exceeded 10% of total loans as of September 30, 2022, or as of December 31, 2021.

The federal banking regulatory agencies issued final guidance on December 6, 2006, regarding risk management practices for financial institutions with high or increasing concentrations of commercial real estate (“CRE”) loans on their balance sheets. The regulatory guidance reiterates the need for sound internal risk management practices for those institutions that have experienced rapid growth in CRE lending, have notable exposure to specific types of CRE, or are approaching or exceeding the supervisory criteria used to evaluate the CRE concentration risk, but the guidance is not to be construed as a limit for CRE exposure. The supervisory criteria are: (1) total reported loans for construction, land development, and other land represent 100% of the institution’s total risk-based capital, and (2) both total CRE loans represent 300% or more of the institution’s total risk-based capital and the institution’s CRE loan portfolio has increased 50% or more within the last thirty-six months. The Bank’s loans for construction, land development, and other land represented 29.0% of the Bank’s total risk-based capital as of September 30, 2022, and December 31, 2021. Total CRE loans represented 289.9% of total risk-based capital as of September 30, 2022, and 284.7% as of December 31, 2021 which were within the Bank’s internal limit of 400%, of total capital.

#### **Allowance for Credit Losses**

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

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

The allowance for loan losses was \$148.8 million and the allowance for off-balance sheet unfunded credit commitments was \$7.5 million at September 30, 2022, which represented the amount believed by management to be appropriate to absorb credit losses inherent in the loan portfolio, including unfunded credit commitments. The allowance for credit losses represented 0.86% of period-end gross loans and 219.3% of non-performing loans at September 30, 2022. The comparable ratios were 0.88% of period-end gross loans and 212.9% of non-performing loans at December 31, 2021.

*Critical Accounting Policies and Estimates*

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

Our critical accounting policies and estimates are described in *Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations* included in the 2021 Form 10-K. For more information, please also see Note 3 to the Company's unaudited Consolidated Financial Statements.

*Expected Credit Losses Estimate for Loans*

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

Under the CECL methodology, expected credit losses reflect losses over the remaining contractual life of an asset, considering the effect of prepayments and available information about the collectability of cash flows, including information about relevant historical experience, current conditions, and reasonable and supportable forecasts of future events and circumstances. Thus, the CECL methodology incorporates a broad range of information in developing credit loss estimates. For further information regarding the calculation of the allowance for credit losses on loans held for investment using the CECL methodology, see Note 9 to the unaudited Consolidated Financial Statements contained in "Item 1. Consolidated Financial Statements."

In calculating our allowance for credit losses in the third quarter of 2022, management included an additional reserve adjustment to reflect the time gap between the preparation of the September 2022 Moody's forecast of future GDP, unemployment rates, CRE and home price indexes and the higher likelihood of an economic slowdown resulting for the impact of higher interest rates. Our methodology and framework along with the 8-quarter reasonable and supportable forecast period and the 4-quarter reversion period have remained consistent since the implementation of CECL on January 1, 2021. Certain management assumptions are reassessed every quarter based on current expectations for credit losses, while other assumptions are assessed and updated on at least an annual basis.

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

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

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

Our allowance for credit losses is sensitive to a number of inputs, including macroeconomic forecast assumptions and credit rating migrations during the period. Our macroeconomic forecasts used in determining the September 30, 2022, allowance for credit losses consisted of three scenarios. The baseline scenario reflects ongoing GDP growth and falling unemployment in 2022, generally in line with market expectations, and consistent with waning COVID transmission and improved supply chains. The upside scenario reflects a faster recovery in consumer spending and stronger productivity growth in 2022 relative to the baseline scenario. The downside scenario contemplates a short recession due to the Russian invasion of Ukraine worsens significantly, worsening supply-chain disruptions, resurgent COVID infections that results in negative GDP growth, and rising unemployment beginning in the third quarter of 2022. We placed the most weight on our baseline scenario, with the remaining weighting split equally between the upside and downside scenarios.

Keeping all other factors constant, we estimate that if we had applied 100% weighting to the downside scenario, the allowance for credit losses as of September 30, 2022, would have been approximately \$40.8 million higher. This estimate is intended to reflect the sensitivity of the allowance for credit losses to changes in our scenario weights and is not intended to be indicative of future changes in the allowance for credit losses.

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

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

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	(In thousands)			
<b>Allowance for loan losses</b>				
Balance at beginning of period	\$ 148,772	\$ 131,256	\$ 136,157	\$ 166,538
Impact of ASU 2016-13 adoption	—	—	—	(1,560)
<b>Adjusted beginning balance</b>	<b>\$ 148,772</b>	<b>\$ 131,256</b>	<b>\$ 136,157</b>	<b>\$ 164,978</b>
Provision/(Reversal) for credit losses	602	3,000	12,709	(15,710)
<b>Charge-offs:</b>				
Commercial loans	(2,091)	(2,649)	(2,362)	(19,499)
Real estate loans	(137)	(3)	(138)	(3)
<b>Total charge-offs</b>	<b>(2,228)</b>	<b>(2,652)</b>	<b>(2,500)</b>	<b>(19,502)</b>
<b>Recoveries:</b>				
Commercial loans	1,576	121	2,109	1,545
Construction loans	—	76	6	76
Real estate loans	95	144	336	558
<b>Total recoveries</b>	<b>1,671</b>	<b>341</b>	<b>2,451</b>	<b>2,179</b>
<b>Balance at the end of period</b>	<b>\$ 148,817</b>	<b>\$ 131,945</b>	<b>\$ 148,817</b>	<b>\$ 131,945</b>
<b>Reserve for off-balance sheet credit commitments</b>				
Balance at beginning of period	\$ 6,136	\$ 8,050	\$ 7,100	\$ 5,880
Impact of ASU 2016-13 adoption	—	—	—	6,018
<b>Adjusted beginning balance</b>	<b>6,136</b>	<b>8,050</b>	<b>7,100</b>	<b>11,898</b>
Reversal for credit losses	1,398	50	434	(3,798)
<b>Balance at the end of period</b>	<b>\$ 7,534</b>	<b>\$ 8,100</b>	<b>\$ 7,534</b>	<b>\$ 8,100</b>
Average loans outstanding during the period	\$ 17,923,495	\$ 15,798,496	\$ 17,468,247	\$ 15,725,324
Total gross loans outstanding, at period-end	\$ 18,106,803	\$ 15,976,781	\$ 18,106,803	\$ 15,976,781
Total non-performing loans, at period-end	\$ 71,297	\$ 73,015	\$ 71,297	\$ 73,015
Ratio of net (recoveries)/charge-offs to average loans outstanding during the period	0.01%	0.06%	0.00%	0.15%
Provision for credit losses to average loans outstanding during the period	0.04%	0.08%	0.10%	(0.17%)
Allowance for credit losses to non-performing loans, at period-end	219.30%	191.80%	219.30%	191.80%
Allowance for credit losses to gross loans, at period-end	0.86%	0.88%	0.86%	0.88%

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

	September 30, 2022		December 31, 2021	
	Amount	Percentage of Loans in Each Category to Average Gross Loans	Amount	Percentage of Loans in Each Category to Average Gross Loans
	(In thousands)			
<b>Type of Loan:</b>				
Commercial loans	\$ 50,399	18.2%	\$ 43,394	18.4%
Real estate construction loans	6,211	3.5	6,302	4.2
Commercial mortgage loans	70,050	48.3	61,081	48.7
Residential mortgage loans and equity lines	22,029	30.0	25,379	28.7
Installment and other loans	128	0.0	1	—
<b>Total loans</b>	<b>\$ 148,817</b>	<b>100%</b>	<b>\$ 136,157</b>	<b>100%</b>

The allowance allocated to commercial loans increased \$7.0 million, or 16.1%, to \$50.4 million at September 30, 2022, from \$43.4 million at December 31, 2021. The increase is due primarily to an increase in allocated allowance for non-accrual commercial loans.

The allowance allocated to real estate construction loans decreased \$91 thousand, or 1.4%, to \$6.2 million at September 30, 2022, from \$6.3 million at December 31, 2021. The decrease is due primarily to a decrease in loan volume.

The allowance allocated to commercial mortgage loans increased \$9.0 million, or 14.7%, to \$70.1 million at September 30, 2022, from \$61.1 million at December 31, 2021. The increase is due primarily to an increase in commercial mortgage loans and an increase in the expected life for multifamily loans as a result of our annual CECL recalibration.

The allowance allocated for residential mortgage loans and equity lines decreased by \$3.4 million, or 13.2%, to \$22.0 million as of September 30, 2022, from \$25.4 million at December 31, 2021. The decrease is due primarily to a decrease in the expected life for residential mortgages as a result of our annual CECL recalibration.

**Deposits**

Total deposits were \$18.6 billion as September 30, 2022, an increase of \$516.9 million, or 2.9%, from \$18.1 billion as December 31, 2021. During the third quarter of 2022, our deposits increased by \$288.4 million, or 6.4% annualized.



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The following table sets forth the deposit mix as of the dates indicated:

	September 30, 2022		December 31, 2021	
	Amount	Percentage	Amount	Percentage
<b>Deposits</b>	(In thousands)			
Non-interest-bearing demand deposits	\$ 4,398,152	23.7%	\$ 4,492,054	24.9%
NOW deposits	2,570,036	13.8	2,522,442	14.0
Money market deposits	4,935,266	26.6	4,611,579	25.5
Savings deposits	1,128,823	6.1	915,515	5.1
Time deposits	5,543,474	29.8	5,517,252	30.5
<b>Total deposits</b>	<b>\$ 18,575,751</b>	<b>100.0%</b>	<b>\$ 18,058,842</b>	<b>100.0%</b>

The following table sets forth the maturity distribution of time deposits at September 30, 2022:

	At September 30, 2022		
	Time Deposits - under \$100,000	Time Deposits - \$100,000 and over	Total Time Deposits
	(In thousands)		
Three months or less	\$ 411,459	\$ 1,189,398	\$ 1,600,857
Over three to six months	376,119	890,147	1,266,266
Over six to twelve months	217,030	2,307,237	2,524,267
Over twelve months	28,896	123,188	152,084
<b>Total</b>	<b>\$ 1,033,504</b>	<b>\$ 4,509,970</b>	<b>\$ 5,543,474</b>
Percent of total deposits	5.6%	24.3%	29.8%

**Borrowings**

Borrowings include securities sold under agreements to repurchase, Federal funds purchased, funds obtained as advances from the FHLB of San Francisco, and borrowings from other financial institutions.

*Borrowings from the FHLB* – There were \$225.0 million over-night borrowings from the FHLB as of September 30, 2022, and no over-night borrowings as of December 31, 2021. Advances from the FHLB were \$360.0 million at an average rate of 3.10% as of September 30, 2022, compared to \$20.0 million at an average rate of 2.89% as of December 31, 2021. As of September 30, 2022, FHLB advances of \$325.0 million will mature in October 2022, \$20.0 million will mature in May 2023 and \$15.0 million will mature in September 2024.

*Junior Subordinated Notes* – At September 30, 2022, Junior Subordinated Notes totaled \$119.1 million with a weighted average interest rate of 5.6%, compared to \$119.1 million with a weighted average rate of 2.38% at December 31, 2021. The Junior Subordinated Notes have a stated maturity term of 30 years. The trusts are not consolidated with the Company in accordance with an accounting pronouncement that took effect in December 2003.

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

### Off-Balance-Sheet Arrangements and Contractual Obligations

The following table summarizes the Company's contractual obligations to make future payments as of September 30, 2022. Payments for deposits and borrowings do not include interest. Payments related to leases are based on actual payments specified in the underlying contracts.

	Payment Due by Period				Total
	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	
	(In thousands)				
Contractual obligations:					
Deposits with stated maturity dates	\$ 5,391,390	\$ 147,705	\$ 4,359	\$ 20	\$ 5,543,474
Advances from the Federal Home Loan Bank	345,000	15,000	—	—	360,000
Other borrowings	—	—	—	22,651	22,651
Long-term debt	—	—	—	119,136	119,136
Operating leases	11,064	14,905	7,659	2,366	35,994
<b>Total contractual obligations and other commitments</b>	<b>\$ 5,747,454</b>	<b>\$ 177,610</b>	<b>\$ 12,018</b>	<b>\$ 144,173</b>	<b>\$ 6,081,255</b>

In the normal course of business, we enter into various transactions, which, in accordance with GAAP, are not included in our Consolidated Balance Sheets. We 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

Total equity was \$2.42 billion as of September 30, 2022, a decrease of \$26.7 million, from \$2.45 billion as of December 31, 2021, primarily due to net income of \$263.0 million, stock-based compensation of \$5.2 million, proceeds from dividend reinvestment of \$2.8 million and stock issued to directors of \$0.8 million, offset by, other comprehensive loss of \$109.8 million, purchases of treasury stock of \$109.8 million, common stock cash dividends of \$76.1 million and shares withheld related to net share settlement of RSUs of \$2.8 million.

The following table summarizes changes in total equity for the nine months ended September 30, 2022:

	<b>Nine months ended September 30, 2022</b>
	(In thousands)
Net income	\$ 263,041
Proceeds from shares issued through the Dividend Reinvestment Plan	2,792
Shares withheld related to net share settlement of RSUs	(2,864)
Purchase of treasury stock	(109,774)
Stock issued to directors	849
RSU vested	1
Share-based compensation	5,183
Cash dividends paid to common stockholders	(76,111)
Other comprehensive loss	(109,809)
<b>Net decrease in total equity</b>	<b>\$ (26,692)</b>

### **Capital Adequacy Review**

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 following tables set forth actual and required capital ratios as of September 30, 2022 and December 31, 2021 for Bancorp and the Bank under the Basel III Capital Rules. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules. See the 2021 Form 10-K for a more detailed discussion of the Basel III Capital Rules.

	<u>Actual</u>		<u>Minimum Capital Required - Basel III</u>		<u>Required to be Considered Well Capitalized</u>	
	<u>Capital Amount</u>	<u>Ratio</u>	<u>Capital Amount</u>	<u>Ratio</u>	<u>Capital Amount</u>	<u>Ratio</u>
<b>September 30, 2022</b>	(In thousands)					
<b>Common Equity Tier 1 to Risk-Weighted Assets</b>						
Cathay General Bancorp	\$ 2,136,403	12.06	\$ 1,240,523	7.00	\$ 1,151,914	6.50
Cathay Bank	2,221,644	12.54	1,239,943	7.00	1,151,376	6.50
<b>Tier 1 Capital to Risk-Weighted Assets</b>						
Cathay General Bancorp	2,136,403	12.06	1,506,349	8.50	1,417,741	8.00
Cathay Bank	2,221,644	12.54	1,505,646	8.50	1,417,078	8.00
<b>Total Capital to Risk-Weighted Assets</b>						
Cathay General Bancorp	2,408,255	13.59	1,860,785	10.50	1,772,176	10.00
Cathay Bank	2,377,996	13.42	1,859,915	10.50	1,771,348	10.00
<b>Leverage Ratio</b>						
Cathay General Bancorp	2,136,403	10.02	853,269	4.00	1,066,586	5.00
Cathay Bank	2,221,644	10.42	852,622	4.00	1,065,778	5.00

	Actual		Minimum Capital Required - Basel III		Required to be Considered Well Capitalized	
	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
<b>December 31, 2021</b>	(In thousands)					
<b>Common Equity Tier 1 to Risk-Weighted Assets</b>						
Cathay General Bancorp	\$ 2,056,601	12.80	\$ 1,124,381	7.00	\$ 1,044,068	6.50
Cathay Bank	2,137,925	13.32	1,123,721	7.00	1,043,455	6.50
<b>Tier 1 Capital to Risk-Weighted Assets</b>						
Cathay General Bancorp	2,056,601	12.80	1,365,320	8.50	1,285,007	8.00
Cathay Bank	2,137,925	13.32	1,364,519	8.50	1,284,253	8.00
<b>Total Capital to Risk-Weighted Assets</b>						
Cathay General Bancorp	2,315,358	14.41	1,686,572	10.50	1,606,259	10.00
Cathay Bank	2,281,182	14.21	1,685,582	10.50	1,605,316	10.00
<b>Leverage Ratio</b>						
Cathay General Bancorp	2,056,601	10.40	791,226	4.00	989,033	5.00
Cathay Bank	2,137,925	10.82	790,430	4.00	988,037	5.00

As of September 30, 2022, capital levels at Bancorp and the Bank exceed all capital adequacy requirements under the fully phased-in Basel III Capital Rules. Based on the ratios presented above, capital levels as of September 30, 2022 at Bancorp and the Bank exceed the minimum levels necessary to be considered “well capitalized.”

#### **Dividend Policy**

Holders of common stock are entitled to dividends as and when declared by our Board of Directors out of funds legally available for the payment of dividends. Although we have historically paid cash dividends on our common stock, we are not required to do so. We increased the common stock dividend from \$0.24 per share in the fourth quarter of 2017, to \$0.31 per share in the fourth quarter of 2018, to \$0.34 per share in the fourth quarter of 2021. The amount of future dividends, if any, will depend on our earnings, financial condition, capital requirements and other factors, and will be determined by our Board of Directors. The terms of our Junior Subordinated Notes also limit our ability to pay dividends. If we are not current in our payment of dividends on our Junior Subordinated Notes, we may not pay dividends on our common stock.

The Company declared a cash dividend of \$0.34 per share on 73,774,691 shares outstanding on August 30, 2022, for distribution to holders of our common stock on September 9, 2022. The Company paid total cash dividends of \$25.1 million in the third quarter of 2022.

#### **Financial Derivatives**

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

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

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

In May 2014, Bancorp entered into interest rate swap contracts in the notional amount of \$119.1 million for a period of ten years. The objective of these interest rate swap contracts, which were designated as hedging instruments in cash flow hedges, was to hedge the quarterly interest payments on Bancorp’s \$119.1 million of Junior Subordinated Debentures that had been issued to five trusts, throughout the ten-year period beginning in June 2014 and ending in June 2024, from the risk of variability of these payments resulting from changes in the three-month LIBOR interest rate. As of September 30, 2022, and 2021, the ineffective portion of these interest rate swaps was not significant.

The notional amount and net unrealized loss of the Company’s cash flow derivative financial instruments as of September 30, 2022, and December 31, 2021, were as follows:

	<u>September 30, 2022</u>		<u>December 31, 2021</u>	
	(In thousands)			
<b>Cash flow swap hedges:</b>				
Notional	\$	119,136	\$	119,136
Weighted average fixed rate-pay		2.61%		2.61%
Weighted average variable rate-receive		2.07%		0.16%
Unrealized gain/(loss), net of taxes <sup>(1)</sup>	\$	2,527	\$	(3,276)

  

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>September 30, 2022</u>	<u>September 30, 2021</u>	<u>September 30, 2022</u>	<u>September 30, 2021</u>
Periodic net settlement of swaps <sup>(2)</sup>	\$	138	\$	754
			\$	1,311
			\$	2,196

(1) Included in other comprehensive income.

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

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The Bank entered into interest rate swap contracts that are matched to fixed-rate commercial real estate loans in the Bank's loan portfolio. These contracts have been designated as hedging instruments to hedge the risk of changes in the fair value of the underlying commercial real estate loans due to changes in interest rates. As of September 30, 2022, the Bank's outstanding interest rate swap contracts had a notional amount of \$877.2 million for various terms from three to ten years. The swap contracts are structured so that the notional amounts reduce over time to match the contractual amortization of the underlying loan and allow prepayments with the same pre-payment penalty amounts as the related loan. As of September 30, 2022, and 2021, the ineffective portion of these interest rate swaps was not significant.

The Company has designated as a partial-term hedging election \$670.2 million notional as last-of-layer hedge on pools of loans with a notational value of \$1.2 billion as of September 30, 2022. The loans are not expected to be affected by prepayment, defaults, or other factors affecting the timing and amount of cash flows under the last-of-layer method. The Company has entered into these pay-fixed and receive 1-Month LIBOR interest rate swaps to convert the last-of-layer \$670.2 million portion of \$1.2 billion fixed rate loan pools in order to reduce the Company's exposure to higher interest rates for the last-of-layer tranches. As of September 30, 2022, the last-of-layer loan tranche had a fair value basis adjustment of \$32.8 million. The interest rate swap converts this last-of-layer tranche into a floating rate instrument. The Company's risk management objective with respect to this last-of-layer interest rate swap is to reduce interest rate exposure as to the last-of-layer tranche.

Interest rate swap contracts involve the risk of dealing with institutional derivative counterparties and their ability to meet contractual terms. Institutional counterparties must have a strong credit profile and be approved by our Board of Directors. The Company's credit exposure on interest rate swaps is limited to the net favorable value and interest payments of all swaps by each counterparty. Credit exposure may be reduced by the amount of collateral pledged by the counterparty. Bancorp's interest rate swaps have been assigned by the counterparties to a derivative clearing organization and daily margin is indirectly maintained with the derivative clearing organization. There was no cash collateral deposit posted by Bancorp related to derivative contracts as of September 30, 2022 and \$5.9 million as of December 31, 2021.

The notional amount and net unrealized loss of the Company's fair value derivative financial instruments as of September 30, 2022, and December 31, 2021, were as follows:

	<u>September 30, 2022</u>		<u>December 31, 2021</u>					
	(In thousands)							
<b>Fair value swap hedges:</b>								
Notional	\$	877,188	\$	729,280				
Weighted average fixed rate-pay		2.14%		2.65%				
Weighted average variable rate spread		0.54%		1.31%				
Weighted average variable rate-receive		1.98%		1.43%				
Unrealized gain/(loss), net of taxes (1)	\$	40,465	\$	(1,013)				
		<b>Three months ended</b>		<b>Nine months ended</b>				
		<b>September 30, 2022</b>	<b>September 30, 2021</b>	<b>September 30, 2022</b>	<b>September 30, 2021</b>			
Periodic net settlement of swaps (2)	\$	1,461	\$	(2,363)	\$	(1,628)	\$	(7,137)

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

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

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From time to time, the Company enters into foreign exchange forward contracts with various counterparties to mitigate the risk of fluctuations in foreign currency exchange rates for foreign exchange certificates of deposit or foreign exchange contracts entered into with our clients. These contracts are not designated as hedging instruments and are recorded at fair value in our Consolidated Balance Sheets. Changes in the fair value of these contracts as well as the related foreign exchange certificates of deposit and foreign exchange contracts are recognized immediately in net income as a component of non-interest income. Period end gross positive fair values are recorded in other assets and gross negative fair values are recorded in other liabilities.

The notional amount and fair value of the Company's derivative financial instruments not designated as hedging instruments as of September 30, 2022, and December 31, 2021, were as follows:

<b>Derivative financial instruments not designated as hedging instruments:</b>	<b>September 30, 2022</b>	<b>December 31, 2021</b>
	(In thousands)	
<b>Notional amounts:</b>		
Option contracts	\$ -	\$ 676
Spot, forward, and swap contracts with positive fair value	\$ 162,518	\$ 181,997
Spot, forward, and swap contracts with negative fair value	\$ 45,990	\$ 51,782
<b>Fair value:</b>		
Option contracts	\$ -	\$ 3
Spot, forward, and swap contracts with positive fair value	\$ 752	\$ 1,113
Spot, forward, and swap contracts with negative fair value	\$ (2,054)	\$ (327)

### Liquidity

Liquidity is our ability to maintain sufficient cash flow to meet maturing financial obligations and customer credit needs, and to take advantage of investment opportunities as they are presented in the marketplace. Our principal sources of liquidity are growth in deposits, proceeds from the maturity or sale of securities and other financial instruments, repayments from securities and loans, Federal funds purchased, securities sold under agreements to repurchase, and advances from the FHLB. As of September 30, 2022, our average monthly liquidity ratio (defined as net cash plus short-term and marketable securities to net deposits and short-term liabilities) was 13.7% compared to 17.3% as of December 31, 2021.

The Bank is a shareholder of the FHLB, which enables the Bank to have access to lower-cost FHLB financing when necessary. At September 30, 2022, the Bank had an approved credit line with the FHLB of San Francisco totaling \$5.3 billion. Total advances from the FHLB of San Francisco were \$360.0 million and standby letters of credit issued by the FHLB on the Company's behalf were \$754.8 million as of September 30, 2022. These borrowings bear fixed rates and are secured by the Bank's loans. See Note 11 to the Consolidated Financial Statements. At September 30, 2022, the Bank pledged \$630.4 thousand of its commercial loans and \$1.6 million of securities to the Federal Reserve Bank's Discount Window under the Borrower-in-Custody program. The Bank had borrowing capacity of \$1.9 million from the Federal Reserve Bank Discount Window at September 30, 2022.

Liquidity can also be provided through the sale of liquid assets, which consist of federal funds sold, securities purchased under agreements to resell, and securities available-for-sale. At September 30, 2022, investment securities totaled \$1.4 billion, with \$144.3 million pledged as collateral for borrowings and other commitments. The remaining balance was available as additional liquidity or to be pledged as collateral for additional borrowings.

Approximately 97.3% of our time deposits mature within one year or less as of September 30, 2022. Management anticipates that there may be some outflow of these deposits upon maturity due to the keen competition in the Bank's marketplace. However, based on our historical runoff experience, we expect the outflow will not be significant and can be replenished through our normal growth in deposits. As of September 30, 2022, management believes all the above-mentioned sources will provide adequate liquidity during the next twelve months for the Bank to meet its operating needs. Deposits and other sources of liquidity, however, may be adversely impacted by the COVID-19 pandemic and its related economic impacts.

The business activities of Bancorp consist primarily of the operation of the Bank and limited activities in other investments. The Bank paid dividends to Bancorp totaling \$185.0 million and \$155.0 million during the third quarter of 2022 and 2021, respectively.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

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

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

The table below shows the estimated impact of changes in interest rates on net interest income and market value of equity as of September 30, 2022:

Change in Interest Rate (Basis Points)	Net Interest Income Volatility (1)	Market Value of Equity Volatility (2)
+200	10.6	3.5
+100	5.3	2.2
-100	-7.5	1.0
-200	-18.3	5.2

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

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



**ITEM 4. CONTROLS AND PROCEDURES.**

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

There has not been any change in our internal control over financial reporting that occurred during the third quarter of 2022 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II – OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS.**

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

**ITEM 1A. RISK FACTORS.**

The Company is not aware of any material change to the risk factors as previously disclosed in Part I, Item 1A, of the Company's 2021 Form 10-K. In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors disclosed in Part I, Item 1A, of the Company's 2021 Form 10-K, which could materially and adversely affect the Company's business, financial condition, results of operations and stock price. The risk factors disclosed in the 2021 Form 10-K are not the only risks facing the Company. Additional risks and uncertainties, including those not presently known to the Company or that the Company presently believes not to be material, could also materially and adversely affect the Company's business, financial condition, and results of operations and stock price.

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

<b>Issuer Purchases of Equity Securities</b>				
<b>Period</b>	<b>(a) Total Number of Shares (or Units) Purchased</b>	<b>(b) Average Price Paid per Share (or Unit)</b>	<b>(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs</b>	<b>(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs</b>
(July 1, 2022 - July 31, 2022)	65,000	\$41.29	65,000	\$91,728,331
(August 1, 2022 - August 31, 2022)	804,929	\$43.34	804,929	\$56,840,800
(September 1, 2022 - September 30, 2022)	209,611	\$41.59	209,611	\$48,122,085
Total	1,079,540	\$42.02	1,079,540	\$48,122,085

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

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**ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**

Not applicable.

**ITEM 4. MINE SAFETY DISCLOSURES.**

Not applicable.

**ITEM 5. OTHER INFORMATION.**

None.

**ITEM 6. EXHIBITS.**

- Exhibit 3.1 [Restated Certificate of Incorporation. Previously filed with the Securities and Exchange Commission on February 29, 2016, as an exhibit to Bancorp's Annual Report on Form 10-K for the year ended December 31, 2015, and incorporated herein by reference.](#)
- Exhibit 3.1.1 [Amendment to Restated Certificate of Incorporation. Previously filed with the Securities and Exchange Commission on February 29, 2016, as an exhibit to Bancorp's Annual Report on Form 10-K for the year ended December 31, 2015, and incorporated herein by reference.](#)
- Exhibit 3.2 [Amended and Restated Bylaws, effective February 16, 2017. Previously filed with the Securities and Exchange Commission on February 17, 2017, as an exhibit to the Bancorp's Current Report on Form 8-K and incorporated herein by reference.](#)
- Exhibit 3.3 [Certificate of Designation of Series A Junior Participating Preferred Stock. Previously filed with the Securities and Exchange Commission on February 28, 2012, as an exhibit to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 2011, and incorporated herein by reference.](#)
- Exhibit 3.4 [Certificate of Designation of Fixed Rate Cumulative Perpetual Preferred Stock, Series B. Previously filed with the Securities and Exchange Commission on March 3, 2014, as an exhibit to the Bancorp's Annual Report on Form 10-K for the year ended December 31, 2013 and incorporated herein by reference.](#)
- Exhibit 31.1 [Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.+](#)
- Exhibit 31.2 [Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.+](#)

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Exhibit 32.1	<a href="#">Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.++</a>
Exhibit 32.2	<a href="#">Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.++</a>
Exhibit 101.INS	XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document*
Exhibit 101.SCH	Inline XBRL Taxonomy Extension Schema Document*
Exhibit 101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document*
Exhibit 101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document*
Exhibit 101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document*
Exhibit 101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document*
Exhibit 104	Cover Page Interactive Data File – the cover page XBRL tags are embedded within the Inline XBRL document*

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+ Filed herewith.

++ Furnished herewith.

\* Filed electronically herewith.

**SIGNATURES**

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

Cathay General Bancorp  
(Registrant)

Date: November 8, 2022

/s/ Chang M. Liu  
Chang M. Liu  
President and Chief Executive Officer

Date: November 8, 2022

/s/ Heng W. Chen  
Heng W. Chen  
Executive Vice President and  
Chief Financial Officer

I, Chang M. Liu, certify that:

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

/s/ Chang M. Liu

Chang M. Liu

President and Chief Executive Officer

Date: November 8, 2022

I, Heng W. Chen, certify that:

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

/s/ Heng W. Chen

Heng W. Chen  
Executive Vice President and  
Chief Financial Officer

Date: November 8, 2022

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

In connection with the Quarterly Report of Cathay General Bancorp (the "Company") on Form 10-Q for the period ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Chang M. Liu, chief executive officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Chang M. Liu

Chang M. Liu

President and Chief Executive Officer

Date: November 8, 2022



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

In connection with the Quarterly Report of Cathay General Bancorp (the "Company") on Form 10-Q for the period ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Heng W. Chen, chief financial officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Heng W. Chen  
Heng W. Chen  
Executive Vice President and  
Chief Financial Officer

Date: November 8, 2022