

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, 2024

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
(Address of principal executive offices)

90012
Zip Code)

Registrant's telephone number, including area code: (213) 625-4700
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 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, \$0.01 par value, 71,198,632 shares outstanding as of October 31, 2024.

CATHAY GENERAL BANCORP AND SUBSIDIARIES
3RD QUARTER 2024 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 clients and our operations, assets and liabilities;
- 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;
- 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) 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, 2023 (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 I. FINANCIAL STATEMENTS (UNAUDITED)

CATHAY GENERAL BANCORP AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2024	December 31, 2023
	(In thousands, except share data)	
Assets		
Cash and due from banks	\$ 182,542	\$ 173,988
Short-term investments and interest-bearing deposits	1,156,223	654,813
Securities available-for-sale (amortized cost of \$1,602,696 at September 30, 2024, and \$1,726,080 at December 31, 2023)	1,508,356	1,604,570
Loans held for sale	5,190	—
Loans held for investment	19,373,593	19,548,140
Less: Allowance for loan losses	(163,733)	(154,562)
Unamortized deferred loan fees, net	(10,505)	(10,720)
Loans held for investment, net	19,199,355	19,382,858
Equity securities	35,741	40,406
Federal Home Loan Bank stock	17,250	17,746
Other real estate owned, net	18,277	19,441
Affordable housing investments and alternative energy partnerships, net	280,091	315,683
Premises and equipment, net	89,158	91,097
Customers' liability on acceptances	12,043	3,264
Accrued interest receivable	95,351	97,673
Goodwill	375,696	375,696
Other intangible assets, net	3,590	4,461
Right-of-use assets - operating leases	30,543	32,076
Other assets	265,037	267,762
Total assets	\$ 23,274,443	\$ 23,081,534
Liabilities and Stockholders' Equity		
Deposits:		
Non-interest-bearing	\$ 3,253,823	\$ 3,529,018
Interest-bearing:		
NOW deposits	2,093,861	2,370,685
Money market deposits	3,134,460	3,049,754
Savings deposits	1,215,974	1,039,203
Time deposits	10,245,823	9,336,787
Total deposits	19,943,941	19,325,447
Advances from the Federal Home Loan Bank	60,000	540,000
Other borrowings of affordable housing investments	17,783	15,787
Long-term debt	119,136	119,136
Acceptances outstanding	12,043	3,264
Lease liabilities - operating leases	32,906	34,797
Other liabilities	258,321	306,528
Total liabilities	20,444,130	20,344,959
Commitments and contingencies	—	—
Stockholders' Equity		
Common stock, \$0.01 par value, 100,000,000 shares authorized; 91,601,352 issued and 71,355,869 outstanding at September 30, 2024, and 91,392,480 issued and 72,668,927 outstanding at December 31, 2023	916	914
Additional paid-in-capital	991,362	987,953
Accumulated other comprehensive loss, net	(66,453)	(85,416)
Retained earnings	2,632,315	2,500,341
Treasury stock, at cost (20,245,483 shares at September 30, 2024, and 18,723,553 shares at December 31, 2023)	(727,827)	(667,217)
Total stockholders' equity	2,830,313	2,736,575
Total liabilities and stockholders' equity	\$ 23,274,443	\$ 23,081,534

See accompanying Notes to Consolidated Financial Statements.

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

(Unaudited)

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
	(In thousands, except share and per share data)			
Interest and Dividend Income				
Loans receivable	\$ 310,311	\$ 293,108	\$ 916,175	\$ 827,765
Investment securities	15,125	12,698	45,720	36,832
Federal Home Loan Bank stock	375	355	1,305	957
Deposits with banks	13,680	17,307	41,793	43,405
Total interest and dividend income	<u>339,491</u>	<u>323,468</u>	<u>1,004,993</u>	<u>908,959</u>
Interest Expense				
Time deposits	119,786	90,022	347,408	234,171
Other deposits	45,918	38,207	133,218	92,683
Advances from Federal Home Loan Bank	1,885	6,779	13,517	14,875
Long-term debt	2,351	1,726	5,935	4,721
Short-term debt	396	1,094	1,872	2,901
Total interest expense	<u>170,336</u>	<u>137,828</u>	<u>501,950</u>	<u>349,351</u>
Net interest income before provision for credit losses	169,155	185,640	503,043	559,608
Provision for credit losses	14,500	7,000	23,000	24,255
Net interest income after provision for credit losses	<u>154,655</u>	<u>178,640</u>	<u>480,043</u>	<u>535,353</u>
Non-Interest Income				
Net gains/(losses) from equity securities	4,253	(6,218)	(6,204)	9,298
Net gains/(losses) from securities available for sale	—	—	1,107	(3,000)
Letters of credit commissions	2,081	1,738	5,686	4,972
Depository service fees	1,572	1,536	4,900	5,009
Wealth management fees	6,545	5,150	17,861	12,686
Other operating income	5,914	5,631	16,841	16,226
Total non-interest income	<u>20,365</u>	<u>7,837</u>	<u>40,191</u>	<u>45,191</u>
Non-Interest Expense				
Salaries and employee benefits	40,859	38,774	124,850	114,048
Occupancy expense	5,938	5,851	17,557	16,883
Computer and equipment expense	4,753	4,387	15,212	12,899
Professional services expense	7,021	7,906	22,225	24,212
Data processing service expense	4,330	3,614	12,136	11,010
FDIC and regulatory assessments	3,250	3,063	13,081	9,230
Marketing expense	1,614	1,587	5,002	4,777
Other real estate owned expense	596	435	2,331	566
Amortization of investments in low-income housing and alternative energy partnerships	24,077	23,157	61,905	60,497
Amortization of core deposit intangibles	250	250	848	1,059
Other operating expense	4,179	4,949	14,311	14,799
Total non-interest expense	<u>96,867</u>	<u>93,973</u>	<u>289,458</u>	<u>269,980</u>
Income before income tax expense	78,153	92,504	230,776	310,564
Income tax expense	10,639	10,133	24,998	38,966
Net income	\$ 67,514	\$ 82,371	\$ 205,778	\$ 271,598
Other Comprehensive Income/(Loss), net of tax				
Net holding gains/(losses) on securities available-for-sale	26,607	(24,043)	19,737	(19,915)
Net holding losses on cash flow hedge derivatives	—	(441)	(774)	(1,323)
Total other comprehensive income/(loss), net of tax	26,607	(24,484)	18,963	(21,238)
Total comprehensive income	<u>\$ 94,121</u>	<u>\$ 57,887</u>	<u>\$ 224,741</u>	<u>\$ 250,360</u>
Net Income Per Common Share:				
Basic	\$ 0.94	\$ 1.14	\$ 2.84	\$ 3.74
Diluted	\$ 0.94	\$ 1.13	\$ 2.83	\$ 3.73
Cash dividends paid per common share	\$ 0.34	\$ 0.34	\$ 1.02	\$ 1.02
Average Common Shares Outstanding:				
Basic	71,786,624	72,568,518	72,370,995	72,546,149
Diluted	72,032,456	72,890,414	72,607,550	72,847,907

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 and per share data)						
Balance at June 30, 2024	72,170,433	\$ 916	\$ 988,772	\$ (93,060)	\$ 2,589,132	\$ (692,518)	\$ 2,793,242
Dividend Reinvestment Plan	17,332	1	728	—	—	—	729
Restricted stock units vested	564	(1)	—	—	—	—	(1)
Stock issued to directors	—	—	(1)	—	—	—	(1)
Shares withheld related to net share settlement of RSUs	—	—	(13)	—	—	—	(13)
Purchases of treasury stock	(832,460)	—	—	—	—	(35,309)	(35,309)
Stock-based compensation	—	—	1,876	—	—	—	1,876
Cash dividends of \$0.34 per share	—	—	—	—	(24,331)	—	(24,331)
Other comprehensive income	—	—	—	26,607	—	—	26,607
Net income	—	—	—	—	67,514	—	67,514
Balance at September 30, 2024	71,355,869	\$ 916	\$ 991,362	\$ (66,453)	\$ 2,632,315	\$ (727,827)	\$ 2,830,313

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 and per share data)						
Balance at June 30, 2023	72,563,169	\$ 913	\$ 983,233	\$ (99,049)	\$ 2,384,817	\$ (667,243)	\$ 2,602,671
Dividend Reinvestment Plan	23,397	—	865	—	—	—	865
Restricted stock units vested	426	—	—	—	—	—	—
Stock issued to directors	—	—	—	—	—	—	—
Shares withheld related to net share settlement of RSUs	—	—	(11)	—	—	—	(11)
Purchases of treasury stock	—	—	—	—	—	9	9
Stock-based compensation	—	—	1,987	—	—	—	1,987
Cash dividends of \$0.34 per share	—	—	—	—	(24,672)	—	(24,672)
Other comprehensive loss	—	—	—	(24,484)	—	—	(24,484)
Net income	—	—	—	—	82,371	—	82,371
Balance at September 30, 2023	72,586,992	\$ 913	\$ 986,074	\$ (123,533)	\$ 2,442,516	\$ (667,234)	\$ 2,638,736

See accompanying Notes to Consolidated Financial Statements.

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 and per share data)						
Balance at December 31, 2023	72,668,927	\$ 914	\$ 987,953	\$ (85,416)	\$ 2,500,341	\$ (667,217)	\$ 2,736,575
Dividend Reinvestment Plan	56,574	1	2,216	—	—	—	2,217
Restricted stock units vested	128,178	1	—	—	—	—	1
Stock issued to directors	24,120	—	850	—	—	—	850
Shares withheld related to net share settlement of RSUs	—	—	(3,722)	—	—	—	(3,722)
Purchases of treasury stock	(1,521,930)	—	—	—	—	(60,610)	(60,610)
Stock-based compensation	—	—	4,065	—	—	—	4,065
Cash dividends of \$1.02 per share	—	—	—	—	(73,804)	—	(73,804)
Other comprehensive income	—	—	—	18,963	—	—	18,963
Net income	—	—	—	—	205,778	—	205,778
Balance at September 30, 2024	71,355,869	\$ 916	\$ 991,362	\$ (66,453)	\$ 2,632,315	\$ (727,827)	\$ 2,830,313

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 and per share data)						
Balance at December 31, 2022	72,742,151	\$ 911	\$ 981,119	\$ (102,295)	\$ 2,244,856	\$ (650,551)	\$ 2,474,040
Dividend Reinvestment Plan	73,269	1	2,698	—	—	—	2,699
Restricted stock units vested	121,302	1	—	—	—	—	1
Stock issued to directors	25,360	—	850	—	—	—	850
Shares withheld related to net share settlement of RSUs	—	—	(3,538)	—	—	—	(3,538)
Purchases of treasury stock	(375,090)	—	—	—	—	(16,683)	(16,683)
Stock-based compensation	—	—	4,945	—	—	—	4,945
Cash dividends of \$1.02 per share	—	—	—	—	(73,938)	—	(73,938)
Other comprehensive loss	—	—	—	(21,238)	—	—	(21,238)
Net income	—	—	—	—	271,598	—	271,598
Balance at September 30, 2023	72,586,992	\$ 913	\$ 986,074	\$ (123,533)	\$ 2,442,516	\$ (667,234)	\$ 2,638,736

See accompanying Notes to Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2024	2023
(In thousands)		
Cash Flows from Operating Activities		
Net income	\$ 205,778	\$ 271,598
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	23,000	24,255
Provision for losses on other real estate owned	1,164	—
Deferred tax benefit	(20,452)	(12,079)
Depreciation and amortization	5,465	6,402
Amortization of right-of-use asset	7,309	7,258
Change in operating lease liabilities	(1,891)	444
Net gains on sale of loans	(58)	—
Loss on sales or disposal of premises and equipment	—	6
Amortization on alternative energy partnerships, venture capital and other investments	61,905	60,497
Net gains on sales of securities available-for-sale	(1,107)	(14)
Amortization/accretion of securities available-for-sale premiums/discounts, net	(19,182)	(5,729)
Unrealized loss/(gain) on equity securities	6,204	(9,298)
Write-off of securities available-for-sale	—	3,000
Stock-based compensation and stock issued to officers as compensation	4,916	5,795
Net change in accrued interest receivable and other assets	9,666	(61,019)
Net change in other liabilities	(40,382)	27,813
Net cash provided by operating activities	242,335	318,929
Cash Flows from Investing Activities		
Purchase of securities available-for-sale	(988,498)	(472,303)
Proceeds from repayments, maturities and calls of securities available-for-sale	1,097,594	412,268
Proceeds from sale of securities available-for-sale	33,690	—
Purchase of Federal Home Loan Bank stock	(12,535)	(21,550)
Redemption of Federal Home Loan Bank stock	13,031	21,550
Proceeds from sale of loans originally classified as held-for-investment	130,010	—
Net decrease/(increase) in loans	26,036	(789,465)
Purchase of premises and equipment	(2,654)	(1,633)
Net increase in affordable housing investments and alternative energy partnerships	(31,737)	(36,076)
Net cash provided/(used) for investing activities	264,937	(887,209)
Cash Flows from Financing Activities		
Increase in deposits	618,611	1,130,271
Advances from Federal Home Loan Bank	6,968,000	10,110,000
Repayment of Federal Home Loan Bank borrowings	(7,448,000)	(10,580,000)
Cash dividends paid	(73,804)	(73,938)
Purchases of treasury stock	(60,610)	(16,683)
Proceeds from shares issued under Dividend Reinvestment Plan	2,217	2,700
Taxes paid related to net share settlement of RSUs	(3,722)	(3,538)
Net cash provided by financing activities	2,692	568,812
Increase in cash, cash equivalents, and restricted cash	509,964	532
Cash, cash equivalents, and restricted cash, beginning of the period	828,801	1,162,402
Cash, cash equivalents, and restricted cash, end of the period	\$ 1,338,765	\$ 1,162,934
Supplemental disclosure of cash flow information		
Cash paid during the period:		
Interest	\$ 494,181	\$ 336,722
Income taxes paid	\$ 41,027	\$ 60,332
Non-cash investing and financing activities:		
Net change in unrealized holding gain/(loss) on securities available-for-sale, net of tax	\$ 19,737	\$ (19,915)
Net change in unrealized holding loss on cash flow hedge derivatives	\$ (774)	\$ (1,323)
Loans transferred from held-for-investment to held-for-sale	\$ 135,141	\$ —
Transfers to other real estate owned from loans held-for-investment	\$ —	\$ 6,264

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”), and eleven limited partnerships investing in affordable housing investments in which the Bank is the sole limited partner. 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, 2024, the Bank operates 24 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. 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, 2024. 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, 2023, filed with the SEC on February 28, 2024 (the “2023 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.

3. Recent Accounting Pronouncements

In March 2023, ASU 2023-02, “Investments-Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method”. ASU 2023-02 permits reporting entities to elect to account for their tax equity investments, regardless of the tax credit program from which the income tax credits are received, using the proportional amortization method if certain conditions are met. ASU 2023-02 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2023. The Company elected not to apply the proportional method of amortization allowed as an election under ASU 2023-02.

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. The adoption of ASU 2022-03 did not have a significant impact on our financial statements.

Other Accounting Standards Pending Adoption

In November 2023, ASU No. 2023-07, “Segment Reporting (Topic 280), Improvements to Reportable Segment Disclosures”, was issued. This ASU expands the disclosure requirements for reportable segments of public entities by adding the following disclosure requirements. The amendments require, on an annual and interim basis, significant segment expenses that are regularly provided to the chief operating decision maker (“CODM”) and included within each reported measure of segment profit or loss, on an annual and interim basis, disclose amount and description of composition of other segment items. This amount reconciles segment revenues, less the significant segment expenses, to the reported measure of segment profit or loss; expands the current interim disclosure requirements to require all existing annual disclosures about a reportable segment’s profit or loss and assets also be made on an interim basis; clarifies that if a CODM uses more than one measure of segment profit or loss, then the entity may disclose one or more measures, but at least one measure should be that which is most consistent with GAAP measurement principles; and requires annual disclosure of the title and position of the CODM as well as explanation of how the CODM uses the reported measures in assessing segment performance and allocating resources. The amendments in this update are effective for fiscal years beginning after December 15, 2023, with early adoption permitted. The Company has determined that the adoption of ASU 2023-07 will not have a significant impact on the Company’s Consolidated Financial Statements.”

On March 6, 2024, the U.S. Securities and Exchange Commission (“SEC”) adopted final rules under SEC Release No. 33-11275, “The Enhancement and Standardization of Climate-Related Disclosures for Investors”. This rule will require that climate-related information be included in a Company’s annual reports and registration statements. The disclosure requirements will apply to the Company’s fiscal year beginning January 1, 2025; however, the SEC has determined to stay the application of this rule pending the completion of judicial review in legal challenges related to the rule. The Company is currently evaluating the final rule to determine its impact on the Company’s disclosures.

In December 2023, ASU No. 2023-09, “Income Taxes (Topic 740): Improvements to Income Tax Disclosures” was issued. This ASU amends the disclosure requirements for income taxes, including the requirement for further disaggregation of the income tax rate reconciliation and income taxes paid disclosures. The amendments in this guidance are effective for annual periods beginning after December 15, 2024. These amendments should be applied prospectively, with the option to apply retrospectively. The Company is currently evaluating the impact of this guidance on the Company’s Consolidated Financial Statements.

4. Cash, Cash Equivalents and Restricted Cash

The Company manages its cash and cash equivalents based upon the Company’s operating, investment, and financing activities. Cash and cash equivalents, for the purposes of reporting cash flows, consist of cash and due from banks, short-term investments, and interest-bearing deposits. Cash and due from banks include cash on hand, cash items in transit, cash due from the Federal Reserve Bank of San Francisco (“FRBSF”) and other financial institutions. Short-term investments and interest-bearing deposits include cash placed with other banks with original maturity of three months or less.

The Company had average excess balance with FRBSF of \$989.8 million as of September 30, 2024, and \$1.09 billion as of December 31, 2023. As of September 30, 2024, and December 31, 2023, the Company had \$35.3 million and \$53.8 million, respectively, as cash margin that serves as collateral on deposits in a cash margin account for interest rate swaps. Of the balances held in the cash margin account \$9.2 million and \$8.6 million, respectively, are restricted as of September 30, 2024, and December 31, 2023. As of September 30, 2024, and December 31, 2023, the Company held \$2.5 million and \$6.4 million, respectively, in a restricted escrow account with a major bank for its alternative energy investments.

5. Earnings per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
	(In thousands, except share and per share data)			
Net income	\$ 67,514	\$ 82,371	\$ 205,778	\$ 271,598
Weighted-average shares:				
Basic weighted-average number of common shares outstanding	71,786,624	72,568,518	72,370,995	72,546,149
Dilutive effect of weighted-average outstanding common share equivalents:				
RSUs	245,832	321,896	236,555	301,758
Diluted weighted-average number of common shares outstanding	72,032,456	72,890,414	72,607,550	72,847,907
Average restricted stock units with anti-dilutive effect	309	—	11,464	2,098
Earnings per common share:				
Basic	\$ 0.94	\$ 1.14	\$ 2.84	\$ 3.74
Diluted	\$ 0.94	\$ 1.13	\$ 2.83	\$ 3.73

6. Stock-Based Compensation

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

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

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

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

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The following table presents RSU activity during the nine months ended September 30, 2024:

	Time-Based RSUs		Performance-Based RSUs	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value
Balance at December 31, 2023	194,389	\$ 34.83	349,661	\$ 32.94
Granted	76,663	37.70	121,412	37.79
Vested	(42,064)	36.31	(113,764)	36.91
Forfeited	(26,948)	41.72	(17,395)	39.26
Balance at September 30, 2024	202,040	\$ 34.69	339,914	\$ 33.02

The compensation expense recorded for RSUs was \$1.9 million and \$2.0 million for the three months ended September 30, 2024, and 2023, respectively. For the nine months ended September 30, 2024, and 2023, the compensation expense recorded for RSUs was \$4.1 million and \$5.0 million, respectively. Unrecognized stock-based compensation expense related to RSUs was \$11.5 million and \$11.9 million as of September 30, 2024, and 2023, respectively. As of September 30, 2024, these costs are expected to be recognized over the next 2.2 years for time-based and performance-based RSUs.

As of September 30, 2024, 1,242,046 shares were available for future grants under the Company's 2005 Incentive Plan, as amended and restated.

7. Investment Securities

The following tables set forth the amortized cost, gross unrealized gains, gross unrealized losses, and fair value of securities available-for-sale ("AFS") as of September 30, 2024, and December 31, 2023

	September 30, 2024			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Securities AFS				
U.S. treasury securities	\$ 494,517	\$ 494	\$ —	\$ 495,011
U.S. government agency entities	10,180	61	116	10,125
Mortgage-backed securities	821,023	395	86,882	734,536
Collateralized mortgage obligations	28,663	—	2,229	26,434
Corporate debt securities	248,313	299	6,362	242,250
Total	\$ 1,602,696	\$ 1,249	\$ 95,589	\$ 1,508,356

	December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Securities AFS				
U.S. treasury securities	\$ 495,167	\$ 153	\$ 20	\$ 495,300
U.S. government agency entities	48,282	117	230	48,169
Mortgage-backed securities	892,942	223	106,442	786,723
Collateralized mortgage obligations	31,238	—	3,194	28,044
Corporate debt securities	258,451	22	12,139	246,334
Total	\$ 1,726,080	\$ 515	\$ 122,025	\$ 1,604,570

As of September 30, 2024, and December 31, 2023, the amortized cost of AFS securities excluded accrued interest receivables of \$4.5 million and \$5.5 million, respectively, which are included in accrued interest receivable on the Consolidated Balance Sheets. For the Company's accounting policy related to AFS 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 2023 Form 10-K.

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The amortized cost and fair value of securities AFS as of September 30, 2024, 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, 2024	
	Securities AFS	
	Amortized Cost	Fair Value
(In thousands)		
Due in one year or less	\$ 564,646	\$ 564,312
Due after one year through five years	182,986	177,692
Due after five years through ten years	119,016	113,945
Due after ten years	736,048	652,407
Total	\$ 1,602,696	\$ 1,508,356

Equity Securities - The Company recognized an unrealized net gain of \$4.3 million for the three months ended September 30, 2024, due to an increase in fair value of equity investments with readily determinable fair values compared to a net loss of \$6.2 million for the three months ended September 30, 2023. The Company recognized a net loss of \$6.2 million for the nine months ended September 30, 2024, due to a decrease in fair value of equity investments with readily determinable fair values compared to a net gain of \$9.3 million for the nine months ended September 30, 2023. Equity securities were \$35.7 million and \$40.4 million as of September 30, 2024, and December 31, 2023, respectively.

The following tables set forth the gross unrealized losses and related fair value of the Company's investment portfolio, aggregated by investment category and the length of time that individual security has been in a continuous unrealized loss position, as of September 30, 2024, and December 31, 2023:

	September 30, 2024					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
(In thousands)						
Securities AFS						
U.S. government agency entities	\$ 1,182	\$ 1	\$ 2,223	\$ 115	\$ 3,405	\$ 116
Mortgage-backed securities	8	—	701,624	86,882	701,632	86,882
Collateralized mortgage obligations	—	—	26,434	2,229	26,434	2,229
Corporate debt securities	19,974	26	146,866	6,336	166,840	6,362
Total	\$ 21,164	\$ 27	\$ 877,147	\$ 95,562	\$ 898,311	\$ 95,589

	December 31, 2023					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
(In thousands)						
Securities AFS						
U.S. treasury securities	\$ 49,831	\$ 20	\$ —	\$ —	\$ 49,831	\$ 20
U.S. government agency entities	18,301	108	1,313	122	19,614	230
Mortgage-backed securities	—	—	768,274	106,442	768,274	106,442
Collateralized mortgage obligations	—	—	28,044	3,194	28,044	3,194
Corporate debt securities	64,448	552	166,864	11,587	231,312	12,139
Total	\$ 132,580	\$ 680	\$ 964,495	\$ 121,345	\$ 1,097,075	\$ 122,025

As of September 30, 2024, the Company had a total of 177 AFS securities in a gross unrealized loss position with no credit impairment, consisting primarily of 149 mortgage-backed securities, and 18 Corporate debt securities, five collateralized mortgage obligations and five U.S. government agency securities. In comparison, as of December 31, 2023, the Company has a total of 192 AFS securities in a gross unrealized loss position with no credit impairment, consisting primarily of 154 mortgage-backed securities, 24 Corporate debt securities, one U.S. treasury security, five collateralized mortgage obligations and eight U.S. government agency securities.

In March 2023, the Company recorded a \$3.0 million write-off of its holdings of securities AFS from the failed Signature Bank. During the nine months ended September 30, 2024, the Company sold that security for \$1.4 million.

Allowance for Credit Losses

The AFS securities that were in an unrealized loss position at September 30, 2024, 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 2023 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 securities AFS that have declined below their cost before their anticipated recovery. Accordingly, no allowance for credit losses was recorded as of September 30, 2024, against these securities, and there was no provision for credit losses recognized for the three and nine months ended September 30, 2024.

AFS securities having a carrying value of \$18.4 million and \$134.2 million as of September 30, 2024, and December 31, 2023, respectively, were pledged to secure public deposits and other borrowings.

8. Loans

Most of the Company's business activities are with clients 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 clients 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, 2024, and December 31, 2023, were as follows:

	<u>September 30, 2024</u>	<u>December 31, 2023</u>
	(In thousands)	
Commercial loans	\$ 3,106,994	\$ 3,305,048
Construction loans	307,057	422,647
Commercial real estate loans	9,975,272	9,729,581
Residential mortgage loans	5,750,546	5,838,747
Equity lines	226,838	245,919
Installment and other loans	6,886	6,198
Gross loans	\$ 19,373,593	\$ 19,548,140
Allowance for loan losses	(163,733)	(154,562)
Unamortized deferred loan fees, net	(10,505)	(10,720)
Total loans held for investment, net	\$ 19,199,355	\$ 19,382,858
Loans held for sale	\$ 5,190	\$ —

As of September 30, 2024, and December 31, 2023, recorded investment in non-accrual loans was \$162.8 million and \$66.7 million, respectively. For non-accrual loans, the amounts previously charged-off represent 10.0% and 15.8% of the contractual balances for non-accrual loans as of September 30, 2024, and December 31, 2023, respectively.

The following table presents non-accrual loans and the related allowance as of September 30, 2024, and December 31, 2023. There were no non-accrual loans with allocated allowance as of December 31, 2023.

	<u>September 30, 2024</u>		
	<u>Unpaid Principal Balance</u>	<u>Recorded Investment</u>	<u>Allowance</u>
	(In thousands)		
With no allocated allowance:			
Commercial loans	\$ 47,542	\$ 35,098	\$ —
Commercial real estate loans	91,342	76,870	—
Residential mortgage loans and equity lines	23,963	23,183	—
Subtotal	\$ 162,847	\$ 135,151	\$ —
With allocated allowance:			
Commercial loans	\$ 16,976	\$ 16,976	\$ 3,830
Commercial real estate loans	10,707	10,707	2,067
Subtotal	\$ 27,683	\$ 27,683	\$ 5,897
Total non-accrual loans	\$ 190,530	\$ 162,834	\$ 5,897

	December 31, 2023		
	Unpaid Principal Balance	Recorded Investment	Allowance
	(In thousands)		
With no allocated allowance:			
Commercial loans	\$ 26,310	\$ 14,404	\$ —
Construction loans	7,736	7,736	—
Commercial real estate loans	41,725	32,030	—
Residential mortgage loans and equity lines	12,957	12,511	—
Subtotal	\$ 88,728	\$ 66,681	\$ —
Total non-accrual loans	\$ 88,728	\$ 66,681	\$ —

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

	Three Months Ended		Nine Months Ended	
	September 30, 2024		September 30, 2024	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
(In thousands)				
Commercial loans	\$ 24,609	\$ 4	\$ 15,755	\$ 9
Construction loans	15,499	—	22,174	—
Commercial real estate loans	78,982	98	60,352	220
Residential mortgage loans and equity lines	21,529	—	17,488	—
Total non-accrual loans	\$ 140,619	\$ 102	\$ 115,769	\$ 229

	Three Months Ended		Nine Months Ended	
	September 30, 2023		September 30, 2023	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
(In thousands)				
Commercial loans	\$ 13,147	\$ 5	\$ 18,982	\$ 10
Construction loans	11,266	—	3,797	—
Commercial real estate loans	37,046	74	37,446	244
Residential mortgage loans and equity lines	13,214	—	11,652	—
Installment and other loans	—	—	1	—
Total non-accrual loans	\$ 74,673	\$ 79	\$ 71,878	\$ 254

The following tables present the aging of the loan portfolio by type as of September 30, 2024, and as of December 31, 2023:

	September 30, 2024						
	Accruing			Non-accrual Loans	Total Past Due	Loans Not Past Due	Total
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due				
(In thousands)							
Type of Loans:							
Commercial loans	\$ 4,019	\$ 2,007	\$ 6,931	\$ 52,074	\$ 65,031	\$ 3,041,963	\$ 3,106,994
Construction loans	—	3,497	—	—	3,497	303,560	307,057
Commercial real estate loans	9,615	—	—	87,577	97,192	9,878,080	9,975,272
Residential mortgage loans and equity lines	1,603	9,030	—	23,183	33,816	5,943,568	5,977,384
Installment and other loans	37	—	—	—	37	6,849	6,886
Total loans	\$ 15,274	\$ 14,534	\$ 6,931	\$ 162,834	\$ 199,573	\$ 19,174,020	\$ 19,373,593

December 31, 2023

	Accruing			Non-accrual Loans	Total Past Due	Loans Not Past Due	Total
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due				
				(In thousands)			
Type of Loans:							
Commercial loans	\$ 11,771	\$ 7,770	\$ 508	\$ 14,404	\$ 34,453	\$ 3,270,595	\$ 3,305,048
Construction loans	25,389	22,998	—	7,736	56,123	366,524	422,647
Commercial real estate loans	27,900	1,503	6,649	32,030	68,082	9,661,499	9,729,581
Residential mortgage loans and equity lines	59,606	6,670	—	12,511	78,787	6,005,879	6,084,666
Installment and other loans	32	—	—	—	32	6,166	6,198
Total loans	\$ 124,698	\$ 38,941	\$ 7,157	\$ 66,681	\$ 237,477	\$ 19,310,663	\$ 19,548,140

The Company has adopted ASU 2022-02, "Financial Instruments – Troubled Debt Restructurings ("TDR") and Vintage Disclosures" effective January 1, 2023. As part of the adoption, the Company has elected to apply the pending content prospectively and the practical expedient to exclude the accrued interest receivable balance from the disclosed amortized cost basis of loan modifications to debtors experiencing financial difficulty, consistent with our Allowance for Credit Losses ("ACL") approach discussed further below in this footnote.

Under this guidance on loan modifications made to borrowers experiencing financial difficulty, when a loan held for investment is modified and is considered to be a continuation of the original loan, the Company uses the post-modification contractual rate to derive the effective interest rate when using a discounted cash flow method to determine the allowance for credit loss.

The amendments in this guidance require that an entity evaluate whether the modification represents a new loan or a continuation of an existing 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 for the quantitative baseline, and include non-accrual loans, loan modifications made to borrowers experiencing financial difficulty, and other loans as deemed appropriate by management. The Company applies the loan refinancing and restructuring guidance provided in ASU 2022-02 to determine whether a modification made to a borrower result in a new loan or a continuation of an existing loan.

If economic conditions or other factors worsen relative to the assumptions the Company utilized, the expected loan losses will increase accordingly in future periods.

The following table presents the amortized cost of loans modified to borrowers experiencing financial difficulty disaggregated by class of financing receivable and type of concession granted and the financial effects of the modifications for the three and nine months ended September 30, 2024, and September 30, 2023, by loan class and modification type.

	Three Months Ended September 30, 2024				Financial Effects of Loan Modifications			
	Term Extension	Payment Delay	Combo-Rate Reduction/Term Extension/Payment Delay	Total	Modification as a % of Loan Class	Weighted- Average Change in Rate	Weighted- Average Term Extension (in Years)	Weighted- Average Payment Deferral (in Years)
Loan Type								
Commercial loans	\$ —	\$ 135	\$ —	\$ 135	0.00%	0.00	0.0	0.6
Total	\$ —	\$ 135	\$ —	\$ 135				

	Nine Months Ended September 30, 2024				Financial Effects of Loan Modifications			
	Term Extension	Payment Delay	Combo-Rate Reduction/Term Extension/Payment Delay	Total	Modification as a % of Loan Class	Weighted- Average Change in Rate	Weighted- Average Term Extension (in Years)	Weighted- Average Payment Deferral (in Years)
Loan Type								
Commercial loans	\$ 6,749	\$ 135	\$ 974	\$ 7,858	0.25%	1.04	1.9	0.1
Residential mortgage loans	—	221	—	221	0.00%	(0.18)	0.0	2.0
Total	\$ 6,749	\$ 356	\$ 974	\$ 8,079				

Loan Type	Three Months Ended September 30, 2023				Financial Effects of Loan Modifications			
	Term Extension	Payment Delay	Combo-Rate Reduction/Term Extension/Payment Delay	Total	Modification as a % of Loan Class	Weighted-Average Change in Rate	Weighted-Average Term Extension (in Years)	Weighted-Average Payment Deferral (in Years)
Commercial loans	\$ 1,489	\$ —	\$ 1,164	\$ 2,653	0.09%	(0.94)	0.80	0.40
Total	\$ 1,489	\$ —	\$ 1,164	\$ 2,653				

Loan Type	Nine Months Ended September 30, 2023				Financial Effects of Loan Modifications			
	Term Extension	Payment Delay	Combo-Rate Reduction/Term Extension/Payment Delay	Total	Modification as a % of Loan Class	Weighted-Average Change in Rate	Weighted-Average Term Extension (in Years)	Weighted-Average Payment Deferral (in Years)
Commercial loans	\$ 1,489	\$ —	\$ 1,199	\$ 2,688	0.09%	(1.27)	0.80	0.39
Total	\$ 1,489	\$ —	\$ 1,199	\$ 2,688				

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 tracks the performance of modified loans. There were no loans that received a modification during the three and nine months ended September 30, 2024, that subsequently defaulted.

A modified loan may become delinquent and may result in a payment default (generally 90 days past due) subsequent to modification. There were no loans that received modifications which subsequently defaulted during the three and nine months ended September 30, 2024.

The Company closely monitors the performance of modified loans to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts.

The following table presents the performance of loans that were modified for the three and nine months ended September 30, 2024, since the adoption of ASU 2022-02 on January 1, 2023.

Loan Type	Three Months Ended September 30, 2024			
	Current	30–89 Days Past Due	90+ Days Past Due	Total
		(In thousands)		
Commercial loans	\$ 135	\$ —	\$ —	\$ 135
Total	\$ 135	\$ —	\$ —	\$ 135
Loan Type	Nine Months Ended September 30, 2024			
	Current	30–89 Days Past Due	90+ Days Past Due	Total
		(In thousands)		
Commercial loans	\$ 7,858	\$ —	\$ —	\$ 7,858
Residential mortgage loans	221	—	—	221
Total	\$ 8,079	\$ —	\$ —	\$ 8,079
Loan Type	Three Months Ended September 30, 2023			
	Current	30–89 Days Past Due	90+ Days Past Due	Total
		(In thousands)		
Commercial loans	\$ 2,653	\$ —	\$ —	\$ 2,653
Total	\$ 2,653	\$ —	\$ —	\$ 2,653
Loan Type	Nine Months Ended September 30, 2023			
	Current	30–89 Days Past Due	90+ Days Past Due	Total
		(In thousands)		
Commercial loans	\$ 2,688	\$ —	\$ —	\$ 2,688
Total	\$ 2,688	\$ —	\$ —	\$ 2,688

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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, 2024, there were no commitments to lend additional funds to borrowers experiencing financial difficulty and whose loans were modified.

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 higher than average, but still acceptable, credit risk. The loans have sufficient sources of repayment to repay the loans in full, in accordance with all the terms and conditions and remain currently well protected by collateral values.
- **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.

The following table summarizes the Company's loans held for investment and current year-to-date gross write-offs as of September 30, 2024, and December 31, 2023, presented by loan portfolio segments, internal risk ratings and vintage year. The vintage year is the year of origination, renewal or major modification. Revolving Loans that are converted to term loans presented in the table below are excluded from the term loans by vintage year columns.

September 30, 2024	Loans Amortized Cost Basis by Origination Year						Revolving Loans	Revolving Converted to Term Loans	Total
	2024	2023	2022	2021	2020	Prior			
	(In thousands)								
Commercial loans									
Pass/Watch	\$ 292,982	\$ 336,678	\$ 210,436	\$ 231,446	\$ 53,253	\$ 115,534	\$ 1,648,578	\$ 7,968	\$ 2,896,875
Special Mention	—	—	665	9,725	310	4,848	54,180	—	69,728
Substandard	50	6,204	14,563	6,790	22,515	6,317	75,490	390	132,319
Doubtful	—	—	—	4,656	—	—	—	—	4,656
Total	\$ 293,032	\$ 342,882	\$ 225,664	\$ 252,617	\$ 76,078	\$ 126,699	\$ 1,778,248	\$ 8,358	\$ 3,103,578
YTD gross write-offs	\$ 98	\$ 672	\$ 568	\$ 8,224	\$ 257	\$ 49	\$ 2,994	\$ —	\$ 12,862
Construction loans									
Pass/Watch	\$ 8,369	\$ 51,004	\$ 121,425	\$ 55,043	\$ 2,596	\$ 10,482	\$ —	\$ —	\$ 248,919
Special Mention	—	—	—	35,569	14,321	—	—	—	49,890
Substandard	—	3,967	3,497	—	—	—	—	—	7,464
Total	\$ 8,369	\$ 54,971	\$ 124,922	\$ 90,612	\$ 16,917	\$ 10,482	\$ —	\$ —	\$ 306,273
YTD gross write-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Commercial real estate loans									
Pass/Watch	\$ 1,032,804	\$ 2,084,411	\$ 1,788,747	\$ 1,489,868	\$ 823,095	\$ 2,293,030	\$ 168,887	\$ —	\$ 9,680,842
Special Mention	2,095	—	19,859	18,601	17,221	23,405	565	—	81,746
Substandard	—	22,381	29,149	49,435	6,853	87,921	9,559	—	205,298
Total	\$ 1,034,899	\$ 2,106,792	\$ 1,837,755	\$ 1,557,904	\$ 847,169	\$ 2,404,356	\$ 179,011	\$ —	\$ 9,967,886
YTD gross write-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1,997	\$ —	\$ —	\$ 1,997
Residential mortgage loans									
Pass/Watch	\$ 511,483	\$ 1,041,679	\$ 1,046,124	\$ 818,090	\$ 469,840	\$ 1,831,283	\$ —	\$ —	\$ 5,718,499
Special Mention	—	—	—	—	33	1,592	—	—	1,625
Substandard	397	1,831	6,204	5,159	4,447	12,668	—	—	30,706
Total	\$ 511,880	\$ 1,043,510	\$ 1,052,328	\$ 823,249	\$ 474,320	\$ 1,845,543	\$ —	\$ —	\$ 5,750,830
YTD gross write-offs	\$ —	\$ —	\$ —	\$ 59	\$ —	\$ —	\$ —	\$ —	\$ 59
Equity lines									
Pass/Watch	\$ —	\$ —	\$ 77	\$ —	\$ —	\$ —	\$ 208,885	\$ 16,732	\$ 225,694
Substandard	—	—	—	—	—	—	1,687	331	2,018
Total	\$ —	\$ —	\$ 77	\$ —	\$ —	\$ —	\$ 210,572	\$ 17,063	\$ 227,712
YTD gross write-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 3	\$ 3
Installment and other loans									
Pass/Watch	\$ 5,354	\$ 1,349	\$ 106	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6,809
Total	\$ 5,354	\$ 1,349	\$ 106	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6,809
YTD gross write-offs	\$ —	\$ —	\$ 7	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 7
Total loans	\$ 1,853,534	\$ 3,549,504	\$ 3,240,852	\$ 2,724,382	\$ 1,414,484	\$ 4,387,080	\$ 2,167,831	\$ 25,421	\$ 19,363,088
Total YTD gross write-offs	\$ 98	\$ 672	\$ 575	\$ 8,283	\$ 257	\$ 2,046	\$ 2,994	\$ 3	\$ 14,928

December 31, 2023	Loans Amortized Cost Basis by Origination Year						Revolving Loans	Revolving Converted to Term Loans	Total
	2023	2022	2021	2020	2019	Prior			
	(In thousands)								
Commercial loans									
Pass/Watch	\$ 381,705	\$ 323,939	\$ 326,650	\$ 96,725	\$ 75,281	\$ 136,162	\$ 1,775,162	\$ 8,308	\$ 3,123,932
Special Mention	4,488	4,875	8,559	23,380	—	—	75,419	—	116,721
Substandard	1,752	653	9,895	2,462	763	5,775	40,131	116	61,547
Total	\$ 387,945	\$ 329,467	\$ 345,104	\$ 122,567	\$ 76,044	\$ 141,937	\$ 1,890,712	\$ 8,424	\$ 3,302,200
YTD gross write-offs	\$ —	\$ 977	\$ 1,312	\$ 384	\$ 3,672	\$ 6,044	\$ 1,520	\$ —	\$ 13,909
Construction loans									
Pass/Watch	\$ 29,550	\$ 131,984	\$ 153,977	\$ 19,461	\$ 13,298	\$ 3,131	\$ —	\$ —	\$ 351,401
Special Mention	1,911	—	11,707	25,389	—	22,998	—	—	62,005
Substandard	—	—	—	—	7,736	—	—	—	7,736
Total	\$ 31,461	\$ 131,984	\$ 165,684	\$ 44,850	\$ 21,034	\$ 26,129	\$ —	\$ —	\$ 421,142
YTD gross write-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 4,221	\$ —	\$ —	\$ 4,221
Commercial real estate loans									
Pass/Watch	\$ 2,121,489	\$ 1,959,239	\$ 1,585,010	\$ 887,508	\$ 1,019,952	\$ 1,726,015	\$ 184,601	\$ —	\$ 9,483,814
Special Mention	37,604	18,910	38,405	3,499	10,303	17,210	1,384	—	127,315
Substandard	—	11,870	12,170	2,965	17,293	66,205	—	—	110,503
Total	\$ 2,159,093	\$ 1,990,019	\$ 1,635,585	\$ 893,972	\$ 1,047,548	\$ 1,809,430	\$ 185,985	\$ —	\$ 9,721,632
YTD gross write-offs	\$ —	\$ —	\$ 208	\$ —	\$ 969	\$ 4,164	\$ —	\$ —	\$ 5,341
Residential mortgage loans									
Pass/Watch	\$ 1,140,998	\$ 1,128,526	\$ 902,613	\$ 524,315	\$ 541,005	\$ 1,583,118	\$ —	\$ —	\$ 5,820,575
Special Mention	—	—	—	33	—	1,619	—	—	1,652
Substandard	7	652	3,325	2,577	1,334	9,311	—	—	17,206
Total	\$ 1,141,005	\$ 1,129,178	\$ 905,938	\$ 526,925	\$ 542,339	\$ 1,594,048	\$ —	\$ —	\$ 5,839,433
YTD gross write-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Equity lines									
Pass/Watch	\$ —	\$ 98	\$ —	\$ —	\$ —	\$ —	\$ 227,502	\$ 16,628	\$ 244,228
Special Mention	—	3	—	—	—	—	—	—	3
Substandard	—	—	—	—	—	—	2,511	173	2,684
Total	\$ —	\$ 101	\$ —	\$ —	\$ —	\$ —	\$ 230,013	\$ 16,801	\$ 246,915
YTD gross write-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Installment and other loans									
Pass/Watch	\$ 5,114	\$ 981	\$ 3	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6,098
Total	\$ 5,114	\$ 981	\$ 3	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6,098
YTD gross write-offs	\$ —	\$ 15	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 15
Total loans	\$ 3,724,618	\$ 3,581,730	\$ 3,052,314	\$ 1,588,314	\$ 1,686,965	\$ 3,571,544	\$ 2,306,710	\$ 25,225	\$ 19,537,420
Total YTD gross write-offs	\$ —	\$ 992	\$ 1,520	\$ 384	\$ 4,641	\$ 14,429	\$ 1,520	\$ —	\$ 23,486

Allowance for Credit Losses

The Company has an allowance framework under ASC Topic 326 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 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. 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 fourth 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 fourth 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.

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 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 modeled 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 loss experience with residential mortgage loans made to non-U.S. residents, oil & gas, the higher risk characteristics of purchased syndicated loans, model uncertainty, and loans with potential risk of loss given the current environment, including CRE and Office loans, but have not degraded to the point of qualifying for a specific reserve. Current and forecasted economic trends and underlying market values for collateral dependent loans also are considered within the econometric models described above.

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

- Segmenting the loan portfolio
- Determining the amount of loss history to consider
- Selecting predictive econometric regression models that use appropriate macroeconomic variables
- Determining the methodology to forecast prepayments
- Selecting the most appropriate economic forecast scenario
- Determining the length of the R&S forecast and reversion periods
- Estimating expected utilization rates on unfunded loan commitments
- 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. The criteria for default may include any one of the following: on nonaccrual status, modifications to borrowers experiencing financial difficulty, or payment delinquency of 90 days or more.

Individually Evaluated Loans

When a loan no longer shares similar risk characteristics with other loans, such as in the case of certain nonaccrual 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 fair value of the collateral. For loans evaluated individually, the Company uses one of two different asset valuation measurement methods: (1) the fair value of collateral less costs to sell; or (2) the present value of expected future cash flows. 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.

Unfunded Loan Commitments

Unfunded loan commitments are generally related to providing credit facilities to clients of the Bank and are not actively traded financial instruments. These unfunded commitments are disclosed as off-balance sheet financial instruments in Note 9 in the Notes to Consolidated Financial Statements (Unaudited).

The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company, using the same loss factors as used for the allowance for loan losses. The reserve for unfunded loan commitments uses a one-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 credit losses.

The following tables set forth activity in the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2024, and September 30, 2023.

Three months ended September 30, 2024 and 2023

	Commercial Loans	Construction Loans	Commercial Real Estate Loans	Residential Mortgage Loans and Equity Lines	Installment and Other Loans	Total
	(In thousands)					
Allowance for Loan Losses:						
June 30, 2024 Ending Balance	\$ 48,588	\$ 8,912	\$ 78,465	\$ 17,415	\$ 23	\$ 153,403
Provision/(reversal) for expected credit losses	4,872	(402)	8,444	1,554	64	14,532
Charge-offs	(2,666)	—	(1,746)	(59)	(7)	(4,478)
Recoveries	88	—	180	7	1	276
Net (charge-offs)	(2,578)	—	(1,566)	(52)	(6)	(4,202)
September 30, 2024 Ending Balance	\$ 50,882	\$ 8,510	\$ 85,343	\$ 18,917	\$ 81	\$ 163,733
Allowance for unfunded credit commitments:						
June 30, 2024 Ending Balance	\$ 7,493	\$ 2,081	\$ —	\$ —	\$ —	\$ 9,574
Provision/(reversal) for expected credit losses	208	(240)	—	—	—	(32)
September 30, 2024 Ending Balance	\$ 7,701	\$ 1,841	\$ —	\$ —	\$ —	\$ 9,542

	Commercial Loans	Construction Loans	Commercial Real Estate Loans	Residential Mortgage Loans and Equity Lines	Installment and Other Loans	Total
(In thousands)						
Allowance for Loan Losses:						
June 30, 2023 Ending Balance	\$ 50,579	\$ 12,751	\$ 73,547	\$ 18,214	\$ 18	\$ 155,109
(Reversal)/provision for expected credit losses	(178)	2,360	3,307	586	46	6,121
Charge-offs	(6,254)	—	(1,221)	—	(8)	(7,483)
Recoveries	611	—	252	9	—	872
Net (charge-offs)	(5,643)	—	(969)	9	(8)	(6,611)
September 30, 2023 Ending Balance	\$ 44,758	\$ 15,111	\$ 75,885	\$ 18,809	\$ 56	\$ 154,619

Allowance for unfunded credit commitments:						
June 30, 2023 Ending Balance	\$ 6,984	\$ 3,541	\$ —	\$ —	\$ —	\$ 10,525
Provision/(reversal) for expected credit losses	1,570	(691)	—	—	—	879
September 30, 2023 Ending Balance	\$ 8,554	\$ 2,850	\$ —	\$ —	\$ —	\$ 11,404

Nine months ended September 30, 2024 and 2023

	Commercial Loans	Construction Loans	Commercial Real Estate Loans	Residential Mortgage Loans and Equity Lines	Installment and Other Loans	Total
(In thousands)						
Allowance for Loan Losses:						
December 31, 2023 Ending Balance	\$ 53,791	\$ 8,180	\$ 74,428	\$ 18,140	\$ 23	\$ 154,562
Provision/(reversal) for expected credit losses	8,927	330	12,731	459	64	22,511
Charge-offs	(12,862)	—	(1,997)	(62)	(7)	(14,928)
Recoveries	1,026	—	181	380	1	1,588
Net (charge-offs)/recoveries	(11,836)	—	(1,816)	318	(6)	(13,340)
September 30, 2024 Ending Balance	\$ 50,882	\$ 8,510	\$ 85,343	\$ 18,917	\$ 81	\$ 163,733

Allowance for unfunded credit commitments:						
December 31, 2023 Ending Balance	\$ 6,888	\$ 2,165	\$ —	\$ —	\$ —	\$ 9,053
Provision/(reversal) for expected credit losses	813	(324)	—	—	—	489
September 30, 2024 Ending Balance	\$ 7,701	\$ 1,841	\$ —	\$ —	\$ —	\$ 9,542

	Commercial Loans	Construction Loans	Commercial Real Estate Loans	Residential Mortgage Loans and Equity Lines	Installment and Other Loans	Total
(In thousands)						
Allowance for Loan Losses:						
December 31, 2022 Ending Balance	\$ 49,435	\$ 10,417	\$ 68,366	\$ 18,232	\$ 35	\$ 146,485
Provision for expected credit losses	6,276	4,694	10,027	548	36	21,581
Charge-offs	(12,517)	—	(5,341)	—	(15)	(17,873)
Recoveries	1,564	—	2,833	29	—	4,426
Net (charge-offs)/recoveries	(10,953)	—	(2,508)	29	(15)	(13,447)
September 30, 2023 Ending Balance	\$ 44,758	\$ 15,111	\$ 75,885	\$ 18,809	\$ 56	\$ 154,619

Allowance for unfunded credit commitments:						
December 31, 2022 Ending Balance	\$ 4,840	\$ 3,890	\$ —	\$ —	\$ —	\$ 8,730
Provision/(reversal) for expected credit losses	3,714	(1,040)	—	—	—	2,674
September 30, 2023 Ending Balance	\$ 8,554	\$ 2,850	\$ —	\$ —	\$ —	\$ 11,404

Loans Held-for-Sale

At the time of commitment to originate or purchase a loan, the loan is determined to be held for investment if it is in the Company's intent to hold the loan to maturity or for the "foreseeable future," subject to periodic reviews under the Company's evaluation processes, including asset/liability and credit risk management. When the Company subsequently changes its intent to hold certain loans, the loans are transferred from held-for-investment to held-for-sale at the lower of cost or fair value. As of September 30, 2024, there were \$5.2 million of loans held-for-sale, which were all comprised of commercial loans. There were no loans held-for-sale as of December 31, 2023.

Loan Transfers, Sales and Purchases

The Company purchases and sells loans in the secondary market in the ordinary course of business. From time to time, purchased loans may be transferred from held-for-investment to held-for-sale, and write-downs to the allowance for loan losses are recorded, when appropriate. During the three months ended September 30, 2024, the Company transferred \$5.2 million in commercial loans and transferred and sold \$23.0 million in construction loans held for investment to loans held for sale. During the nine months ended September 30, 2024, the Company transferred \$112.1 million in commercial loans and \$23.0 million in construction loans held for investment to held for sale and sold \$107.0 million in commercial loans and \$23.0 million in construction loans. Net gains on sale of loans, excluding the lower of cost or fair value adjustments, were \$58.1 thousand for the nine months ended September 30, 2024. There were no lower of cost or fair value adjustments during the three and nine months ended September 30, 2024. No loan transfers were made during the three and nine months ended September 30, 2023.

9. Commitments and Contingencies

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

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

In the normal course of business, the Company from time to time becomes a party to financial instruments with off-balance sheet risk to meet the financing needs of its clients. 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 \$89.1 million and \$106.5 million as of September 30, 2024, and December 31, 2023, respectively.

10. Borrowed Funds

Borrowings from the Federal Home Loan Bank ("FHLB") – There were no over-night borrowings from the FHLB as of September 30, 2024, and December 31, 2023. Advances from the FHLB were \$60.0 million at a weighted average rate of 5.08% as of September 30, 2024, and \$540.0 million at a weighted average rate of 5.64% as of December 31, 2023. As of September 30, 2024, final maturity for the FHLB advances was \$60.0 million in February 2025. Our unused borrowing capacity from the FHLB as of September 30, 2024, and December 31, 2023, was \$7.29 billion and \$6.60 billion, respectively, and unpledged securities at September 30, 2024, and December 31, 2023, was \$1.49 billion and \$1.47 billion, respectively.

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 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, 2024, Junior Subordinated Notes totaled \$119.1 million with a weighted average interest rate of 7.89%, compared to \$119.1 million with a weighted average rate of 7.54% at December 31, 2023. The Junior Subordinated Notes have a stated maturity term of 30 years.

11. Income Taxes

The effective tax rate for the first nine months of 2024 was 10.8% compared to 12.6% for the first nine months of 2023. 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 2020 and by the California Franchise Tax Board back to 2019.

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.

12. 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, 2024, and December 31, 2023:

	September 30, 2024			Total Fair Value Measurements
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	
	(In thousands)			
Assets				
Securities AFS				
U.S. Treasury securities	\$ 495,011	\$ —	\$ —	\$ 495,011
U.S. government agency entities	—	10,125	—	10,125
Mortgage-backed securities	—	734,536	—	734,536
Collateralized mortgage obligations	—	26,434	—	26,434
Corporate debt securities	—	242,250	—	242,250
Total securities AFS	495,011	1,013,345	—	1,508,356
Equity securities				
Mutual funds	5,704	—	—	5,704
Preferred stock of government sponsored entities	2,514	—	—	2,514
Other equity securities	25,984	—	—	25,984
Total equity securities	34,202	—	—	34,202
Interest rate swaps	—	32,807	—	32,807
Foreign exchange contracts	—	535	—	535
Total assets	\$ 529,213	\$ 1,046,687	\$ —	\$ 1,575,900
Liabilities				
Interest rate swaps	\$ —	\$ 38,001	\$ —	\$ 38,001
Foreign exchange contracts	—	693	—	693
Total liabilities	\$ —	\$ 38,694	\$ —	\$ 38,694
	December 31, 2023			
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total Fair Value Measurements
	(In thousands)			
Assets				
Securities AFS				
U.S. Treasury securities	\$ 495,300	\$ —	\$ —	\$ 495,300
U.S. government agency entities	—	48,169	—	48,169
Mortgage-backed securities	—	786,723	—	786,723
Collateralized mortgage obligations	—	28,044	—	28,044
Corporate debt securities	—	246,334	—	246,334
Total securities AFS	495,300	1,109,270	—	1,604,570
Equity securities				
Mutual funds	5,585	—	—	5,585
Preferred stock of government sponsored entities	1,821	—	—	1,821
Other equity securities	33,000	—	—	33,000
Total equity securities	40,406	—	—	40,406
Interest rate swaps	—	54,268	—	54,268
Foreign exchange contracts	—	379	—	379
Total assets	\$ 535,706	\$ 1,163,917	\$ —	\$ 1,699,623
Liabilities				
Interest rate swaps	\$ —	\$ 45,762	\$ —	\$ 45,762
Foreign exchange contracts	—	175	—	175
Total liabilities	\$ —	\$ 45,937	\$ —	\$ 45,937

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, 2024, and December 31, 2023, 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.

During the second quarter of 2024, the Company entered into a restructuring support agreement and received equity securities for equity interest in a private company, a Level 3 measurement. The fair value of the Company's Level 3 equity security was measured using the private company's projected earnings plus cash on hand. The primary inputs and assumptions used in the fair value measurement was derived from the issuer's projected earnings and collateral, which included cash on hand, the financial standing of the issuer, the business and financial plan of the issuer, among other factors. Significant increases or decreases in any of the inputs or assumptions could result in a significant increase or decrease in the fair value measurement.

For financial assets measured at fair value on a nonrecurring basis that were still reflected in the Consolidated Balance Sheets as of September 30, 2024, and December 31, 2023, 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, 2024, and December 31, 2023, and the total losses for the periods indicated:

	As of September 30, 2024				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, 2024	September 30, 2023	September 30, 2024	September 30, 2023
(In thousands)								
Assets								
Non-accrual loans by type:								
Commercial loans	\$ —	\$ —	\$ 5,732	\$ 5,732	\$ 1,923	\$ —	\$ 2,961	\$ —
Commercial real estate loans	—	—	17,485	17,485	1,746	252	1,997	4,069
Residential mortgage loans and equity lines	—	—	249	249	59	—	59	—
Total non-accrual loans	—	—	23,466	23,466	3,728	252	5,017	4,069
Other real estate owned (1)	—	—	19,306	19,306	—	—	—	—
Other equity securities	—	—	1,539	1,539	—	—	—	—
Investments in venture capital	—	—	93	93	—	—	—	—
Total assets	\$ —	\$ —	\$ 44,404	\$ 44,404	\$ 3,728	\$ 252	\$ 5,017	\$ 4,069

(1) Other real estate owned balance of \$18.3 million in the Consolidated Balance Sheets is net of estimated disposal costs.

	As of December 31, 2023				Total Losses	
	Fair Value Measurements Using			Total Fair Value Measurements	For the Twelve Months Ended	
	Level 1	Level 2	Level 3		December 31, 2023	December 31, 2022
(In thousands)						
Assets						
Non-accrual loans by type:						
Commercial loans	\$ —	\$ —	\$ 191	\$ 191	\$ —	\$ 1,786
Commercial real estate loans	—	—	6,882	6,882	4,069	2,091
Total non-accrual loans	—	—	7,073	7,073	4,069	3,877
Other real estate owned (1)	—	—	20,446	20,446	—	—
Investments in venture capital	—	—	237	237	—	268
Total assets	\$ —	\$ —	\$ 27,756	\$ 27,756	\$ 4,296	\$ 4,145

(1) Other real estate owned balance of \$19.4 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.

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

Loans held for sale are recorded at the lower of cost or fair value upon transfer. Loans held for sale may be measured at fair value on a nonrecurring basis when fair value is less than cost. Fair value is generally determined based on available market data for similar loans and therefore, are classified as Level 2 measurement.

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

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

The following table sets forth the carrying and notional amounts and estimated fair value of financial instruments as of September 30, 2024, and December 31, 2023:

	September 30, 2024		December 31, 2023	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(In thousands)				
Financial Assets				
Cash and due from banks	\$ 182,542	\$ 182,542	\$ 173,988	\$ 173,988
Short-term investments	1,156,223	1,156,223	654,813	654,813
Securities AFS	1,508,356	1,508,356	1,604,570	1,604,570
Loans held-for-sale	5,190	5,190	—	—
Loans held for investment, net	19,199,355	19,794,300	19,382,858	19,605,152
Equity securities	35,741	35,741	40,406	40,406
Investment in Federal Home Loan Bank stock	17,250	17,250	17,746	17,746
	Notional Amount	Fair Value	Notional Amount	Fair Value
Foreign exchange contracts	\$ 68,329	\$ 535	\$ 124,452	\$ 379
Interest rate swaps	983,562	32,807	1,406,879	54,268
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Liabilities				
Deposits	\$ 19,943,941	\$ 19,961,429	\$ 19,325,447	\$ 19,347,070
Advances from Federal Home Loan Bank	60,000	58,927	540,000	536,996
Other borrowings	17,783	15,281	15,787	13,978
Long-term debt	119,136	76,135	119,136	72,304
	Notional Amount	Fair Value	Notional Amount	Fair Value
Foreign exchange contracts	\$ 211,941	\$ 693	\$ 101,378	\$ 175
Interest rate swaps	1,195,424	38,001	1,078,880	45,762
	Notional Amount	Fair Value	Notional Amount	Fair Value
Off-Balance Sheet Financial Instruments				
Commitments to extend credit	\$ 3,686,392	\$ (18,171)	\$ 3,808,620	\$ (14,344)
Standby letters of credit	422,763	(3,146)	368,618	(2,821)
Other letters of credit	10,858	(12)	11,308	(10)

The following tables set forth the level in the fair value hierarchy for the estimated fair values of financial instruments as of September 30, 2024, and December 31, 2023, excluding financial instruments recorded at fair value on a recurring basis already presented in other tables in this note:

	As of September 30, 2024			
	Fair Value	Level 1	Level 2	Level 3
(In thousands)				
Financial Assets				
Cash and due from banks	\$ 182,542	\$ 182,542	\$ —	\$ —
Short-term investments	1,156,223	1,156,223	—	—
Loans held-for-sale	5,190	—	5,190	—
Loans held for investment, net	19,794,300	—	—	19,794,300
Equity securities	34,202	34,202	—	—
Investment in Federal Home Loan Bank stock	17,250	—	17,250	—
Financial Liabilities				
Deposits	19,961,429	—	—	19,961,429
Advances from Federal Home Loan Bank	58,927	—	58,927	—
Other borrowings	15,281	—	—	15,281
Long-term debt	76,135	—	76,135	—

	As of December 31, 2023			
	Fair Value	Level 1	Level 2	Level 3
	(In thousands)			
Financial Assets				
Cash and due from banks	\$ 173,988	\$ 173,988	\$ —	\$ —
Short-term investments	654,813	654,813	—	—
Loans held for investment, net	19,605,152	—	—	19,605,152
Equity securities	40,406	40,406	—	—
Investment in Federal Home Loan Bank stock	17,746	—	17,746	—
Financial Liabilities				
Deposits	19,347,070	—	—	19,347,070
Advances from Federal Home Loan Bank	536,996	—	536,996	—
Other borrowings	13,978	—	—	13,978
Long-term debt	72,304	—	72,304	—

13. Goodwill and Other Intangible Assets

Goodwill. Total goodwill was \$375.7 million as of September 30, 2024, and remains unchanged compared with December 31, 2023. The Company completed its annual goodwill impairment testing and concluded that goodwill was not impaired as of December 31, 2023. Additionally, the Company reviewed the macroeconomic conditions on its business performance and market capitalization as a result of the banking industry market disruptions during the first nine months of 2024 and concluded that goodwill was not impaired as of September 30, 2024.

Core Deposit Intangibles.

The following table presents the gross carrying amount and accumulated amortization of core deposits intangible assets as of September 30, 2024, and December 31, 2023:

	September 30, 2024	December 31, 2023
	(In thousands)	
Gross balance	\$ 10,562	\$ 10,562
Accumulated amortization	(6,042)	(5,291)
Impairment	(1,324)	(1,227)
Net carrying balance	\$ 3,196	\$ 4,044

There were no impairment write-downs included in amortization of core deposit intangibles for the three months ended September 30, 2024, and September 30, 2023. There was \$97 thousand and \$309 thousand in impairment write-downs included in amortization of core deposit intangibles through the first nine months of 2024 and 2023, respectively.

The Company amortizes the core deposit intangibles based on the projected useful lives of the related deposits. The amortization expense related to the core deposit intangible assets was \$250 thousand and \$250 thousand for the three months ended September 30, 2024, and 2023, respectively. The amortization expense related to the core deposit intangible assets was \$848 thousand and \$1.1 million for the nine months ended September 30, 2024, and 2023, respectively.

The following table presents the estimated aggregate amortization expense of core deposit intangibles for each of the five succeeding years:

	Amount
	(In thousands)
2024	\$ 250
2025	946
2026	870
2027	870
2028	260
Total	\$ 3,196

14. Financial Derivatives

The Company does not speculate on the future direction of interest rates. As part of the Company's asset and liability management, however, the Company enters into financial derivatives to seek to mitigate exposure to interest rate risks related to its interest-earning assets and interest-bearing liabilities. The Company believes 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, the Company may protect its position through the purchase or sale of interest rate future contracts for a specific cash or interest rate risk position. Other hedging transactions may be implemented using interest rate swaps, interest rate caps, floors, financial futures, forward rate agreements, and options on futures or bonds. Prior to considering any hedging activities, the Company seeks to analyze the costs and benefits of the hedge in comparison to other viable alternative strategies. All hedges will require an assessment of basis risk and must be approved by the Bancorp or the Bank's Investment Committee.

The Company follows ASC Topic 815 that establishes accounting and reporting standards for financial derivatives, including certain financial derivatives embedded in other contracts, and hedging activities. It requires the recognition of all financial derivatives as assets or liabilities in the Company's Consolidated Balance 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 clients. When derivative transactions are executed with its clients, 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 clients 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. As of September 30, 2024, and December 31, 2023, the Company had outstanding interest rate derivative contracts with certain clients and third-party financial institutions with a notional amount of \$637.4 million and \$650.9 million, respectively, with a fair value of \$26.8 million and \$38.6 million, respectively, for both clients and third-party financial institutions. As of September 30, 2024, and December 31, 2023, for borrower swap transactions, there were no notional amount of interest rate swaps cleared through the CCP.

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. The Company early terminated these cash flow derivative swaps in 2022 and realized a gain of \$4.0 million for the year ended December 31, 2022, and is recognizing the amount as a reduction of long-term debt interest expense over the remaining life of the swaps on a straight-line basis ending in June 2024.

As of September 30, 2024, the Bank's outstanding fair value interest rate swap contracts matched to individual fixed-rate commercial real estate loans had a notional amount of \$82.0 million with a fair value of \$2.6 million and various terms from three to ten years. These contracts have been designated as hedging instruments to hedge the risk of changes in the fair value of the underlying commercial real estate loans due to changes in interest rates. The swap contracts are structured so that the notional amounts reduce over time to match the contractual amortization of the underlying loan and allow prepayments with the same pre-payment penalty amounts as the related loan. As of September 30, 2024 and 2023, the ineffective portion of these interest rate swaps was not significant.

The Company has designated as a partial-term hedging election of \$794.1 million notional with a net fair value loss of \$7.8 million as last-of-layer hedge on pools of loans with a notational value of \$1.32 billion as of September 30, 2024. 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 Term SOFR interest rate swaps to convert the last-of-layer \$794.1 million portion of \$1.32 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, 2024, the last-of-layer loan tranche had a net fair value gain basis adjustment of \$9.1 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.

The notional amount and net unrealized loss of the Company's fair value derivative financial instruments as of September 30, 2024, and December 31, 2023, were as follows:

	September 30, 2024		December 31, 2023	
	(In thousands)			
Fair value swap hedges:				
Notional	\$	876,145	\$	1,156,007
Weighted average fixed rate-pay		3.84%		2.01%
Weighted average variable rate spread		0.22%		0.32%
Weighted average variable rate-receive		5.46%		5.41%
Net (loss)/gain ⁽¹⁾	\$	(5,179)	\$	7,935
	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2024	2023	2024	2023
Periodic net settlement of swaps ⁽²⁾	\$	3,646	\$	7,659
			\$	14,121
			\$	21,065

⁽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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Included in the total notional amount of \$876.1 million of the fair value interest rate contracts entered into with financial counterparties as of September 30, 2024, was a notional amount of \$573.2 million of interest rate swaps that cleared through the CCP. Applying variation margin payments as settlement to CCP cleared derivative transactions resulted in a reduction in derivative asset fair values of \$9.0 million as of September 30, 2024.

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, 2024, and December 31, 2023, not including interest rate swaps cleared through the CCP, were as follows:

Derivative financial instruments not designated as hedging instruments:	September 30, 2024	December 31, 2023
	(In thousands)	
Notional amounts:		
Forward, and swap contracts with positive fair value	\$ 705,745	\$ 775,324
Forward, and swap contracts with negative fair value	\$ 849,358	\$ 752,250
Fair value:		
Forward, and swap contracts with positive fair value	\$ 27,321	\$ 39,010
Forward, and swap contracts with negative fair value	\$ (27,479)	\$ (38,807)

15. 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, 2024, and December 31, 2023, are set forth in the following table:

	Gross Amounts Recognized	Gross Amounts Offset in the Balance Sheet	Net Amounts Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet		
				Financial Instruments	Collateral Posted	Net Amount
			(In thousands)			
September 30, 2024						
Assets:						
Derivatives	\$ 32,807	\$ 1,848	\$ 30,959	\$ —	\$ 24,020	\$ 6,939
Liabilities:						
Derivatives	\$ 38,001	\$ —	\$ 38,001	\$ —	\$ —	\$ 38,001
December 31, 2023						
Assets:						
Derivatives	\$ 54,268	\$ 335	\$ 53,933	\$ —	\$ 44,860	\$ 9,073
Liabilities:						
Derivatives	\$ 45,762	\$ —	\$ 45,762	\$ —	\$ —	\$ 45,762

16. Revenue from Contracts with Clients

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
	(In thousands)			
Non-interest income, in-scope:				
Fees and service charges on deposit accounts	\$ 2,245	\$ 2,218	\$ 6,933	\$ 7,073
Wealth management fees	6,545	5,150	17,861	12,686
Other service fees ⁽¹⁾	5,039	4,424	13,826	12,559
Total non-interest income	13,829	11,792	38,620	32,318
Non-interest income/(loss), not in-scope ⁽²⁾	6,536	(3,955)	1,571	12,873
Total non-interest income	\$ 20,365	\$ 7,837	\$ 40,191	\$ 45,191

⁽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 contracts with clients that are out of the scope of ASC Topic 606 and primarily represent revenue from interest rate swap fees, unrealized gains and losses 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 Topic 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 clients 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 clients 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 clients 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 client pays for that good or service is one year or less.

17. Stockholders' Equity

Total equity was \$2.83 billion as of September 30, 2024, an increase of \$93.7 million, from \$2.74 billion as of December 31, 2023, primarily due to net income of \$205.8 million, other comprehensive income of \$19.0 million, stock-based compensation of \$4.1 million, and proceeds from dividend reinvestment of \$2.2 million, and stock issued to directors of \$850 thousand, offset by, common stock cash dividends of \$73.8 million, purchase of treasury stock of \$60.6 million, and shares withheld related to net share settlement of RSUs of \$3.7 million.

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, 2024, and September 30, 2023, was as follows:

	Three Months Ended September 30, 2024			Three Months Ended September 30, 2023		
	Pre-tax	Tax expense/ (benefit)	Net-of-tax	Pre-tax	Tax expense/ (benefit)	Net-of-tax
	(In thousands)					
Beginning balance, gain/(loss), net of tax						
Securities AFS			\$ (93,060)			\$ (100,704)
Cash flow hedge derivatives			—			1,655
Total			\$ (93,060)			\$ (99,049)
Net unrealized gains/(losses) arising during the period						
Securities AFS	\$ 37,773	\$ 11,166	\$ 26,607	\$ (34,133)	\$ (10,090)	\$ (24,043)
Cash flow hedge derivatives	—	—	—	(626)	(185)	(441)
Total	\$ 37,773	\$ 11,166	\$ 26,607	\$ (34,759)	\$ (10,275)	\$ (24,484)
Reclassification adjustment for net losses in net income						
Securities AFS	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Cash flow hedge derivatives	—	—	—	—	—	—
Total	—	—	—	—	—	—
Total other comprehensive income/(loss)						
Securities AFS	\$ 37,773	\$ 11,166	\$ 26,607	\$ (34,133)	\$ (10,090)	\$ (24,043)
Cash flow hedge derivatives	—	—	—	(626)	(185)	(441)
Total	\$ 37,773	\$ 11,166	\$ 26,607	\$ (34,759)	\$ (10,275)	\$ (24,484)
Ending balance, gain/(loss), net of tax						
Securities AFS			\$ (66,453)			\$ (124,747)
Cash flow hedge derivatives			—			1,214
Total			\$ (66,453)			\$ (123,533)

	Nine Months Ended September 30, 2024			Nine Months Ended September 30, 2023		
	Pre-tax	Tax expense/ (benefit)	Net-of-tax	Pre-tax	Tax expense/ (benefit)	Net-of-tax
(In thousands)						
Beginning balance, gain/(loss), net of tax						
Securities AFS			\$ (86,190)			\$ (104,832)
Cash flow hedge derivatives			774			2,537
Total			\$ (85,416)			\$ (102,295)
Net unrealized gains/(losses) arising during the period						
Securities AFS	\$ 28,020	\$ 8,283	\$ 19,737	\$ (28,272)	\$ (8,357)	\$ (19,915)
Cash flow hedge derivatives	(1,099)	(325)	(774)	(1,878)	(555)	(1,323)
Total	\$ 26,921	\$ 7,958	\$ 18,963	\$ (30,150)	\$ (8,912)	\$ (21,238)
Reclassification adjustment for net losses in net income						
Securities AFS	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Cash flow hedge derivatives	—	—	—	—	—	—
Total	—	—	—	—	—	—
Total other comprehensive income/(loss)						
Securities AFS	\$ 28,020	\$ 8,283	\$ 19,737	\$ (28,272)	\$ (8,357)	\$ (19,915)
Cash flow hedge derivatives	(1,099)	(325)	(774)	(1,878)	(555)	(1,323)
Total	\$ 26,921	\$ 7,958	\$ 18,963	\$ (30,150)	\$ (8,912)	\$ (21,238)
Ending balance, gain/(loss), net of tax						
Securities AFS			\$ (66,453)			\$ (124,747)
Cash flow hedge derivatives			—			1,214
Total			\$ (66,453)			\$ (123,533)

18. Stock Repurchase Program

On May 28, 2024, the Company announced a new stock repurchase program to buy back up to \$125.0 million of the Company's common stock. The previous \$125.0 million share repurchase program announced on May 26, 2022, was completed on February 21, 2023, with the repurchase of 2,897,628 shares at an average cost of \$43.14.

During the third quarter, we repurchased 832,460 shares at an average cost of \$42.00 per share, for a total of \$35.0 million.

19. Subsequent Events

The Company has evaluated the effect of events that have occurred subsequent to September 30, 2024, 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, 2023.

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 2023 Form 10-K. For more information, please also see Note 2 to the Company’s unaudited Consolidated Financial Statements.

Highlights

- Total assets increased \$429.9 million to \$23.27 billion when compared to third quarter of 2023.
- Total deposits increased \$308.4 million to \$19.94 billion when compared to third quarter of 2023.
- Total gross loans, excluding loans held for sale, increased \$349.8 million to \$19.37 billion when compared to third quarter of 2023.

Quarterly Statement of Operations Review

Net Income

Net income for the quarter ended September 30, 2024, was \$67.5 million, a decrease of \$14.9 million, or 18.1%, compared to net income of \$82.4 million for the same quarter a year ago. Diluted earnings per share for the quarter ended September 30, 2024, was \$0.94 per share compared to \$1.13 per share for the same quarter a year ago.

Return on average stockholders’ equity was 9.50% and return on average assets was 1.15% for the quarter ended September 30, 2024, compared to a return on average stockholders’ equity of 12.36% and a return on average assets of 1.42% for the same quarter a year ago.

Financial Performance

	Three months ended		Nine months ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
	(In millions, except per share and ratio data)			
Net income	\$ 67.5	\$ 82.4	\$ 205.8	\$ 271.6
Basic earnings per common share	\$ 0.94	\$ 1.14	\$ 2.84	\$ 3.74
Diluted earnings per common share	\$ 0.94	\$ 1.13	\$ 2.83	\$ 3.73
Return on average assets	1.15%	1.42%	1.18%	1.61%
Return on average total stockholders' equity	9.50%	12.36%	9.84%	14.04%
Efficiency ratio	51.11%	48.57%	53.28%	44.64%

Net Interest Income Before Provision for Credit Losses

Net interest income before provision for credit losses decreased \$16.4 million, or 8.8%, to \$169.2 million during the third quarter of 2024, compared to \$185.6 million during the same quarter a year ago. The decrease was due primarily to an increase in interest expense from deposits, offset by an increase in interest income from loans and securities.

The net interest margin was 3.04% for the third quarter of 2024 compared to 3.38% for the third quarter of 2023.

For the third quarter of 2024, the yield on average interest-earning assets was 6.10%, the cost of funds on average interest-bearing liabilities was 3.99%, and the average cost of interest-bearing deposits was 3.95%. In comparison, for the third quarter of 2023, the yield on average interest-earning assets was 5.89%, the cost of funds on average interest-bearing liabilities was 3.33%, and the average cost of interest-bearing deposits was 3.23%. The increase in the yield on average interest-bearing liabilities and 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 2.11% for the quarter ended September 30, 2024, compared to 2.56% 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, 2024, and 2023. The average outstanding amounts included in the table are daily averages.

Interest-Earning Assets and Interest-Bearing Liabilities						
Three Months Ended September 30,						
	2024			2023		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate (1)(2)	Average Balance	Interest Income/ Expense	Average Yield/ Rate (1)(2)
(In thousands)						
Interest-earning assets:						
Total loans (1)	\$ 19,455,521	\$ 310,311	6.35%	\$ 18,959,444	\$ 293,108	6.13%
Investment securities	1,638,414	15,125	3.67	1,530,767	12,698	3.29
Federal Home Loan Bank stock	17,250	375	8.65	19,141	355	7.35
Deposits with banks	1,035,534	13,680	5.26	1,273,751	17,307	5.39
Total interest-earning assets	<u>22,146,719</u>	<u>339,491</u>	<u>6.10</u>	<u>21,783,103</u>	<u>323,468</u>	<u>5.89</u>
Non-interest earning assets:						
Cash and due from banks	159,324			178,217		
Other non-earning assets	1,211,110			1,200,260		
Total non-interest earning assets	1,370,434			1,378,477		
Less: Allowance for loan losses	(153,122)			(154,529)		
Deferred loan fees	(11,006)			(9,624)		
Total assets	<u>\$ 23,353,025</u>			<u>\$ 22,997,427</u>		
Interest-bearing liabilities:						
Interest-bearing demand accounts	\$ 2,134,807	\$ 11,286	2.10%	\$ 2,405,011	\$ 11,997	1.98%
Money market accounts	3,073,384	28,991	3.75	3,036,445	22,824	2.98
Savings accounts	1,212,870	5,641	1.85	1,151,615	3,386	1.17
Time deposits	10,250,601	119,786	4.65	9,145,176	90,022	3.91
Total interest-bearing deposits	<u>16,671,662</u>	<u>165,704</u>	<u>3.95</u>	<u>15,738,247</u>	<u>128,229</u>	<u>3.23</u>
Other borrowings	186,838	2,281	4.86	586,824	7,873	5.32
Long-term debt	119,136	2,351	7.85	119,136	1,726	5.75
Total interest-bearing liabilities	<u>16,977,636</u>	<u>170,336</u>	<u>3.99</u>	<u>16,444,207</u>	<u>137,828</u>	<u>3.33</u>
Non-interest bearing liabilities:						
Demand deposits	3,230,150			3,603,779		
Other liabilities	316,860			305,435		
Total equity	2,828,379			2,644,006		
Total liabilities and equity	<u>\$ 23,353,025</u>			<u>\$ 22,997,427</u>		
Net interest spread			<u>2.11%</u>			<u>2.56%</u>
Net interest income		<u>\$ 169,155</u>			<u>\$ 185,640</u>	
Net interest margin			<u>3.04%</u>			<u>3.38%</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, 2024 and 2023:

Taxable-Equivalent Net Interest Income — Changes Due to Volume and Rate⁽¹⁾			
Three Months Ended September 30,			
2024-2023			
Increase/(Decrease) in			
Net Interest Income Due to			
	Changes in Volume	Changes in Rate	Total Change
(In thousands)			
Interest-earning assets:			
Loans	\$ 7,417	\$ 9,786	\$ 17,203
Investment securities	916	1,511	2,427
Federal Home Loan Bank stock	(37)	57	20
Deposits with other banks	(3,198)	(429)	(3,627)
Total changes in interest income	5,098	10,925	16,023
Interest-bearing liabilities:			
Interest-bearing demand accounts	(1,414)	703	(711)
Money market accounts	277	5,890	6,167
Savings accounts	188	2,067	2,255
Time deposits	11,558	18,206	29,764
Other borrowed funds	(4,957)	(635)	(5,592)
Long-term debts	—	625	625
Total changes in interest expense	5,652	26,856	32,508
Changes in net interest income	\$ (554)	\$ (15,931)	\$ (16,485)

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

Provision for credit losses

The Company recorded a provision for credit losses of \$14.5 million in the third quarter of 2024 compared with \$7.0 million in the third quarter of 2023. As of September 30, 2024, the allowance for credit losses, comprised of the reserve for loan losses and the reserve for unfunded loan commitments, increased \$9.6 million to \$173.2 million, or 0.89% of gross loans, compared to \$163.6 million, or 0.84% of gross loans, as of December 31, 2023. The change in the allowance for credit losses during the third quarter of 2024 consisted of a \$14.5 million provision for credit losses, and \$4.2 million in net charge-offs.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
(In thousands)				
Charge-offs:				
Commercial loans	\$ 2,666	\$ 6,254	\$ 12,862	\$ 12,517
Real estate loans ⁽¹⁾	1,805	1,221	2,059	5,341
Installment and other loans	7	8	7	15
Total charge-offs	4,478	7,483	14,928	17,873
Recoveries:				
Commercial loans	88	611	1,026	1,564
Real estate loans ⁽¹⁾	187	261	561	2,862
Installment and other loans	1	—	1	—
Total recoveries	276	872	1,588	4,426
Net charge-offs	\$ 4,202	\$ 6,611	\$ 13,340	\$ 13,447

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

Non-Interest Income

Non-interest income, which includes revenues from depository service fees, letters of credit commissions, securities gains (losses), wealth management fees, and other sources of fee income, was \$20.4 million for the third quarter of 2024, an increase of \$12.6 million, or 161.5%, compared to \$7.8 million for the third quarter of 2023. The increase was primarily due to an increase of \$10.5 million in unrealized gain on equity securities and an increase of \$1.4 million in Wealth Management fees, when compared to the same quarter a year ago.

Non-Interest Expense

Non-interest expense increased \$2.9 million, or 3.1%, to \$96.9 million in the third quarter of 2024 compared to \$94.0 million in the same quarter a year ago. The increase in non-interest expense in the third quarter of 2024 was primarily due to an increase of \$2.1 million in salaries and employee benefits, and an increase of \$0.9 million in amortization expense of investments in low-income housing and alternative energy partnerships when compared to the same quarter a year ago. The efficiency ratio was 51.11% in the third quarter of 2024 compared to 48.57% for the same quarter a year ago.

Income Taxes

The effective tax rate for the third quarter of 2024 was 13.6% compared to 11.0% for the third quarter of 2023. 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

Net income for the nine months ended September 30, 2024, was \$205.8 million, a decrease of \$65.8 million, or 24.2% compared to net income of \$271.6 million for the same quarter a year ago. Diluted earnings per share for the nine months ended September 30, 2024, was \$2.83 per share compared to \$3.73 per share for the same quarter a year ago.

Return on average stockholders' equity was 9.84% and return on average assets was 1.18% for the nine months ended September 30, 2024, compared to a return on average stockholders' equity of 14.04% and a return on average assets of 1.61% for the same quarter a year ago.

The following table sets forth information concerning average interest-earning assets, average interest-bearing liabilities, and the average yields and rates paid on those assets and liabilities for the nine months ended September 30, 2024, and 2023. The average outstanding amounts included in the table are daily averages.

	Interest-Earning Assets and Interest-Bearing Liabilities					
	Nine Months Ended September 30,					
	2024			2023		
Average Balance	Interest Income/ Expense	Average Yield/ Rate (1)(2)	Average Balance	Interest Income/ Expense	Average Yield/ Rate (1)(2)	
(In thousands)						
Interest-earning assets:						
Total loans (1)	\$ 19,464,496	\$ 916,175	6.29%	\$ 18,572,222	\$ 827,765	5.96%
Investment securities	1,647,968	45,720	3.71	1,546,951	36,832	3.18
Federal Home Loan Bank stock	19,162	1,305	9.10	18,290	957	7.00
Interest-bearing deposits	1,042,413	41,793	5.36	1,145,398	43,405	5.07
Total interest-earning assets	22,174,039	1,004,993	6.05	21,282,861	908,959	5.71
Non-interest earning assets:						
Cash and due from banks	168,027			208,618		
Other non-earning assets	1,203,113			1,167,992		
Total non-interest earning assets	1,371,140			1,376,610		
Less: Allowance for loan losses	(153,414)			(148,749)		
Deferred loan fees	(11,405)			(7,608)		
Total assets	\$ 23,380,360			\$ 22,503,114		
Interest-bearing liabilities:						
Interest-bearing demand accounts	\$ 2,205,108	\$ 35,012	2.12%	\$ 2,361,732	\$ 27,656	1.57%
Money market accounts	3,134,940	86,546	3.69	3,152,703	59,236	2.51
Savings accounts	1,099,331	11,660	1.42	1,056,234	5,791	0.73
Time deposits	10,053,062	347,408	4.62	8,728,133	234,171	3.59
Total interest-bearing deposits	16,492,441	480,626	3.89	15,298,802	326,854	2.86
Other borrowings	383,563	15,389	5.36	473,114	17,776	5.02
Long-term debt	119,136	5,935	6.65	119,136	4,721	5.30
Total interest-bearing liabilities	16,995,140	501,950	3.95	15,891,052	349,351	2.94
Non-interest bearing liabilities:						
Demand deposits	3,271,913			3,741,982		
Other liabilities	318,923			283,532		
Total equity	2,794,384			2,586,548		
Total liabilities and equity	\$ 23,380,360			\$ 22,503,114		
Net interest spread			2.10%			2.77%
Net interest income		\$ 503,043			\$ 559,608	
Net interest margin			3.03%			3.52%

(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, 2024 and 2023:

Taxable-Equivalent Net Interest Income — Changes Due to Volume and Rate⁽¹⁾			
Nine Months Ended September 30,			
2024-2023			
Increase/(Decrease) in			
Net Interest Income Due to			
	Changes in Volume	Changes in Rate	Total Change
(In thousands)			
Interest-earning assets:			
Loans	\$ 41,182	\$ 47,228	\$ 88,410
Investment securities	2,530	6,358	8,888
Federal Home Loan Bank stock	48	300	348
Deposits with other banks	(4,024)	2,412	(1,612)
Total changes in interest income	<u>39,736</u>	<u>56,298</u>	<u>96,034</u>
Interest-bearing liabilities:			
Interest-bearing demand accounts	(1,940)	9,295	7,355
Money market accounts	(336)	27,647	27,311
Savings accounts	246	5,623	5,869
Time deposits	39,186	74,051	113,237
Other borrowed funds	(3,525)	1,138	(2,387)
Long-term debts	—	1,214	1,214
Total changes in interest expense	<u>33,631</u>	<u>118,968</u>	<u>152,599</u>
Changes in net interest income	<u>\$ 6,105</u>	<u>\$ (62,670)</u>	<u>\$ (56,565)</u>

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

Balance Sheet Review

Assets

Total assets were \$23.27 billion as of September 30, 2024, an increase of \$192.9 million, or 0.8%, from \$23.08 billion as of December 31, 2023.

Securities Available-for-Sale

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

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

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

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.

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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, 2024, 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/(loss)" 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, 2024, compared to 7.0% of total assets as of December 31, 2023. Securities available-for-sale were \$1.51 billion as of September 30, 2024, compared to \$1.60 billion as of December 31, 2023.

Securities available-for-sale having a carrying value of \$18.4 million as of September 30, 2024, and \$134.2 million as of December 31, 2023, were pledged to secure public deposits and other borrowings.

Loans

Gross loans held for investment were \$19.37 billion at September 30, 2024, a decrease of \$174.5 million, or 0.9%, from \$19.55 billion at December 31, 2023. The decrease was primarily due to a decrease of \$198.1 million, or 6.0%, in commercial loans, a decrease of \$115.6 million, or 27.3% in real estate construction loans, and a decrease of \$88.2 million, or 1.5% in residential mortgage loans, offset, in part, by an increase of \$245.7 million, or 2.5% in commercial real estate loans.

The loan held for investment balances and composition at September 30, 2024, compared to December 31, 2023, are set forth below:

	September 30, 2024	% of Gross Loans	December 31, 2023 (in thousands)	% of Gross Loans	% Change
Commercial loans	\$ 3,106,994	16.0%	\$ 3,305,048	16.9%	(6.0%)
Construction loans	307,057	1.6	422,647	2.2	(27.3)
Commercial real estate loans	9,975,272	51.5	9,729,581	49.8	2.5
Residential mortgage loans and equity lines	5,977,384	30.9	6,084,666	31.1	(1.8)
Installment and other loans	6,886	—	6,198	—	11.1
Gross loans held for investment	<u>\$ 19,373,593</u>	100%	<u>\$ 19,548,140</u>	100%	(0.9%)
Allowance for loan losses	(163,733)		(154,562)		5.9
Unamortized deferred loan fees	(10,505)		(10,720)		(2.0)
Total loans held for investment, net	<u><u>\$ 19,199,355</u></u>		<u><u>\$ 19,382,858</u></u>		<u><u>(0.9%)</u></u>

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.

The ratio of non-performing assets to total assets was 0.81% as of September 30, 2024, compared to 0.40% as of December 31, 2023. Total non-performing assets increased \$94.7 million, or 101.5% to \$188.0 million at September 30, 2024, compared to \$93.3 million at December 31, 2023, primarily due to an increase of \$96.1 million, or 144.1%, in non-accrual loans offset, in part, by a decrease of \$1.2 million, or 6.0% in other real estate owned, and a decrease of \$0.2 million, or 3.2% in accruing loans past due 90 days or more.

As a percentage of gross loans, excluding loans held for sale, plus OREO, our non-performing assets were 0.97% as of September 30, 2024, compared to 0.48% as of December 31, 2023. The non-performing loan portfolio coverage ratio, defined as the allowance for credit losses to non-performing loans, decreased to 102.07% as of September 30, 2024, from 221.58% as of December 31, 2023.

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The following table sets forth the changes in non-performing assets as of September 30, 2024, compared to December 31, 2023, and to September 30, 2023:

	September 30, 2024	December 31, 2023	% Change	September 30, 2023	% Change
	(in thousands)				
Non-performing assets					
Accruing loans past due 90 days or more	\$ 6,931	\$ 7,157	(3)	\$ 1,924	260
Non-accrual loans:					
Construction loans	—	7,736	(100)	16,992	—
Commercial real estate loans	87,577	32,030	173	32,539	169
Commercial loans*	52,074	14,404	262	14,661	255
Residential mortgage loans	23,183	12,511	85	13,138	76
Total non-accrual loans	\$ 162,834	\$ 66,681	144	\$ 77,330	111
Total non-performing loans	169,765	73,838	130	79,254	114
Other real estate owned	18,277	19,441	(6)	14,407	27
Total non-performing assets	\$ 188,042	\$ 93,279	102	\$ 93,661	101
Allowance for loan losses	\$ 163,733	\$ 154,562	6	\$ 154,619	6
Allowance for unfunded loan commitments	\$ 9,542	\$ 9,053	5	\$ 11,405	(16)
Total gross loans outstanding, at period-end	\$ 19,373,593	\$ 19,548,140	(1)	\$ 19,023,822	2
Allowance for loan losses to non-performing loans, at period-end	96.45%	209.33%		195.09%	
Allowance for credit losses to non-performing loans, at period-end	102.07%	221.58%		209.48%	
Allowance for loan losses to gross loans, at period-end	0.85%	0.79%		0.81%	

* At September 30, 2024, commercial non-accrual loans included \$19.5 million of loans that are current.

Non-accrual Loans

As of September 30, 2024, total non-accrual loans were \$162.8 million, an increase of \$96.1 million, or 144.1%, from \$66.7 million at December 31, 2023, and an increase of \$85.5 million, or 110.5%, from \$77.3 million at September 30, 2023. 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.

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, 2024		December 31, 2023	
	Real Estate (1)	Commercial	Real Estate (1)	Commercial
	(In thousands)			
Type of Collateral				
Single/multi-family residence	\$ 37,253	\$ 5,987	\$ 16,400	\$ 3,363
Commercial real estate	62,658	576	35,877	—
Personal property (UCC)	10,849	45,511	—	11,041
Total	\$ 110,760	\$ 52,074	\$ 52,277	\$ 14,404

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

	September 30, 2024		December 31, 2023	
	Real Estate (1)	Commercial	Real Estate (1)	Commercial
	(In thousands)			
Type of Business				
Real estate development	\$ 33,869	\$ —	\$ 25,429	\$ —
Wholesale/Retail	44,864	45,244	14,350	13,215
Food/Restaurant	58	262	71	361
Import/Export	—	5,926	—	828
Other	31,969	642	12,427	—
Total	\$ 110,760	\$ 52,074	\$ 52,277	\$ 14,404

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

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For non-accrual loans, the amounts previously charged-off represent 10.0% of the contractual balances for non-accrual loans as of September 30, 2024, and 15.8% as of December 31, 2023. As of September 30, 2024, \$110.8 million, or 68.0%, of the \$162.8 million of non-accrual loans were secured by real estate compared to \$52.3 million, or 78.4%, of the \$66.7 million of non-accrual loans that were secured by real estate as of December 31, 2023. 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.

The allowance for loan losses to non-performing loans was 96.4% as of September 30, 2024, compared to 209.3% as of December 31, 2023. The decrease was due primarily to an increase in non-accrual loans. Non-accrual loans also include those modified loans to borrowers experiencing financial difficulty that do not qualify for accrual status.

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, 2024, construction loans of \$248.2 million were disbursed with pre-established interest reserves of \$32.8 million, compared to \$220.6 million with pre-established interest reserves of \$41.3 million at December 31, 2023. The balance for construction loans with interest reserves that have been extended was \$5.5 million with pre-established interest reserves of \$0.2 million at September 30, 2024, compared to \$6.4 million with pre-established interest reserves of \$0.5 million at December 31, 2023. Land loans of \$8.8 million were disbursed with pre-established interest reserves of \$59 thousand at September 30, 2024, compared to \$12.9 million of land loans disbursed with pre-established interest reserves of \$0.4 million at December 31, 2023. There were no land loans with interest reserves which have been extended as of September 30, 2024, and December 31, 2023.

At September 30, 2024, and December 31, 2023, the Bank had no loans on non-accrual status with available interest reserves. At September 30, 2024, and December 31, 2023, there were zero non-accrual non-residential construction loans, residential construction loans, or 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 clients 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 clients 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.

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 14% and 19% of the Bank's total risk-based capital as of September 30, 2024, and December 31, 2023, respectively. Total CRE loans represented 289% of total risk-based capital as of September 30, 2024, and 292% as of December 31, 2023, which were within the Bank's internal limit of 400%, of total capital.

CRE and Construction Loans ("CREC")

The Company's total CREC loan portfolio is diversified by property type with an average CREC loan size of \$1.9 million and \$1.8 million as of September 30, 2024, and December 31, 2023, respectively. The following table summarizes the Company's total CREC loans by property type as of September 30, 2024, and December 31, 2023:

(In thousands)	As of September 30, 2024		As of December 31, 2023	
	Amount	%	Amount	%
Property type:				
Retail	\$ 2,382,982	23%	\$ 2,279,677	22%
Multifamily	2,733,849	27%	2,602,430	26%
Office	1,490,501	14%	1,538,701	15%
Warehouse	1,218,531	12%	1,185,121	12%
Industrial and Multi-Use	622,128	6%	557,630	5%
Lodging	298,032	3%	317,111	3%
Construction & Land	384,475	4%	494,495	5%
Other	1,151,831	11%	1,177,063	12%
Total CREC loans	\$ 10,282,329	100%	\$ 10,152,228	100%

The weighted-average loan-to-value ("LTV") ratio of the total CREC loan portfolio was 49% and 50% as of September 30, 2024, and December 31, 2023, respectively. Approximately 85% and 83% of total CREC loans had an LTV ratio of 60% or lower as of September 30, 2024, and December 31, 2023, respectively.

The following tables provide a summary of the Company's CREC, multifamily residential, and construction and land loans by geography as of September 30, 2024, and December 31, 2023. The distribution of the total CREC loan portfolio reflects the Company's geographical footprint, which is primarily concentrated in California:

(In thousands)	As of September 30, 2024							
	CRE	%	Multifamily Residential	%	Construction and Land	%	Total	%
Geographic markets:								
Southern California	\$ 2,447,809		\$ 947,126		\$ 231,338		\$ 3,626,273	
Northern California	1,065,746		165,297		27,902		1,258,945	
California	3,513,555	49%	1,112,423	41%	259,240	67%	4,885,218	48%
New York	2,157,025	30%	1,210,064	44%	91,595	24%	3,458,684	34%
Texas	339,896	5%	141,086	5%	—	0%	480,982	5%
Illinois	249,485	3%	46,695	2%	244	0%	296,424	3%
New Jersey	131,552	2%	16,643	1%	—	0%	148,195	1%
Nevada	152,740	2%	28,929	1%	25,066	7%	206,735	2%
Washington	88,564	1%	144,324	5%	—	0%	232,888	2%
Other markets	531,188	8%	33,685	1%	8,330	2%	573,203	5%
Total CREC loans	\$ 7,164,005	100%	\$ 2,733,849	100%	\$ 384,475	100%	\$ 10,282,329	100%

(In thousands)	As of December 31, 2023							
	CRE	%	Multifamily Residential	%	Construction and Land	%	Total	%
Geographic markets:								
Southern California	\$ 2,415,516		\$ 931,886		\$ 304,268		\$ 3,651,670	
Northern California	1,060,242		169,060		30,014		1,259,316	
California	3,475,758	49%	1,100,946	42%	334,282	68%	4,910,986	48%
New York	2,134,507	30%	1,113,554	43%	119,849	24%	3,367,910	33%
Texas	352,005	5%	108,120	4%	—	0%	460,125	5%
Illinois	235,440	3%	45,822	2%	250	0%	281,512	3%
New Jersey	125,324	2%	16,496	1%	7,423	1%	149,243	2%
Nevada	156,199	2%	31,463	1%	22,183	4%	209,845	2%
Washington	89,016	1%	146,909	6%	2,603	1%	238,528	2%
Other markets	487,053	8%	39,120	1%	7,906	2%	534,079	5%
Total CREC loans	\$ 7,055,302	100%	\$ 2,602,430	100%	\$ 494,496	100%	\$ 10,152,228	100%

There were 48% of total CREC loans concentrated in California as of both September 30, 2024, and December 31, 2023. Changes in California's economy and real estate values could have a significant impact on the collectability of these loans and the required level of allowance for loan losses.

Commercial Real Estate Loans

The Company focuses on providing financing to experienced real estate investors and developers who have moderate levels of leverage, many of whom are long-time customers of the Bank. CRE loans totaled \$7.16 billion as of September 30, 2024, compared with \$7.06 billion as of December 31, 2023, and accounted for 37% and 36% of total loans held-for-investment, not including loans held for sale, as of September 30, 2024, and December 31, 2023, respectively. Interest rates on CRE loans may be fixed or variable. As of September 30, 2024, 25% and 37% of our CRE portfolio were variable rate and hybrid loans in their fixed period, respectively. In comparison, as of December 31, 2023, 25% and 40% of our CRE portfolio were variable rate and hybrid loans in their fixed period, respectively. Loans are underwritten with conservative standards for cash flows, debt service coverage and LTV.

Owner-occupied properties comprised 23% of the CRE loans as of both September 30, 2024, and December 31, 2023, respectively. The remainder were non-owner-occupied properties, where 50% or more of the debt service for the loan is typically provided by rental income from an unaffiliated third party.

Commercial-Multifamily Residential Loans

The multifamily residential loan portfolio is largely comprised of loans secured by residential properties with five or more units. Multifamily residential loans totaled \$2.73 billion as of September 30, 2024, compared with \$2.60 billion as of December 31, 2023, and accounted for 14% and 13% of total loans held-for investment, not including loans held for sale, as of September 30, 2024, and December 31, 2023, respectively. The Company offers a variety of first lien mortgages, including fixed- and variable-rate loans. As of September 30, 2024, 21% and 39% of our multifamily residential loan portfolio were variable rate and hybrid loans in their fixed period, respectively. In comparison, as of December 31, 2023, 20% and 40% of our multifamily residential loan portfolio were variable rate and hybrid loans in their fixed period, respectively.

Commercial-Construction and Land Loans

Construction and land loans provide financing for diversified projects by real estate property type. Construction and land loans totaled \$384.5 million as of September 30, 2024, compared with \$494.5 million as of December 31, 2023, and accounted for 2% and 3% of total loans held-for-investment, not including loans held for sale, as of September 30, 2024, and December 31, 2023, respectively. Construction loan exposure was made up of \$307.1 million in loans outstanding, plus \$180.9 million in unfunded commitments as of September 30, 2024, compared with \$422.6 million in loans outstanding, plus \$280.5 million in unfunded commitments as of December 31, 2023. Land loans totaled \$77.4 million as of September 30, 2024, compared with \$71.8 million as of December 31, 2023.

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 \$163.7 million and the allowance for off-balance sheet unfunded credit commitments was \$9.5 million at September 30, 2024, which represented the amount estimated by management to be appropriate to absorb expected credit losses inherent in the loan portfolio, including unfunded credit commitments. The allowance for credit losses, which is the sum of the allowances for loan losses and for off-balance sheet unfunded credit commitments, was \$173.2 million at September 30, 2024, compared to \$163.6 million at December 31, 2023. The allowance for credit losses represented 0.89% of period-end gross loans and 102.07% of non-performing loans at September 30, 2024. The comparable ratios were 0.84% of period-end gross loans and 221.58% of non-performing loans at December 31, 2023.

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 2023 Form 10-K. For more information, please also see Note 2 to the Company's unaudited Consolidated Financial Statements.

Expected Credit Losses Estimate for Loans

The allowance for credit losses 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 8 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 2024, the change in Moody's forecast of future GDP, unemployment rates, CRE and home price indexes did not result in a significant impact to the allowance for credit losses. The increase in the allowance for credit losses was primarily due to a provision for the delay in getting current appraisals for the new non-acrual loans added during the third quarter. 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. 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.

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 through the fourth quarter of 2022. Loss given default rates are computed based on the net charge-offs recognized and then applied to the expected exposure at default of defaulted loans starting with the fourth quarter of 2007 through the fourth 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.

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, 2024, allowance for credit losses consisted of three scenarios as provided by an outside forecaster. Because the December 2022 baseline scenario did not forecast a recession in the forecast period, we increased the weighting of the downside scenario to reflect our expectations that a recession in the forecast period was more likely than not. During the third quarter of 2023, in light of the continued strength of the economy, we reduced the weighting of the most severe scenario slightly. The baseline scenario reflects modest ongoing GDP growth and a steady decline in the unemployment rate starting from 4.20% in the fourth quarter of 2024 to 4.03% by the end of the R&S period. The upside scenario reflects higher GDP growth and lower unemployment rates with the stronger economy resulting in inflation and interest rates a bit higher than in the baseline scenario, though the Federal Reserve is projected to continue to cut the Fed funds rate in the fourth quarter of 2024. The downside scenario contemplates a recession and the weakening economy prompts the Fed to lower the fed funds rate below the baseline in the fourth quarter of 2024, resulting in negative GDP growth for three quarters peaking at 3.5% in the first quarter of 2025, rising unemployment that peaks at 8.3% in the fourth quarter of 2025, a decline in CRE prices of 12.4% and a decline in residential home prices of 12.7% during the forecast period. As of September 30, 2024, we placed the same weight on our downside and base scenario, with a small weighting on the upside scenario.

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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, 2024, would have been approximately \$58.8 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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
	(In thousands)			
Allowance for loan losses				
Balance at beginning of period	\$ 153,403	\$ 155,109	\$ 154,562	\$ 146,485
Provision for expected credit losses on loans	14,532	6,121	22,511	21,581
Charge-offs:				
Commercial loans	(2,666)	(6,254)	(12,862)	(12,517)
Real estate loans (1)	(1,805)	(1,221)	(2,059)	(5,341)
Installment and other loans	(7)	(8)	(7)	(15)
Total charge-offs	(4,478)	(7,483)	(14,928)	(17,873)
Recoveries:				
Commercial loans	88	611	1,026	1,564
Real estate loans (1)	187	261	561	2,862
Installment and other loans	1	—	1	—
Total recoveries	276	872	1,588	4,426
Balance at the end of period	\$ 163,733	\$ 154,619	\$ 163,733	\$ 154,619
Reserve for off-balance sheet credit commitments				
Balance at beginning of period	\$ 9,574	\$ 10,525	\$ 9,053	\$ 8,730
Provision for expected credit losses on unfunded credit commitments	(32)	879	489	2,674
Balance at the end of period	\$ 9,542	\$ 11,404	\$ 9,542	\$ 11,404
Average loans outstanding during the period	\$ 19,455,521	\$ 18,959,444	\$ 19,464,496	\$ 18,572,222
Total gross loans outstanding, at period-end	\$ 19,373,593	\$ 19,023,822	\$ 19,373,593	\$ 19,023,822
Total non-performing loans, at period-end	\$ 169,765	\$ 79,254	\$ 169,765	\$ 79,254
Ratio of net charge-offs to average loans outstanding during the period(2)	0.09%	0.14%	0.09%	0.10%
Provision for expected credit losses to average loans outstanding during the period(2)	0.30%	0.15%	0.16%	0.17%
Allowance for credit losses to non-performing loans, at period-end	102.07%	209.48%	102.07%	209.48%
Allowance for credit losses to gross loans, at period-end	0.89%	0.87%	0.89%	0.87%

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

(2) Annualized.

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, 2024		December 31, 2023	
	Amount	Percentage of Loans in Each Category to Average Gross Loans	Amount	Percentage of Loans in Each Category to Average Gross Loans
	(In thousands)			
Type of Loan:				
Commercial loans	\$ 50,882	16.4%	\$ 53,791	17.1%
Construction loans	8,510	2.0	8,180	2.8
Commercial real estate loans	85,343	50.4	74,428	49.1
Residential mortgage loans and equity lines	18,917	31.2	18,140	31.0
Installment and other loans	81	0.0	23	0.0
Total loans	\$ 163,733	100%	\$ 154,562	100%

The allowance allocated to commercial loans decreased \$2.9 million, or 5.4%, to \$50.9 million at September 30, 2024, from \$53.8 million at December 31, 2023. The decrease was mainly due to net charge-offs of \$11.8 million.

The allowance allocated to construction loans increased \$0.3 million, or 3.7% to \$8.5 million at September 30, 2024, from \$8.2 million at December 31, 2023.

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The allowance allocated to commercial real estate loans increased \$10.9 million, or 14.7%, to \$85.3 million at September 30, 2024, from \$74.4 million at December 31, 2023. The increase is due primarily to an increase in substandard and non-accrual commercial real estate loans.

The allowance allocated for residential mortgage loans and equity lines increased \$0.8 million, or 4.4% to \$18.9 million at September 30, 2024, compared to \$18.1 million at December 31, 2023. The increase is due primarily to an increase in non-accrual residential mortgage loans.

Deposits

Total deposits were \$19.94 billion as of September 30, 2024, an increase of \$618.5 million, or 3.2% from \$19.33 billion as of December 31, 2023.

The Company calculates its uninsured deposits based on the methodologies and assumptions used for regulatory reporting. Total uninsured deposits were \$9.18 billion as of September 30, 2024, increased approximately \$470.3 million, from \$8.71 billion as of December 31, 2023. Excluding \$780.2 million in collateralized deposits, the uninsured and uncollateralized deposits of \$8.40 billion was 42.1% of total deposits as of September 30, 2024. Our unused borrowing capacity from the Federal Home Loan Bank as of September 30, 2024, was \$7.29 billion and unpledged securities at September 30, 2024, was \$1.49 billion. These sources of available liquidity, including cash and short-term investments, were more than 100% of uninsured and uncollateralized deposits as of September 30, 2024.

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

	September 30, 2024		December 31, 2023	
	Amount	Percentage	Amount	Percentage
(In thousands)				
Deposits				
Non-interest-bearing demand deposits	\$ 3,253,823	16.3%	\$ 3,529,018	18.3%
NOW deposits	2,093,861	10.5	2,370,685	12.3
Money market deposits	3,134,460	15.7	3,049,754	15.8
Savings deposits	1,215,974	6.1	1,039,203	5.4
Time deposits	10,245,823	51.4	9,336,787	48.2
Total deposits	\$ 19,943,941	100.0%	\$ 19,325,447	100.0%

The following table sets forth the maturity distribution of time deposits at September 30, 2024:

	At September 30, 2024		
	Time Deposits -under \$250,000	Time Deposits -\$250,000 and over	Total Time Deposits
(In thousands)			
Three months or less	\$ 1,496,559	\$ 2,335,071	\$ 3,831,630
Over three to six months	1,963,660	2,274,316	4,237,976
Over six to twelve months	860,525	1,292,153	2,152,678
Over twelve months	15,740	7,799	23,539
Total	\$ 4,336,484	\$ 5,909,339	\$ 10,245,823
Percent of total deposits	21.7%	29.6%	51.4%

FDIC Special Assessment and Uninsured Deposits

In November 2023, the FDIC approved a final rule that would impose a special deposit insurance assessment on banks in order to recover losses that the FDIC's Deposit Insurance Fund ("DIF") has incurred in the receiverships of failed institutions. Under the final rule, the FDIC would impose the special assessment for eight quarterly assessment periods beginning with the first quarter of 2024 assessment period, subject to adjustment if the total amount collected is insufficient to cover the DIF's cost. Each quarterly special assessment would be equal to 3.36 basis points (0.0336%) of a bank's estimated uninsured deposits that exceeded \$5 billion as of December 31, 2022. The Company recognized \$11.3 million related to the special assessment in the fourth quarter of 2023. Based on updated information received from the FDIC about the estimated losses for the failed institutions, the Company recognized an additional \$2.9 million of the special assessment in the first quarter ended March 31, 2024. Depending on future adjustments to the DIF's estimated loss, the FDIC has retained the ability to cease collection early, extend the special assessment collection period, or impose a one-time final shortfall assessment.

Off-Balance-Sheet Arrangements and Contractual Obligations

The following table summarizes the Company's contractual obligations to make future payments as of September 30, 2024. 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	\$ 10,222,284	\$ 18,887	\$ —	\$ 4,652	\$ 10,245,823
Advances from the Federal Home Loan Bank	60,000	—	—	—	60,000
Other borrowings	—	—	—	17,783	17,783
Long-term debt	—	—	—	119,136	119,136
Operating leases	10,652	15,872	8,340	821	35,685
Total contractual obligations and other commitments	\$ 10,292,936	\$ 34,759	\$ 8,340	\$ 142,392	\$ 10,478,427

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 clients. 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 clients 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 client to a third party. In the event the client 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 client. 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 \$2.83 billion as of September 30, 2024, an increase of \$93.7 million, from \$2.74 billion as of December 31, 2023, primarily due to net income of \$205.8 million, other comprehensive income of \$19.0 million, stock-based compensation of \$4.1 million, proceeds from dividend reinvestment of \$2.2 million, and stock issued to directors of \$850 thousand, offset by, common stock cash dividends of \$73.8 million, purchase of treasury stock of \$60.6 million, and shares withheld related to net share settlement of RSUs of \$3.7 million.

The following table summarizes changes in total equity for the nine months ended September 30, 2024:

	Nine Months Ended September 30, 2024
	(In thousands)
Net income	\$ 205,778
Proceeds from shares issued through the Dividend Reinvestment Plan	2,217
Shares withheld related to net share settlement of RSUs	(3,722)
Purchase of treasury stock	(60,610)
Stock-based compensation	4,065
Cash dividends paid to common stockholders	(73,804)
Restricted stock units vested	1
Stock issued to directors	850
Other comprehensive income	18,963
Net increase in total equity	\$ 93,738

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, 2024, and December 31, 2023, 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 2023 Form 10-K for a more detailed discussion of the Basel III Capital Rules.

	Actual		Minimum Capital Required - Basel III		Required to be Considered Well Capitalized	
	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
(In thousands)						
September 30, 2024						
Common Equity Tier 1 to Risk-Weighted Assets						
Cathay General Bancorp	\$ 2,491,861	13.32	\$ 1,309,305	7.00	\$ 1,215,784	6.50
Cathay Bank	2,553,363	13.66	1,308,109	7.00	1,214,673	6.50
Tier 1 Capital to Risk-Weighted Assets						
Cathay General Bancorp	2,491,861	13.32	1,589,871	8.50	1,496,349	8.00
Cathay Bank	2,553,363	13.66	1,588,418	8.50	1,494,982	8.00
Total Capital to Risk-Weighted Assets						
Cathay General Bancorp	2,780,636	14.87	1,963,958	10.50	1,870,436	10.00
Cathay Bank	2,726,638	14.59	1,962,163	10.50	1,868,727	10.00
Leverage Ratio						
Cathay General Bancorp	2,491,861	10.82	921,152	4.00	1,151,440	5.00
Cathay Bank	2,553,363	11.10	920,380	4.00	1,150,475	5.00

	Actual		Minimum Capital Required - Basel III		Required to be Considered Well Capitalized	
	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
(In thousands)						
December 31, 2023						
Common Equity Tier 1 to Risk-Weighted Assets						
Cathay General Bancorp	\$ 2,430,773	12.84	\$ 1,325,277	7.00	\$ 1,230,615	6.50
Cathay Bank	2,501,439	13.23	1,323,846	7.00	1,229,286	6.50
Tier 1 Capital to Risk-Weighted Assets						
Cathay General Bancorp	2,430,773	12.84	1,609,265	8.50	1,514,602	8.00
Cathay Bank	2,501,439	13.23	1,607,527	8.50	1,512,967	8.00
Total Capital to Risk-Weighted Assets						
Cathay General Bancorp	2,709,888	14.31	1,987,916	10.50	1,893,253	10.00
Cathay Bank	2,665,054	14.09	1,985,769	10.50	1,891,209	10.00
Leverage Ratio						
Cathay General Bancorp	2,430,773	10.55	921,473	4.00	1,151,841	5.00
Cathay Bank	2,501,439	10.87	920,670	4.00	1,150,838	5.00

As of September 30, 2024, 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, 2024, 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 71,559,973 shares outstanding on August 15, 2024, for distribution to holders of our common stock on August 29, 2024. The Company paid total cash dividends of \$24.3 million in the third quarter of 2024 and \$73.8 million for the nine months ended September 30, 2024.

Liquidity

Liquidity is our ability to maintain sufficient cash flow to meet maturing financial obligations and client 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, 2024, our average monthly liquidity ratio (defined as net cash plus short-term and marketable securities to net deposits and short-term liabilities) was 14.6% compared to 13.7% as of December 31, 2023.

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, 2024, the Bank had an approved credit line with the FHLB of San Francisco totaling \$8.13 billion. Total advances from the FHLB of San Francisco were \$60.0 million and standby letters of credit issued by the FHLB on the Company’s behalf were \$965.0 million as of September 30, 2024. These borrowings bear fixed rates and are secured by the Bank’s loans. See Note 10 to the Consolidated Financial Statements. At September 30, 2024, the Bank pledged \$500.0 million of its commercial loans and \$1.1 million of securities to the Federal Reserve Bank’s Discount Window under the Borrower-in-Custody program. The Bank had borrowing capacity of \$438.2 million from the Federal Reserve Bank Discount Window at September 30, 2024.

Liquidity can also be provided through the sale of liquid assets, which may consist of federal funds sold, securities purchased under agreements to resell, and securities available-for-sale. At September 30, 2024, investment securities totaled \$1.51 billion, with \$18.4 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 99.8% of our time deposits mature within one year or less as of September 30, 2024. Management anticipates that these deposits will reprice lower as a result of the expected decreases in the target Fed funds rate expected in 2024. 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, 2024, management believes all the above-mentioned sources will provide adequate liquidity during the next twelve months for the Bank to meet its operating needs.

The business activities of Bancorp consist primarily of the operation of the Bank and limited activities in other investments. The Bank paid dividends to Bancorp totaling \$156.0 million and \$107.0 million during the third quarter of 2024 and 2023, 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, client 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, 2024:

Change in Interest Rate (Basis Points)	Net Interest Income Volatility (1)	Market Value of Equity Volatility (2)
+200	17.6	-5.8
+100	8.8	-2.9
-100	-5.2	3.8
-200	-10.6	9.0

(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. Much of the increase in net interest income is due to the lag in the repricing of certificates of deposits which mature throughout the twelve month period.

(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 2024 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 arises in the ordinary course of business or otherwise is 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 2023 Form 10-K for the year ended December 31, 2023. 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 2023 Form 10-K for the year ended December 31, 2023, which could materially and adversely affect the Company’s business, financial condition, results of operations and stock price. The risk factors disclosed in the 2023 Form 10-K are not the only risks facing the Company. Additional risks and uncertainties, including those not presently known to the Company or that the Company presently believes not to be material, could also materially and adversely affect the Company’s business, financial condition, and results of operations and stock price.

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

Issuer Purchases of Equity Securities				
Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
(July 1, 2024 - July 31, 2024)	0	\$ 0.00	0	\$ 0
(August 1, 2024 - August 31, 2024)	670,460	\$ 41.75	670,460	\$ 71,908,056
(September 1, 2024 - September 30, 2024)	162,000	\$ 43.07	162,000	\$ 64,930,708
Total	832,460	\$ 42.00	832,460	\$ 64,930,708

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

+ Filed herewith.

++ Furnished herewith.

* Filed electronically herewith.

SIGNATURES

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

Cathay General Bancorp
(Registrant)

Date: November 8, 2024

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

Date: November 8, 2024

/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, 2024

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, 2024

**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, 2024 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, 2024

**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, 2024 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, 2024