CATHAY GENERAL BANCORP
Form 10-Q
May 08, 2014
UNITED STATES

securities and exchange commission

Washington, D.C. 20549

form 10-q

(Mark One)

[X] quarterly report pursuant to section 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2014

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 0-18630

CATHAY GENERAL BANCORP
(Exact name of registrant as specified in its charter)

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

Registrant's telephone number, including area code: (213) 625-4700

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

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

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

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

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

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

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

Common stock, $.01 par value, 79,619,641 shares outstanding as of April 30, 2014.

CATHAY GENERAL BANCORP AND SUBSIDIARies

1ST quarter 2014 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, investment and expenditure plans, financing needs and availability, and other similar forecasts and statements of expectation and statements of assumptions underlying any of the foregoing. Words such as “aims,” “anticipates,” “believes,” “can,” “continue,” “could,” “estimates,” “expects,” “hopes,” “i
“optimistic,” “plans,” “potential,” “possible,” “predicts,” “projects,” “seeks,” “shall,” “should,” “will,” and variations of these v
similar expressions are intended to identify these forward-looking statements. Forward-looking statements by us are based on estimates, beliefs, projections, and assumptions of management and are not guarantees of future performance. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or projections. Such risks and uncertainties and other factors include, but are not limited to, adverse developments or conditions related to or arising from:

U.S. and international business and economic conditions;

possible additional provisions for loan losses and charge-offs;

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

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

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

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

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

potential goodwill impairment;

liquidity risk;

fluctuations in interest rates;

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

inflation and deflation;

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

environmental liabilities;

our ability to compete with larger competitors;

our ability to retain key personnel;

successful management of reputational risk;

natural disasters and geopolitical events;

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

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

our ability to adapt our systems to technological changes;

risk management processes and strategies;

adverse results in legal proceedings;

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

changes in accounting standards or tax laws and regulations;

market disruption and volatility;

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

issuance of preferred stock;

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

the soundness of other financial institutions.

These and other factors are further described in Bancorp’s Annual Report on Form 10-K for the year ended December 31, 2013 (Item 1A in particular), other reports and registration statements filed with the Securities and Exchange Commission (“SEC”), and other filings it makes with the SEC from time to time. Actual results in any future period may also vary from the past results discussed in this report. Given these risks and uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements, which speak to the date of this report. We have no intention and undertake no obligation to update any forward-looking statement or to publicly announce any revision of any forward-looking statement to reflect future developments or events, except as required by law.

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) 279-3286.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

CATHAY GENERAL BANCORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share and per share data)	March 31, 2014	December 31, 2013
Assets		
Cash and due from banks	$161,657	$153,747
Short-term investments and interest bearing deposits	620,306	516,938
Securities available-for-sale (amortized cost of $1,617,014 in 2014 and $1,637,965 in 2013)	1,578,897	1,586,668
Trading securities	-	4,936
Loans	8,302,282	8,084,563
Less: Allowance for loan losses	(169,138)	(173,889)
Unamortized deferred loan fees, net	(12,936)	(13,487)
Loans, net	8,120,208	7,897,187
Federal Home Loan Bank stock	29,901	25,000
Other real estate owned, net	44,853	52,985
Affordable housing investments, net	89,303	84,108
Premises and equipment, net	102,340	102,045
Customers’ liability on acceptances	23,677	32,194
Accrued interest receivable	25,237	24,274
Goodwill	316,340	316,340
Other intangible assets, net	2,051	2,230
Other assets	176,418	190,634
Total assets	$11,291,188	$10,989,286
Liabilities and Stockholders’ Equity		
Deposits		
Non-interest-bearing demand deposits	$1,488,720	$1,441,858
Interest-bearing deposits:		
NOW deposits	692,925	683,873
Money market deposits	1,261,419	1,286,338
Savings deposits	523,950	499,520
Time deposits under $100,000	1,076,329	931,204
Time deposits of $100,000 or more	3,189,282	3,138,512

Total deposits	8,232,625	7,981,305
Securities sold under agreements to repurchase	700,000	800,000
Advances from the Federal Home Loan Bank	636,200	521,200
Other borrowings for affordable housing investments	19,025	19,062
Long-term debt	121,136	121,136
Acceptances outstanding	23,677	32,194
Other liabilities	64,124	55,418
Total liabilities	9,796,787	9,530,315
Commitments and contingencies	-	-
Stockholders' Equity		
Common stock, $0.01 par value, 100,000,000 shares authorized, 83,827,123 issued and 79,619,558 outstanding at March 31, 2014, and 83,797,434 issued and 79,589,869 outstanding at December 31, 2013	838	838
Additional paid-in-capital	785,001	784,489
Accumulated other comprehensive loss, net	(22,090)	(29,729)
Retained earnings	856,388	829,109
Treasury stock, at cost (4,207,565 shares at March 31, 2014, and at December 31, 2013)	(125,736)	(125,736)
Total equity	1,494,401	1,458,971
Total liabilities and equity	$11,291,188	$10,989,286

See accompanying notes to unaudited condensed consolidated financial statements

CATHAY GENERAL BANCORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND

COMPREHENSIVE INCOME

(Unaudited)

	Three months ended March 31,	
	2014	2013
	(In thousands, except share and per share data)	
Interest and Dividend Income		
Loans receivable, including loan fees	$92,732	$88,840
Investment securities- taxable	7,576	11,786
Investment securities- nontaxable	-	967
Federal Home Loan Bank stock	450	250
Deposits with banks	449	208
Total interest and dividend income	101,207	102,051
Interest Expense		
Time deposits of $100,000 or more	6,664	6,757
Other deposits	4,028	2,766
Securities sold under agreements to repurchase	6,930	11,392
Advances from Federal Home Loan Bank	199	80
Long-term debt	728	924
Total interest expense	18,549	21,919
Net interest income before provision for credit losses	82,658	80,132
Provision for loan losses	-	-
Net interest income after provision for loan losses	82,658	80,132
Non-Interest Income		
Securities gains, net	5,960	6,292
Letters of credit commissions	1,468	1,461
Depository service fees	1,363	1,474
Other operating income	5,768	5,654
Total non-interest income	14,559	14,881
Non-interest Expense		
Salaries and employee benefits	23,451	22,853
Occupancy expense	3,862	3,644
Computer and equipment expense	2,302	2,676
Professional services expense	5,156	5,817
FDIC and State assessments	2,154	1,738
Marketing expense	564	437

Other real estate owned expense	759	623
Operations of affordable housing investments, net	2,436	1,695
Amortization of core deposit intangibles	172	1,396
Costs associated with debt redemption	3,376	5,645
Other operating expense	3,836	2,604
Total non-interest expense	48,068	49,128
Income before income tax expense	49,149	45,885
Income tax expense	17,890	16,887
Net income	31,259	28,998
Less: net income attributable to noncontrolling interest	-	151
Net income attributable to Cathay General Bancorp	31,259	28,847
Dividends on preferred stock and noncash charge from repayment	-	(5,184)
Net income attributable to common stockholders	31,259	23,663
Other comprehensive income, net of tax		
Unrealized holding gain arising during the period	11,094	26,659
Less: reclassification adjustments included in net income	3,455	3,647
Total other comprehensive gain, net of tax	7,639	23,012
Total comprehensive income	$38,898	$51,859
Net income per common share:		
Basic	$0.39	$0.30
Diluted	$0.39	$0.30
Cash dividends paid per common share	$0.05	$0.01
Average common shares outstanding		
Basic	79,595,757	78,795,564
Diluted	80,039,382	78,815,141

See accompanying notes to unaudited condensed consolidated financial statements.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three months ended March 31	
	2014	**2013**
	(In thousands)	
Cash Flows from Operating Activities		
Net income	$31,259	$28,998
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Provision/(credit) for losses on other real estate owned	617	(37)
Deferred tax liabilities	6,012	6,227
Depreciation	1,742	1,527
Net (gains)/losses on sale and transfer of other real estate owned	(559)	44
Net gains on sale of loans	(128)	(567)
Proceeds from sales of loans	4,525	23,672
Originations of loans held-for-sale	(4,397)	(23,105)
Net change in trading securities	4,936	(55)
Write-downs on venture capital investments	75	92
Gain on sales and calls of securities	(5,960)	(6,292)
Amortization/accretion of security premiums/discounts, net	867	1,114
Amortization of other intangible assets	196	1,428
Excess tax short-fall from share-based payment arrangements	1,227	69
Stock based compensation and stock issued to officers as compensation	1,353	1,037
Net change in accrued interest receivable and other assets	3,285	4,081
Net change in other liabilities	1,374	1,612
Net cash provided by operating activities	46,424	39,845
Cash Flows from Investing Activities		
(Increase)/decrease in short-term investments	(103,368)	196,189
Purchase of investment securities available-for-sale	(246,498)	(508,865)
Proceeds from sale of investment securities available-for-sale	139,671	320,234
Proceeds from repayments, maturities and calls of investment securities available-for-sale	133,369	57,495
Proceeds from repayments, maturities and calls of investment securities held-to-maturity	-	50,973
(Purchase)/redemption of Federal Home Loan Bank stock	(4,901)	4,142
Net (increase)/decrease in loans	(220,402)	61,833
Purchase of premises and equipment	(2,081)	(1,014)
Proceeds from sale of other real estate owned	6,379	1,351
Net increase in investment in affordable housing	(1,894)	(1,614)
Net cash (used in)/provided by investing activities	(299,725)	180,724
Cash Flows from Financing Activities		
Net increase in deposits	251,032	42,362
Net decrease in federal funds purchased and securities sold under agreements to repurchase	(100,000)	(100,000)

Advances from Federal Home Loan Bank	5,127,400	298,020
Repayment of Federal Home Loan Bank borrowings	(5,012,400)	(317,500)
Cash dividends paid	(3,980)	(3,828)
Redemption of series B preferred stock	-	(129,000)
Proceeds from shares issued under Dividend Reinvestment Plan	386	62
Excess tax short-fall from share-based payment arrangements	(1,227)	(69)
Net cash provided by/(used in) financing activities	261,211	(209,953)
Increase in cash and cash equivalents	7,910	10,616
Cash and cash equivalents, beginning of the period	153,747	144,909
Cash and cash equivalents, end of the period	$161,657	$155,525
Supplemental disclosure of cash flow information		
Cash paid during the period:		
Interest	$19,533	$22,827
Income tax	$12,444	$8,562
Non-cash investing and financing activities:		
Net change in unrealized holding gain on securities available-for-sale, net of tax	$7,639	$23,012
Transfers investment securities to available-for-sale from held-to-maturity	$-	$722,466
Transfers to other real estate owned from loans held for investment	$-	$366
Loans to facilitate the sale of other real estate owned	$-	$75

See accompanying notes to unaudited condensed consolidated financial statements.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Business

Cathay General Bancorp ("Bancorp") is the holding company for Cathay Bank (the "Bank" and, together, the "Company"), six limited partnerships investing in affordable housing investments in which the Bank is the sole limited partner, and GBC Venture Capital, Inc. The 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 March 31, 2014, the Bank operated 21 branches in Southern California, 11 branches in Northern California, nine branches in New York State, three branches in Illinois, three branches in Washington State, two branches in Texas, one branch in Massachusetts, one branch in New Jersey, one branch in Nevada, one branch in Hong Kong, and a representative office in Shanghai and in Taipei. Deposit accounts at the Hong Kong branch are not insured by the Federal Deposit Insurance Corporation (the "FDIC").

2. Basis of Presentation

The accompanying unaudited condensed 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 of 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, 2014. 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, 2013.

The preparation of the condensed consolidated financial statements in accordance with GAAP requires management of the Company to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. The most significant estimates subject to change are the allowance for loan losses, goodwill impairment, and other-than-temporary impairment.

3. Recent Accounting Pronouncements

In January 2014, the FASB issued ASU 2014-01, "*Investments— Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects*." ASU No. 2014-01 permits a reporting entity to make an accounting policy election to account for their investments in affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the amount of tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense or benefit. ASU 2014-01 becomes effective for interim and annual periods beginning on or after December 15, 2014. The Company is evaluating whether to adopt ASU 2014-01 or to continue to apply the equity method of accounting for investments in affordable housing projects.

In January 2014, the FASB issued ASU 2014-04, "*Receivables— Trouble Debt Restructurings by Creditors*." ASU No. 2014-04 clarifies that upon either the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement, a creditor is considered to have physical possession of residential real estate property collateralizing a consumer mortgage loan. A reporting entity is required to have interim and annual disclosure of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in process of foreclosure. ASU 2014-04 becomes effective for interim and annual periods beginning on or after December 15, 2014. Adoption of ASU 2014-04 is not expected to have a significant impact on the Company's consolidated financial statements.

In April 2014, the FASB issued ASU 2014-08, "*Presentation of Financial Statements and Property, Plant, and Equipment*." ASU No. 2014-08 defines a discontinued operation as disposal of components of an entity that represent a strategic shift that has or will have a major effect on an entity's operations. ASU No. 2014-08 also requires a reporting entity to present the assets and liabilities of a disposal group that includes a discontinued operation separately in the asset and liability sections, respectively, of the statement of financial position for each comparative period. ASU 2014-08 becomes effective for interim and annual periods beginning on or after December 15, 2014. Adoption of ASU 2014-08 is not expected to have a significant impact on the Company's consolidated financial statements.

4. Earnings per Share

Basic earnings per share exclude 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 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.

Outstanding stock options 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 March 31,	
(Dollars in thousands, except share and per share data)	2014	2013
Net income attributable to Cathay General Bancorp	$31,259	$28,847
Dividends on preferred stock and noncash charge from repayment	-	(5,184)
Net income available to common stockholders	$31,259	$23,663
Weighted-average shares:		
Basic weighted-average number of common shares outstanding	79,595,757	78,795,564
Dilutive effect of weighted-average outstanding common share equivalents		
Warrants	298,535	-
Options	101,698	-
Restricted stock units	43,392	19,577
Diluted weighted-average number of common shares outstanding	80,039,382	78,815,141
Average stock options and warrants with anti-dilutive effect	1,985,848	5,630,813
Earnings per common share:		
Basic	$0.39	$0.30
Diluted	$0.39	$0.30

5. Stock-Based Compensation

Under the Company’s equity incentive plans, directors and eligible employees may be granted incentive or non-statutory stock options and/or restricted stock units, or awarded non-vested stock. As of March 31, 2014, the only options granted by the Company were non-statutory stock options to selected Bank officers and non-employee directors at exercise prices equal to the fair market value of a share of the Company’s common stock on the date of grant. Such options have a maximum ten-year term and vest in 20% annual increments (subject to early termination in certain events) except certain options granted to the Chief Executive Officer of the Company in 2005 and 2008. If such options expire or terminate without having been exercised, any shares not purchased will again be available for future grants or awards. There were no options granted during the first quarter of 2014 or the year ended December 31, 2013.

Option compensation expense was zero for the three months ended March 31, 2014, and $129,000 for the three months ended March 31, 2013. Stock-based compensation is recognized ratably over the requisite service period for all awards.

No stock options were exercised in the first quarter of 2014 or in the first quarter of 2013. The table below summarizes stock option activity for the periods indicated:

	Shares	**Weighted-average exercise price**	**Weighted-average remaining contractual life (in years)**	**Aggregate intrinsic value (in thousands)**
Balance, December 31, 2013	2,812,874	$ 31.81	1.9	$ 2,119
Forfeited	(438,000)	28.70		
Balance, March 31, 2014	2,374,874	$ 32.38	2.0	$ 1,148
Exercisable, March 31, 2014	2,374,874	$ 32.38	2.0	$ 1,148

At March 31, 2014, 3,073,452 shares were available under the Company's 2005 Incentive Plan for future grants.

The Company granted restricted stock units for 4,812 shares at an average closing price of $25.55 per share on March 13, 2014, and 25,037 shares at an average closing price of $20.68 per share in 2013. The restricted stock units granted in 2014 and 2013 are scheduled to vest two years from grant date.

The following table presents information relating to the restricted stock units as of March 31, 2014:

	Units
Balance at December 31, 2013	143,433
Granted	4,812
Balance at March 31, 2014	148,245

The compensation expense related to the restricted stock units was $1.0 million for the three months ended March 31, 2014, compared to $609,000 for the three months ended March 31, 2013. Unrecognized stock-based compensation expense related to restricted stock units was $6.3 million at March 31, 2014, and is expected to be recognized over the next 2.5 years. In the first quarter of 2014, the Company granted 13,690 shares to directors of the Company and recorded compensation expenses of $350,000.

In December 2013, the Company granted performance share units in which the number of units earned is calculated based on the relative total shareholder return ("TSR") of the Company's common stock as compared to the TSR of the KBW Regional Banking Index. In addition, the Company granted performance share units in which the number of units earned is determined by comparison to the targeted earnings per share ("EPS share") for the three years ending December 31, 2016. Performance TSR restricted stock units for 119,840 shares and performance EPS restricted stock units for 116,186 shares were granted to eight executive officers. Both the performance TSR and performance EPS share units are scheduled to vest at December 31, 2016. In the first quarter of 2014, the Company did not grant any performance share units.

The following table summarizes the tax short-fall from share-based payment arrangements:

	Three months ended March 31,

(Dollars in thousands)	2014	2013
Short-fall of tax deductions in excess of grant-date fair value	$(1,227)	$(69)
Benefit of tax deductions on grant-date fair value	1,227	596
Total benefit of tax deductions	$-	$527

6. Investment Securities

Investment securities were $1.58 billion at March 31, 2014, compared to $1.59 billion at December 31, 2013. During the first quarter of 2013, due to the ongoing discussions regarding corporate income tax rates which could have a negative impact on the after-tax yields and fair values of the Company's portfolio of municipal securities, the Company determined it may sell such securities in response to market conditions. As a result, the Company reclassified its municipal securities from securities held-to-maturity to securities available-for-sale. Concurrent with this reclassification, the Company also reclassified all other securities held-to-maturity, which together with the municipal securities had an amortized cost on the date of transfer of $722.5 million, to securities available-for-sale. At the reclassification date, a net unrealized gain was recorded in other comprehensive income for these securities totaling $40.5 million.

The following tables reflect the amortized cost, gross unrealized gains, gross unrealized losses, and fair value of investment securities as of March 31, 2014, and December 31, 2013:

	March 31, 2014			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
	(In thousands)			
Securities Available-for-Sale				
U.S. treasury securities	$475,139	$ 120	$ -	$475,259
Mortgage-backed securities	969,042	1,860	49,749	921,153
Collateralized mortgage obligations	82	-	39	43
Corporate debt securities	165,716	423	3,458	162,681
Mutual funds	6,000	-	243	5,757
Preferred stock of government sponsored entities	535	12,909	-	13,444
Other equity securities	500	60	-	560
Total securities available-for-sale	$1,617,014	$ 15,372	$ 53,489	$1,578,897
Total investment securities	$1,617,014	$ 15,372	$ 53,489	$1,578,897

	December 31, 2013			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
	(In thousands)			
Securities Available-for-Sale				
U.S. treasury securities	$460,095	$ 99	$ 1	$460,193

Mortgage-backed securities	1,010,294	7,049	64,529	952,814
Collateralized mortgage obligations	5,929	231	54	6,106
Asset-backed securities	123	-	-	123
Corporate debt securities	154,955	298	4,949	150,304
Mutual funds	6,000	-	275	5,725
Preferred stock of government sponsored entities	569	10,834	-	11,403
Total securities available-for-sale	$1,637,965	$ 18,511	$ 69,808	$1,586,668
Total investment securities	$1,637,965	$ 18,511	$ 69,808	$1,586,668

The amortized cost and fair value of investment securities at March 31, 2014, by contractual maturities, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or repayment penalties.

	Securities available-for-sale	
	Amortized cost	Fair value
	(In thousands)	
Due in one year or less	$385,848	$385,941
Due after one year through five years	178,382	179,513
Due after five years through ten years	100,805	98,143
Due after ten years (1)	951,979	915,300
Total	$1,617,014	$1,578,897

(1) Equity securities are reported in this category

Proceeds from sales of mortgage-backed securities were $123.7 million and from repayments, maturities and calls of mortgage-backed securities were $20.5 million during the first quarter of 2014 compared to no proceeds from sales and proceeds of $98.4 million from repayments, maturities, and calls during the same period a year ago. Proceeds from sales of other investment securities were $16.0 million during the first quarter of 2014 compared to $320.2 million during the same period a year ago. Proceeds from maturities and calls of other investment securities were $112.9 million during the first quarter of 2014 compared to $10.1 million during the same period a year ago. Gains of $6.0 million and losses of $67,000 were realized on sales and calls of investment securities during the first quarter of 2014 compared to gains of $6.3 million and no losses realized during the same period a year ago.

At March 31, 2014, all of the Company’s mortgage-backed securities were rated as investment grade except for one non-agency issue. Total unrealized losses of $49.7 million from all mortgage-backed securities resulted from increases in interest rates subsequent to the date that these securities were purchased. The Company’s unrealized loss on investments in corporate bonds relates to nine issues of investments in bonds of financial institutions, all of which were investment grade at the date of acquisition and as of March 31, 2014. The unrealized losses were primarily caused by the widening of credit and liquidity spreads since the dates of acquisition. The contractual terms of those investments do not permit the issuers to settle the security at a price less than the amortized cost of the investment. The Company currently does not believe it is probable that it will be unable to collect all amounts due according to the contractual terms of the investments. Therefore, it is expected that these mortgage-backed securities and corporate bonds would not be settled at a price less than the amortized cost of the investment. Because the Company does not intend to sell and would not be required to sell these investments until a recovery of fair value, which may be maturity, it does not consider its investments in these mortgaged-backed securities and corporate bonds to be other-than-temporarily impaired at March 31, 2014.

The temporarily impaired securities represent 64.4% of the fair value of investment securities as of March 31, 2014. Unrealized losses for securities with unrealized losses for less than twelve months represent 5.2%, and securities with unrealized losses for twelve months or more represent 3.5%, of the historical cost of these securities. Unrealized losses on these securities generally resulted from increases in interest rates or spreads subsequent to the date that these securities were purchased.

At March 31, 2014, management believed the impairment was temporary and, accordingly, no impairment loss has been recognized in our condensed consolidated statements of operations. The Company expects to recover the amortized cost basis of its debt securities, and has no intent to sell and will not be required to sell available-for-sale debt securities that have declined below their cost before their anticipated recovery.

The tables below show the fair value and unrealized losses of the temporarily impaired securities in our investment securities portfolio as of March 31, 2014, and December 31, 2013:

	March 31, 2014					
	Temporarily impaired securities					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)					
Securities Available-for-Sale						
Mortgage-backed securities	$888,606	$ 49,748	$151	$ 1	$888,757	$ 49,749
Collateralized mortgage obligations	-	-	43	39	43	39
Corporate debt securities	25,778	2	96,544	3,456	122,322	3,458
Mutual funds	-	-	5,757	243	5,757	243
Total securities available-for-sale	$914,384	$ 49,750	$102,495	$ 3,739	$1,016,879	$ 53,489
Total investment securities	$914,384	$ 49,750	$102,495	$ 3,739	$1,016,879	$ 53,489

	December 31, 2013					
	Temporarily impaired securities					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)					
Securities Available-for-Sale						
U.S. treasury securities	$75,064	$ 1	$-	$ -	$75,064	$ 1
Mortgage-backed securities	792,012	64,526	272	2	792,284	64,528
Mortgage-backed securities-Non-agency	94	1	-	-	94	1
Collateralized mortgage obligations	68	4	301	50	369	54
Corporate debt securities	9,970	30	100,081	4,919	110,051	4,949
Mutual funds	-	-	5,724	275	5,724	275
Total securities available-for-sale	$877,208	$ 64,562	$106,378	$ 5,246	$983,586	$ 69,808
Total investment securities	$877,208	$ 64,562	$106,378	$ 5,246	$983,586	$ 69,808

Investment securities having a carrying value of $853.6 million at March 31, 2014, and $926.5 million at December 31, 2013, were pledged to secure public deposits, other borrowings, treasury tax and loan, Federal Home Loan Bank advances, securities sold under agreements to repurchase, interest rate swaps, and foreign exchange transactions.

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7. Loans

Most of the Company's business activity is with Asian customers located in Southern and Northern California; New York City, New York; Houston and Dallas, Texas; Seattle, Washington; Boston, Massachusetts; Chicago, Illinois; Edison, New Jersey; Las Vegas, Nevada, and Hong Kong. The Company has no specific industry concentration, and generally its loans are secured by real property or other collateral of the borrowers. Loans are generally expected 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 components of loans in the condensed consolidated balance sheets as of March 31, 2014, and December 31, 2013, were as follows:

	March 31, 2014	**December 31, 2013**
	(In thousands)	
Type of Loans:		
Commercial loans	$2,229,880	$2,298,724
Residential mortgage loans	1,441,230	1,355,255
Commercial mortgage loans	4,192,987	4,023,051
Equity lines	172,395	171,277
Real estate construction loans	253,832	221,701
Installment and other loans	11,958	14,555
Gross loans	8,302,282	8,084,563
Less:		
Allowance for loan losses	(169,138)	(173,889)
Unamortized deferred loan fees	(12,936)	(13,487)
Total loans, net	$8,120,208	$7,897,187

At March 31, 2014, recorded investment in impaired loans totaled $189.3 million and was comprised of non-accrual loans of $70.4 million and accruing troubled debt restructured ("TDR") loans of $118.9 million. At December 31, 2013, recorded investment in impaired loans totaled $200.8 million and was comprised of non-accrual loans of $83.2 million and accruing TDRs of $117.6 million. For impaired loans, the amounts previously charged off represent 15.0% at March 31, 2014, and 23.9% at December 31, 2013, of the contractual balances for impaired loans. The following table presents the average balance and interest income recognized related to impaired loans for the periods indicated:

	Impaired Loans	
	Average Recorded Investment	**Interest Income Recognized**

	Three months ended		Three months ended	
	March 31,		March 31,	
	2014	2013	2014	2013
	(In thousands)			
Commercial loans	$30,844	$22,126	$226	$183
Real estate construction loans	34,060	42,068	65	66
Commercial mortgage loans	111,305	162,257	1,134	1,562
Residential mortgage and equity lines	19,156	17,797	95	84
Total	$195,365	$244,248	$1,520	$1,895

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

	Impaired Loans March 31, 2014			**December 31, 2013**		
	Unpaid Principal Balance	**Recorded Investment**	**Allowance**	**Unpaid Principal Balance**	**Recorded Investment**	**Allowance**
	(In thousands)					
With no allocated allowance						
Commercial loans	$14,001	$ 11,914	$ -	$20,992	$ 18,905	$ -
Real estate construction loans	25,157	14,854	-	25,401	15,097	-
Commercial mortgage loans	73,274	71,934	-	105,593	78,930	-
Residential mortgage loans and equity lines	4,876	4,876	-	4,892	4,892	-
Subtotal	$117,308	$ 103,578	$ -	$156,878	$ 117,824	$ -
With allocated allowance						
Commercial loans	$27,772	$ 18,099	$ 4,663	$22,737	$ 13,063	$ 2,519
Real estate construction loans	28,158	19,005	3,129	28,475	19,323	3,460
Commercial mortgage loans	35,363	34,979	6,165	39,223	35,613	6,584
Residential mortgage loans and equity lines	14,083	13,650	538	16,535	14,957	721
Subtotal	$105,376	$ 85,733	$ 14,495	$106,970	$ 82,956	$ 13,284
Total impaired loans	$222,684	$ 189,311	$ 14,495	$263,848	$ 200,780	$ 13,284

The following table presents the aging of the loan portfolio by type as of March 31, 2014, and as of December 31, 2013:

	March 31, 2014						
	30-59 Days Past Due	**60-89 Days Past Due**	**90 Days or More Past Due**	**Non-accrual Loans**	**Total Past Due**	**Loans Not Past Due**	**Total**
Type of Loans:	**(In thousands)**						
Commercial loans	$11,386	$610	$ -	$ 13,806	$25,802	$2,204,078	$2,229,880
Real estate construction loans	3,140	-	-	28,042	31,182	222,650	253,832
Commercial mortgage loans	62,014	-	974	17,042	80,030	4,112,957	4,192,987
Residential mortgage loans and equity lines	5,881	-	-	11,498	17,379	1,596,246	1,613,625
Installment and other loans	-	-	-	-	-	11,958	11,958
Total loans	$82,421	$610	$974	$ 70,388	$154,393	$8,147,889	$8,302,282

	December 31, 2013						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Non-accrual Loans	Total Past Due	Loans Not Past Due	Total
Type of Loans:	(In thousands)						
Commercial loans	$7,170	$16,562	$ -	$ 21,232	$44,964	$2,253,760	$2,298,724
Real estate construction loans	-	-	-	28,586	28,586	193,115	221,701
Commercial mortgage loans	20,043	7,862	982	19,621	48,508	3,974,543	4,023,051
Residential mortgage loans and equity lines	3,508	832	-	13,744	18,084	1,508,448	1,526,532
Installment and other loans	100	-	-	-	100	14,455	14,555
Total loans	$30,821	$25,256	$ 982	$ 83,183	$140,242	$7,944,321	$8,084,563

The determination of the amount of the allowance for credit losses for impaired loans is based on management's current judgment about the credit quality of the loan portfolio and takes into consideration known relevant internal and external factors that affect collectability when determining the appropriate level for the allowance for credit losses. The nature of the process by which the Bank determines the appropriate allowance for credit losses requires the exercise of considerable judgment. This allowance evaluation process is also applied to troubled debt restructurings since they are considered to be impaired loans.

A troubled debt restructuring is a formal modification of the terms of a loan when the lender, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower. The concessions may be granted in various forms, including a change in the stated interest rate, a reduction in the loan balance or accrued interest, or an extension of the maturity date that causes significant delay in payment.

TDRs on accrual status are comprised of the loans that have, pursuant to the Bank's policy, performed under the restructured terms and have demonstrated sustained performance under the modified terms for nine months before being returned to accrual status. The sustained performance considered by management pursuant to its policy includes the periods prior to the modification if the prior performance met or exceeded the modified terms. This would include cash paid by the borrower prior to the restructure to set up interest reserves.

At March 31, 2014, accruing TDRs were $118.9 million and non-accrual TDRs were $37.8 million compared to accruing TDRs of $117.6 million and non-accrual TDRs of $38.8 million at December 31, 2013. The Company allocated specific reserves of $7.3 million to accruing TDRs and $1.8 million to non-accrual TDRs at March 31, 2014, and $6.9 million to accruing TDRs and $2.2 million to non-accrual TDRs at December 31, 2013. The following tables present TDRs that were modified during the first quarter of 2014 and 2013, their specific reserve at March 31, 2014, and charge-offs during the first quarter of 2014 and 2013:

	Three months ended March 31, 2014				**March 31, 2014**
	No. of Contracts	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**	**Charge-offs**	**Specific Reserve**
	(Dollars in thousands)				
Commercial loans	2	$ 8,243	$ 8,243	$ -	$ 1,035
Residential mortgage loans and equity lines	2	671	671	-	36
Total	4	$ 8,914	$ 8,914	$ -	$ 1,071

	Three months ended March 31, 2013				**March 31, 2013**
	No. of Contracts	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**	**Charge-offs**	**Specific Reserve**
	(Dollars in thousands)				
Commercial loans	4	$ 4,007	$ 4,007	$ -	$ 61
Commercial mortgage loans	2	1,175	1,175	-	10
Residential mortgage loans and equity lines	6	1,696	1,696	-	265

Total	12	$ 6,878	$ 6,878	$ -	$ 336

Modifications of the loan terms during the first quarter of 2014 were in the form of changes in the stated interest rate, and in payment terms to interest only from principal and interest or reduction in monthly payment amount, multiple note structure, and waiver of late charges and collection fees. The length of time for which modifications involving a reduction of the stated interest rate or changes in payment terms that were documented ranged from twelve months to three years from the modification date.

We expect that the TDR loans on accruing status as of March 31, 2014, which were all performing in accordance with their restructured terms, will continue to comply with the restructured terms because of the reduced principal or interest payments on these loans. A summary of TDRs by type of concession and by type of loan, as of March 31, 2014, and December 31, 2013, is shown below:

	March 31, 2014			
Accruing TDRs	**Principal Deferral**	**Rate Reduction**	**Rate Reduction and Payment Deferral**	**Total**
	(In thousands)			
Commercial loans	$12,047	$ 1,594	$ 2,566	$16,207
Real estate construction loans	-	-	5,817	5,817
Commercial mortgage loans	11,708	8,330	69,832	89,870
Residential mortgage loans	2,513	1,021	3,494	7,028
Total accruing TDRs	$26,268	$ 10,945	$ 81,709	$118,922

	March 31, 2014				
Non-accrual TDRs	**Interest Deferral**	**Principal Deferral**	**Rate Reduction and Forgiveness of Principal**	**Rate Reduction and Payment Deferral**	**Total**
	(In thousands)				
Commercial loans	$-	$2,867	$ 1,307	$ -	$4,174
Real estate construction loans	-	15,692	-	9,037	24,729
Commercial mortgage loans	1,407	2,153	-	1,843	5,403
Residential mortgage loans	231	1,681	219	1,360	3,491
Total non-accrual TDRs	$1,638	$22,393	$ 1,526	$ 12,240	$37,797

	December 31, 2013			
Accruing TDRs	**Principal Deferral**	**Rate Reduction**	**Rate Reduction and Payment Deferral**	**Total**
	(In thousands)			
Commercial loans	$9,112	$ 2,916	$ 2,708	$14,736
Real estate construction loans	-	-	5,834	5,834
Commercial mortgage loans	11,333	9,389	70,200	90,922
Residential mortgage loans	1,564	1,024	3,517	6,105
Total accruing TDRs	$22,009	$ 13,329	$ 82,259	$117,597

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Non-accrual TDRs	December 31, 2013 Interest Deferral	Principal Deferral	Rate Reduction and Forgiveness of Principal	Rate Reduction and Payment Deferral	Total
	(In thousands)				
Commercial loans	$ -	$ 2,866	$ 1,352	$ -	$ 4,218
Real estate construction loans	-	16,009	-	9,263	25,272
Commercial mortgage loans	1,443	2,168	-	1,843	5,454
Residential mortgage loans	241	2,206	-	1,378	3,825
Total non-accrual TDRs	$ 1,684	$ 23,249	$ 1,352	$ 12,484	$ 38,769

The activity within our TDR loans for the periods indicated are shown below:

Accruing TDRs	Three months ended March 31, 2014	2013
	(In thousands)	
Beginning balance	$ 117,597	$ 144,695
New restructurings	7,375	4,816
Restructured loans restored to accrual status	962	630
Payments	(7,012)	(17,892)
Restructured loans placed on nonaccrual	-	(2,034)
Ending balance	$ 118,922	$ 130,215

Non-accrual TDRs	Three months ended March 31, 2014	2013
	(In thousands)	
Beginning balance	$ 38,769	$ 47,731
New restructurings	1,539	2,062
Restructured loans placed on nonaccrual	-	2,034
Charge-offs	(4)	(679)
Payments	(1,545)	(640)
Restructured loans restored to accrual status	(962)	(630)
Ending balance	$ 37,797	$ 49,878

A loan is considered to be in payment default once it is 60 to 90 days contractually past due under the modified terms. The Company did not have any loans that were modified as TDRs during the previous twelve months and which subsequently defaulted as of March 31, 2014.

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 March 31, 2014, there were no commitments to lend additional funds to those borrowers whose loans have been restructured, were considered impaired, or were on non-accrual status.

As part of the on-going monitoring of the credit quality of our loan portfolio, the Company utilizes a risk grading matrix to assign a risk grade to each loan. The risk rating categories can be generally described by the following grouping for non-homogeneous loans:

Pass/Watch – These loans range from minimal credit risk to lower than average, but still acceptable, credit risk.

Special Mention – Borrower is fundamentally sound and loan is currently protected but adverse trends are apparent that, if not corrected, may affect ability to repay. Primary source of loan repayment remains viable but there is increasing reliance on collateral or guarantor support.

Substandard – These loans are inadequately protected by current sound net worth, paying capacity, or pledged collateral. Well-defined weaknesses exist that could jeopardize repayment of debt. Loss may not be imminent, but if weaknesses are not corrected, there is a good possibility of some loss.

Doubtful – The possibility of loss is extremely high, but due to identifiable and important pending events (which may strengthen the loan), a loss classification is deferred until the situation is better defined.

Loss – These loans are considered uncollectible and of such little value that to continue to carry the loan as an active asset is no longer warranted.

The following tables present loan portfolio by risk rating as of March 31, 2014, and as of December 31, 2013:

	March 31, 2014				
	Pass/Watch	**Special Mention**	**Substandard**	**Doubtful**	**Total**
	(in thousands)				
Commercial loans	$2,022,525	$111,451	$ 89,713	$ 6,191	$2,229,880
Real estate construction loans	213,529	4,062	32,928	3,313	253,832
Commercial mortgage loans	3,858,117	128,977	205,893	-	4,192,987
Residential mortgage loans and equity lines	1,599,979	244	13,402	-	1,613,625
Installment and other loans	11,958	-	-	-	11,958
Total gross loans	$7,706,108	$244,734	$ 341,936	$ 9,504	$8,302,282

	December 31, 2013				
	Pass/Watch	**Special Mention**	**Substandard**	**Doubtful**	**Total**
	(in thousands)				
Commercial loans	$2,108,191	$84,786	$ 102,088	$ 3,659	$2,298,724
Real estate construction loans	184,449	-	33,939	3,313	221,701
Commercial mortgage loans	3,686,788	127,436	208,827	-	4,023,051
Residential mortgage loans and equity lines	1,510,647	-	15,885	-	1,526,532

Installment and other loans	14,555	-	-	-	14,555
Total gross loans	$7,504,630	$212,222	$ 360,739	$ 6,972	$8,084,563

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

The following table presents the balance in the allowance for loan losses by portfolio segment and based on impairment method as of March 31, 2014, and as of December 31, 2013:

	Commercial Loans	Real Estate Construction Loans	Commercial Mortgage Loans	Residential Mortgage Loans and Equity Lines	Installment and Other Loans	Total
	(In thousands)					
March 31, 2014						
Loans individually evaluated for impairment						
Allowance	$4,663	$ 3,129	$6,165	$538	$ -	$14,495
Balance	$30,013	$ 33,859	$106,913	$18,526	$ -	$189,311
Loans collectively evaluated for impairment						
Allowance	$60,119	$ 7,497	$75,161	$11,839	$ 27	$154,643
Balance	$2,199,867	$ 219,973	$4,086,074	$1,595,099	$ 11,958	$8,112,971
Total allowance	$64,782	$ 10,626	$81,326	$12,377	$ 27	$169,138
Total balance	$2,229,880	$ 253,832	$4,192,987	$1,613,625	$ 11,958	$8,302,282
December 31, 2013						
Loans individually evaluated for impairment						
Allowance	$2,519	$ 3,460	$6,584	$721	$ -	$13,284
Balance	$31,968	$ 34,420	$114,544	$19,848	$ -	$200,780
Loans collectively evaluated for impairment						
Allowance	$62,584	$ 8,539	$78,169	$11,284	$ 29	$160,605
Balance	$2,266,756	$ 187,281	$3,908,507	$1,506,684	$ 14,555	$7,883,783
Total allowance	$65,103	$ 11,999	$84,753	$12,005	$ 29	$173,889
Total balance	$2,298,724	$ 221,701	$4,023,051	$1,526,532	$ 14,555	$8,084,563

The following table details activity in the allowance for loan losses by portfolio segment for the three months ended March 31, 2014, and March 31, 2013. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

	Commercial Loans	Real Estate Construction Loans	Commercial Mortgage Loans	Residential Mortgage Loans and Equity Lines	Installment and Other Loans	Total
	(In thousands)					
2014 Beginning Balance	$65,103	$ 11,999	$ 84,753	$ 12,005	$ 29	$173,889
Provision/(credit) for possible credit losses	4,888	(1,398)	(4,306)	447	(2)	(371)
Charge-offs	(7,226)	-	(1,698)	(78)	-	(9,002)
Recoveries	2,017	25	2,577	3	-	4,622
Net (charge-offs)/recoveries	(5,209)	25	879	(75)	-	(4,380)
March 31, 2014 Ending Balance	$64,782	$ 10,626	$ 81,326	$ 12,377	$ 27	$169,138
Reserve for impaired loans	$4,663	$ 3,129	$ 6,165	$ 538	$ -	$14,495
Reserve for non-impaired loans	$60,119	$ 7,497	$ 75,161	$ 11,839	$ 27	$154,643
Reserve for off-balance sheet credit commitments	$929	$ 326	$ 445	$ 33	$ 1	$1,734
2013 Beginning Balance	$66,101	$ 23,017	$ 82,473	$ 11,703	$ 28	$183,322
Provision/(credit) for possible credit losses	(3,310)	(2,399)	2,968	795	4	(1,942)
Charge-offs	(2,690)	-	(990)	(410)	-	(4,090)
Recoveries	955	79	365	3	-	1,402
Net (charge-offs)/recoveries	(1,735)	79	(625)	(407)	-	(2,688)
March 31, 2013 Ending Balance	$61,056	$ 20,697	$ 84,816	$ 12,091	$ 32	$178,692
Reserve for impaired loans	$1,717	$ 8,080	$ 6,242	$ 1,318	$ -	$17,357
Reserve for non-impaired loans	$59,339	$ 12,617	$ 78,574	$ 10,773	$ 32	$161,335
Reserve for off-balance sheet credit commitments	$837	$ 311	$ 2,122	$ 33	$ 2	$3,305

8. Commitments and Contingencies

The Company is involved in various litigation concerning transactions entered into in the normal course of business. Management, after consultation with legal counsel, does not believe that the resolution of such litigation will have a material effect upon its consolidated financial condition, results of operations, or liquidity taken as a whole. 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 becomes a party to financial instruments with off-balance sheet risk to meet the financing needs of its customers. These financial instruments include commitments to extend credit in the form of loans, or through commercial or standby letters of credit, and financial guarantees. These instruments represent varying degrees of exposure to risk in excess of the amounts included in the accompanying condensed 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.

9. Borrowed Funds

Securities Sold Under Agreements to Repurchase. Securities sold under agreements to repurchase were $700.0 million with a weighted average rate of 3.92% at March 31, 2014, compared to $800.0 million with a weighted average rate of 3.87% at December 31, 2013. In the first quarter of 2014, the Company prepaid securities sold under agreements to repurchase totaling $100 million with a weighted average rate of 3.50% and incurred prepayment penalties of $3.4 million. In 2013, the Company prepaid securities sold under agreements to repurchase totaling $450 million with a weighted average rate of 3.79% and incurred prepayment penalties of $22.6 million. Five floating-to-fixed rate agreements totaling $300.0 million have initial floating rates for a period of time ranging from six months to one year, with floating rates ranging from the three-month LIBOR rate minus 200 basis points to the three-month LIBOR rate minus 340 basis points. Thereafter, the rates are fixed for the remainder of the term, with interest rates ranging from 4.78% to 5.07%. After the initial floating rate term, the counter parties have the right to terminate the transaction at par at the fixed rate reset date and quarterly thereafter. Four fixed-to-floating rate agreements totaling $200.0 million have initial fixed rates ranging from 1.00% to 3.50% with initial fixed rate terms ranging from six months to 18 months. For the remaining term, the rates float at 8% minus the three-month LIBOR rate with a maximum rate ranging from 3.50% to 3.75% and a minimum rate of 0.0%. After the initial fixed rate term, the counter parties have the right to terminate the transaction at par at the floating rate reset date and quarterly thereafter. The table below provides summary data for the $500 million of callable securities sold under agreements to repurchase as of March 31, 2014:

(Dollars in millions)	Fixed-to-floating			Floating-to-fixed		Total
Rate type	Float Rate			Fixed Rate		
Rate index	8% minus 3 month LIBOR					
Maximum rate	3.75%	3.50 %	3.50%			
Minimum rate	0.0 %	0.0 %	0.0 %			
No. of agreements	1	2	1	1	4	9
Amount	$50.0	$100.0	$50.0	$100.0	$200.0	$500.0
Weighted average rate	3.75%	3.50 %	3.50%	4.78 %	5.00 %	4.38 %
Final maturity	2014	2014	2015	2014	2017	

The table below provides summary data for non-callable fixed rate securities sold under agreements to repurchase as of March 31, 2014:

Maturity	**No. of Agreements**	**Amount (In thousands)**	**Weighted Average Interest Rate**
1 year to 3 years	1	$ 50,000	2.69 %
3 years to 5 years	3	150,000	2.81 %
Total	4	$ 200,000	2.78 %

These transactions are accounted for as collateralized financing transactions and recorded at the amounts at which the securities were sold. The Company may have to provide additional collateral for the repurchase agreements, as necessary. The underlying collateral pledged for the repurchase agreements consists of U.S. Treasury securities, U.S. government agency securities, and mortgage-backed securities with a fair value of $808.0 million as of March 31, 2014, and $906.1 million as of December 31, 2013.