PROSPECT CAPITAL CORP
Form 497
August 05, 2013

The information in this preliminary pricing supplement is not complete and may be changed. This preliminary pricing supplement and the accompanying prospectus supplement and prospectus are not offers to sell these securities and are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to completion
Preliminary Pricing Supplement dated

August 5, 2013

Prospect Capital Corporation
Prospect Capital InterNotes®
5.000% Senior Notes due 2018 (the "2018 Notes")
5.500% Senior Notes due 2020 (the "2020 Notes")
6.000% Senior Notes due 2031 (the "2028 Notes")
6.500% Senior Notes due 2043 (the "2038 Notes"
and together with the 2018 Notes, the 2020 Notes and the 2028 Notes, the "Notes")

Filed under Rule 497, Registration Statement No. 333-183530

Preliminary Pricing Supplement Nos. 141,142,143 and 144 Dated Monday, August 5, 2013
(To: Prospectus Dated October 29, 2012, and Prospectus Supplement Dated May 8, 2013)

CUSIP Number	ISIN Number	Principal Amount	Selling Price	Gross Concession	Net Proceeds	Coupon Type	Coupon Rate	Coupon Frequency	Maturity Date	1st Coupon Date	1st Coupon Amount	Survivor's Option	Product Ranking
74348YFU0	US74348YFU01	$	100.000%	1.500%	$	Fixed	5.000%	Semi-Annual	8/15/2018	2/15/2014	$ 25.00	Yes	Senior Unsecured Notes

Redemption Information: Callable at 100.000% on 8/15/2014 and every coupon date thereafter.

CUSIP Number	ISIN Number	Principal Amount	Selling Price	Gross Concession	Net Proceeds	Coupon Type	Coupon Rate	Coupon Frequency	Maturity Date	1st Coupon Date	1st Coupon Amount	Survivor's Option	Product Ranking
74348YFV8	US74348YFV83	$	100.000%	1.750%	$	Fixed	5.500%	Semi-Annual	2/15/2020	2/15/2014	$ 27.50	Yes	Senior Unsecured Notes

Redemption Information: Callable at 100.000% on 8/15/2014 and every coupon date thereafter.

CUSIP Number	ISIN Number	Principal Amount	Selling Price	Gross Concession	Net Proceeds	Coupon Type	Coupon Rate	Coupon Frequency	Maturity Date	1st Coupon Date	1st Coupon Amount	Survivor's Option	Product Ranking
74348YFW6	US74348YFW66	$	100.000%	3.050%	$	Fixed	6.000%	Semi-Annual	8/15/2028	2/15/2014	$ 30.00	Yes	Senior Unsecured Notes

Redemption Information: Callable at 100.000% on 8/15/2015 and every coupon date thereafter.

CUSIP Number	ISIN Number	Principal Amount	Selling Price	Gross Concession	Net Proceeds	Coupon Type	Coupon Rate	Coupon Frequency	Maturity Date	1st Coupon Date	1st Coupon Amount	Survivor's Option	Product Ranking

74348YFX4	US74348YFX40	$	100.000%	3.650%	$	Fixed	6.500%	Semi-Annual	8/15/2038	2/15/2014	$ 32.50	Yes	Senior Unsecured Notes

Redemption Information: Callable at 100.000% on 8/15/2016 and every coupon date thereafter.

Trade Date: Monday, August 12, 2013 @ 12:00 PM ET
Settle Date: Thursday, August 15, 2013
Minimum Denomination/Increments: $1,000.00/$1,000.00
Initial trades settle flat and clear SDFS: DTC Book Entry only

The Notes will be issued pursuant to the Indenture, dated as of February 16, 2012, as amended and supplemented by that certain One Hundred Forty-First Supplemental Indenture, One Hundred Forty-Second Supplemental Indenture, One Hundred Forty-Third Supplemental Indenture and One Hundred Forty-Fourth, respectively, each dated as of August 15, 2013.

The date from which interest shall accrue on the Notes is Thursday, August 15, 2013. The "Interest Payment Dates" for the Notes shall be August 15 and February 15 of each year, commencing February 15, 2014; the interest payable on any Interest Payment Date, will be paid to the Person in whose name the Note (or one or more predecessor Notes) is registered at the close of business on the Regular Record Date (as defined in the Indenture) for such interest, which shall be August 1 or February 1, as the case may be, next preceding such Interest Payment Date.

The 2018 Notes, the 2020 Notes, the 2028 Notes, and the 2038 Notes will be redeemable in whole or in part at any time or from time to time, at the option of Prospect Capital Corporation, on or after August 15, 2014, August 15, 2014, August 15, 2015 and August 15, 2016, respectively, at a redemption price of $1,000 per Note plus accrued and unpaid interest payments otherwise payable for the then-current semi-annual interest period accrued to, but excluding, the date fixed for redemption and upon not less than 30 days nor more that 60 days prior notice to the noteholder and the trustee, as described in the prospectus.

Prospect Capital Corporation is a financial services company that lends to and invests in middle market, privately-held companies. We are organized as an externally-managed, non-diversified closed-end management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940. Prospect Capital Management LLC manages our investments and Prospect Administration LLC provides the administrative services necessary for us to operate.

This preliminary pricing supplement relates only to the securities described in the accompanying prospectus supplement and prospectus, is only a summary of changes and should be read together with the accompanying prospectus supplement and prospectus, including among other things the section entitled "Risk Factors" beginning on page S-7 of such prospectus supplement and page 11 of such prospectus. This preliminary pricing supplement and the accompanying prospectus supplement and prospectus contain important information you should know before investing in our securities. Please read it before you invest and keep it for future reference. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission, or the "SEC." This information is available free of charge by contacting us at 10 East 40th Street, 44th Floor, New York, NY 10016 or by telephone at (212) 448-0702. The SEC maintains a website at www.sec.gov where such information is available without charge upon written or oral request. Our internet website address is www.prospectstreet.com. Information contained on our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus and you should not consider information contained on our website to be part of this prospectus supplement or the accompanying prospectus.

Neither the SEC nor any state securities commission has approved or disapproved of these securities or passed on the adequacy or accuracy of this preliminary pricing supplement. Any representation to the contrary is a criminal offense. Obligations of Prospect Capital Corporation and any subsidiary of Prospect Capital Corporation are not guaranteed by the full faith and credit of the United States of America. Neither Prospect Capital Corporation nor any subsidiary of Prospect Capital Corporation is a government-sponsored enterprise or an instrumentality of the United States of America.

InterNotes® is a registered trademark of Incapital Holdings LLC.

Recent Developments: On May 14, 2013, we provided $4.0 million of senior secured financing to SourceHOV, LLC, a leading provider of business and knowledge process outsourcing.

On May 16, 2013, Out Rage, LLC repaid the $11.8 million loan receivable to us.

On May 23, 2013, Snacks Holding Corporation repaid the $15.8 million loan receivable to us.

On May 31, 2013, we made a follow-on senior secured second-lien debt investment of $7.2 million in Injured Workers Pharmacy LLC, a specialty pharmacy services company.

On June 3, 2013, Nobel Learning Communities, Inc. repaid the $15.2 million loan receivable to us.

On June 4, 2013, Springs Window Fashions, LLC repaid the $35.0 million loan receivable to us.

On June 11, 2013, we provided $115.0 million of first-lien senior secured financing to a third-party logistics company that services many of the largest shippers in the world.

On June 11, 2013, we provided $7.0 million of secured second-lien financing to American Stock Transfer & Trust Company, LLC, a leading North American provider of share registry and associated value added services.

On June 12, 2013, we made a $23.3 million follow-on investment in R-V Industries, Inc.

On June 14, 2013, we sold our $10.0 million investment in Transaction Networks Services, Inc. and realized a gain of $0.03 million on this investment.

On June 14, 2013, we sold our $4.0 million investment in SourceHOV, LLC and realized a gain of $0.08 million on this investment.

On June 18, 2013, we provided $70.0 million senior secured financing, of which $65.6 million was funded at closing, to a leading designer, marketer and distributor of wood pellet grills, flavored wood pellets and grill accessories.

On June 25, 2013, we made an investment of $26.5 million to purchase 84.13% of the subordinated notes in LCM XIV Ltd.

On June 27, 2013, we made a follow-on secured debt investment of $87.5 million to support the recapitalization of Progrexion Holdings, Inc ("Progrexion"). After the financing, we now hold $241 million of senior secured debt of Progrexion.

On June 28, 2013, Sandow Media, LLC ("Sandow") repaid $30.1 million of the loan receivable to us. After the repayment, we now hold $24.9 million of senior secured debt of Sandow.

On June 28, 2013, we made a $1.0 million follow-on investment in Ajax Rolled Ring & Machine, Inc.

On June 28, 2013, we made an $18.0 million secured debt follow-on investment in New Star Metals, Inc., a provider of specialized processing services to the steel industry.

On July 1, 2013, Pre-Paid Legal Services, Inc. repaid the $5.0 million loan receivable to us.

On July 9, 2013, Southern Management Corporation repaid the $17.6 million loan receivable to us.

On July 12, 2013, we provided $11.0 million of secured second-lien financing to a leading provider of Web security and wide area network (WAN) optimization solutions.

On July 12, 2013, we provided $11.0 million of secured second-lien financing to a leader in developing innovative personal and oral healthcare products.

On July 23, 2013, we made a $2.0 million investment in Carolina Beverage Group, LLC, a contract beverage manufacturer.

On July 24, 2013, we sold our $2.0 million investment in Carolina Beverage Group, LLC and realized a gain of $0.045 on this investment.

On July 26, 2013, we made a $2.0 million follow-on senior secured debt investment in Spartan Energy Services, LLC, a leading provider of thru tubing and flow control services to oil and gas companies.

On July 31, 2013, we made a $5.1 million follow-on investment in Coverall Health-Based Cleaning Systems, a leading franchiser of commercial cleaning businesses.

On August 1, 2013, Medical Security Card Company, LLC repaid the $13.2 million loan receivable to us.

On August 2, 2013, we made an investment of $44.1 million to purchase 90% of the subordinated notes in CIFC Funding 2013-III, Ltd.

On August 2, 2013, we provided $94.0 million in senior secured loans and equity for the recapitalization of CP Energy Services, Inc., an energy services company based in western Oklahoma. After the financing, we received repayment of the $19.0 million loan previously outstanding.

During the period from May 23, 2013 to August 1, 2013, we issued $124.3 million in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of $121.2 million.

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Filed pursuant to Rule 497
File No. 333-183530

PROSPECTUS SUPPLEMENT
(To Prospectus dated October 29, 2012)

Prospect Capital Corporation

Prospect Capital InterNotes®

We may offer to sell our Prospect Capital InterNotes® from time to time. The specific terms of the notes will be set prior to the time of sale and described in a pricing supplement. You should read this prospectus supplement, the accompanying prospectus and the applicable pricing supplement carefully before you invest. We may offer other debt securities from time to time other than the notes under our Registration Statement or in private placements.

We may offer the notes to or through agents for resale. The applicable pricing supplement will specify the purchase price, agent discounts and net proceeds of any particular offering of notes. The agents are not required to sell any specific amount of notes but will use their reasonable best efforts to sell the notes. We also may offer the notes directly. We have not set a date for termination of our offering.

The agents have advised us that from time to time they may purchase and sell notes in the secondary market, but they are not obligated to make a market in the notes and may suspend or completely stop that activity at any time. Unless otherwise specified in the applicable pricing supplement, we do not intend to list the notes on any stock exchange.

Investing in the notes involves certain risks, including those described in the "Risk Factors" section beginning on page S-7 of this prospectus supplement and page 11 of the accompanying prospectus.

This prospectus supplement and the accompanying prospectus contain important information you should know before investing in our securities. Please read it before you invest and keep it for future reference. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission, or the "SEC." This information is available free of charge by contacting us at 10 East 40th Street, 44th Floor, New York, NY 10016 or by telephone at (212) 448-0702. The SEC maintains a website at www.sec.gov where such information is available without charge upon written or oral request. Our internet website address is www.prospectstreet.com. Information contained on our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus and you should not consider information contained on our website to be part of this prospectus supplement or the accompanying prospectus.

Neither the SEC nor any state securities commission has approved or disapproved of these securities or passed on the adequacy or accuracy of this prospectus supplement. Any representation to the contrary is a criminal offense.

Obligations of Prospect Capital Corporation and any subsidiary of Prospect Capital Corporation are not guaranteed by the full faith and credit of the United States of America. Neither Prospect Capital Corporation nor any subsidiary of Prospect Capital Corporation is a government-sponsored enterprise or an instrumentality of the United States of America.

We may sell the notes to or through one or more agents or dealers, including the agents listed below.

Incapital LLC **BofA Merrill Lynch** **Citigroup**

Prospectus Supplement dated May 8, 2013.

®InterNotes is a registered trademark of Incapital Holdings LLC

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FORWARD-LOOKING STATEMENTS

This prospectus supplement and the accompanying prospectus may contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the "Exchange Act," which involve substantial risks and uncertainties. Forward-looking statements predict or describe our future operations, business plans, business and investment strategies and portfolio management and the performance of our investments and our investment management business. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about our industry, our beliefs, and our assumptions. Words such as "intends," "intend," "intended," "goal," "estimate," "estimates," "expects," "expect," "expected," "project," "projected," "projections," "plans," "seeks," "anticipates," "anticipated," "should," "could," "may," "will," "designed to," "foreseeable future," "believe," "believes" and "scheduled" and variations of these words and similar expressions are intended to identify forward-looking statements. Our actual results or outcomes may differ materially from those anticipated. Readers are cautioned not to place undue reliance on these forward looking statements, which speak only as of the date the statement was made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. These statements are not guarantees of future performance and are subject to risks, uncertainties, and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements, including without limitation:

- our future operating results,
- our business prospects and the prospects of our portfolio companies,
- the impact of investments that we expect to make,
- our contractual arrangements and relationships with third parties,
- the dependence of our future success on the general economy and its impact on the industries in which we invest,
- the ability of our portfolio companies to achieve their objectives,
- difficulty in obtaining financing or raising capital, especially in the current credit and equity environment,
- the level and volatility of prevailing interest rates and credit spreads, magnified by the current turmoil in the credit markets,
- adverse developments in the availability of desirable loan and investment opportunities whether they are due to competition, regulation or otherwise,
- a compression of the yield on our investments and the cost of our liabilities, as well as the level of leverage available to us,
- our regulatory structure and tax treatment, including our ability to operate as a business development company and a regulated investment company,
- the adequacy of our cash resources and working capital,

the timing of cash flows, if any, from the operations of our portfolio companies,

the ability of our investment adviser to locate suitable investments for us and to monitor and administer our investments,

authoritative generally accepted accounting principles or policy changes from such standard-setting bodies as the Financial Accounting Standards Board, the SEC, Internal Revenue Service,

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- the NASDAQ Global Select Market, and other authorities that we are subject to, as well as their counterparts in any foreign jurisdictions where we might do business, and

- the risks, uncertainties and other factors we identify in "Risk Factors" and elsewhere in this prospectus supplement and the accompanying prospectus and in our filings with the SEC.

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and as a result, the forward-looking statements based on those assumptions also could be inaccurate. Important assumptions include our ability to originate new loans and investments, ability to obtain certain margins and levels of profitability and the availability of additional capital. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this prospectus supplement and the accompanying prospectus, respectively, should not be regarded as a representation by us that our plans and objectives will be achieved. These risks and uncertainties include those described or identified in "Risk Factors" and elsewhere in this prospectus supplement and the accompanying prospectus, respectively. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this prospectus supplement or the accompanying prospectus, as applicable. These forward-looking statements do not meet the safe harbor for forward-looking statements pursuant to Section 27A of the Securities Act of 1933, as amended, or the "Securities Act."

You should rely only on the information contained in this prospectus supplement, including any pricing supplement included hereto, and the accompanying prospectus. We have not, and the agent(s) or dealer(s) has not, authorized any other person to provide you with information that is different from that contained in this prospectus supplement, including any pricing supplement included hereto, or the accompanying prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the agents are not, making an offer of these securities in any jurisdiction where the offer is not permitted. You should assume that the information appearing in this prospectus supplement, including any pricing supplement included hereto, and the accompanying prospectus is accurate only as of their respective dates and we assume no obligation to update any such information. Our business, financial condition and results of operations may have changed since those dates. Although we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we any make directly to you or through reports that we have filed with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

This prospectus supplement, including any pricing supplement included hereto, supersedes the accompanying prospectus to the extent it contains information that is different from or in addition to the information in that prospectus.

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PROSPECTUS SUMMARY

This section summarizes the legal and financial terms of the notes that are described in more detail in "Description of Notes" beginning on page S-12. Final terms of any particular notes will be determined at the time of sale and will be contained in the pricing supplement, which will be included with this prospectus supplement, relating to those notes. The terms in that pricing supplement may vary from and supersede the terms contained in this summary and in "Description of Notes." In addition, you should read the more detailed information appearing elsewhere in this prospectus supplement, the accompanying prospectus and in that pricing supplement.

The terms "we," "us," "our" and "Company" refer to Prospect Capital Corporation; "Prospect Capital Management," "Investment Advisor" and "PCM" refer to Prospect Capital Management LLC; and "Prospect Administration" and the "Administrator" refer to Prospect Administration LLC.

The Company

Prospect Capital Corporation is a financial services company that primarily lends to and invests in middle market privately-held companies. In this prospectus supplement and the accompanying prospectus, we use the term "middle-market" to refer to companies with annual revenues between $50 million and $2 billion. We are a closed-end investment company that has filed an election to be treated as a business development company under the Investment Company Act of 1940, or the "1940 Act." We invest primarily in senior and subordinated debt and equity of companies in need of capital for acquisitions, divestitures, growth, development and recapitalization. We work with the management teams or financial sponsors to seek investments with historical cash flows, asset collateral or contracted pro-forma cash flows.

We invest primarily in first and second lien senior loans and mezzanine debt, which in some cases includes an equity component. First and second lien senior loans generally are senior debt instruments that rank ahead of subordinated debt of a given portfolio company. These loans also have the benefit of security interests on the assets of the portfolio company, which may rank ahead of or be junior to other security interests. Mezzanine debt is subordinated to senior loans and is generally unsecured. Our investments have generally ranged between $5 million and $75 million each, although the investment size may be more or less than this range. Our investment sizes are expected to grow as our capital base expands.

We also acquire controlling interests in companies in conjunction with making secured debt investments in such companies. In most cases, companies in which we invest are privately held at the time we invest in them. We refer to these companies as "target" or "middle market" companies and these investments as "middle market investments."

We seek to maximize total returns to our investors, including both current yield and equity upside, by applying rigorous credit analysis and asset-based and cash-flow based lending techniques to make and monitor our investments. Many of our investments to date have been in energy-related industries, which consist of companies in the discovery, production, transportation, storage and use of energy resources as well as companies that sell products and services to, or acquire products and services from, these companies.

We are currently pursuing multiple investment opportunities, including purchases of portfolios from private and public companies, as well as originations and secondary purchases of particular securities. There can be no assurance that we will successfully consummate any investment opportunity we are currently pursuing. Motivated sellers, including commercial finance companies, hedge funds, other business development companies, total return swap counterparties, banks, collateralized loan obligation funds, and other entities, are suffering from excess leverage, and we believe we are well

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positioned to capitalize as potential buyers of such assets at attractive prices. If any of these opportunities are consummated, there can be no assurance that investors will share our view of valuation or that any assets acquired will not be subject to future write downs, each of which could have an adverse effect on our stock price.

As of March 31, 2013, we held investments in 120 portfolio companies. The aggregate fair value as of March 31, 2013 of investments in these portfolio companies held on that date is approximately $3.7 billion. Our portfolio across all our interest bearing investments had an annualized current yield of 13.9% as of March 31, 2013.

Recent Developments

Dividends

On May 6, 2013, we announced the declaration of monthly dividends in the following amounts and with the following dates:

- $0.110125 per share for May 2013 to holders of record on May 31, 2013 with a payment date of June 20, 2013;
- $0.110150 per share for June 2013 to holders of record on June 28, 2013 with a payment date of July 18, 2013;
- $0.110175 per share for July 2013 to holders of record on July 31, 2013 with a payment date of August 22, 2013; and
- $0.110200 per share for August 2013 to holders of record on August 30, 2013 with a payment date of September 19, 2013.

Recent Investment Activity

On April 1, 2013, we refinanced our existing senior secured loans to Ajax Rolled Ring & Machine, Inc., increasing the size of our debt investment to $38.5 million.

On April 15, 2013, we entered into an Agent Joinder Letter with Citigroup Global Markets Inc. to appoint Citigroup Global Markets Inc. as an agent pursuant to the Second Amended and Restated Selling Agent Agreement dated March 4, 2013, among us, Prospect Capital Management LLC, Prospect Administration LLC, Incapital LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated.

On April 19, 2013, we made an investment of $43.7 million to purchase 97% of the subordinated notes in Mountain View CLO 2013-I Ltd.

On April 22, 2013, we provided $34.4 million of senior secured financing to support the carve-out acquisition of Pegasus Financial Services ("PFS") by investment funds managed by H.I.G. Capital. PFS is the world's largest processor of commissions paid by hotels to travel agencies.

On April 25, 2013, we made an investment of $26.0 million to purchase 50.9% of the subordinated notes in Brookside Mill CLO Ltd.

On April 30, 2013, we made a $21.2 million follow-on investment in APH Property Holdings, LLC ("APH"), to acquire Lofton Place Apartments and Vista at Palma Sola, residential properties located in Florida. We invested $3.2 million of equity and $18.0 million of debt in APH.

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On April 30, 2013, we sold our investment in Fischbein, LLC for net proceeds of $3.2 million, recognizing a realized gain of $2.3 million on the sale. In addition, there is $0.3 million being held in escrow which will be recognized as additional gain when and if received.

On May 8, 2013, we made a $6.1 million follow-on investment in APH, to acquire Arlington Park Marietta, LLC, a residential property located in Marietta, Georgia. We invested $2.1 million of equity and $4.0 million of debt in APH.

Equity Issuance

During the period from April 1, 2013 to May 3, 2013, we sold 4,477,037 shares of our common stock at an average price of $10.93 per share, and raised $48.9 million of gross proceeds, under the ATM Program. Net proceeds were $48.6 million net of commissions to the broker-dealer on shares sold and offering costs.

On April 18, 2013, we issued 138,087 shares of our common stock in connection with the dividend reinvestment plan.

Debt Issuance

During the period from April 1, 2013 to May 3, 2013, we issued $64.2 million in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of $62.6 million.

On May 6, 2013, we sold an additional $21.8 million in aggregate principal amount of our Prospect Captial InterNotes® with a settlement date of May 9, 2013 for net proceeds of $21.2 million.

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The Offering

Issuer	Prospect Capital Corporation
Purchasing Agent	Incapital LLC
Agents	Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated. From time to time, we may sell the notes to or through additional agents.
Title of Notes	Prospect Capital InterNotes®
Amount	We may issue notes from time to time in various offerings up to $1.0 billion, the aggregate principal amount authorized by our board of directors for notes as well as all other publicly-offered senior debt securities of the Company. As of May 7, 2013, $263.6 million aggregate principal amount of notes has been issued and an additional $21.8 million aggregate principal amount of notes will be issued on May 9, 2013. There are no limitations on our ability to issue additional indebtedness in the form of Prospect Capital InterNotes® or otherwise other than under the 1940 Act and the marginally more restrictive 175% asset coverage requirement under our credit facility.
Denominations	The notes will be issued and sold in denominations of $1,000 and multiples of $1,000 (unless otherwise stated in the pricing supplement).
Status	The notes will be our direct unsecured senior obligations and will rank equally with all of our other unsecured senior indebtedness from time to time outstanding.
Maturities	Each note will mature 12 months or more from its date of original issuance.
Interest	Notes may be issued with a fixed or floating interest rate; a floating interest rate note will be based on the London Interbank Offered Rate ("LIBOR").
	Interest on each fixed or floating interest rate note will be payable either monthly, quarterly, semi-annually or annually on each interest payment date and on the stated maturity date. Interest also will be paid on the date of redemption or repayment if a note is redeemed or repaid prior to its stated maturity in accordance with its terms.
	Interest on the notes will be computed on the basis of a 360-day year of twelve 30-day months, often referred to as the 30/360 (ISDA) day count convention.
Principal	The principal amount of each note will be payable on its stated maturity date at the corporate trust office of the paying agent or at any other place we may designate.

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Redemption and Repayment

Unless otherwise stated in the applicable pricing supplement, a note will not be redeemable at our option or be repayable at the option of the holder prior to its stated maturity date. The notes will not be subject to any sinking fund.

Survivor's Option

Specific notes may contain a provision permitting the optional repayment of those notes prior to stated maturity, if requested by the authorized representative of the beneficial owner of those notes, following the death of the beneficial owner of the notes, so long as the notes were owned by the beneficial owner or his or her estate at least six months prior to the request. This feature is referred to as a "Survivor's Option." Your notes will not be repaid in this manner unless the pricing supplement for your notes provides for the Survivor's Option. If the pricing supplement for your notes provides for the Survivor's Option, your right to exercise the Survivor's Option will be subject to limits set by us on (1) the permitted dollar amount of total exercises by all holders of notes in any calendar year, and (2) the permitted dollar amount of an individual exercise by a holder of a note in any calendar year. Additional details on the Survivor's Option are described in the section entitled "Description of Notes Survivor's Option."

Sale and Clearance

We will sell notes in the United States only. Notes will be issued in book-entry only form and will clear through The Depository Trust Company. We do not intend to issue notes in certificated form.

Trustee

The trustee for the notes is U.S. Bank National Association, under an indenture dated as of February 16, 2012, as amended and as supplemented from time to time.

Selling Group

The agents and dealers comprising the selling group are broker-dealers and securities firms. Each of the Purchasing Agent and Merrill Lynch, Pierce, Fenner & Smith Incorporated entered into a Second Amended and Restated Selling Agent Agreement with us dated March 4, 2013 (the "Selling Agent Agreement"). Additional agents appointed by us from time to time in connection with the offering of the notes contemplated by this prospectus supplement will become parties to the Selling Agent Agreement. On April 15, 2013, Citigroup Global Markets Inc. entered into a joinder agreement to become a party to the Selling Agent Agreement. Dealers who are members of the selling group have executed a Master Selected Dealer Agreement with the Purchasing Agent. The agents and the dealers have agreed to market and sell the notes in accordance with the terms of those respective agreements and all other applicable laws and regulations. You may contact the Purchasing Agent at info@incapital.com for a list of selling group members.

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SELECTED CONDENSED FINANCIAL DATA

You should read the condensed consolidated financial information below with the Consolidated Financial Statements and notes thereto included in this prospectus supplement and the accompanying prospectus. Financial information below for the years ended June 30, 2012, 2011, 2010, 2009 and 2008 has been derived from the financial statements that were audited by our independent registered public accounting firm. The selected consolidated financial data at and for the three and nine months ended March 31, 2013 and 2012 has been derived from unaudited financial data. Interim results for the three and nine months ended March 31, 2013 are not necessarily indicative of the results that may be expected for the year ending June 30, 2013. Certain reclassifications have been made to the prior period financial information to conform to the current period presentation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" starting on page S-24 for more information.

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,		For the Year/Period Ended June 30,				
	2013	2012	2013	2012	2012	2011	2010	2009	2008
	(in thousands except data relating to shares, per share and number of portfolio companies)								
Performance Data:									
Interest income	$ 109,612	$ 74,948	$ 304,788	$ 163,471	$ 219,536	$ 134,454	$ 86,518	$ 62,926	$ 59,033
Dividend income	83	5,475	68,246	31,554	64,881	15,092	15,366	22,793	12,033
Other income	10,500	15,200	36,832	23,203	36,493	19,930	12,675	14,762	8,336
Total investment income	120,195	95,623	409,866	218,228	320,910	169,476	114,559	100,481	79,402
Interest and credit facility expenses	(20,854)	(9,655)	(50,779)	(28,374)	(38,534)	(17,598)	(8,382)	(6,161)	(6,318)
Investment advisory expense	(33,862)	(23,467)	(106,707)	(56,599)	(82,507)	(46,051)	(30,727)	(26,705)	(20,199)
Other expenses	(5,894)	(4,429)	(19,552)	(10,798)	(13,185)	(11,606)	(8,260)	(8,452)	(7,772)
Total expenses	(60,610)	(37,551)	(177,038)	(95,771)	(134,226)	(75,255)	(47,369)	(41,318)	(34,289)
Net investment income	59,585	58,072	232,828	122,457	186,684	94,221	67,190	59,163	45,113
Realized and unrealized gains (losses)	(15,156)	(7,863)	(94,661)	32,144	4,220	24,017	(47,565)	(24,059)	(17,522)
Net increase in net assets from operations	$ 44,429	$ 50,209	$ 138,167	$ 154,601	$ 190,904	$ 118,238	$ 19,625	$ 35,104	$ 27,591
Per Share Data:									
Net increase in net assets from operations(1)	$ 0.20	$ 0.44	$ 0.71	$ 1.39	$ 1.67	$ 1.38	$ 0.33	$ 1.11	$ 1.17
Distributions declared per share	$ 0.33	$ 0.30	$ 0.95	$ 0.91	$ (1.22)	$ (1.21)	$ (1.33)	$ (1.62)	$ (1.59)
Average weighted shares outstanding for the period	226,587,578	114,146,939	194,657,279	110,868,177	114,394,554	85,978,757	59,429,222	31,559,905	23,626,642
Assets and Liabilities Data:									
Investments	$ 3,707,722	$ 1,691,580	$ 3,707,722	$ 1,691,580	$ 2,094,221	$ 1,463,010	$ 748,483	$ 547,168	$ 497,530
Other assets	339,295	124,429	339,295	124,429	161,033	86,307	84,212	119,857	44,248

Total assets	4,047,017	1,816,009	4,047,017	1,816,009	2,255,254	1,549,317	832,695	667,025	541,778
Amount drawn on credit facility		121,000		121,000	96,000	84,200	100,300	124,800	91,167
Senior Convertible Notes	847,500	317,500	847,500	317,500	447,500	322,500			
2022 Notes	100,000		100,000		100,000				
2023 Notes	247,682		247,682						
InterNotes®	199,401	5,465	199,401	5,465	20,638				
Amount owed to related parties	2,205	4,677	2,205	4,677	8,571	7,918	9,300	6,713	6,641
Other liabilities	94,641	48,561	94,641	48,561	70,571	20,342	11,671	2,916	14,347
Total liabilities	1,491,429	497,203	1,491,429	497,203	743,280	434,960	121,271	134,429	112,155
Net assets	$ 2,555,588	$ 1,318,806	$ 2,555,588	$ 1,318,806	$ 1,511,974	$ 1,114,357	$ 711,424	$ 532,596	$ 429,623
Investment Activity Data:									
No. of portfolio companies at period end	120	78	120	78	82	72	58	30	29(2)
Acquisitions	$ 784,395	$ 170,073	$ 2,304,457	$ 547,345	$ 1,120,659	$ 953,337	$ 364,788(3)	$ 98,305	$ 311,947
Sales, repayments, and other disposals	$ 102,527	$ 188,399	$ 609,919	$ 354,660	$ 500,952	$ 285,862	$ 136,221	$ 27,007	$ 127,211
Weighted-Average Yield at end of period(4)	13.9%	12.6%	13.9%	12.6%	13.9%	12.8%	16.2%	14.6%	15.5%

(1) Per share data is based on average weighted shares for the period

(2) Includes a net profits interest in Charlevoix Energy Trading LLC remaining after loan was paid.

(3) Includes $207,126 of acquired portfolio investments acquired from Patriot Capital Funding, LLC.

(4) Excludes equity investments and non-performing loans.

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RISK FACTORS

Your investment in the notes will involve certain risks. This prospectus supplement and the accompanying prospectus do not describe all of those risks.

You should, in consultation with your own financial and legal advisors, carefully consider the following discussion of risks before deciding whether an investment in the notes is suitable for you. The notes will not be an appropriate investment for you if you are not knowledgeable about significant features of the notes or financial matters in general. You should not purchase the notes unless you understand, and know that you can bear, these investment risks.

Our amount of debt outstanding will increase as a result of this offering. Our current indebtedness could adversely affect our business, financial condition and results of operations and our ability to meet our payment obligations under the notes and our other debt.

As of May 7, 2013, we and our subsidiary had no secured indebtedness outstanding and approximately $1.459 billion of unsecured senior indebtedness outstanding.

The use of debt could have significant consequences on our future operations, including:

- making it more difficult for us to meet our payment and other obligations under the notes and our other outstanding debt;
- resulting in an event of default if we fail to comply with the financial and other restrictive covenants contained in our debt agreements, which event of default could result in all of our debt becoming immediately due and payable;
- reducing the availability of our cash flow to fund investments, acquisitions and other general corporate purposes, and limiting our ability to obtain additional financing for these purposes;
- subjecting us to the risk of increased sensitivity to interest rate increases on our indebtedness with variable interest rates, including borrowings under our amended senior credit facility; and
- limiting our flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business, the industry in which we operate and the general economy.

Any of the above-listed factors could have an adverse effect on our business, financial condition and results of operations and our ability to meet our payment obligations under the notes and our other debt.

Our ability to meet our payment and other obligations under our debt instruments depends on our ability to generate significant cash flow in the future. This, to some extent, is subject to general economic, financial, competitive, legislative and regulatory factors as well as other factors that are beyond our control. We cannot assure you that our business will generate cash flow from operations, or that future borrowings will be available to us under our existing or amended senior credit facility or otherwise, in an amount sufficient to enable us to meet our payment obligations under the notes and our other debt and to fund other liquidity needs. If we are not able to generate sufficient cash flow to service our debt obligations, we may need to refinance or restructure our debt, including any notes sold, sell assets, reduce or delay capital investments, or seek to raise additional capital. If we are unable to implement one or more of these alternatives, we may not be able to meet our payment obligations under the notes and our other debt.

The notes will be effectively subordinated to any existing and future secured indebtedness and structurally subordinated to existing and future liabilities and other indebtedness of our subsidiaries.

The notes will be our general, unsecured obligations and will rank equally in right of payment with all of our existing and future unsubordinated, unsecured senior indebtedness, including without

limitation, the $150.0 million aggregate principal amount of 6.25% Convertible Senior Notes due 2015 (the "2015 Notes"), the $168.0 million aggregate principal amount of 5.50% Convertible Senior Notes due 2016 (the "2016 Notes"), the $130.0 million aggregate principal amount of 5.375% Convertible Senior Notes due 2017 (the "2017 Notes"), the $200.0 million aggregate principal amount of 5.75% Convertible Senior Notes due 2018 (the "2018 Notes"), the $200.0 million aggregate principal amount of 5.875% Convertible Senior Notes due 2019 (the "2019 Notes"), the $100.0 million aggregate principal amount of 6.95% Senior Notes due 2022 (the "2022 Notes") and the $250.0 million aggregate principal amount of 5.875% Senior Notes due 2023 (the "2023 Notes"). As a result, the notes will be effectively subordinated to our existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness and structurally subordinated to any existing and future liabilities and other indebtedness of our subsidiaries. These liabilities may include indebtedness, trade payables, guarantees, lease obligations and letter of credit obligations. The notes do not restrict us or our subsidiaries from incurring indebtedness, including senior secured indebtedness in the future, nor do they limit the amount of indebtedness we can issue that is equal in right of payment to the notes. As of May 7, 2013, we had no borrowings under our credit facility. Our credit facility is secured by certain of our assets and the indebtedness thereunder is therefore effectively senior to the notes to the extent of the value of such assets.

Each of the 2015 Notes, the 2016 Notes, the 2017 Notes, the 2018 Notes, the 2019 Notes, the 2022 Notes and the 2023 Notes may be due prior to the notes. We do not currently know whether we will be able to replace any of the 2015 Notes, the 2016 Notes, the 2017 Notes, the 2018 Notes, the 2019 Notes, the 2022 Notes or the 2023 Notes upon their respective maturities, or if we do, whether we will be able to do so on terms that are as favorable as such notes. In the event that we are not able to replace the 2015 Notes, the 2016 Notes, the 2017 Notes, the 2018 Notes, the 2019 Notes, the 2022 Notes or the 2023 Notes at the time of their respective maturities, this could have a material adverse effect on our liquidity and ability to fund new investments, our ability to make distributions to our stockholders, our ability to repay the notes and our ability to qualify as a regulated investment company, or "RIC."

The indenture and supplemental indentures under which the notes will be issued will contain limited protection for holders of the notes.

The indenture and supplemental indentures (collectively, the "indenture") under which the notes will be issued offer limited protection to holders of the notes. The terms of the indenture and the notes do not restrict our or any of our subsidiaries' ability to engage in, or otherwise be a party to, a variety of corporate transactions, circumstances or events that could have an adverse impact on your investment in the notes. In particular, the terms of the indenture and the notes will not place any restrictions on our or our subsidiaries' ability to:

- issue securities or otherwise incur additional indebtedness or other obligations, including (1) any indebtedness or other obligations that would be equal in right of payment to the notes, (2) any indebtedness or other obligations that would be secured and therefore rank effectively senior in right of payment to the notes to the extent of the values of the assets securing such debt, (3) indebtedness of ours that is guaranteed by one or more of our subsidiaries and which therefore is structurally senior to the notes and (4) securities, indebtedness or obligations issued or incurred by our subsidiaries that would be senior to our equity interests in our subsidiaries and therefore rank structurally senior to the notes with respect to the assets of our subsidiaries, in each case other than an incurrence of indebtedness or other obligation that would cause a violation of Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions;

- pay dividends on, or purchase or redeem or make any payments in respect of, capital stock or other securities ranking junior in right of payment to the notes;

- sell assets (other than certain limited restrictions on our ability to consolidate, merge or sell all or substantially all of our assets);

- enter into transactions with affiliates;

- create liens (including liens on the shares of our subsidiaries) or enter into sale and leaseback transactions;

- make investments; or

- create restrictions on the payment of dividends or other amounts to us from our subsidiaries.

In addition, the indenture will not require us to offer to purchase the notes in connection with a change of control or any other event.

Furthermore, the terms of the indenture and the notes do not protect holders of the notes in the event that we experience changes (including significant adverse changes) in our financial condition, results of operations or credit ratings, as they do not require that we or our subsidiaries adhere to any financial tests or ratios or specified levels of net worth, revenues, income, cash flow, or liquidity other than certain limited restrictions on dividends and certain board structures or default provisions mandated by the 1940 Act.

Our ability to recapitalize, incur additional debt and take a number of other actions that are not limited by the terms of the notes may have important consequences for you as a holder of the notes, including making it more difficult for us to satisfy our obligations with respect to the notes or negatively affecting the trading value of the notes.

Certain of our current debt instruments include more protections for their holders than the indenture and the notes. See in the accompanying prospectus "Risk Factors Risks Relating to Our Business The Notes present other risks to holders of our common stock, including the possibility that the Notes could discourage an acquisition of the Company by a third party and accounting uncertainty" and " In addition to regulatory restrictions that restrict our ability to raise capital, our credit facility contains various covenants which, if not complied with, could accelerate repayment under the facility, thereby materially and adversely affecting our liquidity, financial condition and results of operations." In addition, other debt we issue or incur in the future could contain more protections for its holders than the indenture and the notes, including additional covenants and events of default. The issuance or incurrence of any such debt with incremental protections could affect the market for and trading levels and prices of the notes.

Our credit ratings may not reflect all risks of your investment in the notes.

Our credit ratings are an assessment by rating agencies of our ability to pay our debts when due. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of the notes and our access to the capital markets. These credit ratings may not reflect the potential impact of risks relating to structure or marketing of the notes. Agency ratings are not a recommendation to buy, sell or hold any security, and may be revised or withdrawn at any time by the issuing organization. Each agency's rating should be evaluated independently of any other agency's rating.

We may choose to redeem notes when prevailing interest rates are relatively low.

If your notes will be redeemable at our option, we may choose to redeem your notes from time to time, especially when prevailing interest rates are lower than the rate borne by the notes. If prevailing rates are lower at the time of redemption, you would not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the interest rate on the notes being

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redeemed. Our redemption right also may adversely impact your ability to sell your notes as the optional redemption date or period approaches.

Survivor's Option may be limited in amount.

We will have a discretionary right to limit the aggregate principal amount of notes subject to the Survivor's Option that may be exercised in any calendar year to an amount equal to the greater of $2,000,000 or 2% of the outstanding principal amount of all notes outstanding as of the end of the most recent calendar year. We also have the discretionary right to limit to $250,000 in any calendar year the aggregate principal amount of notes subject to the Survivor's Option that may be exercised in such calendar year on behalf of any individual deceased beneficial owner of notes. Accordingly, no assurance can be given that exercise of the Survivor's Option for the desired amount will be permitted in any single calendar year.

We cannot assure that a trading market for your notes will ever develop or be maintained.

In evaluating the notes, you should assume that you will be holding the notes until their stated maturity. The notes are a new issue of securities. We cannot assure you that a trading market for your notes will ever develop, be liquid or be maintained. Many factors independent of our creditworthiness affect the trading market for and market value of your notes. Those factors include, without limitation:

- the method of calculating the principal and interest for the notes;
- the time remaining to the stated maturity of the notes;
- the outstanding amount of the notes;
- the redemption or repayment features of the notes; and
- the level, direction and volatility of interest rates generally.

There may be a limited number of buyers when you decide to sell your notes. This may affect the price you receive for your notes or your ability to sell your notes at all.

Changes in banks' inter-bank lending rate reporting practices or the method pursuant to which the LIBOR rates are determined may adversely affect the value of your floating rate notes.

Beginning in 2008, concerns have been raised that some of the member banks surveyed by the British Bankers' Association (the "BBA") in connection with the calculation of daily LIBOR rates may have been under-reporting the inter-bank lending rate applicable to them in order to avoid an appearance of capital insufficiency or adverse reputational or other consequences that may result from reporting higher inter-bank lending rates. Inquiries remain ongoing, including investigations by regulators and governmental authorities in various jurisdictions, and if such under-reporting occurred, it may have resulted in the LIBOR rate being artificially low. If any such under-reporting still exists and some or all of the member banks discontinue such practice, there may be a resulting sudden or prolonged upward movement in LIBOR rates. In addition, in August 2008 the BBA announced that it was changing the LIBOR rate-fixing process by increasing the number of banks surveyed to set the LIBOR rate. The BBA has taken steps intended to strengthen the oversight of the process and review biannually the composition of the panels of banks surveyed to set the LIBOR rate. In addition, the final report of the Wheatley Review of LIBOR, published in September 2012, set forth recommendations relating to the setting and administration of LIBOR, and the UK government has announced that it intends to incorporate these recommendations in new legislation. At the present time it is uncertain what changes, if any, may be made by the UK government or other governmental or regulatory authorities in the method for determining LIBOR or whether these changes would cause any decrease or increase in LIBOR rates. Any changes in the method pursuant to which the LIBOR rates

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are determined, or the development of a widespread market view that LIBOR rates have been or are being manipulated by members of the bank panel, may result in a sudden or prolonged increase or decrease in the reported LIBOR rates. If that were to occur, the level of interest payments and the value of the floating rate notes may be adversely affected. If your floating rate notes are subject to a maximum rate specified in your pricing supplement, you may not benefit from any such increase in LIBOR rates because the interest on your floating rate notes will be subject to the maximum rate. As a result, the amount of interest payable for your floating rate notes may be significantly less than it would have been had you invested in a similar investment instrument not subject to such a maximum interest rate.

Your investment in the floating rate notes will involve certain risks not associated with an investment in conventional debt securities. You should consider carefully the following discussion of risks before you decide that an investment in the floating rate notes is suitable for you.

Floating rate notes present different investment considerations than fixed rate notes. For notes with only floating rates, the rate of interest paid by us on the notes for each applicable interest period is not fixed, but will vary depending on LIBOR and accordingly could be substantially less than the rates of interest we would pay on fixed rate notes of the same maturity. Additionally, the notes may change the interest rate or interest rate formula in relation to LIBOR at one or more points during the term of such notes (often referred to as a "step up" feature) or may switch from floating to fixed rate or from a fixed to a floating rate during the term of the notes. Consequently, the return on the notes may be less than returns otherwise payable on fixed rate debt securities issued by us with similar maturities whose interest rates cannot change. The variable interest rate on the notes, while determined, in part, by reference to LIBOR, may not actually pay at such rates. Furthermore, we have no control over any fluctuations in LIBOR.

If the relevant pricing supplement specifies a maximum rate, the interest rate for any interest period will be limited by the maximum rate. The maximum rate will limit the amount of interest you may receive for each such interest period, even if the fixed or floating rate component, as adjusted by any spread factor, if applicable, and/or a spread, if applicable, would have otherwise resulted in an interest rate greater than the maximum rate. As a result, if the interest rate for any interest period without taking into consideration the maximum rate would have been greater than the maximum rate, the notes will provide you less interest income than an investment in a similar instrument that is not subject to a maximum interest rate.

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DESCRIPTION OF NOTES

The following description of the particular terms of the notes being offered supplements and, to the extent inconsistent with or otherwise specified in an applicable pricing supplement, replaces the description of the general terms and provisions of the debt securities set forth under the heading "Description of Our Debt Securities" in the accompanying prospectus. Unless otherwise specified in an applicable pricing supplement, the notes will have the terms described below. Capitalized terms used but not defined below have the meanings given to them in the accompanying prospectus and in the indenture relating to the notes.

The notes being offered by this prospectus supplement, the accompanying prospectus and the applicable pricing supplement will be issued under an indenture, dated as of February 16, 2012, as amended and as supplemented from time to time. U.S. Bank National Association was appointed as trustee, as successor to American Stock Transfer & Trust Company, LLC, pursuant to an Agreement of Resignation, Appointment and Acceptance dated as of March 9, 2012. The indenture is more fully described in the accompanying prospectus. The indenture does not limit the aggregate amount of debt securities that may be issued under it and provides that the debt securities may be issued under it from time to time in one or more series. The following statements are summaries of the material provisions of the indenture and the notes. These summaries do not purport to be complete and are qualified in their entirety by reference to the indenture, including for the definitions of certain terms. From time to time we may offer other debt securities either publicly or through private placement having maturities, interest rates, covenants and other terms that may differ materially from the terms of the notes described herein and in any pricing supplement.

The notes constitute a single series of debt securities for purposes of the indenture and are unlimited in aggregate principal amount under the terms of the indenture. Our board of directors has authorized the issuance and sale of the Company's publicly-offered senior debt securities, including the issuance and sale of the notes from time to time in various offerings, up to an aggregate principal amount of $1.0 billion. As of May 7, 2013, $263.6 million aggregate principal amount of notes has been issued and an additional $21.8 million aggregate principal amount of notes will be issued on May 9, 2013.

Notes issued in accordance with this prospectus supplement, the accompanying prospectus and the applicable pricing supplement will have the following general characteristics:

- the notes will be our direct unsecured senior obligations and will rank equally with all of our other unsecured senior indebtedness from time to time outstanding;
- the notes may be offered from time to time by us through the Purchasing Agent and each note will mature on a day that is at least 12 months from its date of original issuance;
- each note may be issued with a fixed or floating interest rate; any floating interest rate will be based on LIBOR.
- the notes will not be subject to any sinking fund; and
- the minimum denomination of the notes will be $1,000 (unless otherwise stated in the pricing supplement).

In addition, the pricing supplement relating to each offering of notes will describe specific terms of the notes, including but not limited to:

- the stated maturity;
- the denomination of your notes;
- the price at which we originally issue your notes, expressed as a percentage of the principal amount, and the original issue date;

- whether your notes are fixed rate notes or floating rate notes;
- if your notes are fixed rate notes, the annual rate at which your notes will bear interest, or the periodic rates in the case of notes that bear different rates at different times during the term of the notes, and the interest payment dates, if different from those stated below under " Interest Rates Fixed Rate Notes;"
- if your notes are floating rate notes, the interest rate, spread or spread multiplier or initial base rate, maximum rate and/or minimum rate; if there is more than one spread to be applied at different times during the term of the notes for your interest rate, which spread during which periods applies to your notes; and the interest reset, determination, calculation and payment dates, all of which we describe under " Interest Rates Floating Rate Notes" below;
- if applicable, the circumstances under which your notes may be redeemed at our option or repaid at the holder's option before the stated maturity, including any redemption commencement date, repayment date(s), redemption price(s) and redemption period(s), all of which we describe under " Redemption and Repayment" below;
- whether the authorized representative of the holder of a beneficial interest in the notes will have the right to seek repayment upon the death of the holder as described under " Survivor's Option;"
- any special U.S. federal income tax consequences of the purchase, ownership and disposition of the notes; and
- any other significant terms of your notes, which could be different from those described in this prospectus supplement and the accompanying prospectus, but in no event inconsistent with the indenture.

We may at any time purchase notes at any price or prices in the open market or otherwise. Notes so purchased by us may, at our discretion, be held, resold or surrendered to the trustee for cancellation.

Types of Notes

We may issue either of the two types of notes described below. Notes may have elements of each of the two types of notes described below. For example, notes may bear interest at a fixed rate for some periods and at a floating rate in others.

Fixed Rate Notes. Notes of this type will bear interest at one or more fixed rates described in your pricing supplement.

Fixed rate notes will bear interest from their original issue date or from the most recent date to which interest on the notes has been paid or made available for payment. Interest will accrue on the principal of fixed rate notes at the fixed rate or rates per annum stated in your pricing supplement during the applicable time periods as stated in your pricing supplement, until the principal is paid or made available for payment. Each payment of interest due on an interest payment date or the maturity will include interest accrued from and including the last date to which interest has been paid, or made available for payment, or from the issue date if none has been paid or made available for payment, to but excluding the interest payment date or maturity. We will compute interest on fixed rate notes on the basis of a 360-day year of twelve 30-day months (the 30/360 (ISDA) day count convention) unless your pricing supplement provides that we will compute interest on a different basis. We will pay interest on each interest payment date and at maturity as described below under " Payments of Principal and Interest." Notes may be offered that switch from a fixed rate to a floating rate or from a floating rate to a fixed rate during the term of the notes.

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Floating Rate Notes. Notes of this type will bear interest at rates that are determined by reference to an interest rate formula based on LIBOR. In some cases, the rates may also be adjusted by adding or subtracting a spread in relation to LIBOR or multiplying by a spread multiplier and may be subject to a minimum rate and/or a maximum rate. The various interest rate formulas and these other features are described below in " Interest Rates Floating Rate Notes." If your notes are floating rate notes, the formula and any adjustments that apply to the interest rate will be specified in your pricing supplement.

Floating rate notes will bear interest from their original issue date or from the most recent date to which interest on the notes has been paid or made available for payment. Interest will accrue on the principal of floating rate notes at a rate per annum determined according to the interest rate formula stated in your pricing supplement during the applicable interest rate periods as stated in your pricing supplement, until the principal is paid or made available for payment. We will pay interest on each interest payment date and at maturity as described below " Payments of Principal and Interest." Notes may be offered that switch from a fixed rate to a floating rate or from a floating rate to a fixed rate during the term of the notes.

Interest Rates

This subsection describes the different kinds of interest rates that may apply to your notes, as specified in your pricing supplement.

Fixed Rate Notes. Fixed rate notes will bear interest from their original issue date or from the most recent date to which interest on the notes has been paid or made available for payment. Interest will accrue on the principal of fixed rate notes at the fixed yearly rate or rates stated in your pricing supplement during the applicable time periods as stated in your pricing supplement, until the principal is paid or made available for payment. Your pricing supplement will describe the interest periods and relevant interest payment dates on which interest on fixed rate notes will be payable. Each payment of interest due on an interest payment date or the maturity will include interest accrued from and including the last date to which interest has been paid, or made available for payment, or from the issue date if none has been paid or made available for payment, to but excluding the interest payment date or the maturity. We will compute interest on fixed rate notes on the basis of a 360-day year of twelve 30-day months (the 30/360 (ISDA) day count convention), unless your pricing supplement provides that we will compute interest on a different basis. We will pay interest on each interest payment date and at maturity as described below under " Payments of Principal and Interest."

Floating Rate Notes. Floating rate notes will bear interest at rates that are determined by reference to an interest rate formula based on LIBOR. In some cases, the rates may also be adjusted by adding or subtracting a spread in relation to LIBOR or multiplying by a spread multiplier and may be subject to a minimum rate and/or a maximum rate. If your note is a floating rate note, the formula and any adjustments that apply to the interest rate will be specified in your pricing supplement.

Each floating rate note will bear interest from its original issue date or from the most recent date to which interest on the note has been paid or made available for payment. Interest will accrue on the principal of a floating rate note at a rate per annum determined according to the interest rate formula stated in the pricing supplement during the applicable interest rate period specified in your pricing supplement, until the principal is paid or made available for payment. We will pay interest on each interest payment date and at maturity as described below under " Payment of Principal and Interest."

In addition, the following will apply to floating rate notes.

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Initial Base Rate

Unless otherwise specified in your pricing supplement, for floating rate notes, the initial base rate will be the applicable LIBOR base rate in effect from and including the original issue date to but excluding the initial interest reset date. We will specify the initial LIBOR base rate in your pricing supplement.

Spread or Spread Multiplier

In some cases, the base rate for floating rate notes may be adjusted:

- by adding or subtracting a specified number of basis points, called the spread, with one basis point being 0.01%; or

- by multiplying the base rate by a specified percentage, called the spread multiplier.

If you purchase floating rate notes, your pricing supplement will specify whether a spread or spread multiplier will apply to your notes and, if so, the amount of the applicable spread or spread multiplier and any increases or decreases in the spread or spread multiplier during the term of your notes.

Maximum and Minimum Rates

The actual interest rate, after being adjusted by the spread or spread multiplier, may also be subject to either or both of the following limits:

- a maximum rate ***i.e.***, a specified upper limit that the actual interest rate in effect at any time may not exceed; and/or

- a minimum rate ***i.e.***, a specified lower limit that the actual interest rate in effect at any time may not fall below.

If you purchase floating rate notes, your pricing supplement will specify whether a maximum rate and/or minimum rate will apply to your notes and, if so, what those rates are.

Whether or not a maximum rate applies, the interest rate on floating rate notes will in no event be higher than the maximum rate permitted by New York law, as it may be modified by U.S. law of general application. Under current New York law, the maximum rate of interest, with some exceptions, for any loan in an amount less than $250,000 is 16% and for any loan in the amount of $250,000 or more but less than $2,500,000 is 25%, per year on a simple interest basis. These limits do not apply to loans of $2,500,000 or more.

The rest of this subsection describes how the interest rate and the interest payment dates will be determined, and how interest will be calculated, on floating rate notes.

Interest Reset Dates

Except as otherwise specified in your pricing supplement, the rate of interest on floating rate notes will be reset, by the calculation agent described below, daily, weekly, monthly, quarterly, semi-annually or annually (each, an "interest reset period"). The date on which the interest rate resets and the reset rate becomes effective is called the interest reset date. Except as otherwise specified in your pricing supplement, the interest reset date will be as follows:

- for floating rate notes that reset daily, each London business day (as defined below);

- for floating rate notes that reset weekly, the Wednesday of each week;

- for floating rate notes that reset monthly, the third Wednesday of each month;

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for floating rate notes that reset quarterly, the third Wednesday of each of four months of each year as specified in your pricing supplement;

for floating rate notes that reset semi-annually, the third Wednesday of each of two months of each year as specified in your pricing supplement; and

for floating rate notes that reset annually, the third Wednesday of one month of each year as specified in your pricing supplement.

For floating rate notes, the interest rate in effect on any particular day will be the interest rate determined with respect to the latest interest reset date that occurs on or before that day. There are several exceptions, however, to the reset provisions described above.

Interest reset dates are subject to adjustment, as described below under " Business Day Conventions."

The base rate in effect from and including the original issue date to but excluding the first interest reset date will be the initial base rate. For floating rate notes that reset daily or weekly, the base rate in effect for each day following the fifth business day before an interest payment date to, but excluding, the interest payment date, and for each day following the fifth business day before the maturity to, but excluding, the maturity, will be the base rate in effect on that fifth business day.

Interest Determination Dates

The interest rate that takes effect on an interest reset date will be determined by the calculation agent for the LIBOR base rates by reference to a particular date called an interest determination date. Except as otherwise specified in your pricing supplement, the interest determination date relating to a particular interest reset date will be the second London business day preceding the interest reset date. We refer to an interest determination date for LIBOR notes as a LIBOR interest determination date.

Interest Calculation Date

The interest rate that takes effect on a particular interest reset date will be determined by reference to the corresponding interest determination date or interest reset date, as applicable. For some notes, however, the calculation agent will set the rate on a day no later than the corresponding interest calculation date. Unless otherwise specified in your pricing supplement, the interest calculation date for rates to which a calculation date applies will be the business day immediately preceding the date on which interest will next be paid (on an interest payment date or the maturity, as the case may be). The calculation agent need not wait until the relevant interest calculation date to determine the interest rate if the rate information it needs to make the determination is available from the relevant sources sooner.

Interest Rate Calculations

Interest payable on floating rate notes for any particular interest period will be calculated as described below using an interest factor, expressed as a decimal, applicable to each day during the applicable interest period, unless otherwise specified in your pricing supplement.

Calculations relating to floating rate notes will be made by the calculation agent, an institution that we appoint as our agent for this purpose. We have initially appointed U.S. Bank National Association as our calculation agent for any floating rate notes. We may specify a different calculation agent in your pricing supplement. The applicable pricing supplement for your floating rate note will name the institution that we have appointed to act as the calculation agent for that note as of its original issue date. We may appoint a different institution to serve as calculation agent from time to time after the original issue date of your floating rate note without your consent and without notifying you of the

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change. Absent manifest error, all determinations of the calculation agent will be final and binding on you and us, without any liability on the part of the calculation agent.

For floating rate notes, the calculation agent will determine, on the corresponding interest calculation date or interest determination date, as described below, the interest rate that takes effect on each interest reset date. In addition, the calculation agent will calculate the amount of interest that has accrued during each interest period *i.e.*, the period from and including the original issue date, or the last date to which interest has accrued (which may be the interest payment date or any interest reset date in accordance with the business day convention), to but excluding the next date to which interest will accrue (which may be the interest payment date or any interest reset date in accordance with the business day convention). For each interest period, the calculation agent will calculate the amount of accrued interest by multiplying the face amount of the floating rate note by an accrued interest factor for the interest period. Such accrued interest rate factor is determined by multiplying the applicable interest rate for the period by the day count fraction. The day count fraction will be determined in accordance with the 30/360 (ISDA) day count convention, where the number of days in the interest period in respect of which payment is being made is divided by 360, calculated on a formula basis as follows:

where:

"Y_1" is the year, expressed as a number, in which the first day of the interest period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day included in the interest period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the interest period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the interest period falls;

"D_1" is the first calendar day, expressed as a number, of the interest period, unless such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the interest period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30.

Upon the request of the holder of any floating rate note, the calculation agent will provide the interest rate then in effect, and, if determined, the interest rate that will become effective on the next interest reset date with respect to such floating rate note.

All percentages resulting from any calculation relating to any note will be rounded upward or downward, as appropriate, to the next higher or lower one hundred-thousandth of a percentage point, *e.g.*, 9.876541% (or .09876541) being rounded down to 9.87654% (or .0987654) and 9.876545% (or .09876545) being rounded up to 9.87655% (or ..0987655). All amounts used in or resulting from any calculation relating to any note will be rounded upward or downward to the nearest cent.

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Sources and Corrections

If we refer to a rate as set forth on a display page, other published source, information vendor or other vendor officially designated by the sponsor of that rate, if there is a successor source for the display page, other published source, information vendor or other official vendor, we refer to that successor source as applicable as determined by the calculation agent. When we refer to a particular heading or headings on any of those sources, those references include any successor or replacement heading or headings as determined by the calculation agent.

If the applicable rate is based on information obtained from a Reuters screen, that rate will be subject to the corrections, if any, published on that Reuters screen within one hour of the time that rate was first displayed on such source.

LIBOR Calculation

LIBOR, with respect to the base rate and any interest reset date, will be the London interbank offered rate for deposits in U.S. dollars for the index maturity specified in your pricing supplement, appearing on the Reuters screen LIBOR page as of approximately 11:00 A.M., London time, on the relevant LIBOR interest determination date.

If the rate described above does not so appear on the Reuters screen LIBOR page, then LIBOR will be determined on the basis of the rates at which deposits in U.S. dollars are offered by four major banks in the London interbank market selected by the calculation agent at approximately 11:00 A.M., London time, on the relevant LIBOR interest determination date, to prime banks in the London interbank market for a period of the specified index maturity, beginning on the relevant interest reset date, and in a representative amount. The calculation agent will request the principal London office of each of these major banks to provide a quotation of its rate. If at least two quotations are provided, LIBOR for the relevant interest reset date will be the arithmetic mean of the quotations.

If fewer than two of the requested quotations described above are provided, LIBOR for the relevant interest reset date will be the arithmetic mean of the rates quoted by major banks in New York City selected by the calculation agent, at approximately 11:00 A.M., New York City time (or the time in the relevant principal financial center), on the relevant interest reset date, for loans in U.S. dollars (or the index currency) to leading European banks for a period of the specified index maturity, beginning on the relevant interest reset date, and in a representative amount.

If no quotation is provided as described in the preceding paragraph, then the calculation agent, after consulting such sources as it deems comparable to any of the foregoing quotations or display page, or any such source as it deems reasonable from which to estimate LIBOR or any of the foregoing lending rates, shall determine LIBOR for that interest reset date in its sole discretion.

For the purpose of this section, we define the term "index maturity" as the interest rate period of LIBOR on which the interest rate formula is based, as specified in your pricing supplement.

In all cases, if the stated maturity or any earlier redemption date or repayment date with respect to any note falls on a day that is not a business day, any payment of principal, premium, if any, and interest otherwise due on such day will be made on the next succeeding business day, and no interest on such payment shall accrue for the period from and after such stated maturity, redemption date or repayment date, as the case may be.

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Business Days

The term "London business day" will apply to your floating rate notes, as specified in your pricing supplement, and it means each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in London generally are authorized or obligated by law, regulation or executive order to close and, is also a day on which dealings in the applicable index currency are transacted in the London interbank market.

Business Day Convention

The business day convention that will apply to your notes is the "following business day convention." The "following business day convention" means, for any interest payment date or interest reset date, other than the maturity, if such date would otherwise fall on a day that is not a business day, then such date will be postponed to the next day that is a business day.

Payment of Principal and Interest

Principal of and interest on beneficial interests in the notes will be made in accordance with the arrangements then in place between the paying agent and The Depository Trust Company (referred to as "DTC") and its participants as described under "Registration and Settlement The Depository Trust Company." Payments in respect of any notes in certificated form will be made as described under "Registration and Settlement Registration, Transfer and Payment of Certificated Notes."

Interest on each note will be payable either monthly, quarterly, semi-annually or annually on each interest payment date and at the note's stated maturity or on the date of redemption or repayment if a note is redeemed or repaid prior to maturity. Interest is payable to the person in whose name a note is registered at the close of business on the regular record date before each interest payment date. Interest due at a note's stated maturity or on a date of redemption or repayment will be payable to the person to whom principal is payable.

We will pay any administrative costs imposed by banks in connection with making payments in immediately available funds, but any tax, assessment or governmental charge imposed upon any payments on a note, including, without limitation, any withholding tax, is the responsibility of the holders of beneficial interests in the note in respect of which such payments are made.

Payment and Record Dates for Interest

Interest on the notes will be paid as follows:

Interest Payment Frequency	Interest Payment Dates
Monthly	Fifteenth day of each calendar month, beginning in the first calendar month following the month the note was issued.
Quarterly	Fifteenth day of every third month, beginning in the third calendar month following the month the note was issued.
Semi-annually	Fifteenth day of every sixth month, beginning in the sixth calendar month following the month the note was issued.
Annually	Fifteenth day of every twelfth month, beginning in the twelfth calendar month following the month the note was issued.

The regular record date for any interest payment date will be the first day of the calendar month in which the interest payment date occurs, except that the regular record date for interest due on the note's stated maturity date or date of earlier redemption or repayment will be that particular date. For

the purpose of determining the holder at the close of business on a regular record date when business is not being conducted, the close of business will mean 5:00 P.M., New York City time, on that day.

Interest on a note will be payable beginning on the first interest payment date after its date of original issuance to holders of record on the corresponding regular record date.

"Business day" means any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which banking institutions are authorized or required by law or regulation to close in The City of New York.

Redemption and Repayment

Unless we otherwise provide in the applicable pricing supplement, a note will not be redeemable or repayable prior to its stated maturity date.

If the pricing supplement states that the note will be redeemable at our option prior to its stated maturity date, then on such date or dates specified in the pricing supplement, we may redeem those notes at our option either in whole or from time to time in part, upon not less than 30 nor more than 60 days' written notice to the holder of those notes.

If the pricing supplement states that your note will be repayable at your option prior to its stated maturity date, we will require receipt of notice of the request for repayment at least 30 but not more than 60 days prior to the date or dates specified in the pricing supplement. We also must receive the completed form entitled "Option to Elect Repayment." Exercise of the repayment option by the holder of a note is irrevocable.

Since the notes will be represented by a global note, DTC or its nominee will be treated as the holder of the notes; therefore DTC or its nominee will be the only entity that receives notices of redemption of notes from us, in the case of our redemption of notes, and will be the only entity that can exercise the right to repayment of notes, in the case of optional repayment. See "Registration and Settlement."

To ensure that DTC or its nominee will timely exercise a right to repayment with respect to a particular beneficial interest in a note, the beneficial owner of the interest in that note must instruct the broker or other direct or indirect participant through which it holds the beneficial interest to notify DTC or its nominee of its desire to exercise a right to repayment. Because different firms have different cut-off times for accepting instructions from their customers, each beneficial owner should consult the broker or other direct or indirect participant through which it holds an interest in a note to determine the cut-off time by which the instruction must be given for timely notice to be delivered to DTC or its nominee. Conveyance of notices and other communications by DTC or its nominee to participants, by participants to indirect participants and by participants and indirect participants to beneficial owners of the notes will be governed by agreements among them and any applicable statutory or regulatory requirements.

The redemption or repayment of a note normally will occur on the interest payment date or dates following receipt of a valid notice. Unless otherwise specified in the pricing supplement, the redemption or repayment price will equal 100% of the principal amount of the note plus unpaid interest accrued to the date or dates of redemption or repayment.

We may at any time purchase notes at any price or prices in the open market or otherwise. We may also purchase notes otherwise tendered for repayment by a holder or tendered by a holder's duly authorized representative through exercise of the Survivor's Option described below. If we purchase the notes in this manner, we have the discretion to either hold, resell or surrender the notes to the trustee for cancellation.

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Survivor's Option

The "Survivor's Option" is a provision in a note pursuant to which we agree to repay that note, if requested by the authorized representative of the beneficial owner of that note, following the death of the beneficial owner of the note, so long as the note was owned by that beneficial owner or the estate of that beneficial owner at least six months prior to the request. The pricing supplement relating to each offering of notes will state whether the Survivor's Option applies to those notes.

If a note is entitled to a Survivor's Option, upon the valid exercise of the Survivor's Option and the proper tender of that note for repayment, we will, at our option, repay or repurchase that note, in whole or in part, at a price equal to 100% of the principal amount of the deceased beneficial owner's interest in that note plus unpaid interest accrued to the date of repayment.

To be valid, the Survivor's Option must be exercised by or on behalf of the person who has authority to act on behalf of the deceased beneficial owner of the note (including, without limitation, the personal representative or executor of the deceased beneficial owner or the surviving joint owner with the deceased beneficial owner) under the laws of the applicable jurisdiction.

The death of a person holding a beneficial ownership interest in a note as a joint tenant or tenant by the entirety with another person, or as a tenant in common with the deceased holder's spouse, will be deemed the death of a beneficial owner of that note, and the entire principal amount of the note so held will be subject to repayment by us upon request. However, the death of a person holding a beneficial ownership interest in a note as tenant in common with a person other than such deceased holder's spouse will be deemed the death of a beneficial owner only with respect to such deceased person's interest in the note.

The death of a person who, during his or her lifetime, was entitled to substantially all of the beneficial ownership interests in a note will be deemed the death of the beneficial owner of that note for purposes of the Survivor's Option, regardless of whether that beneficial owner was the registered holder of that note, if entitlement to those interests can be established to the satisfaction of the trustee. A beneficial ownership interest will be deemed to exist in typical cases of nominee ownership, ownership under the Uniform Transfers to Minors Act or Uniform Gifts to Minors Act, community property or other joint ownership arrangements between a husband and wife. In addition, a beneficial ownership interest will be deemed to exist in custodial and trust arrangements where one person has all of the beneficial ownership interests in the applicable note during his or her lifetime.

We have the discretionary right to limit the aggregate principal amount of notes as to which exercises of the Survivor's Option shall be accepted by us from authorized representatives of all deceased beneficial owners in any calendar year to an amount equal to the greater of $2,000,000 or 2% of the principal amount of all notes outstanding as of the end of the most recent calendar year. We also have the discretionary right to limit to $250,000 in any calendar year the aggregate principal amount of notes as to which exercises of the Survivor's Option shall be accepted by us from the authorized representative of any individual deceased beneficial owner of notes in such calendar year. In addition, we will not permit the exercise of the Survivor's Option except in principal amounts of $1,000 and multiples of $1,000.

An otherwise valid election to exercise the Survivor's Option may not be withdrawn. Each election to exercise the Survivor's Option will be accepted in the order that elections are received by the trustee, except for any note the acceptance of which would contravene any of the limitations described in the preceding paragraph. Notes accepted for repayment through the exercise of the Survivor's Option normally will be repaid on the first interest payment date that occurs 20 or more calendar days after the date of the acceptance. For example, if the acceptance date of a note tendered through a valid exercise of the Survivor's Option is September 1, 2012, and interest on that note is paid monthly, we would normally, at our option, repay that note on the interest payment date occurring on

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October 15, 2012, because the September 15, 2012 interest payment date would occur less than 20 days from the date of acceptance. Each tendered note that is not accepted in any calendar year due to the application of any of the limitations described in the preceding paragraph will be deemed to be tendered in the following calendar year in the order in which all such notes were originally tendered. If a note tendered through a valid exercise of the Survivor's Option is not accepted, the trustee will deliver a notice by first-class mail to the registered holder, at that holder's last known address as indicated in the note register, that states the reason that note has not been accepted for repayment.

With respect to notes represented by a global note, DTC or its nominee is treated as the holder of the notes and will be the only entity that can exercise the Survivor's Option for such notes. To obtain repayment pursuant to exercise of the Survivor's Option for a note, the deceased beneficial owner's authorized representative must provide the following items to the broker or other entity through which the beneficial interest in the note is held by the deceased beneficial owner:

- a written instruction to such broker or other entity to notify DTC of the authorized representative's desire to obtain repayment pursuant to exercise of the Survivor's Option;

- appropriate evidence satisfactory to the trustee (a) that the deceased was the beneficial owner of the note at the time of death and his or her interest in the note was owned by the deceased beneficial owner or his or her estate at least six months prior to the request for repayment, (b) that the death of the beneficial owner has occurred, (c) of the date of death of the beneficial owner, and (d) that the representative has authority to act on behalf of the beneficial owner;

- if the interest in the note is held by a nominee of the deceased beneficial owner, a certificate satisfactory to the trustee from the nominee attesting to the deceased's beneficial ownership of such note;

- written request for repayment signed by the authorized representative of the deceased beneficial owner with the signature guaranteed by a member firm of a registered national securities exchange or of the Financial Industry Regulatory Authority, Inc. or a commercial bank or trust company having an office or correspondent in the United States;

- if applicable, a properly executed assignment or endorsement;

- tax waivers and any other instruments or documents that the trustee reasonably requires in order to establish the validity of the beneficial ownership of the note and the claimant's entitlement to payment; and

- any additional information the trustee reasonably requires to evidence satisfaction of any conditions to the exercise of the Survivor's Option or to document beneficial ownership or authority to make the election and to cause the repayment of the note.

In turn, the broker or other entity will deliver each of these items to the trustee, together with evidence satisfactory to the trustee from the broker or other entity stating that it represents the deceased beneficial owner.

The death of a person owning a note in joint tenancy or tenancy by the entirety with another or others shall be deemed the death of the holder of the note, and the entire principal amount of the note so held shall be subject to repayment, together with interest accrued thereon to the repayment date. The death of a person owning a note by tenancy in common shall be deemed the death of a holder of a note only with respect to the deceased holder's interest in the note so held by tenancy in common; except that in the event a note is held by husband and wife as tenants in common, the death of either shall be deemed the death of the holder of the note, and the entire principal amount of the note so held shall be subject to repayment. The death of a person who, during his or her lifetime, was entitled to substantially all of the beneficial interests of ownership of a note, shall be deemed the death of the holder thereof for purposes of this provision, regardless of the registered holder, if such

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beneficial interest can be established to the satisfaction of the trustee and us. Such beneficial interest shall be deemed to exist in typical cases of nominee ownership, ownership under the Uniform Gifts to Minors Act, the Uniform Transfers to Minors Act, community property or other joint ownership arrangements between a husband and wife and trust arrangements where one person has substantially all of the beneficial ownership interest in the note during his or her lifetime.

We retain the right to limit the aggregate principal amount of notes as to which exercises of the Survivor's Option applicable to the notes will be accepted in any one calendar year as described above. All other questions regarding the eligibility or validity of any exercise of the Survivor's Option will be determined by the trustee, in its sole discretion, which determination will be final and binding on all parties.

The broker or other entity will be responsible for disbursing payments received from the trustee to the authorized representative. See "Registration and Settlement."

Forms for the exercise of the Survivor's Option may be obtained from the Trustee at 100 Wall Street, Suite 1600, New York, NY 10005, Attention: General Counsel.

If applicable, we will comply with the requirements of Section 14(e) of the Exchange Act, and the rules promulgated thereunder, and any other securities laws or regulations in connection with any repayment of notes at the option of the registered holders or beneficial owners thereof.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(All figures in this item are in thousands except share, per share and other data)

References herein to "we," "us" or "our" refer to Prospect Capital Corporation and its subsidiary unless the context specifically requires otherwise.

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this prospectus supplement and accompanying prospectus. Historical results set forth are not necessarily indicative of our future financial position and results of operations. Any discussion relating to specific investments or portfolio loans herein should be read in conjunction with endnote 3 to the Consolidated Schedule of Investments included in our financial statements in order to determine whether all or any portion of such investment or loan is owned by our wholly-owned bankruptcy remote special purpose subsidiary, Prospect Capital Funding LLC and, accordingly, held as collateral for the revolving credit facility.

Overview

We are a financial services company that primarily lends to and invests in middle market privately-held companies. We are a closed-end investment company that has filed an election to be treated as a business development company under the Investment Company Act of 1940, or the 1940 Act. We invest primarily in first and second lien senior loans and mezzanine debt, which in some cases includes an equity component. First and second lien senior loans generally are senior debt instruments that rank ahead of subordinated debt of a given portfolio company. These loans also have the benefit of security interests on the assets of the portfolio company, which may rank ahead of or be junior to other security interests. Mezzanine debt and our investments in collateralized loan obligation ("CLOs") are subordinated to senior loans and are generally unsecured. We invest in debt and equity positions of CLOs which are a form of securitization in which the cash flows of a portfolio of loans are pooled and passed on to different classes of owners in various tranches. Our CLO investments are derived from portfolios of corporate debt securities which are generally risk rated from BB to B depending on the tranche.

We seek to be a long-term investor with our portfolio companies. The aggregate value of our portfolio investments was $3,707,722 and $2,094,221 as of March 31, 2013 and June 30, 2012, respectively. During the nine months ended March 31, 2013, our net cost of investments increased by $1,695,800, or 80.8%, as a result of 56 new investments, 16 follow-on investments and six revolver advances of $2,263,854, accrued of payment-in-kind interest of $7,025, structuring fees of $33,578 and amortization of discounts and premiums of $13,624, while we received full repayment on seventeen investments, sold eight investments, impaired one investment, and received several partial prepayments, amortization payments and a revolver repayment, totaling $609,919.

Compared to the end of last fiscal year (ended June 30, 2012), net assets increased by $1,043,614, or 69.0% during the nine months ended March 31, 2013, from $1,511,974 to $2,555,588. This increase resulted from the issuance of new shares of our common stock (less offering costs) in the amount of $1,083,618, dividend reinvestments of $12,137, and $138,167 from operations. These increases, in turn, were offset by $190,308 in dividend distributions to our stockholders. The $138,167 increase in net assets resulting from operations is net of the following: net investment income of $232,828, net realized loss on investments of $12,362, and a decrease in net assets due to changes in net unrealized depreciation of investments of $82,299.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reported period.

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Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ, and these differences could be material.

Third Quarter Highlights

Investment Transactions

On January 11, 2013, we provided $27,100 of debt financing to Correctional Healthcare Holding Company, Inc. ("CHC"), a national provider of correctional medical and behavioral healthcare solutions. The subordinated secured second lien loan bears interest in cash at 11.25% and has a final maturity of January 11, 2020.

On January 17, 2013, we made a $30,348 follow-on investment in APH Property Holdings, LLC ("APH"), to acquire 5100 Live Oaks Blvd, LLC, a multi-family residential property located in Tampa, Florida. We invested $2,748 of equity and $27,600 of debt in APH.

On January 24, 2013, we made an investment of $24,870 to purchase 56.14% of the subordinated notes in Cent 17 CLO Limited ("Cent 17 CLO").

On January 24, 2013, we made an investment of $26,901 to purchase 50.12% of the subordinated notes in Octagon Investment Partners XV, Ltd ("Octagon").

On January 29, 2013 we provided $8,000 of secured second lien financing to TGG Medical Transitory, Inc. ("TGG"), a developer of technologies for extracorporeal photopheresis treatments. The senior secured second-lien term loan bears interest in cash at the greater of 11.25% or Libor plus 10.0% and has a final maturity of June 27, 2018.

On January 31, 2013, we funded an acquisition of the subsidiaries of Nationwide Acceptance Holdings LLC ("Nationwide"), which operate a specialty finance business based in Chicago, Illinois, a $25,151 of combined debt and equity financing. The term loan bears interest in cash at the greater of 20.0% or Libor plus 18.5% and has a final maturity of January 31, 2023.

On February 5, 2013, we received a distribution of $3,250 related to our investment in NRG Manufacturing, Inc. ("NRG"), for which we realized a gain of the same amount. This is a partial release of the total amounts held in escrow with a remaining fair value of $3,568 as of March 31, 2013.

On February 5, 2013, we made a secured debt investment of $2,000 in Healogics, Inc. ("Healogics"), a provider of outpatient wound care management services located in Jacksonville, Florida. On the same day we fully exited the deal and realized a gain of $60 on this investment.

On February 13, 2013, we made an investment of $35,025 to purchase 50.34% of the subordinated notes in Galaxy XV CLO, Ltd ("Galaxy").

On February 14, 2013, we made a $2,000 secured first-lien debt investment in J.G. Wentworth, LLC ("J.G. Wentworth"), the largest purchaser of structured settlement and annuity payments in the United States. The second lien term loan bears interest in cash at the greater of 9.0% or Libor plus 7.5% and has a final maturity of February 8, 2019.

On February 14, 2013, we provided $15,000 of senior secured financing to Speedy Group Holdings Corp. ("Speedy"), a leading provider of short-term loans and financial services in the United States, the United Kingdom and Canada. The unsecured subordinated term loan bears interest in cash at 12.0% and has a final maturity of November 15, 2017.

On February 15, 2013, we made a $6,000 secured second-lien debt investment in SESAC Holdco II LLC ("SESAC"), a performing rights organization based in Nashville, TN. The second lien term loan bears interest in cash at the greater of 10.0% or Libor plus 8.75% and has a final maturity of July 12, 2019.

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On February 21, 2013, we provided $39,550 of senior secured first-lien financing to Healthcare Group (Puerto Rico), Inc. ("Atlantis"), a leading owner and operator of dialysis stations. The senior secured term loan bears interest in cash at the greater of 10.0% or Libor plus 8.0% and has a final maturity date of February 21, 2018.

On February 25, 2013, we made a $10,000 secured second lien loan and a $2,000 secured first-lien debt investment in Transaction Networks Services, Inc. ("TNS"), an international data communications company that provides networking, data communications and other value added services. On the same day we sold the $2,000 secured first lien debt instrument and realized a gain of $20 on this investment. The second lien term loan bears interest in cash at the greater of 9.0% or Libor plus 8.0% and has a final maturity of August 14, 2020.

On March 1, 2013, we made a $70,000 secured term loan investment in a subsidiary of Cinedigm DC Holdings, LLC ("Cinedigm"), the leading provider of digital cinema services, software and content marketing and distribution. The senior secured term loan bears interest in cash at the greater of 11.0% or Libor plus 9.0% and interest in kind of 2.5% and has a final maturity of March 31, 2021.

On March 6, 2013, we made a $5,000 follow-on investment in Rocket Software, Inc ("Rocket"). The senior secured second-lien term loan bears interest in cash at the greater of 10.25% or Libor plus 8.75% and has a final maturity of February 8, 2019.

On March 7, 2013, we made a secured second-lien follow-on investment of $60,000 in United Sporting Companies, Inc. ("USC"). The senior secured second-lien term loan bears interest in cash at the greater of 12.75% or Libor plus 11.0% and has a final maturity of May 16, 2018.

On March 8, 2013, we made an investment of $40,400 to purchase 78.60% of the subordinated notes in Halcyon Loan Advisors Funding 2013-I Ltd ("Halcyon").

On March 12, 2013, we provided $12,000 of secured second-lien financing to ALG USA Holdings, LLC ("ALG"), a vertically integrated travel company that focuses on providing all-inclusive vacations in Mexico and the Caribbean to the U.S. customer. The senior secured second-lien term loan bears interest in cash at the greater of 10.25% or Libor plus 9.0% and has a final maturity of February 28, 2020.

On March 15, 2013, we made an investment of $44,063 to purchase 95.27% of the subordinated notes in Apidos CLO XII, Ltd ("Apidos XII").

On March 18, 2013, we sold our $2,000 investment in J.G. Wentworth and realized a gain of $75 on this investment.

On March 18, 2013, we provided a $197,291 first-lien senior secured credit facility to support the refinancing of Capstone Logistics, LLC ("Capstone"), a logistics services portfolio company controlled by H.I.G. Capital ("H.I.G."). After the financing, we received repayment of $30,705 of Term Loan A and $38,434 of Term Loan B previously outstanding. The Term Loan A note bears interest in cash at the greater of 6.5% or Libor plus 5.0% and has a final maturity of September 16, 2016. The Term Loan B note bears interest in cash at the greater of 11.5% or Libor plus 10.0% and has a final maturity of September 16, 2016.

On March 27, 2013, we provided $100,000 of senior secured debt financing to support the recapitalization of Broder Bros., Co. ("Broder"), a leading distributor of imprintable sportswear and accessories in the United States. The senior secured term loan bears interest in cash at the greater of 10.75% or Libor plus 9.0% and has a final maturity of June 27, 2018.

On March 28, 2013, we sold our investment in New Meatco Provisions, LLC ("Meatco") for net proceeds of approximately $1,965, recognizing a realized loss of $10,814 on the sale.

On March 29, 2013, we received net proceeds of $1,251 for the partial sale of our equity investment in Caleel + Hayden, LLC ("C&H"), realizing a gain of $900 on the sale.

Equity Issuance

During the period from January 7, 2013 to February 5, 2013, we sold 10,248,051 shares of our common stock at an average price of $11.25 per share, and raised $115,315 of gross proceeds, under the ATM Program. Net proceeds were $114,162 after commission to the broker-dealer on shares sold and offering costs.

During the period from February 15, 2013 to March 28, 2013, we sold 12,753,216 shares of our common stock at an average price of $11.21 per share, and raised $142,953 of gross proceeds, under the ATM Program. Net proceeds were $141,523 after commission to the broker-dealer on shares sold and offering costs.

On January 23, 2013, February 20, 2013 and March 21, 2013, we issued shares of our common stock in connection with the dividend reinvestment plan of 160,182, 160,941 and 132,237, respectively.

Dividend

On February 7, 2013, we announced the declaration of monthly dividends in the following amounts and with the following dates:

- $0.110050 per share for February 2013 to holders of record on February 28, 2013 with a payment date of March 21, 2013;
- $0.110075 per share for March 2013 to holders of record on March 29, 2013 with a payment date of April 18, 2013; and
- $0.110100 per share for April 2013 to holders of record on April 30, 2013 with a payment date of May 23, 2013.

Debt Issuance

On March 4, 2013, we entered into a Second Amended and Restated Selling Agent Agreement which continued our issuance of Prospect Capital InterNotes® on substantially the same terms and provides for our issuance of floating rate notes in addition to fixed rate notes. During the period from

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January 4, 2013 to March 28, 2013, we issued approximately $34,408 in aggregate principal amount of Prospect Capital InterNotes® for net proceeds of $33,359, as follows:

Date of Issuance		Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date
January 4, 2013 - January 31, 2013	$	4,427	4.00% - 4.375%	4.15%	January 15, 2020
January 4, 2013 - January 31, 2013		2,388	4.50% - 4.875%	4.74%	January 15, 2031
January 4, 2013 - January 31, 2013		9,338	5.50% - 5.875%	5.63%	January 15, 2043
February 4, 2013 - February 28, 2013		2,619	4.00%	4.00%	February 15, 2020
February 4, 2013 - February 28, 2013		664	4.50%	4.50%	February 15, 2031
February 4, 2013 - February 28, 2013		4,623	5.50%	5.50%	February 15, 2043
March 4, 2013 - March 28, 2013		3,832	4.00%	4.00%	March 15, 2020
March 4, 2013 - March 28, 2013		984	4.125% - 4.5%	4.24%	March 15, 2031
March 4, 2013 - March 28, 2013		4,308	5.50%	5.50%	March 15, 2043
March 14, 2013 - March 28, 2013(1)		1,225	L+3.00%	3.27%	March 15, 2023
	$	34,408			

(1) Rate as of March 31, 2013 was 3.00% plus the Libor spot rate at issuance.

On March 15, 2013, we issued $250,000 in aggregate principal amount of 5.875% senior unsecured notes due 2023 (the "2023 Notes") for net proceeds following underwriting and other expenses of approximately $245,885. Interest on the 2023 Notes is paid semi-annually. The 2023 Notes matured on March 15, 2023. (See *Capitalization.*)

Investment Holdings

As of March 31, 2013, we continue to pursue our diversified investment strategy. At March 31, 2013, approximately $3,707,722 or 145.1% of our net assets are invested in 120 long-term portfolio investments and CLOs and 9.9% of our net assets are invested in money market funds.

During the nine months ended March 31, 2013, we originated $2,297,432 of new investments. Our origination efforts are focused primarily on secured lending, to reduce the risk in the portfolio, investing primarily in first lien loans, and subordinated notes in CLOs, though we also continue to close selected junior debt and equity investments. In addition to targeting investments senior in corporate capital structures with our new originations, we have also increased our origination business mix of third party private equity sponsor owned companies, which tend to have more third party equity capital supporting our debt investments than non-sponsor transactions. Our annualized current yield was 13.9% as of June 30, 2012 and March 31, 2013 across all performing interest bearing investments. Monetization of equity positions that we hold is not included in this yield calculation. In many of our portfolio companies we hold equity positions, ranging from minority interests to majority stakes, which we expect over time to contribute to our investment returns. Some of these equity positions include features such as contractual minimum internal rates of returns, preferred distributions, flip structures and other features expected to generate additional investment returns, as well as contractual protections and preferences over junior equity, in addition to the yield and security offered by our cash flow and collateral debt protections.

We classify our investments by level of control. As defined in the 1940 Act, control investments are those where there is the ability or power to exercise a controlling influence over the management or policies of a company. Control is generally deemed to exist when a company or individual possesses or has the right to acquire within 60 days or less, a beneficial ownership of 25% or more of the voting securities of an investee company. Affiliated investments and affiliated companies are defined by a

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lesser degree of influence and are deemed to exist through the possession outright or via the right to acquire within 60 days or less, beneficial ownership of 5% or more of the outstanding voting securities of another person.

As of March 31, 2013, we own controlling interests in AIRMALL USA, Inc. ("AIRMALL"), Ajax Rolled Ring & Machine, Inc. ("Ajax"), APH, AWCNC, LLC, Borga, Inc., CCPI Holdings, Inc. ("CCPI"), Credit Central Holdings of Delaware, LLC ("Credit Central"), Energy Solutions Holdings, Inc. (f/k/a Gas Solutions Holdings, Inc.) ("Energy Solutions"), First Tower Delaware, Manx Energy, Inc. ("Manx"), Nationwide, NMMB Holdings, Inc. ("NMMB"), R-V Industries, Inc. ("R-V"), The Healing Staff, Inc. ("THS"), Valley Electric Co. of Mt. Vernon, Inc. ("Valley Electric") and Wolf Energy Holdings, Inc. ("Wolf"). We also own an affiliated interest in BNN Holdings Corp., (f/k/a Biotronic NeuorNetwork) ("Biotronic"), Boxercraft Incorporated ("Boxercraft") and Smart, LLC.

The following is a summary of our investment portfolio by level of control at March 31, 2013 and June 30, 2012, respectively:

	March 31, 2013				June 30, 2012			
Level of Control	**Cost**	**Percent of Portfolio**	**Fair Value**	**Percent of Portfolio**	**Cost**	**Percent of Portfolio**	**Fair Value**	**Percent of Portfolio**
Control	$ 715,301	18.8%	$ 675,305	18.2%	$ 518,015	24.7%	$ 564,489	27.0%
Affiliate	48,949	1.3%	41,745	1.1%	44,229	2.1%	46,116	2.2%
Non-control/Non-affiliate	3,030,863	79.9%	2,990,672	80.7%	1,537,069	73.2%	1,483,616	70.8%
Total Portfolio	$ 3,795,113	100.0%	$ 3,707,722	100.0%	$ 2,099,313	100.0%	$ 2,094,221	100.0%

The following is our investment portfolio presented by type of investment at March 31, 2013 and June 30, 2012, respectively:

	March 31, 2013				June 30, 2012			
Type of Investment	**Cost**	**Percent of Portfolio**	**Fair Value**	**Percent of Portfolio**	**Cost**	**Percent of Portfolio**	**Fair Value**	**Percent of Portfolio**
Revolving Line of Credit	$ 10,545	0.3%	$ 9,930	0.3%	$ 1,145	0.1%	$ 868	0.0%
Senior Secured Debt	1,944,699	51.2%	1,878,542	50.7%	1,146,454	54.6%	1,088,019	52.0%
Subordinated Secured Debt	916,981	24.2%	876,859	23.6%	536,900	25.6%	480,147	22.9%
Unsecured Debt	189,133	5.0%	189,653	5.1%	72,617	3.5%	73,195	3.5%
CLO Debt	27,562	0.7%	29,844	0.8%	27,258	1.3%	27,717	1.3%
CLO Residual Interest	571,668	15.0%	582,939	15.7%	214,559	10.2%	218,009	10.4%
Preferred Stock	21,291	0.6%	5,767	0.2%	31,323	1.5%	29,155	1.4%
Common Stock	109,872	2.9%	110,699	3.0%	61,459	2.9%	137,198	6.6%
Membership Interests	1,090	0.0%	3,144	0.1%	5,437	0.2%	13,844	0.7%
Overriding Royalty Interests		%	1,539	0.0%		%	1,623	0.1%
Net Profit Interests		%	5,791	0.2%		%		%
Escrows Receivable		%	5,065	0.1%		%	17,686	0.8%
Warrants	2,272	0.1%	7,950	0.2%	2,161	0.1%	6,760	0.3%
Total Portfolio	$ 3,795,113	100.0%	$ 3,707,722	100.0%	$ 2,099,313	100.0%	$ 2,094,221	100.0%

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The following is our investments in interest bearing securities presented by type of security at March 31, 2013 and June 30, 2012, respectively:

	March 31, 2013				June 30, 2012			
Level of Control	Cost	Percent of Debt Securities	Fair Value	Percent of Debt Securities	Cost	Percent of Debt Securities	Fair Value	Percent of Debt Securities
First Lien	$ 1,955,244	53.4%	$ 1,888,472	52.9%	$ 1,147,599	57.4%	$ 1,088,887	57.6%
Second Lien	916,981	25.1%	876,859	24.7%	536,900	26.9%	480,147	25.4%
Unsecured	189,133	5.2%	189,653	5.3%	72,617	3.6%	73,195	3.9%
CLO Residual Interest	571,668	15.6%	582,939	16.3%	214,559	10.7%	218,009	11.6%
CLO Debt	27,562	0.7%	29,844	0.8%	27,258	1.4%	27,717	1.5%
Total Debt Securities	$ 3,660,588	100.0%	$ 3,567,767	100.0%	$ 1,998,933	100.0%	$ 1,887,955	100.0%

The following is our investment portfolio presented by geographic location of the investment at March 31, 2013 and June 30, 2012, respectively:

	March 31, 2013				June 30, 2012			
Geographic Location	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio
Canada	$ 101,751	2.7%	$ 101,751	2.7%	$ 15,134	0.7%	$ 17,040	0.8%
Cayman Islands	599,230	15.8%	612,783	16.5%	241,817	11.5%	245,726	11.7%
Ireland	14,924	0.4%	15,000	0.4%	14,918	0.7%	15,000	0.7%
Midwest US	625,499	16.5%	579,633	15.6%	427,430	20.4%	377,139	18.0%
Northeast US	617,850	16.3%	630,254	17.0%	293,181	14.0%	313,437	15.0%
Puerto Rico	39,451	1.0%	39,451	1.1%		%		%
Southeast US	992,993	26.2%	956,160	25.8%	642,984	30.6%	634,945	30.4%
Southwest US	268,780	7.1%	255,317	6.9%	193,627	9.2%	234,433	11.2%
Western US	534,635	14.0%	517,373	14.0%	270,222	12.9%	256,501	12.2%
Total Portfolio	$ 3,795,113	100.0%	$ 3,707,722	100.0%	$ 2,099,313	100.0%	$ 2,094,221	100.0%

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The following is our investment portfolio presented by industry sector of the investment at March 31, 2013 and June 30, 2012, respectively:

	March 31, 2013				June 30, 2012			
Industry	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio
Aerospace and Defense	$ 56	0.0%	$	%	$ 56	0.0%	$	%
Automobile / Auto Finance	28,122	0.7%	27,676	0.7%	32,806	1.6%	32,478	1.6%
Biotechnology		%	14	0.0%		%		%
Business Services	180,775	4.8%	180,849	4.9%	3,164	0.2%	3,288	0.2%
Chemicals	28,222	0.7%	28,222	0.8%	58,104	2.8%	58,104	2.8%
Commercial Services	252,295	6.6%	252,295	6.8%	80,418	3.8%	80,407	3.8%
Construction and Engineering	52,844	1.4%	52,844	1.4%		%		%
Consumer Finance	413,335	10.8%	401,208	10.9%	305,521	14.6%	305,521	14.6%
Consumer Services	258,439	6.8%	260,272	7.0%	146,335	7.0%	147,809	7.1%
Contracting	975	0.0%		%	15,949	0.8%		%
Diversified Financial Services	617,842	16.2%	631,395	17.0%	260,219	12.3%	264,128	12.6%
Diversified / Conglomerate Service		%		%		%	35	0.0%
Diversified Telecommunication Services	9,852	0.3%	9,852	0.3%		%		%
Durable Consumer Products	360,794	9.5%	356,042	9.6%	153,327	7.3%	152,862	7.3%
Ecological	141	0.0%	306	0.0%	141	0.0%	240	0.0%
Electronics		%	147	0.0%		%	144	0.0%
Energy	68,333	1.8%	60,755	1.6%	63,245	3.0%	126,868	6.1%
Food Products	131,980	3.5%	132,868	3.6%	101,975	4.9%	96,146	4.5%
Healthcare	276,747	7.3%	275,022	7.5%	141,990	6.8%	143,561	6.9%
Hotel, Restaurant & Leisure	11,764	0.3%	11,764	0.3%		%		%
Insurance		%		%	83,461	4.0%	83,461	4.0%
Machinery	1,271	0.0%	3,839	0.1%	4,684	0.2%	6,485	0.3%
Manufacturing	139,457	3.7%	153,143	4.1%	95,191	4.5%	127,127	6.1%
Media	148,264	3.9%	138,595	3.7%	165,866	7.9%	161,843	7.7%
Metal Services and Minerals	42,079	1.1%	42,193	1.1%		%		%
Oil and Gas Equipment Services		%		%	7,188	0.3%	7,391	0.4%
Oil and Gas Production	150,743	4.0%	66,917	1.8%	130,928	6.2%	38,993	1.9%
Personal and Nondurable Consumer Products	39,000	1.0%	39,616	1.1%	39,351	1.8%	39,968	1.9%
Production Services		%		%	268	0.0%	2,040	0.1%
Property Management	51,320	1.4%	51,694	1.4%	51,770	2.5%	47,982	2.2%
Real Estate	47,768	1.3%	47,768	1.3%		%		%
Retail	17,225	0.5%	17,615	0.5%	63	0.0%	129	0.0%
Software & Computer Services	181,646	4.8%	182,831	4.9%	53,908	2.6%	54,711	2.6%
Specialty Minerals	38,500	1.2%	43,538	1.2%	37,732	1.8%	44,562	2.1%
Textiles, Apparel & Luxury Goods	100,000	2.6%	100,000	2.7%		%		%
Textiles and Leather	16,370	0.4%	8,868	0.2%	15,123	0.7%	17,161	0.8%
Transportation	128,954	3.4%	129,574	3.5%	50,530	2.4%	50,777	2.4%
Total Portfolio	$ 3,795,113	100.0%	$ 3,707,722	100.0%	$ 2,099,313	100.0%	$ 2,094,221	100.0%

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Portfolio Investment Activity

During the nine months ended March 31, 2013, we acquired $2,048,399 of new investments, completed follow-on investments in existing portfolio companies, totaling approximately $236,833, funded $12,200 of revolver advances, recorded PIK interest of $7,025 and amortization of discounts and premiums of $13,624, resulting in gross investment originations of $2,297,432. These investments are described briefly in the following:

On July 5, 2012, we made a senior secured debt investment of $28,000 to support the acquisition of Material Handling Services, LLC, d/b/a/ Total Fleet Solutions ("TFS"), a provider of forklift and other material handling equipment fleet management and procurement services, by funds managed by CI Capital Partners, LLC. The senior secured term loan bears interest in cash at the greater of 10.5% or Libor plus 8.50% and has a final maturity of July 5, 2017.

On July 16, 2012, we provided $15,000 of secured second lien financing to Pelican Products, Inc., a leading provider of unbreakable, watertight protective cases and technically advanced professional lighting equipment. The second lien term loan bears interest in cash at the greater of 11.5% or Libor plus 10.0% and has a final maturity of June 14, 2019.

On July 20, 2012, we provided $12,000 of senior secured financing to EIG Investors Corp ("EIG"), a provider of an array of online services such as web presence, domain hosting, e-commerce, e-mail and other related services to small- and medium-sized businesses. The second lien term loan bears interest in cash at the greater of 11.0% or Libor plus 9.5% and has a final maturity of October 22, 2018.

On July 20, 2012, we provided $10,000 of senior secured financing to FPG, LLC, a supplier of branded consumer and commercial products sold to the retail, foodservice, and hospitality sectors. The note payable bears interest in cash at the greater of 12.0% or Libor plus 11.0% and has a final maturity of January 20, 2017.

On July 27, 2012, we provided $85,000 of subordinated financing to support the acquisition of substantially all the assets of Arctic Glacier Income Funds by funds affiliated with H.I.G. The new company, Arctic Glacier U.S.A., Inc., will continue to conduct business under the "Arctic Glacier" name and be a leading producer, marketer, and distributor of high-quality packaged ice to consumers in Canada and the United States. The unsecured subordinated term loan bears interest in cash at 12.0% and interest in kind of 3.0% and has a final maturity of July 27, 2019.

On August 2, 2012, we provided a $27,000 secured loan to support the acquisition of New Star Metals, Inc. ("New Star"), a provider of specialized processing services to the steel industry, by funds managed by Insight Equity Management Company. The senior subordinated note bears interest in cash at greater of 11.5% or Libor plus 8.5% and interest in kind of 1.0% and has a final maturity of February 2, 2018.

On August 3, 2012, we provided $120,000 senior secured financing, of which $110,000 was funded at closing, to support the acquisition of InterDent, Inc. ("Interdent"), a leading provider of dental practice management services to dental professional corporations and associations in the United States, by funds managed by H.I.G. The Term Loan A note bears interest in cash at the greater of 8.0% or Libor plus 6.5% and has a final maturity of August 3, 2017. The Term Loan B note bears interest in cash at the greater of 13.0% or Libor plus 10.0% and has a final maturity of August 3, 2017. The $10,000 senior secured revolver bears interest in cash at the greater of 10.5% or Libor plus 8.25% and has a final maturity of February 3, 2013.

On August 3, 2012, we provided $44,000 of secured subordinated financing to support the refinancing of New Century Transportation, Inc., a leading transportation and logistics company.

The senior subordinated loan bears interest in cash at the greater of 12.0% or Libor plus 10.0% and interest in kind of 3.0% and has a final maturity of February 3, 2018.

On August 3, 2012, we provided $10,000 of senior secured financing to Pinnacle (US) Acquisition Co Limited, the largest multi-national software company focused on the delivery of analytical and information management solutions for the discovery and extraction of subsurface natural resources. The second lien term loan bears interest in cash at the greater of 10.5% or Libor plus 8.25% and has a final maturity of August 3, 2020.

On August 6, 2012, we made an investment of $22,210 to purchase 62.9% of the subordinated notes in Halcyon Loan Advisors Funding 2012-I, Ltd.

On August 7, 2012, we made an investment of $36,798 to purchase 95.0% of the subordinated notes in ING IM CLO 2012-II, Ltd.

On August 17, 2012, we made a secured second lien investment of $38,500 to support the recapitalization of American Gilsonite Company. The secured note bears interest in cash at 11.5% and has a final maturity of September 1, 2017. After the financing, we received repayment of the $37,732 loan previously outstanding on August 28, 2012.

On September 14, 2012, we invested an additional $10,000 in Hoffmaster Group, Inc. The second lien term loan bears interest in cash at the greater of 11.0% or Libor plus 9.5% and has a final maturity of January 3, 2019.

On September 14, 2012, we made a secured investment of $135,000 to support the recapitalization of Progrexion Holdings, Inc. ("Progrexion"). Concurrent with the financing, we received repayment of the $62,680 loans that were previously outstanding. The senior secured loan bears interest in cash at the greater of 10.5% or Libor plus 8.5% and has a final maturity of September 14, 2017.

On September 27, 2012, we made an investment of $45,746 to purchase 95% of the subordinated notes in ING IM CLO 2012-III, Ltd.

On September 28, 2012, we made an unsecured investment of $10,400 to support the acquisition of Evanta Ventures, Inc., a diversified event management company. The subordinated note bears interest in cash at 12.0% and interest in kind of 1.0% and has a final maturity of September 28, 2018.

On September 28, 2012, we made a secured second lien investment of $100,000 to support the recapitalization of USC, a national distributor of hunting, outdoor, marine and tackle products. The secured loan bears interest in cash at the greater of 12.75% or Libor plus 11.0% and has a final maturity of May 16, 2018.

On October 3, 2012, we made a senior secured investment of $21,500 to support the acquisition of CP Well Testing, LLC, a leading provider of flowback services to oil and gas companies operating in Western Oklahoma and the Texas Panhandle. The first lien note bears interest in cash at the greater of 13.5% or Libor plus 11.0% and has a final maturity of October 3, 2017.

On October 11, 2012, we made a secured second lien investment of $12,000 in Deltek, Inc., an enterprise software and information solutions provider for professional services firms, government contractors, and government agencies. The second lien note bears interest in cash at the greater of 10.0% or Libor plus 8.75% and has a final maturity of October 10, 2019.

On October 12, 2012, we made a senior secured investment of $42,000 to support the acquisition of Gulf Coast Machine and Supply Company, a preferred provider of value-added

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forging solutions to energy and industrial end markets. The first lien note bears interest in cash at the greater of 10.5% or Libor plus 8.5% and has a final maturity of October 12, 2017.

On October 18, 2012, we made a follow-on senior secured debt investment of $20,000 in First Tower Delaware, to support seasonal growth in finance receivables due to increased holiday borrowing activity among its customer base. The first lien note bears interest in cash at the greater of 20.0% or Libor plus 18.5% and has a final maturity of June 30, 2022.

On October 24, 2012, we made an investment of $7,800 in APH, to acquire an industrial real estate property occupied by Filet-of-Chicken, a chicken processor in Georgia. We invested $1,809 of equity and $6,000 of debt in APH. The first lien note bears interest in cash at the greater of 10.5% or Libor plus 8.5% and interest in kind of 2.0% and has a final maturity of October 24, 2020.

On November 5, 2012, we made an investment of $39,475 to purchase 95.0% of the income notes in ING IM CLO 2012-IV, LTD.

On November 9, 2012 we made a secured second lien investment of $22,000 to support the recapitalization of EIG. Concurrent with the financing, we received a repayment of the $12,000 loan previously outstanding. The new note bears interest in cash at the greater of 10.25% or Libor plus 9.0% and has a final maturity of May 9, 2020.

On November 26, 2012 we made a secured second lien investment of $22,000 in The Petroleum Place, Inc., a provider of enterprise resource planning software focused on the oil & gas industry. The second lien note bears interest in cash at the greater of 10.0% or Libor plus 8.75% and has a final maturity of May 20, 2019.

On November 30, 2012 we made a secured second lien investment of $9,500 to support the recapitalization of R-V. The second lien note bears interest in cash at the greater of 12.0% or Libor plus 9.0% and has a final maturity of May 30, 2018. As part of the recapitalization, we received a dividend of $11,073 for our investment in R-V's common stock.

On December 6, 2012, we made an investment of $38,291 to purchase 90% of the subordinated notes in Apidos CLO XI, LLC.

On December 13, 2012, we completed a $33,921 recapitalization of CCPI, an international manufacturer of refractory materials and other consumable products for industrial applications. Through the recapitalization, Prospect acquired a controlling interest in CCPI for $28,334 in cash and 467,928 unregistered shares of our common stock. The first lien note issued to CCPI bears interest in cash at a fixed rate of 10.0% and has a final maturity of December 31, 2017. The first lien note issued to CCPI Holdings bears interest in cash at a fixed rate of 12.0% and interest in kind of 7.0%, and has a final maturity of June 30, 2018.

On December 14, 2012, we provided $10,000 of first-lien financing to support the recapitalization of Prince Mineral Holding Corp., a leading global specialty mineral processor and consolidator. The first lien note bears interest in cash at a fixed rate of 11.5% and has a final maturity of December 15, 2019.

On December 14, 2012, we made a $3,000 follow-on investment in Focus Brands, Inc. The second lien note bears interest in cash at the greater of 10.25% or Libor plus 9.0% and has a final maturity of August 21, 2018.

On December 17, 2012, we made a $39,800 first-lien investment in Coverall Health-Based Cleaning Systems, a leading franchiser of commercial cleaning businesses. The first lien note bears interest in cash at the greater of 11.5% or Libor plus 8.5% and has a final maturity of December 17, 2017.

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On December 17, 2012, we made a $38,150 first-lien follow-on investment in TFS, to support the acquisition of Miner Holding Company, Inc. The first lien note bears interest in cash at the greater of 10.0% or Libor plus 8.0% and has a final maturity of December 21, 2017.

On December 17, 2012, we made a secured debt investment of $30,000 to support the recapitalization of Biotronic. After the financing, we received payment of the $26,227 loan that was previously outstanding. The new note bears interest in cash at the greater of 10.0% or Libor plus 8.0% and has a final maturity of December 17, 2017.

On December 19, 2012, we provided $17,500 of senior secured second-lien financing to Grocery Outlet, Inc., to support the recapitalization of a retailer of food, beverages and general merchandise. The second lien note bears interest in cash at the greater of 10.5% or Libor plus 9.25% and has a final maturity of June 17, 2019.

On December 19, 2012, we provided $23,200 of senior secured second-lien financing to support the recapitalization of TB Corp., a Mexican restaurant chain. The second lien note bears interest in cash at a fixed rate of 12.0% and interest in kind of 1.5%, and has a final maturity of December 18, 2018.

On December 20, 2012, we made an additional follow-on senior secured debt investment of $19,500 to support the recapitalization of Progrexion. After the financing, we now hold $154,500 of senior secured debt of Progrexion. The first lien note bears interest in cash at the greater of 10.5% or Libor plus 8.5% and has a final maturity of September 14, 2017.

On December 21, 2012, we made a $10,000 senior secured second-lien follow-on investment in Seaton Corp. The second lien note bears interest in cash at the greater of 12.5% or Libor plus 9.0% and interest in kind of 2.0%, and has a final maturity of March 14, 2015.

On December 21, 2012, we made a $37,500 senior secured first-lien investment in Lasership, Inc., a leading provider of regional same day and next day distribution services for premier e-commerce and product supply businesses. The first lien note bears interest in cash at the greater of 10.25% or Libor plus 8.25% and has a final maturity of December 21, 2017.

On December 21, 2012, we made a $12,000 senior secured first-lien follow-on investment in FPG, LLC, a supplier of branded consumer and commercial products sold to the retail, foodservice, and hospitality sectors. The first lien note bears interest in cash at the greater of 12.0% or Libor plus 11.0% and has a final maturity of January 20, 2017.

On December 24, 2012, we made a follow-on secured debt investment of $5,000 in New Star. The second lien note bears interest in cash at the greater of 11.5% or Libor plus 8.5% and interest in kind of 1.0%, and has a final maturity of February 2, 2018.

On December 24, 2012, we made a $7,000 second-lien secured investment in Aderant North America, Inc., a leading provider of enterprise software solutions to professional services organizations. The first lien note bears interest in cash at the greater of 11.0% or PRIME plus 7.75% and has a final maturity of June 20, 2019.

On December 28, 2012, we made a $9,500 second-lien secured investment in APH, to acquire Abbington Pointe, Inc., a multi-family property in Marietta, Georgia. We invested $3,193 of equity and $6,400 of debt in APH. The second lien note bears interest in cash at the greater of 10.5% or Libor plus 8.50% and interest in kind of 2.0% and has a final maturity of October 24, 2020.

On December 28, 2012, we made a $5,000 second-lien secured investment in TransFirst Holdings, Inc., a payments processing firm that provides electronic credit card authorization to merchants located throughout the United States. The second lien note bears interest in cash at the greater of 11.0% or Libor plus 9.75% and has a final maturity of June 27, 2018.

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On December 28, 2012, we completed a $47,900 recapitalization of Credit Central, a branch-based provider of installment loans. Through the recapitalization, we acquired a controlling interest in Credit Central for $38,082 in cash and 897,906 unregistered shares of our common stock. The first lien note bears interest in cash at the greater of 20.0% or Libor plus 18.50% and has a final maturity of December 31, 2020.

On December 28, 2012, we made a $3,600 follow-on subordinated unsecured investment in Ajax. The unsecured note bears interest in cash at the greater of 11.5% or Libor plus 8.50% and interest in kind of 6.00% and has a final maturity of December 31, 2017.

On December 28, 2012, we made a $30,000 first-lien senior secured investment to support the recapitalization of Spartan Energy Services, LLC, a leading provider of thru tubing and flow control services to oil and gas companies. The first lien note bears interest in cash at the greater of 10.5% or Libor plus 9.0% and has a final maturity of December 28, 2017.

On December 31, 2012, we provided $32,000 senior secured loan to support the acquisition of System One Holdings, LLC, a leading provider of professional staffing services, by investment funds managed by MidOcean Partners. The first lien note bears interest in cash at the greater of 11.0% or Libor plus 9.5% and has a final maturity of December 31, 2018.

On December 31, 2012, we funded a recapitalization of Valley Electric with $52,098 of combined debt and equity financing. Through the recapitalization, we acquired a controlling interest in Valley Electric for $7,449 in cash and 4,141,547 unregistered shares of our common stock. The first lien note issued to Valley Electric bears interest in cash at the greater of 8.0% or Libor plus 5.0% and interest in kind of 2.5%, and has a final maturity of December 31, 2017. The first lien note issued to Valley Electric Holdings bears interest in cash at the greater of 9.0% or Libor plus 6.0% and interest in kind of 9.0%, and has a final maturity of December 31, 2018.

On December 31, 2012, we provided $70,000 of secured second-lien debt financing for the acquisition of Thomson Reuters Property Tax Services by Ryan, LLC. The second lien note bears interest in cash at the greater of 12.0% or Libor plus 9.0% and interest in kind of 3.0%, and has a final maturity of June 30, 2018.

On January 11, 2013, we provided $27,100 of debt financing to CHC, a national provider of correctional medical and behavioral healthcare solutions. The subordinated secured second lien loan bears interest in cash at 11.25% and has a final maturity of January 11, 2020.

On January 17, 2013, we made a $30,348 follow-on investment in APH, to acquire 5100 Live Oaks Blvd, LLC, a multi-family residential property located in Tampa, Florida. We invested $2,748 of equity and $27,600 of debt in APH Property Holdings, LLC.

On January 24, 2013, we made an investment of $24,870 to purchase 56.14% of the subordinated notes in Cent 17 CLO.

On January 24, 2013, we made an investment of $26,901 to purchase 50.12% of the subordinated notes in Octagon.

On January 29, 2013 we provided $8,000 of secured second lien financing to TGG, a developer of technologies for extracorporeal photopheresis treatments. The senior secured second-lien term loan bears interest in cash at the greater of 11.25% or Libor plus 10.0% and has a final maturity of June 27, 2018.

On January 31, 2013, we funded an acquisition of the subsidiaries of Nationwide, which operate a specialty finance business based in Chicago, Illinois, a $25,151 of combined debt and equity financing. The term loan bears interest in cash at the greater of 20.0% or Libor plus 18.5% and has a final maturity of January 31, 2023.

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On February 5, 2013, we received a distribution of $3,250 related to our investment in NRG, for which we realized a gain of the same amount. This is a partial release of the total amounts held in escrow with a remaining fair value of $3,568 as of March 31, 2013.

On February 5, 2013, we made a secured debt investment of $2,000 in Healogics, a provider of outpatient wound care management services located in Jacksonville, Florida. On the same day we fully exited the deal and realized a gain of $60 on this investment.

On February 13, 2013, we made an investment of $35,025 to purchase 50.34% of the subordinated notes in Galaxy.

On February 14, 2013, we made a $2,000 secured first-lien debt investment in J.G. Wentworth, the largest purchaser of structured settlement and annuity payments in the United States. The second lien term loan bears interest in cash at the greater of 9.0% or Libor plus 7.5% and has a final maturity of February 8, 2019.

On February 14, 2013, we provided $15,000 of senior secured financing to Speedy, a leading provider of short-term loans and financial services in the United States, the United Kingdom and Canada. The unsecured subordinated term loan bears interest in cash at 12.0% and has a final maturity of November 15, 2017.

On February 15, 2013, we made a $6,000 secured second-lien debt investment in SESAC, a performing rights organization based in Nashville, TN. The second lien term loan bears interest in cash at the greater of 10.0% or Libor plus 8.75% and has a final maturity of July 12, 2019.

On February 21, 2013, we provided $39,550 of senior secured first-lien financing to Atlantis, a leading owner and operator of dialysis stations. The senior secured term loan bears interest in cash at the greater of 10.0% or Libor plus 8.0% and has a final maturity date of February 21, 2018.

On February 25, 2013, we made a $10,000 secured second lien loan and a $2,000 secured first-lien debt investment in TNS, an international data communications company that provides networking, data communications and other value added services. On the same day we sold the $2,000 secured first lien debt instrument and realized a gain of $20 on this investment. The second lien term loan bears interest in cash at the greater of 9.0% or Libor plus 8.0% and has a final maturity of August 14, 2020.

On March 1, 2013, we made a $70,000 secured term loan investment in a subsidiary of Cinedigm, the leading provider of digital cinema services, software and content marketing and distribution. The senior secured term loan bears interest in cash at the greater of 11.0% or Libor plus 9.0% and interest in kind of 2.5% and has a final maturity of March 31, 2021.

On March 6, 2013, we made a $5,000 follow-on investment in Rocket. The senior secured second-lien term loan bears interest in cash at the greater of 10.25% or Libor plus 8.75% and has a final maturity of February 8, 2019.

On March 7, 2013, we made a secured second-lien follow-on investment of $60,000 in USC. The senior secured second-lien term loan bears interest in cash at the greater of 12.75% or Libor plus 11.0% and has a final maturity of May 16, 2018.

On March 8, 2013, we made an investment of $40,400 to purchase 78.60% of the subordinated notes in Halcyon.

On March 12, 2013, we provided $12,000 of secured second-lien financing to ALG, a vertically integrated travel company that focuses on providing all-inclusive vacations in Mexico and the Caribbean to the U.S. customer. The senior secured second-lien term loan bears interest in cash at the greater of 10.25% or Libor plus 9.0% and has a final maturity of February 28, 2020.

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On March 15, 2013, we made an investment of $44,063 to purchase 95.27% of the subordinated notes in Apidos XII.

On March 18, 2013, we provided a $197,291 first-lien senior secured credit facility to support the refinancing of Capstone, a logistics services portfolio company controlled by H.I.G. After the financing, we received repayment of $30,705 of Term Loan A and $38,434 of Term Loan B previously outstanding. The Term Loan A note bears interest in cash at the greater of 6.5% or Libor plus 5.0% and has a final maturity of September 16, 2016. The Term Loan B note bears interest in cash at the greater of 11.5% or Libor plus 10.0% and has a final maturity of September 16, 2016.

On March 27, 2013, we provided $100,000 of senior secured debt financing to support the recapitalization of Broder, a leading distributor of imprintable sportswear and accessories in the United States. The senior secured term loan bears interest in cash at the greater of 10.75% or Libor plus 9.0% and has a final maturity of June 27, 2018.

During the nine months ended March 31, 2013, we completed a partial sale of one investment and closed-out seventeen positions which are briefly described below.

On July 24, 2012, we sold our 3,821 shares of Iron Horse Coiled Tubing, Inc. ("Iron Horse") common stock in connection with the exercise of an equity buyout option, receiving $2,040 of net proceeds and realizing a gain of approximately $1,772 on the sale.

On August 3, 2012, Pinnacle Treatment Centers, Inc. repaid the $17,475 loan receivable to us.

On August 10, 2012, U.S. HealthWorks Holding Company, Inc. repaid the $25,000 loan receivable to us.

On September 20, 2012, Fischbein, LLC ("Fischbein") repaid the $3,425 loan receivable to us.

On October 5, 2012, Northwestern Management Services, LLC ("Northwestern") repaid the $15,092 loan receivable to us and we sold our 50 shares of Northwestern common stock for total proceeds of $2,233, realizing a gain of $1,862.

On October 16, 2012, Blue Coat Systems, Inc. repaid the $25,000 loan receivable to us.

On October 18, 2012, Hi-Tech Testing Services, Inc. and Wilson Inspection X-Ray Services, Inc. repaid the $7,200 loan receivable to us.

On October 19, 2012, Mood Media Corporation repaid the $15,000 loan receivable to us.

On October 31, 2012, Shearer's Foods, Inc. ("Shearer's") repaid the $37,999 loan receivable to us. On November 7, 2012, we redeemed our membership interests in Mistral Chip Holdings, LLC, Mistral Chip Holdings 2, LLC and Mistral Chip Holdings 3, LLC in connection with the sale of Shearer's, receiving $6,022 of net proceeds and realizing a gain of approximately $2,027 on the redemption.

On November 8, 2012, Potters Holdings II, L.P. repaid the $15,000 loan receivable to us.

On November 15, 2012, Renaissance Learning, Inc. repaid the $6,000 loan receivable to us.

On December 3, 2012, VanDeMark Chemicals, Inc. repaid the $29,658 loan receivable to us.

On December 7, 2012, Hudson Products Holdings, Inc. ("Hudson") repaid the $6,267 loan receivable to us.

On December 21, 2012, ST Products, LLC repaid the $23,162 loan receivable to us.

On December 21, 2012, SG Acquisition, Inc. repaid the $83,242 loan receivable to us.

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On March 18, 2013, we sold our $2,000 investment in J.G. Wentworth and realized a gain of $75 on this investment.

On March 28, 2013, we sold our investment in Meatco for net proceeds of approximately $1,965, recognizing a realized loss of $10,814 on the sale.

On March 29, 2013, we received net proceeds of $1,251 for the partial sale of our equity investment in C&H, realizing a gain of $900 on the sale.

In addition to the repayments noted above, during the nine months ended March 31, 2013 we received principal amortization payments of $13,583 on several loans, and $51,078 of partial prepayments primarily related to Byrider Systems Acquisition Corp, Capstone, Cargo Airport Services USA, LLC, Energy Solutions, NMMB and Northwestern.

On January 4, 2012, Energy Solutions sold its gas gathering and processing assets ("Gas Solutions") for a sale price of $199,805, adjusted for the final working capital settlement, including a potential earnout of $28,000 that will be paid based on the future performance of Gas Solutions. We do not know the timing, if any, related to this potential earnout and have valued the $28,000 at zero as of March 31, 2013. After expenses, including structuring fees of $9,966 paid to us, Energy Solutions received approximately $158,687 in cash. Currently, a portion of our loans to Energy Solutions remain outstanding and are collateralized by the cash held by Energy Solutions after the sale transaction. The sale of Gas Solutions by Energy Solutions resulted in significant earnings and profits, as defined by the Internal Revenue Code, at Energy Solutions for calendar year 2012. As a result, distributions from Energy Solutions to us were required to be recognized as dividend income, in accordance with ASC 946, Financial Services Investment Companies, as cash distributions are received from Energy Solutions to the extent there are current year earnings and profits sufficient to support such recognition. During the nine months ended March 31, 2013, Energy Solutions repaid $24,250 of senior secured debt. We received a $16,952 make-whole fee for early repayment of the outstanding loan, which was recorded as interest income during the nine months ended March 31, 2013. During the nine months ended March 31, 2013, we received distributions of $53,820 from Energy Solutions which were recorded as dividend income. We received no such distributions during the three months ended March 31, 2013. Energy Solutions continues to hold $23,576 of cash for future investment and repayment of the remaining debt.

During the three and nine months ended March 31, 2013, we recognized $271 and $1,210 of interest income due to purchase discount accretion from the assets acquired from Patriot Capital Funding, Inc. ("Patriot"). Included in the $1,210 recorded during the nine months ended March 31, 2013 is $840 of normal accretion and $370 of accelerated accretion resulting from the repayment of Hudson.

As of March 31, 2013, $812 of purchase discount from the assets acquired from Patriot remains to be accreted as interest income, of which $271 is expected to be amortized during the three months ending June 30, 2013.

During the three and nine months ended March 31, 2012, we recognized $964 and $3,348 of interest income due to purchase discount accretion from the assets acquired from Patriot, respectively. Included in the $964 recorded during the three months ended March 31, 2012 is $726 of normal accretion and $238 of accelerated accretion resulting from the repayment of ROM Acquisition Corp ("ROM"). Included in the $3,348 recorded during the nine months ended March 31, 2012 is $2,417 of normal accretion and $931 of accelerated accretion resulting from the repayments of Mac & Massey Holdings LLC and ROM.

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The following is a quarter-by-quarter summary of our investment activity:

Quarter-End	Acquisitions(1)	Dispositions(2)
March 31, 2013	$ 784,395	$ 102,527
December 31, 2012	772,125	349,269
September 30, 2012	747,937	158,123
June 30, 2012	573,314	146,292
March 31, 2012	170,073	188,399
December 31, 2011	154,697	120,206
September 30, 2011	222,575	46,055
June 30, 2011	312,301	71,738
March 31, 2011	359,152	78,571
December 31, 2010	140,933	67,405
September 30, 2010	140,951	68,148
June 30, 2010	88,973	39,883
March 31, 2010	59,311	26,603
December 31, 2009(3)	210,438	45,494
September 30, 2009	6,066	24,241
June 30, 2009	7,929	3,148
March 31, 2009	6,356	10,782
December 31, 2008	13,564	2,128
September 30, 2008	70,456	10,949
June 30, 2008	118,913	61,148
March 31, 2008	31,794	28,891
December 31, 2007	120,846	19,223
September 30, 2007	40,394	17,949
June 30, 2007	130,345	9,857
March 31, 2007	19,701	7,731
December 31, 2006	62,679	17,796
September 30, 2006	24,677	2,781
June 30, 2006	42,783	5,752
March 31, 2006	15,732	901
December 31, 2005		3,523
September 30, 2005	25,342	
June 30, 2005	17,544	
March 31, 2005	7,332	
December 31, 2004	23,771	32,083
September 30, 2004	30,371	
Since inception	$ 5,553,770	$ 1,767,596

(1) Includes new deals, additional fundings, refinancings and PIK interest.

(2) Includes scheduled principal payments, prepayments and refinancings.

(3) The $210,438 of acquisitions for the quarter ended December 31, 2009 includes $207,126 of portfolio investments acquired from Patriot.

Investment Valuation

In determining the fair value of our portfolio investments at March 31, 2013 the Audit Committee considered valuations from the independent valuation firms and from management having an aggregate range of $3,616,948 to $3,908,509, excluding money market investments.

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In determining the range of value for debt instruments, management and the independent valuation firms generally shadow rated the investment and then based upon the range of ratings, determined appropriate yields to maturity for a loan rated as such. A discounted cash flow analysis was then prepared using the appropriate yield to maturity as the discount rate, yielding the ranges. For equity investments, the enterprise value was determined by applying EBITDA multiples for similar recent investment sales. For stressed equity investments, a liquidation analysis was prepared.

In determining the range of value for our investments in CLOs, management and the independent valuation firms used discounted cash flow models. The valuations were accomplished through the analysis of the CLO deal structures to identify the risk exposures from the modeling point of view. For each security, the most appropriate valuation approach was chosen from alternative approaches to ensure the most accurate valuation for each security. A discounted cash flow model is prepared, utilizing a waterfall engine to store the collateral data, generate collateral cash flows from the assets, and distributes the cash flow to the liability structure based on the payment priorities, and discount them back using proper discount rates that incorporate all the risk factors.

The Board of Directors looked at several factors in determining where within the range to value the asset including: recent operating and financial trends for the asset, independent ratings obtained from third parties, comparable multiples for recent sales of companies within the industry and discounted cash flow models for our investments in CLOs. The composite of all these analysis, applied to each investment, was a total valuation of $3,707,722, excluding money market investments.

Our portfolio companies are generally lower middle market companies, outside of the financial sector, with less than $150,000 of annual EBITDA. We believe our market has experienced less volatility than others because we believe there are more buy and hold investors who own these less liquid investments.

Control investments offer increased risk and reward over straight debt investments. Operating results and changes in market multiples can result in dramatic changes in values from quarter to quarter. Significant downturns in operations can further result in our looking to recoveries on sales of assets rather than the enterprise value of the investment. Several control investments in our portfolio are under enhanced scrutiny by our senior management and our Board of Directors and are discussed below.

AIRMALL USA, Inc.

AIRMALL is a leading developer and manager of airport retail operations. AIRMALL has developed and presently manages all or substantially all of the retail operations and food and beverage concessions at Baltimore/Washington International Thurgood Marshall Airport (BWI), Boston Logan International Airport (BOS), Cleveland Hopkins International Airport (CLE) and Pittsburgh International Airport (PIT). AIRMALL does so pursuant to long-term, infrastructure-like contracts with the respective municipal agencies that own and operate the airports.

On July 30, 2010, we invested $52,420 of combined debt and equity as follows: $30,000 senior term loan, $12,500 senior subordinated note and $9,920 preferred equity. We own 100% of AIRMALL's equity securities. AIRMALL's financial performance has been consistent since the acquisition and we continue to monitor the medium to long-term growth prospects for the company.

As a result of improved operating results, the Board of Directors increased the fair value of our investment in AIRMALL to $51,694 as of March 31, 2013, a premium of $374 from its amortized cost, compared to the $3,788 unrealized depreciation recorded at June 30, 2012.

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Ajax Rolled Ring & Machine, Inc.

Ajax forges large seamless steel rings on two forging mills in the company's York, South Carolina facility. The rings are used in a range of industrial applications, including in construction equipment and power turbines. Ajax also provides machining and other ancillary services.

We acquired a controlling equity interest in Ajax in a recapitalization of Ajax that was closed on April 4, 2008. We funded $22,000 of senior secured term debt, $11,500 of subordinated term debt and $6,300 of equity as of that closing. During the fiscal year ended June 30, 2010, we funded an additional $3,530 of secured subordinated debt to refinance a third-party revolver provider and provide working capital. Ajax repaid $3,461 of this secured subordinated debt during the quarter ended September 30, 2010. During the quarter ended December 31, 2012, we funded an additional $3,600 of unsecured debt to refinance first-lien debt held by Wells Fargo. As of March 31, 2013, we control 78.01% of the fully-diluted common and preferred equity. The principal balance of our senior debt to Ajax was $19,837 and our subordinated debt was $18,635 as of March 31, 2013.

Due to soft operating results in the three months ended December 31, 2012, the Board of Directors decreased the fair value of our investment in Ajax to $38,472 as of March 31, 2013, a reduction of $6,057 from its amortized cost, compared to the $11,151 unrealized appreciation recorded at June 30, 2012.

Energy Solutions Holdings Inc. (f/k/a Gas Solutions Holdings, Inc.)

Energy Solutions owns interests in other companies operating in the energy sector. These include operating offshore supply vessels and ownerships of a non-operating biomass plant and several coal mines. Energy Solutions subsidiaries formerly owned interests in a gas gathering and processing system in east Texas.

In December 2011, we completed a reorganization of Gas Solutions Holdings, Inc. renaming the company Energy Solutions and transferring ownership of other operating companies owned by us and operating within the energy industry with the intent of strategically expanding Energy Solutions operations across energy sectors. As part of the reorganization, we transferred our equity interests in CCEHI, CCEI, Freedom Marine and Yatesville to Energy Solutions. On December 28, 2011, we made a follow-on investment of $4,750 to support the acquisition of a new vessel by Vessel Holdings LLC, a subsidiary of Freedom Marine.

On January 4, 2012, Energy Solutions sold Gas Solutions for a sale price of $199,805, adjusted for the final working capital settlement, including a potential earnout of $28,000 that will be paid based on the future performance of Gas Solutions. After expenses, including structuring fees of $9,966 paid to us, Energy Solutions received approximately $158,687 in cash. Currently, our loans to Energy Solutions remain outstanding and are collateralized by the cash held by Energy Solutions after the sale transaction. The sale of Gas Solutions by Energy Solutions has resulted in significant earnings and profits, as defined by the Internal Revenue Code, at Energy Solutions for calendar year 2012. As a result, distributions from Energy Solutions to us were required to be recognized as dividend income, in accordance with ASC 946, *Financial Services Investment Companies*, as cash distributions are received from Energy Solutions to the extent there are current year earnings and profits sufficient to support such recognition.

In determining the value of Energy Solutions, we have utilized two valuation techniques to determine the value of the investment. Our Board of Directors has determined the value to be $30,942 for our debt and equity positions at March 31, 2013 based upon a combination of a current value method for the cash balances of Energy Solutions and a liquidation analysis for our interests in CCEHI, CCEI, Freedom Marine and Yatesville. At March 31, 2013 and June 30, 2012, Energy Solutions, including the underlying portfolio companies affected by the reorganization, was

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valued at $7,578 below and $63,623 above its amortized cost, respectively. We received distributions of $53,820 from Energy Solutions that were recorded as dividend income during the nine months ended March 31, 2013. No such distributions were received during the three months ended March 31, 2013.

First Tower Holdings of Delaware LLC

First Tower is a multiline specialty finance company based in Flowood, Mississippi with over 150 branch offices.

On June 15, 2012, we acquired 80.1% of First Tower, LLC ("First Tower") businesses for $110,200 in cash and 14,518,207 unregistered shares of our common stock. Based on our share price of $11.06 at the time of issuance, we acquired our 80.1% interest in First Tower for approximately $270,771. As consideration for our investment, First Tower Delaware, which is 100% owned by us, recorded a secured revolving credit facility to us of $244,760 and equity of $43,193. First Tower Delaware owns 80.1% of First Tower Holdings LLC, the holding company of First Tower. The assets of First Tower acquired include, among other things, the subsidiaries owned by First Tower, which hold finance receivables, leaseholds, and tangible property associated with First Tower's businesses. During the three months ended June 30, 2012, we received $8,075 in structuring fee income. During the three months ended December 31, 2012, we funded an additional $20,000 of senior secured debt to support seasonally high demand during the holiday season. As of January 31, 2013, First Tower had total assets of approximately $632,681 including $401,673 of finance receivables net of unearned charges. As of March 31, 2013, First Tower's total debt outstanding to parties senior to us was $264,760.

Due to a reduction in public market comparables for consumer finance industry, the Board of Directors decreased the fair value of our investment in First Tower to $295,158 as of March 31, 2013, a discount of $12,795 to its amortized cost, compared to $287,953 as of June 30, 2012, equal to its amortized cost at that time.

Manx Energy, Inc.

Manx was formed for the purpose of rolling up the assets of two existing Prospect portfolio companies, Coalbed, LLC ("Coalbed") and Appalachian Energy Holdings, LLC ("AEH"), bringing them under new management, restructuring the outstanding debt, and infusing additional capital to allow for future growth. Coalbed is the owner of 100% of the outstanding equity interests of Coalbed Pipelines, LLC and Coalbed Operator, LLC. Coalbed was formed in October 2009 to acquire our outstanding senior secured loan and assigned interests in Conquest Cherokee, LLC ("Conquest"). Conquest's assets consisted primarily of coalbed methane reserves in the Cherokee Basin. AEH was formed in 2006 and is the owner of 100% of the outstanding equity interests of East Cumberland L.L.C., a provider of outsourced mine site development and construction services for coal production companies operating in Southern Appalachia, and C&S Oilfield and Pipeline Construction, a provider of support services to companies engaged in the exploration and production of oil and natural gas.

On January 19, 2010, we modified the terms of our senior secured debt in AEH and Coalbed in conjunction with the formation of Manx, a new entity consisting of the assets of AEH, Coalbed and Kinley Exploration LLC. The assets of the three companies were combined under new common management. We funded $2,800 at closing to Manx to provide for working capital. A portion of our loans to AEH and Coalbed was exchanged for Manx preferred equity, while our AEH equity interest was converted into Manx common stock. There was no change to fair value at the time of restructuring, and we continue to fully reserve any income accrued for Manx. During the year ended June 30, 2011, we made a follow-on secured debt investments of $750 in Manx to

support ongoing operations. On June 30, 2012, Manx assigned the membership interests of Coalbed and AEH to Wolf Energy Holdings, Inc. ("Wolf"), a newly-formed company owned by us.

The Board of Directors decreased the fair value of our investment in Manx to zero as of March 31, 2013 and June 30, 2012, respectively, a reduction of $11,028 from its amortized cost.

The Healing Staff, Inc.

During the three months ended December 31, 2012, we determined that the impairment of Integrated Contract Services, Inc. ("ICS") was other-than-temporary and recorded a realized loss of $12,198 for the amount that the amortized cost exceeded the fair market value. Our remaining investments are in THS and Vets Securing America ("VSA"), wholly owned subsidiaries of ICS with ongoing operations. THS provides outsourced medical staffing services to governmental and commercial enterprises. VSA provides out-sourced security guards staffed primarily using retired military and police department veterans.

During September and October 2007, we provided $1,170 to THS for working capital through our investment in ICS. In January 2009, we foreclosed on the real and personal property of ICS. Through this foreclosure process, we gained 100% ownership of THS. As part of its strategy to diversify its revenues THS started VSA as a new business in the latter part of 2009. During the year ended June 30, 2011 and the six months ended December 31, 2011, we made follow-on secured debt investments of $1,708 and $874, respectively, to support the ongoing operations of THS and VSA. Effective October 19, 2011, the closing date fo the sale by VSA of a commercial real estate asset, $893 of the follow-on secured debt investments were repaid. In early May 2012, we made short-term secured debt investments of $118 and $42, respectively, to support the operations of THS and VSA, which short term debt was repaid in early June 2012. We made no additional fundings during the six months ended June 30, 2012. In May 2012, in connection with the implementation of accounts receivable based funding programs for THS and VSA with a third party provider we agreed to subordinate our first priority security interest in all of the accounts receivable and other assets of THS and VSA to the third party provider of that accounts receivable based funding.

Based upon an analysis of the liquidation value of assets, our Board of Directors determined the fair value of our investment in THS and VSA to be zero at March 31, 2013 and June 30, 2012, respectively, a reduction of $3,750 from its amortized cost.

Wolf Energy Holdings, Inc.

Wolf is a holding company formed to hold 100% of the outstanding membership interests of each of Coalbed and AEH. The membership interests of Coalbed and AEH, which were previously owned by Manx, were assigned to Wolf effective June 30, 2012. The purpose of assignment was to remove those activities from Manx deemed non-core by the Manx convertible debt investors who were not interested in funding those operations. In addition, effective June 29, 2012 C&J Cladding Holding Company, Inc. ("C&J") merged with and into Wolf, with Wolf as the surviving entity. At the time of the merger, C&J held the remaining undistributed proceeds from the sale of its membership interests in C&J Cladding, LLC. The merger was effectuated in connection with the broader simplification of our energy investment holdings.

Based on an increase in the liquidation value of Wolf, the Board of Directors increased the fair value of our investment in Wolf to $811 as of March 31, 2013, a reduction of $7,230 from its amortized cost, compared to the $7,991 unrealized depreciation recorded at June 30, 2012.

Equity positions in the portfolio are susceptible to potentially significant changes in value, both increases as well as decreases, due to changes in operating results. Two of our portfolio companies,

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Ajax and First Tower Delaware, experienced such volatility and experienced meaningful fluctuations in valuation during the nine months ended March 31, 2013. The valuation of Ajax decreased due to declining operating results. The value of our equity position in Ajax decreased to zero as of March 31, 2013, a discount of $6,057 to its cost, compared to the $11,151 unrealized gain recorded at June 30, 2012. The valuation of First Tower Delaware decreased due to change in current market conditions. The value of our equity position in First Tower decreased to $30,398 as of March 31, 2013, a discount of $12,795 to its cost, compared to the value of $43,193 recorded at June 30, 2012, equal to its cost. Seven of the other controlled investments have been valued at discounts to the original investment. Eight of the control investments are valued at the original investment amounts or higher. Overall, at March 31, 2013, the control investments are valued at $39,996 below their amortized cost.

We hold three affiliate investments at March 31, 2013. One of our affiliate portfolio companies, Boxercraft, experienced a meaningful decrease in valuation during the nine months ended March 31, 2013 due to declining operating results. As of March 31, 2013, Boxercraft is valued at $8,868 as of March 31, 2013, a reduction of $7,502 to its amortized cost. Overall, at March 31, 2013, affiliate investments are valued $7,204 below their amortized cost.

With the Non-control/Non-affiliate investments, generally, there is less volatility related to our total investments because our equity positions tend to be smaller than with our control/affiliate investments, and debt investments are generally not as susceptible to large swings in value as equity investments. For debt investments, the fair value is limited on the high side to each loan's par value, plus any prepayment premia that could be imposed. Many of the debt investments in this category have not experienced a significant change in value, as they were previously valued at or near par value. Non-control/Non-affiliate investments did not experience significant changes in valuation and are generally performing as expected or better than expected. As of March 31, 2013 and June 30, 2012, three of our Non-control/Non-affiliate investments, H&M Oil & Gas, LLC ("H&M"), Stryker Energy, LLC ("Stryker") and Wind River Resources Corp. and Wind River II Corp. ("Wind River"), are valued at a significant discount to amortized cost, due to significant decreases in the operating results of the operating companies. Overall, at March 31, 2013, other Non-control/Non-affiliate investments are valued at $25,382 above their amortized cost, excluding our investments in H&M, Stryker and Wind River, as the remaining companies are generally performing as or better than expected.

Capitalization

Our investment activities are capital intensive and the availability and cost of capital is a critical component of our business. We capitalize our business with a combination of debt and equity. Our debt currently consists of a revolving credit facility availing us of the ability to borrow debt subject to borrowing base determinations and Senior Convertible Notes which we issued in December 2010, February 2011, April 2012, August 2012 and December 2012, Senior Unsecured Notes, and Prospect Capital InterNotes®, which we may issue from time to time, and our equity capital, which is comprised entirely of common equity. The following table shows the Revolving Credit Facility, Senior Convertible Notes, Senior Unsecured Notes and InterNotes® amounts and outstanding borrowings at March 31, 2013 and June 30, 2012:

	As of March 31, 2013		As of June 30, 2012	
	Maximum Draw Amount	Amount Outstanding	Maximum Draw Amount	Amount Outstanding
Revolving Credit Facility	$ 552,500	$	$ 492,500	$ 96,000
Senior Convertible Notes	$ 847,500	$ 847,500	$ 447,500	$ 447,500
Senior Unsecured Notes	$ 347,682	$ 347,682	$ 100,000	$ 100,000
InterNotes®	$ 199,401	$ 199,401	$ 20,638	$ 20,638

Valuation of Other Real Estate Owned (OREO)

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

Results of Operations

Overview

For the year ended December 31, 2012, we reported net income attributable to common stockholders of $101.0 million, or $1.28 per diluted share, compared to net income attributable to common stockholders of $83.7 million, or $1.06 per share, in 2011, and net loss attributable to common stockholders of $4.8 million, or $0.06 per share, in 2010. The $17.3 million increase in net income from 2011 to 2012 was primarily the results of a decrease of $36.0 million in the provision for credit losses, a decrease of $8.1 million in costs associated with debt redemptions, a $7.6 million increase in net interest income, a decrease of $4.2 million in FDIC assessments, and a decrease of $1.8 million in operation expenses of affordable housing investment offset by an increase of $14.9 million in income tax expense, an increase of $6.5 million in salaries and incentive compensation, an increase of $5.6 million in litigation accrual expense, an increase of $4.5 million in other real estate owned ("OREO") expenses, and a decrease of $3.1 million in gains on sale of securities. The return on average assets in 2012 was 1.11%, improving from 0.94% in 2011, and from 0.10% in 2010. The return on average stockholders' equity was 7.48% in 2012, improving from 6.78% in 2011, and from 0.81% in 2010.

Highlights

- Net income increased $17.2 million, or 17.3%, to $117.4 million for the year ended December 31, 2012, compared to net income of $100.2 million for the year ended December 31, 2011.
  - Memorandum of Understanding of Cathay Bank lifted by the CDFI and FDIC as of November 7, 2012.
- Commercial loans increased $258.8 million, or 13.9%, during 2012, to $2.1 billion at December 31, 2012, compared to $1.9 billion at December 31, 2011. Residential mortgage loans increased $174.0 million, or 17.9%, to $1.1 billion at December 31, 2012, from $972.3 million at December 31, 2011.
- Non-performing assets decreased $149.7 million, or 49.8%, to $150.9 million at December 31, 2012, from $300.6 million at December 31, 2011.
- Net charge-offs decreased $51.5 million, or 77.9%, to $14.7 million for the year ended December 31, 2012, from $66.2 million for the year ended December 31, 2011.

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

	2012	2011	2010
	(Dollars in thousands, except share and per share data)		
Net income	$117,438	$100,150	$11,565
Dividends on preferred stock	(16,488)	(16,437)	(16,388)
Net income/(loss) available to common stockholders	$100,950	$83,713	$(4,823)
Basic earnings/(loss) per common share	$1.28	$1.06	$(0.06)
Diluted earnings/(loss) per common share	$1.28	$1.06	$(0.06)
Return on average assets	1.11%	0.94%	0.10%
Return on average stockholders' equity	7.48%	6.78%	0.81%
Total average assets	$10,617,004	$10,629,217	$11,489,165
Total average equity	$1,579,195	$1,485,545	$1,430,433
Efficiency ratio	52.37%	50.90%	53.22%
Effective income tax rate	36.02%	33.86%	477.45%

Net Interest Income

Net interest income increased $7.6 million, or 2.4%, from $313.7 million in 2011 to $321.3 million in 2012. Taxable-equivalent net interest income, using a statutory Federal income tax rate of 35%, totaled $323.5 million in 2012, compared with $316.0 million in 2011, an increase of $7.5 million, or 2.4%. Interest income on tax-exempt securities was $4.2 million, or $6.4 million on a tax-equivalent basis, in 2012 compared to $4.2 million, or $6.5 million on a tax-equivalent basis, in 2011. The increase in net interest income was due primarily to the decreases in interest expense paid for time deposits and the prepayment of Federal Home Loan Bank advances and securities sold under agreements to repurchase.

Average loans for 2012 were $7.10 billion, a $134.5 million, or a 1.9%, increase from $6.96 billion in 2011. Compared with 2011, average commercial loans increased $284.0 million, or 17.1%, and average residential mortgage loans increased $91.6 million, or 8.0%. Offsetting the above increases was a decrease of $121.1 million, or 3.2%, in average commercial mortgage loans and a decrease of $118.0 million, or 37.3%, in average real estate construction loans. Average investment securities were $2.35 billion in 2012, a decrease of $270.5 million, or 10.3%, from 2011, due primarily to decreases of U.S. agency securities of $325.7 million.

Average interest bearing deposits were $6.23 billion in 2012, an increase of $83.7 million, or 1.4%, from $6.14 billion in 2011 primarily due to increases of $238.9 million in all deposit types, offset primarily by decreases of $155.2 million in brokered time deposits. Average FHLB advances and other borrowings decreased $280.9 million, or 88.2%, to $37.7 million in 2012 from $318.6 million in 2011 primarily due to prepayments of FHLB advances in 2012. Average securities sold under agreements to repurchase decreased $86.9 million, or 6.0%, to $1.36 billion in 2012 from $1.45 billion in 2011 primarily due to prepayments of securities sold under agreements to repurchase in 2012.

Taxable-equivalent interest income decreased $23.9 million, or 5.2%, to $432.0 million in 2012 primarily due to decline in volume on investment securities and decreases in loan yields and by a change in the mix of interest-earning assets as discussed below:

- Increase in volume: Average interest-earning assets increased $37.1 million, or 0.4%, to $9.87 billion in 2012, compared with the average interest-earning assets of $9.84 billion in 2011. The increase in average loans balance of $134.5 million in 2012 and increase in average interest bearing deposits of $253.6 million, offset by decreases in average investment securities of $270.4 million and decreases in average Federal funds sold and securities purchased under agreements to resell of $69.5 million, contributed to the slight increase in interest income.

- Decrease in rate: The average yield of interest bearing assets decreased 25 basis points to 4.38% in 2012 from 4.63% in 2011. Rate on taxable investment securities decreased 53 basis points from 3.34% in 2011 to 2.81% in 2012. The decrease in taxable investment securities yields caused a $12.3 million decline in interest income. Rate on loans decreased 16 basis points from 5.24% in 2011 to 5.08% in 2012. The decrease in loan yield caused a $10.9 million decline in interest income.
- Change in the mix of interest-earnings assets: Average gross loans, which generally have a higher yield than other types of investments, comprised 71.9% of total average interest-earning assets in 2012, an increase from 70.8% in 2011. Average securities comprised 23.8% of total average interest-bearing assets in 2012, a decrease from 26.6% in 2011.

Interest expense decreased by $31.4 million to $108.5 million in 2012 compared with $139.9 million in 2011 primarily due to decreased cost from time deposits, FHLB advances and securities sold under agreements to repurchase. The overall decrease in interest expense was primarily due to a net decrease in rate and a net decrease in volume as discussed below:

- Decrease in volume: Average interest-bearing liabilities decreased $284.1 million in 2012, due primarily to the decrease in brokered time deposits, the decrease in FHLB advances, and the decrease in securities sold under agreements to repurchase. The decrease in volume caused interest expense to decline by $10.5 million.
- Decline in rate: The average cost of interest bearing liabilities decreased 34 basis points to 1.39% in 2012 from 1.73% in 2011 due primarily to a decrease of 25 basis points in the average cost of interest bearing deposits to 0.76% in 2012 from 1.01% in 2011 and a decrease of 306 basis points in average cost of FHLB advances and other borrowings to 0.72% in 2012 from 3.78% in 2011. The decline in rate caused interest expense to decline by $20.9 million.
- Change in the mix of interest-bearing liabilities: Average interest bearing deposits of $6.23 billion increased to 79.9% of total interest-bearing liabilities in 2012 compared to 76.0% in 2011. Offsetting the increases, average FHLB advances and other borrowing decreased to 0.5% of total interest-bearing liabilities in 2012 compared to 3.9% in 2011.

Our taxable-equivalent net interest margin, defined as taxable-equivalent net interest income to average interest-earning assets, increased 7 basis points to 3.28% in 2012 from 3.21% in 2011. The increase in net interest margin from the prior year primarily resulted from increases in loans, decreases in the rate on interest bearing deposits, and the prepayment of FHLB advances and securities sold under agreements to repurchase contributed to the increase in the net interest margin.

Net interest income increased $15.8 million, or 5.3%, from $297.9 million in 2010 to $313.7 million in 2011. Taxable-equivalent net interest income, using a statutory Federal income tax rate of 35%, totaled $316.0 million in 2011, compared with $298.4 million in 2010, an increase of $17.6 million, or 5.9%. Interest income on tax-exempt securities was $4.2 million, or $6.5 million on a tax-equivalent basis, in 2011 compared to $854,000, or $1.3 million on a tax-equivalent basis, in 2010. The increase in net interest income was due primarily to the decreases in interest expense paid for time deposits and the prepayment of Federal Home Loan Bank advances and securities sold under agreements to repurchase.

Average loans for 2011 were $6.96 billion, a $61.7 million, or 0.9%, increase from $6.90 billion in 2010. Compared with 2010, average commercial loans increased $306.6 million, or 22.6%, and average residential mortgage loans increased $181.8 million, or 19.0%. Offsetting the above increases was a decrease of $202.1 million, or 5.0%, in average commercial mortgage loans and a decreased of $223.8 million, or 41.4%, in average real estate construction loans. Average investment securities were $2.62 billion in 2011, a decrease of $884.6 million, or 25.3%, from 2010, due primarily to decreases of U.S. agency securities of $812.6 million.

Average interest bearing deposits were $6.14 billion in 2011, a decrease of $357.9 million, or 5.5%, from $6.50 billion in 2010 primarily due to decreases of $442.9 million in brokered time deposits offset primarily by increases of $42.8 million in saving deposits. Average FHLB advances and other borrowings decreased $524.7 million, or 62.2%, to $318.6 million in 2011 from $843.3 million in 2010 primarily due to prepayments of FHLB advances in 2011. Average securities sold under agreements to repurchase decreased $111.9 million, or 7.2%, to $1.45 billion in 2011 from $1.56 billion in 2010 primarily due to prepayments of securities sold under agreements to repurchase in 2011.

Taxable-equivalent interest income decreased $34.2 million, or 7.0%, to $455.8 million in 2011 primarily due to decline in volume on investment securities and decreases in loan yields and by a change in the mix of interest-earning assets as discussed below:

- Decrease in volume: Average interest-earning assets decreased $942.1 million, or 8.7%, to $9.84 billion in 2011, compared with the average interest-earning assets of $10.78 billion in 2010. The decrease in average investment securities balance of $884.6 million in 2011 caused primarily the $26.3 million decline in interest income.
- Decrease in yield on loans: Yield on loans decreased 28 basis points from 5.52% in 2010 to 5.24% in 2011. The decrease in loan yield caused a $19.5 million decline in interest income.
- Change in the mix of interest-earnings assets: Average gross loans, which generally have a higher yield than other types of investments, comprised 70.8% of total average interest-earning assets in 2011, an increase from 64.0% in 2010. Average securities comprised 26.6% of total average interest-bearing assets in 2011, a decrease from 32.5% in 2010.

Interest expense decreased by $51.8 million to $139.9 million in 2011 compared with $191.7 million in 2010 primarily due to decreased cost from time deposits and FHLB advances. The overall decrease in interest expense was primarily due to a net decrease in rate and a net decrease in volume as discussed below:

- Decrease in volume: Average interest-bearing liabilities decreased $994.4 million in 2011, due primarily to the decrease in brokered time deposits, the decrease in FHLB advances, and the decrease in securities sold under agreements to repurchase. The decrease in volume caused interest expense to decline by $31.4 million.
- Decline in rate: The average cost of interest bearing liabilities decreased 38 basis points to 1.73% in 2011 from 2.11% in 2010 due primarily to a decrease of 28 basis points in the average cost of interest bearing deposits to 1.01% in 2011 from 1.29% in 2010 and a decrease of 67 basis points in average cost of FHLB advances and other borrowings to 3.78% in 2011 from 4.45%. The decline in rate caused interest expense to decline by $20.4 million.
- Change in the mix of interest-bearing liabilities: Average interest bearing deposits of $6.14 billion increased to 76.0% of total interest-bearing liabilities in 2011 compared to 71.6% in 2010. Offsetting the increases, average FHLB advances and other borrowing decreased to 3.9% of total interest-bearing liabilities in 2011 compared to 9.3% in 2010.

Our taxable-equivalent net interest margin, defined as taxable-equivalent net interest income to average interest-earning assets, increased 44 basis points to 3.21% in 2011 from 2.77% in 2010. The increase in net interest margin from the prior year primarily resulted from decreases in the rate on interest bearing deposits, and the prepayment of FHLB advances and securities sold under agreement to repurchase contributed to the increase in the net interest margin.

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

Interest-Earning Assets and Interest-Bearing Liabilities

	2012 Average Balance	Interest Income/ Expense (4)	Average Yield/ Rate (1)(2)	2011 Average Balance	Interest Income/ Expense (4)	Average Yield/ Rate (1)(2)	2010 Average Balance	Interest Income/ Expense (4)	Average Yield/ Rate (1)(2)
	(Dollars in thousands)								
Interest-Earning Assets:									
Commercial loans	$1,946,986	$81,684	4.20%	$1,662,937	$72,188	4.34%	$1,356,368	$63,124	4.65%
Residential mortgages	1,232,573	60,644	4.92	1,140,936	57,541	5.04	959,112	49,823	5.19
Commercial mortgages	3,701,613	207,541	5.61	3,822,757	220,070	5.76	4,024,863	240,747	5.98
Real estate construction loans	198,363	10,440	5.26	316,323	14,352	4.54	540,151	26,334	4.88
Other loans	15,541	334	2.15	17,583	429	2.44	18,382	634	3.45
Loans (1)	7,095,076	360,643	5.08	6,960,536	364,580	5.24	6,898,876	380,662	5.52
Taxable securities	2,216,857	62,395	2.81	2,484,629	83,083	3.34	3,476,259	106,568	3.07
Tax-exempt securities (3)	131,530	6,401	4.87	134,245	6,489	4.83	27,258	1,314	4.82
FHLB stock	47,938	485	1.01	58,999	177	0.30	68,780	237	0.34
Federal funds sold & securities purchased under agreements to resell	14,986	18	0.12	84,493	83	0.10	6,932	14	0.20
Interest-bearing deposits	367,138	2,042	0.56	113,566	1,430	1.26	300,471	1,259	0.42
Total interest-earning assets	$9,873,525	$431,984	4.38	$9,836,468	$455,842	4.63	$10,778,576	$490,054	4.55
Non-interest Earning Assets:									
Cash and due from banks	126,476			161,711			95,996		
Other non-earning assets	819,986			872,638			876,771		
Total non-interest	946,462			1,034,349			972,767		

earning assets									
Less:									
Allowance for loan losses	(194,385)			(233,744)			(254,420)		
Deferred loan fees	(8,598)			(7,856)			(7,758)		
Total Assets	$10,617,004			$10,629,217			$11,489,165		
Interest-Bearing Liabilities:									
Interest-bearing demand deposits	$516,246	$792	0.15	426,252	756	0.18	397,434	927	0.23
Money market deposits	1,059,841	5,938	0.56	979,253	7,351	0.75	966,888	8,733	0.90
Savings deposits	451,022	365	0.08	411,953	482	0.12	369,190	694	0.19
Time deposits	4,197,906	40,278	0.96	4,323,833	53,625	1.24	4,765,632	73,808	1.55
Total interest-bearing deposits	6,225,015	47,373	0.76	6,141,291	62,214	1.01	6,499,144	84,162	1.29
Federal funds purchased	-	-	-	27	0	1.29	-	-	-
Securities sold under agreements to repurchase	1,361,475	55,699	4.09	1,448,363	60,733	4.19	1,560,215	66,141	4.24
FHLB advances and other borrowings	37,717	270	0.72	318,606	12,044	3.78	843,321	37,533	4.45
Long-term debt	171,136	5,149	3.01	171,136	4,890	2.86	171,136	3,852	2.25
Total interest-bearing liabilities	7,795,343	108,491	1.39	8,079,423	139,881	1.73	9,073,816	191,688	2.11
Non-interest Bearing Liabilities:									
Demand deposits	1,157,343			996,215			911,351		
Other liabilities	85,123			68,034			73,565		
Stockholders' equity	1,579,195			1,485,545			1,430,433		
Total liabilities and stockholders' equity	$10,617,004			$10,629,217			$11,489,165		
Net interest spread (4)			2.99%			2.90%			2.44%
Net interest income (4)		$323,493			$315,961			$298,366	

Net interest margin (4)	3.28%	3.21%	2.77%

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

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

	2012 - 2011 Increase/(Decrease) in Net Interest Income Due to:			2011 - 2010 Increase/(Decrease) in Net Interest Income Due to:		
	Change in Volume (In thousands)	Change in Rate	Total Change	Change in Volume	Change in Rate	Total Change
Interest-Earning Assets						
Deposits with other banks	$ 1,767	$ (1,155)	$ 612	$ (1,155)	$ 1,326	$ 171
Federal funds sold and securities purchased under agreements to resell	(80)	15	(65)	(1,179)	1,248	69
Taxable securities	(8,380)	(12,308)	(20,688)	(32,493)	9,008	(23,485)
Tax-exempt securities (2)	(132)	44	(88)	5,171	4	5,175
FHLB Stock	(39)	347	308	(31)	(29)	(60)
Loans	6,965	(10,902)	(3,937)	3,376	(19,458)	(16,082)
Total increase (decrease) in interest income	101	(23,959)	(23,858)	(26,311)	(7,901)	(34,212)
Interest-Bearing Liabilities						
Interest-bearing demand deposits	146	(110)	36	63	(234)	(171)
Money market deposits	567	(1,980)	(1,413)	110	(1,492)	(1,382)
Savings deposits	42	(159)	(117)	73	(285)	(212)
Time deposits	(1,521)	(11,826)	(13,347)	(6,410)	(13,773)	(20,183)
Securities sold under agreemensts to repurchase	(3,580)	(1,454)	(5,034)	(4,697)	(711)	(5,408)
FHLB advances and other borrowings	(6,134)	(5,640)	(11,774)	(20,521)	(4,968)	(25,489)
Long-term debt	-	259	259	-	1,038	1,038
Total decrease in interest expense	(10,480)	(20,910)	(31,390)	(31,382)	(20,425)	(51,807)
Change in net interest income	$ 10,581	$ (3,049)	$ 7,532	$ 5,071	$ 12,524	$ 17,595

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

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

Provision for Credit Losses

The provision for credit losses represents the charge against current earnings that is determined by management, through a credit review process, as the amount needed to maintain an allowance for loan losses and an allowance for off-balance sheet unfunded credit commitments that management believes to be sufficient to absorb credit losses inherent in the Bank's loan portfolio and credit commitments. The Bank recorded a negative $9.0 million provision for credit losses in 2012 compared with $27.0 million in 2011, and $156.9 million in 2010. Net charge-offs for 2012 were $14.7 million, or 0.2% of average loans, compared to net charge-offs for 2011 of $66.2 million, or 1.0% of average loans, and compared to net charge-offs for 2010 of $126.4 million, or 1.8% of average loans. The decreases in provision for credit losses and net charge-offs in 2012 were primarily due to decreases in non-performing loans.

Non-interest Income

Non-interest income decreased $4.4 million, or 8.6%, to $46.5 million for 2012, from $50.9 million for 2011, and compared to $32.3 million for 2010. Non-interest income includes depository service fees, letters of credit commissions, securities gains (losses), gains (losses) from loan sales, gains from sale of premises and equipment, and other sources of fee income. These other fee-based services include wire transfer fees, safe deposit fees, fees on loan-related activities, fee income from our Wealth Management division, and foreign exchange fees.

The decrease in non-interest income of $4.4 million, or 8.6%, from 2011 to 2012 was primarily due to a combination of the following:

- A $3.1 million decrease in securities gains. We sold securities of $544.2 million and recorded net gains on sale of securities of $18.0 million in 2012 compared to security sales of $1.3 billion with $21.1 million net gains on sale of securities in 2011.
- A $2.6 million decrease in gains on sale of loans.
- A $1.2 million decrease in foreign exchange income.

The increase in non-interest income of $18.6 million, or 57.8%, from 2010 to 2011 was primarily due to a combination of the following:

- A $9.6 million decrease in loss on the value of interest rate swap agreements due to higher unrealized losses recognized during 2010.
- A $2.4 million increase in securities gains. We sold securities of $1.3 billion and recorded net gains on sale of securities of $21.1 million in 2011 compared to security sales of $1.1 billion with $19.3 million net gains on sale of securities in 2010.
- A $2.3 million increase in gains on sale of loans.
- A $1.2 million increase in wealth management commissions.
- A $1.2 million increase in letters of credit commissions.
- A $1.1 million increase in venture capital income mainly due to venture capital investment distributions.
- A $1.1 million increase in commissions from foreign currency and exchange transactions.

Non-interest Expense

Non-interest expense includes expenses related to salaries and benefits of employees, occupancy expenses, marketing expenses, computer and equipment expenses, amortization of core deposit intangibles, and other operating expenses. Non-interest expense totaled $192.6 million in 2012 compared with $185.6 million in 2011. The increase of $7.0 million, or 3.8%, in non-interest expense in 2012 compared to 2011 was primarily due to a combination of the following:

- Salaries and employee benefits increased $6.5 million, or 9.1%, primarily due to the hiring of new employees as well as the addition of temporary employees related to the upcoming core system conversion in July 2013.
- An accrual of $5.8 million related to a jury verdict in a lender liability case on a construction loan where Cathay Bank owns a 50% interest.
- OREO expenses increased $4.5 million, or 43%, primarily due to decreases of $4.9 million in gains on OREO transactions.
- Professional service expense increased $1.6 million, or 7.7%, and computer and equipment expenses increased $1.1 million, or 12.7%, due primarily to the upcoming core system conversion.
- Marketing expenses increased $1.4 million primarily due to special events celebrating the 50th anniversary of the Bank.

- Offsetting the above increases were a $8.1 million decrease in costs associated with debt redemptions due to prepayment penalties on prepayment of FHLB advances and securities sold under agreements to repurchase, a $4.2 million decrease in FDIC and state assessments, and a $1.8 million decrease in operating expenses of affordable housing investments.

The efficiency ratio, defined as non-interest expense divided by the sum of net interest income before provision for loan losses plus non-interest income, increased to 52.37% in 2012 compared to 50.90% in 2011 due primarily to higher non-interest expenses as explained above.

Non-interest expense totaled $185.6 million in 2011 compared with $175.7 million in 2010. The increase of $9.9 million, or 5.6%, in non-interest expense in 2011 compared to 2010 was primarily due to a combination of the following:

- Salaries and employee benefits increased $13.0 million, or 22.1%, primarily due to increases in incentive compensation and the hiring of new employees.
- Costs associated with debt redemption increased $6.0 million, 41.9%, primarily due to prepayment penalties on prepaying FHLB advances.
- Professional service expense increased $2.6 million, or 14.6%, due primarily to increases in legal expenses, collection expenses, and consulting expenses.
- Occupancy expense increased $2.0 million, or 16.7%, primarily due to a correction in the depreciation life for certain components of our administrative office building made in 2010.
- Offsetting the above increases were a $7.1 million decrease in FDIC and state assessments, a $5.4 million decrease in OREO expenses, and a $3.2 million decrease in write-down on loans held for sale.

The efficiency ratio, defined as non-interest expense divided by the sum of net interest income before provision for loan losses plus non-interest income, decreased to 50.90% in 2011 compared to 53.22% in 2010.

Income Tax Expense

Income tax expense was $66.1 million in 2012, compared to an income tax expense of $51.3 million in 2011, and income tax benefit of $14.6 million in 2010. The effective tax rate was 36.0% for 2012, 33.9% for 2011, and 477% for 2010. The effective tax rate differed from the composite statutory composite rate of 42% primarily as a result of low income housing and other tax credits totaling $9.4 million recognized in 2012, $10.1 million recognized in 2011, and $11.2 million recognized in 2010. The income tax benefit in 2010 was primarily due to the net loss.

Our tax returns are open for audits by the Internal Revenue Service back to 2010 and by the California Franchise Tax Board ("FTB") of the State of California back to 2003. We are currently under audit by the FTB for the years 2003 to 2007. From time to time, there may be differences in opinion with respect to the tax treatment accorded transactions. When, and if, such differences occur and the related tax effects become probable and estimable, such amounts will be recognized.

Financial Condition

Total assets were $10.7 billion at December 31, 2012, an increase of $49.2 million, or 0.5%, from $10.6 billion at December 31, 2011, primarily due to increases of $369.9 million in gross loans, increases of $117.0 million in short-term investments, and increases of $27.0 million in cash and due from banks, offset by decreases of $382.7 million in investment securities, decreases of $46.3 million in OREO, and decreases of $37.5 million from income tax receivable and deferred tax assets

Investment Securities

Investment securities were $2.1 billion and represented 19.3% of total assets at December 31, 2012, compared with $2.4 billion, or 23.0%, of total assets at December 31, 2011. The following table summarizes the carrying value of our portfolio of securities for each of the past two years:

	As of December 31,			
	2012		2011	
	(In thousands)			
Securities Held-to-Maturity:				
U.S. government sponsored entities	$	-	$	99,966
State and municipal securities		129,037		129,577
Mortgage-backed securities		634,757		913,990
Corporate debt securities		9,974		9,971
Total securities held-to-maturity	$	773,768	$	1,153,504
Securities Available-for-Sale:				
U.S. treasury securities	$	509,971	$	-
U.S. government sponsored entities		-		501,226
State and municipal securities		-		1,928
Mortgage-backed securities		416,694		337,631
Collateralized mortgage obligations		10,168		16,486
Asset-backed securities		141		166
Corporate debt securities		335,977		380,429
Mutual funds		6,079		6,035
Preferred stock of government sponsored entities		2,335		1,654
Trust preferred securities		10,115		45,963
Other equity securities		-		2,960
Total securities available-for-sale	$	1,291,480	$	1,294,478
Total investment securities	$	2,065,248	$	2,447,982

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

The Company's unrealized loss on investments in corporate bonds relates to a number of investments in bonds of financial institutions, all of which were investment grade at the date of acquisition and as of December 31, 2012. 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 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 corporate bonds to be other-than-temporarily impaired at December 31, 2012.

The temporarily impaired securities represent 16.9% of the fair value of investment securities as of December 31, 2012. Unrealized losses for securities with unrealized losses for less than twelve months represent 2.4%, and securities with unrealized losses for twelve months or more represent 4.4%, of the historical cost of these securities. Unrealized losses on these securities generally resulted from increases in interest rate spreads subsequent to the date that these securities were purchased. At December 31, 2012, 34 issues of securities had unrealized losses for 12 months or longer and seven issues of securities had unrealized losses of less than 12 months.

At December 31, 2012, management believed the impairment was temporary and, accordingly, no impairment loss has been recognized in our consolidated statements of operations. We expect to recover the amortized cost basis of our debt securities, and have 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 table below shows the fair value, unrealized losses, and number of issuances of the temporarily impaired securities in our investment securities portfolio as of December 31, 2012, and December 31, 2011:

As of December 31, 2012
Temporarily Impaired Securities

	Less than 12 months			12 months or longer			Total		
	Fair Value	Unrealized Losses	No. of Issuances	Fair Value	Unrealized Losses	No. of Issuances	Fair Value	Unrealized Losses	No. of Issuances
	(Dollars in thousands)								
Securities Held-to-Maturity									
Total securities held-to-maturity	$ -	$ -	-	$ -	$ -	-	$ -	$ -	-
Securities Available-for-Sale									
U.S. treasury securities	$ 49,969	$ 5	1				$ 49,969	$ 5	1
Mortgage-backed securities	231	1	2	170	1	6	401	2	8
Mortgage-backed securities-Non-agency	-	-	-	96	2	1	96	2	1
Collateralized mortgage obligations	-	-	-	439	35	4	439	35	4
Asset-backed securities	-	-	-	141	4	1	141	4	1

Corporate debt securities	52,468	2,532	4	253,430	11,570	22	305,898	14,102	26
Total securities available-for-sale	$ 102,668	$ 2,538	7	$ 254,276	$ 11,612	34	$ 356,944	$ 14,150	41
Total investment securities	$ 102,668	$ 2,538	7	$ 254,276	$ 11,612	34	$ 356,944	$ 14,150	41

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As of December 31, 2011
Temporarily Impaired Securities

	Less than 12 months			12 months or longer			Total		
	Fair Value	Unrealized Losses	No. of Issuances	Fair Value	Unrealized Losses	No. of Issuances	Fair Value	Unrealized Losses	No. of Issuances
	(Dollars in thousands)								
Securities Held-to-Maturity									
Corporate debt securities	$ 9,635	$ 337	1	$ -	$ -	-	$ 9,635	$ 337	1
Total securities held-to-maturity	$ 9,635	$ 337	1	$ -	$ -	-	$ 9,635	$ 337	1
Securities Available-for-Sale									
U.S. government sponsored entities	$ 49,993	$ 7	1	$ -	$ -	-	$ 49,993	$ 7	1
Mortgage-backed securities	564	4	8	35	1	2	599	5	10
Mortgage-backed securities-Non-agency	-	-	-	6,719	431	2	6,719	431	2
Collateralized mortgage obligations	-	-	-	570	238	4	570	238	4
Asset-backed securities	-	-	-	166	6	1	166	6	1
Corporate debt securities	185,577	14,201	17	172,857	17,528	19	358,434	31,729	36
Mutual funds	1,987	13	1	-	-	-	1,987	13	1
Trust preferred securities	5,674	24	2	-	-	-	5,674	24	2
Total securities available-for-sale	$ 243,795	$ 14,249	29	$ 180,347	$ 18,204	28	$ 424,142	$ 32,453	57
Total investment securities	$ 253,430	$ 14,586	30	$ 180,347	$ 18,204	28	$ 433,777	$ 32,790	58

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

Securites Portfolio Maturity Distribution and Yield Analysis:

	As of December 31, 2012				
	One Year or Less	After One Year to Five Years	After Five Years to Ten Years	Over Ten Years	Total
	(Dollars in thousands)				
Maturity Distribution:					
Securities Held-to-Maturity:					
State and municipal securities	$ -	$ -	$ 52,261	$ 76,776	$ 129,037
Mortgage-backed securities	-	-	-	634,757	634,757
Corporate debt securities	-	-	9,974	-	9,974
Total securities held-to-maturity	$ -	$ -	$ 62,235	$ 711,533	$ 773,768
Securities Available-for-Sale:					
U.S. treasury securities	$ 349,880	$ 160,091	$ -	$ -	$ 509,971
Mortgage-backed securities(1)	60	141	55,633	360,860	416,694
Collateralized mortgage obligations(1)	-	-	8,446	1,722	10,168
Asset-backed securities(1)	-	-	-	141	141
Corporate debt securities	-	210,009	125,968	-	335,977
Mutual funds	-	-	-	6,079	6,079
Preferred stock of government sponsored entities (2)	-	-	-	2,335	2,335
Trust preferred securities	-	-	-	10,115	10,115
Other equity securities	-	-	-	-	-
Total securities available-for-sale	$ 349,940	$ 370,241	$ 190,047	$ 381,252	$ 1,291,480
Total investment securities	$ 349,940	$ 370,241	$ 252,282	$ 1,092,785	$ 2,065,248
Weighted-Average Yield:					
Securities Held-to-Maturity:					
State and municipal securities	-	-	4.60 %	4.89 %	4.77 %
Mortgage-backed securities	-	-	-	3.83	3.83
Corporate debt securities	-	-	2.45	-	2.45
	0.00 %	0.00 %	4.26 %	3.95 %	3.97 %

Total securities held-to-maturity										
Securities Available-for-Sale:										
U.S. treasury securities	0.16	%	0.30	%	-		-		0.21	%
Mortgage-backed securities(1)	4.92		6.70		4.45		2.73		2.96	
Collateralized mortgage obligations(1)	-		-		4.70		7.56		5.18	
Asset-backed securities(1)	-		-		-		2.25		2.25	
Corporate debt securities	-		2.02		2.25		-		2.12	
Mutual funds	-		-		-		2.42		2.42	
Trust preferred securities	-		-		-		5.63		5.63	
Total securities available-for-sale	0.17	%	1.28	%	3.00	%	2.81	%	1.69	%
Total investment securities	0.17	%	1.28	%	3.31	%	3.55	%	2.55	%

(1) Securities reflect stated maturities and do not reflect the impact of anticipated prepayments.
(2) There is no stated maturity for equity securities.
(3) Weighted average yield has been adjusted to a fully-taxable equivalent basis.

Loans

Loans represented 71.9% of average interest-earning assets during 2012, compared with 70.8% during 2011. Gross loans, excluding loans held for sale, increased by $369.9 million, or 5.2%, to $7.43 billion at December 31, 2012, compared with $7.06 billion at December 31, 2011. The increase in gross loans was primarily attributable to the following:

- Commercial loans increased $258.8 million, or 13.9%, to $2.13 billion at December 31, 2012, compared to $1.87 billion at December 31, 2011. Commercial loans consist primarily of short-term loans (typically with a maturity of one year or less) to support general business purposes, or to provide working capital to businesses in the form of lines of credit, trade-finance loans, loans for commercial purposes secured by cash, and SBA loans.

- Total residential mortgage loans increased by $174.0 million, or 17.9%, to $1.15 billion at December 31, 2012, compared to $972.3 million at December 31, 2011, primarily due to the low level of interest rates.

- Commercial mortgage loans increased $19.6 million, or 0.5%, to $3.77 billion at December 31, 2012, compared to $3.75 billion at December 31, 2011. Total commercial mortgage loans accounted for 50.7% of gross loans at December 31, 2012, compared to 53.1% at December 31, 2011. Commercial mortgage loans include primarily commercial retail properties, shopping centers, and owner-occupied industrial facilities, and, secondarily, office buildings, multiple-unit apartments, hotels, and multi-tenanted industrial properties, and are typically secured by first deeds of trust on such commercial properties. In addition, the Bank provides medium-term commercial real estate loans secured by commercial or industrial buildings where the borrower either uses the property for business purposes or derives income from tenants.

- Real estate construction loans decreased $56.4 million, or 23.8%, to $181.0 million at December 31, 2012, compared to $237.4 million at December 31, 2011.

Our lending relates predominantly to activities in the states of California, New York, Texas, Washington, Massachusetts, Illinois, and New Jersey, although we have some loans to domestic clients who are engaged in international trade. Loans outstanding in our branch in Hong Kong were $166.9 million as of December 31, 2012, compared to $160.5 million as of December 31, 2011.

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

Loan Type and Mix

	As of December 31,				
	2012	2011	2010	2009	2008
	(In thousands)				
Commercial loans	$ 2,127,107	$ 1,868,275	$ 1,441,167	$ 1,307,880	$ 1,620,438
Residential mortgage loans and equity lines	1,340,082	1,186,969	1,061,330	878,266	791,497
Commercial mortgage loans	3,768,452	3,748,897	3,940,061	4,065,155	4,132,850
Real estate construction loans	180,950	237,372	409,986	626,087	913,168
Installment and other loans	12,556	17,699	16,077	21,754	14,415
Gross loans	7,429,147	7,059,212	6,868,621	6,899,142	7,472,368
Less:					
Allowance for loan losses	(183,322)	(206,280)	(245,231)	(211,889)	(122,093)
Unamortized deferred loan fees	(10,238)	(8,449)	(7,621)	(8,339)	(10,094)
Total loans and leases, net	$ 7,235,587	$ 6,844,483	$ 6,615,769	$ 6,678,914	$ 7,340,181
Loans held for sale	$ -	$ 760	$ 2,873	$ 54,826	$ -

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

Contractual Maturity of Loan Portfolio

	Within One Year	One to Five Years	Over Five Years	Total
		(In thousands)		
Commercial loans				
Floating rate	$ 1,237,743	$ 396,300	$ 39,540	$ 1,673,583
Fixed rate	413,410	33,886	6,228	453,524
Residential mortgage loans and equity lines				
Floating rate	487	1,125	231,744	233,356
Fixed rate	5,475	17,871	1,083,380	1,106,726
Commercial mortgage loans				
Floating rate	459,619	1,372,634	838,298	2,670,551
Fixed rate	189,113	631,017	277,771	1,097,901
Real estate construction loans				
Floating rate	124,229	39,523	-	163,752
Fixed rate	17,198	-	-	17,198
Installment and other loans				
Floating rate	5,953	-	-	5,953
Fixed rate	6,330	273	-	6,603
Total Loans	$ 2,459,557	$ 2,492,629	$ 2,476,961	$ 7,429,147
Floating rate	$ 1,828,031	$ 1,809,582	$ 1,109,582	$ 4,747,195
Fixed rate	631,526	683,047	1,367,379	2,681,952
Total Loans	2,459,557	2,492,629	2,476,961	7,429,147
Allowance for loan losses				(183,322)
Unamortized deferred loan fees				(10,238)
Net loans				$ 7,235,587

Deposits

The Bank primarily uses customer deposits to fund its operations, and to a lesser extent borrowings in the form of securities sold under agreements to repurchase, advances from the Federal Home Loan Bank, and other borrowings. The Bank's deposits are generally obtained from the Bank's geographic market area. The Bank utilizes traditional marketing methods to attract new customers and deposits, by offering a wide variety of products and services and utilizing various forms of advertising media. Although the vast majority of the Bank's deposits are retail in nature, the Bank does engage in certain wholesale activities, primarily accepting time deposits from political subdivisions and public agencies. The Bank considers wholesale deposits to be an alternative borrowing source rather than a customer relationship and, as such, their levels are determined by management's decisions as to the most economic funding sources. Brokered-deposits totaled $65.0 million, or 0.9% of total deposits, at December 31, 2012, compared to $138.9 million, or 1.9%, at December 31, 2011.

The Company's total deposits increased $154.1 million, or 2.1%, to $7.38 billion at December 31, 2012, from $7.23 billion at December 31, 2011, primarily due to a $235.3 million, or 24.7%, increase in money market deposits, a $194.7 million, or 18.1%, increase in non-interest bearing demand deposits, a $141.6 million, or 31.4%, increase in NOW deposits, and a $53.8 million, or 12.8%, increase in savings deposits, offset by a $188.8 million, or 22.7%,

decrease in time deposits under $100,000 and a $282.5 million, or 8.1%, decrease in time deposits of $100,000 or more.

The following table displays the deposit mix for the past three years:

Deposit Mix

	Year Ended December 31,					
	2012		2011		2010	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
	(Dollars in thousands)					
Demand deposits	$ 1,269,455	17.2 %	$ 1,074,718	14.9 %	$ 930,300	13.3 %
NOW deposits	593,133	8.0	451,541	6.2	418,703	6.0
Money market deposits	1,186,771	16.1	951,516	13.2	982,617	14.0
Saving deposits	473,805	6.4	420,030	5.8	385,245	5.5
Time deposits under $100,000	644,191	8.7	832,997	11.5	1,081,266	15.5
Time deposits of $100,000 or more	3,215,870	43.6	3,498,329	48.4	3,193,715	45.7
Total	$ 7,383,225	100.0 %	$ 7,229,131	100.0 %	$ 6,991,846	100.0 %

Average total deposits increased $244.8 million, or 3.4%, to $7.38 billion in 2012 compared with average total deposits of $7.14 billion in 2011.

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

Average Deposits and Average Rates

	2012		2011		2010		2009		2008	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(Dollars in thousands)									
Demand deposits	$1,157,343	- %	$996,215	- %	$911,351	- %	$781,391	- %	$772,982	- %
NOW deposits	516,246	0.15	426,252	0.18	397,434	0.23	295,770	0.36	255,185	0.61
Money market deposits	1,059,841	0.56	979,253	0.75	966,888	0.90	890,427	1.49	736,739	1.84
Saving deposits	451,022	0.08	411,953	0.12	369,190	0.19	338,781	0.24	334,222	0.36
Time deposits	4,197,906	0.96	4,323,833	1.24	4,765,632	1.55	5,084,309	2.33	4,530,923	3.56
Total	$7,382,358	0.64%	$7,137,506	0.87%	$7,410,495	1.14%	$7,390,678	1.81%	$6,630,051	2.68%

Management considers the Bank's time deposits of $100,000 or more (Jumbo CDs) to be generally less volatile than other wholesale funding sources primarily because:

- approximately 67.4% of the Bank's Jumbo CDs have been on deposit with the Bank for two years or more;
- the Jumbo CD portfolio is widely-held with 14,716 individual accounts averaging approximately $219,000 per account owned by 9,619 individual depositors as of December 31, 2012; and
- the ratio of relatively higher percentage of Jumbo CDs to total deposits exists in most of the Asian-American banks in our California market because of a higher savings rate within the communities we serve.

Management monitors the Jumbo CD portfolio to identify any changes in the deposit behavior in the market and of the customers the Bank is serving.

Of our Jumbo CDs, approximately 90.0% mature within one year as of December 31, 2012. The following tables display time deposits of $100,000 or more by maturity:

Time Deposits of $100,000 or More by Maturity

		At December 31, 2012 (In thousands)
Less than three months	$	1,079,519
Three to six months		646,497
Six to twelve months		1,169,696
Over one year		320,158
Total	$	3,215,870

The following table displays time deposits with a remaining term of more than one year at December 31, 2012:

Maturities of Time Deposits with a Remaining Term
of More Than One Year for Each
of the Five Years Following December 31, 2012

		(In thousands)
2014	$	263,847
2015		67,735
2016		1,499
2017		20,901
2018		3

Borrowings

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

At December 31, 2012, there were no borrowings from other financial institutions compared to $880,000 with a weighted average rate of 0.55% at December 31, 2011.

Securities sold under agreements to repurchase were $1.3 billion with a weighted average rate of 3.84% at December 31, 2012, compared to $1.4 billion with a weighted average rate of 4.14% at December 31, 2011. In May 2011, the Company prepaid a security sold under an agreement to repurchase of $50 million with a rate of 4.83% and incurred a prepayment penalty of $1.7 million. In 2012, the Company modified $200.0 million of securities sold under agreements to repurchase by extending the term by an additional four years on average, reducing the rate of these agreements by an average of 168 basis points and removing the callable feature of these borrowings. In 2012, the Company prepaid three securities sold under an agreement to repurchase for the total of $150 million with a weighted average rate of 4.43% and incurred prepayment penalties of $9.4 million. Seven floating-to-fixed rate agreements totaling $400.0 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 minus 200 basis points to three-month LIBOR minus 340 basis points. Thereafter, the rates are fixed for the remainder of the term, with interest rates ranging from 4.52% 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. Thirteen fixed-to-floating rate agreements totaling $650.0 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 remainder of the seven year term, the rates float at 8% minus the three-month LIBOR rate with a maximum rate ranging from 3.25% to 3.79% and 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 $1.05 billion of callable securities sold under agreements to repurchase as of December 31, 2012:

(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	3.79 %	3.53 %	3.50 %	3.50 %	3.53 %	3.25 %			
Minimum rate	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %			
No. of agreements	3	1	4	3	1	1	3	4	20
Amount	$ 150.0	$ 50.0	$ 200.0	$ 150.0	$ 50.0	$ 50.0	$ 200.0	$ 200.0	$ 1,050.0
Weighted average rate	3.78 %	3.53 %	3.50 %	3.50 %	3.53 %	3.25 %	4.69 %	5.00 %	4.04 %
Final maturity	2014	2014	2014	2015	2015	2015	2014	2017	

The table below provides summary data for non-callable fixed rate securities sold under agreements to repurchase as of December 31, 2012:

Maturity	No. of Agreements	Amount (In thousands)	Weighted Average Interest Rate
3 years to 5 years	2	$ 100,000	2.71 %
Over 5 years	2	100,000	2.86 %
Total	4	$ 200,000	2.78 %

These transactions are accounted for as collateralized financing transactions and recorded at the amount at which the securities were sold. We 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 security debt, and mortgage-backed securities with a fair value of $1.4 billion as of December 31, 2012, and $1.6 billion as of December 31, 2011.

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

	2012	2011	2010
		(Dollars in thousands)	
Average amount outstanding during the year (1)	$ 1,361,475	$ 1,448,363	$ 1,560,215
Maximum amount outstanding at month-end (2)	1,400,000	1,559,000	1,566,000
Balance, December 31	1,250,000	1,400,000	1,561,000
Rate, December 31	3.84 %	4.14 %	4.18 %
Weighted average interest rate for the year	4.09 %	4.19 %	4.24 %

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(1) Average balances were computed using daily averages.

(2) Highest month-end balances were January 2012, January 2011, and September 2010.

Advances from the FHLB were $146.2 million with a weighted average rate of 0.44% at December 31, 2012, compared to $225.0 million with weighted average rate of 2.08% at December 31, 2011. The Company prepaid an advance from the FHLB of $100.0 million at a rate of 4.60% and incurred prepayment penalties of $2.8 million in 2012, and prepaid advances from the FHLB totaling $450.0 million with a weighted average rate of 4.39% and incurred prepayment penalties of $18.5 million in 2011.

Long-term Debt

On September 29, 2006, the Bank issued $50.0 million in subordinated debt in a private placement transaction (the "Bank Subordinated Debt"). The debt had an original maturity term of 10 years, was unsecured and bore interest at a rate of three-month LIBOR plus 110 basis points, payable on a quarterly basis. In March 2011, the maturity term was extended for an additional year. As part of the extension agreement, the rate was increased from LIBOR plus 110 basis points to LIBOR plus 330 basis points for 2011 and 2012, after which time it reverts back to LIBOR plus 110 basis points. At December 31, 2012, the per annum interest rate on the subordinated debt was 3.61% compared to 3.88% at December 31, 2011. The Bank Subordinated Debt was issued through the Bank and qualifies as Tier 2 capital for regulatory reporting purposes and is included in long-term debt in the accompanying Consolidated Balance Sheets.

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

At December 31, 2012, Junior Subordinated Notes totaled $121.1 million with a weighted average interest rate of 2.47% compared to $121.1 million with a weighted average rate of 2.72% at December 31, 2011. The Junior Subordinated Notes have a stated maturity term of 30 years. The Junior Subordinated Notes issued qualify as Tier 1 capital for regulatory reporting purposes. The trusts are not consolidated with the Company in accordance with an accounting pronouncement that took effect in December 2003.

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

The following table summarizes our contractual obligations and commitments to make future payments as of December 31, 2012. Payments for deposits and borrowings do not include interest. Payments related to leases are based on actual payments specified in the underlying contracts. Loan commitments and standby letters of credit are presented at contractual amounts; however, since many of these commitments are expected to expire unused or only partially used, the total amounts of these commitments do not necessarily reflect future cash requirements.

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	Payment Due by Period				
	1 year or less	More than 1 year but less than 3 years	3 years or more but less than 5 years	5 years or more	Total
	(In thousands)				
Contractual obligations:					
Securities sold under agreements to repurchase (1)	$ -	$ 850,000	$ 200,000	$ -	$ 1,050,000
Securities sold under agreements to repurchase (2)	-	-	100,000	100,000	200,000
Advances from the Federal Home Loan Bank	125,000	-	21,200	-	146,200
Other borrowings	-	-	-	18,713	18,713
Long-term debt	-	-	50,000	121,136	171,136
Operating leases	6,084	7,948	2,645	661	17,338
Deposits with stated maturity dates	3,506,075	331,583	22,400	3	3,860,061
Total contractual obligations and other commitments	$ 3,637,159	$ 1,189,531	$ 396,245	$ 240,513	$ 5,463,448
Other commitments:					
Commitments to extend credit	1,105,138	310,586	132,279	192,460	1,740,463
Standby letters of credit	44,060	593	19	-	44,672
Commercial letters of credit	71,073	-	-	-	71,073
Bill of lading guarantees	77	-	-	-	77
Total contractual obligations and other commitments	$ 1,220,348	$ 311,179	$ 132,298	$ 192,460	$ 1,856,285

(1) These repurchase agreements have a final maturity of 5-year, 7-year and 10-year from origination date but are callable on a quarterly basis after six months, one year, or 18 months for the 7-year term and one year for the 5-year and 10-year term.

(2) These repurchase agreements are non-callable.

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

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

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

Capital Resources

Stockholders' Equity

In 2010, the Company sold $132.3 million of new common stock consisting of 15,028,409 shares at an average price of $8.80 per share. Net of issuance costs and fees, this issuance added $124.9 million to common stockholders' equity. The Company did not sell any common stock in 2012 or in 2011.

Total equity of $1.63 billion at December 31, 2012, was up $113.9 million, or 7.5%, compared to $1.52 billion at December 31, 2011. The increase in stockholders' equity was due to a $118.0 million increase from net income, an increase of $9.2 million in unrealized gains on securities, amortization of unearned compensation of $2.1 million, option exercise of $764,000, and reinvestment of dividends of $291,000, offset by payments of dividends on preferred stock of $13.5 million, payments of dividends on common stock of $3.1 million, and a tax short-fall of $620,000 mainly from the expiration of stock options. The Company paid common stock cash dividends of $0.04 per common share in 2012 and in 2011.

We have participated in the U.S. Treasury TARP Capital Purchase Program under the Emergency Economic Stabilization Act of 2008. Pursuant to this program, on December 5, 2008, the U.S. Treasury purchased 258,000 shares of our Series B Preferred Stock in the amount of $258.0 million. The Series B Preferred Stock pays cumulative compounding dividends at a rate of 5% per year for the first five years, and thereafter at a rate of 9% per year. The shares are non-voting, other than class voting rights on matters that could adversely affect the shares. They are callable at par after three years. In conjunction with the purchase of senior preferred shares, the U.S. Treasury received warrants to purchase 1,846,374 shares of common stock at the exercise price of $20.96 with an aggregate market price equal to $38.7 million, 15% of the senior preferred stock amount that U.S. Treasury invested. The exercise price of $20.96 was calculated based on the average of closing prices of our common stock on the 20 trading days ending on the last trading day prior to November 17, 2008, the date that we received the preliminary approval for the capital purchase from the U.S. Treasury. The Company also adopted the U.S. Treasury's standards for executive compensation and corporate governance for the period during which the U.S. Treasury holds securities issued under this program. See Part I — Item 1A — "Risk Factors" for a discussion of some of the factors that may affect us.

As of December 31, 2012, we remained authorized to purchase up to 622,500 shares of our common stock under our November 2007 stock repurchase program. No shares were repurchased during the years from 2008 to 2012. As long as the U. S. Treasury owns any of our Series B Preferred Stock, we are precluded from any repurchase of our common stock unless we are current in our dividend payments on our Series B Preferred Stock. As discussed below under "Capital Resources- Regulatory Matters," we are also subject to other restrictions on the repurchase of our common stock.

Capital Adequacy

Management seeks to retain our capital at a level sufficient to support future growth, protect depositors and stockholders, and comply with various regulatory requirements. The primary measure of capital adequacy is based on the ratio of risk-based capital to risk-weighted assets. At December 31, 2012, Tier 1 risk-based capital ratio of 17.36%, total risk-based capital ratio of 19.12%, and Tier 1 leverage capital ratio of 13.82%, continued to place the Bancorp in the "well capitalized" category, which is defined as institutions with Tier 1 risk-based capital ratio equal to or greater than 6.00%, total risk-based capital ratio equal to or greater than 10.00%, and Tier 1 leverage capital ratio equal to or greater than 5.00%. The comparable ratios for the Bancorp at December 31, 2011, were Tier 1 risk-based capital ratio of 15.97%, total risk-based capital ratio of 17.85%, and Tier 1 leverage capital ratio of 12.93%.

Cathay Real Estate Investment Trust, of which 100% of the common stock is owned by the Bank, sold $4.4 million during 2003 and $4.2 million during 2004 of its 7.0% Series A Non-Cumulative preferred stock to accredited investors. During 2005, the Trust repurchased $131,000 of its preferred stock. This preferred stock qualifies as Tier 1 capital under current regulatory guidelines.

A table displaying the Bancorp's and the Bank's capital and leverage ratios at December 31, 2012, and 2011, is included in Note 22 to the Consolidated Financial Statements.

Dividend Policy

Holders of common stock are entitled to dividends as and when declared by our Board of Directors out of funds legally available for the payment of dividends. Although we have historically paid cash dividends on our common stock, we are not required to do so. Commencing with the second quarter of 2009, our Board of Directors reduced our common stock dividend to $.08 per share and to $.01 per share thereafter. In January 2010, we adopted a capital management and dividend policy as part of our Three-Year Capital and Strategic Plan which included a policy to refrain from paying dividends in excess of $.01 per share per quarter, except when covered by operating earnings. On November 17, 2010, the Federal Reserve issued guidance that bank holding companies with U. S. Government investments still outstanding should not increase dividend payouts. The amount of future dividends will depend on earnings, financial condition, approval by our regulators, the repayment of our Series B Preferred Stock, capital requirements, and other factors, and will be determined by our Board of Directors in accordance with the capital management and dividend policy.

Substantially all of the revenues of the Company available for payment of dividends derive from amounts paid to it by the Bank. The terms of the Bank Subordinated Debt limit the ability of the Bank to pay dividends to us if the Bank is not current in paying interest on the Bank Subordinated Debt or another event of default has occurred. Under the memorandum of understanding we entered into with the Federal Reserve Bank of San Francisco (FRB SF), we agreed that we will not, without the FRB SF's prior written approval, receive any dividends or any other form of payment or distribution representing a reduction of capital from the Bank. The Bank did not pay dividends to Bancorp in both 2010 and 2011. In our February 27, 2012 three-year capital and strategic plan submitted to our regulators, we indicated that, subject to regulatory approval, the Bank expected to pay a dividend of $23.9 million to Bancorp during the second quarter of 2012 to increase Bancorp's cash balance to equal at least two years of Bancorp's operating expenses and then additional quarterly dividends beginning in the third quarter of 2012 in an amount which would maintain cash balances at Bancorp equal to at least two years of Bancorp's operating expenses. In addition, on December 27, 2012 after receipt of regulatory approvals, the Bank paid a special dividend of $125.0 million to Bancorp to provide funding for a partial repayment of the Series B Preferred Stock. The Bank paid dividends totaling $154.7 million to Bancorp during 2012.

The terms of our Series B Preferred Stock and Junior Subordinated Notes also limit our ability to pay dividends on our common stock. If we are not current in our payment of dividends on our Series B Preferred Stock or in our payment of interest on our Junior Subordinated Notes, we may not pay dividends on our common stock. The Federal Reserve Board has previously issued Federal Reserve Supervision and Regulation Letter SR-09-4 that states that bank holding companies are expected to inform and consult with the Federal Reserve supervisory staff prior to declaring and paying a dividend that exceeds earnings for the period for which the dividend is being paid. As a result of losses incurred in 2009, we were expected to so inform and consult with the Federal Reserve supervisory staff prior to declaring or paying any dividends in the future. Bancorp received Federal Reserve approval to make payments on our Series B Preferred Stock and Junior Subordinated Notes. There can be no assurance that our regulators will approve the payment of such dividends.

Under California State banking law, the Bank may not without regulatory approval pay a cash dividend which exceeds the lesser of the Bank's retained earnings or its net income for the last three fiscal years, less any cash distributions made during that period. Under this regulation, the amount of retained earnings available for cash dividends to the Company immediately after December 31, 2012, was restricted to approximately $80.8 million.

Regulatory Matters

On December 17, 2009, the Bancorp entered into a memorandum of understanding with the Federal Reserve Bank of San Francisco ("FRB SF") under which we agreed that we will not, without the FRB SF's prior written approval, (i) receive any dividends or any other form of payment or distribution representing a reduction of capital from the Bank, or (ii) declare or pay any dividends, make any payments on trust preferred securities, or make any other capital distributions. We do not believe that this agreement regarding dividends from the Bank will have a material adverse effect on our operations. We had retained a portion of the proceeds from our common stock offerings to be used, for among other things, payments of future dividends on our common and preferred stock and payments on trust preferred securities. At December 31, 2012, our cash on hand totaled $161.9 million which is sufficient to cover future dividends on our common stock at the current quarterly rate of $.01 per share, on our preferred stock, and interest on our Trust Preferred Securities, subject to FRB SF approval, for the next twelve months.

Under the memorandum, we also agreed to submit to the FRB SF for review and approval a plan to maintain sufficient capital at the Company on a consolidated basis and at the Bank, a dividend policy for the Bancorp, a plan to improve management of our liquidity position and funds management practices, and a liquidity policy and contingency funding plan for the Bancorp. As part of our compliance with the memorandum, on January 22, 2010, we submitted to the FRB SF a Three-Year Capital and Strategic Plan that updates a previously submitted plan and establishes, among other things, targets for our Tier 1 risk-based capital ratio, total risk-based capital ratio, Tier 1 leverage capital ratio and tangible common risk-based ratio, each of which, where applicable, are above the minimum requirements for a well-capitalized institution. In addition, we agreed to notify the FRB SF prior to effecting certain changes to our senior executive officers and board of directors and we are limited and/or prohibited, in certain circumstances, in our ability to enter into contracts to pay and to make golden parachute severance and indemnification payments. We also agreed in the memorandum that we will not, without the prior written approval of the FRB SF, directly or indirectly, (i) incur, renew, increase or guaranty any debt, (ii) issue any trust preferred securities, or (iii) purchase, redeem, or otherwise acquire any of our stock. The target, actual, and any excess or deficiency capital levels of the Three-Year Capital and Strategic Plan submitted to the FRB SF are as follows as of December 31, 2012:

	Tier 1 risk-based capital ratio		Total risk-based capital ratio		Tier 1 leverage capital ratio		Tangible common risk-based ratio *	
Actual	17.36	%	19.12	%	13.82	%	12.68	%
Target Levels	11.50	%	13.50	%	9.50	%	5.00	%
Excess	5.86	%	5.62	%	4.32	%	7.68	%

* Tier 1 risk-based capital excluding preferred stock, trust preferred stock and REIT preferred stock divided by total risk-weighted assets.

The Bancorp has taken appropriate steps to comply with the terms of its memorandum of understanding with the FRB SF and we believe we are in compliance with the memorandum. We do not believe that the memorandum or our compliance activities will have a material adverse effect on our operations or financial condition, including liquidity. If we fail to comply with the terms of the memorandum, that failure could lead to additional enforcement action by the

FRB SF that could have a material adverse effect on our operations or financial condition. At December 31, 2012, we are in compliance with the applicable target ratios.

Until it was terminated as of November 7, 2012, the Bank was subject to a memorandum of understanding with the California Department of Financial Institutions (“DFI”) and the Federal Deposit Insurance Corporation (“FDIC’) that was entered into on March 1, 2010, by which the Bank agreed to undertake certain steps to strengthen its operations. The Bank was required to develop and implement, within specified time periods, plans satisfactory to the DFI and the FDIC to reduce commercial real estate concentrations, to enhance and to improve the quality of our stress testing of the Bank’s loan portfolio, and to revise our loan policy in connection therewith; to develop and adopt a strategic plan addressing improved profitability and capital ratios and to reduce the Bank’s overall risk profile; to develop and adopt a capital plan; to develop and implement a plan to improve asset quality, including the methodology for calculating the loss reserve allocation and evaluating its adequacy; and to develop and implement a plan to reduce dependence on wholesale funding. In addition, we are required to report our progress to the DFI and FDIC on a quarterly basis. As part of our compliance with the Bank memorandum, on April 30, 2010, we submitted to the DFI and the FDIC a Three-Year Capital Plan that updated the Three-Year Capital and Strategic Plan previously submitted to the FRB SF on January 22, 2010, and established, among other things, targets for our Tier 1 risk-based capital ratio and total risk-based capital ratio, each of which are above the minimum requirements for a well-capitalized institution and effective June 30, 2010, a target Tier 1 to total tangible assets ratio. We were in compliance with the applicable target ratios through the date of termination of the memorandum.

Risk Elements of the Loan Portfolio

Non-performing Assets

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

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

Total non-performing portfolio assets, excluding non-accrual loans held for sale, decreased $149.7 million, or 49.8%, to $150.9 million at December 31, 2012, compared to $300.6 million at December 31, 2011, primarily due to a $97.3 million decrease in non-accrual loans, a $46.3 million decrease in OREO, and a $6.1 million decrease 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 decreased to 2.02% at December 31, 2012, from 4.20% at December 31, 2011. The non-performing portfolio loan coverage ratio, defined as the allowance for credit losses to non-performing loans, increased to 176.7% at December 31, 2012, from 100.2% at December 31, 2011.

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

Non-accrual, Past Due and Restructured Loans

	December 31,				
	2012	2011	2010	2009	2008
	(Dollars in thousands)				
Accruing loans past due 90 days or more	$630	$6,726	$5,006	$-	$6,733
Non-accrual loans	103,902	201,197	242,319	280,643	181,202
Total non-performing loans	104,532	207,923	247,325	280,643	187,935
Real estate acquired in foreclosure and other assets	46,384	92,713	77,740	71,014	63,892
Total non-performing assets	$150,916	$300,636	$325,065	$351,657	$251,827
Accruing troubled debt restructurings (TDRs)	$144,695	$120,016	$136,800	$54,992	$924
Non-accrual TDRs (included in non-accrual loans	$47,731	$50,870	$28,146	$41,609	$11,614
Non-accrual loans held for sale	$-	$760	$2,873	$54,826	$-
Non-performing assets as a percentage of gross loans and other real estate owned at year-end	2.02 %	4.20 %	4.68 %	5.05 %	3.34 %
Allowance for credit losses as a percentage of gross loans	2.49 %	2.95 %	3.60 %	3.15 %	1.73 %
Allowance for credit losses as a percentage of non-performing loans	176.68 %	100.20 %	100.10 %	77.36 %	68.87 %

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

	2012	2011	2010	2009	2008
			(In thousands)		
Non-accrual Loans					
Contractual interest due	$ 6,621	$ 13,049	$ 17,304	$ 23,746	$ 14,043
Interest recognized	1,006	71	4,853	9,830	8,782
Net interest foregone	$ 5,615	$ 12,978	$ 12,451	$ 13,916	$ 5,261

As of December 31, 2012, there were no commitments to lend additional funds to those borrowers whose loans had been restructured, were considered impaired, or were on non-accrual status.

Non-accrual Loans

At December 31, 2012, total non-accrual portfolio loans of $103.9 million decreased $97.3 million, or 48.4%, from $201.2 million at December 31, 2011. The allowance for the collateral-dependent impaired loans is calculated by the difference between the outstanding loan balance and the value of the collateral as determined by recent appraisals, sales contract, or other available market price information. The allowance for collateral-dependent impaired loans varies from loan to loan based on the collateral coverage of the loan at the time of designation as non-performing. We continue to monitor the collateral coverage, based on recent appraisals, on these loans on a quarterly basis and adjust the allowance accordingly.

Non-accrual portfolio loans at December 31, 2012, consisted of two residential construction loans totaling $3.0 million, three non-farm non-residential construction loans totaling $33.3 million, 35 commercial real estate loans totaling $29.6 million, five land loans totaling $6.1 million, 31 commercial loans totaling $20.0 million, and 49 residential mortgage loans totaling $11.9 million. Non-accrual loans also include those troubled debt restructurings that do not qualify for accrual status. The comparable numbers for 2011 were five residential construction loans totaling $25.3 million, three non-farm non-residential construction loans totaling $20.7 million, 46 commercial real estate loans totaling $96.8 million, 11 land loans totaling $11.0 million, 46 commercial loans totaling $30.7 million, and 56 residential mortgage loans totaling $16.7 million.

No loans were held for sale at December 31, 2012, compared to $760,000 at December 31, 2011. In 2012, we added three new loans of $16.0 million, sold four loans of $16.2 million for a net loss on sale of $26,000, and transferred a loan of $500,000 to held for investment. At December 31, 2011, non-accrual loans held for sale of $760,000 decreased $2.1 million from $2.9 million at December 31, 2010. In 2011, we added six new loans of $4.4 million, transferred one loan of $2.9 million to OREO, and sold four loans of $3.6 million for a net gain on sale of $88,000. At December 31, 2011, loans held for sale were comprised of a commercial construction loan of $500,000 and a residential mortgage loan of $260,000. The following tables present the type of properties securing the non-accrual portfolio loans and the type of businesses the borrowers engaged in as of the dates indicated:

	December 31, 2012		December 31, 2011	
	Real Estate (1)	Commercial	Real Estate (1)	Commercial
	(In thousands)			
Type of Collateral				
Single/Multi-family residence	$ 20,996	$ 2,073	$ 52,896	$ 3,078
Commercial real estate	56,895	1,433	106,665	1,929
Land	6,053	-	10,975	-
Personal Property (UCC)	-	16,452	-	25,654
Total	$ 83,944	$ 19,958	$ 170,536	$ 30,661

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

	December 31, 2012		December 31, 2011	
	Real Estate (1)	Commercial	Real Estate (1)	Commercial
	(In thousands)			
Type of Business				
Real estate development	$ 56,995	$ 2,387	$ 120,623	$ 1,518
Wholesale/Retail	15,398	3,908	33,675	5,833
Food/Restaurant	562	341	-	817
Import/Export	-	13,309	-	22,493
Other	10,989	13	16,238	-
Total	$ 83,944	$ 19,958	$ 170,536	$ 30,661

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

Other Real Estate Owned

At December 31, 2012, the net carrying value of other real estate owned (“OREO”) decreased $46.3 million, or 50.0%, to $46.4 million from $92.7 million at December 31, 2011. OREO located in California was $12.2 million and was comprised primarily of six parcels of land zoned for residential purpose of $9.1 million, three office and commercial use buildings of $1.7 million, one commercial building construction project of $740,000, one residential construction project of $530,000, and one single family residential property of $179,000. OREO located in Texas was $29.6 million and was comprised of four office and commercial use buildings of $14.4 million, four parcels of land zoned for residential purposes of $12.6 million, two commercial building construction projects of $1.3 million, one parcel of

land zoned for non-residential purposes of $1.1 million, and one single family residential property of $169,000. OREO located in the state of Washington was $1.6 million and was comprised one parcel of land zoned for residential purpose of $733,000 and one commercial construction project of $870,000. OREO located in the state of New York was a retail store of $1.2 million. OREO located in the state of Nevada was $1.1 million and was comprised of a commercial use building. OREO in all other states was $752,000 and was comprised of a commercial use property of $376,000 and one retail store of $376,000.

For 2011, OREO located in California was $32.3 million and was comprised primarily of five parcels of land zoned for residential purpose of $9.9 million, four parcels of land zoned for commercial purposes of $4.8 million, two commercial building construction projects of $3.5 million, one residential construction project of $588,000, twelve office and commercial use buildings of $13.2 million, and two single family residential properties of $395,000. OREO located in Texas was $48.6 million and was comprised of eight commercial use buildings of $33.5 million, three parcels of land zoned for residential purposes of $11.7 million, three commercial building construction projects of $2.4 million, and three single family residential properties of $959,000. OREO located in the state of Washington was $3.9 million and was comprised of two retail stores $1.6 million, three parcels of land zoned for residential purposes of $1.2 million, one commercial construction project of $658,000, and three single family residential properties of $531,000. OREO located in the state of Nevada was $4.8 million and was comprised of a parcel of land zoned for residential purposes of $3.5 million and one commercial use building of $1.3 million. OREO in all other states was $3.0 million and was comprised of three commercial use properties of $2.1 million and four single family residential properties of $878,000.

Troubled Debt Restructurings

A troubled debt restructuring (“TDR”) is a formal modification of the terms of a loan when the Bank, for economic or legal reasons related to the borrower’s financial difficulties, grants a concession to the borrower. The concessions may be granted in various forms, including reduction in the stated interest rate, reduction in the amount of principal amortization, forgiveness of a portion of a loan balance or accrued interest, or extension of the maturity date. Although these loan modifications are considered under ASC Subtopic 310-40, formerly SFAS 15, to be troubled debt restructurings, the loans must have, pursuant to the Bank’s policy, performed under the restructured terms and have demonstrated sustained performance under the modified terms for six months before being returned to accrual status. The sustained performance considered by management pursuant to its policy includes the periods prior to the modification if the prior performance met or exceeded the modified terms. This would include cash paid by the borrower prior to the restructure to set up interest reserves.

Troubled debt restructurings on accrual status totaled $144.7 million at December 31, 2012, and were comprised of 61 loans, an increase of $24.7 million, compared to 32 loans totaling $120.0 million at December 31, 2011. TDRs at December 31, 2012, were comprised of sixteen retail shopping and commercial use building loans of $68.1 million, fifteen office and commercial use building loans of $40.4 million, two hotel loans of $12.4 million, seventeen single family residential loans of $19.1 million, two land loans of $2.3 million, six commercial loans of $1.3 million, and three multi-family residential loans of $1.1 million. We expect that the troubled debt restructuring loans on accruing status as of December 31, 2012, which are all performing in accordance with their restructured terms, will continue to comply with the restructured terms because of the reduced principal or interest payments on these loans. The comparable TDRs at December 31, 2011, were comprised of eleven retail shopping and commercial use building loans of $74.4 million, seven office and commercial use building loans of $23.8 million, one hotel loan of $7.9 million, ten single family residential loans of $13.3 million, one land loan of $635,000 and two commercial loans of $39,000. A summary of TDRs by type of loans and by accrual/non-accrual status is shown below:

	December 31, 2012				
Accruing TDRs	Principal Deferral	Rate Reduction	Rate Reduction and Forgiveness of Principal	Rate Reduction and Payment Deferral	Total
			(In thousands)		
Commercial loans	$ 531	$ 3,020	$ -	$ 413	$ 3,964
Real estate construction loans	-	-	-	5,834	5,834
Commercial mortgage loans	27,003	16,656	739	85,783	130,181
Residential mortgage loans	1,461	1,024	-	2,231	4,716
Total accruing TDRs	$ 28,995	$ 20,700	$ 739	$ 94,261	$ 144,695

			December 31, 2012			
Non-accrual TDRs	Interest Deferral	Principal Deferral	Rate Reduction	Rate Reduction and Forgiveness of Principal	Rate Reduction and Payment Deferral	Total
			(In thousands)			
Commercial loans	$ -	$ 912	$ -	$ 1,518	$ -	$ 2,430
Real estate construction loans	-	16,767	9,579	-	-	26,346
Commercial mortgage loans	1,685	2,817	5,746	-	5,076	15,324
Residential mortgage loans	275	2,010	586	-	760	3,631
Total non-accrual TDRs	$ 1,960	$ 22,506	$ 15,911	$ 1,518	$ 5,836	$ 47,731

	December 31, 2011				
Accruing TDRs	Principal Deferral	Rate Reduction	Rate Reduction and Forgiveness of Principal	Rate Reduction and Payment Deferral	Total
			(In thousands)		
Commercial loans	$ 12,933	$ 1,756	$ -	$ 431	$ 15,120
	16,820	9,659	-	5,776	32,255

Real estate construction loans					
Commercial mortgage loans	471	37,796	2,071	28,935	69,273
Residential mortgage loans	1,294	587	-	1,487	3,368
Total accruing TDRs	$ 31,518	$ 49,798	$ 2,071	$ 36,629	$ 120,016

	December 31, 2011					
Non-accrual TDRs	Interest Deferral	Principal Deferral	Rate Reduction	Rate Reduction and Forgiveness of Principal	Rate Reduction and Payment Deferral	Total
			(In thousands)			
Commercial loans	$ -	$ 616	$ 1,859	$ 1,506	$ -	$ 3,981
Real estate construction loans	-	13,579	12,376	-	-	25,955
Commercial mortgage loans	2,633	9,727	-	-	5,076	17,436
Residential mortgage loans	311	2,427	449	-	311	3,498
Total non-accrual TDRs	$ 2,944	$ 26,349	$ 14,684	$ 1,506	$ 5,387	$ 50,870

The activity within our TDR loans for 2012 and 2011 are shown below:

Accruing TDRs	2012	2011
	(In thousands)	
Beginning balance	$ 120,016	$ 136,800
New restructurings	53,958	60,863
Restructured loans restored to accrual status	8,356	709
Charge-offs	(251)	(2,341)
Payments	(5,159)	(46,313)
Restructured loans placed on non-accrual	(32,225)	(28,969)
Expiration of loan concession	-	(733)
Ending balance	$ 144,695	$ 120,016

Non-accrual TDRs	2012	2011
	(In thousands)	
Beginning balance	$ 50,870	$ 28,146
New restructurings	12,304	13,269
Restructured loans placed on non-accrual	32,225	28,969
Charge-offs	(4,182)	(7,303)
Payments	(33,931)	(3,355)
Foreclosures	(1,199)	(8,147)
Restructured loans restored to accrual status	(8,356)	(709)
Ending balance	$ 47,731	$ 50,870

Impaired Loans

A loan is considered impaired when it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement based on current circumstances and events. The assessment for impairment occurs when and while such loans are on non-accrual as a result of delinquency status of over 90 days or receipt of information indicating that full collection of principal is doubtful, or when the loan has been restructured in a troubled debt restructuring. Those loans with a balance less than our defined selection criteria, generally a loan amount is $500,000 or less, are treated as a homogeneous portfolio. If loans meeting the defined criteria are not collateral dependent, we measure the impairment based on the present value of the expected future cash flows discounted at the loan's effective interest rate. If loans meeting the defined criteria are collateral dependent, we measure the impairment by using the loan's observable market price or the fair value of the collateral. We obtain an appraisal to determine the amount of impairment at the date that the loan becomes impaired. The appraisals are based on "as is" or bulk sale valuations. To ensure that appraised values remain current, we generally obtain an updated appraisal every six months from qualified independent appraisers. Furthermore, if the most current appraisal is dated more than three months prior to the effective date of the impairment test, we validate the most current value with third party market data appropriate to the location and property type of the collateral. If the third party market data indicates that the value of our collateral has declined since the most recent valuation date, we adjust downward the value of the property to reflect current market conditions. If the fair value of the collateral is less than the recorded amount of the loan, we then recognize impairment by creating or adjusting an existing valuation allowance with a corresponding charge to the provision for loan losses. If an impaired loan is expected to be collected through liquidation of the collateral, the amount of impairment, excluding disposal costs, which range between 3% to 6% of the fair value, depending on the size of impaired loan, is charged off against the allowance for loan

losses. Non-accrual impaired loans are not returned to accruing status unless the unpaid interest has been brought current and full repayment of the recorded balance is expected or if the borrower has made six consecutive monthly payments of the scheduled amounts due, and are continued to be reviewed for impairment until they are no longer reported as troubled debt restructurings.

We identified impaired loans with a recorded investment of $248.6 million at December 31, 2012, compared to $322.0 million at December 31, 2011. The average balance of impaired loans was $277.8 million in 2012 and $361.4 million in 2011. We considered all non-accrual loans to be impaired. Interest recognized on impaired loans totaled $8.2 million in 2012 and $5.3 million in 2011. As of December 31, 2012, $83.9 million, or 80.8%, of the $103.9 million of non-accrual portfolio loans was secured by real estate. As of December 31, 2011, $170.5 million, or 84.8%, of the $201.2 million of non-accrual loans was secured by real estate. In light of declining property values in the current economic downturn affecting the real estate markets, the Bank has obtained current appraisals, sales contract, or other available market price information which provides updated factors in evaluating potential loss.

At December 31, 2012, $12.2 million of the $183.3 million allowance for loan losses was allocated for impaired loans and $171.1 million was allocated to the general allowance. At December 31, 2011, $7.6 million of the $206.3 million allowance for loan losses was allocated for impaired loans and $198.7 million was allocated to the general allowance. The amount of the allowance for loan losses allocated to impaired loans increased from 2011 to 2012 as a result of the addition of two impaired construction loans. In 2012, net loan charge-offs were $14.7 million, or 0.21%, of average loans, compared to $66.2 million, or 0.95%, of average loans in 2011.

The allowance for credit losses to non-accrual loans increased to 177.8% at December 31, 2012, from 103.6% at December 31, 2011. Non-accrual loans also include those troubled debt restructurings that do not qualify for accrual status.

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

	Impaired Loans					
	At December 31, 2012			At December 31, 2011		
	Unpaid Principal Balance	Recorded Investment	Allowance	Unpaid Principal Balance	Recorded Investment	Allowance
	(Dollars in thousands)					
With no allocated allowance						
Commercial loans	$ 29,359	$ 18,963	$ -	$ 46,671	$ 38,194	$ -
Real estate construction loans	9,304	7,277	-	134,837	78,767	-
Commercial mortgage loans	189,871	152,957	-	187,580	149,034	-
Residential mortgage and equity lines	4,303	4,229	-	8,555	7,987	-
Subtotal	$ 232,837	$ 183,426	$ -	$ 377,643	$ 273,982	$ -
With allocated allowance						
Commercial loans	$ 7,804	$ 4,959	$ 1,467	$ 11,795	$ 7,587	$ 3,336
Real estate construction loans	54,718	34,856	8,158	-	-	-
Commercial mortgage loans	14,163	12,928	1,336	29,722	28,023	2,969

Residential mortgage and equity lines	14,264	12,428	1,222	13,813	12,381	1,249
Subtotal	$ 90,949	$ 65,171	$ 12,183	$ 55,330	$ 47,991	$ 7,554
Total impaired loans	$ 323,786	$ 248,597	$ 12,183	$ 432,973	$ 321,973	$ 7,554

Loan Interest Reserves

In accordance with customary banking practice, construction loans and land development loans are originated where interest on the loan is disbursed from pre-established interest reserves included in the total original loan commitment. Our construction 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 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 65% in the case of land to 85% in the case of 1- to 4-family residential construction projects.

As of December 31, 2012, construction loans of $51.8 million were disbursed with pre-established interest reserves of $9.7 million compared to $16.8 million of such loans disbursed with pre-established interest reserves of $3.2 million at December 31, 2011. The balance for construction loans with interest reserves which have been extended was $4.0 million with pre-established interest reserves of $314,000, at December 31, 2012, and zero at December 31, 2011. Land loans of $11.2 million were disbursed with pre-established interest reserves of $978,000 at December 31, 2012, compared to $10.8 million land loans disbursed with pre-established interest reserves of $223,000 at December 31, 2011. The balance for land loans with interest reserves which have been extended was zero at December 31, 2012, compared to $9.5 million at December 31, 2011.

At December 31, 2012, the Bank had no loans on non-accrual status with available interest reserves. At December 31, 2012, $3.0 million of non-accrual residential construction loans, $33.3 million of non-accrual non-residential construction loans, and $4.2 million of non-accrual land loans had been originated with pre-established interest reserves. At December 31, 2011, $13.4 million of non-accrual residential construction loans, $20.7 million of non-accrual non-residential construction loans, and $7.9 million of non-accrual land loans had been originated with pre-established interest reserves. While loans with interest reserves are typically expected to be repaid in full according to the original contractual terms, some loans require one or more extensions beyond the original maturity. Typically, these extensions are required due to construction delays, delays in sales or lease of property, or some combination of these two factors.

Loan Concentration

Most of our business activity is with customers located in the predominantly Asian areas of California; New York City; Dallas and Houston, Texas; Seattle, Washington; Boston, Massachusetts; Chicago, Illinois; and New Jersey. We have no specific industry concentration, and generally our loans are collateralized with real property or other pledged collateral. Loans are generally expected to be paid off from the operating profits of the borrowers, refinancing by another lender, or through sale by the borrowers of the secured collateral. We experienced no loan concentrations to multiple borrowers in similar activities that exceeded 10% of total loans as of December 31, 2012.

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. Since January 2010, the Bank's internal limit for CRE loans has been 300% of total capital. Total loans for construction, land development, and other land represented 19% of total risk-based capital as of December 31, 2012, and 23% as of December 31, 2011. Total CRE loans represented 228% of total risk-based capital as of December 31, 2012, and 236% as of December 31, 2011. See Part I — Item 1A — "Risk Factors" for a discussion of some of the factors that may affect us.

Allowance for Credit Losses

The Bank maintains the allowance for credit losses at a level that is considered adequate to cover the estimated and known inherent risks in the loan portfolio and off-balance sheet unfunded credit commitments. Allowance for credit losses is comprised of allowances 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 impaired and potential problem loans, and to permit periodic evaluation of impairment and the adequacy level of the allowance for credit losses in a timely manner.

In addition, the Board of Directors of the Bank has established a written credit policy that includes a credit review and control system which it believes should be effective in ensuring that the Bank maintains an adequate allowance for credit losses. The Board of Directors provides oversight for the allowance evaluation process, including quarterly evaluations, and determines whether the allowance is adequate to absorb losses in the credit portfolio. The determination of the amount of the allowance for credit losses and the provision for credit losses 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 collectibility when determining the appropriate level for the allowance for credit losses. The nature of the process by which the Bank determines the appropriate allowance for credit losses requires the exercise of considerable judgment. Additions to the allowance for credit losses are made by charges to the provision for credit losses. 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 can result in an increase in the number of delinquencies, bankruptcies, and defaults, and a higher level of non-performing assets, net charge-offs, and provision for loan losses. See Part I — Item 1A — "Risk Factors" for additional factors that could cause actual results to differ materially from forward-looking statements or historical performance.

The allowance for loan losses was $183.3 million and the allowance for off-balance sheet unfunded credit commitments was $1.4 million at December 31, 2012, and represented the amount that the Company believes to be sufficient to absorb credit losses inherent in the Company's loan portfolio including unfunded commitments. The allowance for credit losses, the sum of allowance for loan losses and for off-balance sheet unfunded credit commitments, $184.7 million at December 31, 2012, compared to $208.3 million at December 31, 2011, a decrease of $23.6 million, or 11.4%. The allowance for credit losses represented 2.49% of period-end gross loans, excluding loans held for sale, and 176.7% of non-performing portfolio loans at December 31, 2012. The comparable ratios were 2.95% of period-end gross loans, excluding loans held for sale, and 100.2% of non-performing portfolio loans at December 31, 2011.

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

Allowance for Credit Losses

	Amount Outstanding as of December 31,				
	2012	2011	2010	2009	2008
Allowance for Loan Losses	(Dollars in thousands)				
Balance at beginning of year	$206,280	$245,231	$211,889	$122,093	$64,983
(Reversal)/provision for credit losses	(9,000)	27,000	156,900	307,000	106,700
Reversal of/(transfer to) reserve for off-balance sheet credit commitments	706	268	2,870	2,125	(2,756)
Charge-offs :					
Commercial loans	(17,707)	(11,745)	(21,609)	(59,370)	(12,932)
Construction loans-residential	(391)	(20,801)	(14,889)	(71,147)	(20,653)
Construction loans-other	(774)	(16,699)	(30,432)	(22,128)	-
Real estate loans	(13,616)	(27,327)	(47,765)	(52,931)	(5,291)
Real estate land loans	(278)	(1,054)	(24,060)	(16,967)	(9,553)
Installment loans and other loans	(25)	-	-	(4)	(254)
Total charge-offs	(32,791)	(77,626)	(138,755)	(222,547)	(48,683)
Recoveries:					
Commercial loans	1,949	1,774	4,712	904	1,750
Construction loans-residential	3,788	3,808	5,448	1,140	83
Construction loans-other	2,365	665	553	-	-
Real estate loans	8,820	4,539	933	461	-
Real estate land loans	1,202	621	668	692	-
Installment loans and other loans	3	-	13	21	16
Total recoveries	18,127	11,407	12,327	3,218	1,849
Balance at end of year	$183,322	$206,280	$245,231	$211,889	$122,093
Reserve for off-balance sheet credit commitments					
Balance at beginning of year	$2,069	$2,337	$5,207	$7,332	$4,576
Provision (reversal)/transfer for credit losses	(706)	(268)	(2,870)	(2,125)	2,756
Balance at end of year	$1,363	$2,069	$2,337	$5,207	$7,332
Average loans outstanding during the year (1)	$7,094,197	$6,959,331	$6,879,457	$7,262,831	$7,214,689

Ratio of net charge-offs to average loans outstanding during the year (1)	0.21 %	0.95 %	1.84 %	3.02 %	0.65 %
(Reversal)/provision for credit losses to average loans outstanding during the year (1)	(0.13)%	0.39 %	2.28 %	4.23 %	1.48 %
Allowance for credit losses to non-performing portfolio loans at year-end (2)	176.68 %	100.20 %	100.10 %	77.36 %	68.87 %
Allowance for credit losses to gross loans at year-end (1)	2.49 %	2.95 %	3.60 %	3.15 %	1.73 %

(1) Excluding loans held for sale
(2) Excluding non-accrual loans held for sale

Our allowance for loan losses consists of the following:

- Specific allowance: For impaired loans, we provide specific allowances for loans that are not collateral dependent based on an evaluation of the present value of the expected future cash flows discounted at the loan's effective interest rate and for loans that are collateral dependent based on the fair value of the underlying collateral, which is determined based on the most recent valuation information received, which may be adjusted based on factors such as changes in market conditions from the time of valuation. If the measure of the impaired loan is less than the recorded investment in the loan, the deficiency will be charged off against the allowance for loan losses or, alternatively, a specific allocation will be established.

• General allowance: The unclassified portfolio is segmented on a group basis. Segmentation is determined by loan type and common risk characteristics. The non-impaired loans are grouped into 23 segments: two commercial segments, ten commercial real estate segments, three residential construction segments, three non-residential construction segments, one SBA segment, one installment loans segment, one residential mortgage segment, one equity lines of credit segment, and one overdrafts segment. The allowance is provided for each segmented group based on the group's historical loan loss experience aggregated based on loan risk classifications which takes into account the current financial condition of the borrowers and guarantors, the prevailing value of the underlying collateral if collateral dependent, charge-off history, management's knowledge of the portfolio, general economic conditions, and environmental factors which include the trends in delinquency and non-accrual, and other significant factors, such as the national and local economy, volume and composition of the portfolio, strength of management and loan staff, underwriting standards, and concentration of credit. In addition, management reviews reports on past-due loans to ensure appropriate classifications. During the second quarter of 2009, in light of the continued deterioration in the economy and the increases in non-accrual loans and charge-offs, and based in part on regulatory considerations, we shortened the period used in the migration analysis from five years to four years to better reflect the impact of the most recent charge-offs, which increased the allowance for loan losses by $3.9 million; we increased the general allowance to reflect the higher loan delinquency trends, the weaker national and local economy and the increased difficulty in assigning loan grades, which increased the allowance for loan losses by $13.2 million, and we also applied the environmental factors described above to loans rated Minimally Acceptable, Special Mention and Substandard, which increased the allowance for loan losses by $11.8 million. During the fourth quarter of 2009, we changed our migration loss analysis to reduce the weighting of the first two years of the four-year migration analysis by half to better reflect the impact of more recent losses, and further segmented the construction loan portfolios into three geographic segments. The changes made during the fourth quarter of 2009 did not have a significant impact on the allowance for loan losses. During the first quarter of 2010, we increased the number of segments for commercial real estate loans from one to ten. In addition, we changed our migration loss analysis to use as the reserve factor for loans rated Pass the total weighted average losses during the last four years for each loan segment as well as the weighting for the four-year migration so that the first two years are weighted one-third and the most recent two years are weighted two-thirds. The changes made during the first quarter of 2010 increased the allowance for loan losses by $10.4 million. During the second quarter of 2010, we further refined our methodology to give greater weighting to the most recent twelve months of charge-offs in the calculation of the loan loss reserve percentage for Pass rated loans, which increased the allowance for loan losses by $10.4 million; we discontinued the weighting in the four-year migration analysis for loans rated lower than Pass, which increased the allowance for loan losses by $7.1 million, and we increased the environmental factors for purchased syndicated loans, which increased the allowance for loan losses by $2.0 million. During the first quarter of 2011, we combined the number of segments for construction loans from nine to two by consolidating the previous three geographic groups of East Coast, Texas and all other regions into one bankwide region in light of the convergence of credit quality for construction loans of the three separate regions, which increased the allowance for loan losses by $4.8 million.

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 total loans as of the dates indicated:

Allocation of Allowance for Loan Losses

	As of December 31,									
	2012		2011		2010		2009		2008	
	Amount	Percentage of Loans in Each Category to to Average Gross Loans	Amount	Percentage of Loans in Each Category to to Average Gross Loans	Amount	Percentage of Loans in Each Category to to Average Gross Loans	Amount	Percentage of Loans in Each Category to to Average Gross Loans	Amount	Percentage of Loans in Each Category to to Average Gross Loans
	(Dollars in thousands)									
Type of Loans:										
Commercial loans	$66,101	27.4 %	$65,658	23.9 %	$63,919	19.7 %	$57,815	20.2 %	$44,508	21.7 %
Residential mortgage loans and equity lines	11,703	17.4	10,795	16.4	9,668	13.9	8,480	11.4	2,678	10.2
Commercial mortgage loans	82,473	52.2	108,021	54.9	128,347	58.3	100,494	56.8	35,060	55.7
Real estate construction loans	23,017	2.8	21,749	4.5	43,261	7.8	45,086	11.3	39,820	12.1
Installment and other loans	28	0.2	57	0.3	36	0.3	14	0.3	27	0.3
Total	$183,322	100.0%	$206,280	100.0%	$245,231	100.0%	$211,889	100.0%	$122,093	100.0%

The increase of $443,000 in the allowance allocated to commercial loans to $66.1 million at December 31, 2012, from $65.7 million at December 31, 2011, is due primarily to the growth of commercial loans. Commercial loans increased $258.8 million, or 13.9%, from $1.9 billion at December 31, 2011 to $2.1 billion at December 31, 2012. At December 31, 2012, thirty-one commercial loans totaling $20.0 million were on non-accrual status. At December 31, 2011, forty-six commercial loans totaling $30.7 million were on non-accrual status. Commercial loans comprised 9.6% of impaired loans and 19.2% of non-accrual portfolio loans at December 31, 2012, compared to 14.2% of impaired loans and 15.2% of non-accrual portfolio loans at December 31, 2011.

The allowance allocated to residential mortgage loans and equity lines increased $908,000, to $11.7 million at December 31, 2012, from $10.8 million at December 31, 2011, primarily due to an increase in residential mortgage loans of $174.0 million, or 17.9%, to $1.1 billion at December 31, 2012, from $972.3 million at December 31, 2011.

The allowance allocated to commercial mortgage loans decreased from $108.0 million at December 31, 2011, to $82.5 million at December 31, 2012, which was primarily due to the decrease in classified commercial mortgage loans to $261.2 million at December 31, 2012, from $403.5 million at December 31, 2011. The overall allowance for total commercial mortgage loans was 2.2% at December 31, 2012, compared to 2.9% at December 31, 2011. At December 31, 2012, 40 commercial mortgage loans, excluding non-accrual loans held for sale, totaling $35.7 million were on non-accrual status. At December 31, 2011, 57 commercial mortgage loans, excluding non-accrual loans held for sale, totaling $107.8 million were on non-accrual status. Commercial mortgage loans comprised 66.7% of impaired loans and 34.4% of non-accrual portfolio loans at December 31, 2012, compared to 55.0% of impaired loans and 53.6% of non-accrual portfolio loans at December 31, 2011.

The allowance allocated for construction loans increased $1.3 million to $23.0 million, or 12.7%, of construction loans at December 31, 2012, compared to $21.7 million, or 9.2%, of construction loans at December 31, 2011, primarily due to increases in reserves based on prior loss experience from construction loans. Five construction loans totaling $36.3 million were on non-accrual status at December 31, 2012, compared to eight loans totaling $46.0 million at December 31, 2011. Construction loans comprised 17.0% of impaired loans and 34.9% of non-accrual portfolio loans at December 31, 2012, compared to 24.5% of impaired loans and 22.9% of non-accrual portfolio loans at December 31, 2011.

Also, see Part I — Item 1A — “Risk Factors” for additional factors that could cause actual results to differ materially from forward-looking statements or historical performance.

Liquidity

Liquidity is our ability to maintain sufficient cash flow to meet maturing financial obligations and customer credit needs, and to take advantage of investment opportunities as they are presented in the marketplace. Our principal sources of liquidity are growth in deposits, proceeds from the maturity or sale of securities and other financial instruments, repayments from securities and loans, Federal funds purchased, securities sold under agreements to repurchase, and advances from the FHLB. At December 31, 2012, our liquidity ratio (defined as net cash and short-term and marketable securities to net deposits and short-term liabilities) decreased to 15.3% primarily due to lower securities balances, compared to 15.8% at December 31, 2011.

The Bank is a shareholder of the FHLB, which enables the Bank to have access to lower-cost FHLB financing when necessary. At December 31, 2012, the Bank had an approved credit line with the FHLB of San Francisco totaling $1.23 billion. Total advances from the FHLB of San Francisco were $146.2 million at December 31, 2012. These borrowings bear fixed rates and are secured by loans. See Note 10 to the Consolidated Financial Statements. At December 31, 2012, the Bank pledged $211.6 million of its commercial loans to the Federal Reserve Bank’s Discount Window under the Borrower-in-Custody program. The Bank had borrowing capacity of $193.9 million from the Federal Reserve Bank Discount Window at December 31, 2012.

Liquidity can also be provided through the sale of liquid assets, which consist of Federal funds sold, securities purchased under agreements to resell, and securities available-for-sale. At December 31, 2012, investment securities totaled $2.07 billion, with $1.45 billion pledged as collateral for borrowings and other commitments. The remaining $618.4 million was available as additional liquidity or to be pledged as collateral for additional borrowings.

Approximately 90.8% of our time deposits mature within one year or less as of December 31, 2012. 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. Management believes all the above-mentioned sources will provide adequate liquidity for the next twelve months to the Bank to meet its operating needs.

The business activities of the Bancorp consist primarily of the operation of the Bank and limited activities in other investments. Under the memorandum of understanding the Bancorp entered into with the FRB SF, we agreed that we will not, without the FRB SF’s prior written approval, receive any dividends or any other form of payment or distribution representing a reduction of capital from the Bank. The Bank did not pay a dividend to the Bancorp in 2010 or 2011, but paid dividends of $154.7 million to Bancorp following regulatory approval in 2012, and will pay additional dividends with regulatory approval in 2013 to maintain Bancorp’s cash balance equal to at least two years of Bancorp’s operating expenses and to be in a position, subject to regulatory approval, to repurchase in installments during 2013 the Series B Preferred Stock issued to the U.S. Treasury under the TARP Capital Purchase Program.

Also, see Note 14 to the Consolidated Financial Statements regarding commitments and contingencies.

Recent Accounting Pronouncements

See Note 1 to the Consolidated Financial Statements for details of recent accounting pronouncements and their expected impact, if any, on the Consolidated Financial Statements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

Market Risk

Market risk is the risk of loss from adverse changes in market prices and rates. The principal market risk to the Company is the interest rate risk inherent in our lending, investing, deposit taking and borrowing activities, due to the fact that interest-earning assets and interest-bearing liabilities do not re-price at the same rate, to the same extent, or on the same basis.

We monitor and manage our interest rate risk through analyzing the re-pricing characteristics of our loans, securities, deposits, and borrowings on an on-going basis. The primary objective is to minimize the adverse effects of changes in interest rates on our earnings, and ultimately the underlying market value of equity, while structuring our asset-liability composition to obtain the maximum spread. Management uses certain basic measurement tools in conjunction with established risk limits to regulate its interest rate exposure. Due to the limitation inherent in any individual risk management tool, we use a simulation model to measure and quantify the impact to our profitability as well as to estimate changes to the market value of our assets and liabilities.

We use a net interest income simulation model to measure the extent of the differences in the behavior of the lending, investing, and funding rates to changing interest rates, so as to project future earnings or market values under alternative interest rate scenarios. Interest rate risk arises primarily through the traditional business activities of extending loans, investing securities, accepting deposits, and borrowings. Many factors, including economic 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 25 basis points increments.

Although the modeling is 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 attempts to reduce the risk of a significant decrease in net interest income caused by a change in interest rates.

We establish a tolerance level in our policy to define and limit interest income volatility to a change of plus or minus 15% when the hypothetical rate change is plus or minus 200 basis points. When the net interest rate simulation projects that our tolerance level will be met or exceeded, we seek corrective action after considering, among other things, market conditions, customer reaction, and the estimated impact on profitability. At December 31, 2012, if interest rates were to increase instantaneously by 100 basis points, the simulation indicated that our net interest income over the next twelve months would increase by 2.3%, and if interest rates were to increase instantaneously by 200 basis points, the simulation indicated that our net interest income over the next twelve months would increase by 7.2%. Conversely, if interest rates were to decrease instantaneously by 100 basis points, the simulation indicated that our net interest income over the next twelve months would decrease by 0.2%, and if interest rates were to decrease

instantaneously by 200 basis points, the simulation indicated that our net interest income over the next twelve months would decrease by 0.2%.

Our simulation model also projects the net market value of our portfolio of assets and liabilities. We have established a tolerance level to value the net market value of our portfolio of assets and liabilities in our policy to a change of plus or minus 15% when the hypothetical rate change is plus or minus 200 basis points. At December 31, 2012, if interest rates were to increase instantaneously by 200 basis points, the simulation indicated that the net market value of our portfolio of assets and liabilities would increase by 6.6%, and conversely, if interest rates were to decrease instantaneously by 200 basis points, the simulation indicated that the net market value of our assets and liabilities would increase by 0.4%.

Quantitative Information About Interest Rate Risk

The following table shows the carrying value of our financial instruments that are sensitive to changes in interest rates, categorized by expected maturity, as well as the instruments' total fair values at December 31, 2012, and 2011. For assets, expected maturities are based on contractual maturity. For liabilities, we use our historical experience and decay factors to estimate the deposit runoffs of interest-bearing transactional deposits. We use certain assumptions to estimate fair values and expected maturities which are described in Note 17 to the Consolidated Financial Statements. Off-balance sheet commitments to extend credit, letters of credit, and bill of lading guarantees represent the contractual unfunded amounts. Off-balance sheet financial instruments represent fair values. The results presented may vary if different assumptions are used or if actual experience differs from the assumptions used.

	Average Interest Rate	2013	2014	2015	2016	2017	Thereafter	2012 Total	Decem Fair Value
			Expected Maturity Date at December 31,			(Dollars in thousands)			
Interest-Sensitive Assets:									
Mortgage-backed securities and collateralized mortgage obligations	3.50%	$223,273	$146,222	$113,371	$90,323	$77,948	$410,482	$1,061,619	$1,102,421
Other investment securities	1.53	349,879	160,091	9,855	-	200,155	283,648	1,003,628	1,012,965
Loans held-for-sale	-	-	-	-	-	-	-	-	-
Gross loans receivable:									
Commercial	3.99	1,651,153	254,557	84,227	45,838	45,564	45,768	2,127,107	2,122,877
Residential mortgage	4.68	5,962	1,932	6,575	3,253	7,236	1,315,124	1,340,082	1,351,638
Commercial mortgage	5.16	648,732	393,793	459,963	519,761	630,134	1,116,069	3,768,452	3,695,865
Real estate construction	5.36	141,427	39,523	-	-	-	-	180,950	180,559
Installment & other	2.42	12,283	273	-	-	-	-	12,556	11,863
Trading securities	1.35	-	4,703		-	-	-	4,703	4,703
Interest Sensitive Liabilities:									
Other interest-bearing deposits	0.67	351,485	347,886	228,025	1,326,313	-	-	2,253,709	2,253,709
Time deposits	0.83	3,506,076	263,847	67,735	1,499	20,901	3	3,860,061	3,865,851
Securities sold under agreements to repurchase	3.84	-	600,000	250,000	50,000	250,000	100,000	1,250,000	1,361,585
Advances from the Federal Home Loan Bank	0.44	125,000	-	-	-	21,200	-	146,200	146,789
Other borrowings from financial institutions	-	-	-	-	-	-	-	-	
	2.95	-	-	-	-	-	18,713	18,713	14,573

Other borrowings									
Long-term debt	2.80	-	-	-	50,000	-	121,136	171,136	98,392
Off-Balance Sheet Financial Instruments:									
Commitments to extend credit		1,105,138	281,710	28,876	91,748	40,531	192,460	1,740,463	(1,875
Standby letters of credit		44,060	442	151	19	-	-	44,672	(204
Other letters of credit		71,073	-	-	-	-	-	71,073	(34
Bill of lading guarantees		77	-	-	-	-	-	77	-

Country Risk Exposures

The Company's total assets were $10.7 billion and total foreign country risk net exposures were $844.6 million at December 31, 2012, compared to total assets of $10.6 billion and total foreign country risk net exposures of $751.3 million at December 31, 2011. Total foreign country risk net exposures at December 31, 2012, were comprised primarily of $274.7 million from Hong Kong, $209.0 million from England, $149.0 million from China, $60.8 million from Switzerland, $60.0 million from France, $50.0 million from Australia, $17.9 million from Taiwan, $10.0 million from Luxembourg, $8.4 million from Canada, $2.5 million from Singapore, and $1.6 million from Macau. Total foreign country risk net exposures at December 31, 2011, were comprised primarily of $209.4 million from China, $164.5 million from Hong Kong, $149.6 million from England, $62.0 million from Australia, $57.4 million from France, $45.4 million from Switzerland, $30.1 million from Taiwan, $28.1 million from Canada, and $3.8 million from Singapore.

All foreign country risk net exposures were to non-sovereign counterparties except $16.2 million due from the Hong Kong Monetary Authority at December 31, 2012.

Unfunded exposures were $40.4 million at December 31, 2012, and were comprised of $40.0 million of unfunded loans to two financial institutions in China, a $250,000 unfunded loan to a corporation in Canada, and a $190,000 of unfunded loan to a borrower in Taiwan. Unfunded exposures were $30.2 million at December 31, 2011, and were comprised of $19.3 million of unfunded loans to two financial institutions in China, a $10.0 million unfunded loan to a corporation in Canada, and $919,000 of unfunded loans to two borrowers in Taiwan.

Financial Derivatives

It is our policy not to speculate on the future direction of interest rates. However, we enter into financial derivatives in order to seek mitigation of exposure to interest rate risks related to our interest-earning assets and interest-bearing liabilities. We believe that these transactions, when properly structured and managed, may provide a hedge against inherent interest rate risk in our assets or liabilities and against risk in specific transactions. In such instances, we may protect our position through the purchase or sale of interest rate futures contracts for a specific cash or interest rate risk position. Other hedge 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, we seek 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 Bank's Investment Committee.

We follow ASC Topic 815, which established 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 our 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.

As of December 31, 2011, we had five interest rate swap agreements with two major financial institutions in the notional amount of $300.0 million for a period of three years. These interest rate swaps were not structured to hedge against inherent interest rate risks related to our interest-earning assets and interest-bearing liabilities. These five interest rate swap agreements all matured in the third quarter of 2012. The net amount accrued on these interest rate swaps and the changes in the market value of these interest rate swaps were recorded as a reduction to other non-interest income in the amount of $288,000 in 2012 compared to $4.9 million in the same period a year ago.

The Company enters into foreign exchange forward contracts and foreign currency option contracts with various counter parties to mitigate the risk of fluctuations in foreign currency exchange rates for foreign exchange certificates of deposit, foreign exchange contracts, or foreign currency option 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, foreign exchange contracts or foreign currency option 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. At December 31, 2012, the notional amount of option contracts totaled $209,000 with a net negative fair value of $2,000. Spot and forward contracts in the total notional amount of $188.1 million had a positive fair value of $2.9 million at December 31, 2012. Spot and forward contracts in the total notional amount of $133.7 million had a negative fair value of $1.6 million at December 31, 2012. At December 31, 2011, the notional amount of option contracts totaled $4.3 million with a net positive fair value of $29,000. Spot and forward contracts in the total notional amount of $238.6 million had a positive fair value, in the amount of $2.2 million, at December 31, 2011. Spot and forward contracts in the total notional amount of $128.2 million had a negative fair value, in the amount of $486,000, at December 31, 2011.

Item 8. Financial Statements and Supplementary Data.

For financial statements, see "Index to Consolidated Financial Statements" on page F-1.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

Not Applicable.

Item 9A. Controls and Procedures.

Disclosure 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) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") as of the end of the period covered by this Annual Report on Form 10-K. 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 SEC'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 have not been any changes in the Company's disclosure controls and procedures that occurred during its fourth fiscal quarter of 2012 that have materially affected or are reasonably likely to materially affect these controls and procedures.

Management's Report on Internal Control Over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Rule 13a-15(f) under the Exchange Act. The Company's internal control over financial reporting is a process designed under the supervision of the Company's Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As of December 31, 2012, under the supervision and with the participation of the Company's management, including the Company's principal executive officer and principal financial officer, the Company assessed the effectiveness of its internal control over financial reporting based on the criteria for effective internal control over financial reporting established in "Internal Control — Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the assessment, management determined that the Company maintained effective internal control over financial reporting as of December 31, 2012, based on those criteria.

KPMG LLP, the independent registered public accounting firm that audited the Company's Consolidated Financial Statements included in this Annual Report on Form 10-K, has also issued an audit report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2012. The report, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2012, is included in this Item under the heading "Report of Independent Registered Public Accounting Firm" below.

Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act, that occurred during the fourth fiscal quarter of 2012 that have materially affected, or are reasonably likely to materially effect, the Company's internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Cathay General Bancorp:

We have audited Cathay General Bancorp's (the Company) internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Cathay General Bancorp's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Cathay General Bancorp maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission..

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Consolidated Balance Sheets of Cathay General Bancorp and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of operations and comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2012, and our report dated March 1, 2013 expressed an unqualified opinion on those Consolidated Financial Statements.

/s/ KPMG LLP

Los Angeles, California
March 1, 2013

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Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this item concerning our executive officers, directors, compliance with Section 16 of the Securities and Exchange Act of 1934, the code of ethics that applies to our principal executive officer, principal financial officer and principal accounting officer, and matters relating to corporate governance is incorporated herein by reference from the information set forth under the captions “Proposal One— Election of Directors,” “Section 16(a) Beneficial Ownership Reporting Compliance,” “Board of Directors and Corporate Governance” and “Code of Ethics” in our Definitive Proxy Statement relating to our 2013 Annual Meeting of Stockholders (the “Proxy Statement”).

Item 11. Executive Compensation.

The information required by this item is incorporated herein by reference from the information set forth under the captions “Board of Directors and Corporate Governance—Compensation of Directors,” “Executive Compensation,” and “Potential Payments Upon Termination or Change in Control,” in our Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth certain information as of December 31, 2012, with respect to compensation plans under which equity securities of the Company were authorized for issuance.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights (a)	Weighted-average Exercise Price of Outstanding Options, Warrants, and Rights (b)	Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans [Excluding Securities Reflected in Column (a)] (c)
Equity Compensation Plans Approved by Security Holders	3,996,630	$ 29.45	2,364,947
Equity Compensation Plans Not Approved by Security Holders	-	-	-
Total	3,996,630	$ 29.45	2,364,947

Security Ownership of Certain Beneficial Owners and Management

The information required by this item is incorporated herein by reference from the information set forth under the captions “Security Ownership of Certain Beneficial Owners” and “Proposal One— Election of Directors— Security Ownership of Nominees, Continuing Directors, and Named Executive Officers” in our Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this item is incorporated herein by reference to the information set forth under the captions "Transactions with Related Persons, Promoters and Certain Control Persons" and " Board of Directors and Corporate Governance— Director Independence" in our Proxy Statement.

Item 14. Principal Accounting Fees and Services.

The information required by this item is incorporated herein by reference from the information set forth under the caption "Principal Accounting Fees and Services" in our Proxy Statement.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

Documents Filed as Part of this Report

(a)(1) Financial Statements

See "Index to Consolidated Financial Statements" on page F-1.

(a)(2) Financial Statement Schedules

Schedules have been omitted since they are not applicable, they are not required, or the information required to be set forth in the schedules is included in the Consolidated Financial Statements or Notes thereto.

(b) Exhibits

3.1 Restated Certificate of Incorporation. Previously filed with the Securities and Exchange Commission on March 16, 2010, as an exhibit to Bancorp's Annual Report on Form 10-K for the year ended December 31, 2009, and incorporated herein by reference.

3.1.1 Amendment to Restated Certificate of Incorporation. Previously filed with the Securities and Exchange Commission on March 16, 2010, as an exhibit to Bancorp's Annual Report on Form 10-K for the year ended December 31, 2009, and incorporated herein by reference.

3.2 Restated Bylaws. Previously filed with the Securities and Exchange Commission on March 16, 2010, as an exhibit to Bancorp's Annual Report on Form 10-K for the year ended December 31, 2009, and incorporated herein by reference.

3.2.1 Amendment to Restated Bylaws, effective October 20, 2003. Previously filed with the Securities and Exchange Commission on March 16, 2010, as an exhibit to Bancorp's Annual Report on Form 10-K for the year ended December 31, 2009, and incorporated herein by reference.

3.2.2 Amendment to Restated Bylaws, effective October 18, 2007. +

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 Bancorp's Annual Report on Form 10-K for the year ended December 31, 2011, and incorporated herein by reference.

3.4 Certificate of Designation of Fixed Rate Cumulative Perpetual Preferred Stock, Series B. Previously filed with Securities and Exchange Commission on December 5, 2008, as an exhibit to Bancorp's Current Report on Form 8-K, and incorporated herein by reference.

4.1 Indenture, dated as of March 30, 2007, between Cathay General Bancorp and LaSalle Bank National Association (including form of debenture). +

4.1.1 Amended and Restated Declaration of Trust of Cathay Capital Trust III, dated as of March 30, 2007. +

4.1.2 Guarantee Agreement, dated as of March 30, 2007, between Cathay General Bancorp and LaSalle Bank National Association. +

4.1.3 Form of Capital Securities of Cathay Capital Trust III (included within Exhibit 4.1.1). +

4.2 Warrant to purchase up to 1,846,374 shares of Common Stock, issued on December 5, 2008. Previously filed with Securities and Exchange Commission on December 5, 2008, as an exhibit to Bancorp's Current Report on Form 8-K, and incorporated herein by reference.

4.3 Form of Preferred Share Certificate for Fixed Rate Cumulative Perpetual Preferred Stock, Series B. Previously filed with Securities and Exchange Commission on December 5, 2008, as an exhibit to Bancorp's Current Report on Form 8-K, and incorporated herein by reference.

4.4 Distribution Agreement, dated as of September 9, 2009, between Cathay General Bancorp and J.P. Morgan Securities Inc. Previously filed with the Securities and Exchange Commission on September 23, 2009, as an exhibit to Bancorp's Current Report on Form 8-K/A, and incorporated herein by reference.

4.5 Distribution Agreement, dated as of September 9, 2009, between Cathay General Bancorp and Deutsche Bank Securities Inc. Previously filed with the Securities and Exchange Commission on September 23, 2009, as an exhibit to Bancorp's Current Report on Form 8-K/A, and incorporated herein by reference.

4.6 Purchase Agreement, dated as of October 13, 2009, between Cathay General Bancorp and Merrill Lynch, Pierce, Fenner & Smith Incorporated. Previously filed with the Securities and Exchange Commission on October 14, 2009, as an exhibit to Bancorp's Current Report on Form 8-K, and incorporated herein by reference.

4.7 ATM Equity Offering SM Sales Agreement, dated November 23, 2009, between Cathay General Bancorp and Merrill Lynch, Pierce, Fenner & Smith Incorporated. Previously filed with the Securities and Exchange Commission on November 23, 2009, as an exhibit to Bancorp's Current Report on Form 8-K, and incorporated herein by reference.

10.1	Form of Indemnity Agreements between Bancorp and its directors and certain officers. Previously filed with the Securities and Exchange Commission on February 28, 2012, as an exhibit to Bancorp's Annual Report on Form 10-K for the year ended December 31, 2011, and incorporated herein by reference.
10.2	Cathay Bank Employee Stock Ownership Plan, as amended and restated effective January 1, 2010. Previously filed with the Securities and Exchange Commission on February 28, 2011, as an exhibit to Bancorp's Annual Report on Form 10-K for the year ended December 31, 2010, and incorporated herein by reference.**
10.2.1	Amendment No. 7 effective July 1, 2007, January 1, 2007, January 1, 2008, December 31, 2009, January 1, 2009, and January 1, 2010 to the Amended and Restated Cathay Bank Employee Stock Ownership Plan effective January 1, 1997. Previously filed with the Securities and Exchange Commission on March 16, 2010, as an exhibit to Bancorp's Annual Report on Form 10-K for the year ended December 31, 2009, and incorporated herein by reference.**
10.3	Dividend Reinvestment Plan of Bancorp. Previously filed with the Securities and Exchange Commission on April 30, 1997, as an exhibit to Registration Statement No. 33-33767, and incorporated herein by reference.
10.4	Equity Incentive Plan of Bancorp effective February 19, 1998. Previously filed with the Securities and Exchange Commission on February 28, 2012, as an exhibit to Bancorp's Annual Report on Form 10-K for the year ended December 31, 2011, and incorporated herein by reference.**
10.4.1	First Amendment to Cathay Bancorp, Inc. Equity Incentive Plan. Previously filed with the Securities and Exchange Commission on March 2, 2009, as an exhibit to Bancorp's Annual Report on Form 10-K for the year ended December 31, 2008, and incorporated herein by reference.**
10.5	GBC Bancorp 1999 Employee Stock Incentive Plan. Previously filed with the Securities and Exchange Commission on February 28, 2012, as an exhibit to Bancorp's Annual Report on Form 10-K for the year ended December 31, 2011, and incorporated herein by reference.**
10.6	Cathay Bank Bonus Deferral Agreement (Amended and Restated). +**
10.7	Cathay General Bancorp 2005 Incentive Plan (Amended and Restated). +**
10.7.1	Form of Cathay General Bancorp 2005 Incentive Plan Restricted Stock Award Agreement. +**
10.7.2	Form of Cathay General Bancorp 2005 Incentive Plan Stock Option Agreement (Nonstatutory). +**
10.7.3	Form of Cathay General Bancorp 2005 Incentive Plan Stock Option Agreement (Nonstatutory) (Nonemployee Director). +**
10.7.4	Form of Cathay General Bancorp 2005 Incentive Plan Restricted Stock Unit Agreement. +**
10.7.5	Form of Cathay General Bancorp 2005 Incentive Plan Stock Award Agreement to be used for the purposes of granting certain salary awards. Previously filed with the Securities and Exchange Commission on June 8, 2012, as an exhibit to Bancorp's Current Report on Form 8-K and incorporated herein by reference. +**

10.8	Letter Agreement, dated December 5, 2008, including the Securities Purchase Agreement — Standard Terms incorporated by reference therein, between the Company and the U.S. Treasury. Previously filed with Securities and Exchange Commission on December 5, 2008, as an exhibit to Bancorp's Current Report on Form 8-K and incorporated herein by reference.
10.9	Form of Waiver, executed by each of Messrs. Dunson K. Cheng, Peter Wu, Anthony M. Tang, Heng W. Chen, Irwin Wong, Kim R. Bingham, and Perry P. Oei. Previously filed with Securities and Exchange Commission on December 5, 2008, as an exhibit to Bancorp's Current Report on Form 8-K, and incorporated herein by reference.**
10.9.1	Form of Consent, executed by each of Messrs. Dunson K. Cheng, Peter Wu, Anthony M. Tang, Heng W. Chen, Irwin Wong, Kim R. Bingham, and Perry P. Oei as to adoption of amendments to Benefit Plans as required by Section 111(b) of EESA. Previously filed with Securities and Exchange Commission on December 5, 2008, as an exhibit to Bancorp's Current Report on Form 8-K, and incorporated herein by reference.**
10.9.2	Form of Consent, executed by each of Messrs. Dunson K. Cheng, Peter Wu, Anthony M. Tang, Heng W. Chen, Irwin Wong, Kim R. Bingham, and Perry P. Oei as to adoption of amendments to Benefit Plans as required by Section 111(b) of EESA, as amended by the American Recovery Reinvestment Act of 2009. Previously filed with the Securities and Exchange Commission on March 16, 2010, as an exhibit to Bancorp's Annual Report on Form 10-K for the year ended December 31, 2010, and incorporated herein by reference.**
10.10	Amended and Restated Change of Control Employment Agreement for Dunson K. Cheng dated as of December 18, 2008. Previously filed with the Securities and Exchange Commission on March 2, 2009, as an exhibit to Bancorp's Annual Report on Form 10-K for the year ended December 31, 2008, and incorporated herein by reference.**
10.10.1	Amended and Restated Change of Control Employment Agreement for Peter Wu dated as of December 18, 2008. Previously filed with the Securities and Exchange Commission on March 2, 2009, as an exhibit to Bancorp's Annual Report on Form 10-K for the year ended December 31, 2008, and incorporated herein by reference.**
10.10.2	Amended and Restated Change of Control Employment Agreement for Anthony M. Tang dated as of December 18, 2008. Previously filed with the Securities and Exchange Commission on March 2, 2009, as an exhibit to Bancorp's Annual Report on Form 10-K for the year ended December 31, 2008, and incorporated herein by reference.**
10.10.3	Amended and Restated Change of Control Employment Agreement for Heng W. Chen dated as of December 18, 2008. Previously filed with the Securities and Exchange Commission on March 2, 2009, as an exhibit to Bancorp's Annual Report on Form 10-K for the year ended December 31, 2008, and incorporated herein by reference.**

10.10.4 Amended and Restated Change of Control Employment Agreement for Irwin Wong dated as of December 18, 2008. Previously filed with the Securities and Exchange Commission on March 2, 2009, as an exhibit to Bancorp's Annual Report on Form 10-K for the year ended December 31, 2008, and incorporated herein by reference.**

10.10.5 Amended and Restated Change of Control Employment Agreement for Kim Bingham dated as of December 18, 2008. Previously filed with the Securities and Exchange Commission on March 2, 2009, as an exhibit to Bancorp's Annual Report on Form 10-K for the year ended December 31, 2008, and incorporated herein by reference.**

10.10.6 Amended and Restated Change of Control Employment Agreement for Perry P. Oei dated as of December 18, 2008. Previously filed with the Securities and Exchange Commission on March 2, 2009, as an exhibit to Bancorp's Annual Report on Form 10-K for the year ended December 31, 2008, and incorporated herein by reference.**

12.1 Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends. +

21.1 Subsidiaries of Bancorp.+

23.1 Consent of Independent Registered Public Accounting Firm.+

24.1 Power of Attorney.+

31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.+

31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.+

32.1 Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.++

32.2 Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.++

99.1 Certification for Years Following First Fiscal Year of the Principal Executive Officer Pursuant to Section 111(b) of the Emergency Economic Stabilization Act of 2008.+

99.2 Certification for Years Following First Fiscal Year of the Principal Financial Officer Pursuant to Section 111(b) of the Emergency Economic Stabilization Act of 2008.+

101.INS XBRL Instance Document ***

101.SCH XBRL Taxonomy Extension Schema Document ***

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

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

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

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

** Management contract or compensatory plan or arrangement.

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*** XBRL (Extensible Business Reporting Language) information shall not be deemed to be filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, shall not be deemed to be filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise shall not be subject to liability under these sections, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, except as expressly set forth by specific reference in such filing.

+ Filed herewith.

++ Furnished herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

By: /s/ Dunson K. Cheng
Dunson K. Cheng
Chairman, President, and Chief Executive Officer

Date: March 1, 2013

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Dunson K. Cheng Dunson K. Cheng	President, Chairman of the Board, Director, and Chief Executive Officer (principal executive officer)	March 1, 2013
/s/ Heng W. Chen Heng W. Chen	Executive Vice President, Chief Financial Officer/Treasurer (principal financial officer) (principal accounting officer)	March 1, 2013
/s/ Peter Wu Peter Wu	Director	March 1, 2013
/s/ Anthony M. Tang Anthony M. Tang	Director	March 1, 2013
/s/ Kelly L. Chan Kelly L. Chan	Director	March 1, 2013
/s/ Michael M.Y. Chang Michael M.Y. Chang	Director	March 1, 2013
/s/ Thomas C.T. Chiu Thomas C.T. Chiu	Director	March 1, 2013
* Nelson Chung	Director	March 1, 2013

/s/ Felix S. Fernandez Felix S. Fernandez	Director	March 1, 2013

/s/ Jane Jelenko Jane Jelenko	Director	March 1, 2013
/s/ Patrick S.D. Lee Patrick S.D. Lee	Director	March 1, 2013
/s/ Ting Liu Ting Liu	Director	March 1, 2013
/s/ Joseph C.H. Poon Joseph C.H. Poon	Director	March 1, 2013

*By: /s/ Heng W. Chen
Heng W. Chen
Attorney-in-Fact**

** By authority of the power of attorney filed herewith.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Cathay General Bancorp:

We have audited the accompanying Consolidated Balance Sheets of Cathay General Bancorp and subsidiaries (the Company) as of December 31, 2012 and 2011, and the related consolidated statements of operations and comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2012. These Consolidated Financial Statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the Consolidated Financial Statements referred to above present fairly, in all material respects, the financial position of Cathay General Bancorp and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012 in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Cathay General Bancorp's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 1, 2013 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Los Angeles, California
March 1, 2013

CATHAY GENERAL BANCORP AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	As of December 31,	
	2012	2011
	(In thousands, except share and per share data)	
Assets		
Cash and due from banks	$144,909	$117,888
Short-term investments and interest bearing deposits	411,983	294,956
Securities purchased under agreements to resell		-
Securities held-to-maturity (market value of $823,906 in 2012 and $1,203,977 in 2011	773,768	1,153,504
Securities available-for-sale (amortized cost of $1,290,676 in 2012 and $1,309,521 in 2011	1,291,480	1,294,478
Trading securities	4,703	4,542
Loans held for sale	-	760
Loans	7,429,147	7,059,212
Less: Allowance for loan losses	(183,322)	(206,280)
Unamortized deferred loan fees, net	(10,238)	(8,449)
Loans, net	7,235,587	6,844,483
Federal Home Loan Bank stock	41,272	52,989
Other real estate owned, net	46,384	92,713
Affordable housing investments, net	85,037	78,358
Premises and equipment, net	102,613	105,961
Customers' liability on acceptances	41,271	37,300
Accrued interest receivable	26,015	32,226
Goodwill	316,340	316,340
Other intangible assets, net	6,132	11,598
Other assets	166,595	206,768
Total assets	$10,694,089	$10,644,864
Liabilities and Stockholders' Equity		
Deposits		
Non-interest-bearing demand deposits	$1,269,455	$1,074,718
Interest-bearing deposits:		
NOW deposits	593,133	451,541
Money market deposits	1,186,771	951,516
Savings deposits	473,805	420,030
Time deposits under $100,000	644,191	832,997
Time deposits of $100,000 or more	3,215,870	3,498,329
Total deposits	7,383,225	7,229,131
Securities sold under agreements to repurchase	1,250,000	1,400,000
Advances from the Federal Home Loan Bank	146,200	225,000
Other borrowings from financial institutions	-	880
Other borrowings for affordable housing investments	18,713	18,920

Long-term debt	171,136	171,136
Acceptances outstanding	41,271	37,300
Other liabilities	54,040	46,864
Total liabilities	9,064,585	9,129,231
Commitments and contingencies	-	-
Stockholders' Equity		
Preferred stock, 10,000,000 shares authorized, 258,000 issued and outstanding in 2012 and 2011	254,580	250,992
Common stock, $0.01 par value, 100,000,000 shares authorized, 82,985,853 issued and 78,778,288 outstanding at December 31, 2012, and 82,860,122 issued and 78,652,557 outstanding at December 31, 2011	830	829
Additional paid-in-capital	768,925	765,641
Accumulated other comprehensive income/(loss), net	465	(8,732)
Retained earnings	721,993	624,192
Treasury stock, at cost (4,207,565 shares at December 31, 2012, and at December 31, 2011	(125,736)	(125,736)
Total Cathay General Bancorp stockholders' equity	1,621,057	1,507,186
Noncontrolling interest	8,447	8,447
Total equity	1,629,504	1,515,633
Total liabilities and equity	$10,694,089	$10,644,864

See accompanying notes to Consolidated Financial Statements.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	Year Ended December 31,		
	2012	2011	2010
	(In thousands, except share and per share data)		
INTEREST AND DIVIDEND INCOME			
Loan receivable	$360,643	$364,580	$380,662
Investment securities- taxable	62,395	83,083	106,568
Investment securities- nontaxable	4,161	4,218	854
Federal Home Loan Bank stock	485	177	237
Federal funds sold and securities purchased under agreement to resell	18	83	14
Deposits with banks	2,042	1,430	1,259
Total interest and dividend income	429,744	453,571	489,594
INTEREST EXPENSE			
Time deposits of $100,000 or more	33,441	42,204	54,219
Other deposits	13,932	20,010	29,943
Interest on securities sold under agreements to repurchase	55,699	60,733	66,141
Advances from the Federal Home Loan Bank	270	12,033	37,527
Long-term debt	5,149	4,890	3,852
Short-term borrowings	-	11	6
Total interest expense	108,491	139,881	191,688
Net interest income before provision for credit losses	321,253	313,690	297,906
(Reversal)/provision for credit losses	(9,000)	27,000	156,900
Net interest income/(loss) after provision for credit losses	330,253	286,690	141,006
NON-INTEREST INCOME			
Securities gains, net	18,026	21,131	18,695
Letters of credit commissions	6,316	5,644	4,466
Depository service fees	5,453	5,420	5,220
Other operating income	16,712	18,697	3,870
Total non-interest income	46,507	50,892	32,251
NON-INTEREST EXPENSE			
Salaries and employee benefits	78,377	71,849	58,835
Occupancy expense	14,608	14,225	12,188
Computer and equipment expense	9,591	8,508	8,230
Professional services expense	21,768	20,209	17,630
FDIC and State assessments	8,339	12,494	19,549
Marketing expense	4,607	3,175	3,160
Other real estate owned	15,116	10,583	16,011
Operations of investments in affordable housing	6,306	8,153	7,611
Amortization of core deposit premium	5,663	5,859	5,958
Cost associated with debt redemption	12,120	20,231	14,261
Other operating expense	16,094	10,280	12,278
Total non-interest expense	192,589	185,566	175,711
Income/(loss) before income tax (benefit)/expense	184,171	152,016	(2,454)
Income tax expense/(benefit)	66,128	51,261	(14,629)

Net income	118,043	100,755	12,175
Less: net income attributable to noncontrolling interest	605	605	610
Net income attributable to Cathay General Bancorp	117,438	100,150	11,565
Dividends on preferred stock	(16,488)	(16,437)	(16,388)
Net income/(loss) attributable to common stockholders	$100,950	$83,713	$(4,823)
Other comprehensive loss, net of tax:			
Unrealized holding gains arising during the year	19,645	4,538	7,714
Less: reclassification adjustment for gains included in net income	10,448	12,248	7,860
Total other comprehensive loss, net of tax	9,197	(7,710)	(146)
Total comprehensive income	$126,635	$92,440	$11,419
Net income/(loss) attributable to common stockholders per common share			
Basic	$1.28	$1.06	$(0.06)
Diluted	$1.28	$1.06	$(0.06)
Basic average common shares outstanding	78,719,133	78,633,317	77,073,954
Diluted average common shares outstanding	78,723,297	78,640,652	77,073,954

See accompanying notes to Consolidated Financial Statements.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2012, 2011, and 2010
(In thousands, except number of shares)

	Preferred Stock		Common Stock		Additional	Accumulated Other				Total
	Number of Shares	Amount	Number of Shares	Amount	Paid-in Capital	Comprehensive Income	Retained Earnings	Treasury Stock	Noncontrolling Interest	Stockholders' Equity
Balance at December 31, 2009	258,000	$243,967	63,459,590	$677	$634,623	$(875)	$551,588	$(125,736)	$8,500	$1,312,744
Issuances of common stock —										
Common stock issuance	-	-	15,028,409	150	124,778	-	-	-	-	124,928
Dividend Reinvestment Plan	-	-	28,778	-	310	-	-	-	-	310
Restricted stock units vested	-	-	15,006	-	-	-	-	-	-	-
Tax short-fall from stock options	-	-	-	-	(539)	-	-	-	-	(539)
Stock -based compensation	-	-	-	-	3,337	-	-	-	-	3,337
Cash dividends of $0.04 per share	-	-	-	-	-	-	(3,140)	-	-	(3,140)
Discount accretion and other adjustment on preferred stock	-	3,488	-	-	-	-	(3,488)	-	-	-
Dividends on preferred stock	-	-	-	-	-	-	(12,900)	-	(610)	(13,510)
Redemption of noncontrolling interest	-	-	-	-	-	-	-	-	(53)	(53)
Change in other comprehensive loss	-	-	-	-	-	(147)	-	-	-	(147)
Net income	-	-	-	-	-	-	11,565	-	610	12,175
Balance at December 31, 2010	258,000	247,455	78,531,783	827	762,509	(1,022)	543,625	(125,736)	8,447	1,436,105

Dividend Reinvestment Plan	-	-	21,281	1	286	-	-	-	-	287
Restricted stock units vested	-	-	12,633	-	-	-	-	-	-	-
Stock options exercised	-	-	86,860	1	1,306	-	-	-	-	1,307
Tax short-fall from stock options	-	-	-	-	(218)	-	-	-	-	(218)
Stock -based compensation	-	-	-	-	1,758	-	-	-	-	1,758
Cash dividends of $0.04 per share	-	-	-	-	-	-	(3,146)	-	-	(3,146)
Discount accretion and other adjustment on preferred stock	-	3,537	-	-	-	-	(3,537)	-	-	-
Dividends on preferred stock	-	-	-	-	-	-	(12,900)	-	(605)	(13,505)
Change in other comprehensive loss	-	-	-	-	-	(7,710)	-	-	-	(7,710)
Net income	-	-	-	-	-	-	100,150	-	605	100,755
Balance at December 31, 2011	258,000	250,992	78,652,557	829	765,641	(8,732)	624,192	(125,736)	8,447	1,515,633
Dividend Reinvestment Plan	-	-	17,956	-	291	-	-	-	-	291
Restricted stock units vested	-	-	11,814	-	-	-	-	-	-	-
Stock salary	-	-	45,937	-	788	-	-	-	-	788
Stock options exercised	-	-	50,024	1	763	-	-	-	-	764
Tax benefits from stock options	-	-	-	-	(620)	-	-	-	-	(620)
Stock -based compensation	-	-	-	-	2,062	-	-	-	-	2,062
Cash dividends of $0.04 per share	-	-	-	-	-	-	(3,149)	-	-	(3,149)
Discount accretion and other	-	3,588	-	-	-	-	(3,588)	-	-	-

adjustment on preferred stock										
Dividends on preferred stock	-	-	-	-	-	-	(12,900)	-	(605)	(13,505)
Change in other comprehensive loss	-	-	-	-	-	9,197		-	-	9,197
Net income	-	-	-	-	-	-	117,438	-	605	118,043
Balance at December 31, 2012	258,000	$254,580	78,778,288	$830	$768,925	$465	$721,993	$(125,736)	$8,447	$1,629,504

See accompanying notes to Consolidated Financial Statements.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2012	2011	2010
		(In thousands)	
Cash Flows from Operating Activities			
Net income	$118,043	$100,755	$12,175
Adjustments to reconcile net income to net cash provided by operating activities:			
(Reversal)/Provision for credit losses	(9,000)	27,000	156,900
Provision for losses on other real estate owned	10,668	10,385	20,139
Deferred tax liability/(benefit)	4,784	13,808	(38,504)
Depreciation	5,939	6,079	4,619
Net gains on sale and transfers of other real estate owned	(369)	(5,243)	(9,977)
Net gains on sale of loans	(633)	(3,354)	(149)
Net gains on sale of loans held for sale	-	(88)	(779)
Proceeds from sale of loans	59,589	46,377	7,481
Originations of loans held for sale	(58,930)	(14,027)	(7,332)
Write-downs on loans held for sale	-	-	3,160
(Decrease)/increase in unrealized loss from interest rate swaps	(2,634)	(3,874)	5,814
Purchase of trading securities	(163)	(745)	(3,795)
Write-down on venture capital and other investments	309	379	515
Write-down on impaired securities	181	200	492
Gain on sales and calls of securities	(18,025)	(21,131)	(19,253)
Other non-cash interest	(200)	(480)	(794)
Amortization of security premiums, net	5,306	4,233	6,667
Amortization of other intangible assets	5,798	5,965	6,034
Excess tax short-fall from stock options	620	290	539
Stock based compensation expense	2,062	1,758	3,337
Stock issued to officers as compensation	788	-	-
Decrease in accrued interest receivable	6,211	3,156	600
Noncontrolling interest	(605)	(605)	(610)
Decrease/(increase) in other assets, net	37,093	(534)	34,594
(Decrease)/increase in other liabilities	(2,256)	3,746	(13,368)
Net cash provided by operating activities	164,576	174,050	168,505
Cash Flows from Investing Activities			
(Increase)/decrease in short-term investments	(117,027)	(88,634)	48,404
Decrease/(increase) in securities purchased under agreements to resell	-	110,000	(110,000)
Purchase of investment securities available-for-sale	(517,513)	(571,093)	(3,366,780)
Proceeds from maturity and call of investment securities available-for-sale	552,099	435,000	2,876,414
Proceeds from sale of investment securities available-for-sale	60,951	524,958	65,139
Purchase of mortgage-backed securities available-for-sale	(680,388)	(541,356)	-
Proceeds from repayment and sale of mortgage-backed securities available-for-sale	619,169	868,023	1,351,018
Purchase of investment securities held-to-maturity	-	-	(150,164)
Purchase of mortgage-backed securities held-to-maturity	-	(480,083)	(165,527)

Proceeds from maturity and call of investment securities held-to-maturity	376,981	163,855	108,067
Redemption of Federal Home Loan Bank stock	11,717	10,884	7,918
Net increase in loans	(395,743)	(362,054)	(151,054)
Purchase of premises and equipment	(3,108)	(2,888)	(4,979)
Proceeds from sales of other real estate owned	47,866	61,406	91,154
Net increase in investment in affordable housing	(1,540)	(968)	(3,015)
Net cash (used in)/provided by investing activities	(46,536)	127,050	596,595
Cash Flows from Financing Activities			
Net increase in demand deposits, NOW accounts, money market and saving deposits	625,360	180,940	224,122
Net (decrease)/increase in time deposits	(471,085)	56,828	(736,549)
Net (decrease)/increase in federal funds purchased and securities sold under agreement to repurchase	(150,000)	(161,000)	4,000
Advances from Federal Home Loan Bank	531,200	4,734,000	528,000
Repayment of Federal Home Loan Bank borrowings	(610,000)	(5,059,000)	(907,362)
Cash dividends	(16,049)	(16,046)	(16,040)
Issuance of common stock	-	-	124,928
Proceeds from other borrowings	-	-	1,253
Repayment of other borrowings	(880)	(7,584)	-
Proceeds from shares issued to Dividend Reinvestment Plan	291	287	310
Proceeds from exercise of stock options	764	1,306	-
Excess tax short-fall from share-based payment arrangements	(620)	(290)	(539)
Net cash used in financing activities	(91,019)	(270,559)	(777,877)
Increase/(decrease) in cash and cash equivalents	27,021	30,541	(12,777)
Cash and cash equivalents, beginning of the year	117,888	87,347	100,124
Cash and cash equivalents, end of the year	$144,909	$117,888	$87,347

See accompanying notes to Consolidated Financial Statements.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS-(Continued)

	Year Ended December 31,		
	2012	2011	2010
		(In thousands)	
Supplemental disclosure of cash flow information			
Cash paid during the year for:			
Interest	$112,411	$142,644	$197,762
Income taxes	$36,083	$53,148	$13,369
Non-cash investing and financing activities:			
Net change in unrealized holding gain on securities available-for-sale, net of tax	$9,197	$(7,710)	$(147)
Transfers to other real estate owned from loans held for investment	$14,389	$83,941	$98,653
Transfers to other real estate owned from loans held for sale	$-	$2,874	$21,473
Loans transferred to loans held for sale	$15,986	$4,399	$4,332
Loans transferred to loans held for investment from held for sale	$500	$-	$-
Loans to facilitate the sale of other real estate owned	$1,785	$7,472	$12,204
Loans to facilitate the sale of loans	$-	$6,094	$23,500

See accompanying notes to Consolidated Financial Statements.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The accompanying Consolidated Financial Statements include the accounts of Cathay General Bancorp (the "Bancorp"), a Delaware corporation, its wholly-owned subsidiaries, Cathay Bank (the "Bank"), a California state-chartered bank, six limited partnerships investing in affordable housing projects, and GBC Venture Capital, Inc. (together, the "Company"). All significant inter-company transactions and balances have been eliminated in consolidation. The Consolidated Financial Statements of the Company are prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and general practices within the banking industry.

Organization and Background. The business activities of the Bancorp consist primarily of the operations of the Bank, which owns 100% of the common securities of the following subsidiaries: Cathay Real Estate Investment Trust, GBC Real Estate Investments, Inc., Cathay Holdings LLC, Cathay Holdings 2, LLC, Cathay Holdings 3, LLC, Cathay Community Development Corporation and its wholly owned subsidiary, Cathay New Asia Community Development Corporation.

There are limited operating business activities currently at the Bancorp. The Bank is a commercial bank, servicing primarily the individuals, professionals, and small to medium-sized businesses in the local markets in which its branches are located. Its operations include the acceptance of checking, savings, and time deposits, and the making of commercial, real estate, and consumer loans. The Bank also offers trade financing, letters of credit, wire transfer, foreign currency spot and forward contracts, Internet banking, investment services, and other customary banking services to its customers.

Use of Estimates. The preparation of the 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 significant estimates subject to change relate to the allowance for loan losses, goodwill impairment assessment, other-than-temporary impairment analysis on investments, fair value disclosures, and the fair value of options granted. The more significant of these policies are described below.

Concentrations. The Bank was incorporated in California and started its business from California. Therefore, loans originated and deposits solicited were mainly from California. As of December 31, 2012, gross loans were primarily comprised of 50.7% of commercial mortgage loans and 28.6% of commercial loans. As of December 31, 2012, approximately 63% of the Bank's residential mortgages were for properties located in California. Total deposits were comprised of 43.6% of time deposit of $100,000 or more (Jumbo CDs) at December 31, 2012, and approximately 67.4% of the Company's Jumbo CDs have been on deposit with the Company for two years or more.

Allowance for Loan Losses. The determination of the amount of the provision for loan losses charged to operations reflects management's current judgment about the credit quality of the loan portfolio and takes into consideration changes in lending policies and procedures, changes in economic and business conditions, changes in the nature and volume of the portfolio and in the terms of loans, changes in the experience, ability and depth of lending management, changes in the volume and severity of past due, non-accrual and adversely classified or graded loans, changes in the quality of the loan review system, changes in the value of underlying collateral for collateral-dependent loans, the existence and effect of any concentrations of credit and the effect of competition, legal and regulatory requirements,

and other external factors. The nature of the process by which loan losses is determined the appropriate allowance for loan losses requires the exercise of considerable judgment. The allowance is increased by the provision for loan losses and decreased by charge-offs when management believes the uncollectibility of a loan is confirmed.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

Subsequent recoveries, if any, are credited to the allowance. A weakening of the economy or other factors that adversely affect asset quality could result in an increase in the number of delinquencies, bankruptcies, or defaults, and a higher level of non-performing assets, net charge-offs, and provision for loan losses in future periods.

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

The Bank's management allocates a specific allowance for "Impaired Credits," in accordance with Accounting Standard Codification ("ASC") Section 310-10-35. For non-Impaired Credits, a general allowance is established for those loans internally classified and risk graded Pass, Minimally Acceptable, Special Mention, or Substandard based on historical losses in the specific loan portfolio and a reserve based on environmental factors determined for that loan group. The level of the general allowance is established to provide coverage for management's estimate of the credit risk in the loan portfolio by various loan segments not covered by the specific allowance.

Securities Purchased Under Agreements to Resell. The Company purchases securities under agreements to resell with various terms. These agreements are collateralized by agency securities and mortgage backed securities that are generally held by a third party custodian. The purchases are over-collateralized to ensure against unfavorable market price movements. In the event that the fair market value of the securities decreases below the collateral requirements under the related repurchase agreements, the counterparty is required to deliver additional securities. The counterparties to these agreements are nationally recognized investment banking firms that meet credit eligibility criteria and with whom a master repurchase agreement has been duly executed.

Securities. Securities are classified as held-to-maturity when management has the ability and intent to hold these securities until maturity. Securities are classified as available-for-sale when management intends to hold the securities for an indefinite period of time, or when the securities may be utilized for tactical asset/liability purposes, and may be sold from time to time to manage interest rate exposure and resultant prepayment risk and liquidity needs. Securities are classified as trading securities when management intends to sell the securities in the near term. Securities purchased are designated as held-to-maturity, available-for-sale, or trading securities at the time of acquisition.

Securities held-to-maturity are stated at cost, adjusted for the amortization of premiums and the accretion of discounts on a level-yield basis. The carrying value of these assets is not adjusted for temporary declines in fair value since the Company has the positive intent and ability to hold them to maturity. Securities available-for-sale are carried at fair value, and any unrealized holding gains or losses are excluded from earnings and reported as a separate component of stockholders' equity, net of tax, in accumulated other comprehensive income until realized. Realized gains or losses are determined on the specific identification method. Premiums and discounts are amortized or accreted as adjustment of yield on a level-yield basis.

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CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

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

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

Investment in Federal Home Loan Bank ("FHLB") Stock. As a member of the FHLB system the Bank is required to maintain an investment in the capital stock of the FHLB. The amount of investment is also affected by the outstanding advances under the line of credit the Bank maintains with the FHLB. FHLB stock is carried at cost and is pledged as collateral to the FHLB. FHLB stock is periodically evaluated for impairment based on ultimate recovery of par value. The carrying amount of the FHLB stock was $41.3 million at December 31, 2012, and $53.0 million at December 31, 2011. As of December 31, 2012, 68,714 shares of FHLB stock was the minimum stock requirement based on outstanding FHLB borrowings of $146.2 million. As of December 31, 2012, the Company owned 412,716 shares of FHLB stock.

Loans. Loans are carried at amounts advanced, less principal payments collected and net deferred loan fees. Interest is accrued and earned daily on an actual or 360-day basis. Interest accruals on business loans and non-residential real estate loans are generally discontinued whenever the payment of interest or principal is 90 days or more past due, based on contractual terms. Such loans are placed on non-accrual status, unless the loan is well secured, and there is a high probability of recovery in full, as determined by management. When loans are placed on a non-accrual status, previously accrued but unpaid interest is reversed and charged against current income, and subsequent payments received are generally first applied toward the outstanding principal balance of the loan. The loan is generally returned to accrual status when the borrower has brought the past due principal and interest payments current and, in the opinion of management, the borrower has demonstrated the ability to make future payments of principal and interest as scheduled. A non-accrual loan may also be returned to accrual status if all principal and interest contractually due are reasonably assured of repayment within a reasonable period and there has been a sustained period of payment performance, generally six months. Loan origination fees and commitment fees, offset by certain direct loan origination costs, are deferred and recognized over the contractual life of the loan as a yield adjustment. The amortization utilizes the interest method. If a loan is placed on non-accrual status, the amortization of the loan fees and the accretion of discounts are discontinued until the loan is returned to accruing status.

Loans held for sale are carried at the lower of aggregate cost or fair value. Gains and losses are recorded in non-interest income based on the difference between sales proceeds, net of sales commissions, and carrying value.

Loans Acquired Through Transfer. Loans acquired through the completion of a transfer, including loans acquired in a business combination, that have evidence of deterioration of credit quality since origination and for which it is probable, at acquisition, that the Company will be unable to collect all contractually required payment receivables are initially recorded at fair value (as determined by the present value of expected future cash flows) with no valuation allowance. The difference between the undiscounted cash flows expected at acquisition and the investment in the loan, or the "accretable yield," is recognized as interest income on a level-yield method over the life of the loan. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the "nonaccretable difference," are not recognized as a yield adjustment or as a loss accrual or a valuation allowance. Increases in expected cash flows subsequent to the initial investment are recognized prospectively through adjustment of the yield on the loan over its remaining life. Decreases in expected cash flows are recognized as impairment. Valuation allowance on these impaired loans reflect only losses incurred after the acquisition.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

Impaired Loans. A loan is considered impaired when it is probable that the Bank will be unable to collect all amounts due (i.e. both principal and interest) according to the contractual terms of the loan agreement. The measurement of impairment may be based on (1) the present value of the expected future cash flows of the impaired loan discounted at the loan's original effective interest rate, (2) the observable market price of the impaired loan or (3) the fair value of the collateral of a collateral-dependent loan. The amount by which the recorded investment in the loan exceeds the measure of the impaired loan is recognized by recording a valuation allowance with a corresponding charge to the provision for loan losses. The Company stratifies its loan portfolio by size and treats smaller non-performing loans with an outstanding balance based on the Company's defined criteria, generally where the loan amount is $500,000 or less, as a homogenous portfolio. Once a loan has been identified as a possible problem loan, the Company conducts a periodic review of such loan in order to test for impairment. When loans are placed on an impaired status, previously accrued but unpaid interest is reversed against current income and subsequent payments received are generally first applied toward the outstanding principal balance of the loan.

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

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 14 in the Notes to Consolidated Financial Statements.

Letter of Credit Fees. Issuance and commitment fees received for the issuance of commercial or standby letters of credit are recognized over the term of the instruments.

Premises and Equipment. Premises and equipment are carried at cost, less accumulated depreciation. Depreciation is computed on the straight-line method based on the following estimated useful lives of the assets:

Type	Estimated Useful Life		
Buildings (years)	15	to	45
Building improvements (years)	5	to	20
Furniture, fixtures, and equipment (years)	3	to	25
Leasehold improvements	Shorter of useful lives or the terms of the leases		

Improvements are capitalized and amortized to occupancy expense based on the above table. Construction in process is carried at cost and includes land acquisition cost, architectural fees, general contractor fees, capitalized interest and other costs related directly to the construction of a property.

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CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

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

Investments in Affordable Housing. The Company is a limited partner in limited partnerships that invest in low-income housing projects that qualify for Federal and/or State income tax credits. As further discussed in Note 7, the partnership interests are accounted for utilizing the equity method of accounting. As of December 31, 2012, six of the limited partnerships in which the Company has an equity interest were determined to be variable interest entities for which the Company is the primary beneficiary. The Company therefore consolidated the financial statements of these six limited partnerships into its Consolidated Financial Statements.

Investments in Venture Capital. The Company invests in limited partnerships that invest in nonpublic companies. These partnerships are commonly referred to as venture capital investments. These limited partnership interests represent ownership of less than 5% and are carried under the cost method with other-than-temporary impairment charged against net income.

Goodwill and Goodwill Impairment. Goodwill represents the excess of costs over fair value of assets of businesses acquired. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead are tested for impairment at least annually in accordance with the provisions of ASC Topic 350. ASC Topic 350 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with ASC Topic 360, formerly, SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets."

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

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

exceeds its implied fair value.

The Commercial Lending unit did not have any goodwill allocated to the unit and accordingly no goodwill impairment testing was performed for that unit. The reporting unit fair values for the Retail Banking unit and the East Coast Operations were determined based on an equal weighting of (1) the fair value determined using a market approach using a combination of price to earnings multiples determined based on a representative peer group applied to 2012 and forecasted 2013 and 2014 earnings, and a price to book multiple and (2) the fair value determined using a dividend discount model with the discount rate determined using the same representative peer group. A control premium was then applied to the unit fair values so determined as of December 31, 2012.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

In determining the forecasted earnings for the Retail Banking unit and the East Coast Operations, the financial forecasts assume muted growth during the forecast period. The principal driver of the Company's negative operating results has been the Commercial Lending reporting unit where the vast majority of the Company's loan losses have been incurred. A summary of the respective unit fair value, carrying amounts and unit goodwill as well as the percentage by which fair value exceed carrying value of each reporting unit as of December 31, 2012, is shown below:

Reporting Units	Carrying Amount	Fair Value	Fair Value in Excess of Carrying Amount	Allocated Goodwill
	(Dollars in thousands)			
Commercial Lending Unit	$797,702	$363,601	-	-
Retail Banking Unit	361,589	675,580	86.8 %	235,195
East Coast Operations	203,766	410,489	101.5 %	81,145
Total	$1,363,057	$1,449,670		$316,340

If economic conditions were to worsen instead of improve as assumed in the key assumptions, then the forecasted earnings for the Retail Banking unit and the East Coast Operations could be significantly lower than projected. In addition, a worsening of economic conditions could potentially reduce the price to earnings multiples and price to book multiples of peer groups for Retail Banking and East Coast Operations and result in a reduction in the fair value of these units even if the forecasted earnings were achieved.

Core Deposit Premium. Core deposit premium, which represents the purchase price over the fair value of the deposits acquired from other financial institutions, is amortized over its estimated useful life to its residual value in proportion to the economic benefits consumed. If a pattern of consumption cannot be reliably determined, straight-line amortization is used. The Company assesses the recoverability of this intangible asset by determining whether the amortization of the premium balance over its remaining life can be recovered through the remaining deposit portfolio and amortizes core deposit premium over its estimated useful life.

At December 31, 2012, the unamortized balance of core deposit premium was $4.9 million, which was net of accumulated amortization of $55.3 million. Aggregate amortization expense for core deposit premium was $5.7 million for 2012, $5.9 million for 2011, and $6.0 million for 2010. At December 31, 2012, the estimated aggregate amortization of core deposit premiums is $4.5 million for 2013 and $0.4 million for 2014. At December 31, 2011, the unamortized balance of core deposit premium was $10.6 million, which was net of accumulated amortization of $49.8 million.

Securities Sold Under Agreements to Repurchase. The Company sells certain securities under agreements to repurchase. The agreements are treated as collateralized financing transactions and the obligations to repurchase securities sold are reflected as a liability in the accompanying Consolidated Balance Sheets. The securities underlying the agreements remain in the applicable asset accounts.

Stock-Based Compensation. Stock-based compensation expense for stock options is calculated based on the fair value of the award at the grant date for those options expected to vest, and is recognized as an expense over the vesting period of the grant using the straight-line method. The Company uses the Black-Scholes option pricing model to

estimate the value of granted options. This model takes into account the option exercise price, the expected life, the current price of the underlying stock, the expected volatility of the Company's stock, expected dividends on the stock and a risk-free interest rate. The Company estimates the expected volatility based on the Company's historical stock prices for the period corresponding to the expected life of the stock options. Option compensation expense totaled $762,000 in 2012, $1.0 million in 2011, and $3.0 million in 2010. Stock-based compensation is recognized ratably over the requisite service period for all awards. Unrecognized stock-based compensation expense related to stock options totaled $129,000 at December 31, 2012, and is expected to be recognized over the next 2 months.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

Foreign Exchange Forwards and Foreign Currency Option Contracts. We enter into foreign exchange forward contracts and foreign currency option contracts with correspondent banks to mitigate the risk of fluctuations in foreign currency exchange rates for foreign currency certificates of deposit, foreign exchange contracts or foreign currency option 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 currency certificates of deposit, foreign exchange contracts or foreign currency option 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.

Income Taxes. The provision for income taxes is based on income reported for financial statement purposes, and differs from the amount of taxes currently payable, since certain income and expense items are reported for financial statement purposes in different periods than those for tax reporting purposes. The Company accounts for income taxes using the asset and liability approach, the objective of which is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the tax basis of the Company’s assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled. A valuation allowance is established for deferred tax assets if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Comprehensive Income/(loss). Comprehensive income/(loss) is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. Comprehensive income/(loss) generally includes net income/(loss), foreign currency translation adjustments, minimum pension liability adjustments, unrealized gains and losses on investments in securities available-for-sale, and cash flow hedges. Comprehensive income/(loss) and its components are reported and displayed in the Company’s consolidated statements of operations and comprehensive income/(loss).

Net Income per Common Share. Earnings per share (“EPS”) is computed on a basic and diluted basis. Basic EPS 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 EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shares in the earnings of the Company. Potential dilution is excluded from computation of diluted per-share amounts when a net loss from operations exists.

Foreign Currency Translation. The Company considers the functional currency of its foreign operations to be the United States dollar. Accordingly, the Company remeasures monetary assets and liabilities at year-end exchange rates, while nonmonetary items are remeasured at historical rates. Income and expense accounts are remeasured at the average rates in effect during the year, except for depreciation, which is remeasured at historical rates. Foreign currency transaction gains and losses are recognized in income in the period of occurrence.

Statement of Cash Flows. Cash and cash equivalents include short-term highly-liquid investments that generally have an original maturity of three months or less.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

Segment Information and Disclosures. Accounting principles generally accepted in the United States of America establish standards to report information about operating segments in annual financial statements and require reporting of selected information about operating segments in interim reports to stockholders. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. The Company has concluded it has one operating segment.

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standard Board ("FASB") issued ASU 2011-04 "Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." ASU 2011-04 amends Topic 820, "Fair Value Measurements and Disclosures," to improve fair value measurement consistency in U.S. generally accepted accounting principles and International Financial Reporting Standards ("IFRS"). The amendments also clarity the application of existing fair value measurement and disclosure requirements, change certain principles and requirements in Topic 820, and requires additional fair value disclosures. ASU 2011-04 became effective on January 1, 2012. Adoption of ASU 2011-04 did not have a significant impact on the Company's Consolidated Financial Statements.

In September 2011, FASB issued ASU 2011-08 "Intangible- Goodwill and other." ASU 2011-08 permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in ASC Topic 350. ASU 2011-08 became effective for interim and annual goodwill impairment tests performed after December 15, 2011. Adoption of ASU 2011-08 did not have a significant impact on the Company's Consolidated Financial Statements.

2. Cash and Cash Equivalents

The Company manages its cash and cash equivalents, which consist of cash on hand, amounts due from banks, federal funds sold, and short-term investments with original maturity of three months or less, based upon the Company's operating, investment, and financing activities. For the purpose of reporting cash flows, these same accounts are included in cash and cash equivalents.

The Company is required to maintain reserves with the Federal Reserve Bank. Reserve requirements are based on a percentage of deposit liabilities. The average reserve balances required were $12.9 million for 2012 and $12.2 million for 2011. There were no federal funds sold in 2012 or in 2011.

3. Securities Purchased under Agreements to Resell

Securities purchased under agreements to resell are usually collateralized by U.S. government agency and mortgage-backed securities. The counter-parties to these agreements are nationally recognized investment banking firms that meet credit requirements of the Company and with whom a master repurchase agreement has been duly executed. There were no resale agreements at December 31, 2012, and at December 31, 2011.

The following table sets forth information with respect to securities purchased under agreements to resell.

	2012	2011

	(In thousands)			
Balance, December 31	$-		$-	
Annualized weighted-average interest rate, December 31	0.00	%	0.00	%
Daily average amount outstanding during the year	$14,986		$84,493	
Weighted-average interest rate for the year	0.12	%	0.10	%
Maximum amount outstanding at any month end	$50,000		$255,000	

For those securities obtained under the resale agreements, the collateral is either held by a third party custodian or by the counter party and is segregated under written agreements that recognize the Company's interest in the securities. Interest income associated with securities purchased under resale agreements was $18,000 for 2012, $83,000 for 2011, and $14,000 for 2010.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

4. Investment Securities

Investment Securities. The following table reflects the amortized cost, gross unrealized gains, gross unrealized losses, and fair values of investment securities as of December 31, 2012, and December 31, 2011:

	At December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Securities Held-to-Maturity				
State and municipal securities	$129,037	$9,268	$-	$138,305
Mortgage-backed securities	634,757	40,801	-	675,558
Corporate debt securities	9,974	69	-	10,043
Total securities held-to-maturity	$773,768	$50,138	$-	$823,906
Securities Available-for-Sale				
U.S. treasury securities	$509,748	$228	$5	$509,971
Mortgage-backed securities	404,505	12,194	5	416,694
Collateralized mortgage obligations	9,772	430	34	10,168
Asset-backed securities	145	-	4	141
Corporate debt securities	349,973	106	14,102	335,977
Mutual funds	6,000	79	-	6,079
Preferred stock of government sponsored entities	569	1,766	-	2,335
Trust preferred securities	9,964	151	-	10,115
Total securities available-for-sale	$1,290,676	$14,954	$14,150	$1,291,480
Total investment securities	$2,064,444	$65,092	$14,150	$2,115,386

	At December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Held-to-Maturity	(In thousands)			
U.S. government sponsored entities	$99,966	$1,406	$-	$101,372
State and municipal securities	129,577	7,053	-	136,630
Mortgage-backed securities	913,990	42,351	-	956,341
Corporate debt securities	9,971	-	337	9,634
Total securities held-to-maturity	$1,153,504	$50,810	$337	$1,203,977
Securities Available-for-Sale				
U.S. government sponsored entities	$500,007	$1,226	$7	$501,226
State and municipal securities	1,869	59	-	1,928
Mortgage-backed securities	325,706	12,361	436	337,631

Collateralized mortgage obligations	16,184	540	238	16,486
Asset-backed securities	172	-	6	166
Corporate debt securities	412,045	113	31,729	380,429
Mutual funds	6,000	48	13	6,035
Preferred stock of government sponsored entities	569	1,085	-	1,654
Trust preferred securities	45,501	486	24	45,963
Other equity securities	1,468	1,492	-	2,960
Total securities available-for-sale	$1,309,521	$17,410	$32,453	$1,294,478
Total investment securities	$2,463,025	$68,220	$32,790	$2,498,455

The amortized cost and fair value of investment securities at December 31, 2012, 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.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

	Securities Available-for-Sale		Securities Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Due in one year or less	$349,899	$349,940	$-	$-
Due after one year through five years	375,041	370,241	-	-
Due after five years through ten years	194,901	190,047	62,235	66,523
Due after ten years (1)	370,835	381,252	711,533	757,383
Total	$1,290,676	$1,291,480	$773,768	$823,906

(1) Equity securities are reported in this category

Proceeds from sales of mortgage-backed securities were $501.1 million and repayments, maturities and calls of mortgage-backed securities were $118.1 million during 2012 compared to proceeds from sales of $759.7 million and repayments, maturities and calls of $108.4 million during 2011, and proceeds from sales of $1.04 billion and repayments, maturities and calls of $308.2 million during 2010. Proceeds from sales of other investment securities were $61.0 million during 2012 compared to $525.0 million during 2011 and $65.1 million during 2010. Proceeds from maturity and calls of investment securities were $552.1 million during 2012 compared to $435.0 million during 2011 and $2.88 billion in 2010. In 2012, gains of $18.6 million and losses of $607,000 were realized on sales and calls of investment securities compared with $21.1 million in gains and no losses realized in 2011, and $19.3 million in gains and $67,000 in losses realized in 2010.

The Company's unrealized loss on investments in corporate bonds relates to a number of investments in bonds of financial institutions, all of which were investment grade at the date of acquisition and as of December 31, 2012. The unrealized losses were primarily caused by the widening of credit 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 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 corporate bonds to be other-than-temporarily impaired at December 31, 2012.

The temporarily impaired securities represent 16.9% of the fair value of investment securities as of December 31, 2012. Unrealized losses for securities with unrealized losses for less than twelve months represent 2.4%, and securities with unrealized losses for twelve months or more represent 4.4%, of the historical cost of these securities. Unrealized losses on these securities generally resulted from increases in interest rate spreads subsequent to the date that these securities were purchased. At December 31, 2012, 34 issues of securities had unrealized losses for 12 months or longer and 7 issues of securities had unrealized losses of less than 12 months.

At December 31, 2012, management believed the impairment was temporary and, accordingly, no impairment loss has been recognized in our consolidated statements of operations. We expect to recover the amortized cost basis of our debt securities, and have 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 table below shows the fair value, unrealized losses, and number of issuances of the temporarily impaired securities in our investment securities portfolio as of December 31, 2012, and December 31, 2011:

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

As of December 31, 2012
Temporarily Impaired Securities

	Less than 12 months			12 months or longer			Total		
	Fair Value	Unrealized Losses	No. of Issuances	Fair Value	Unrealized Losses	No. of Issuances	Fair Value	Unrealized Losses	No. of Issuances
	(Dollars in thousands)								
Securities Held-to-Maturity									
Total securities held-to-maturity	$-	$ -	-	$-	$ -	-	$-	$ -	-
Securities Available-for-Sale									
U.S. treasury securities	$49,969	$ 5	1	$-	$ -	-	$49,969	$ 5	1
Mortgage-backed securities	231	1	2	170	1	6	401	2	8
Mortgage-backed securities-Non-agency	-	-	-	96	2	1	96	2	1
Collateralized mortgage obligations	-	-	-	439	35	4	439	35	4
Asset-backed securities	-	-	-	141	4	1	141	4	1
Corporate debt securities	52,468	2,532	4	253,430	11,570	22	305,898	14,102	26
Total securities available-for-sale	$102,668	$ 2,538	7	$254,276	$ 11,612	34	$356,944	$ 14,150	41
Total investment securities	$102,668	$ 2,538	7	$254,276	$ 11,612	34	$356,944	$ 14,150	41

As of December 31, 2011
Temporarily Impaired Securities

	Less than 12 months			12 months or longer			Total		
	Fair Value	Unrealized Losses	No. of Issuances	Fair Value	Unrealized Losses	No. of Issuances	Fair Value	Unrealized Losses	No. of Issuances
	(Dollars in thousands)								
Securities Held-to-Maturity									
Corporate debt securities	$9,635	$ 337	1	$-	$ -	-	$9,635	$ 337	1
Total securities held-to-maturity	$9,635	$ 337	1	$-	$ -	-	$9,635	$ 337	1

Securities Available-for-Sale									
U.S. government sponsored entities	$49,993	$ 7	1	$-	$ -	-	$49,993	$ 7	1
Mortgage-backed securities	564	4	8	35	1	2	599	5	10
Mortgage-backed securities-Non-agency	-	-	-	6,719	431	2	6,719	431	2
Collateralized mortgage obligations	-	-	-	570	238	4	570	238	4
Asset-backed securities	-	-	-	166	6	1	166	6	1
Corporate debt securities	185,577	14,201	17	172,857	17,528	19	358,434	31,729	36
Mutual funds	1,987	13	1	-	-	-	1,987	13	1
Trust preferred securities	5,674	24	2	-	-	-	5,674	24	2
Total securities available-for-sale	$243,795	$ 14,249	29	$180,347	$ 18,204	28	$424,142	$ 32,453	57
Total investment securities	$253,430	$ 14,586	30	$180,347	$ 18,204	28	$433,777	$ 32,790	58

Investment securities having a carrying value of $1.45 billion at December 31, 2012, and $1.68 billion at December 31, 2011, were pledged to secure public deposits, other borrowings, treasury tax and loan, Federal Home Loan Bank advances, securities sold under agreements to repurchase, and foreign exchange transactions.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

5. Loans

Most of the Company's business activity is predominately with Asian customers located in Southern and Northern California; New York City; Houston and Dallas, Texas; Seattle, Washington; Boston, Massachusetts; Chicago, Illinois; Edison, New Jersey; and Hong Kong. The Company has no specific industry concentration, and generally its loans are collateralized with real property or other pledged collateral of the borrowers. Loans are generally expected to be paid off from the operating profits of the borrowers, refinancing by another lender, or through sale by the borrowers of the secured collateral.

The components of loans in the Consolidated Balance Sheets as of December 31, 2012, and December 31, 2011, were as follows:

	2012	2011
	(In thousands)	
Type of Loans:		
Commercial loans	$2,127,107	$1,868,275
Real estate construction loans	180,950	237,372
Commercial mortgage loans	3,768,452	3,748,897
Residential mortgage loans	1,146,230	972,262
Equity lines	193,852	214,707
Installment and other loans	12,556	17,699
Gross loans	7,429,147	7,059,212
Less:		
Allowance for loan losses	(183,322)	(206,280)
Unamortized deferred loan fees	(10,238)	(8,449)
Total loans and leases, net	$7,235,587	$6,844,483
Loans held for sale	$-	$760

No loans were held for sale at December 31, 2012, compared to $760,000 at December 31, 2011. In 2012, we added three new loans of $16.0 million, sold four loans of $16.2 million for a net loss on sale of $26,000, and transferred a loan of $500,000 to held for investment. At December 31, 2011, non-accrual loans held for sale of $760,000 decreased $2.1 million from $2.9 million at December 31, 2010. In 2011, we added six new loans of $4.4 million, transferred one loan of $2.9 million to OREO, and sold four loans of $3.6 million for a net gain on sale of $88,000. At December 31, 2011, loans held for sale were comprised of a commercial construction loan of $500,000 and a residential mortgage loan of $260,000.

The Company pledged real estate loans of $1.6 billion at December 31, 2012, and $2.0 billion at December 31, 2011, to the Federal Home Loan Bank of San Francisco under its specific pledge program. In addition, the Bank pledged $211.6 million at December 31, 2012, and $250.9 million at December 31, 2011, of its commercial loans to the Federal Reserve Bank's Discount Window under the Borrower-in-Custody program.

Loans serviced for others as of December 31, 2012, totaled $201.4 million and were comprised of $42.1 million of commercial loans, $62.2 million of commercial real estate loans, $3.6 million in construction loans, and $93.5 million of residential mortgages.

The Company has entered into transactions with its directors, executive officers, or principal holders of its equity securities, or the associates of such persons ("Related Parties"). Such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with customers who are not related parties. In management's opinion, these transactions did not involve more than normal credit risk or present other unfavorable features. All loans to Related Parties were current as of December 31, 2012. In July 2011, the Bank sold a participation in a substandard real estate loan to a Related Party for $24.5 million, which represented 98% of the contractual balance. In March 2012, the Bank sold participations in two substandard real estate loans to the same Related Party for $7.9 million, which represented 92.5% of the contractual balance. An analysis of the activity with respect to loans to Related Parties for the years indicated is as follows:

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

	December 31, 2012	December 31, 2011
	(In thousands)	
Balance at beginning of year	$ 160,069	$ 134,161
Additional loans made	92,249	89,985
Payment received	(79,734)	(64,077)
Balance at end of year	$ 172,584	$ 160,069

At December 31, 2012, recorded investment in impaired loans totaled $248.6 million and was comprised of nonaccrual loans of $103.9 million and accruing TDR's of $144.7 million. At December 31, 2011, recorded investment in impaired loans totaled $322.0 million and was comprised of nonaccrual loans of $201.2 million, nonaccrual loans held for sale of $760,000, and accruing TDR's of $120.0 million. The average balance of impaired loans was $277.8 million in 2012 and $361.4 million in 2011. We considered all non-accrual loans and troubled debt restructurings ("TDR") to be impaired. Interest recognized on impaired loans totaled $9.3 million in 2012 and $5.3 million in 2011. The Bank recognizes interest income on impaired loans based on its existing method of recognizing interest income on non-accrual loans except accruing TDRs. For impaired loans, the amounts previously charged off represent 23.2% at December 31, 2012, and 25.6% at December 31, 2011, of the contractual balances for impaired loans. The following table presents impaired loans and the related allowance and charge-off as of the dates indicated:

	Impaired Loans					
	At December 31, 2012			At December 31, 2011		
	Unpaid Principal Balance	Recorded Investment	Allowance	Unpaid Principal Balance	Recorded Investment	Allowance
	(Dollars in thousands)					
With no allocated allowance						
Commercial loans	$ 29,359	$ 18,963	$ -	$ 46,671	$ 38,194	$ -
Real estate construction loans	9,304	7,277	-	134,837	78,767	-
Commercial mortgage loans	189,871	152,957	-	187,580	149,034	-
Residential mortgage and equity lines	4,303	4,229	-	8,555	7,987	-
Subtotal	$ 232,837	$ 183,426	$ -	$ 377,643	$ 273,982	$ -
With allocated allowance						
Commercial loans	$ 7,804	$ 4,959	$ 1,467	$ 11,795	$ 7,587	$ 3,336
Real estate construction loans	54,718	34,856	8,158	-	-	-
Commercial mortgage loans	14,163	12,928	1,336	29,722	28,023	2,969
	14,264	12,428	1,222	13,813	12,381	1,249

Residential mortgage and equity lines						
Subtotal	$ 90,949	$ 65,171	$ 12,183	$ 55,330	$ 47,991	$ 7,554
Total impaired loans	$ 323,786	$ 248,597	$ 12,183	$ 432,973	$ 321,973	$ 7,554

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

The following table presents the average balance and interest income recognized related to impaired loans for the period indicated:

	For the year ended December 31,			
	2012	2011	2012	2011
	Average Recorded Investment		Interest Income Recognized	
	(In thousands)			
Commercial loans	$ 31,798	$ 48,349	$ 580	$ 1,053
Real estate construction loans	49,094	82,529	265	940
Commercial mortgage loans	178,822	212,555	8,221	3,101
Residential mortgage and equity lines	18,062	17,920	239	236
Subtotal	$ 277,776	$ 361,353	$ 9,305	$ 5,330

The following is a summary of non-accrual loans as of December 31, 2012, 2011, and 2010 and the related net interest foregone for the years then ended:

	2012	2011	2010
		(In thousands)	
Non-accrual portfolio loans	$103,902	$201,197	$242,319
Non-accrual loans held-for-sale	-	760	2,873
Total non-accrual loans	$103,902	$201,957	$245,192
Contractual interest due	$6,621	$13,049	$17,304
Interest recognized	1,006	71	4,853
Net interest foregone	$5,615	$12,978	$12,451

The following table presents the aging of the loan portfolio by type as of December 31, 2012, and as of December 31, 2011:

	As of December 31, 2012						
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Non-accrual Loans	Total Past Due	Loans Not Past Due	Total
Type of Loans:				(In thousands)			
Commercial loans	$ 16,832	$ 1,610	$ 630	$ 19,958	$ 39,030	$ 2,088,077	$ 2,127,107

Real estate construction loans	-	1,471	-	36,299	37,770	143,180	180,950
Commercial mortgage loans	21,570	3,627	-	35,704	60,901	3,707,551	3,768,452
Residential mortgage loans	5,324	1,972	-	11,941	19,237	1,320,845	1,340,082
Installment and other loans	-	-	-	-	-	12,556	12,556
Total loans	$ 43,726	$ 8,680	$ 630	$ 103,902	$ 156,938	$ 7,272,209	$ 7,429,147

	As of December 31, 2011						
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Non-accrual Loans	Total Past Due	Loans Not Past Due	Total
Type of Loans:				(In thousands)			
Commercial loans	$ 1,683	$ -	$ -	$ 30,661	$ 32,344	$ 1,835,931	$ 1,868,275
Real estate construction loans	20,326	-	-	46,012	66,338	171,034	237,372
Commercial mortgage loans	13,627	20,277	6,726	107,784	148,414	3,600,483	3,748,897
Residential mortgage loans	5,871	-	-	16,740	22,611	1,164,358	1,186,969
Installment and other loans	-	-	-	-	-	17,699	17,699
Total loans	$ 41,507	$ 20,277	$ 6,726	$ 201,197	$ 269,707	$ 6,789,505	$ 7,059,212

The determination of the amount of the allowance for credit losses for problem 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 collectibility 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 TDRs since TDRs are considered to be impaired loans. As a result of adopting the amendments in ASU 2012-02, the Company reassessed all restructurings that occurred on or after January 1, 2011, for identification as TDRs.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

At December 31, 2012, accruing TDRs were $144.7 million and non-accrual TDRs were $47.7 million compared to accruing TDRs of $120.0 million and non-accrual TDRs of $50.9 million at December 31, 2011. The Company has allocated specific reserves of $1.1 million to accruing TDRs and $7.8 million to non-accrual TDRs at December 31, 2012, and $1.4 million to accruing TDRs and $1.6 million to non-accrual TDRs at December 31, 2011. The following table presents TDRs that were modified during 2012, their specific reserve at December 31, 2012, and charge-off during 2012:

	No. of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Specific Reserve	Charge-off
			(Dollars in thousands)		
Commercial loans	9	$ 3,646	$ 3,646	$1,213	$-
Commercial mortgage loans	20	62,118	58,393	27	3,725
Residential mortgage and equity lines	14	4,305	4,223	162	82
Total	43	$ 70,069	$ 66,262	$1,402	$3,807

The following table presents TDRs that were modified during 2011, their specific reserve at December 31, 2011, and charge-off during 2011:

	No. of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Specific Reserve	Charge-off
			(Dollars in thousands)		
Commercial loans	7	$ 15,025	$ 15,025	$104	$-
Real estate construction loans	3	33,669	21,522	-	12,147
Commercial mortgage loans	6	17,343	14,294	1	3,049
Residential mortgage and equity lines	3	1,574	1,574	114	-
Total	19	$ 67,611	$ 52,415	$219	$15,196

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

A summary of TDRs by type of concession and by type of loans is shown below:

Accruing TDRs	December 31, 2012 Principal Deferral	Rate Reduction	Rate Reduction and Forgiveness of Principal (In thousands)	Rate Reduction and Payment Deferral	Total
Commercial loans	$ 531	$ 3,020	$ -	$ 413	$ 3,964
Real estate construction loans	-	-	-	5,834	5,834
Commercial mortgage loans	27,003	16,656	739	85,783	130,181
Residential mortgage loans	1,461	1,024	-	2,231	4,716
Total accruing TDRs	$ 28,995	$ 20,700	$ 739	$ 94,261	$ 144,695

Non-accrual TDRs	December 31, 2012 Interest Deferral	Principal Deferral	Rate Reduction (In thousands)	Rate Reduction and Forgiveness of Principal	Rate Reduction and Payment Deferral	Total
Commercial loans	$ -	$ 912	$ -	$ 1,518	$ -	$ 2,430
Real estate construction loans	-	16,767	9,579	-	-	26,346
Commercial mortgage loans	1,685	2,817	5,746	-	5,076	15,324
Residential mortgage loans	275	2,010	586	-	760	3,631
Total non-accrual TDRs	$ 1,960	$ 22,506	$ 15,911	$ 1,518	$ 5,836	$ 47,731

Accruing TDRs	As of December 31, 2011 Principal Deferral	Rate Reduction	Rate Reduction and Forgiveness	Rate Reduction and Payment Deferral	Total

			of Principal (In thousands)		
Commercial loans	$ 12,933	$ 1,756	$ -	$ 431	$ 15,120
Real estate construction loans	16,820	9,659	-	5,776	32,255
Commercial mortgage loans	471	37,796	2,071	28,935	69,273
Residential mortgage loans	1,294	587	-	1,487	3,368
Total accruing TDRs	$ 31,518	$ 49,798	$ 2,071	$ 36,629	$ 120,016

	As of December 31, 2011					
Non-accrual TDRs	Interest Deferral	Principal Deferral	Rate Reduction	Rate Reduction and Forgiveness of Principal	Rate Reduction and Payment Deferral	Total
	(In thousands)					
Commercial loans	$ -	$ 616	$ 1,859	$ 1,506	$ -	$ 3,981
Real estate construction loans	-	13,579	12,376	-	-	25,955
Commercial mortgage loans	2,633	9,727	-	-	5,076	17,436
Residential mortgage loans	311	2,427	449	-	311	3,498
Total non-accrual TDRs	$ 2,944	$ 26,349	$ 14,684	$ 1,506	$ 5,387	$ 50,870

Troubled debt restructurings on accrual status totaled $144.7 million at December 31, 2012, and were comprised of 61 loans, an increase of $24.7 million, compared to 32 loans totaling $120.0 million at December 31, 2011. TDRs at December 31, 2012, were comprised of sixteen retail shopping and commercial use building loans of $68.1 million, fifteen office and commercial use building loans of $40.4 million, two hotel loans of $12.4 million, seventeen single family residential loans of $19.1 million, two land loans of $2.3 million, six commercial loans of $1.3 million, and three multi-family residential loans of $1.1 million. We expect that the troubled debt restructuring loans on accruing status as of December 31, 2012, which are all performing in accordance with their restructured terms, will continue to comply with the restructured terms because of the reduced principal or interest payments on these loans. The comparable TDRs at December 31, 2011, were comprised of eleven retail shopping and commercial use building loans of $74.4 million, seven office and commercial use building loans of $23.8 million, one hotel loan of $7.9 million, ten single family residential loans of $13.3 million, one land loan of $635,000 and two commercial loans of $39,000. The activity within our TDR loans for 2012 and 2011 are shown below:

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

Accruing TDRs	2012	2011
	(In thousands)	
Beginning balance	$ 120,016	$ 136,800
New restructurings	53,958	60,863
Restructured loans restored to accrual status	8,356	709
Charge-offs	(251)	(2,341)
Payments	(5,159)	(46,313)
Restructured loans placed on nonaccrual	(32,225)	(28,969)
Expiration of loan concession	-	(733)
Ending balance	$ 144,695	$ 120,016

Non-accrual TDRs	2012	2011
	(In thousands)	
Beginning balance	$ 50,870	$ 28,146
New restructurings	12,304	13,269
Restructured loans placed on non-accrual	32,225	28,969
Charge-offs	(4,182)	(7,303)
Payments	(33,931)	(3,355)
Foreclosures	(1,199)	(8,147)
Restructured loans restored to accrual status	(8,356)	(709)
Ending balance	$ 47,731	$ 50,870

A loan is considered to be in payment default once it is 60 to 90 days contractually past due under the modified terms. Two commercial real estate construction TDRs of $26.3 million, four commercial real estate TDRs of $12.2 million, and two mortgage TDRs of $1.6 million had payments defaults within the previous twelve months ended December 31, 2012. One of the TDRs that subsequently defaulted incurred a charge-off of $46,000 during 2012.

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 December 31, 2012, 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. 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 all sources of repayment, the borrower's current financial and liquidity status and all other relevant information. The risk rating categories can be generally described by the following grouping for non-homogeneous loans:

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

- Special Mention – Borrower is fundamentally sound and the 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.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

- Substandard – These loans are inadequately protected by current sound 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 table presents loan portfolio by risk rating as of December 31, 2012, and as of December 31, 2011:

	As of December 31, 2012				
	Pass/Watch	Special Mention	Substandard	Doubtful	Total
Commercial loans	$1,944,989	$76,776	$94,077	$11,265	$2,127,107
Real estate construction loans	109,269	18,000	45,171	8,510	180,950
Commercial mortgage loans	3,344,783	162,455	261,214	-	3,768,452
Residential mortgage and equity lines	1,322,768	816	16,084	414	1,340,082
Installment and other loans	12,556	-	-	-	12,556
Total gross loans	$6,734,365	$258,047	$416,546	$20,189	$7,429,147

	As of December 31, 2011				
	Pass/Watch	Special Mention	Substandard	Doubtful	Total
Commercial loans	$1,689,842	$64,290	$108,858	$5,285	$1,868,275
Real estate construction loans	115,538	23,555	90,132	8,147	237,372
Commercial mortgage loans	3,275,431	69,925	403,541	-	3,748,897
Residential mortgage and equity lines	1,149,225	4,439	33,160	145	1,186,969
Installment and other loans	17,636	63	-	-	17,699
Total gross loans	6,247,672	162,272	635,691	13,577	7,059,212
Loans held for sale	-	$-	$260	$500	$760

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.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

The following table presents the balance in the allowance for loan losses by portfolio segment and based on impairment method as of December 31, 2012, and as of December 31, 2011.

	Commercial Loans	Real Estate Construction Loans	Commercial Mortgage Loans	Residential mortgage and equity line	Consumer and Other	Total
			(In thousands)			
December 31, 2012						
Loans individually evaluated for impairment						
Allowance	$ 1,467	$ 8,158	$ 1,336	$ 1,222	$ -	$ 12,183
Balance	$ 23,922	$ 42,133	$ 165,885	$ 16,657	$ -	$ 248,597
Loans collectively evaluated for impairment						
Allowance	$ 64,634	$ 14,859	$ 81,137	$ 10,481	$ 28	$ 171,139
Balance	$ 2,103,185	$ 138,817	$ 3,602,567	$ 1,323,425	$ 12,556	$ 7,180,550
Total allowance	$ 66,101	$ 23,017	$ 82,473	$ 11,703	$ 28	$ 183,322
Total balance	$ 2,127,107	$ 180,950	$ 3,768,452	$ 1,340,082	$ 12,556	$ 7,429,147
December 31, 2011						
Loans individually evaluated for impairment						
Allowance	$ 3,336	$ -	$ 2,969	$ 1,247	$ -	$ 7,552
Balance	$ 45,781	$ 78,766	$ 177,058	$ 20,368	$ -	$ 321,973
Loans collectively evaluated for impairment						
Allowance	$ 62,322	$ 21,749	$ 105,052	$ 9,548	$ 57	$ 198,728
Balance	$ 1,822,494	$ 158,606	$ 3,571,839	$ 1,166,601	$ 17,699	$ 6,737,239
Total allowance	$ 65,658	$ 21,749	$ 108,021	$ 10,795	$ 57	$ 206,280
Total balance	$ 1,868,275	$ 237,372	$ 3,748,897	$ 1,186,969	$ 17,699	$ 7,059,212

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

The following table details activity in the allowance for loan losses by portfolio segment for the years ended December 31, 2012 and 2011. 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 and equity line	Installment and Other Loans	Total
			(In thousands)			
2011 Beginning Balance	$ 63,918	$ 43,262	$ 128,348	$ 9,668	$ 35	$ 245,231
Provision for possible loan losses	11,711	11,514	1,454	2,392	197	27,268
Charge-offs	(11,745)	(37,500)	(26,750)	(1,456)	(175)	(77,626)
Recoveries	1,774	4,473	4,969	191	-	11,407
Net Charge-offs	(9,971)	(33,027)	(21,781)	(1,265)	(175)	(66,219)
2011 Ending Balance	$ 65,658	$ 21,749	$ 108,021	$ 10,795	$ 57	$ 206,280
Reserve to impaired loans	$ 3,336	$ -	$ 2,969	$ 1,247	$ -	$ 7,552
Reserve to non-impaired loans	$ 62,322	$ 21,749	$ 105,052	$ 9,548	$ 57	$ 198,728
Reserve for off-balance sheet credit commitments	$ 816	$ 1,103	$ 113	$ 34	$ 3	$ 2,069
2012 Beginning Balance	$ 65,658	$ 21,749	$ 108,021	$ 10,795	$ 57	$ 206,280
Provision/(reversal) for possible loan losses	16,201	(3,720)	(23,128)	2,360	(7)	(8,294)
Charge-offs	(17,707)	(1,165)	(11,762)	(2,132)	(25)	(32,791)
Recoveries	1,949	6,153	9,342	680	3	18,127
Net Charge-offs	(15,758)	4,988	(2,420)	(1,452)	(22)	(14,664)
2012 Ending Balance	$ 66,101	$ 23,017	$ 82,473	$ 11,703	$ 28	$ 183,322
Reserve to impaired loans	$ 1,467	$ 8,158	$ 1,336	$ 1,222	$ -	$ 12,183
Reserve to non-impaired loans	$ 64,634	$ 14,859	$ 81,137	$ 10,481	$ 28	$ 171,139
	$ 837	$ 390	$ 98	$ 34	$ 3	$ 1,362

Reserve for
off-balance sheet
credit commitments

An analysis of the activity in the allowance for credit losses for the year ended 2012, 2011, and 2010 is as follows:

	December 31,		
	2012	2011	2010
Allowance for Loan Losses		(In thousands)	
Balance at beginning of year	$206,280	$245,231	$211,889
(Reversal)/provision for credit losses	(9,000)	27,000	156,900
Transfers from reserve for off-balance sheet credit commitments	706	268	2,870
Loans charged off	(32,791)	(77,626)	(138,755)
Recoveries of charged off loans	18,127	11,407	12,327
Balance at end of year	$183,322	$206,280	$245,231
Reserve for Off-balance Sheet Credit Commitments			
Balance at beginning of year	$2,069	$2,337	$5,207
Provision for credit losses/transfers	(706)	(268)	(2,870)
Balance at end of year	$1,363	$2,069	$2,337

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

6. Other Real Estate Owned

At December 31, 2012, the net carrying value of other real estate owned decreased $46.3 million, or 50.0%, to $46.4 million from $92.7 million at December 31, 2011. OREO located in California was $12.2 million and was comprised primarily of six parcels of land zoned for residential purpose of $9.1 million, three office and commercial use buildings of $1.7 million, one commercial building construction projects of $740,000, one residential construction project of $530,000, and one single family residential properties of $179,000. OREO located in Texas was $29.6 million and was comprised of four office and commercial use buildings of $14.4 million, four parcels of land zoned for residential purposes of $12.6 million, two commercial building construction projects of $1.3 million, one parcel of land zoned for non-residential purposes of $1.1 million, and one single family residential properties of $169,000. OREO located in the state of Washington was $1.6 million and was comprised one parcels of land zoned for residential purpose of $733,000 and one commercial construction project of $870,000. OREO located in the state of New York was a retail store of $1.2 million. OREO located in the state of Nevada was $1.1 million and was comprised of a commercial use building. OREO in all other states was $752,000 and was comprised of a commercial use property and a retail store.

For 2011, OREO located in California was $32.3 million and was comprised primarily of five parcels of land zoned for residential purpose of $9.9 million, four parcels of land zoned for commercial purpose properties of $4.8 million, two commercial building construction projects of $3.5 million, one residential construction project of $588,000, twelve office and commercial use buildings of $13.2 million, two single family residential properties of $395,000. OREO located in Texas was $48.6 million and was comprised of eight commercial use buildings of $33.5 million, three parcels of land zoned for residential purpose of $11.7 million, three commercial building construction projects of $2.4 million, and three single family residential properties of $959,000. OREO located in the state of Washington was $3.9 million and was comprised of two retail stores $1.6 million, three parcels of land zoned for residential purpose of $1.2 million, one commercial construction project of $658,000, and three single family residential properties of $531,000. OREO located in the state of Nevada was $4.8 million and was comprised of a parcel of land zoned for residential purpose of $3.5 million and one commercial use building of $1.3 million. OREO in all other states was $3.0 million and was comprised of three commercial use properties of $2.1 million and four single family residential properties of $878,000.

An analysis of the activity in the valuation allowance for other real estate losses for the years ended on December 31, 2012, 2011, and 2010 is as follows:

	2012	2011	2010
		(In thousands)	
Balance, beginning of year	$26,422	$25,310	$22,743
Provision for losses	10,668	10,385	20,139
OREO disposal	(17,534)	(9,273)	(17,572)
Balance, end of year	$19,556	$26,422	$25,310

The following table presents the components of other real estate owned expense for the year ended:

	2012	2011	2010
		(In thousands)	
Operating expense	$4,817	$5,441	$5,849

Provision for losses	10,668	10,385	20,139
Net gain on transfer and disposal	(369)	(5,243)	(9,977)
Total other real estate owned expense	$15,116	$10,583	$16,011

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

7. Investments in Affordable Housing

The Company has invested in certain limited partnerships that were formed to develop and operate housing for lower-income tenants throughout the United States. The Company's investments in these partnerships were $85.0 million at December 31, 2012, and $78.4 million at December 31, 2011. At December 31, 2012, and December 31, 2011, six of the limited partnerships in which the Company has an equity interest were determined to be variable interest entities for which the Company is the primary beneficiary. The consolidation of these limited partnerships in the Company's Consolidated Financial Statements increased total assets and liabilities by $22.9 million at December 31, 2012, and by $22.8 million at December 31, 2011. Other borrowings for affordable housing limited partnerships were $18.7 million at December 31, 2012, and $18.9 million at December 31, 2011; recourse is limited to the assets of the limited partnerships. Unfunded commitments for affordable housing limited partnerships of $10.6 million as of December 31, 2012, and $1.5 million as of December 31, 2011, were recorded under other liabilities.

Each of the partnerships must meet regulatory requirements for affordable housing for a minimum 15-year compliance period to fully utilize the tax credits. If the partnerships cease to qualify during the compliance period, the credits may be denied for any period in which the projects are not in compliance and a portion of the credits previously taken is subject to recapture with interest. The remaining tax credits to be utilized over a multiple-year period are $45.3 million for Federal and $1.7 million for state at December 31, 2012. The Company's usage of tax credits approximated $9.2 million in 2012, $9.5 million in 2011, and $10.5 million in 2010. For the year ended December 31, operations of investments in affordable housing resulted in pretax losses of $6.3 million for 2012, $8.2 million for 2011, and $7.6 million for 2010. Losses in excess of the Bank's investment in two limited partnerships have not been recorded in the Company's Consolidated Financial Statements because the Company had fully satisfied all capital commitments required under the respective limited partnership agreements.

8. Premises and Equipment

Premises and equipment consisted of the following at December 31, 2012, and December 31, 2011:

	2012	2011
	(In thousands)	
Land and land improvements	$ 33,429	$ 33,429
Building and building improvements	73,723	72,608
Furniture, fixtures and equipment	39,701	37,445
Leasehold improvement	12,391	12,494
Construction in process	38	1,314
	159,282	157,290
Less: Accumulated depreciation/amortization	56,669	51,329
Premises and equipment, net	$ 102,613	$ 105,961

The amount of depreciation/amortization included in operating expense was $5.9 million in 2012, $6.1 million in 2011, and $4.6 million in 2010.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

9. Deposits

The following table displays deposit balances as of December 31, 2012, and December 31, 2011:

	2012 (In thousands)	2011
Demand	$ 1,269,455	$ 1,074,718
NOW accounts	593,133	451,541
Money market accounts	1,186,771	951,516
Saving accounts	473,805	420,030
Time deposits under $100,000	644,191	832,997
Time deposits of $100,000 or more	3,215,870	3,498,329
Total	$ 7,383,225	$ 7,229,131

Time deposits outstanding as of December 31, 2012, mature as follows.

	Expected Maturity Date at December 31,						
	2013 (In thousands)	2014	2015	2016	2017	Thereafter	Total
Time deposits, $100,000 and over	$ 2,895,712	$ 238,836	$ 60,309	$ 1,344	$ 19,669	$ -	$ 3,215,870
Other time deposits	610,364	25,011	7,426	155	1,232	3	644,191
	$ 3,506,076	$ 263,847	$ 67,735	$ 1,499	$ 20,901	$ 3	$ 3,860,061

Accrued interest payable on customer deposits was $2.1 million at December 31, 2012, $4.2 million at December 31, 2011, and $5.2 million at December 31, 2010. The following table summarizes the interest expense on deposits by account type for the years ended December 31, 2012, 2011, and 2010:

	Year Ended December 31,		
	2012	2011 (In thousands)	2010
Interest bearing demand	$ 792	$ 756	$ 927
Money market accounts	5,938	7,351	8,733
Saving accounts	365	482	694
Time deposits	40,278	53,625	73,808
Total	$ 47,373	$ 62,214	$ 84,162

10. Borrowed Funds

Federal Funds Purchased. There were no Federal funds purchased at any time during 2010 or 2012. The average amount of Federal funds purchased during 2011 was $27,000 with a weighted average interest rate of 1.29%.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

Securities Sold under Agreements to Repurchase. Securities sold under agreements to repurchase were $1.3 billion with a weighted average rate of 3.84% at December 31, 2012, compared to $1.4 billion with a weighted average rate of 4.14% at December 31, 2011. In May 2011, the Company prepaid a security sold under an agreement to repurchase of $50 million with a rate of 4.83% and incurred a prepayment penalty of $1.7 million. In 2012, the Company modified $200.0 million of securities sold under agreements to repurchase by extending the term by an additional four years on average, reducing the rate of these agreements by an average of 168 basis points and removing the callable feature of these borrowings. In 2012, the Company prepaid three securities sold under an agreement to repurchase for the total of $150 million with a weighted average rate of 4.43% and incurred prepayment penalties of $9.4 million. Seven floating-to-fixed rate agreements totaling $400.0 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 minus 200 basis points to three-month LIBOR minus 340 basis points. Thereafter, the rates are fixed for the remainder of the term, with interest rates ranging from 4.52% 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. Thirteen fixed-to-floating rate agreements totaling $650.0 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 remainder of the seven year term, the rates float at 8% minus the three-month LIBOR rate with a maximum rate ranging from 3.25% to 3.79% and 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 $1.05 billion of callable securities sold under agreements to repurchase as of December 31, 2012:

(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	3.79 %	3.53 %	3.50 %	3.50 %	3.53 %	3.25 %			
Minimum rate	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %			
No. of agreements	3	1	4	3	1	1	3	4	20
Amount	$ 150.0	$ 50.0	$ 200.0	$ 150.0	$ 50.0	$ 50.0	$ 200.0	$ 200.0	$ 1,050.0
Weighted average rate	3.78 %	3.53 %	3.50 %	3.50 %	3.53 %	3.25 %	4.69 %	5.00 %	4.04 %
Final maturity	2014	2014	2014	2015	2015	2015	2014	2017	

The table below provides summary data for non-callable fixed rate securities sold under agreements to repurchase as of December 31, 2012:

Maturity	No. of Agreements	Amount (In thousands)	Weighted Average Interest Rate
3 years to 5 years	2	$ 100,000	2.71 %

Over 5 years	2		100,000	2.86	%
Total	4	$	200,000	2.78	%

These transactions are accounted for as collateralized financing transactions and recorded at the amount at which the securities were sold. We 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 security debt, and mortgage-backed securities with a fair value of $1.4 billion as of December 31, 2012, and $1.6 billion as of December 31, 2011.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

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

	2012	2011 (Dollars in thousands)	2010
Average amount outstanding during the year (1)	$ 1,361,475	$ 1,448,363	$ 1,560,215
Maximum amount outstanding at month-end (2)	1,400,000	1,559,000	1,566,000
Balance, December 31	1,250,000	1,400,000	1,561,000
Rate, December 31	3.84 %	4.14 %	4.18 %
Weighted average interest rate for the year	4.09 %	4.19 %	4.24 %

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(1) Average balances were computed using daily averages.
(2) Highest month-end balances were January 2012, January 2011, and September 2010.

Advances from the Federal Home Loan Bank. Total advances from the FHLB were $146.2 million with weighted average rate of 0.44% at December 31, 2012, compared to $225.0 million with weighted average rate of 2.08% at December 31, 2011. The Company prepaid advances from the FHLB totaling $100.0 million at a rate of 4.60% and incurred prepayment penalties of $2.8 million in 2012 and prepaid advances totaling $450.0 million with a weighted rate of 4.39% and incurred prepayment penalties of $18.5 million in 2011.

The following relates to the outstanding advances at December 31, 2012, and 2011:

	2012		2011	
Maturity	Amount (In thousands)	Weighted Average Interest Rate	Amount (In thousands)	Weighted Average Interest Rate
Within 90 days	$ 125,000	0.28 %	$ -	0.00 %
91 days through 365 days	-	0.00 %	225,000	2.08 %
4 - 5 years	21,200	1.38 %	-	-
	$ 146,200	0.44 %	$ 225,000	2.08 %

Other borrowings from financial institutions. At December 31, 2012, there were no other borrowings from financial institutions. At December 31, 2011, other borrowings from a financial institution were $880,000 with a weighted average rate of 0.55%.

Other Liabilities. On November 23, 2004, the Company entered into an agreement with its Chief Executive Officer ("CEO") pursuant to which the CEO agreed to defer any bonus amounts in excess of $225,000 for the year ended December 31, 2005, until January 1 of the first year following such time as the CEO separates from the Company. Accordingly, an amount equal to $610,000 was deferred in 2004 and was accrued in other liabilities in the consolidated balance sheet. The Company agreed to accrue interest on the deferred portion of the bonus at 7.0% per annum compounded quarterly. The deferred amount will be increased each quarter by the amount of interest computed for that quarter. Beginning on the tenth anniversary of the agreement, the interest rate will equal 275 basis

points above the prevailing interest rate on the ten-year Treasury Note. Interest of $71,000 during 2012, $67,000 during 2011, and $62,000 during 2010 was accrued on this deferred bonus. The balance was $1.1 million at December 31, 2012, and $995,000 at December 31, 2011.

11. Capital Resources

In 2010, the Company sold $132.3 million of new common stock consisting of 15,028,409 shares at an average price of $8.80 per share. Net of issuance costs and fees, this issuance added $124.9 million to common stockholders' equity. The Company did not sell any common stock in 2012 and in 2011.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

The Company has participated in the U.S. Treasury's Troubled Asset Relief Program Capital Purchase Program under the Emergency Economic Stabilization Act of 2008. Upon the approval of participation, the U.S. Treasury purchased the Company's senior preferred stock on December 5, 2008, in the amount of $258.0 million. The senior preferred stock pays cumulative compounding dividends at a rate of 5% per year for the first five years, and thereafter at a rate of 9% per year. The shares are non-voting, other than class voting rights on matters that could adversely affect the shares. They are callable at par after three years. Prior to the end of three years, the shares may only be redeemed with the proceeds from one or more qualified equity offerings. In conjunction with the purchase of senior preferred shares, the U.S. Treasury received warrants to purchase 1,846,374 shares of common stock at the exercise price of $20.96 with an aggregate market price equal to $38.7 million, 15% of the senior preferred stock amount that U.S. Treasury invested.

On September 29, 2006, the Bank issued $50.0 million in subordinated debt in a private placement transaction. The debt had an original maturity term of 10 years, was unsecured and bore interest at a rate of three-month LIBOR plus 110 basis points, payable on a quarterly basis. In March 2011, the Company extended the debt for an additional year. As part of the extension agreement, the rate was increased from LIBOR plus 110 basis points to LIBOR plus 330 basis points for 2012 and 2011, after which time it reverts back to LIBOR plus 110 basis points. At December 31, 2012, the per annum interest rate on the subordinated debt was 3.61% compared to 3.88% at December 31, 2011. The subordinated debt was issued through the Bank and qualifies as Tier 2 capital for regulatory reporting purposes and is included in long-term debt in the accompanying condensed Consolidated Balance Sheets.

The Bancorp established three special purpose trusts in 2003 and two in 2007 for the purpose of issuing trust preferred securities to outside investors ("Capital Securities"). The trusts exist for the purpose of issuing the Capital Securities and investing the proceeds thereof, together with proceeds from the purchase of the common securities of the trusts by the Bancorp, in Junior Subordinated Notes issued by the Bancorp. 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 Bancorp to the extent the trusts have funds on hand at such time. The obligations of the Bancorp under the guarantees and the Junior Subordinated Notes are subordinate and junior in right of payment to all indebtedness of the Bancorp and will be structurally subordinated to all liabilities and obligations of the Bancorp's subsidiaries. The Bancorp 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 Bancorp 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 the Bancorp has deferred payment of interest on the Junior Subordinated Notes.

The five special purpose trusts are considered variable interest entities under FIN 46R. Because the Bancorp is not the primary beneficiary of the trusts, the financial statements of the trusts are not included in the Consolidated Financial Statements of the Company.

The Junior Subordinated Notes are currently included in the Tier 1 capital of the Bancorp for regulatory capital purposes. On March 1, 2005, the Federal Reserve adopted a final rule that retains trust preferred securities in the Tier I capital of bank holding companies, which after a five-year transition period, limited the aggregate amount of trust preferred securities and certain other capital elements to 25% of Tier 1 capital elements, net of goodwill, less any associated deferred tax liability. The amount of trust preferred securities and certain other elements in excess of the limit could be included in Tier 2 capital, subject to restrictions. This rule did not have a materially adverse effect on the Company's capital positions.

Interest expense on the Junior Subordinated Notes was $3.2 million for 2012, $3.0 million for 2011, and $3.1 million for 2010.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

The table below summarizes the outstanding Junior Subordinated Notes issued by the Company to each trust as of December 31, 2012:

Trust Name	Issuance Date	Principal Balance of Notes	Not Redeemable Until	Stated Maturity	Annualized Coupon Rate	Current Interest Rate	Date of Rate Change	Payable/ Distribution Date
	(Dollars in thousands)							
Cathay Capital Trust I	June 26, 2003	$ 20,619	June 30, 2008	June 30, 2033	3-month LIBOR + 3.15%	3.46 %	December 30, 2012	March 30 June 30 September 30 December 30
Cathay Statutory Trust I	September 17, 2003	20,619	September 17, 2008	September 17, 2033	3-month LIBOR + 3.00%	3.31 %	December 17, 2012	March 17 June 17 September 17 December 17
Cathay Capital Trust II	December 30, 2003	12,887	March 30, 2009	March 30, 2034	3-month LIBOR + 2.90%	3.21 %	December 30, 2012	March 30 June 30 September 30 December 30
Cathay Capital Trust III	March 28, 2007	46,392	June 15, 2012	June 15, 2037	3-month LIBOR + 1.48%	1.79 %	December 17, 2012	March 15 June 15 September 15 December 15
Cathay Capital Trust IV	May 31, 2007	20,619	September 6, 2012	September 6, 2037	3-month LIBOR 1.40%	1.71 %	December 6, 2012	March 6 June 6 September 6 December 6

Total Junior Subordinated Notes	$ 121,136

12. Income Taxes

For the years ended December 31, 2012, 2011, and 2010, the current and deferred amounts of the income tax expense are summarized as follows:

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

	2012	2011	2010
		(In thousands)	
Current:			
Federal	$44,263	$26,548	$16,496
State	17,081	10,905	7,379
	$61,344	$37,453	$23,875
Deferred:			
Federal	3,755	10,133	(28,600)
State	1,029	3,675	(9,904)
	$4,784	$13,808	$(38,504)
Total income tax expense/(benefit	$66,128	$51,261	$(14,629)

Temporary differences between the amounts reported in the financial statements and the tax basis of assets and liabilities give rise to deferred taxes. Net deferred tax assets at December 31, 2012, and at December 31, 2011, are included in other assets in the accompanying Consolidated Balance Sheets and are as follows:

Deferred Tax Assets		
Loan loss allowance, due to differences in computation of bad debts	$100,774	$109,686
Write-down on equity securities	3,374	3,609
Stock option compensation expense	16,120	16,048
State tax	4,479	3,744
Non-accrual interest	3,208	2,048
Write-down on other real estate owned	10,302	14,148
Accrual for litigation	2,415	-
Unrealized loss on interest rate swaps	-	1,097
Unrealized loss on securities available-for-sale, net	-	6,311
Other, net	3,544	3,536
Gross deferred tax assets	144,216	160,227
Deferred Tax Liabilities		
Core deposit intangibles	(1,632)	(3,919)
Investment in aircraft financing trust and venture capital partnerships	(19,684)	(21,628)
Unrealized gain on securities available-for-sale, net	(338)	-
Dividends on Federal Home Loan Bank common stock	(3,071)	(2,788)
Other, net	(5,084)	(5,646)
Gross deferred tax liabilities	(29,809)	(33,981)
Valuation allowance	(2,125)	(2,533)
Net deferred tax assets	$112,282	$123,713

Amounts for the current year are based upon estimates and assumptions and could vary from amounts shown on the tax returns as filed.

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent on the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize all benefits related to these deductible temporary differences except for $2.1 million of state deferred taxes for a portion of the capital losses related to the Company’s former investments in the preferred stock of Fannie Mae and Freddie Mac.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

As of December 31, 2012, the Company had income tax refunds receivable of $12.4 million. As of December 31, 2011, the Company had income tax receivables of approximately $39.3 million, of which $11.2 million relates to the carryback of the Company's net operating loss for 2009 to the 2007 tax year and $9.1 million relates to the carryback of the Company's low income housing tax credits for 2009 to the 2008 tax year. These income tax receivables are included in other assets in the accompanying Consolidated Balance Sheets.

At December 31, 2012, the Company had Federal net operating loss carry forwards of approximately $1.6 million which expire through 2022. The Federal net operating loss carry-forwards were acquired in connection with the Company's acquisition of United Heritage Bank.

At December 31, 2012 and 2011, the amount of unrecognized tax benefits was none and $508,000, respectively. During 2012, the Company reversed its unrecognized tax benefits during the filing of the Company's 2011 tax returns, During 2011, the Company paid $0.1 million of state taxes previously recorded in unrecognized tax benefits. The Company had accrued interest and penalties of less than $0.1 million at December 31, 2012 and 2011.

The Company's tax returns are open for audits by the Internal Revenue Service back to 2010 and by the FTB of the State of California back to 2003. The Company is under audit by the California Franchise Tax Board for the years 2003 to 2007. As the Company is presently under audit by a number of tax authorities, 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.

Income tax expense results in effective tax rates that differ from the statutory Federal income tax rate for the years indicated as follows:

	2012 (In thousands)		2011		2010	
Tax provision at Federal statutory rate	$ 64,248	35.0 %	$ 52,994	35.0 %	$ (1,072)	35.0 %
State income taxes, net of Federal income tax benefit	11,772	6.4	9,477	6.3	(1,641)	53.5
Interest on obligations of state and political subdivisions, which are exempt from Federal taxation	(1,456)	(0.8)	(1,476)	(1.0)	(299)	9.8
Low income housing and other tax credits	(9,353)	(5.1)	(10,087)	(6.6)	(11,220)	366.2
Other, net	917	0.5	353	0.2	(397)	13.0
Total income tax expense/(benefit)	$ 66,128	36.0 %	$ 51,261	33.9 %	$ (14,629)	477.5 %

13. Stockholders' Equity and Earnings per Share

As a bank holding company, the Bancorp's ability to pay dividends will depend upon the dividends it receives from the Bank and on the income it may generate from any other activities in which it may engage, either directly or through other subsidiaries.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

Under California banking law, the Bank may not, without regulatory approval, pay a cash dividend that exceeds the lesser of the Bank's retained earnings or its net income for the last three fiscal years, less any cash distributions made during that period. Under this regulation, the amount of retained earnings available for cash dividends to the Company immediately after December 31, 2012, is restricted to approximately $80.8 million.

During 2003, the Bank formed Cathay Real Estate Investment Trust ("Trust") to provide the Bank flexibility in raising capital. In 2003 and 2004, the Trust sold to accredited investors $8.6 million of its 7.0% Series A Non-Cumulative preferred stock which pays dividends, if declared, at the end of each quarter. This preferred stock qualifies as Tier 1 capital under current regulatory guidelines. The Company paid dividends of $605,000 in 2012, $605,000 in 2011, and $611,000 in 2010. For the years ended and as of December 31, 2012, December 31, 2011, and December 31, 2010, the net income and assets of the Trust were eliminated in consolidation.

The Board of Directors of the Bancorp is authorized to issue preferred stock in one or more series and to fix the voting powers, designations, preferences or other rights of the shares of each such class or series and the qualifications, limitations, and restrictions thereon. Any preferred stock issued by the Bancorp may rank prior to the Bancorp common stock as to dividend rights, liquidation preferences, or both, may have full or limited voting rights, and may be convertible into shares of the Bancorp common stock.

On November 16, 2000, the Bancorp's Board of Directors adopted a Rights Agreement between the Bancorp and American Stock Transfer and Trust Company, as Rights Agent, and declared a dividend of one preferred share purchase right for each outstanding share of the Bancorp common stock. The dividend was payable on January 19, 2001, to stockholders of record at the close of business on the record date, December 20, 2000. Each preferred share purchase right entitles the registered holder to purchase from the Bancorp one one-thousandth of a share of the Bancorp's Series A junior participating preferred stock at a price of $200, subject to adjustment. In general, the rights become exercisable if, after December 20, 2000, a person or group acquires 15% or more of the Bancorp's common stock or announces a tender offer for 15% or more of the common stock. The Board of Directors is entitled to redeem the rights at one cent per right at any time before any such person acquires 15% or more of the outstanding common stock. The Rights Agreement expired at the close of business on November 16, 2010, and was not renewed.

Pursuant to the U.S. Treasury's Troubled Asset Relief Program Capital Purchase Program under the Emergency Economic Stabilization Act of 2008, on December 5, 2008, the U.S. Treasury purchased 258,000 shares of the Company's Series B Preferred Stock in the amount of $258.0 million. The Series B Preferred Stock pays cumulative compounding dividends at a rate of 5% per year for the first five years, and thereafter at a rate of 9% per year. In conjunction with the purchase of senior preferred shares, the U.S. Treasury received warrants to purchase 1,846,374 shares of common stock at the exercise price of $20.96 per share with an aggregate market price equal to $38.7 million, or 15%, of the senior preferred stock amount that the U.S. Treasury invested. The exercise price of $20.96 on warrants was calculated based on the average of closing prices of the Company's common stock on the 20 trading days ending on the last trading day prior to November 17, 2008, the date that the Company received the preliminary approval of the purchase from the U.S. Treasury.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

The following is the reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the years as indicated:

	Year Ended December 31,								
	2012			2011			2010		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(In thousands, except shares and per share data)								
Net income	$ 117,438			$ 100,150			$ 11,565		
Dividends on preferred stock	(16,488)			(16,437)			(16,388)		
Basic EPS, income/(loss)	$ 100,950	78,719,133	$ 1.28	$ 83,713	78,633,317	$ 1.06	$ (4,823)	77,073,954	$ (0.06)
Effect of dilutive stock options		4,164			7,335			-	
Diluted EPS, income/(loss)	$ 100,950	78,723,297	$ 1.28	$ 83,713	78,640,652	$ 1.06	$ (4,823)	77,073,954	$ (0.06)

Options to purchase an additional 4.0 million shares, and warrants to purchase an additional 1.8 million shares at December 31, 2012, were not included in the computation of diluted earnings per share because their inclusion would have had an anti-dilutive effect. Options to purchase an additional 4.4 million shares, restricted stock units for an additional 103,000 shares, and warrants to purchase an additional 1.8 million shares at December 31, 2011, were not included in the computation of diluted earnings per share because their inclusion would have had an anti-dilutive effect.

14. Commitments and Contingencies

Litigation. The Company is involved in various litigation concerning transactions entered into during 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.

Lending. 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. Those 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 exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Unless noted otherwise, the Company does not require collateral or other security to support financial instruments with credit risk.

Financial instruments whose contract amounts represent the amount of credit risk include the following:

	2012	2011
	(In thousands)	
Commitments to extend credit	$ 1,740,463	$ 1,626,523
Standby letters of credit	44,672	62,076
Commercial letters of credit	71,073	64,233
Bill of lading guarantees	77	187
Total	$ 1,856,285	$ 1,753,019

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

Commitments to extend credit are agreements to lend to a customer provided there is no violation of any condition established in the commitment agreement. These commitments generally have fixed expiration dates and are expected to expire without being drawn upon. The total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on management's credit evaluation of the borrowers.

As of December 31, 2012, the Company does not have fixed-rate or variable-rate commitments with characteristics similar to options, which provide the holder, for a premium paid at inception to the Company, the benefits of favorable movements in the price of an underlying asset or index with limited or no exposure to losses from unfavorable price movements.

As of December 31, 2012, commitments to extend credit of $1.7 billion include commitments to fund fixed rate loans of $115.4 million and adjustable rate loans of $1.6 billion.

Commercial letters of credit and bill of lading guarantees are issued to facilitate domestic and foreign trade transactions while standby letters of credit are issued to make payments on behalf of customers if certain specified future events occur. The credit risk involved in issuing letters of credit and bill of lading guarantees is essentially the same as that involved in making loans to customers.

Leases. The Company is obligated under a number of operating leases for premises and equipment with terms ranging from one to 50 years, many of which provide for periodic adjustment of rentals based on changes in various economic indicators. Rental expense was $7.4 million for 2012, $6.7 million for 2011, and $6.6 million for 2010. The following table shows future minimum payments under operating leases with terms in excess of one year as of December 31, 2012.

Year Ending December 31,		Commitments (In thousands)
2013	$	6,084
2014		4,939
2015		3,009
2016		2,028
2017		617
Thereafter		661
Total minimum lease payments	$	17,338

Rental income was $0.3 million for 2012, $0.2 million for 2011, and $0.3 million for 2010. The following table shows future rental payments to be received under operating leases with terms in excess of one year as of December 31, 2012:

Year Ending December 31,		Commitments (In thousands)
2013	$	108
2014		60
2015		11

Thereafter		-
Total minimum lease payments to be received	$	179

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

15. Financial Derivatives

It is the policy of the Company not to speculate on the future direction of interest rates. However, the Company enters into financial derivatives in order to seek mitigation of exposure to interest rate risks related to its interest-earning assets and interest-bearing liabilities. Management believes that these transactions, when properly structured and managed, may provide a hedge against inherent interest rate risk in the Company's 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 futures contracts for a specific cash or interest rate risk position. Other hedge 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, we seek 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 Bank's Investment Committee.

The Company follows ASC Topic 815 which established 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.

As of December 31, 2011, we had five interest rate swap agreements with two major financial institutions in the notional amount of $300.0 million for a period of three years. These interest rate swaps were not structured to hedge against inherent interest rate risks related to our interest-earning assets and interest-bearing liabilities. These five interest rate swap agreements all matured in the third quarter of 2012. The net amount accrued on these interest rate swaps and the changes in the market value of these interest rate swaps were recorded as a reduction to other non-interest income in the amount of $288,000 in 2012 compared to $4.9 million in the same period a year ago.

The Company enters into foreign exchange forward contracts and foreign currency option contracts with various counter parties to mitigate the risk of fluctuations in foreign currency exchange rates for foreign exchange certificates of deposit, foreign exchange contracts, or foreign currency option contracts entered into with our clients. These contracts are not designated as hedging instruments and are recorded at fair value in our condensed consolidated balance sheets. Changes in the fair value of these contracts as well as the related foreign exchange certificates of deposit, foreign exchange contracts or foreign currency option 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. At December 31, 2012, the notional amount of option contracts totaled $209,000 with a net negative fair value of $2,000. Spot and forward contracts in the total notional amount of $188.1 million had a positive fair value of $2.9 million at December 31, 2012. Spot and forward contracts in the total notional amount of $133.7 million had a negative fair value of $1.6 million at December 31, 2012. At December 31, 2011, the notional amount of option contracts totaled $4.3 million with a net positive fair value of $29,000. Spot and forward contracts in the total notional amount of $238.6 million had a positive fair value, in the amount of $2.2 million, at December 31, 2011. Spot and forward contracts in the total notional amount of $128.2 million had a negative fair value, in the amount of $486,000, at December 31, 2011.

16. Fair Value Measurements

The Company adopted ASC Topic 820 on January 1, 2008, and determined the fair values of our financial instruments based on the following:

- 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.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

- Level 3 – Unobservable inputs based on the Company's own judgments about the assumptions that a market participant would use.

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. For certain actively traded agency preferred stocks, mutual funds, and U.S. Treasury 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, state and municipal securities, mortgage-backed securities ("MBS"), commercial MBS, collateralized mortgage obligations, asset-backed securities, corporate bonds and trust preferred securities.

Trading Securities. The Company measures the fair value of trading securities based on quoted market prices in active exchange markets at the reporting date, a Level 1 measurement. The Company also measures the fair value for other trading securities based on quoted market prices for similar securities or dealer quotes, a Level 2 measurement.

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

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

Interest Rate Swaps. Fair value of interest rate swaps was derived from observable market prices for similar assets on a recurring basis, a Level 2 measurement.

The valuation techniques for the assets and liabilities valued on a nonrecurring basis are as follows:

Impaired Loans. The Company does not record loans at fair value on a recurring basis. However, from time to time, nonrecurring fair value adjustments to collateral dependent impaired loans are recorded based on either the current appraised value of the collateral, a Level 2 measurement, or management's judgment and estimation of value reported on old appraisals which are then adjusted based on recent market trends, a Level 3 measurement.

Loans Held for sale. The Company records loans held for sale at fair value based on quoted prices from third party sale analysis, existing sale agreements, or appraisal reports adjusted by sales commission assumption, a Level 3 measurement.

Goodwill. The Company completes "step one" of the impairment test by comparing the fair value of each reporting unit (as determined based on the discussion below) with the recorded book value (or "carrying amount") of its net assets, with goodwill included in the computation of the carrying amount. If the fair value of a reporting unit exceeds its carrying amount, goodwill of that reporting unit is not considered impaired, and "step two" of the impairment test is not necessary. If the carrying amount of a reporting unit exceeds its fair value, step two of the impairment test is performed to determine the amount of impairment. Step two of the impairment test compares the carrying amount of the reporting unit's goodwill to the "implied fair value" of that goodwill. The implied fair value of goodwill is computed by assuming all assets and liabilities of the reporting unit would be adjusted to the current fair value, with the offset as

an adjustment to goodwill. This adjusted goodwill balance is the implied fair value used in step two. An impairment charge is then recognized for the amount by which the carrying amount of goodwill exceeds its implied fair value. In connection with the determination of fair value, certain data and information was utilized, including earnings forecast at the reporting unit level for the next four years. Other key assumptions include terminal values based on future growth rates and discount rates for valuing the cash flows, which have inputs for the risk-free rate, market risk premium and adjustments to reflect inherent risk and required market returns. Because of the significance of unobservable inputs in the valuation of goodwill impairment, goodwill subject to nonrecurring fair value adjustments is classified as Level 3 measurement.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

Core Deposit Intangibles. Core deposit intangibles is initially recorded at fair value based on a valuation of the core deposits acquired and is amortized over its estimated useful life to its residual value in proportion to the economic benefits consumed. The Company assesses the recoverability of this intangible asset on a nonrecurring basis using the core deposits remaining at the assessment date and the fair value of cash flows expected to be generated from the core deposits, a Level 3 measurement.

Other Real Estate Owned. Real estate acquired in the settlement of loans is initially recorded at fair value based on the appraised value of the property on the date of transfer, less estimated costs to sell, a Level 2 measurement. From time to time, nonrecurring fair value adjustments are made to other real estate owned based on the current updated appraised value of the property, also a Level 2 measurement, or management's judgment and estimation of value reported on old appraisals which are then adjusted based on recent market trends, a Level 3 measurement.

Investments in Venture Capital. The Company periodically reviews for OTTI on a nonrecurring basis. Investments in venture capital were written down to their fair value based on available financial reports from venture capital partnerships and management's judgment and estimation, a Level 3 measurement.

The following table presents the Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis at December 31, 2012, and at December 31, 2011:

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

As of December 31, 2012	Fair Value Measurements Using			Total at
	Level 1	Level 2	Level 3	Fair Value
	(In thousands)			
Assets				
Securities available-for-sale				
U.S. Treasury securities	$ 509,971	$ -	$ -	$ 509,971
Mortgage-backed securities	-	416,694	-	416,694
Collateralized mortgage obligations	-	10,168	-	10,168
Asset-backed securities	-	141	-	141
Corporate debt securities	-	335,977	-	335,977
Mutual funds	6,079	-	-	6,079
Preferred stock of government sponsored entities	-	2,335	-	2,335
Trust preferred securities	10,115	-	-	10,115
Total securities available-for-sale	526,165	765,315	-	1,291,480
Trading securities	-	4,703	-	4,703
Warrants	-	-	104	104
Option contracts	-	0	-	0
Foreign exchange contracts	-	2,924	-	2,924
Total assets	$ 16,194	$ 1,282,913	$ 104	$ 1,299,211
Liabilities				
Option contracts	$ -	$ 2	$ -	$ 2
Foreign exchange contracts	-	1,586	-	1,586
Total liabilities	$ -	$ 1,588	$ -	$ 1,588

As of December 31, 2011	Fair Value Measurements Using			Total at
	Level 1	Level 2	Level 3	Fair Value
		(In thousands)		
Assets				
Securities available-for-sale				
U.S. government sponsored entities	$-	$501,226	$-	$501,226
State and municipal securities	-	1,928	-	1,928
Mortgage-backed securities	-	337,631	-	337,631
Collateralized mortgage obligations	-	16,486	-	16,486
Asset-backed securities	-	166	-	166
Corporate debt securities	-	380,429	-	380,429
Mutual funds	6,035	-	-	6,035
Preferred stock of government sponsored entities	-	1,654	-	1,654

Trust preferred securities	45,963	-	-	45,963
Other equity securities	2,960	-	-	2,960
Total securities available-for-sale	54,958	1,239,520	-	1,294,478
Trading securities	2	4,540	-	4,542
Warrants	-	-	218	218
Option contracts	-	34	-	34
Foreign exchange contracts	-	2,151	-	2,151
Total assets	$54,960	$1,246,245	$218	$1,301,423
Liabilities				
Interest rate swaps	$-	$2,634	$-	$2,634
Option contracts	-	5	-	5
Foreign exchange contracts	-	486	-	486
Total liabilities	$-	$3,125	$-	$3,125

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

The Company measured the fair value of its warrants on a recurring basis using significant unobservable inputs. The fair value of warrants was $104,000 at December 31, 2012, compared to $218,000 at December 31, 2011. The fair value adjustment of warrants was included in other operating income of 2012.

For financial assets measured at fair value on a nonrecurring basis that were still reflected in the balance sheet at December 31, 2012, the following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the related individual assets at December 31, 2012, and at December 31, 2011, and the total losses for the periods indicated:

	As of December 31, 2012				Total Losses For the Twelve Months Ended	
	Fair Value Measurements Using			Total at		
	Level 1	Level 2	Level 3	Fair Value	December 31, 2012	December 31, 2011
Assets	(In thousands)					
Impaired loans by type:						
Commercial loans	$ -	$ -	$ 3,492	$ 3,492	$ -	$ 877
Commercial mortgage loans	-	-	11,295	11,295	440	-
Construction- residential	-	-	500	500	-	-
Construction- other	-	-	46,153	46,153	65	-
Residential mortgage and equity lines	-	-	11,206	11,206	605	820
Land loans	-	-	297	297	162	46
Total impaired loans	-	-	72,943	72,943	1,272	1,743
Other real estate owned (1	-	27,149	4,841	31,990	10,904	7,003
Investments in venture capital	-	-	9,001	9,001	309	379
Equity investments	142	-	-	142	181	200
Total assets	$ 142	$ 27,149	$ 86,785	$ 114,076	$ 12,666	$ 9,325

(1) Other real estate owned balance of $46.4 million in the consolidated balance sheet is net of estimated disposal costs.

	As of December 31, 2011				Total Losses For the Twelve Months Ended	
	Fair Value Measurements Using			Total at		
	Level 1	Level 2	Level 3	Fair Value	December 31, 2011	December 31, 2010
Assets	(In thousands)					

Impaired loans by type:						
Commercial loans	$ -	$ -	$ 4,251	$ 4,251	$ 877	$ 3,411
Construction-residential	-	-	-	-	-	1,295
Real estate loans	-	-	35,576	35,576	820	1,407
Land loans	-	-	611	611	46	1,003
Total impaired loans	-	-	40,438	40,438	1,743	7,116
Loans held-for-sale	-	-	760	760	-	3,160
Other real estate owned (1	-	79,029	1,093	80,122	7,003	20,139
Investments in venture capital	-	-	8,693	8,693	379	760
Equity investments	323	-	-	323	200	304
Total assets	$ 323	$ 79,029	$ 50,984	$ 130,336	$ 9,325	$ 31,479

(1) Other real estate owned balance of $71.0 million in the consolidated balance sheet is net of estimated disposal costs.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

The significant unobservable (Level 3) inputs used in the fair value measurement of collateral for collateral-dependent impaired loans was primarily based on the appraised value of collateral adjusted by estimated sales cost and commissions. The Company generally obtains new appraisal reports every six months. 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. During the reported periods, collateral discounts ranged from 45% in the case of accounts receivable collateral to 65% in the case of inventory collateral.

The significant unobservable inputs used in the fair value measurement of loans held for sale was primarily based on the quoted price or sale price adjusted by estimated sales cost and commissions. The significant unobservable inputs used in the fair value measurement of other real estate owned ("OREO") was primarily based on the appraised value of OREO adjusted by estimated sales cost and commissions.

The Company applies estimated sales cost and commission ranging from 3% to 6% to collateral value of impaired loans, quoted price or loan sale price of loans held for sale, and appraised value of OREOs.

The significant unobservable inputs in the Black-Scholes option pricing model for the fair value of warrants are the expected life of warrant ranging from 1 to 4 years, risk-free interest rate from 0.25% to 0.54%, and stock volatility of the Company from 13.7% to 18.6%.

17. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

Cash and Cash Equivalents. For cash and cash equivalents, the carrying amount was assumed to be a reasonable estimate of fair value, a Level 1 measurement.

Short-term Investments. For short-term investments, the carrying amount was assumed to be a reasonable estimate of fair value, a Level 1 measurement.

Securities Purchased under Agreements to Resell. The fair value of securities purchased under agreements to resell is based on dealer quotes, a Level 2 measurement.

Securities. For securities, including securities held-to-maturity, available-for-sale and for trading, fair values were based on quoted market prices at the reporting date. If a quoted market price was not available, fair value was estimated using quoted market prices for similar securities or dealer quotes. For certain actively traded agency preferred stocks and U.S. Treasury 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, state and municipal securities, mortgage-backed securities ("MBS"), commercial MBS, collateralized mortgage obligations, asset-backed securities, and corporate bonds.

Loans Held for Sale. The Company records loans held for sale at fair value based on quoted prices from third party sources, or appraisal reports adjusted by sales commission assumptions, a Level 3 measurement.

Loans. Fair values were estimated for portfolios of loans with similar financial characteristics. Each loan category was further segmented into fixed and adjustable rate interest terms and by performing and non-performing categories.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

The fair value of performing loans was calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest rate risk inherent in the loan, a Level 3 measurement.

The fair value of impaired loans was 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 impaired loans are recorded based on the current appraised value of the collateral, a Level 2 measurement.

Deposit Liabilities. The fair value of demand deposits, savings accounts, and certain money market deposits was assumed to be the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit was estimated using the rates currently offered for deposits with similar remaining maturities, a Level 3 measurement.

Securities Sold under Agreements to Repurchase. The fair value of securities sold under agreements to repurchase is based on dealer quotes, a Level 2 measurement.

Advances from Federal Home Loan Bank. The fair value of the advances is based on quotes from the FHLB to settle the advances, a Level 2 measurement.

Other Borrowings. This category includes borrowings from other financial institutions. The fair value of other borrowings is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest rate risk, a Level 3 measurement.

Long-term Debt. The fair value of long-term debt is estimated based on the quoted market prices or dealer quotes, a Level 2 measurement.

Currency Option and Foreign Exchange Contracts. The Company measures the fair value of currency option and foreign exchange contracts based on dealer quotes, a Level 2 measurement.

Interest Rate Swaps. Fair value of interest rate swaps was derived from observable market prices for similar assets, a Level 2 measurement.

Off-Balance-Sheet Financial Instruments. The fair value of commitments to extend credit, standby letters of credit, and financial guarantees written were estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counter parties. The fair value of guarantees and letters of credit was based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counter parties at the reporting date. Off-balance-sheet financial instruments were fair valued based on the assumptions that a market participant would use, a Level 3 measurement.

Fair value was estimated in accordance with ASC Topic 825, formerly SFAS 107. Fair value estimates were 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 were based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates were subjective in nature and involved uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

Fair Value of Financial Instruments

	As of December 31, 2012		As of December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Financial Assets				
Cash and due from banks	$144,909	$144,909	$117,888	$117,888
Short-term investments	411,983	411,983	294,956	294,956
Securities held-to-maturity	773,768	823,906	1,153,504	1,203,977
Securities available-for-sale	1,291,480	1,291,480	1,294,478	1,294,478
Trading securities	4,703	4,703	4,542	4,542
Loans held-for-sale	-	-	760	760
Loans, net	7,235,587	7,169,732	6,844,483	6,825,571
Investment in Federal Home Loan Bank stock	41,272	41,272	52,989	52,989
Warrants	104	104	218	218
	Notional Amount	Fair Value	Notional Amount	Fair Value
Option contracts	$105	$-	$3,026	$34
Foreign exchange contracts	188,145	2,924	238,581	2,151
Financial Liabilities	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Deposits	$7,383,225	$7,389,015	$7,229,131	$7,240,857
Securities sold under agreement to repurchase	1,250,000	1,361,585	1,400,000	1,547,900
Advances from Federal Home Loan Bank	146,200	146,789	225,000	227,825
Other borrowings	18,713	14,573	19,800	19,801
Long-term debt	171,136	98,392	171,136	98,676
	Notional Amount	Fair Value	Notional Amount	Fair Value
Option contracts	$104	$2	$1,282	$5
Interest rate swaps	-	-	300,000	2,634
Foreign exchange contracts	133,669	1,586	128,215	486
	Notional Amount	Fair Value	Notional Amount	Fair Value
Off-Balance Sheet Financial Instruments				
Commitments to extend credit	$1,740,463	$(1,875)	$1,626,523	$(1,253)
Standby letters of credit	44,672	(204)	62,076	(367)
Other letters of credit	71,073	(34)	64,233	(38)
Bill of lading guarantees	77	-	187	-

The following table presents the level in the fair value hierarchy for the estimated fair values of only financial instruments that are not already on the Consolidated balance sheets at fair value at December 31, 2012, and December 31, 2011.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

	As of December 31, 2012			
	Estimated Fair Value Measurements	Level 1	Level 2	Level 3
	(In thousands)			
Financial Assets				
Cash and due from banks	$144,909	$144,909	$-	$-
Short-term investments	411,983	411,983	-	-
Securities held-to-maturity	823,906	-	823,906	-
Securities available-for-sale	1,291,480	526,165	765,315	-
Trading securities	4,703	-	4,703	-
Loans, net	7,169,732	-	-	7,169,732
Investment in Federal Home Loan Bank stock	41,272	-	41,272	-
Warrants	104	-	-	104
Financial Liabilities				
Deposits	7,389,015	-	-	7,389,015
Securities sold under agreement to repurchase	1,361,585	-	1,361,585	-
Advances from Federal Home Loan Bank	146,789	-	146,789	-
Other borrowings	14,573	-	-	14,573
Long-term debt	98,392	-	98,392	-

	As of December 31, 2011			
	Estimated Fair Value Measurements	Level 1	Level 2	Level 3
	(In thousands)			
Financial Assets				
Cash and due from banks	$117,888	$117,888	$-	$-
Short-term investments	294,956	294,956	-	-
Securities held-to-maturity	1,203,977	-	1,203,977	-
Securities available-for-sale	1,294,478	54,958	1,239,520	-
Trading securities	4,542	2	4,540	-
Loans held-for-sale	760	-	760	.
Loans, net	6,825,571	-	-	6,825,571
Investment in Federal Home Loan Bank stock	52,989	-	52,989	-
Warrants	218	-	-	218
Financial Liabilities				
Deposits	7,240,857	-	-	7,240,857
Securities sold under agreement to repurchase	1,547,900	-	1,547,900	-
Advances from Federal Home Loan Bank	227,825	-	227,825	-
Other borrowings	19,801	-	-	19,801
Long-term debt	98,676	-	98,676	-

18. Employee Benefit Plans

Employee Stock Ownership Plan. Under the Company's Amended and Restated Cathay Bank Employee Stock Ownership Plan ("ESOP"), the Company can make annual contributions to a trust in the form of either cash or common stock of the Bancorp for the benefit of eligible employees. Employees are eligible to participate in the ESOP after completing two years of service for salaried full-time employees or 1,000 hours for each of two consecutive years for salaried part-time employees. The amount of the annual contribution is discretionary except that it must be sufficient to enable the trust to meet its current obligations. The Company also pays for the administration of this plan and of the trust. The Company has not made contributions to the trust since 2004 and does not expect to make any contributions in the future. Effective June 17, 2004, the ESOP was amended to provide the participants the election either to reinvest the dividends on the Company stock allocated to their accounts or to have these dividends distributed to the participant. The ESOP trust purchased 2,814 shares in 2012, 3,437 shares in 2011, and 4,881 shares in 2010, of the Bancorp's common stock at an aggregate cost of $47,000 in 2012, $47,000 in 2011, and $51,000 in 2010. All purchases after 2006 were through the Dividend Reinvestment Plan. The distribution of benefits to participants totaled 116,124 shares in 2012, 83,020 shares in 2011, and 171,689 shares in 2010. As of December 31, 2012, the ESOP owned 1,188,741 shares, or 1.5%, of the Company's outstanding common stock.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

401(k) Plan. In 1997, the Board approved the Company's 401(k) Profit Sharing Plan, which began on March 1, 1997. Salaried employees who have completed three months of service and have attained the age of 21 are eligible to participate. Enrollment dates are on January 1st, April 1st, July 1st, and October 1st of each year. Participants may contribute up to 75% of their eligible compensation for the year but not to exceed the dollar limit set by the Internal Revenue Code. Participants may change their contribution election on the enrollment dates. Prior to April 1, 2010, the Company matched 100% on the first 5% of eligible compensation contributed per pay period by the participant, after one year of service. The vesting schedule for the matching contribution is 0% for less than two years of service, 25% after two years of service and from then on, at an increment of 25% each year until 100% is vested after five years of service. In February 2010, the Board revised and reduced the contribution match for the Company's 401(k) Profit Sharing Plan. Effective on April 1, 2010, the Company matches 100% on the first 2.5% of eligible compensation contributed per pay period by the participant, after one year of service. The Company's contribution amounted to $1.0 million in 2012, $0.9 million in 2011, and $0.9 million in 2010. The Plan allows participants to withdraw all or part of their vested amount in the Plan due to certain financial hardship as set forth in the Internal Revenue Code and Treasury Regulations. Participants may also borrow up to 50% of the vested amount, with a maximum of $50,000. The minimum loan amount is $1,000.

19. Equity Incentive Plans

In 1998, the Board adopted the Cathay Bancorp, Inc. Equity Incentive Plan. Under the Equity Incentive Plan, as amended in September, 2003, directors and eligible employees may be granted incentive or non-statutory stock options and/or restricted stock units, or awarded non-vested stock, for up to 7,000,000 shares of the Company's common stock on a split adjusted basis. In May 2005, the stockholders of the Company approved the 2005 Incentive Plan which provides that 3,131,854 shares of the Company's common stock may be granted as incentive or non-statutory stock options, or as restricted stock, or as restricted stock units. In conjunction with the approval of the 2005 Incentive Plan, the Bancorp agreed to cease granting awards under the Equity Incentive Plan. As of December 31, 2012, the only options granted by the Company under the 2005 Incentive Plan 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. Stock options are typically granted in the first quarter of the year. There were no options granted in 2012, in 2011, or in 2010. The Company expects to issue new shares to satisfy stock option exercises and the vesting of restricted stock units.

Cash received from exercises of stock options totaled $764,000 for 50,024 shares in 2012 compared to $1.3 million for 86,860 shares in 2011. The fair value of stock options vested in 2012 was $745,000 compared to $2.6 million in 2011. Aggregate intrinsic value for options exercised was $103,000 in 2012 compared to $172,000 in 2011.

A summary of stock option activity for 2012, 2011, and 2010 follows:

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Balance, December 31, 2009	5,169,653	$ 27.71	4.6	$-
Forfeited	(222,305)	23.23		
Balance, December 31, 2010	4,947,348	27.93	3.7	$334
Exercised	(86,860)	$ 15.05		
Forfeited	(503,503)	22.72		
Balance, December 31, 2011	4,356,985	28.86	3.0	$37
Exercised	(50,024)	$ 15.27		
Forfeited	(310,331)	23.75		
Balance, December 31, 2012	3,996,630	29.45	2.2	$-
Exercisable, December 31, 2012	3,889,514	$ 29.61	2.2	$-

At December 31, 2012, 2,364,947 shares were available under the 2005 Incentive Plan for future grants. The following table shows stock options outstanding and exercisable as of December 31, 2012, the corresponding exercise prices, and the weighted-average contractual life remaining:

Exercise Price	Shares	Outstanding Weighted-Average Remaining Contractual Life (in Years)	Exercisable Shares
$ 19.93	319,240	0.1	319,240
23.37	637,680	5.1	530,564
24.80	811,956	0.9	811,956
28.70	453,000	1.1	453,000
32.26	10,000	1.5	10,000
32.47	245,060	2.2	245,060
33.54	264,694	2.4	264,694
37.00	582,650	2.1	582,650
38.38	15,000	1.9	15,000
36.90	231,120	3.1	231,120
36.24	414,230	3.0	414,230
38.26	12,000	3.3	12,000
	3,996,630	2.2	3,889,514

In addition to stock options, the Company also grants restricted stock units to eligible employees. On February 21, 2008, restricted stock units for 82,291 shares were granted. Upon vesting of restricted stock units, the Company issued 15,006 shares of common stock at the closing price of $9.64 per share on February 21, 2010, and 12,633 shares

of common stock at the closing price of $18.79 per share on February 21, 2011. Restricted stock units granted in 2008 have a maximum term of five years and vest in approximately 20% annual increments subject to continued employment with the Company.

The Company granted restricted stock units for 125,133 shares at an average closing price of $18.24 per share in 2012 and for 147,661 shares at an average closing price of $14.78 in 2011. The restricted stock units granted in 2012 and 2011 are scheduled to vest two years from grant date.

The following table presents restricted stock unit activity for 2012, 2011, and 2010:

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

	Units
Balance at December 31, 2009	60,021
Vested	(15,006)
Cancelled or forfeited	(6,055)
Balance at December 31, 2010	38,960
Granted	147,661
Vested	(12,633)
Cancelled or forfeited	(2,578)
Balance at December 31, 2011	171,410
Granted	125,133
Vested	(11,814)
Cancelled or forfeited	(28,113)
Balance at December 31, 2012	256,616

The compensation expense recorded related to the restricted stock units above was $1.3 million in 2012, $758,000 in 2011, and $327,000 in 2010. Unrecognized stock-based compensation expense related to restricted stock units was $2.7 million at December 31, 2012, and is expected to be recognized over the next 1.5 years.

The following table summarizes the tax benefit from options exercised:

	2012	2011	2010
		(In thousands)	
(Short-fall)/benefit of tax deductions in excess of grant-date fair value	$ (620)	$ (290)	$ (539)
Benefit of tax deductions on grant-date fair value	747	362	539
Total benefit of tax deductions	$ 127	$ 72	$ -

In 2012, 45,937 shares of the Company's common stock at the average price of $17.16 per share were issued to six executive officers and recorded as compensation expense.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

20. Condensed Financial Information of Cathay General Bancorp

The condensed financial information of the Bancorp as of December 31, 2012, and December 31, 2011, and for the years ended December 31, 2012, 2011, and 2010 is as follows:

Balance Sheets

	Year Ended December 31,	
	2012	2011
	(In thousands, except share and per share data)	
Assets		
Cash	$639	$809
Short-term certificates of deposit	161,300	19,000
Investment in bank subsidiaries	1,569,902	1,593,831
Investment in non-bank subsidiaries	2,598	2,615
Other assets	9,936	14,189
Total assets	$1,744,375	$1,630,444
Liabilities		
Junior subordinated debt	$121,136	$121,136
Other liabilities	2,182	2,122
Total liabilities	123,318	123,258
Commitments and contingencies	-	-
Stockholders' equity		
Preferred stock, 10,000,000 shares authorized, 258,000 issued and outstanding at December 31, 2012, and December 31, 2011	254,580	250,992
Common stock, $0.01 par value, 100,000,000 shares authorized, 82,985,853 issued and 78,778,288 outstanding at December 31, 2012, and 82,860,122 issued and 78,652,557 outstanding at December 31, 2011	830	829
Additional paid-in-capital	768,925	765,641
Accumulated other comprehensive loss, net	465	(8,732)
Retained earnings	721,993	624,192
Treasury stock, at cost (4,207,565 shares at December 31, 2012, and at December 31, 2011)	(125,736)	(125,736)
Total stockholders' equity	1,621,057	1,507,186
Total liabilities and stockholders' equity	$1,744,375	$1,630,444

Statements of Operations

	Year Ended December 31,		
	2012	2011	2010
	(In thousands)		
Cash dividends from Cathay Bank	$154,700	$-	$-

Interest income	196	259	227
Interest expense	3,228	3,038	3,075
Non-interest income/(loss)	3,718	286	(782)
Non-interest expense	2,064	1,548	1,308
Income/(loss) before income tax benefit	153,322	(4,041)	(4,938)
Income tax benefit	(579)	(1,699)	(2,076)
Loss before undistributed earnings of subsidiaries	153,901	(2,342)	(2,862)
Undistributed (loss)/earnings of subsidiaries	(36,463)	102,492	14,427
Net income	$117,438	$100,150	$11,565

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

Statements of Cash Flows

	Year Ended December 31,		
	2012	2011	2010
		(In thousands)	
Cash flows from Operating Activities			
Net income/(loss)	$117,438	$100,150	$11,565
Adjustments to reconcile net income to net cash provided by operating activities:			
Dividends in excess of earnings of subsidiaries	36,463	-	-
Equity in undistributed earnings of subsidiaries	-	(102,492)	(14,427)
Gains on sale of securities	(3,380)	-	-
Increase in accrued expense	12	24	3
Write-downs on venture capital and other investments	262	321	521
Write-downs on impaired securities	181	200	492
Loss/(gains) in fair value of warrants	114	(215)	29
Excess tax short-fall from stock options	620	290	539
(Decrease)/increase in other assets	1,820	(121)	1,040
Increase/(decrease) in other liabilities	59	(221)	(607)
Net cash used in operating activities	153,589	(2,064)	(845)
Cash flows from Investment Activities			
Additional investment in subsidiary	-	-	(94,000)
Decrease/(increase) in short-term investment	(142,300)	17,500	(12,000)
Proceeds from sale/(purchase) of available-for-sale securities	4,849	-	(418)
Venture capital investments	(694)	(671)	(1,056)
Net cash provided by/(used in) investment activities	(138,145)	16,829	(107,474)
Cash flows from Financing Activities			
Cash dividends	(16,049)	(16,046)	(16,041)
Issuance of common stock	-	-	124,928
Proceeds from shares issued under the Dividend Reinvestment Plan	291	287	310
Proceeds from exercise of stock options	764	1,306	-
Excess tax short-fall from share-based payment arrangements	(620)	(290)	(539)
Net cash (used in)/provided by financing activities	(15,614)	(14,743)	108,658
Increase in cash and cash equivalents	(170)	22	339
Cash and cash equivalents, beginning of year	809	787	448
Cash and cash equivalents, end of year	$639	$809	$787

21. Dividend Reinvestment Plan

The Company has a Dividend Reinvestment Plan which allows for participants' reinvestment of cash dividends and certain optional additional investments in the Company's common stock. Shares issued under the plan and the consideration received were 17,956 shares for $291,000 in 2012, 21,281 shares for $287,000 in 2011, and 28,778 shares for $310,000 in 2010.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

22. Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can result in certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. See Note 11 for discussion of possible future disallowance of Capital Securities as Tier 1 capital.

The Federal Deposit Insurance Corporation has established five capital ratio categories: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized." A wel capitalized institution must have a Tier 1 capital ratio of at least 6%, a total risk-based capital ratio of at least 10%, and a leverage ratio of at least 5%. At December 31, 2011 and 2009, the Bank qualified as well capitalized under the regulatory framework for prompt corrective action.

The Bancorp's and the Bank's capital and leverage ratios as of December 31, 2012, and December 31, 2011, are presented in the tables below:

	As of December 31, 2012				As of December 31, 2011			
	Company		Bank		Company		Bank	
	Balance	Percentage	Balance	Percentage	Balance	Percentage	Balance	Percentage
	(Dollars in thousands)							
Tier I Capital (to risk-weighted assets)	$ 1,426,566	17.36 %	$ 1,259,005	15.33 %	$ 1,318,948	15.97 %	$ 1,289,747	15.64 %
Tier I Capital minimum requirement	328,713	4.00	328,440	4.00	330,355	4.00	329,928	4.00
Excess	$ 1,097,853	13.36 %	$ 930,565	11.33 %	$ 988,593	11.97 %	$ 959,819	11.64 %
Total Capital (to risk-weighted assets)	$ 1,571,060	19.12 %	$ 1,402,691	17.08 %	$ 1,474,496	17.85 %	$ 1,444,165	17.51 %
Total Capital minimum requirement	657,426	8.00	656,880	8.00	660,710	8.00	659,855	8.00
Excess	$ 913,634	11.12 %	$ 745,811	9.08 %	$ 813,786	9.85 %	$ 784,310	9.51 %
Tier I Capital (to average assets)Leverage ratio	$ 1,426,566	13.82 %	$ 1,259,005	12.22 %	$ 1,318,948	12.93 %	$ 1,289,747	12.66 %
Minimum leverage requirement	412,844	4.00	412,272	4.00	408,146	4.00	407,643	4.00

Excess	$ 1,013,722	9.82 %	$ 846,733	8.22 %	$ 910,802	8.93 %	$ 882,104	8.66 %
Total average assets (1)	$ 10,321,104		$ 10,306,790		$ 10,203,647		$ 10,191,078	
Risk-weighted assets	$ 8,217,821		$ 8,211,004		$ 8,258,878		$ 8,248,190	

(1)Average assets represent average balances for the fourth quarter of each year presented.

On December 17, 2009, the Bancorp entered into a memorandum of understanding with Federal Reserve Bank of San Francisco (the "FRB SF") under which it agreed that it will not, without the FRB SF's prior written approval, (i) receive any dividends or any other form of payment or distribution representing a reduction of capital from the Bank, or (ii) declare or pay any dividends, make any payments on trust preferred securities, or make any other capital distributions. Under the memorandum, the Bancorp agreed to submit to the FRB SF for review and approval a plan to maintain sufficient capital at the Bancorp on a consolidated basis and at the Bank, a dividend policy for the Bancorp, a plan to improve management of its liquidity position and funds management practices, and a liquidity policy and contingency funding plan for the Bancorp. As part of its compliance with the memorandum, on January 22, 2010, the Bancorp submitted to the FRB SF a Three-Year Capital and Strategic Plan that updates a previously submitted plan and establishes, among other things, targets for its Tier 1 risk-based capital ratio, total risk-based capital ratio, Tier 1 leverage capital ratio and tangible common risk-based ratio, each of which, where applicable, are above the minimum requirements for a well-capitalized institution. In addition, the Bancorp agreed to notify the FRB SF prior to effecting certain changes to its senior executive officers and board of directors and it is limited and/or prohibited, in certain circumstances, in its ability to enter into contracts to pay and to make golden parachute severance and indemnification payments. The Bancorp also agreed in the memorandum that we will not, without the prior written approval of the FRB SF, directly or indirectly, (i) incur, renew, increase or guaranty any debt, (ii) issue any additional trust preferred securities, or (iii) purchase, redeem, or otherwise acquire any stock.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

Until it was terminated as of November 7, 2012, the Bank was subject to a memorandum of understanding with the California Department of Financial Institutions (“DFI”) and the Federal Deposit Insurance Corporation (“FDIC’) that was entered into on March 1, 2010, by which the Bank agreed to undertake certain steps to strengthen its operations. The Bank was required to develop and implement, within specified time periods, plans satisfactory to the DFI and the FDIC to reduce commercial real estate concentrations, to enhance and to improve the quality of our stress testing of the Bank’s loan portfolio, and to revise our loan policy in connection therewith; to develop and adopt a strategic plan addressing improved profitability and capital ratios and to reduce the Bank’s overall risk profile; to develop and adopt a capital plan; to develop and implement a plan to improve asset quality, including the methodology for calculating the loss reserve allocation and evaluating its adequacy; and to develop and implement a plan to reduce dependence on wholesale funding. In addition, we were required to report our progress to the DFI and FDIC on a quarterly basis. As part of our compliance with the Bank memorandum, on April 30, 2010, we submitted to the DFI and the FDIC a Three-Year Capital Plan that updated the Three-Year Capital and Strategic Plan previously submitted to the FRB SF on January 22, 2010, and established, among other things, targets for our Tier 1 risk-based capital ratio and total risk-based capital ratio, each of which are above the minimum requirements for a well-capitalized institution and effective June 30, 2010, a target Tier 1 to total tangible assets ratio. We were in compliance with the applicable target ratios through the date of termination of the memorandum.

23. Quarterly Results of Operations (Unaudited)

The following table sets forth selected unaudited quarterly financial data:

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS–(Continued)

	Summary of Operations							
	2012				2011			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(In thousands, except per share data)							
Interest income	$ 105,281	$ 106,747	$ 107,581	$ 110,135	$ 111,076	$ 114,379	$ 114,339	$ 113,777
Interest expense	24,216	26,330	28,461	29,484	31,759	33,426	36,024	38,672
Net interest income	81,065	80,417	79,120	80,651	79,317	80,953	78,315	75,105
(Reversal)/provision for credit losses	-	-	(5,000)	(4,000)	2,000	9,000	10,000	6,000
Net-interest income after provision for loan losses	81,065	80,417	84,120	84,651	77,317	71,953	68,315	69,105
Non-interest income	12,202	15,622	9,852	8,831	8,986	16,827	12,453	12,626
Non-interest expense	49,532	47,844	47,342	47,871	43,990	48,383	45,410	47,783
Income before income tax expense	43,735	48,195	46,630	45,611	42,313	40,397	35,358	33,948
Income tax expense	15,276	17,686	16,619	16,547	14,459	14,162	10,906	11,734
Net income	28,459	30,509	30,011	29,064	27,854	26,235	24,452	22,214
Less: net income attributable to noncontrolling interest	153	151	150	151	153	151	150	151
Net income attributable to Cathay General Bancorp	28,306	30,358	29,861	28,913	27,701	26,084	24,302	22,063
Dividends on preferred stock	(4,127)	(4,123)	(4,121)	(4,117)	(4,114)	(4,111)	(4,107)	(4,105)
Net income available to common stockholders	$ 24,179	$ 26,235	$ 25,740	$ 24,796	$ 23,587	$ 21,973	$ 20,195	$ 17,958
Basic net income attributable to common stockholders per common share	$ 0.31	$ 0.33	$ 0.33	$ 0.32	$ 0.30	$ 0.28	$ 0.26	$ 0.23
Diluted net income attributable to commonstockholders per common share	$ 0.31	$ 0.33	$ 0.33	$ 0.32	$ 0.30	$ 0.28	$ 0.26	$ 0.23