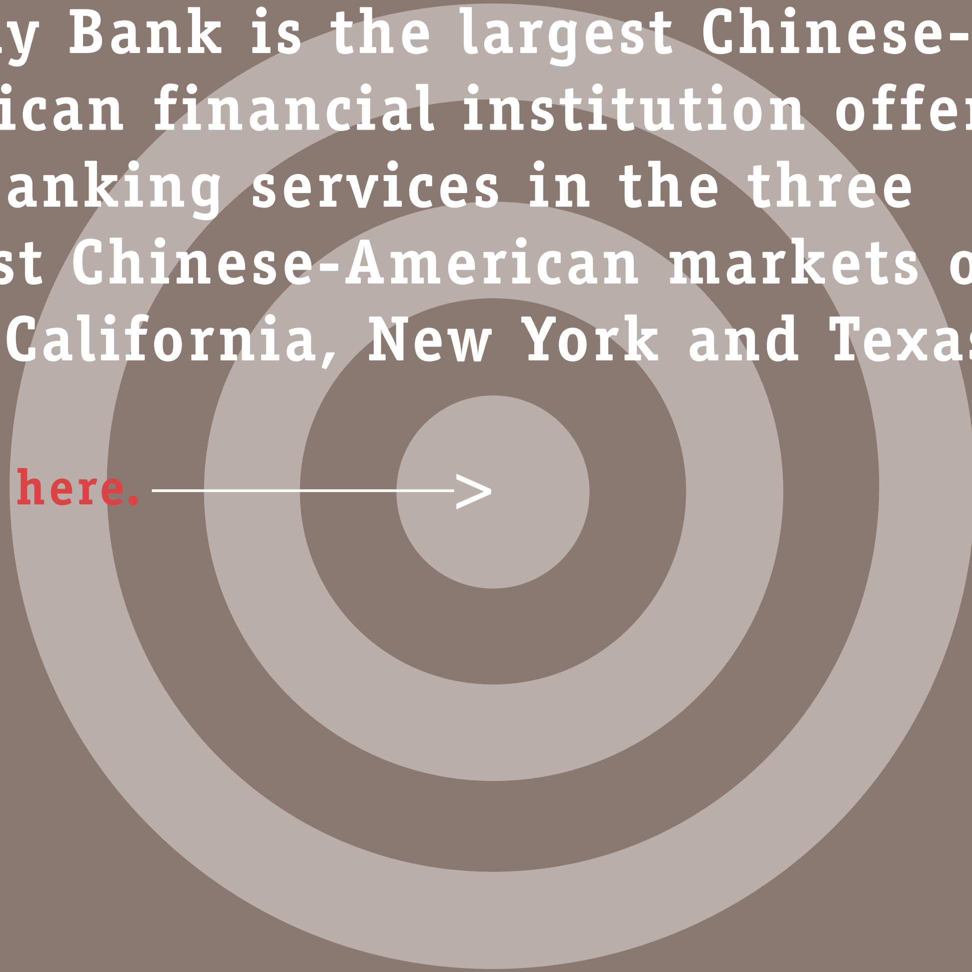
CATHAY BANCORP, INC.

Annual Report 2000

About the cover:

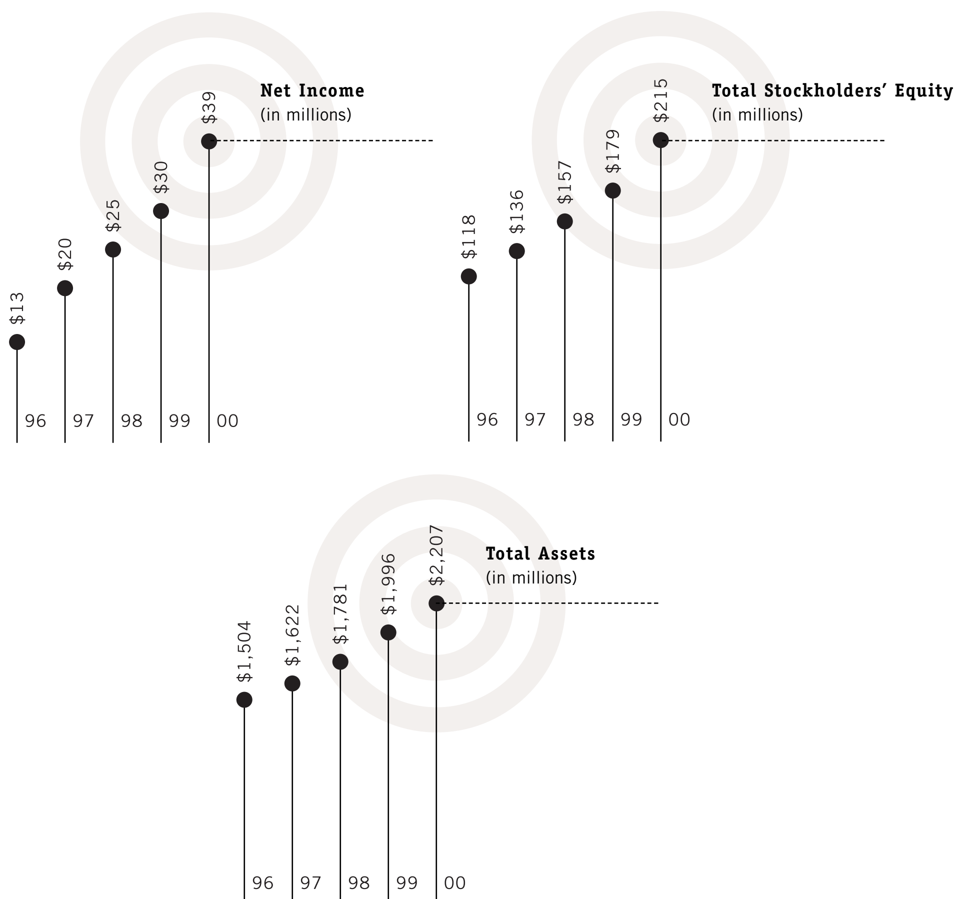
Cathay Bank is the largest Chinese-American financial institution offering full banking services in the three largest Chinese-American markets of the U.S.: California, New York and Texas.



Financial Highlights

(dollars in thousands, except per share data)	2000	1999	Increase (Decrease) Amount	Increase (Decrease) Percentage
For the Year				
Net income	$ 38,587	$ 30,291	$ 8,296	27.39 %
Net income per common share				
Basic	4.26	3.36	0.90	26.79
Diluted	4.25	3.36	0.89	26.49
Cash dividends paid per common share	0.880	0.805	0.075	9.32
At Year-End				
Securities	$ 570,609	$ 587,323	$ (16,714)	(2.85)%
Loans, net	1,437,307	1,245,585	191,722	15.39
Assets	2,206,834	1,995,924	210,910	10.57
Deposits	1,876,447	1,721,736	154,711	8.99
Stockholders' equity	214,787	179,109	35,678	19.92
Book value per common share	23.67	19.83	3.84	19.36
Profitability Ratios				
Return on average assets	1.81%	1.63%		
Return on average stockholders' equity	20.09%	18.31%		
Capital Ratios				
Tier 1 capital ratio	11.05%	10.50%		
Total capital ratio[1]	12.25%	11.71%		
Leverage ratio	9.28%	8.93%		

1 Total capital ratio represents stockholders' equity plus the allowance for loan losses allowable as a percentage of risk-weighted assets.



Dear Stockholders,

> Another piece of our quest to build a nationwide Chinese-American banking network recently fell into place. On December 12, 2000, our Houston Loan Production Office was successfully converted to a full branch facility. Together with our New York acquisition in 1999, Cathay Bank now occupies a unique place in the Chinese-American banking market. It is the only Chinese-American institution that has full banking operations in the three states in America with the most Chinese-American population—California, New York and Texas.

> We believe this network will provide a valuable platform from which to expand our market share in the years to come. It places us in a better position to compete for those Asian businesses whose scope spans the entire country. And, it offers geographic diversification in a business whose well-being is intimately entwined with the local economies in which it operates.

> We also believe that we have only taken the first step in this endeavor. New York devoted much of the first half of 2000 toward integrating its information systems and banking operations with our California headquarters. Then came the cross-pollination of our business cultures. The challenge for Houston, on the other hand, lies in building a branch network almost from the ground up. In both cases, we foresee the ultimate reward will come from an accumulation of many small, patient steps.

- After the demise of so many dot com companies and the attendant evaporation of billions of dollars in investments, people are waking up to the fact that the New and Old Economies are separated by only a channel—a new and efficient delivery channel provided by the Internet. And, the Old Economy companies are just as adept at using this channel to provide products and services to their customers. Cathay Bank began offering its Internet banking services in September, 2000. Our corporate customers will find the Bank's eCashManagement service contains all the tools a diligent CFO will need to manage his company's finances efficiently. Our consumer customers will delight in the ease with which our eBanking package may be used. In February, 2001, Cathay Bank, in conjunction with Trade.com, became one of the first Chinese-American banks to offer Internet stock trading capability. With many of our customers scattered around the world, globalization of business through the Internet takes on a special meaning for us.
- Financially, our company completed another four quarters of year-over-year double-digit earnings growth in 2000. Our pretax income for the year increased by 21% over 1999, to $60.4 million, while net income after taxes increased 27%, to $38.6 million. The earnings per diluted common share rose 27%, to $4.25, compared with $3.36 for the year 1999. The return on average equity improved from 18.31% in 1999 to 20.09% for 2000. This accomplishment was made all the more meaningful as our leverage ratio continued to strengthen, from 8.93% in 1999 to 9.28% by year-end 2000. We continue to believe that a strong balance sheet, combined with a healthy capital base, will enable our company to take advantage of acquisition opportunities that may come along and form a solid financial base for expanding its operations.
- The impetus for the earnings growth came from a 15% growth in net loans, to $1,437.3 million, and a 44% increase in non-interest income, to $12.8 million in 2000. On the other hand, our non-interest expense increased $8.2 million, or 27%, to $38.5 million in 2000, which was mostly attributable to our new out-of-state operations and to the new Diamond Bar branch.
- Our total assets ended the year at $2.2 billion, an increase of 11% over 1999, and our deposits increased $154.7 million, or 9%, to $1,876.4 million. In October, 2000, the Board of Directors approved a 19%, or 4-cent increase in the quarterly dividend, to 25 cents per share. This increase followed the 20% increase in April, 1999. Despite the successive increases in dividends, the company's dividend pay-out ratio dropped from 24% in 1999 to 21% for 2000, and stockholders' equity increased 20%, to $214.8 million in 2000.
- By all accounts, the U.S. economy will slow dramatically in 2001. As a result, this year will prove to be a challenging one. But, with your support and counsel, we'll work to forge ahead in our combined efforts to make our company an even better one.

Dunson K. Cheng
Chairman of the Board and President

親愛的股東們，

> 國泰銀行的拓展策略中，在美國建構一個全國性的華資銀行網路，爲全美華僑提供完善的金融服務，是一個重要的環節，最近已經加以落實。在兩千年十二月十二日，我們成功地把休士頓貸款辦事處改爲全面性的銀行分行，加上一九九九年在紐約收購的銀行，使國泰銀行在美國華裔的金融市場上佔有獨特的優勢。我們是唯一的華資金融機構，在美國擁有最高華僑人口的三個大州(加州、紐約州、德州)設有全面金融業務的分行。

> 我們相信全國性的金融網路將對未來的市場擴展提供寶貴的據點：有利於我們爭取全國化發展的華資企業；而且，由於銀行的生意與當地經濟息息相關，將服務範圍擴展亦可減低整個銀行的貸款風險。

> 這項跨州發展我們目前只是踏出第一步，紐約區分行在兩千年的上半年，致力於將他們的資訊系統及作業系統與加州總行整合，其後開始熟悉彼此的經營理念。在另一方面，休士頓分行網絡的建立，所面臨挑戰，猶如高樓平地起。我們可以預見，這些外州分行需要在耐心的經營下，日後才會帶來可觀的回報。

> 隨著許多電子網路公司的倒閉，億萬投資金額頓成泡沫，人們才驚覺，所謂的「新」經濟體系與「舊」經濟體系之間僅存一線之隔——即「新」經濟只不過是提供高效率的資訊運送渠道。而「舊經濟」公司現已逐漸掌握採用這渠道來爲客戶提供產品與服務。國泰銀行從兩千年九月開始提

供網際網路金融服務。我們的商業客戶會發現本行的「電子金融理財」已包含汲汲營營的財務主管們所需的所有工具；一般客戶也定當在使用我們簡單易用的「電子銀行服務」後，感到非常滿意。而且，從兩千零一年二月起，國泰銀行透過Trade.com成爲首先提供電子股票交易的銀行之一。這三項電子區域的產品，爲國泰銀行客戶提供完整的銀行服務。透過網際網路全球化的金融業務經營，對我們既有遍佈世界各地的客戶，具有特殊的意義。

> 在財務上，我們的公司在兩千年四個季度中，與去年同季比較，再度達到兩位數字的增長，我們的全年的稅前收入較一九九九年增加了百分之二十一，達六千零四十萬元，而我們的稅後淨收入則增加百分之二十七，達三千八百六十萬元。每股稀釋普通股爲四點二五元，比較於一九九九年的三點三六元，增加百分之二十七。雖然本行槓桿比率持續成長，由九九年的百分之八點九三提升至兩千年終的百分之九點二八，我們的收作淨值成長仍由一九九九年的百分之十八點三一，提升到兩千年的百分之二十點零九。我們相信這種堅強有力的財務狀況，將使公司在併購的機會中得益，進一步擴展服務層面及經營版圖。

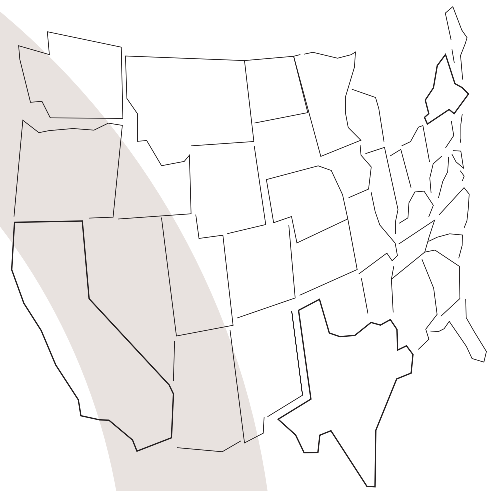
> 兩千年業績的大幅成長來自於淨貸款增長百分之十五，達十四億三千七百三十萬，與非利息收入增長百分之四十四，達一千兩百八十萬元。另一方面，我們在兩千年的非利息支出增加八百二十萬元，即百分之二十七，達三千八百五十萬元，這些支出主要是用於拓展在外州的新業務與在加州新成立的鑽石吧分行。

> 我們的總資產到兩千年底爲二十二億，較一九九九年增加百分之十一，而我們的存款增加一億五千四百七十萬元，成長百分之九，總存款達十八億七千六百四十萬元。繼一九九九年四月增加百分之二十的股息後，在兩千年十月，董事會通過決議，再將季度股息增加百分之十九，即四分，達到每季股息兩角五分的數目。儘管股息一再增長，但公司的股息支出比率反而由一九九九年的百分之二十四降到兩千年的百分之二十一，而股東淨值則增加百分之二十，達兩億一千四百八十萬元。

> 綜觀而言，美國的經濟在兩千零一年將加劇放緩，而使今年充滿挑戰，但在您的支持與指教下，我們將攜手努力，穩健前進，使我們的公司精益求精，更加茁壯。

董事長兼總裁　鄭家發　謹啓

we have Expanded



The Bank received recognition for its exceptional operating performance from a number of benchmarking agencies: Findley Reports, Sheshunoff Information Services, and Los Angeles Business Journal.

Year in Review

- In 2000, Cathay Bancorp, Inc.[1], the holding company of Cathay Bank, again demonstrated solid financial strength and leadership in the banking industry. With assets of $2.2 billion, Bancorp achieved its 18th consecutive quarter of year-over-year, double-digit earnings growth, reporting $38.6 million in net income, up 27% from 1999.
- The Bank received recognition for its exceptional operating performance from a number of benchmarking agencies. In May, it was rated a "Super Premier Performing Bank" by the Findley Reports, a nationally recognized bank research and rating firm headquartered in Anaheim, California. This rating is the highest given in California's banking industry and places Cathay Bank among the top banks for safety, strength and performance. In addition, the Bank was ranked as the most efficient bank in California by Sheshunoff Information Services, and as the fifth-largest commercial bank in Los Angeles County by the Los Angeles Business Journal.
- In October, Cathay Bancorp, Inc. became a component of the Nasdaq Financial-100 Index, listed on the Nasdaq National Market tier of the Nasdaq Stock Market. With Bancorp's market capitalization of $557 million, Cathay Bank became the largest Chinese-American bank that focuses primarily on the California market.

Branch Expansion and Customer Service

- In keeping with its market expansion strategy, the Bank converted its Houston loan production office to a full-service branch in December. Cathay Bank is the only Chinese-American financial institution offering full banking services to the burgeoning Asian communities in the three largest Chinese-American markets of the U.S.: California, New York and Texas.
- In 2000, the Bank focused strongly on customer service. It also continued to foster progressive sales management and service training, implementing new programs to recognize and reward employee performance. As a result, employees learned more than the basic service skills; they learned to think like owners of the Bank, which motivated them to become more efficient and serve customers better.

1 The business activities of Bancorp consist primarily of the operations of the Bank.

> In addition, Cathay Bank revised polices and streamlined procedures to improve the accuracy of customer transactions and make operations more efficient. It continued to upgrade and enhance its technological support systems, installing new teller systems at numerous branches to help front-line employees be more productive and expedite customer service by processing higher volumes of transactions.

New Products and Services

> Cathay Bank further reinforced its commitment to technology by developing customer-friendly Internet banking services—Cathay eBanking and Cathay eCashManagement Services.

> Since their introduction, these services have helped hundreds of customers manage their finances more efficiently and profitably. Customers can obtain on-line account information, pay bills, initiate wire and transfer funds, and meet other banking needs at the click of a mouse.

Alternative Investment Services

> Cathay Global Investment Services continued to implement its long-term strategy of customer acquisition with efficient marketing and employee referral program. The department is acknowledged for its superior customer service, as well as for its understanding of Asian customers' business needs.

> Cathay Global Investment Services offers a broad spectrum of investment vehicles, including mutual funds, annuities, bonds and money market accounts, through PrimeVest Financial Services. Building on its success, the Bank will expand its investment products and services to include term life insurance, estate planning, and asset management services in 2001. The investment service will extend its service area to New York, Houston, Hong Kong and Taiwan, expanding the Bank's customer base. In February 2001, Cathay Bank, in conjunction with Trade.com, became one of the first Chinese-American banks to offer Internet stock trading services.

International Banking

> Cathay Bank continues to be a major player in trade financing in California for the growing companies of the Pacific Rim. Fee income from international banking services increased by 27%, with outstanding international loan commitments exceeding $265,952,000.

> The Bank's leading-edge wire transfer service to China served close to 12,000 customers, totaling $26.1 million in transactions. Fee income increased 48.14% to $146,365. Another major source of fee generation within the international banking services was the Bank's foreign exchange services. During the year, the number of commercial and retail transactions increased 11.89%.

we are **Here**

>

we are **There**

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Cathay Bank is the only Chinese-American financial institution offering full banking services in the three largest Chinese-American markets of the U.S.: California, New York and Texas.

Real Estate Construction Lending

> The Bank has been a provider of construction financing in the State of California and maintains long-standing relationships with many of California's top developers. Its portfolio is diversified by project type and borrower. In 2000, its Commercial Real Estate Department continued to generate outstanding, record-earning growth, with fee income expanding by 57.85%. Departmental profitability increased 82.75%. Some of the major construction loan projects included:

- $28-million, commercial retail shopping center in Los Angeles
- $27-million, "high-tech" campus facility in Richmond
- $12-million, industrial complex in Carlsbad
- $11-million, commercial/retail development in Aliso Viejo Town Center
- $10-million, Courtyard by Marriott hotel in Los Altos

Community Involvement

- Cathay Bank puts a high premium on its relationship with the community, and demonstrates commitment at every level, from the involvement of individual staff, to a growing level of corporate contributions. In 2000, the Bank contributed nearly $80,000 to charitable organizations in support of human services, community economic development, education, civic needs and other philanthropic activities.
- To meet the credit needs of people in low-to-moderate income communities, the Bank participated in capital investments and loan pools of various community development corporations. To increase the availability of affordable housing, the Bank financed a $1-million construction loan for senior housing at Caesar Chavez Gardens and sponsored a $390,000 revitalization grant for the Pico Aliso public housing project.

we are Profitable

Bancorp achieved its 18th consecutive quarter of year-over-year, double-digit earnings growth, reporting $38.6 million in net income, up 27% from 1999.

In February 2001, Cathay Bank, in conjunction with Trade.com, became one of the first Chinese-American banks to offer Internet stock trading services.

In 2000, the Los Angeles City Council established a Business Development District to revitalize Chinatown. Cathay Bank was instrumental in its formation, as it donated $100,000 to the Los Angeles Chinatown Business Council. Mr. Patrick Lee, a Cathay Bancorp, Inc. board member and Mr. Wilson Tang, a bank officer, worked with other community leaders to make it a reality. The funding is to eradicate graffiti, increase private security patrols, sweep sidewalks and otherwise improve the area for Los Angeles Chinatown's 13,500 residents.

To improve the economic well-being of the local community, the Bank also invested a 99.9% limited partnership interest in the Wilshire Courtyard. This 102-unit housing facility is in close proximity to the Saint Barnabas Senior Center which houses special rooms for games, reading, classroom instruction and counseling for the urban elderly. It will be open for occupancy in April 2001.

In addition, the Bank actively encourages and supports volunteerism on the part of its employees. Organized events such as the Chinatown American Heart Walk received enthusiastic support from officers and employees alike.

Future Focus

As it enters the new millennium, Cathay Bank is hopeful about its future growth. Its key growth objectives are to:

- Build our branch network in New York and Texas;
- Adopt new technology to deliver value-added products and services, and to utilize technology to streamline and automate operations for greater efficiency;
- Enhance Internet banking and on-line investment services; and
- Expand offering of investments products.

With its strong balance sheet and management stability, Cathay Bank believes that it is well positioned to meet the many challenges that 2001 will bring.

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Selected Consolidated Financial Data

(dollars in thousands, except share and per share data)	Year ended December 31, 2000	1999	1998	1997	1996
Income Statement[1]					
Interest income	$ 164,553	$ 133,046	$ 123,309	$ 111,978	$ 86,098
Interest expense	74,156	57,408	57,225	50,874	39,209
Net interest income before provision for loan losses	90,397	75,638	66,084	61,104	46,889
Provision for loan losses	4,200	4,200	3,600	3,600	3,600
Net interest income after provision for loan losses	86,197	71,438	62,484	57,504	43,289
Securities gains (losses)	1,085	(3)	43	41	22
Other non-interest income	11,671	8,858	8,093	6,734	5,837
Non-interest expense	38,504	30,282	30,065	30,928	28,013
Income before income tax expense	60,449	50,011	40,555	33,351	21,135
Income tax expense	21,862	19,720	15,976	13,243	7,819
Net income	$ 38,587	$ 30,291	$ 24,579	$ 20,108	$ 13,316
Net income per common share					
Basic	$ 4.26	$ 3.36	$ 2.74	$ 2.26	$ 1.66
Diluted	$ 4.25	$ 3.36	$ 2.74	$ 2.26	$ 1.66
Cash dividends paid per common share	$ 0.880	$ 0.805	$ 0.700	$ 0.625	$ 0.600
Weighted average common shares					
Basic	9,056,751	9,013,428	8,967,188	8,915,936	8,017,398
Diluted	9,073,885	9,017,760	8,968,393	8,915,936	8,017,398
Statement of Condition					
Securities available-for-sale	$ 183,409	$ 160,991	$ 239,928	$ 216,158	$ 383,391
Securities held-to-maturity	387,200	426,332	418,156	350,336	210,129
Net loans[2]	1,437,307	1,245,585	961,876	846,151	744,384
Total assets	2,206,834	1,995,924	1,780,898	1,622,462	1,504,329
Deposits	1,876,447	1,721,736	1,560,402	1,449,121	1,364,740
Securities sold under agreements to repurchase	68,173	46,990	16,436	23,419	10,000
Advances from Federal Home Loan Bank	10,000	30,000	30,000	—	—
Stockholders' equity	214,787	179,109	156,652	135,877	118,446
Common Stock Data					
Shares of common stock outstanding	9,074,365	9,033,583	8,988,760	8,941,743	8,878,144
Book value per share	$ 23.67	$ 19.83	$ 17.43	$ 15.20	$ 13.34
Profitability Ratios					
Return on average assets	1.81%	1.63%	1.44%	1.29%	1.05%
Return on average stockholders' equity	20.09	18.31	17.00	15.63	13.06
Dividend payout ratio	20.66	23.95	25.55	27.65	36.14
Average equity to average assets ratio	9.03	8.89	8.47	8.25	8.04
Efficiency ratio	37.33	35.84	40.51	45.20	53.11

1 Includes the operating results of First Public Savings Bank, F.S.B. subsequent to the November 18, 1996, its acquisition date, and the selected assets and assumed deposits and liabilities of Golden City Commercial Bank subsequent to the December 10, 1999, their acquisition date.

2 Net loans represents gross loans net of loan participations sold, unamortized deferred loan fees and the allowance for loan losses.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion is intended to provide information to facilitate the understanding and assessment of the consolidated financial condition of Cathay Bancorp, Inc. ("Bancorp") and its subsidiary Cathay Bank (the "Bank" and together the "Company" or "we", "us" or "our") and their consolidated results of operations. It should be read in conjunction with the audited consolidated financial statements and footnotes appearing elsewhere in this report.

The following discussion, and other sections of this report, include forward-looking statements regarding management's beliefs, projections and assumptions concerning future results and events. These forward-looking statements may, but do not necessarily, also include words such as "believes", "expects", "anticipates", "intends", "plans", "estimates" or similar expressions. Forward-looking statements are not guarantees. They involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among other things, adverse developments or conditions related to or arising from:

- Our expansion into new market areas.
- Fluctuations in interest rates.
- Demographic changes.
- Increases in competition.
- Deterioration in asset or credit quality.
- Changes in the availability of capital.
- Adverse regulatory developments.
- Changes in business strategy or development plans, including plans regarding the registered investment company.
- General economic or business conditions.
- Other factors discussed in the section entitled "Factors that May Affect Future Results" later in this report.

Actual results in any future period may also vary from the past results discussed in this report. Given these risks and uncertainties, we caution readers not to place undue reliance on any forward-looking statements, which speak as of the date of this report. We have no intention and undertake no obligation to update any forward-looking statement or to publicly announce the results of any revision of any forward-looking statement to reflect future developments or events.

Results of Operations

We reported net income of $38.6 million or $4.25 per diluted common share for 2000, compared with $30.3 million or $3.36 per diluted common share for 1999 and $24.6 million or $2.74 per diluted common share for 1998. In 2000, pre-tax income increased $10.4 million or 21% to $60.4 million. The increases in 2000 were primarily due to the following:

- A $14.8 million or 20% increase in net interest income before provision for loan losses.
- A $3.9 million or 44% increase in non-interest income.
- A $8.2 million or 27% increase in non-interest expense.

In 1999, pre-tax income increased $9.5 million or 23% to $50.0 million. The increase in net interest income was primarily attributable to growth in interest and fees on loans.

The return on average assets and return on average stockholders' equity are presented below for the three years indicated:

	2000	1999	1998
Return on average assets	1.81%	1.63%	1.44%
Return on average stockholders' equity	20.09%	18.31%	17.00%

The increases in interest income, interest expense and net interest margin in 2000 and 1999 are discussed below:

Year 2000

Interest Income

Interest income increased $31.5 million or 24% to $164.6 million in 2000 primarily due to an increase of $32.6 million from interest income on loans to $126.3 million. The $32.6 million increase in interest income on loans was primarily attributable to the following:

- Increase in volume: Average net loans grew $224.6 million or 21% from $1,088.6 million in 1999 to $1,313.2 million in 2000. The growth contributed an additional $20.8 million to interest income. The increase in average net loans was funded primarily by growth in deposits, and secondarily by Federal funds purchased, securities sold under agreements to repurchase and proceeds from matured securities.
- Increase in rate: Average loan yield increased 101 basis points from 8.61% to 9.62%. This contributed $11.8 million to interest income. The increase in average loan yield was mainly a result of six consecutive interest rate increases by the Federal Reserve Board from the third quarter of 1999 to the second quarter of 2000, which led to a 124 basis point increase in our average reference rate from 8.24% to 9.48%. A majority of the Bank's loans reprice immediately.
- A change in the mix of interest earning assets: Loan demand remained strong in 2000. Average net loans, which yield higher than other types of investments, rose from 61.9% to 68.5% as a percentage of total interest earning assets. In comparison, average securities declined from 35.9% to 30.9% and average Federal funds sold and securities purchased under agreements to resell decreased from 2.2% to 0.6% as a percentage to total interest earning assets. Consequently, the average taxable equivalent yield on interest earning assets increased 95 basis points from 7.66% to 8.61%.

Interest Expense

Interest expense increased $16.7 million or 29% to $74.2 million, which was primarily attributable to an increase of $13.2 million in interest expense on time deposits.

Average time deposits grew $115.5 million or 12% to $1,117.4 million, of which $78.3 million were from time deposits over $100,000.

- The increase in average time deposits added $5.8 million to interest expense.
- The increase of 70 basis points in the average rate on time deposits from 4.69% to 5.39% added $7.5 million to interest expense. This was primarily due to the repricing of time deposits in response to the market rate changes.

Interest expense also increased on Federal funds purchased and securities sold under agreements to repurchase by $2.2 million in 2000. The increase was due to increase in average volume to $23.8 million and increase in average rate by 131 basis points from 4.99% to 6.30%. Accordingly, average cost of funds increased 60 basis points from 3.80% to 4.39%.

Net Interest Margin

As a result of the factors noted above, the net interest margin, defined as taxable equivalent net interest income to average interest-earning assets, increased 38 basis points from 4.39% in 1999 to 4.77% in 2000.

Year 1999

Interest Income

Interest income increased $9.7 million or 8% to $133.0 million in 1999 largely resulting from a $10.9 million increase in interest income on loans. The $10.9 million increase in loan interest income was primarily due to a combination of the following:

- Increase in volume: Average net loans grew $181.0 million or 20% to $1,088.6 million in 1999, which was funded primarily from increases in average deposits and secondarily from increases in other borrowed funds, proceeds from maturities of securities and cash. The increase in loan volume contributed an additional $15.8 million to interest income.
- Decrease in rate: The average yield on loans decreased 52 basis points from 9.13% in 1998 to 8.61% in 1999, which reduced the loan interest income by $4.9 million. The decrease in the average loan yield was primarily due to a 36 basis point drop in our average reference lending rate from 8.60% to 8.24% as a result of the Federal Reserve Board's fiscal policies. Another factor leading to lower average loan yield in 1999 was the increased competition in our marketplace.

Yields on other categories of interest-earning assets decreased as well due to the prevailing interest rate environment. As a result, the taxable equivalent average yield on interest-earning assets decreased 28 basis points to 7.66% in 1999 from 7.94% in 1998.

Interest Expense

Average cost of funds decreased 35 basis points from 4.15% in 1998 to 3.80% in 1999. The decrease in average cost of funds was substantially attributable to a decline of 37 basis points in average cost of deposits from 4.10% in 1998 to 3.73% in 1999. The decrease in average cost of deposits helped reduce $4.5 million in interest expense.

The decrease in interest expense due to rate reduction was partially offset by $3.7 million, due to an increase of $108.8 million in average interest bearing deposits from $1,317.5 million to $1,426.4 million.

Average balance on Federal Home Loan Bank advances increased $23.0 million, which added $1.1 million to interest expense in 1999.

Net Interest Margin

As a result of average cost of funds decreasing more than average yield on interest bearing assets, the net interest margin increased 9 basis points from 4.30% in 1998 to 4.39% in 1999.

Net Interest Income

Net interest income before provision for loan losses for 2000, 1999 and 1998 are summarized below:

	2000	1999	1998
Net interest income before provision for loan losses	$ 90,397	$ 75,638	$ 66,084
Net interest income before provision for loan losses, tax equivalent	$ 92,132	$ 77,301	$ 67,375

Changes Due to Rate and Volume[1]

(in thousands)	2000-1999 Increase (Decrease) in Net Interest Income Due to: Changes in Rate	Changes in Volume	Total Change	1999-1998 Increase (Decrease) in Net Interest Income Due to: Changes in Rate	Changes in Volume	Total Change
Interest Earning Assets						
Federal funds sold and securities purchased under agreements to resell	$ 389	$ (1,584)	$ (1,195)	$ (442)	$ (1,627)	$ (2,069)
Securities available-for-sale (Taxable)	1,441	1,147	2,588	(533)	(2,400)	(2,933)
Securities available-for-sale (Nontaxable)[2]	1	14	15	5	(12)	(7)
Securities held-to-maturity (Taxable)	150	(2,985)	(2,835)	(948)	3,947	2,999
Securities held-to-maturity (Nontaxable)[2]	(47)	60	13	(231)	1,461	1,230
Agency preferred stock[2]	—	314	314	—	—	—
Federal Home Loan Bank stock	145	(50)	95	(31)	26	(5)
Deposits with other banks	4	23	27	(5)	(15)	(20)
Loans[3]	11,801	20,756	32,557	(4,918)	15,832	10,914
Total	$ 13,884	$ 17,695	$ 31,579	$ (7,103)	$ 17,212	$ 10,109
Interest Bearing Liabilities						
Savings deposits, NOW accounts and others	$ 943	$ 606	$ 1,549	$ (1,934)	$ 140	$ (1,794)
Time deposits	7,468	5,766	13,234	(2,563)	3,513	950
Securities sold under agreements to repurchase	169	(820)	(651)	(193)	123	(70)
Other borrowed funds	—	2,874	2,874	3	(8)	(5)
Advances from Federal Home Loan Bank	3	(251)	(248)	4	1,117	1,121
Mortgage indebtedness	(7)	(3)	(10)	12	(31)	(19)
Total	$ 8,576	$ 8,172	$ 16,748	$ (4,671)	$ 4,854	$ 183
Changes in net interest income	$ 5,308	$ 9,523	$ 14,831	$ (2,432)	$ 12,358	$ 9,926

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

2 The amount of interest earned on certain securities of states and political subdivisions and other securities held have been adjusted to a fully taxable equivalent basis, using effective Federal income tax rate of 35%.

3 Amounts are net of unamortized deferred loan fees of $4,139,000 in 2000, $3,593,000 in 1999 and $3,631,000 in 1998.

Interest Earning Asset Mix

(dollars in thousands)	As of December 31, 2000 Amount	Percentage of Total Interest Earning Assets	As of December 31, 1999 Amount	Percentage of Total Interest Earning Assets	Amount Changed from 1999 to 2000	Percentage Changed from 1999 to 2000
Types of Interest Earning Assets						
Federal funds sold and securities purchased under agreements to resell	$ 19,000	0.94%	$ 5,000	0.27%	14,000	280.00%
Securities available-for-sale	183,409	9.04	160,991	8.76	22,418	13.93
Securities held-to-maturity	387,200	19.09	426,332	23.19	(39,132)	(9.18)
Deposits with other banks	899	0.04	568	0.03	331	58.27
Loans (net of unamortized deferred loan fees and allowance for loan losses)	1,437,307	70.89	1,245,585	67.75	191,722	15.39
Total interest earning assets	$2,027,815	100.00%	$1,838,476	100.00%	189,339	10.30%

Management's Discussion and Analysis of Financial Condition and Results of Operations continued

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

Interest Earning Assets and Interest Bearing Liabilities

(dollars in thousands)	Year ended December 31, 2000	1999	1998
Interest Earning Assets:			
Federal Funds Sold and Securities Purchased Under Agreements to Resell			
Average outstanding	$ 11,053	$ 38,013	$ 69,915
Average yield	6.21%	4.95%	5.65%
Amount of interest earned	$ 686	$ 1,881	$ 3,950
Securities Available-for-Sale, Taxable			
Average outstanding	$ 197,004	$ 178,188	$ 219,556
Average yield	6.49%	5.73%	5.98%
Amount of interest earned	$ 12,790	$ 10,202	$ 13,135
Securities Available-for-Sale, Nontaxable			
Average outstanding	$ 510	$ 345	$ 499
Average yield[2]	8.24%	7.83%	6.73%
Amount of interest earned	$ 42	$ 27	$ 34
Securities Held-to-Maturity, Taxable			
Average outstanding	$ 330,841	$ 378,753	$ 315,257
Average yield	6.20%	6.16%	6.45%
Amount of interest earned	$ 20,504	$ 23,339	$ 20,340
Securities Held-to-Maturity, Nontaxable			
Average outstanding	$ 69,478	$ 68,702	$ 48,757
Average yield[2]	7.41%	7.48%	7.92%
Amount of interest earned	$ 5,149	$ 5,136	$ 3,906
Agency Preferred Stock			
Average outstanding	$ 3,398	$ —	$ —
Average yield[2]	9.24%	—	—
Amount of interest earned	$ 314	$ —	$ —
Federal Home Loan Bank Stock			
Average outstanding	$ 5,858	$ 6,309	$ 5,841
Average yield	7.27%	5.25%	5.75%
Amount of interest earned	$ 426	$ 331	$ 336
Deposits with Other Banks			
Average outstanding	$ 1,124	$ 459	$ 958
Average yield	3.56%	2.83%	3.44%
Amount of interest earned	$ 40	$ 13	$ 33
Loans[1]			
Average outstanding	$1,313,177	$1,088,578	$ 907,627
Average yield[5]	9.62%	8.61%	9.13%
Amount of interest earned[5]	$ 126,337	$ 93,780	$ 82,866
Total Interest Earning Assets			
Average outstanding	$1,932,443	$1,759,347	$1,568,410
Average yield[5]	8.61%	7.66%	7.94%
Amount of interest earned[5]	$ 166,288	$ 134,709	$ 124,600

Interest Earning Assets and Interest Bearing Liabilities *continued*

(dollars in thousands)	Year ended December 31, 2000	1999	1998
Interest Bearing Liabilities:			
Savings Deposits[3]			
Average outstanding	$ 463,695	$ 424,500	$ 417,105
Average rate paid	1.67%	1.46%	1.92%
Amount of interest paid or accrued	$ 7,761	$ 6,212	$ 8,006
Time Deposits			
Average outstanding	$1,117,350	$1,001,878	$ 900,441
Average rate paid	5.39%	4.69%	5.11%
Amount of interest paid or accrued	$ 60,184	$ 46,950	46,000
Securities Sold Under Agreements to Repurchase			
Average outstanding	$ 39,831	$ 55,486	$ 53,104
Average rate paid	5.31%	4.99%	5.34%
Amount of interest paid or accrued	$ 2,115	$ 2,766	$ 2,836
Other Borrowed Funds			
Average outstanding	$ 44,297	$ 33	$ 181
Average rate paid	6.49%	6.06%	3.87%
Amount of interest paid or accrued	$ 2,876	$ 2	$ 7
Advances from Federal Home Loan Bank			
Average outstanding	$ 24,809	$ 30,000	$ 6,959
Average rate paid	4.86%	4.85%	4.79%
Amount of interest paid or accrued	$ 1,206	$ 1,454	$ 333
Mortgage Indebtedness			
Average outstanding	$ 160	$ 183	$ 440
Average rate paid[6]	8.75%	13.11%	9.77%
Amount of interest paid or accrued[6]	$ 14	$ 24	$ 43
Total Interest Bearing Liabilities			
Average outstanding	$1,690,142	$1,512,080	$1,378,230
Average rate paid	4.39%	3.80%	4.15%
Amount of interest paid or accrued	$ 74,156	$ 57,408	$ 57,225
Net interest earnings[7]	$ 92,132	$ 77,301	$ 67,375
Net yield on interest earnings assets[4,7]	4.77%	4.39%	4.30%
Yield spread[7]	4.22%	3.86%	3.79%

1 Nonaccrual loans are included in the average balances.

2 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 an effective Federal income tax rate of 35%.

3 Savings deposits include NOW accounts and money market accounts.

4 Calculated by dividing Net Interest Earnings by Average Outstanding Interest Earning Assets.

5 Yields and amounts of interest earned include loan fees.

6 Yield and amount of interest paid or accrued include interest paid on senior debts of other real estate owned, either to bring the loans current or to pay off the loans when the Company obtained title to the properties and thereafter.

7 Net interest earnings, net yield on earning assets and yield spread have been adjusted to a fully taxable equivalent basis using an effective Federal income tax rate of 35%.

Provision for Loan Losses

Management provided an additional $4.2 million for loan losses in each of 2000 and 1999, and an additional $3.6 million in 1998. Net charge-offs were $1.7 million for 2000, $668,000 for 1999 and $3.0 million for 1998.

Non-interest Income

Non-interest income totaled $12.8 million in 2000, $8.9 million in 1999 and $8.1 million in 1998. The increase of $3.9 million or 44% from 1999 to 2000 was primarily due to the following:

- A $1.1 million unrealized gain on a Forward Rate Agreement ("FRA") contract that was included in securities gains. The FRA was entered into on August 31, 2000 and settled on March 5, 2001.
- A $1.1 million increase in wire transfer fees due to increased transaction volume largely from our New York branches. We have operated these branches since December 1999.
- Increases in non-interest income due to normal growth of operations including, among others, increases in safe deposit box income, fees and charges related to loans and letter of credit commissions. Fee income from Cathay Global Investment Services' alternative investment program increased in 2000. This program was established in September 1999, and the year 2000 was its first full year of operation.

The increase of $719,000 or 9% from 1998 to 1999 primarily resulted from the following:

- Increase in letter of credit commissions due to increased transaction volume.
- Increase in fees and charges related to loans.
- Increase in wire transfer fees and miscellaneous income.
- Partially offsetting the above increases were decreases in service charges due to the Bank's outsourcing of its merchant bank card portfolio in the third quarter of 1998.

Non-interest Expense

Non-interest expense amounted to $38.6 million in 2000, $30.3 million in 1999 and $30.1 million in 1998. The $8.2 million or 27% increase in the 2000 non-interest expense was substantially attributable to the operations of the two new New York branches, which we have been operating since December 1999, and the new Diamond Bar branch in California, which opened for business in January 2000. The more significant items are discussed below:

- An increase of $3.6 million in salaries and employee benefits. The increase included additional payroll expense for the three new branches described above, annual salary adjustments and an additional $1.1 million in year-end bonuses in 2000.
- An increase of $1.2 million in net other real estate owned ("OREO") expense. The Bank recorded $1.5 million in net gains on sales of OREO properties in 1999 versus $263,000 in net gains on disposal in 2000.
- An increase of $1.1 million in other operating expense. These expenses included primarily operating supplies, communications, postage, travel, administrative, amortization of goodwill and general insurance expenses. The increase in these expenses was partially related to the growth of our operations, including the three new offices.
- An increase of $350,000 in operations of investments in real estate. This was due to higher expense in operations of investments in real estate arising from operational losses on low income housing.
- An increase of $460,000 in professional services expense. Professional services expenses consisted of, among other things, bank paid appraisal fees, delivery service, armored service, legal fees, accounting fees, consulting fees, computer related expense, facility management expense and fees related to the formation of the registered investment company.

Due to the foregoing, the efficiency ratio, defined as non-interest expense divided by net interest income before provision for loan losses plus non-interest income, increased to 37.33% in 2000 compared with 35.84% in 1999.

From 1998 to 1999, non-interest expense increased $217,000 or 0.7% primarily due to the following:

- An increase of $1.1 million in salaries and employee benefits. This was resulted primarily from higher year-end bonus expense and overall annual salary increases.
- A decrease of $572,000 in other operating expense. The decrease in other operating expense was primarily due to the Bank's outsourcing of its merchant bank card portfolio in the third quarter of 1998.
- An increase of $291,000 in net OREO income. The Bank realized $1.5 million in gains on sale of OREO properties leading to a net OREO income of $1.4 million in 1999, compared with $1.1 million of net OREO income in 1998.

The efficiency ratio improved from 40.51% in 1998 to 35.84% in 1999.

Income Tax Expense

Our effective tax rates were 36.17% in 2000, 39.43% in 1999 and 39.39% in 1998. The decline in our 2000 effective tax rate was due primarily to the impact of the formation of a registered investment company subsidiary that provides flexibility to raise additional capital in a tax efficient manner. The long-term plan for the registered investment company is currently under review. There can be no assurance that the subsidiary will continue to be a registered investment company, that any past tax benefit will continue or as to our timing or ability to raise capital through this subsidiary.

Financial Condition Overview

We continued our steady growth during 2000. Changes of the major balance sheet items during 2000 are listed below:

- Total assets increased 11% to $2,206.8 million.
- Total net loans grew 15% to $1,437.3 million.
- Securities available-for-sale increased 14% to $183.4 million.
- Securities held-to-maturity decreased 9% to $387.2 million.
- Total deposits increased 9% to $1,876.4 million.
- Federal funds purchased and securities sold under agreements to repurchase increased 45% to $68.2 million.
- Stockholders' equity rose 20% to $214.8 million.

Securities

Under our investment policy, we classify the Bank's investment securities portfolio as follows:

- Those securities which we have the positive intent and ability to hold until maturity are classified as securities held-to-maturity, and carried at amortized cost.
- Those securities may be sold in response to changes in interest rates, changes in prepayment risk, increases in loan demand, the need to increase regulatory capital, general liquidity needs, or other similar factors are classified as securities available-for-sale, and carried at estimated fair value, with unrealized gains or losses, net of tax, reflected in stockholders' equity.
- Securities held-to-maturity are transferred to the available-for-sale category when they are within 90 days of maturity to further enhance the Bank's liquidity.

Securities available-for-sale increased $22.4 million or 14% to $183.4 million at year-end 2000 from $161.0 million at year-end 1999. Securities held-to-maturity decreased $39.1 million or 9% to $387.2 million at year-end 2000 from $426.3 million at year-end 1999.

Average securities as a whole decreased $25 million or 4% to $607.1 million from 1999 to 2000 primarily due to proceeds from some matured or called securities not being reinvested to meet strong loan demand.

Management constantly seeks to maximize the yields on interest-earning assets within the Company's investment guidelines. As a result, we increased our holdings of U.S. government agencies and corporate bonds with longer maturities at year-end 2000 compared with year-end 1999.

The average taxable equivalent yield on securities rose 28 basis points to 6.45% in 2000, compared to 6.17% in 1999 as some matured securities were replaced at higher prevailing interest rates.

At year-end 2000, we had $4.0 million in unrealized holding gains on securities available-for-sale compared with unrealized holding losses of $1.7 million at year-end 1999. These unrealized holding gains or losses, net of tax effect, were included in the Company's stockholders' equity for the periods reported. The unrealized holding gains, net of tax, were $2.3 million at year-end 2000 and the unrealized holding losses, net of tax, were $1.0 million at year-end 1999. The unrealized holding gains at year-end 2000 resulted from the decreasing interest rate environment in the fourth quarter of 2000.

The following table summarizes the carrying value of our portfolio of securities for each of the past three years:

(in thousands)	As of December 31, 2000	1999	1998
Securities Available-for-Sale:			
U.S. Treasury securities	$ —	$ 25	$ 2,014
U.S. government agencies	78,317	40,218	103,020
State and municipal securities	1,277	540	22,317
Mortgage-backed securities	13,207	14,634	18,266
Collateralized mortgage obligations	5,804	7,823	14,159
Asset-backed securities	10,370	16,448	8,220
Federal Home Loan Bank stock	5,613	6,851	5,991
Commercial paper	—	40,076	29,945
Corporate bonds	60,370	34,376	35,996
Equity securities	8,451	—	—
Total	$ 183,409	$ 160,991	$ 239,928
Securities Held-to-Maturity:			
U.S. Treasury securities	$ —	$ 24,998	$ 26,026
U.S. government agencies	64,689	64,373	54,426
State and municipal securities	68,820	68,834	61,495
Mortgage-backed securities	135,494	133,282	146,018
Collateralized mortgage obligations	48,694	63,397	83,535
Asset-backed securities	13,156	19,999	—
Corporate bonds	56,347	51,449	46,656
Total	$ 387,200	$ 426,332	$ 418,156

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

Securities Available-for-Sale Portfolio Maturity Distribution and Yield Analysis:

	As of December 31, 2000				
(dollars in thousands)	One Year or Less	After One Year to Five Years	After Five Years to Ten Years	Over Ten Years	Total
Maturity Distribution:					
U.S. government agencies	$ —	$ 17,081	$ 61,236	$ —	$ 78,317
State and municipal securities	1,277	—	—	—	1,277
Mortgage-backed securities[2]	2,214	512	1,696	8,785	13,207
Collateralized mortgage obligations[2]	—	—	2,618	3,186	5,804
Asset-backed securities[2]	462	—	9,908	—	10,370
Corporate bond	11,496	41,691	7,183	—	60,370
Equity securities	8,451	—	—	—	8,451
Federal Home Loan Bank stock	5,613	—	—	—	5,613
Total	$ 29,513	$ 59,284	$ 82,641	$ 11,971	$ 183,409
Weighted Average Yield:					
U.S. government agencies	—%	8.00%	7.27%	—%	7.43%
States and municipal securities[1]	8.52	—	—	—	8.52
Mortgage-backed securities[2]	4.43	6.06	6.59	7.34	6.65
Collateralized mortgage obligations[2]	—	—	6.08	6.49	6.30
Asset-backed securities[2]	6.48	—	5.70	—	5.74
Corporate bond	5.47	6.82	7.56	—	6.64
Equity securities	6.76	—	—	—	6.76
Federal Home Loan Bank stock	7.15	—	—	—	7.15
Total	6.16%	7.15%	7.04%	7.09%	6.95%

1 Average yield has been adjusted to a fully-taxable equivalent basis.

2 Securities reflect stated maturities and not anticipated prepayments.

Securities Held-to-Maturity Portfolio Maturity Distribution and Yield Analysis:

	As of December 31, 2000				
(dollars in thousands)	One Year or Less	After One Year to Five Years	After Five Years to Ten Years	Over Ten Years	Total
Maturity Distribution:					
U.S. government agencies	$ —	$ 54,699	$ 9,990	$ —	$ 64,689
State and municipal securities	2,312	8,961	23,667	33,880	68,820
Mortgage-backed securities[2]	1,140	7,410	60,042	66,902	135,494
Collateralized mortgage obligations[2]	—	—	39,234	9,460	48,694
Asset-backed securities[2]	—	13,156	—	—	13,156
Corporate bonds	4,001	42,150	10,196	—	56,347
Total	$ 7,453	$ 126,376	$ 143,129	$ 110,242	$ 387,200
Weighted Average Yield:					
U.S. government agencies	—%	6.17%	7.53%	—%	6.38%
State and municipal securities[1]	7.21	8.71	7.96	6.71	7.42
Mortgage-backed securities[2]	5.91	6.25	6.14	7.05	6.60
Collateralized mortgage obligations[2]	—	—	6.64	6.39	6.59
Asset-backed securities[2]	—	5.61	—	—	5.61
Corporate bonds	6.95	5.91	7.38	—	6.14
Total	6.87%	6.21%	6.74%	6.89%	6.61%

1 Average yield has been adjusted to a fully-taxable equivalent basis.

2 Securities reflect stated maturities and not anticipated prepayments.

Loans

Loan demand remained strong throughout year 2000. Total gross loans grew $194.7 million or 15% to $1,463.4 million at year-end 2000, compared with $1,268.7 million at year-end 1999. The growth was primarily attributable to the following:

- Real estate construction loans increased $79.5 million or 127% to $142.0 million. Although the California economy began to moderate in the third quarter of 2000, it still continued to be strong compared to other regions in the country. Consequently, construction loan demand increased for both residential and commercial real estate in California in 2000. Our construction loan projects are located primarily in California and secondarily in Texas and Nevada. The construction loan projects in Texas and Nevada totaled approximately $19 million. As of December 31, 2000, we had approximately $58 million in construction loan commitments.
- Commercial mortgage loans increased $53.1 million or 9% to $630.7 million. Commercial mortgage loans are typically secured by first deeds of trust on the respective commercial properties, including primarily commercial retail properties, shopping centers and owner-occupied industrial facilities, and secondarily office buildings, multiple-unit apartments, hotels and motels. The Company's underwriting policy for commercial mortgage loans generally requires that the loan-to-value ratio at the time of origination not exceed 70 percent of the appraised value of the property, and that there be an adequate debt service coverage ratio. In view of recent general economic slowdown, management has tightened the lending standards for commercial mortgage loans as well as construction loans.
- Commercial loans gained $47.0 million or 12% to $442.2 million. Commercial loans are for general business purposes and include short-term loans to finance trade. General business loans are made based on the financial strength of the borrowers. Trade finance loans are typically secured by companies' accounts receivables and inventories. We target our commercial lending to small-to-medium businesses and professionals for their working capital needs.
- Residential mortgage loans advanced $13.2 million or 6% to $220.7 million. These loans included home equity lines of $33.8 million. The growth in residential mortgage loans in 2000 was largely due to new purchases.

Management's Discussion and Analysis of Financial Condition and Results of Operations continued

Our Board of Directors establishes the basic lending policy for the Bank. Each loan is generally considered in terms of, among other things, character, repayment ability, financial condition of the borrower, secondary repayment source, collateral, capital, leverage capacity of the borrower, market conditions for the borrower's business or project, and prevailing economic trends and conditions. For real estate loans, our lending policy requires an independent appraisal on real estate property in accordance with regulatory guidelines.

The classification of loans by type as of December 31 for each of the past five years, as well as the changes in loan portfolio composition for the past two years and the contractual maturity of the loan portfolio as of December 31, 2000 are presented below:

Loan Type and Mix

	Amount outstanding as of December 31,				
(in thousands)	2000	1999	1998	1997	1996
Type of Loans:					
Commercial loans	$ 442,181	$ 395,138	$ 370,539	$ 338,285	$ 283,894
Residential mortgage loans	220,720	207,725	184,158	154,692	134,966
Commercial mortgage loans	630,662	577,384	356,608	303,725	285,349
Real estate construction loans	142,048	62,516	40,738	41,736	33,510
Installment loans	27,329	25,498	29,165	26,611	23,551
Other loans	473	419	269	267	385
Gross loans	1,463,413	1,268,680	981,477	865,316	761,655
Less					
Unamortized deferred loan fees	(4,139)	(3,593)	(3,631)	(3,786)	(3,742)
Allowance for loan losses	(21,967)	(19,502)	(15,970)	(15,379)	(13,529)
Net loans	$1,437,307	$1,245,585	$ 961,876	$ 846,151	$ 744,384

Changes in Loan Portfolio Composition

	As of December 31, 2000		As of December 31, 1999		
(dollars in thousands)	Amount	Percentage of Total Loans	Amount	Percentage of Total Loans	Percentage Increase (Decrease)
Type of Loans:					
Commercial loans	$ 442,181	30.77%	$ 395,138	31.72%	11.91%
Residential mortgage loans	220,720	15.36	207,725	16.68	6.26
Commercial mortgage loans	630,662	43.88	577,384	46.35	9.23
Real estate construction loans	142,048	9.88	62,516	5.02	127.22
Installment loans	27,329	1.90	25,498	2.05	7.18
Other loans	473	0.03	419	0.03	12.89
Unamortized deferred loan fees	(4,139)	(0.29)	(3,593)	(0.29)	15.20
Allowance for loan losses	(21,967)	(1.53)	(19,502)	(1.56)	12.64
Net loans	$1,437,307	100.00%	$1,245,585	100.00%	15.39%

Contractual Maturity of Loan Portfolio[1,2]

(in thousands)	Within One Year	One to Five Years	Over Five Years	Total
Commercial Loans				
Floating rate	$ 298,443	$ 43,488	$ 14,582	$ 356,513
Fixed rate	56,379	13,900	14,923	85,202
Real Estate Residential Mortgage Loans				
Floating rate	81	525	49,263	49,869
Fixed rate	234	8,633	161,254	170,121
Real Estate Commercial Mortgage Loans				
Floating rate	40,126	176,431	269,157	485,714
Fixed rate	8,533	49,044	85,248	142,825
Real Estate Construction Loans				
Floating rate	93,459	34,193	—	127,652
Fixed rate	13,576	—	—	13,576
Installment Loans				
Floating rate	—	29	—	29
Fixed rate	7,516	19,784	—	27,300
Other Loans				
Floating rate	—	—	—	—
Fixed rate	469	—	4	473
Total loans	$ 518,816	$ 346,027	$ 594,431	$1,459,274
Floating rate	$ 432,109	$ 254,666	$ 333,002	$1,019,777
Fixed rate	86,707	91,361	261,429	439,497
Total loans	$ 518,816	$ 346,027	$ 594,431	$1,459,274
Allowance for loan losses				(21,967)
Net loans				$1,437,307

1 In the normal course of business, loans are renewed, extended or prepaid from time to time; therefore, the above should not be viewed as an indication of future cash flows.

2 Loans are net of unamortized deferred loan fees.

Risk Elements of the Loan Portfolio

Non-performing Assets Non-performing assets include loans past due 90 days or more and still accruing interest, nonaccrual loans, and OREO.

Our non-performing assets decreased $1.3 million or 6% to $20.5 million at year-end 2000 as compared to $21.8 million at year-end 1999. The decrease was due to a combination of the following:

- A decrease of $3.1 million in loans past due 90 days or more and still accruing interest.
- An increase of $1.0 million in nonaccrual loans.
- An increase of $837,000 in OREO.

As a percentage of gross loans plus OREO, our non-performing assets decreased to 1.39% at year-end 2000 from 1.71% at year-end 1999. The non-performing loan coverage ratio, defined as the allowance for loan losses to non-performing loans, increased to 143.72% at year-end 2000, which was considerably higher than that of 111.95% at year-end 1999. This was primarily due to the reduction of $2.1 million in the non-performing loans from $17.4 million to $15.3 million.

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 close supervision with consideration given to placing the loan on nonaccrual status, the need for an additional allowance for loan losses, and (if appropriate) partial or full charge-off.

Our policy is to place loans on a nonaccrual 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 nonaccrual status, any interest accrued in the previous three months, is generally reversed against current income. The payment received is generally first applied towards the principal. 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.

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

Nonaccrual, Past Due and Restructured Loans

	December 31,				
(dollars in thousands)	2000	1999	1998	1997	1996
Accruing loans past due 90 days or more	$ 589	$ 3,724	$ 4,683	$ 2,373	$ 2,050
Nonaccrual loans	14,696	13,696	13,090	16,886	9,305
Total non-performing loans	15,285	17,420	17,773	19,259	11,355
Real estate acquired in foreclosure	5,174	4,337	10,454	13,269	18,854
Total non-performing assets	$ 20,459	$ 21,757	$ 28,227	$ 32,528	$ 30,209
Troubled debt restructurings[1]	$ 4,531	$ 4,581	$ 4,642	$ 4,874	$ 3,201
Non-performing assets as a percentage of gross loans and other real estate owned at year-end	1.39%	1.71%	2.85%	3.70%	3.87%
Allowance for loan losses as a percentage of non-performing loans	143.72%	111.95%	89.86%	79.85%	119.15%

1 Troubled debt restructurings are accruing interest at their restructured terms.

The effect of nonaccrual loans and troubled debt restructurings on interest income for the years 2000, 1999, 1998, 1997 and 1996 is presented below:

(in thousands)	2000	1999	1998	1997	1996
Nonaccrual Loans					
Contractual interest due	$ 1,408	$ 1,396	$ 1,395	$ 1,845	$ 1,121
Interest recognized	627	234	112	471	268
Net interest foregone	$ 781	$ 1,162	$ 1,283	$ 1,374	$ 853

(in thousands)	2000	1999	1998	1997	1996
Troubled Debt Restructurings					
Contractual interest due	$ 422	$ 429	$ 421	$ 406	$ 339
Interest recognized	407	414	412	387	311
Net interest foregone	$ 15	$ 15	$ 9	$ 19	$ 28

Nonaccrual Loans Nonaccrual loans were $14.7 million at year-end 2000 and $13.7 million at year-end 1999. They consisted mainly of $9.5 million in commercial loans and $4.9 million in commercial mortgage loans at year-end 2000, and $6.8 million in commercial loans and $6.2 million in commercial mortgage loans at year-end 1999.

The following tables present the type of properties securing the loans and the type of businesses the borrowers engaged in under commercial mortgage and commercial nonaccrual loan categories as of the dates indicated:

	December 31, 2000 Nonaccrual Loan Secured by Real Estate Property		December 31, 1999 Nonaccrual Loan Secured by Real Estate Property	
(in thousands)	Commercial Mortgage	Commercial	Commercial Mortgage	Commercial
Type of Property				
Single/multi-family residence	$ 174	$ 531	$ 1,014	$ 628
Commercial	2,277	1,139	4,971	5,425
Land	2,403	—	—	—
UCC	—	7,083	—	—
Others	—	540	186	307
Unsecured	—	231	—	392
Total	$ 4,854	$ 9,524	$ 6,171	$ 6,752

	December 31, 2000 Nonaccrual Loan Balance		December 31, 1999 Nonaccrual Loan Balance	
	Commercial Mortgage	Commercial	Commercial Mortgage	Commercial
Type of Business				
Real estate development	$ 2,648	$ 166	$ 354	$ 347
Real estate management	—	—	4,366	100
Wholesale/retail	174	4,798	—	896
Food/restaurant	—	2,005	—	889
Import	—	2,092	621	3,307
Motel	—	—	425	—
Investments	2,032	—	334	—
Manufacturing	—	220	—	270
Others	—	243	71	943
Total	$ 4,854	$ 9,524	$ 6,171	$ 6,752

Commercial Mortgage Nonaccrual Loans

- The balance of $2.3 million consisted of four credits secured by first trust deeds on respective commercial properties.
- The balance of $2.4 million represented one credit secured by first trust deed on land.

Commercial Nonaccrual Loans

- The balance of $7.1 million comprised eight credits secured by borrowers' assets, mainly accounts receivables and inventories.
- The balance of $1.1 million consisted of five credits secured primarily by first trust deeds on commercial buildings and warehouses.

Troubled Debt Restructurings A troubled debt restructuring is a formal restructure 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, and extension of the maturity date.

Our troubled debt restructurings decreased slightly to $4.5 million at year-end 2000, compared with $4.6 million at year-end 1999. All of the troubled debt restructurings at year-end 2000 were commercial mortgage loans and were accruing interest under their revised terms.

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.

We consider all loans classified and restructured in our evaluation of loan impairment. The classified loans are stratified by size, and loans less than our defined selection criteria 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. If the measurement of the impaired loan is less than the recorded amount of the loan, we then recognize an impairment by creating or adjusting an existing valuation allowance with a corresponding charge to the provision for loan losses.

We identified impaired loans with a recorded investment of $27.8 million at year-end 2000, compared to $26.3 million at year-end 1999. The average balance of impaired loans was $29.5 million and interest collected on impaired loans totaled $2.1 million in 2000.

Loan Concentration We have no loan concentrations to multiple borrowers in similar activities that exceeded 10% of total loans as of December 31, 2000.

See "Factors That May Affect Future Results" below for a discussion of some of the factors that may affect the matters discussed in this Section.

Allowance for Loan Losses The allowance for loan losses amounted to $22.0 million or 1.50% of total loans at year-end 2000, representing an increase of $2.5 million or 13% over the $19.5 million or 1.54% of total loans at year-end 1999. The Bank recorded net charge-offs of $1.7 million in 2000, up from $668,000 in 1999. Nonetheless, the non-performing coverage ratio increased to 143.72% in 2000, up from 111.95% in 1999 primarily due to a reduction of $2.1 million in the non-performing loans. The tables below present information relating to the allowance for loan losses, charge-offs, and recoveries by loan type for the past five years:

Allowance for Loan Losses

	Amount outstanding as of December 31,				
(dollars in thousands)	2000	1999	1998	1997	1996
Balance at beginning of year	$ 19,502	$ 15,970	$ 15,379	$ 13,528	$ 12,742
Allowance from acquisition	—	—	—	—	1,644
Provision for loan losses	4,200	4,200	3,600	3,600	3,600
Loans charged-off	(1,905)	(1,731)	(3,519)	(2,139)	(5,388)
Recoveries of charged-off loans	170	1,063	510	390	930
Balance at end of year	$ 21,967	$ 19,502	$ 15,970	$ 15,379	$ 13,528
Average loans outstanding during year ended	$1,313,177	$1,088,578	$ 907,639	$ 792,176	$ 579,634
Ratio of net charge-offs to average loans outstanding during the year	0.13%	0.06%	0.33%	0.22%	0.77%
Provision for loan losses to average loans outstanding during the year	0.32%	0.39%	0.40%	0.45%	0.62%
Allowance to non-performing loans at year-end	143.72%	111.95%	89.86%	79.85%	119.15%
Allowance to total loans at year-end	1.50%	1.54%	1.63%	1.78%	1.78%

Loans Charged-off by Loan Type[1]

(dollars in thousands)	Year ended December 31, 2000	1999	1998	1997	1996
Commercial loan	$ 537	$ 1,116	$ 2,394	$ 1,387	$ 4,010
Percentage of total commercial loans	0.12%	0.28%	0.65%	0.41%	1.41%
Real estate loan	$ 1,066	$ 388	$ 873	$ 574	$ 1,177
Percentage of total real estate loans	0.11%	0.05%	0.15%	0.11%	0.26%
Installment and other loan	$ 302	$ 227	$ 252	$ 178	$ 201
Percentage of total installment and other loans	1.09%	0.88%	0.86%	0.66%	0.84%
Total loans charged-off	$ 1,905	$ 1,731	$ 3,519	$ 2,139	$ 5,388

1 Percentages were calculated based on year-end balances.

Recoveries by Loan Type

(in thousands)	Year ended December 31, 2000	1999	1998	1997	1996
Commercial loan	$ 74	$ 761	$ 188	$ 219	$ 640
Real estate loan	3	181	280	111	205
Installment and other loan	93	121	42	60	85
Total	$ 170	$ 1,063	$ 510	$ 390	$ 930

We have established a monitoring system for our loans that seeks to identify impaired and potential problem loans and to permit periodic evaluation of impairment and the adequacy of the allowance for loan losses in a timely manner. The monitoring system and methodology have evolved over a period of years, and loan classifications have been incorporated into the determination of the level of allowance. This monitoring system and allowance methodology include a loan-by-loan analysis for significant classified loans and loss factors for the balance of the portfolio that are based on historical loss trend analysis relative to our unclassified portfolio, other factors such as current portfolio delinquency and trends, and other inherent risk factors including economic conditions and concentrations in the portfolio risk levels of particular loan categories. Our allowance for loan losses consists of the following:

- Specific allowances: For impaired loans, we provide specific allowances based on an evaluation of impairment. For other classified loans, we allocate a portion of the general allowance to each impaired loan based on a loss percentage assigned. The percentage assigned depends on a number of factors including the current financial condition of the borrowers and guarantors, the prevailing value of the underlying collateral, charge-off history, management's knowledge of the portfolio and general economic conditions.
- General allowance: The unclassified portfolio is categorized by loan types. The allocation is arrived by assigning a loss percentage to each loan type based on an evaluation of the degree of inherent risk, potential loan losses and other significant risk factors inherent in the loans.

The following tables present a breakdown of impaired loans and the related allowances as of the dates indicated:

2000 (in thousands)	Recorded Investment	Allowance	Net Balance
Commercial	$ 13,868	$ 3,682	$ 10,186
Commercial mortgage	13,208	1,881	11,327
Other	742	133	609
Total	$ 27,818	$ 5,696	$ 22,122

1999 (in thousands)	Recorded Investment	Allowance	Net Balance
Commercial	$ 12,686	$ 1,831	$ 10,855
Commercial mortgage	13,412	1,912	11,500
Other	181	181	—
Total	$ 26,279	$ 3,924	$ 22,355

We allocate the allowance for loan losses to the major loan categories as set forth in the following table. These allocations are estimates based on historical loss experience and management's judgment. The allocation of the allowance for loan losses is not necessarily an indication that the charge-offs will occur, or if they do occur, that they will be in the proportion indicated in the following table:

	As of December 31,									
	2000		1999		1998		1997		1996	
(dollars in thousands)	Amount	Percentage of loans in each category to average gross loans	Amount	Percentage of loans in each category to average gross loans	Amount	Percentage of loans in each category to average gross loans	Amount	Percentage of loans in each category to average gross loans	Amount	Percentage of loans in each category to average gross loans
Type of Loans:										
Commercial loans	$10,231	30.00%	$8,546	35.06%	$7,468	38.58%	$7,480	39.20%	$6,190	37.27%
Residential mortgage loans	808	15.61	1,743	18.15	1,901	18.46	1,549	17.81	1,517	17.72
Commercial mortgage loans	8,564	45.25	7,781	39.95	5,815	35.16	5,439	35.07	5,424	37.47
Real estate construction loans	1,855	7.11	843	4.30	365	4.77	401	4.80	294	4.40
Installment loans	380	1.99	464	2.46	414	2.98	356	3.09	72	3.09
Other loans	129	0.04	125	0.08	7	0.05	154	0.03	31	0.05
Total	$21,967	100.00%	$19,502	100.00%	$15,970	100.00%	$15,379	100.00%	$13,528	100.00%

Based on our evaluation process and the methodology to determine the level of the allowance for loan losses mentioned previously, management believes the allowance for loan losses to be adequate as of December 31, 2000 to absorb estimable and probable losses identified through its analysis. See "Factors That May Affect Future Results" below for a discussion of some of the factors that may affect the matters discussed in this Section.

Other Real Estate Owned Our OREO, net of a valuation allowance of $131,000, was carried at $5.2 million at year-end 2000 compared with OREO, net of a valuation allowance of $614,000, being carried at $4.3 million at year-end 1999.

During 2000, we acquired six properties in the amount of $5.3 million and disposed of nine properties totaling $5.0 million with a net gain of $263,000. There were five outstanding OREO properties at year-end 2000, which included land, commercial buildings, and a single family residence. All properties are located in California.

We maintain a valuation allowance for OREO properties to reduce the carrying value of OREO to the estimated fair value of the properties less estimated costs to sell. We perform periodic evaluations on each property and make corresponding adjustments to the valuation allowance, if necessary. Any decline in value is recognized by a corresponding increase to the valuation allowance in the current period. Management provided approximately $71,000 to the provision for OREO losses in 2000.

We recognized net income of $185,000 in 2000, $1.4 million in 1999 and $1.1 million in 1998 from operating our OREO properties. Net gains on sales of OREO properties was $263,000 in 2000, $1.5 million in 1999 and $1.0 million in 1998. In addition to the gains on sales, we also received rental income of $311,000 in 2000, $575,000 in 1999 and $748,000 in 1998. These amounts were partially offset by operating expenses of $318,000 and the provision for OREO losses of $71,000 in 2000, by operating expenses of $369,000 and the provision for OREO losses of $339,000 in 1999 and by operating expenses of $426,000 and the provision for OREO losses of $195,000 in 1998.

Although the California real estate market continued to show strength in 2000, the market started to moderate in the last quarter and may continue to slow in future periods. The future performance of the market is unpredictable. See "Factors That May Affect Future Results" below for a discussion of some of the factors that may affect the matters discussed in this Section.

The following table shows the OREO expense by type for years 2000, 1999 and 1998:

(in thousands)	2000	1999	1998
Operating expense (income)	$ 7	$ (206)	$ (321)
Provision for losses	71	339	195
Net gain on disposal	(263)	(1,549)	(999)
Total	$ (185)	$ (1,416)	$ (1,125)

Investments in Real Estate Investments in real estate increased $361,000 to $17.3 million at year-end 2000, from $17.0 million at year-end 1999. They consisted of investments in four limited partnerships formed for the purpose of investing in low income housing projects, which qualify for Federal low income housing tax credits and/or California tax credit.

The following table summarizes the composition of investments in real estate as of the dates indicated:

	Percentage of	Acquisition	December 31,	
(dollars in thousands)	Ownership	Date	2000	1999
Las Brisas	49.50%	12/93	$ 189	$ 209
Los Robles	99.00%	08/95	393	431
California tax credit fund	36.00%	03/99	14,127	14,841
Wilshire Courtyard	99.90%	05/99	2,639	1,506
			$ 17,348	$ 16,987

Deposits Total deposits increased $154.7 million or 9% from $1,721.7 million at year-end 1999 to $1,876.4 million at year-end 2000.

- Core deposits increased $65.1 million or 6%. Contributing to the growth in core deposits were primarily increases in demand deposits and money market accounts arising from various bank promotions. Time deposits under $100,000 also increased $17.3 million, which contributed to 26% of the increase of core deposits.
- Time deposits of $100,000 or more ("Jumbo CDs") increased $89.6 million or 13%. The growth was largely attributable to deposits received from the State of California in the fourth quarter of 2000, totaling $68 million.

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

Deposit Mix

	Year ended December 31,					
	2000		1999		1998	
(dollars in thousands)	Amount	Percentage	Amount	Percentage	Amount	Percentage
Demand	$ 221,805	11.82%	$ 195,140	11.33%	$ 178,068	11.41%
NOW accounts	125,647	6.70	121,394	7.05	114,982	7.37
Money market accounts	119,805	6.38	97,821	5.68	113,869	7.30
Savings deposits	231,761	12.36	236,764	13.75	207,365	13.29
Time deposits under $100	379,809	20.24	362,553	21.06	326,968	20.95
Time deposits of $100 or more	797,620	42.50	708,064	41.13	619,150	39.68
Total	$ 1,876,447	100.00%	$ 1,721,736	100.00%	$ 1,560,402	100.00%

Average deposits grew $197.6 million or 12% from $1,595.4 million in 1999 to $1,793.0 million in 2000.

- Average core deposits increased $119.3 million or 13%.
- Average Jumbo CDs increased $78.3 million or 12%.

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

Average Deposits and Rates

(dollars in thousands)	2000 Amount	2000 Percentage	1999 Amount	1999 Percentage	1998 Amount	1998 Percentage	1997 Amount	1997 Percentage	1996 Amount	1996 Percentage
Demand	$ 211,975	—%	$ 169,013	—%	$ 166,657	—%	$ 148,907	—%	$ 121,952	—%
NOW accounts	122,851	1.2	117,374	1.2	111,900	1.4	114,453	1.5	96,759	1.5
Money market accounts	112,817	2.3	99,628	1.6	99,833	2.1	97,470	2.3	100,898	2.3
Savings deposits	228,027	1.6	207,498	1.5	205,372	2.1	216,840	2.2	151,284	2.3
Time deposits	1,117,350	5.4	1,001,878	4.7	900,441	5.1	820,310	5.1	632,211	5.0
Total	$1,793,020	3.8%	$1,595,391	3.3%	$1,484,203	3.6%	$1,397,980	3.6%	$1,103,104	3.5%

As interest rate spreads broadened between Jumbo CDs and other types of interest-bearing deposits under the prevailing interest rate environment, our Jumbo CD portfolio continued to grow faster than other types of deposits. Management believes our Jumbo CDs are generally less volatile primarily due to the following reasons:

- Approximately 50% of the Bank's Jumbo CDs have stayed with the Bank for more than two years.
- The Jumbo CD portfolio continued to be diversified with 4,318 individual accounts averaging approximately $173,000 per account owned by 3,048 individual depositors as of January 19, 2001.
- This phenomenon of having a relatively higher percentage of Jumbo CDs to total deposits exists in most of the Asian American banks in our California market due to the fact that the customers in this market tend to have a higher savings rate.

Management continues to monitor the Jumbo CD portfolio to identify any changes in the deposit behavior in the market and of the patrons the Bank is servicing. To discourage the concentration in Jumbo CDs, management has continued to make efforts in the following areas:

- To offer non-competitive interest rates paid on Jumbo CDs.
- To offer new transaction-based products, such as the tiered money market accounts.
- To promote transaction-based products from time to time, such as demand deposits.
- To seek to diversify the customer base by branch expansion and/or acquisition as opportunities arise.

The following tables display time deposits of $100,000 or more by maturity and time deposits with remaining term of more than one year at December 31, 2000:

Time Deposits of $100 or More by Maturity

(in thousands)	At December 31, 2000
Less than three months	$ 384,775
Three to six months	242,355
Six to twelve months	164,436
Over one year	6,054
Total	$ 797,620

Maturities of Time Deposits with a Remaining Term of More Than One Year at December 31, 2000 for Each of the Five Years Following December 31, 2000

(in thousands)	
2002	$ 13,450
2003	5,463
2004	249
2005	82
2006	16
Total	$ 19,260

Capital Resources We obtain capital primarily from retained earnings and to a lesser extent, the issuance of additional common stock through our Dividend Reinvestment Plan and options exercised. Stockholders' equity amounted to $214.8 million or 9.73% of total assets as of year-end 2000, compared with $179.1 million or 8.97% of total assets at year-end 1999. The increase of $35.7 million in stockholders' equity was primarily due to the following:

- An addition of $38.6 million from net income, less dividends paid of $8.0 million.
- $1.7 million from the issuance of additional common stock through the Dividend Reinvestment Plan and from the exercise of stock options.
- A favorable difference of $3.3 million in the net unrealized holding gains and the net unrealized holding losses on securities available-for-sale, net of tax.

We paid a cash dividend of $0.21 per common share in January on 9,033,583 shares outstanding, in April on 9,044,685 shares outstanding and in July 2000 on 9,054,782 shares outstanding. In October 2000, the Board of Directors authorized and paid a cash dividend of $.25 per share, an increase of $.04 or 19% per common share, on 9,064,486 shares outstanding. Total cash dividends paid in 2000 amounted to $8.0 million.

On February 19, 1998 our Board of Directors adopted an "Equity Incentive Plan" ("the Plan") which was approved by our stockholders at the Annual Meeting of Stockholders in 1998. The Plan will expire on February 18, 2008.

- On September 17, 1998, we granted 45,000 options to purchase 45,000 shares of common stock with an exercise price of $33.00 per share to eligible senior officers and directors.
- On January 20, 2000, we granted 55,000 options to purchase 55,000 shares of common stock with an exercise price of $42.50 per share to eligible officers and directors.
- On January 18, 2001, we granted 55,500 options to purchase 55,500 shares of common stock with an exercise price of $60.19 per share to eligible officers and directors.

Management seeks to retain the Company's capital at a level sufficient to support future growth, to protect depositors and stockholders, to absorb any unanticipated losses and to 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 year-end 2000, our Total capital ratio was 12.25%, our Tier 1 capital ratio was 11.05% and our Tier 1 leverage ratio was 9.28%. At year-end 1999, our Total capital ratio was 11.71%, our Tier 1 capital ratio was 10.50% and our Tier 1 leverage ratio was 8.93%. These capital ratios not only exceeded the regulatory minimum requirements but also

placed the Company in the "well capitalized" category which is defined as institutions with total risk-based ratio equal to or greater than 10.0%, Tier 1 risk-based capital ratio equal to or greater than 6.0% and Tier 1 leverage capital ratio equal to or greater than 5.0%.

A table displaying the Company and the Bank's capital and leverage ratios at year-end 2000 and 1999 is included in Note 11 to consolidated financial statements.

Liquidity and Market Risk

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. The Bank's 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 and securities sold under agreements to repurchase and advances from Federal Home Loan Bank ("FHLB"). The Bank's liquidity ratio (defined as net cash, short-term and marketable securities to net deposits and short-term liabilities) decreased to 30.76% at year-end 2000, compared with 33.91% at year-end 1999. The decrease was due to a combination of:

- A reduction of $6.9 million in net cash, short-term and marketable securities.
- An increase of $153.6 million in net deposit and short-term liabilities.

To supplement its liquidity needs, the Bank maintains a total credit line of $52 million for Federal funds with three correspondent banks, repo lines of $110 million with three brokerage firms and a retail certificate of deposit line of five percent of total deposits with another brokerage firm. The Bank is also a shareholder of FHLB which enables the Bank to have access to lower cost FHLB financing when necessary. The Bank obtained non-callable advances from FHLB totaling $30 million in the third quarter of 1998 at fixed interest rates, $20 million of which expired during the third quarter of 2000.

We had significant portion of our time deposits maturing within one year or less as of December 31, 2000. Management anticipates that there may be some outflow of these deposits upon maturity due to the keen competition in our marketplaces. However, based on our historical runoff experience, we expect the outflow will be minimal and can be replenished through our normal growth in deposits.

Management believes all the above-mentioned sources will provide adequate liquidity to the Bank to meet its daily operating needs.

Bancorp, on the other hand, obtains funding for its activities primarily through dividend income contributed by the Bank and proceeds from investments in the Dividend Reinvestment Plan and the exercise of stock options. Dividends paid to Bancorp by the Bank are subject to regulatory limitations. The business activities of Bancorp consist primarily of the operation of the Bank with limited activities in other investments. Management believes Bancorp's liquidity generated from its prevailing sources are sufficient to meet its operational needs.

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

We actively monitor and manage our interest rate risk through analyzing the repricing characteristics of our loans, securities, and deposits 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 limitations inherent in any individual risk management tool, we use both an interest rate sensitivity analysis and a simulation model to measure and quantify the impact to our profitability or the market value of our assets and liabilities.

The interest rate sensitivity analysis details the expected maturity and repricing opportunities mismatch or sensitivity gap between interest-earning assets and interest-bearing liabilities over a specified timeframe. A positive gap exists when rate sensitive assets which reprice over a given time period exceed rate sensitive liabilities. During periods of increasing interest rates, net interest margin may be enhanced with a positive gap. A negative gap exists

when rate sensitive liabilities which reprice over a given time period exceed rate sensitive assets. During periods of increasing interest rates, net interest margin may be impaired with a negative gap.

The following table indicates the maturity and rate sensitivity of our interest-earning assets and interest-bearing liabilities as of December 31, 2000. Our exposure as reflected in the table, represents the estimated difference between the amount of interest-earning assets and interest-bearing liabilities repricing during future periods based on certain assumptions. The interest rate sensitivity of our assets and liabilities presented in the table may vary if different assumptions were used or if actual experience differs from the assumptions used. As seen from the table, we were asset sensitive with a cumulative gap ratio of a positive 18.13% within three months, and liability sensitive with a cumulative gap ratio of a negative 9.78% within one year at year-end 2000, compared with a positive 16.25% within three months, and a negative 9.78% within one year at year-end 1999.

Interest Rate Sensitivity

	December 31, 2000 Interest Rate Sensitivity Period					
(dollars in thousands)	0 to 90 Days	91 to 365 Days	1 Year to 5 Years	Over 5 Years	Non-interest Sensitive	Total
Interest Earnings Assets:						
Cash and due from banks	$ 844	$ 55	$ —	$ —	$ 64,788	$ 65,687
Federal funds sold and securities purchased under agreements to resell	19,000	—	—	—	—	19,000
Securities available-for-sale	16,176	13,338	59,283	94,612	—	183,409
Securities held-to-maturity	—	7,453	126,376	253,371	—	387,200
Loans:						
Commercial loans	373,556	30,184	13,941	14,975	—	432,656
Residential mortgage loans	49,901	226	8,646	161,694	—	220,467
Commercial mortgage loans	488,082	5,381	49,197	85,552	—	628,212
Real estate construction loans	139,645	—	—	—	—	139,645
Installment loans	3,744	3,800	19,727	—	—	27,271
Other loans	450	12	—	4	—	466
Total loans[1]	1,055,378	39,603	91,511	262,225	—	1,448,717
Non-interest earning assets, net	—	—	—	—	102,821	102,821
Total assets	$1,091,398	$ 60,449	$ 277,170	$ 610,208	$ 167,609	$2,206,834
Interest Bearing Liabilities:						
Deposits:						
Demand	$ —	$ —	$ —	$ —	$ 221,805	$ 221,805
Money market and NOW[2]	18,302	49,518	104,222	73,410	—	245,452
Savings[2]	17,318	60,042	100,242	54,159	—	231,761
TCDs under $100	183,327	179,392	17,009	81	—	379,809
TCDs $100 and over	404,265	387,338	6,017	—	—	797,620
Total deposits	623,212	676,290	227,490	127,650	221,805	1,876,447
Securities sold under agreements to repurchase	68,173	—	—	—	—	68,173
Advances from Federal Home Loan Bank	—	—	10,000	—	—	10,000
Non-interest bearing other liabilities	—	—	—	—	37,427	37,427
Stockholders' equity	—	—	—	—	214,787	214,787
Total liabilities & stockholders' equity	$ 691,385	$ 676,290	$ 237,490	$ 127,650	$ 474,019	$2,206,834
Interest sensitivity gap	$ 400,013	$ (615,841)	$ 39,680	$ 482,558	$ (306,410)	$ —
Cumulative interest sensitivity gap	$ 400,013	$ (215,828)	$ (176,148)	$ 306,410	$ —	$ —
Gap ratio (% of total assets)	18.13%	(27.91)%	1.80%	21.87%	(13.88)%	—
Cumulative gap ratio	18.13%	(9.78)%	(7.98)%	13.88%	—	—

1 Loans are gross of unamortized deferred loan fees and the allowance for loan losses. Nonaccrual loans are included in non-earning assets. Adjustable loans are included in the "0 to 90 days" category, as they are subject to an interest adjustment depending upon terms of the loans.

2 The Company's own historical experience and decay factors are used to estimate the money market and NOW, and savings deposit runoff.

Since interest rate sensitivity analysis does not measure the timing differences in the repricing of assets and liabilities, we use a simulation model to quantify the extent of the differences in the behavior of the lending and funding rates, so as to project future earnings or market values under alternative interest scenarios.

The simulation measures the volatility of net interest income and net portfolio value, defined as net present value of assets and liabilities, under immediate rising or falling interest rate scenarios in 100 basis point increments. We establish a tolerance level in our policy to define and limit interest income volatility to a change of plus or minus 30% when the hypothetical rate change is plus or minus 200 basis points. When the tolerance level is met or exceeded, we then seek corrective action after considering, among other things, market conditions, customer reaction and the estimated impact on profitability. The following table presents the estimated impacts of immediate changes in interest rates at the specified levels at December 31, 2000. The results presented may vary if different assumptions are used or if actual experience differs from the assumptions used.

Changes in Interest Rates	Percentage Change in:	
(in basis points)	Net Interest Income[1]	Net Portfolio Value[2]
+200	14.59 %	(27.14)%
+100	7.80	(13.95)
-100	(6.63)	12.53
-200	(13.38)	25.00

1 The percentage change represents net interest income for 12 months in a stable interest rate environment versus the net interest income in the various rate scenarios.

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

In 2000, we entered into a limited number of derivative financial instruments in order to mitigate the risk of interest rate exposures 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 the balance and against identified risk in specific transactions. In such instances, the Bank may protect its position through the purchase or sale of future 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 off-balance sheet hedging activities, we seek to analyze the costs and benefits of the hedge in comparison to other viable alternative strategies. All off-balance sheet hedges require an assessment of basis risk and must be approved by the Bank's Investment Committee.

In the first quarter of 2000, we entered into an interest rate swap agreement with a major financial institution in the notional amount of $20 million for a period of five years. The interest rate swap was for the purpose of hedging a portion of our floating rate loans against declining interest rates. In the third quarter of 2000, we entered into a forward rate agreement ("FRA") with a major financial institution in the notional amount of $100 million with a term of six months. The FRA was for the purpose of hedging a portion of our Jumbo CD portfolio against declining interest rates. We recognized $1.1 million unrealized gain on the FRA as of December 31, 2000. The FRA settled on March 5, 2001.

The following table shows our financial instruments that are sensitive to changes in interest rates, categorized by expected maturity, and the instruments' fair values at December 31, 2000. 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. 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 the underlying notional amounts. We use certain assumptions to estimate fair values and expected maturities. The results presented may vary if different assumptions are used or if actual experience differs from the assumptions used.

(dollars in thousands)	Average Interest Rate	Expected Maturity Date at December 31, 2000 2001	2002	2003	2004	2005	Thereafter	As of Dec, 31, 2000 Total	Fair Value	As of Dec.31, 1999 Total	Fair Value
Interest-Sensitive Assets:											
Federal funds sold and securities purchased under agreements to resell	6.18%	$ 19,000	$ —	$ —	$ —	$ —	$ —	$ 19,000	$ 19,000	$ 5,000	$ 5,000
Mortgage-backed securities and collateralized mortgage obligations	6.69%	3,354	31	—	7,891	—	191,923	203,199	204,007	219,436	215,592
Investment securities	6.42%	27,999	28,861	64,801	40,322	43,753	156,061	361,797	362,445	362,773	355,375
Federal Home Loan Bank stock	6.64%	5,613	—	—	—	—	—	5,613	5,613	6,851	6,851
Loans											
Commercial	9.71%	349,481	14,304	12,614	23,219	6,386	29,060	435,064	434,854	388,551	380,466
Real estate mortgage	9.10%	48,237	57,417	44,755	63,378	65,551	556,418	835,756	828,645	770,313	754,727
Real estate construction	9.88%	105,424	33,678	—	—	—	—	139,102	139,949	61,203	59,717
Installment & others	8.46%	7,864	3,317	5,870	6,761	3,569	4	27,385	27,508	25,518	24,426
Interest-Sensitive Liabilities:											
Other interest bearing deposits	1.67%	145,448	76,734	57,760	41,773	31,981	123,517	477,213	477,292	455,979	456,049
Time deposits	5.42%	1,158,104	13,450	5,463	249	82	81	1,177,429	1,181,975	1,070,617	1,059,076
Federal funds purchased and securities sold under agreements to repurchase	6.09%	68,173	—	—	—	—	—	68,173	68,201	46,990	47,649
Advances from Federal Home Loan Bank	4.90%	10,000	—	—	—	—	—	10,000	9,951	30,000	29,305
Off-Balance Sheet Financial Instruments:											
Commitments to extend credit	N/A	500,493	79,937	2,155	128	217	36,942	619,872	(509)	580,727	(328)
Standby letters of credit	N/A	15,335	100	—	—	—	—	15,435	(63)	11,748	(64)
Others letters of credit	N/A	44,371	—	—	—	—	—	44,371	(238)	31,866	(193)
Bill of lading guarantee	N/A	20,729	—	—	—	—	—	20,729	(125)	13,924	(69)
Interest rate swap	N/A	—	—	—	—	20,000	—	20,000	977	20,000	35
Forward rate agreement	N/A	100,000	—	—	—	—	—	100,000	1,104	—	—

Factors That May Affect Future Results

The Allowance for Loan Losses is an Estimate of Estimable and Probable Losses. Actual Loan Losses in Excess of the Estimate Could Adversely Affect Our Net Income and Capital.

The allowance for loan losses is based on management's estimate of the estimable and probable losses from our loan portfolio. If actual losses exceed the estimate, the excess losses could adversely affect our net income and capital. Such excess could also lead to larger allowances for loan losses in future periods, which could in turn adversely affect net income and capital. Management believes that the allowance for loan losses at December 31, 2000 is adequate to cover estimable and probable losses from our loan portfolio as of that date. If economic conditions differ substantially from the assumptions used in the estimate or adverse developments arise with respect to our loans, future losses may occur and increases in the allowance may be necessary. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the adequacy of our allowance. These agencies

may require us to establish additional allowances based on their judgement of the information available at the time of their examinations. We may sustain loan losses in excess of present or future levels of the allowance for loan losses.

Fluctuations in Interest Rates Could Adversely Affect Our Business.
The interest rate risk inherent in our lending, investing and deposit taking activities is a significant market risk to us and our business. Income associated with interest-earning assets and cost associated with interest-bearing liabilities may not be affected uniformly by fluctuations in interest rates. The magnitude and duration of changes in interest rates, events over which we have no control, may have an adverse effect on net interest income. Prepayment and early withdrawal levels, which are also impacted by changes in interest rates, can significantly affect our assets and liabilities. Increases in interest rates may adversely affect the ability of our floating rate borrowers to meet their higher payment obligations, which could in turn lead to an increase in non-performing assets and net charge-offs.

Generally, the interest rates on our interest-earning assets and interest-bearing liabilities do not change at the same speed, to the same extent, or on the same basis. Even assets and liabilities with similar maturities or periods of repricing may react in different degrees to changes in market interest rates. Interest rates on certain types of assets and liabilities may fluctuate in advance of changes in general market interest rates, while interest rates on other types of assets and liabilities may lag behind changes in general market rates. Certain assets, such as fixed and adjustable rate mortgage loans, have features which limit the change in interest rates on a short-term basis and over the life of the asset.

We seek to minimize the adverse effects of changes in interest rates by structuring our asset-liability composition to obtain the maximum spread. We use interest rate sensitivity analysis and a simulation model to assist us in estimating the optimal asset-liability composition. However, such management tools have inherent limitations that impair their effectiveness. We may not be successful in minimizing the adverse effects of changes in interest rates. See also, "Risk Elements of the Loan Portfolio" and "Liquidity and Market Risk—Market Risk" above.

Inflation May Adversely Affect Our Financial Performance.
The consolidated financial statements and related financial data presented in this report have been prepared in accordance with accounting principles generally accepted in the United States. These accounting principles require the measurement of our financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation. The primary impact of inflation on our operations is reflected in increased operating costs. Virtually all of our assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on our performance than the general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services.

As We Expand Our Business Outside of California Markets, We Will Encounter Risks That Could Adversely Affect Us.
We primarily operate in California markets with a concentration of Chinese American individuals and businesses; however, one of our strategies is to expand beyond California into other domestic markets that have concentrations of Chinese American individuals and businesses. We have begun this expansion with the acquisition of certain assets and assumption of certain liabilities of Golden City Commercial Bank in New York and the conversion of our Houston loan production office into a branch facility. In the course of this expansion, we will encounter significant risks and uncertainties that could have a material adverse effect on our operations. These risks and uncertainties include increased operational difficulties arising from, among other things, our ability to attract sufficient business in new markets, to manage operations in noncontiguous market areas and to anticipate events or differences in markets in which we have no current experience.

To the extent that we expand through acquisitions, such acquisitions may also adversely harm our business, if we fail to adequately address the financial and operational risks associated with such acquisitions. For example, risks can include difficulties in assimilating the operations, technology and personnel of the acquired company; diversion of management's attention from other business concerns; inability to maintain uniform standards, controls, procedures

and policies; potentially dilutive issuances of equity securities; incurrence of additional debt and contingent liabilities; use of cash resources; large write-offs; and amortization expenses related to goodwill and other intangible assets.

Poor Economic Conditions in California and Other Regions Where the Bank has Operations, Could Cause Us to Incur Losses.

Our banking operations are concentrated primarily in Southern and Northern California, and to a lesser extent in Houston, Texas and New York City. Adverse economic conditions in these regions could impair borrowers' ability to service their loans, decrease the level and duration of deposits by customers, erode the value of loan collateral, increase claims and lawsuits, and reduce the demand for our products and services. These events could increase the amount of our non-performing assets, and have an adverse effect on our ability to collect our non-performing loans or otherwise liquidate our non-performing assets (including other real estate owned) on terms favorable to us, and otherwise adversely affect our business.

Real estate securing our lending activity is also principally located in Southern and Northern California, and to a lesser extent, in Houston, Texas and New York City. The value of such collateral depends upon conditions in the relevant real estate markets. These include general or local economic conditions and neighborhood characteristics, real estate tax rates, the cost of operating the properties, governmental regulations and fiscal policies, acts of nature including earthquakes, flood and hurricanes (which may result in uninsured losses), and other factors beyond our control. Although the California economy and its real estate market continued to be relatively strong in 2000, they began to moderate in the third quarter of 2000. The economic conditions in Houston and New York were both favorable in 2000, but have also moderated recently. It is difficult for management to predict the future economic performance of these regions, and economic condition in one or more of these regions may decline in the future.

The Risks Inherent in Construction Lending May Adversely Affect Our Net Income.

The risks inherent in construction lending may adversely affect our net income. Such risks include, among other things, the possibility that contractors may fail to complete, or complete on a timely basis, construction of the relevant properties; substantial cost overruns in excess of original estimates and financing; market deterioration during construction; and lack of permanent take-out financing. Loans secured by such properties also involve additional risk because such properties have no operating history. In these loans, loan funds are advanced upon the security of the project under construction, which is of uncertain value prior to completion of construction, and the estimated operating cash flow to be generated by the completed project. If these properties cannot be sold or leased so as to generate the cash flow anticipated by the borrowers, the borrowers may not be able to repay their obligations to us and the value of our security interest in collateral may be adversely impaired.

Our Use of Appraisals in Deciding Whether to Make a Loan on or Secured by Real Property Does Not Insure the Value of the Real Property Collateral.

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

Our Need to Continue to Adapt to Our Information Technology Systems to Allow Us to Provide New and Expanded Services Could Present Operational Issues and Require Significant Capital Spending.

As we begin to offer internet banking and other on-line services to our customers, and continue to expand our existing conventional banking services, we will need to adapt our information technology systems to handle these changes in a way that meets constantly changing industry standards. This can be very expensive and may require significant capital expenditures. In addition, our success will depend, among other things, on our ability to provide secure and reliable services, anticipate changes in technology and efficiently develop and introduce services that are accepted by our customers and cost effective for us to provide. Systems failures, delays, breaches of confidentiality and other problems could harm our reputation and business.

We Face Substantial Competition From Larger Competitors.

We face substantial competition for deposits and loans as well as other banking services throughout our market area from the major banks and financial institutions that dominate the commercial banking industry. This may cause our cost of funds to exceed that of our competitors. It may also result in us making less desirable loans. Such banks and financial institutions have greater resources than us, including the ability to finance advertising campaigns and allocate their investment assets to regions of higher yield and demand. By virtue of their larger capital bases, such institutions have substantially greater lending limits than us and perform certain functions, including trust services, which are not presently offered by us. We also compete for loans and deposits as well as other types of banking services with savings and loan associations, finance companies, money market funds, brokerage houses, credit unions and non-financial institutions.

Adverse Effects of Banking Regulations or Changes in Banking Regulations Could Adversely Affect Our Business.

We are governed by significant federal and state regulation and supervision, which is primarily for the benefit and protection of our customers and not for the benefit of our stockholders. In the past, our business has been materially affected by such regulation and supervision. This trend is likely to continue in the future. Laws, regulations or policies currently affecting us may change at any time. Regulatory authorities may also change their interpretation of existing laws and regulations. Such changes may, among other things, increase the cost of doing business, limit permissible activities or affect the competitive balance between banks and other financial institutions. It is impossible to predict the competitive impact that any such changes would have on commercial banking in general or on our business in particular.

Poor Economic Conditions in Asia Could Cause Us to Incur Losses.

While the Asian economic conditions were satisfactory in 2000, it is difficult to predict the behavior of the Asian economy in the future. The U.S. fiscal policy and an unfavorable global economic condition may adversely impact the Asian economy. If the Asian economic conditions should deteriorate, we could be exposed to economic and transfer risk, and could experience an outflow of deposits by our Asian-American customers. Transfer risk may result when an entity is unable to obtain the foreign exchange needed to meet its obligations or to provide liquidity. This may adversely impact the recoverability of investments with or loans made to such entities. Adverse economic conditions may also negatively impact asset values and the profitability and liquidity of companies operating in this region.

Statutory Restrictions on Dividends and Other Distributions From the Bank May Adversely Impact Us.

A substantial portion of our cash flow comes from dividends that the Bank pays to us. Various statutory provisions restrict the amount of dividends that the Bank can pay without regulatory approval. In addition, if the Bank were to liquidate, the Bank's creditors would be entitled to receive distributions from the assets of the Bank to satisfy their claims against the Bank before we, as a holder of an equity interest in the Bank, would be entitled to receive any of the assets of the Bank.

Certain Provisions of Our Charter, Bylaws and Rights Agreement Could Make the Acquisition of Our Company More Difficult.

Certain provisions of our Charter, Bylaws and recently adopted successor Rights Agreement between us and American Stock Transfer and Trust Company, as Rights Agent, could make the acquisition of our company more difficult. These provisions include authorized but unissued shares of preferred and common stock that may be issued without stockholder approval; three classes of directors serving staggered terms; preferred share purchase rights that generally become exercisable if a person or group acquires 15% or more of our common stock or announces a tender offer for 15% or more of our common stock; special requirements for stockholder proposals and nominations for director; and supermajority voting requirements in certain situations including certain types of business combinations.

Market for Cathay Bancorp, Inc. Stock

The Company's common stock trades on the Nasdaq National Market tier of The Nasdaq Stock Market[SM] under the symbol: "CATY". During 2000, total trading volume was approximately 2,248,605 and the prices ranged from a high of $80.00 to a low of $38.50. As of February 26, 2001, the closing price per share was $60.13. The approximate number of stockholders at year-end 2000 was 1,700. The Company paid an aggregate per share cash dividend of $0.880 in 2000 and $0.805 in 1999. The following table summarizes the quarterly high, low and closing prices, and the trading volume for the past two years:

Bancorp Stock Trading History[1]

	High	Low	End of Period	Trading Volume
2000				
First Quarter	$ 80.000	$ 38.500	$ 46.000	754,407
Second Quarter	49.000	40.750	46.380	439,881
Third Quarter	50.000	43.000	48.750	348,929
Fourth Quarter	57.380	47.000	59.000	705,388
1999				
First Quarter	$ 41.000	$ 33.250	$ 37.625	305,330
Second Quarter	43.000	32.500	42.500	416,760
Third Quarter	42.938	34.688	35.688	516,312
Fourth Quarter	42.000	35.000	41.000	318,483

1 The Company does not represent that the outstanding shares may either be bought or sold at a certain price.

Distribution of Assets, Liabilities and Stockholders' Equity

The following table shows the daily average balances of the Company's assets, liabilities, and stockholders' equity for the years 2000, 1999 and 1998.

	Year ended December 31,					
	2000		1999		1998	
(dollars in thousands)	Amount	%[1]	Amount	%[1]	Amount	%[1]
Assets						
Cash and due from banks	$ 56,793	2.67%	$ 50,969	2.74%	$ 58,892	3.45%
Federal funds sold and securities purchased under agreements to resell	11,053	0.52	38,013	2.04	69,915	4.09
Securities available-for-sale, taxable	205,154	9.65	184,497	9.91	225,397	13.20
Securities available-for-sale, nontaxable	510	0.02	345	0.02	499	0.03
Securities held-to-maturity, taxable	330,841	15.56	378,753	20.35	315,257	18.46
Securities held-to-maturity, nontaxable	69,478	3.27	68,702	3.69	48,757	2.85
Total net loans[2]	1,343,970	63.19	1,088,578	58.48	907,627	53.15
Premises and equipment, net	28,691	1.35	25,668	1.38	25,571	1.50
Other assets	80,363	3.77	25,799	1.39	55,888	3.27
Total assets	$ 2,126,853	100.00%	$ 1,861,324	100.00%	$ 1,707,803	100.00%
Liabilities						
Demand deposits	$ 211,975	9.97%	$ 169,013	9.08%	$ 166,657	9.76%
Savings deposits[3]	463,695	21.80	424,500	22.81	417,105	24.42
Time deposits	1,117,350	52.54	1,001,878	53.82	900,441	52.73
Total deposits	1,793,020	84.31	1,595,391	85.71	1,484,203	86.91
Federal funds purchased and securities sold under agreements to repurchase	79,276	3.73	55,519	2.98	53,285	3.12
Advances from Federal Home Loan Bank	29,781	1.40	30,000	1.61	6,959	0.40
Mortgage indebtedness	40	—	183	0.01	440	0.03
Other liabilities	32,619	1.53	14,770	0.80	18,304	1.07
Total liabilities	1,934,736	90.97	1,695,863	91.11	1,563,191	91.53
Stockholders' Equity						
Common stock and additional paid-in-capital	65,578	3.08	63,897	3.43	62,259	3.65
Retained earnings	126,539	5.95	101,564	5.46	82,353	4.82
Total stockholders' equity	192,117	9.03	165,461	8.89	144,612	8.47
Total liabilities and stockholders' equity	$ 2,126,853	100.00%	$ 1,861,324	100.00%	$ 1,707,803	100.00%

1 Percentage of categories under Assets, Liabilities and Stockholders' Equity are shown as a percentage of average assets.

2 Total net loans means total loans net of loan participations sold, unamortized deferred loan fees and allowance for loan losses.

3 Savings deposits include NOW, money market and savings accounts.

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(in thousands, except share and per share data)	As of December 31, 2000	1999
Assets		
Cash and due from banks	$ 65,687	$ 59,081
Federal funds sold and securities purchased under agreements to resell	19,000	5,000
Cash and cash equivalents	84,687	64,081
Securities available-for-sale (amortized costs of $179,454 in 2000 and $162,728 in 1999)	183,409	160,991
Securities held-to-maturity (estimated fair values of $388,656 in 2000 and $416,827 in 1999)	387,200	426,332
Loans (net of allowance for loan losses of $21,967 in 2000 and $19,502 in 1999)	1,437,307	1,245,585
Other real estate owned, net	5,174	4,337
Investments in real estate, net	17,348	16,987
Premises and equipment, net	29,723	25,299
Customers' liability on acceptance	20,355	13,721
Accrued interest receivable	15,633	13,150
Goodwill	9,744	10,559
Other assets	16,254	14,882
Total assets	$ 2,206,834	$ 1,995,924
Liabilities and Stockholders' Equity		
Deposits		
Non-interest bearing demand deposits	$ 221,805	$ 195,140
Interest bearing accounts		
NOW accounts	125,647	121,394
Money market deposits	119,805	97,821
Savings deposits	231,761	236,764
Time deposits under $100	379,809	362,553
Time deposits of $100 or more	797,620	708,064
Total deposits	1,876,447	1,721,736
Securities sold under agreements to repurchase	68,173	46,990
Advances from Federal Home Loan Bank	10,000	30,000
Acceptances outstanding	20,355	13,721
Other liabilities	17,072	4,368
Total liabilities	1,992,047	1,816,815
Stockholders' equity		
Preferred stock, $0.01 par value; 10,000,000 shares authorized, none issued	—	—
Common stock, $0.01 par value; 25,000,000 shares authorized, 9,074,365 and 9,033,583 shares issued and outstanding in 2000 and 1999, respectively	91	90
Additional paid-in-capital	66,275	64,529
Accumulated other comprehensive income (loss)	2,303	(1,006)
Retained earnings	146,118	115,496
Total stockholders' equity	214,787	179,109
Total liabilities and stockholders' equity	$ 2,206,834	$ 1,995,924

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income and Comprehensive Income

(in thousands, except share and per share data)	Year ended December 31, 2000	1999	1998
Interest Income			
Interest on loans	$ 126,337	$ 93,780	$ 82,866
Interest on securities available-for-sale	13,473	10,551	13,494
Interest on securities held-to-maturity	24,017	26,821	22,966
Interest on Federal funds sold and securities purchased under agreements to resell	686	1,881	3,950
Interest on deposits with banks	40	13	33
Total interest income	164,553	133,046	123,309
Interest Expense			
Time deposits of $100 or more	41,431	32,724	30,691
Other deposits	26,514	20,438	23,316
Other borrowed funds	6,211	4,246	3,218
Total interest expense	74,156	57,408	57,225
Net interest income before provision for loan losses	90,397	75,638	66,084
Provision for loan losses	4,200	4,200	3,600
Net interest income after provision for loan losses	86,197	71,438	62,484
Non-Interest Income			
Securities gains	1,085	(3)	43
Letter of credit commissions	2,439	2,179	1,944
Service charges	4,558	3,635	3,915
Other operating income	4,674	3,044	2,234
Total non-interest income	12,756	8,855	8,136
Non-Interest Expense			
Salaries and employee benefits	22,735	19,150	18,024
Occupancy expense	3,242	2,521	2,546
Computer and equipment expense	2,773	2,573	2,412
Professional services expense	3,625	3,165	3,234
FDIC and State assessments	462	409	393
Marketing expense	1,172	1,036	1,028
Real estate operations, net	(185)	(1,416)	(1,125)
Operations of investments in real estate	683	(74)	63
Other operating expense	3,997	2,918	3,490
Total non-interest expense	38,504	30,282	30,065
Income before income tax expense	60,449	50,011	40,555
Income tax expense	21,862	19,720	15,976
Net Income	38,587	30,291	24,579
Other comprehensive income (loss), net of tax:			
Unrealized holding gains (losses) arising during the year	3,309	(2,229)	810
Less: reclassification adjustment for realized gains (losses) on securities included in net income	—	(34)	(8)
Total other comprehensive income (loss), net of tax	3,309	(2,195)	818
Total comprehensive income	$ 41,896	$ 28,096	$ 25,397
Net income per common share			
Basic	$ 4.26	$ 3.36	$ 2.74
Diluted	$ 4.25	$ 3.36	$ 2.74
Basic average common shares outstanding	9,056,751	9,013,428	8,967,188
Diluted average common shares outstanding	9,073,885	9,017,760	8,968,393

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2000,1999 and 1998 (in thousands, except share and per share amounts)	Common Stock Number of Shares	Common Stock Amount	Additional Paid-in-Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
Balance at December 31, 1997	8,941,743	$ 89	$ 61,272	$ 370	$ 74,146	$ 135,877
Issuances of common stock—						
Dividend Reinvestment Plan	47,017	1	1,648	—	—	1,649
Cash dividends of $.70 per share	—	—	—	—	(6,272)	(6,272)
Change in unrealized holding gain (loss) on securities available-for-sale, net of tax	—	—	—	819	—	819
Net income	—	—	—	—	24,579	24,579
Balance at December 31, 1998	8,988,760	$ 90	$ 62,920	$ 1,189	$ 92,453	$ 156,652
Issuances of common stock—						
Dividend Reinvestment Plan	44,523	—	1,600	—	—	1,600
Stock options exercised	300	—	9			9
Cash dividends of $0.805 per share	—	—	—	—	(7,248)	(7,248)
Change in unrealized holding loss on securities available-for-sale, net of tax	—	—	—	(2,195)	—	(2,195)
Net income	—	—	—	—	30,291	30,291
Balance at December 31, 1999	9,033,583	$ 90	$ 64,529	$ (1,006)	$ 115,496	$ 179,109
Issuances of common stock—						
Dividend Reinvestment Plan	39,330	1	1,690	—	—	1,691
Stock options exercised	1,452	—	56			56
Cash dividends of $0.880 per share	—	—	—	—	(7,965)	(7,965)
Change in unrealized holding loss on securities available-for-sale, net of tax	—	—	—	3,309	—	3,309
Net income	—	—	—	—	38,587	38,587
Balance at December 31, 2000	9,074,365	$ 91	$ 66,275	$ 2,303	$ 146,118	$ 214,787

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(dollars in thousands)	Year ended December 31, 2000	1999	1998
Cash Flows from Operating Activities			
Net Income	$ 38,587	$ 30,291	$ 24,579
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	4,200	4,200	3,600
Provision for losses on other real estate owned	71	339	195
Benefit for deferred taxes	637	(1,472)	(10)
Depreciation	1,500	1,331	1,241
Net gain on sale of other real estate owned	(263)	(1,549)	(999)
Gain on sale of investments in real estate	—	(394)	—
Gain (loss) on disposal of premises and equipment	—	—	(2)
(Gain) loss on sales and calls of securities	(1,085)	3	(43)
Amortization of investment security premiums, net	(926)	557	286
Amortization of goodwill	815	681	940
Increase (decrease) in deferred loan fees, net	544	(38)	(155)
(Increase) decrease in accrued interest receivable	(2,483)	(1,154)	251
(Increase) decrease in other assets, net	(1,372)	(2,480)	3,443
Increase (decrease) in other liabilities	9,666	(3,012)	2,158
Total adjustments	11,304	(2,988)	10,905
Net cash provided by operating activities	49,891	27,303	35,484
Cash Flows from Investing Activities			
Purchase of investment securities available-for-sale	(660,275)	(1,090,732)	(1,025,244)
Proceeds from maturity and call of investment securities available-for-sale	678,638	1,160,919	1,006,491
Proceeds from sale of investment securities available-for-sale	21,443	—	6,429
Purchase of mortgage-backed securities available-for-sale	(949)	(911)	(34,968)
Proceeds from repayments and sale of mortgage-backed securities available-for-sale	6,955	9,906	25,492
Purchase of investment securities held-to-maturity	(47,824)	(45,255)	(82,268)
Proceeds from maturity and call of investment securities held-to-maturity	17,519	1,385	12,025
Purchase of mortgage-backed securities held-to-maturity	(29,604)	(38,157)	(73,787)
Proceeds from repayment of mortgage-backed securities held-to-maturity	38,802	70,851	74,817
Net increase in loans	(200,298)	(282,413)	(120,021)
Purchase of premises and equipment	(5,924)	(803)	(1,866)
Proceeds from sale of equipment	—	—	2
Proceeds from sale of other real estate owned	3,187	4,730	4,470
Proceeds from sale of investments in real estate	—	1,026	—
Net (increase) decrease in investments in real estate	(361)	(16,162)	197
Cash paid for the acquisition of Golden City	—	(5,511)	—
Net cash used in investing activities	(178,961)	(231,127)	(208,231)
Cash Flows from Financing Activities			
Net increase in demand deposits, NOW accounts, money market and savings deposits	47,899	36,835	21,757
Net increase in time deposits	106,812	124,499	89,524
Net increase (decrease) in securities sold under agreements to repurchase	21,183	30,554	(6,983)
Increase (decrease) in borrowing from Federal Home Loan Bank	(20,000)	—	30,000
Cash dividends	(7,965)	(7,248)	(6,272)
Proceeds from shares issued to Dividend Reinvestment Plan	1,691	1,600	1,649
Proceeds from exercise of stock options	56	9	—
Net cash provided by financing activities	149,676	186,249	129,675
Increase (decrease) in cash and cash equivalents	20,606	(17,575)	(43,072)
Cash and cash equivalents, beginning of the year	64,081	81,656	124,728
Cash and cash equivalents, end of the year	$ 84,687	$ 64,081	$ 81,656
Supplemental disclosure of cash flow information			
Cash paid during the year for:			
Interest	$ 72,644	$ 56,857	$ 57,232
Income taxes	$ 17,411	$ 20,350	$ 15,413
Non-cash investing activities:			
Transfer to investment securities available-for-sale within 90 days of maturity	$ 59,858	$ 2,515	$ 1,340
Net change in unrealized holding gain (loss) on securities available-for-sale, net of tax	$ 3,309	$ (2,195)	$ 819
Transfers to other real estate owned	$ 5,347	$ 886	$ 4,334
Loans to facilitate the sale of other real estate owned	$ 1,515	$ 3,483	$ 3,483

Acquisition:

The Company purchased certain assets and assumed certain liabilities of Golden City for $5,511. In conjunction with the acquisition, liabilities were assumed as follows. See Note 2.

Fair value of assets acquired	$ 86,779
Cash paid	(5,511)
Liabilities assumed	$ 81,268

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

The accompanying consolidated financial statements include the accounts of Cathay Bancorp, Inc. ("Bancorp"), a Delaware corporation and its wholly-owned subsidiary, Cathay Bank ("Bank"), a California state-chartered bank (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. Management of the Bank has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with GAAP. Actual results could differ from these estimates. The most significant estimate subject to change relates to the allowance for loan losses. Certain reclassifications have been made to the prior years' financial statements to conform with the 2000 presentation. The following are descriptions of the more significant of these policies.

Organization and Background The business activities of Bancorp consist primarily of the operations of the Bank and its wholly-owned subsidiaries, Cathay Investment Company ("CIC") and Cathay Securities Fund, Inc. There are no operating business activities currently at Bancorp. Bancorp may, from time to time, explore various acquisition possibilities. Bancorp currently does not employ any persons other than its management, which includes the President and the Chief Financial Officer, and does not own or lease any real or personal property. Bancorp uses the employees, premises, equipment and furniture of the Bank without the payment of any service or rental fees to the Bank. It is expected that for the near future the primary business of the Bancorp will be the ongoing business of the Bank.

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, letter of credit, wire transfer, spot and forward contracts, internet banking, global investment services, and other customary banking services to its customers.

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 purchased are designated as held-to-maturity or available-for-sale 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. Premium and discounts are amortized or accreted as adjustment of yield on a level-yield basis.

The cost basis of an individual security is written down, if the decline in its fair value below the amortized cost basis is other than temporary. The write-down is accounted for as a realized loss, and is included in net income. The new cost basis is not changed for subsequent recoveries in fair value.

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. Such loans are placed on nonaccrual 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 nonaccrual status, previously accrued but unpaid interest is reversed and charged against current period income, and interest is subsequently recognized only to the extent cash is received. Interest collected on nonaccrual loans is applied to the outstanding principal balance unless the loan is returned to accrual status. In order to be returned to accrual status, all past due payments must be received and the loan must be paying in accordance with its payment terms. 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. If a loan is placed on nonaccrual status, the amortization of the loan fees and the accretion of discounts discontinue until such time when the loan is reverted back to accruing status.

Allowance for Loan Losses Management believes the allowance for loan losses is being maintained at a level considered adequate to provide for estimable and probable losses. Additions to the allowance for loan losses are made monthly by charges to operating expense in the form of a provision for loan losses. All loans judged to be uncollectible are charged against the allowance while any recoveries are credited to the allowance.

Management monitors changing economic conditions, the loan mix by category, the industry segregation and geographic distribution of the portfolio and the type of borrowers in determining the adequacy of the allowance for loan losses. Management also closely reviews its past, present and expected overall net loan losses in comparison to the existing level of the allowance. In addition, the Bank's regulators, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to make additions to its allowance for loan losses based on their judgements of the information available to them at the time of their examination.

Impaired Loans A loan is considered impaired when it is "probable" that a creditor 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 Bank stratifies its loan portfolio by size and treats smaller performing loans with an outstanding balance less than the Bank's defined criteria as a homogenous portfolio. For loans with a balance in excess of $750,000, the Bank conducts a periodic review of each loan in order to test for impairment. The Bank recognizes interest income on impaired loans based on its existing method of recognizing interest income on nonaccrual loans.

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	15 to 45 years
Building improvements	5 to 20 years
Furniture, fixtures and equipment	3 to 25 years
Leasehold improvements	Over the shorter of useful lives or the terms of the lease

Improvements are capitalized and amortized to occupancy expense over the shorter of the estimated useful life of the improvement or the term of the lease.

Other Real Estate Owned Real estate acquired in the settlement of loans is initially recorded and, subsequently is carried 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 Real Estate At December 31, 2000, the Company is a limited partner in four different partnerships that invest in low income housing projects that qualify for Federal income tax credits. As further discussed in Note 7, the partnership interests are accounted for utilizing the equity method of accounting. Costs directly related to the development or the improvement of real estate are capitalized.

Goodwill Goodwill, which represents the excess of purchase price over fair value of net assets acquired and the related acquisition costs, is amortized on a straight-line basis over the expected periods to be benefited (generally 15 years). The amount of goodwill impairment, if any, is measured based on projected discounted future operating cash flows using a discount rate reflecting the Company's average cost of funds. The assessment of the recoverability of goodwill will be impacted if estimated future operating cash flows are not achieved.

Stock-Based Compensation The Company applies the intrinsic value method to account for stock-based compensation whereby expense is recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. Pro forma net income and pro forma net income per share disclosures for employee stock option grants are based on the recognition as expense, over the vesting period, of the fair value on the date of grant of all stock-based awards.

Derivative Financial Instruments For those interest rate instruments that alter interest rate characteristics of assets or liabilities, the net differential to be paid or received on the instrument is treated as an adjustment to the yield on the underlying assets or liabilities (the accrual method). To qualify for the accrual method, the interest rate instrument must be designated to specific assets or liabilities or pools of assets or liabilities, and must be effective at altering the interest rate characteristics of the related assets or liabilities. Interest rate instruments that do not qualify for the accrual method, are recorded at fair value, with gains and losses recorded in earnings.

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. A valuation allowance is established, when necessary, to reduce the deferred tax assets to the amount that is more likely than not to be realized.

Foreign Exchange Operations The Company engages in foreign exchange transactions on behalf of its customers. Stated trading limits are maintained and monitored to ensure efficient operations. The majority of all transactions are settled on a cash and carry basis to minimize settlement risk to the Company. The Company requires cash collateral or an approved line of credit on all forward transactions.

Comprehensive Income Comprehensive income is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. Comprehensive income generally includes net income, foreign items, minimum pension liability adjustments, and unrealized gains and losses on investments in

securities available-for-sale. The Company reports and displays comprehensive income and its components in its consolidated statements of income and comprehensive income. Comprehensive income is a financial reporting concept and does not affect the Company's financial position or results of operations.

Net Income per Common Share Earnings per share ("EPS") are computed on a basic and diluted basis. Basis 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 share in the earnings of the Company.

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.

Segment Information and Disclosures Generally accepted accounting principles establish standards to report information about operating segments in annual financial statements and requires 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 that it has one segment.

Recent Accounting Pronouncements Statement of Financial Accounting Standards ("SFAS") No.133, "Accounting for Derivative Instruments and Hedging Activities" is effective for all fiscal quarters of all fiscal years beginning after June 15, 2000. SFAS No.133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial condition and measure those instruments at fair value. It specifies necessary conditions to be met to designate a derivative as a hedge. As amended by SFAS No.137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No.133." The impact of adopting SFAS No. 133 on January 1, 2001 did not have a material impact on the Company.

2. Acquisition

On December 10, 1999, the Bank entered into a Purchase and Assumption Agreement ("P&A Agreement") with the Federal Deposit Insurance Corporation ("FDIC"), as the Receiver of Golden City Commercial Bank ("Golden City") to purchase certain assets and to assume certain deposits and other liabilities of Golden City as of close of business on December 10, 1999 for $5.5 million in cash. The loans, securities, cash, Federal funds sold and deposits assumed by the Bank as of the closing on December 10, 1999 were $31.2 million, $22.1 million, $8.4 million, $22.0 million, and $80.6 million, respectively. Immediately upon acquisition, the branch operations of Golden City were merged into the Bank, and the two branches of Golden City were made branches of the Bank. The acquisition has been accounted for by the purchase method and, accordingly, the results of operations of Golden City subsequent to the closing on December 10, 1999 have been included in the Company's consolidated financial statements. The excess of the purchase price over the fair value of the net identifiable assets acquired totaled approximately $2.65 million has been recorded as goodwill to be amortized over 15 years.

The P&A Agreement allowed the Bank to put back certain assets and contracts to the FDIC based on a six-month settlement schedule set by the FDIC. Upon completion of the settlement period, goodwill was adjusted in accordance with the settlement schedule.

The following table presents an unaudited pro forma combined summary of operations of the Company and Golden City for the year ended December 31, 1999. The unaudited pro forma combined summary of operations is presented as if the merger had been effective January 1, 1999. This information combines the historical results of the Company and Golden City after giving effect to amortization of purchase accounting adjustments. The unaudited

pro forma combined summary of operations is based on the Company's historical results and those Golden City. These pro forma statements are intended for informational purposes only and are not necessarily indicative of the future results of the Company or of the results of the Company that would have occurred had the acquisition been in effect for the full year presented.

(in thousands, except per share data)	(Unaudited) Year ended December 31, 1999
Net interest income before provision for loan losses	$ 75,865
Net income	$ 30,040
Basic and diluted net income per common share	$ 3.33

3. 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 $2,500,000 for 2000 and $2,788,000 for 1999.

Securities purchased under agreements to resell are collateralized by U.S. agencies, asset-backed, corporate bond, and Collateralized Mortgage Obligations securities at December 31, 2000 and 1999 respectively. These agreements generally mature in one business day. The counterparties 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. The following table sets forth information with respect to securities purchased under resale agreements.

(in thousands)	2000	1999
Balance, December 31	$ 19,000	$ 3,000
Weighted average interest rate, December 31	6.18%	4.50%
Average amount outstanding during the year	$ 11,053	$ 36,741
Weighted average interest rate for the year	6.21%	5.06%
Maximum amount outstanding at any month end	$ 19,500	$ 80,000

For those securities obtained under the resale agreements, the collateral is either held by a third party custodian or by the counterparty and segregated under written agreements that recognize the Company's interest in the securities. Interest income associated with securities purchased under resale agreements totaled $686,000 for 2000, $1,881,000 for 1999 and $3,950,000 for 1998.

4. Securities

Securities Available-for-Sale The following table reflects the amortized cost, gross unrealized gains, gross unrealized losses and fair values of securities available-for-sale as of December 31, 2000 and 1999:

2000 (in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agencies	$ 75,187	$ 3,130	$ —	$ 78,317
State and municipal securities	1,275	2	—	1,277
Mortgage-backed securities	19,001	71	61	19,011
Asset-backed securities	10,452	—	82	10,370
Federal Home Loan Bank stock	5,613	—	—	5,613
Equity securities	8,460	9	18	8,451
Corporate bonds	59,466	1,119	215	60,370
Total	$ 179,454	$ 4,331	$ 376	$ 183,409

1999 (in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$ 25	$ —	$ —	$ 25
U.S. government agencies	40,553	3	338	40,218
State and municipal securities	540	—	—	540
Mortgage-backed securities	22,758	1	302	22,457
Asset-backed securities	16,867	—	419	16,448
Federal Home Loan Bank stock	6,851	—	—	6,851
Commercial paper	40,100	—	24	40,076
Corporate bonds	35,034	13	671	34,376
Total	$ 162,728	$ 17	$ 1,754	$ 160,991

The amortized cost and fair value of securities available-for-sale except for mortgage-backed securities and collateralized mortgage obligations at December 31, 2000, 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.

	Amortized Cost	Fair Value
Due in one year or less[1]	$ 27,331	$ 27,300
Due after one year through five years	57,649	58,771
Due after five years through ten years	75,474	78,328
Mortgage-backed securities and collateralized mortgage obligations	19,000	19,010
Total	$ 179,454	$ 183,409

1 Equity securities are reported in this category.

Proceeds from sales and repayments of securities available-for-sale were $6,955,000 during 2000 and $9,906,000 during 1999. Proceeds from maturities and calls of securities available-for-sale were $678,638,000 during 2000 and $1,160,919,000 during 1999. There were no gains realized in 2000 and 1999. Gross realized gains of $59,000 were realized in 1998. The Company realized no losses in 2000. Gross realized losses of $34,000 was realized for 2000 and $19,000 for, 1999.

Securities Held-to-Maturity The carrying value, gross unrealized gains, gross unrealized losses and estimated fair values of securities held-to-maturity are as follows at December 31, 2000 and 1999:

2000 (in thousands)	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government agencies	$ 64,689	$ 586	$ 262	$ 65,013
State and municipal securities	68,820	1,567	422	69,965
Mortgage-backed securities	184,188	1,564	756	184,996
Asset-backed securities	13,156	—	80	13,076
Corporate bonds	56,347	159	900	55,606
Total	$ 387,200	$ 3,876	$ 2,420	$ 388,656

1999 (in thousands)	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities	$ 24,998	$ 114	$ —	$ 25,112
U.S. government agencies	64,373	79	1,274	63,178
State and municipal securities	68,834	375	3,193	66,016
Mortgage-backed securities	196,679	56	3,600	193,135
Asset-backed securities	19,999	—	209	19,790
Corporate bonds	51,449	37	1,890	49,596
Total	$ 426,332	$ 661	$ 10,166	$ 416,827

The carrying value and estimated fair value of securities held-to-maturity, except for mortgage-backed securities and collateralized mortgage obligations, at December 31, 2000, 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.

	Carrying Value	Estimated Fair Value
Due in one year or less	$ 6,313	$ 6,339
Due after one year through five years	118,966	118,517
Due after five years through ten years	43,853	45,020
Due after ten years	33,880	33,784
Mortgage-backed securities and collateralized mortgage obligations	184,188	184,996
Total	$ 387,200	$ 388,656

Proceeds from the maturities and calls of securities held-to-maturity were $17,519,000 during 2000 and $1,385,000 during 1999. The Company realized gross realized gains of less than $1000 in 2000, $31,000 in 1999 and $3,000 in 1998. No losses were realized for 2000, 1999 and 1998.

Securities having a carrying value of $209,537,000 at December 31, 2000 and $128,904,000 at December 31, 1999 were pledged to secure public deposits, treasury tax and loan, securities sold under agreements to repurchase and a line of credit with the Federal Home Loan Bank.

5. Loans

Most of the Company's business activity is with customers located in the predominantly Asian areas of Southern and Northern California, New York and Houston. 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 statements of condition as of December 31, 2000 and 1999 were as follows:

(in thousands)	2000	1999
Commercial loans	$ 442,181	$ 395,138
Residential mortgage loans	186,926	181,131
Commercial mortgage loans	630,662	577,541
Equity lines	33,794	26,437
Real estate construction loans	142,048	62,516
Installment loans	27,329	25,498
Other loans	473	419
Gross loans	1,463,413	1,268,680
Less		
Unamortized deferred loan fees	4,139	3,593
Allowance for loan losses	21,967	19,502
Net loans	$1,437,307	$1,245,585

The Company previously sold participations in certain residential mortgage loans to buyers in the secondary market. These participations covered substantially all of the loan balances and were sold without recourse. No such sales have been made since 1998. As of December 31, 2000, the Company had $6,151,000 of these loans in its servicing portfolio. There were no loans held for sale as of December 31, 2000 and 1999. The Company pledged approximately $76,463,000 of its residential mortgage loans as of December 31, 2000 and $88,763,000 as of December 31, 1999 to secure a line of credit with the Federal Home Loan Bank.

An analysis of the activity in the allowance for loan losses for the years ended December 31, 1999, 1998 and 1997 is as follows:

(in thousands)	2000	1999	1998
Balance, beginning of year	$ 19,502	$ 15,970	$ 15,379
Loans charged-off	(1,905)	(1,731)	(3,519)
Recoveries on loans previously charged-off	170	1,063	510
Provision for loan losses	4,200	4,200	3,600
Balance, end of year	$ 21,967	$ 19,502	$ 15,970

The Company had identified impaired loans with a recorded investment of approximately $27,818,000 as of December 31, 2000 and $26,279,000 as of December 31, 1999. The average balances of impaired loans were $29,516,000 for the year 2000, $26,707,000 for the year 1999 and $21,713,000 for the year 1998, and interest collected on impaired loans totaled $2,120,000 in 2000, $2,047,000 in 1999 and $2,080,000 in 1998. The Bank recognizes interest income on impaired loans based on its existing method of recognizing interest income on nonaccrual loans. The following table is a breakdown of impaired loans and the related specific allowance:

2000 (in thousands)	Recorded Investment	Allowance	Allocated Net Balance
Commercial	$ 13,868	$ 3,682	$ 10,186
Commercial mortgage	13,208	1,881	11,327
Other	742	133	609
Total	$ 27,818	$ 5,696	$ 22,122

1999 (in thousands)	Recorded Investment	Allowance	Allocated Net Balance
Commercial	$ 12,686	$ 1,831	$ 10,855
Commercial mortgage	13,412	1,912	11,500
Other	181	181	—
Total	$ 26,279	$ 3,924	$ 22,355

The Company has entered into transactions with its directors, significant stockholders and their affiliates ("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 other customers. 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, 2000. An analysis of the activity with respect to loans to Related Parties is as follows:

(in thousands)	
Balance at December 31, 1998	$ 15,904
Additional loans made	918
Payments received	(4,710)
Balance at December 31, 1999	12,112
Additional loans made	1,036
Payments received	(249)
Balance at December 31, 2000	$ 12,899

The following is a summary of nonaccrual loans and troubled debt restructurings as of December 31, 2000, 1999 and 1998 and the related net interest foregone for the years then ended:

(in thousands)	2000	1999	1998
Nonaccrual loans	$ 14,696	$ 13,696	$ 13,090
Contractual interest due	$ 1,408	$ 1,396	$ 1,395
Interest recognized	627	234	112
Net interest foregone	$ 781	$ 1,162	$ 1,283

(in thousands)	2000	1999	1998
Troubled debt restructurings	$ 4,531	$ 4,581	$ 4,642
Contractual interest due	$ 422	$ 429	$ 421
Interest recognized	407	414	412
Net interest foregone	$ 15	$ 15	$ 9

As of December 31, 2000, there were no commitments to lend additional funds to those borrowers whose loans have been restructured.

6. Other Real Estate Owned

The balance of other real estate owned at December 31, 2000 was $5,174,000 and December 31, 1999 was $4,337,000. The valuation allowance was $131,000 at December 31, 2000 and $614,000 at December 31, 1999. The following table presents the components of the valuation allowance balance at December 31, 2000, 1999 and 1998. The following table presents the components of other real estate owned expense (income) for the year-ended:

(in thousands)	2000	1999	1998
Operating expense (income)	$ 7	$ (206)	$ (321)
Provision for losses	71	339	195
Net gain on disposal	(263)	(1,549)	(999)
Real estate operations, net	$ (185)	$ (1,416)	$ (1,125)

An analysis of the activity in the allowance for other real estate losses for the years ended December 31, 2000, 1999, and 1998 is as follows:

(in thousands)	2000	1999	1998
Balance, beginning of year	$ 614	$ 494	$ 1,081
Provision for losses	71	339	195
Charge-offs on disposal	(554)	(219)	(782)
Balance, end of year	$ 131	$ 614	$ 494

7. Investments in Real Estate

The Company's investments in real estate were $17,348,000 as of December 31, 2000 and $16,987,000 as of December 31, 1999 consisted of four investments in limited partnerships formed for the purpose of investing in low income housing projects, qualified for Federal low income housing tax credits. The limited partnerships are expected to generate tax credits over a weighted average remaining period of approximately seven years. See Note 10 of the notes to consolidated financial statements for income tax effects. In 2000, the Company contributed approximately $1,134,000 to Wilshire Courtyard, the senior housing construction project. The following table presents the details of the four projects as of December 31, 2000 and 1999:

(in thousands)	Percentage of Ownership	Acquisition Date	December 31, 2000	December 31, 1999
Las Brisas	49.50%	Dec 1993	$ 189	$ 209
Los Robles	99.00%	Aug 1995	393	431
California Tax Credit Funds	36.00%	Mar 1999	14,127	14,841
Wilshire Courtyard	99.90%	May 1999	2,639	1,506
			$ 17,348	$ 16,987

The Company's 99.0% and 99.90% interest in the Los Robles and Wilshire Courtyard limited partnerships were not consolidated as of December 31, 2000 and 1999 because the Company did not have ability to exercise significant influence over the operation of the partnerships. The Company's investments are accounted for utilizing the equity method of accounting. The Company recognized a net loss of approximately $684,000 in 2000, $334,000 in 1999 and $158,000 in 1998 from the partnerships' operations.

The Company recognized a gain of $394,000 from the sale of a strip mall in 1999, and a net gain of $409,000 in 1999 and $95,000 in 1998 from the operations.

8. Premises and Equipment

Premises and equipment consisted of the following at December 31, 2000 and 1999:

(in thousands)	2000	1999
Land and land improvements	$ 11,800	$ 11,495
Building and building improvements	17,525	13,623
Furniture, fixtures and equipment	14,169	13,155
Other	2,199	2,193
Construction in process	716	292
	46,409	40,758
Less: Accumulated depreciation	16,686	15,459
Premises and equipment, net	$ 29,723	$ 25,299

The amount of depreciation included in operating expense was $1,500,000 in 2000, $1,330,732 in 1999 and $1,241,354 in 1998.

9. Borrowings

Securities Sold Under Agreements to Repurchase The underlying collateral pledged for the repurchase agreements consists of U.S. government agency and mortgage-backed securities with a carrying value of $49,369,000 and a fair value of $50,196,000 as of December 31, 2000. Pledged collateral is maintained at a custodian outside the control of the Company. These borrowings generally mature in less than 30 days. The table below provides comparative data for securities sold under agreements to repurchase.

	December 31,		
(dollars in thousands)	2000	1999	1998
Average amount outstanding[1]	$ 70,701	$ 55,519	$ 53,285
Highest month-end balances[2]	110,145	79,185	55,185
Year end balance	68,173	46,990	16,436
Rate at year-end	6.09%	5.80%	4.53%
Weighted average interest rate for the year	6.25%	5.73%	5.98%

1 Average balances were computed using daily averages.

2 Highest month-end balances were at October 2000, February 1999 and November 1998, respectively.

Advances from the Federal Home Loan Bank As of December 31, 2000, advance with the Federal Home Loan Bank totaled $10 million at a fixed interest rate of 4.90%. The advance is non-callable and will mature in 2003.

10. Income Taxes

For the years ended December 31, 2000, 1999 and 1998, the current and deferred amounts of the income tax expense are summarized as follows:

(in thousands)	2000	1999	1998
Current			
Federal	$ 19,321	$ 15,377	$ 11,697
State	1,904	5,815	4,289
	21,225	21,192	15,986
Deferred			
Federal	479	(1,159)	(105)
State	158	(313)	95
	637	(1,472)	(10)
Total income tax expense	$ 21,862	$ 19,720	$ 15,976

Temporary differences between the amounts reported in the financial statements and the tax basis of assets and liabilities give rise to deferred taxes. Deferred tax assets and liabilities for the years ended December 31, 2000 and 1999 were as follows:

(in thousands)	2000	1999
Deferred Tax Assets		
Difference between provisions for loan losses for tax and financial reporting purposes	$ 8,508	$ 9,531
Difference between provisions for other real estate owned losses for tax and financial reporting purposes	55	—
State income tax	307	1,855
Unrealized holding loss on securities available-for-sale, net	—	730
Gross deferred tax assets	8,870	12,116
Deferred Tax Liabilities		
Difference between provisions for other real estate owned losses for tax and financial reporting purposes	$ —	$ (412)
Use of accelerated depreciation for tax purposes	(1,272)	(1,534)
Deferred loan fees	(2)	(7)
FHLB stock dividend	(1,170)	(1,088)
Acquisition of FPSB	—	(485)
Unrealized holding gain on securities available-for-sale, net	(1,670)	—
Other, net	(855)	(1,652)
Gross deferred tax liabilities	(4,969)	(5,178)
Net deferred tax assets	$ 3,901	6,938

Amounts for the current year are based upon estimates and assumptions as of the date of this report and could vary from amounts shown on the tax returns as filed. Accordingly, the variances from the amounts previously reported for 1999 are primarily the result of adjustments to conform to the tax returns as filed.

In assessing the realizability 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 upon 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 Bank will realize all benefits related to these deductible temporary differences.

Included in other assets in the statements of condition, at December 31, 2000 and 1999 were net deferred tax assets of $3,901,011 and $6,938,370, respectively. Other assets as of December 31, 2000 included a current income tax receivable of $1,675,244. Other liabilities as of December 31, 2000 and 1999 include a current income tax payable of $4,429,275 and $1,059,867, respectively.

Income tax expense results in effective tax rates that differ from the statutory Federal income tax rate for the years indicated as follows:

(in thousands)	2000		1999		1998	
Tax provision at Federal statutory rate	$ 21,157	35.00%	$ 17,504	35.00%	$ 14,194	35.00%
State income taxes, net of Federal income tax benefit	1,340	2.22	3,576	7.15	2,850	7.03
Interest on obligations of state and political subdivisions, which are exempt from Federal taxation	(1,240)	(2.05)	(1,081)	(2.16)	(927)	(2.29)
Low income housing tax credits	(947)	(1.57)	(319)	(0.64)	(319)	(0.79)
Non-deductible expense—Amortization of goodwill	231	0.38	240	0.48	239	0.59
Other, net	1,321	2.19	(200)	(0.40)	(61)	(0.15)
Total income tax expense	$ 21,862	36.17%	$ 19,720	39.43%	$ 15,976	39.39%

11. Stockholders' Equity and Earnings per Share

As a bank holding company, Bancorp's ability to pay dividends will depend upon the dividends it receives from the Bank and on the income which it may generate from any other activities in which Bancorp may engage, either directly or through other subsidiaries. Currently, since Bancorp does not have any other significant business activities outside the Bank's and CIC's operations, its ability to pay dividends will depend solely on dividends received from the Bank.

Under California State banking law, the Bank may not pay a cash dividend, without regulatory approval, 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. The amount of retained earnings available for cash dividends as of December 31, 2000 is restricted to approximately $71,973,000 under this regulation.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate 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 judgements by the regulators about components, risk weightings, and other factors.

The Federal Deposit Insurance Corporation has established five capital ratio categories: "well capitalized", "adequately capitalized", "undercapitalized", "significantly undercapitalized" and "critically undercapitalized." A well 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, 2000, the Bank was in compliance with the minimum capital requirements and is considered well capitalized.

The Company and the Bank's capital and leverage ratios as of December 31, 2000 and 1999 are presented in the tables below:

	Company As of December 31, 2000		Bank As of December 31, 2000		Company As of December 31, 1999		Bank As of December 31, 1999	
(dollars in thousands)	Balance	Percentage	Balance	Percentage	Balance	Percentage	Balance	Percentage
Tier I Capital (to risk-weighted assets)	$ 202,741[1]	11.05%	$ 194,694[1]	10.64%	$ 169,556[2]	10.50%	$ 163,093[2]	10.10%
Tier I Capital minimum requirement	73,392	4.00	73,206	4.00	64,588	4.00	64,588	4.00
Excess	$ 129,349	7.05%	$ 121,488	6.64%	$ 104,968	6.50%	$ 98,505	6.10%
Total Capital (to risk-weighted assets)	$ 224,708[1]	12.25%	$ 216,661[1]	11.84%	$ 189,058[2]	11.71%	$ 182,595[2]	11.31%
Total Capital minimum requirement	146,784	8.00	146,412	8.00	129,176	8.00	129,176	8.00
Excess	$ 77,924	4.25%	$ 70,249	3.84%	$ 59,882	3.71%	$ 53,419	3.31%
Risk-weighted assets	$1,834,804		$1,830,161		$1,614,695		$1,614,695	
Tier I Capital (to average assets)— Leverage ratio	$ 202,741[1]	9.28%	$ 194,694[1]	8.93%	$ 169,556[2]	8.93%	$ 163,093[5]	8.59%
Minimum leverage requirement	87,387	4.00	87,251	4.00	75,974	4.00	75,974	4.00
Excess	$ 115,354	5.28%	$ 107,443	4.93%	$ 93,582	4.93%	$ 87,119	4.59%
Total average assets	$2,184,666[3]		$2,181,272[3]		$1,899,358[3]		$1,899,356[3]	

1 Excluding the unrealized holding gains on securities available-for-sale of $2,303,000 and goodwill of $9,744,000.

2 Excluding the unrealized holding losses on securities available-for-sale of $1,006,000 and goodwill of $10,559,000.

3 Average assets represent average balances for the fourth quarter of 2000 and 1999, respectively.

The Board of Directors of 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 Bancorp may rank prior to 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 Bancorp common stock. No preferred stock has been issued as of December 31, 2000.

On November 16, 2000, Bancorp's Board of Directors adopted a Rights Agreement between 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 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 Bancorp one one-thousandth of a share of 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 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 will expire in ten years. The complete terms and conditions of the rights are contained in the Rights Agreement, between Bancorp and the Rights Agent, which was filed as an exhibit to Bancorp's Form 8-A on December 20, 2000. The Rights Agreement is a successor to Bancorp's prior rights agreement, which expired at the close of business on December 20, 2000.

The following is the reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the years indicated.

	Year Ended December 31, 2000			Year Ended December 31, 1999			Year Ended December 31, 1998		
(in thousands, except share and per share data)	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Net income	$ 38,587			$ 30,291			$ 24,579		
Basic EPS									
Income available to stockholders	$ 38,587	9,056,751	$ 4.26	$ 30,291	9,013,428	$ 3.36	$ 24,579	8,967,188	$ 2.74
Effect of Dilutive Stock Options		17,134			4,332			1,205	
Diluted EPS income available to common stockholders plus assumed conversions conversions	$ 38,587	9,073,885	$ 4.25	$ 30,291	9,017,760	$ 3.36	$ 24,579	8,968,393	$ 2.74

12. 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 financial condition or results of operations.

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 included commitments to extend credit in the form of loans or through commercial, standby letters of credit and financial guarantees. Those instru-

ments represent varying degrees of exposure to risk in excess of the amounts included in the accompanying consolidated statements of condition. 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:

(in thousands)	2000	1999
Commitments to extend credit	$ 619,872	$ 580,727
Standby letters of credit	15,435	11,748
Other letters of credit	44,371	31,866
Financial guarantees	—	20,000
Bill of lading guarantee	20,729	13,924
Total	$ 700,407	$ 658,265

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, 2000, 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.

The financial guarantees represent a conditional commitment issued by the Company to guarantee the credit performance on $20 million of corporate debt. The Company's exposure to credit risk from this financial guarantee is essentially the same as if the Company was the owner of the corporation debt. At December 31, 2000 the Company has no outstanding financial guarantees.

Letters of credit and bill of lading guarantees are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in making loans to customers.

As of December 31, 2000, the Company had available credit lines with other financial institutions in the amount of $252,000,000.

Derivative Financial Instruments The Company entered into derivative financial instruments in order to seek to mitigate the risk of interest rate exposures related to its interest earning assets and interest bearing liabilities. The Company entered into a pay fixed interest rate swap agreement with a notional amount of $20.0 million in order to alter interest rate exposures related to the mismatch of assets and liabilities. The difference between amounts receivable and payable under the terms of the interest rate swap were accrued and recognized over the term of the swap as an adjustment to net interest income. The Company entered into a forward rate agreement with a notional amount of $100.0 million that was recorded at fair value, with unrealized gains recorded as securities gains in the accompanying consolidated statements of income and comprehensive income.

Leases The Company is obligated under a number of operating leases for premises and equipment with terms ranging from 1 to 55 years, many of which provide for periodic adjustment of rentals based on changes in various economic indicators. Rental expense was $2,200,000 for 2000, $1,823,000 for 1999 and $1,751,000 for 1998. The following table shows future minimum payments under operating leases with terms in excess of one year as of December 31, 2000:

(in thousands)	Commitments
Year ended December 31,	
2001	$ 1,476
2002	1,358
2003	1,188
2004	1,016
2005	974
Thereafter	9,306
Total minimum lease payments	$ 15,318

Rental income was $436,596 for 2000, $443,000 for 1999 and $455,000 for 1998. The following table shows future rental payments to be received under operating leases with terms in excess of one year as of December 31, 2000:

(in thousands)	Commitments
Year ended December 31,	
2001	$ 389
2002	353
2003	280
2004	171
2005	24
Thereafter	—
Total minimum lease payments to be received	$ 1,217

13. 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 Short-Term Instruments For cash and short-term instruments, the carrying amount was assumed to be a reasonable estimate of fair value.

Investment Securities For securities (which include securities available-for-sale, and securities held-to-maturity), 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.

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.

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.

Fair value for non-performing real estate loans was based on recent external appraisals of the underlying collateral of the loan. If appraisals were not available, estimated cash flows are discounted using a rate commensurate with the risk associated with the estimated cash flows. Assumptions regarding credit risk, cash flows, and discount rates were judgementally determined using available market information and specific borrower information.

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.

Other Borrowings This category includes Federal funds purchased and securities sold under repurchase agreements, and other short-term borrowings. The carrying amount is a reasonable estimate of fair value because of the relatively short period of time between the origination of the instrument and its expected realization.

Advances from Federal Home Loan Bank The fair value of the advances is estimated by discounting the projected cash flows using the U.S. Treasury curve adjusted to approximate current entry-value interest rates applicable and similar obligations issued by the Bank.

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 counterparties. 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 counterparties at the reporting date.

The fair value of interest rate swap and forward rate agreements 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.

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 judgements 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 judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair Market Value of Financial Instruments

	As of December 31, 2000		As of December 31, 1999	
(in thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and due from banks	$ 65,687	$ 65,687	$ 59,081	$ 59,081
Federal funds sold and securities purchased under agreements to resell	19,000	19,000	5,000	5,000
Securities available-for-sale	183,409	183,409	160,991	160,991
Securities held-to-maturity	387,200	388,656	426,332	416,827
Loans, net	1,437,307	1,430,956	1,245,585	1,219,336
Financial Liabilities				
Deposits	$ 1,876,447	$ 1,881,071	$ 1,721,736	$ 1,710,265
Securities sold under agreements to repurchase	68,173	68,201	46,990	47,649
Advances from Federal Home Loan Bank	10,000	9,951	30,000	29,305

	As of December 31, 2000		As of December 31, 1999	
(in thousands)	Notional Amount	Fair Value	Notional Amount	Fair Value
Off-Balance Sheet Financial Instruments				
Commitments to extend credit	$ 619,872	$ (509)	$ 580,727	$ (328)
Standby letters of credit	15,435	(63)	11,748	(64)
Other letters of credit	44,371	(238)	31,866	(193)
Financial guarantee	—	—	20,000	35
Bill of lading guarantee	20,729	(125)	13,924	(69)
Interest rate swap	20,000	977	—	—
Forward rate agreement	100,000	1,104	—	—

14. Employee Benefit Plans

Employee Stock Ownership Plan Under the Company's 1985 Employee Stock Ownership Plan ("ESOP"), the Company makes annual contributions to a trust in the form of either cash or common stock of the Company for the benefit of eligible employees. Employees are eligible to participate in the ESOP Plan 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 ESOP purchased 18,755 shares in 2000, 33,163 shares in 1999 and 23,669 shares in 1998 of the Company's stock at an aggregate cost of $812,359 in 2000, $1,162,829 in 1999, and $821,021 in 1998. The shares purchased in 2000 included 7,500 shares bought on the open market and 11,255 shares bought through the Dividend Reinvestment Plan. The shares purchased in 1999 included 20,160 shares bought on the open market and 13,003 shares bought through the Dividend Reinvestment Plan. The shares purchased in 1998 included 11,000 shares bought on the open market and 12,669 shares bought through the Dividend Reinvestment Plan. The Company contributed $564,800 in 2000, $537,200 in 1999 and $486,120 in 1998 to the trust which was charged to salaries and employee benefits in the accompanying consolidated statements of income and comprehensive income. In 2000, distribution of benefits to participants totaled 38,769 shares. As of December 31, 2000, the ESOP owned 551,636 shares or 6.08% of the Company's outstanding common stock.

Cathay Bancorp, Inc. 401(k) Plan In 1997, the Board approved the Cathay Bancorp, Inc. 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 15% of their compensation for the year but not to exceed the dollar limit set by the Internal Revenue Service (IRS). Participants may change their contribution election on the enrollment dates. The Company matches 50% of the participants' contribution up to 4% of their compensation 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% vested after five years of service. In 2000, the Company's contribution amounted to $198,119 in 2000, $186,736 in 1999 and $128,150 in 1998.

The Plan allows participants to withdraw all or part of their vested amount in the plan due to certain financial hardship as designated by the IRS. Participants may also borrow up to 50% of the vested amount, up to a maximum of $50,000. The minimum loan amount is $1,000.

15. Equity Incentive Plan

In 1998, the Board adopted the Cathay Bancorp, Inc. Equity Incentive Plan. Under the Equity Incentive Plan, directors and eligible employees may be granted incentive or nonstatutory stock options, or awarded restricted stock, for up to 1,075,000 shares of the Company's common stock. The Equity Incentive Plan currently terminates in February 2008.

The Company granted nonstatutory stock options to selected bank officers and non-employee directors in September 1999 to purchase a total of 45,000 shares, and in January 2000 to purchase a total of 55,000 shares of the Company's common stock. The exercise price per share of these nonstatutory stock options is 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). If such options expire or terminate without having been exercised, any unpurchased shares will again be available for future grants or awards.

	Shares	Weighted-Average Exercise Price
Balance, December 31, 1997	—	$ —
Granted	45,000	33.00
Exercised	—	—
Forfeited	—	—
Expired	—	—
Cancelled	—	—
Balance, December 31, 1998	45,000	$ 33.00
Granted	—	—
Exercised	(300)	33.00
Forfeited	—	—
Expired	—	—
Cancelled	—	—
Balance, December 31, 1999	44,700	$ 33.00
Granted	55,000	42.50
Exercised	(1,452)	33.00
Forfeited	(420)	42.50
Expired	—	—
Cancelled	—	—
Balance, December 31, 2000	97,828	$ 38.30

The following table shows stock options outstanding and exercisable as of December 31, 2000, the corresponding exercise price and the weighted average contractual life remaining.

	Outstanding		
Exercise Price	Shares	Weighted-Average Remaining Contractual Life (in Years)	Exercisable Shares
$ 33.00	43,248	7.8	16,348
42.50	54,580	9.1	—
	97,828	8.5	16,348

No compensation cost has been recognized for its stock option plans in the consolidated financial statements.

The Company estimates the fair value of options granted during 2000 and 1998 using the Black-Scholes option-pricing model with following assumptions: (i) an expected life of the option of 4 years, (ii) a stock price volatility of 33.88% in 2000 and 33.50% in 1998 based on daily market prices for the preceding four-year period, (iii) an expected dividend yield of 2.1% per share per annum in 2000, and 1.9% per share per annum in 1998, and (iv) a risk-free interest rate of 5.1% in 2000 and 4.5% in 1998. The fair value of the options was calculated to be $12.05 per share for options granted in 2000 at the date of grant and $9.21 per share for options granted in 1998 at the date of grant.

If the compensation cost for the Company's stock option plan had been determined with the fair value at the grant dates, computed using the assumptions above, for awards under the Plan consistent with the method of SFAS No. 123, "Accounting for Stock-Based Compensation," the Company's net income and earnings per share for 2000, 1999 and 1998 would have been reduced to the pro forma amounts indicated below.

(in thousands, except per share data)	2000	1999	1998
Net income			
As reported	$ 38,587	$ 30,291	24,579
Pro forma	38,457	30,237	24,564
Basic net income per share			
As reported	4.26	3.36	2.74
Pro forma	4.25	3.35	2.74
Diluted net income per share			
As reported	4.25	3.36	2.74
Pro forma	4.24	3.35	2.74

16. Condensed Financial Information of Cathay Bancorp, Inc. (Unaudited)

The condensed financial information of Cathay Bancorp, Inc. as of December 31, 2000 and 1999 and for the years ended December 31, 2000, 1999 and 1998 were as follows:

Statements of Condition

(in thousands, except share and per share data)	Year ended December 31, 2000	1999
Assets		
Cash	$ 4,701	$ 6,504
Investment securities	3,409	—
Investment in subsidiary—Cathay Bank	206,740	172,646
Total assets	$ 214,850	$ 179,150
Liabilities		
Accrued expenses	$ 63	$ 41
Total liabilities	63	41
Stockholders' equity		
Preferred stock, $0.01par value; 10,000,000 shares authorized, none issued	—	—
Common stock, $0.01par value; 25,000,000 shares authorized, 9,074,365 and 9,033,583 shares issued and outstanding in 2000 and 1999, respectively	91	90
Additional paid-in-capital	66,275	64,529
Accumulated other comprehensive income (loss)	2,303	(1,006)
Retained earnings	146,118	115,496
Total stockholders' equity	214,787	179,109
Total liabilities and stockholders' equity	$ 214,850	$ 179,150

Statements of Income and Comprehensive Income

(in thousands)	Year ended December 31, 2000	1999	1998
Cash dividends from Cathay Bank	$ 7,965	$ 7,248	$ 6,272
Amortization of organizational costs and other expenses	(280)	(321)	(268)
Income before income tax expense	7,685	6,927	6,004
Income tax benefit	118	136	113
Income before undistributed earnings of subsidiary	7,803	7,063	6,117
Equity in undistributed earnings of subsidiary	30,784	23,228	18,462
Net income	38,587	30,291	24,579
Other comprehensive income (loss), net of tax:			
Unrealized holding gains (losses) arising during the year	3,309	(2,229)	810
Less: reclassification adjustment for realized gains (losses) on securities included in net income	—	(34)	(8)
Total comprehensive income (loss), net of tax	3,309	(2,195)	818
Total comprehensive income	$ 41,896	$ 28,096	$ 25,397

Statements of Cash Flows

(in thousands)	Year ended December 31, 2000	1999	1998
Cash Flows from Operating Activities			
Net income	$ 38,587	$ 30,291	$ 24,579
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiary	(30,784)	(23,228)	(18,462)
Increase (decrease) in accrued expenses	22	—	(30)
Other	—	—	3
Net cash provided by operating activities	7,825	7,063	6,090
Cash Flows from Investing Activities			
Purchase of investment securities	(3,409)	—	—
Net cash used in investing activities	(3,409)	—	—
Cash Flows from Financing Activities			
Proceeds from issuance of common stock	1,746	1,609	1,649
Cash dividends	(7,965)	(7,248)	(6,272)
Net cash used in financing activities	(6,219)	(5,639)	(4,623)
Increase in cash and cash equivalents	(1,803)	1,424	1,467
Cash and cash equivalents, beginning of year	6,504	5,080	3,613
Cash and cash equivalents, end of year	$ 4,701	$ 6,504	$ 5,080
Supplemental disclosure of cash flow information			
Cash paid during the year for:			
Income taxes	$ 150	$ 150	$ 150
Non-cash investing activities:			
Net change in unrealized holding gains (losses) on securities available-for-sale, net of tax	$ 3,309	$ (2,195)	$ 818

17. Dividend Reinvestment Plan

The Company has a dividend reinvestment plan which allows for participants' reinvestment of cash dividends and certain additional optional investments in the Company's common stock. Shares issued under the plan and consideration received were 39,330 for $1,690,664 in 2000, 44,523 for $1,600,173 in 1999 and 47,017 for $1,649,426 in 1998.

18. Quarterly Results of Operations (Unaudited)

The following table sets forth selected unaudited quarterly financial data.

Summary of Operations (in thousands, except per share data)	2000 Fourth Quarter	2000 Third Quarter	2000 Second Quarter	2000 First Quarter	1999 Fourth Quarter	1999 Third Quarter	1999 Second Quarter	1999 First Quarter
Interest income	$ 43,834	$ 43,039	$ 40,292	$ 37,388	$ 35,460	$ 33,489	$ 32,538	$ 31,514
Interest expense	20,644	19,557	17,861	16,094	14,985	14,094	14,278	14,006
Net interest income	23,190	23,482	22,431	21,294	20,475	19,395	18,260	17,508
Provision for loan losses	1,050	1,050	1,050	1,050	1,050	1,050	1,050	1,050
Net interest income after provision for loan losses	22,140	22,432	21,381	20,244	19,425	18,345	17,210	16,458
Non-interest income	4,466	2,746	2,795	2,749	2,395	2,361	2,181	1,918
Non-interest expense	10,463	9,493	9,296	9,252	7,481	7,643	7,473	7,685
Income before income tax expense	16,143	15,685	14,880	13,741	14,339	13,063	11,918	10,691
Income tax expense	6,449	4,233	5,793	5,387	5,629	5,170	4,733	4,188
Net income	9,694	11,452	9,087	8,354	8,710	7,893	7,185	6,503
Other comprehensive income (loss), net of tax:								
Unrealized holding gains (losses) arising during the year	2,152	986	336	(165)	(899)	231	(659)	(875)
Less: reclassification adjustment for realized gains (losses) on securities included in net income	—	—	—	—	—	6	19	(32)
Total other comprehensive income (loss), net of tax	2,152	986	336	(165)	(899)	225	(678)	(843)
Total comprehensive income	$ 11,846	$ 12,438	$ 9,423	$ 8,189	$ 7,811	$ 8,118	$ 6,507	$ 5,660
Basic net income per common share	$ 1.07	$ 1.26	$ 1.00	$ 0.92	$ 0.96	$ 0.88	$ 0.80	$ 0.72
Diluted net income per common share	$ 1.07	$ 1.26	$ 1.00	$ 0.92	$ 0.96	$ 0.87	$ 0.80	$ 0.72

Independent Auditors' Report

The Stockholders and the Board of Directors of Cathay Bancorp, Inc.:

We have audited the accompanying consolidated statements of condition of Cathay Bancorp, Inc. and subsidiary (the Company) as of December 31, 2000 and 1999, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2000. 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 auditing standards generally accepted in the United States of America. 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 Bancorp, Inc. and subsidiary as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Los Angeles, California
January 15, 2001

Administrative Information

Board of Directors

Front Row (left to right)

Dunson K. Cheng 鄭家發
Chairman of the Board and President
Cathay Bancorp, Inc.

George T. M. Ching 程達民
Vice Chairman of the Board
Cathay Bancorp, Inc.

Wilbur K. Woo 胡國棟
Secretary of the Board
Cathay Bancorp, Inc.

Wing K. Fat 鄧榮啓
President
Frank Fat, Inc.

Ralph Roy Buon-Cristiani 包樂富
Retired Veterinarian

Back Row (left to right)

Kelly L. Chan 陳啓誾
CPA
Vice President
Phoenix Bakery

Joseph C. H. Poon 潘志洪
President
Edward Properties, Inc.

Michael M. Y. Chang 張文友
Retired Attorney

Patrick S. D. Lee 李樹滋
Vice President
TC Realty Inc.

Anthony M. Tang 鄧孟輝
Executive Vice President
Cathay Bancorp, Inc.

Thomas Tartaglia 鐵達尼亞
Director
Cathay Bancorp, Inc.

Officers

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Dunson K. Cheng
Chairman of the Board and President

George T. M. Ching
Vice Chairman of the Board

Wilbur K. Woo
Secretary of the Board

Anthony M. Tang
Executive Vice President
and Chief Financial Officer/
Treasurer/Assistant Secretary

Administration of
Cathay Bank

Dunson K. Cheng
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Vice Chairman of the Board

Wilbur K. Woo
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and Chief Lending Officer

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Executive Vice President
Northern California Operations

Irwin Wong
Executive Vice President
Branch Administration

Elena Chan
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and Chief Financial Officer

James P. Lin
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and International Banking
Department Manager

Maria Wei
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and Commercial Loan
Department Manager

Chingying Chu
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and Small Business Loan
Department Manager

Wilson Tang
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Branch Administration

Jack Tweedy
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and Commercial Real Estate Loan
Department Manager

Pin Tai
General Manager
New York Region

Weston Barkwill
Chief Internal Auditor

Oliver Chen
Vice President
and Commercial Loan Officer

Jay Cheng
Vice President
and Commercial Loan Officer

Mary Figlioli
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and Commercial Real Estate Loan
Officer

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Collateral Control Department
Manager

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Investments

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Li Sung
Representative and Manager

Additional Information:

Market Makers
The following firms make a market in Cathay Bancorp, Inc. stock:

Herzog, Heine, Geduld, Inc.
Wedbush Morgan Securities Inc.
Hoefer & Arnett, Inc.

Registrar and Transfer Agent
American Stock Transfer and Trust Company
40 Wall Street
New York, NY 10005
Tel: (800) 937-5449

Cathay Service Hotline
(800) 9 CATHAY / 922-8429
Service available 24 hours throughout California.

Cathay Bank Web site
www.cathaybank.com

Annual Report Form 10-K

For stockholders and others interested in information beyond that shown in this report, the Company's Annual Report on Form 10-K for 2000 required to be filed with the Securities and Exchange Commission may be obtained without charge by writing to:

Monica Chen
Cathay Bank
777 North Broadway
Los Angeles, California 90012

or by visiting our Web site at www.cathaybank.com

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Member of Federal Deposit Insurance Corporation

This annual report has not been reviewed, or confirmed for accuracy or relevance, by the Federal Deposit Insurance Corporation.

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