EAST WEST BANCORP INC
Form 10-Q
May 10, 2006

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

**FORM 10-Q**

Mark One
[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2006

or

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

For the transition period from ________ to ________.

Commission file number 000-24939

**EAST WEST BANCORP, INC**.
(Exact name of registrant as specified in its charter)

| **Delaware** | **95-470316** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S Employer Identification No.) |

**135 N. Los Robles Ave, 7th Floor, Pasadena, California, 91101**
(Address of principal executive offices)(Zip Code)
**(626) 768-6000**
(Registrant's telephone number, including area code)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes [x] No [ ]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes [ ] No [x]

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

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

Large accelerated filer [x] Accelerated filer [ ] Non-accelerated filer [ ]

Number of shares outstanding of the issuer's common stock on the latest practicable date: 60,715,387 shares of common stock as of April 30, 2006.

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

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**Forward-Looking Statements**

Certain matters discussed in this report may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "1933 Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and as such, may involve risks and uncertainties. These forward-looking statements relate to, among other things, expectations of the environment in which the Company operates and projections of future performance. The Company's actual results, performance, or achievements may differ significantly from the results, performance, or achievements expected or implied in such forward-looking statements. For discussion of some of the factors that might cause such differences, see the Company's Form 10-K under the heading "Item 1A. Risk Factors." The Company does not undertake, and specifically disclaims any obligation to update any forward looking statements to reflect the occurrence of events or circumstances after the date of such statements.

**PART I - FINANCIAL INFORMATION**
**ITEM 1. FINANCIAL STATEMENTS**
EAST WEST BANCORP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
*(In thousands, except share data)*
*(Unaudited)*

| | March 31, 2006 | December 31, 2005 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 133,726 | $ 151,192 |
| Interest-bearing deposits in other banks | 1,059 | - |
| Securities purchased under resale agreements | 100,000 | 50,000 |
| Investment securities available-for-sale, at fair value (with amortized cost of $857,304 in 2006 and $873,969 in 2005) | 850,018 | 869,837 |
| Loans receivable, net of allowance for loan losses of $75,493 in 2006 and $68,635 in 2005 | 7,576,528 | 6,724,320 |
| Investment in Federal Home Loan Bank stock, at cost | 55,403 | 45,707 |
| Investment in Federal Reserve Bank stock, at cost | 12,285 | 12,285 |
| Other real estate owned, net | 2,786 | 299 |
| Investment in affordable housing partnerships | 29,741 | 31,006 |
| Premises and equipment, net | 43,717 | 38,579 |
| Due from customers on acceptances | 8,981 | 6,074 |
| Premiums on deposits acquired, net | 25,737 | 18,853 |
| Goodwill | 244,145 | 143,254 |
| Cash surrender value of life insurance policies | 82,973 | 82,191 |
| Accrued interest receivable and other assets | 86,897 | 82,073 |
| Deferred tax assets | 26,539 | 22,586 |
| **TOTAL** | **$ 9,280,535** | **$ 8,278,256** |
| | | |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Customer deposit accounts: | | |
| Noninterest-bearing | $ 1,389,675 | $ 1,331,992 |
| Interest-bearing | 5,634,001 | 4,926,595 |
| Total deposits | 7,023,676 | 6,258,587 |
| | | |
| Federal funds purchased | 5,500 | 91,500 |
| Federal Home Loan Bank advances | 738,958 | 617,682 |
| Securities sold under repurchase agreements | 325,000 | 325,000 |
| Notes payable | 8,833 | 8,833 |
| Bank acceptances outstanding | 8,981 | 6,074 |
| Accrued interest payable, accrued expenses and other liabilities | 82,041 | 83,347 |
| Long-term debt | 184,023 | 153,095 |
| Total liabilities | 8,377,012 | 7,544,118 |
| | | |
| COMMITMENTS AND CONTINGENCIES (Note 6) | | |
| | | |
| STOCKHOLDERS' EQUITY | | |
| Common stock (par value of $0.001 per share) | | |
| Authorized -- 200,000,000 shares | | |

| | | | | |
|---|---|---|---|---|
| Issued -- 65,515,220 shares in 2006 and 61,419,622 shares in 2005 | | | | |
| Outstanding -- 60,602,388 shares in 2006 and 56,519,438 shares in 2005 | | 65 | | 61 |
| Additional paid in capital | | 523,541 | | 389,004 |
| Retained earnings | | 423,067 | | 393,846 |
| Deferred compensation | | - | | (8,242) |
| Treasury stock, at cost -- 4,912,832 shares in 2006 and 4,900,184 shares in 2005 | | (38,345) | | (37,905) |
| Accumulated other comprehensive loss, net of tax | | (4,805) | | (2,626) |
| Total stockholders' equity | | 903,523 | | 734,138 |
| **TOTAL** | **$** | **9,280,535** | **$** | **8,278,256** |

See accompanying notes to condensed consolidated financial statements.

EAST WEST BANCORP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
*(In thousands, except per share data)*
*(Unaudited)*

| | Three Months Ended March 31, 2006 | 2005 |
|---|---|---|
| **INTEREST AND DIVIDEND INCOME** | | |
| Loans receivable, including fees | $ 125,871 | $ 78,896 |
| Investment securities available-for-sale | 9,214 | 5,257 |
| Securities purchased under resale agreements | 1,347 | - |
| Investment in Federal Home Loan Bank stock | 563 | 457 |
| Investment in Federal Reserve Bank stock | 184 | 104 |
| Short-term investments | 123 | 42 |
| Total interest and dividend income | 137,302 | 84,756 |
| **INTEREST EXPENSE** | | |
| Customer deposit accounts | 38,889 | 16,291 |
| Federal Home Loan Bank advances | 8,708 | 5,181 |
| Securities sold under repurchase agreements | 2,877 | - |
| Long-term debt | 2,661 | 1,020 |
| Federal funds purchased | 1,119 | 42 |
| Total interest expense | 54,254 | 22,534 |
| NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES | 83,048 | 62,222 |
| PROVISION FOR LOAN LOSSES | 3,333 | 4,370 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 79,715 | 57,852 |
| **NONINTEREST INCOME** | | |
| Branch fees | 2,539 | 1,593 |
| Letters of credit fees and commissions | 2,172 | 2,537 |
| Net gain on investment securities available-for-sale | 1,716 | 448 |
| Income from life insurance policies | 896 | 744 |
| Ancillary loan fees | 779 | 517 |
| Income from secondary market activities | 139 | 192 |
| Net gain on sale of other real estate owned | 88 | - |
| Other operating income | 561 | 469 |
| Total noninterest income | 8,890 | 6,500 |
| **NONINTEREST EXPENSE** | | |
| Compensation and employee benefits | 16,169 | 12,854 |
| Occupancy and equipment expense | 4,777 | 3,258 |
| Deposit-related expenses | 2,013 | 1,640 |
| Amortization of premiums on deposits acquired | 1,765 | 603 |
| Amortization of investments in affordable housing partnerships | 1,265 | 1,681 |
| Data processing | 760 | 569 |
| Deposit insurance premiums and regulatory assessments | 316 | 223 |
| Other operating expenses | 9,758 | 6,890 |
| Total noninterest expense | 36,823 | 27,718 |

| | | | | |
|---|---|---|---|---|
| INCOME BEFORE PROVISION FOR INCOME TAXES | | 51,782 | | 36,634 |
| PROVISION FOR INCOME TAXES | | 19,731 | | 13,115 |
| **NET INCOME** | **$** | **32,051** | **$** | **23,519** |
| | | | | |
| **EARNINGS PER SHARE** | | | | |
| BASIC | $ | 0.56 | $ | 0.45 |
| DILUTED | $ | 0.55 | $ | 0.44 |
| | | | | |
| **WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING** | | | | |
| BASIC | | 56,807 | | 52,245 |
| DILUTED | | 58,293 | | 53,963 |

See accompanying notes to condensed consolidated financial statements.

EAST WEST BANCORP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
*(In thousands, except share data)*
*(Unaudited)*

| | Common Stock | Additional Paid In Capital | Retained Earnings | Deferred Compensation | Treasury Stock | Accumulated Other Comprehensive Loss, Net of Tax | Comprehensive Income | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|---|
| **BALANCE, DECEMBER 31, 2004** | **$ 57** | **$ 260,152** | **$ 296,175** | **$ (5,422)** | **$ (36,649)** | **$ (4)** | | **$ 514,309** |
| Comprehensive income | | | | | | | | |
| Net income for the period | | | 23,519 | | | | $ 23,519 | 23,519 |
| Net unrealized loss on investment securities available-for-sale | | | | | | (2,616) | (2,616) | (2,616) |
| Total comprehensive income | | | | | | | $ 20,903 | |
| Stock compensation costs | | | | 658 | | | | 658 |
| Tax benefit from option exercises | | 401 | | | | | | 401 |
| Issuance of 36,143 shares pursuant to various stock plans and agreements | | 383 | | | | | | 383 |
| Issuance of 92,651 shares under Restricted Stock Plan | | 3,486 | | (3,486) | | | | - |
| Cancellation of 9,359 shares due to forfeitures of issued restricted stock | | | | 198 | (198) | | | - |
| Dividends paid on common stock | | | (2,625) | | | | | (2,625) |
| **BALANCE, MARCH 31, 2005** | **$ 57** | **$ 264,422** | **$ 317,069** | **$ (8,052)** | **$ (36,847)** | **$ (2,620)** | | **$ 534,029** |
| | | | | | | | | |
| **BALANCE, DECEMBER 31, 2005** | **$ 61** | **$ 389,004** | **$ 393,846** | **$ (8,242)** | **$ (37,905)** | **$ (2,626)** | | **$ 734,138** |
| Comprehensive income | | | | | | | | |
| | | | 32,051 | | | | $ 32,051 | 32,051 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Net income for the period | | | | | | | | |
| Net unrealized loss on investment securities available-for-sale | | | | | | (2,179) | (2,179) | (2,179) |
| Total comprehensive income | | | | | | | $ 29,872 | - |
| Elimination of deferred compensation pursuant to adoption of SFAS No. 123(R) | | (8,242) | | 8,242 | | | | - |
| Stock compensation costs | | 1,456 | | | | | | 1,456 |
| Tax benefit from stock option exercises | | 3,756 | | | | | | 3,756 |
| Tax benefit from vested restricted stock | | 543 | | | | | | 543 |
| Issuance of 310,426 shares pursuant to various stock plans and agreements | | 2,634 | | | | | | 2,634 |
| Cancellation of 12,648 shares due to forfeitures of issued restricted stock | | 440 | | | (440) | | | - |
| Issuance of 3,647,441 shares pursuant to Standard Bank acquisition | 4 | 133,845 | | | | | | 133,849 |
| Issuance of 2,670 shares to Standard Bank employees | | 105 | | | | | | 105 |
| Dividends paid on common stock | | | (2,830) | | | | | (2,830) |
| **BALANCE, MARCH 31, 2006** | **$ 65** | **$ 523,541** | **$ 423,067** | **$ -** | **$ (38,345)** | **$ (4,805)** | | **$ 903,523** |

| | Three Months Ended March 31, | |
|---|---|---|
| | **2006** | **2005** |
| **Disclosure of reclassification amounts:** | *(In thousands)* | |
| Unrealized holding loss on securities arising during the period, net of tax benefit of $857 in 2006 and $1,706 in 2005 | $ (1,184) | $ (2,356) |

| | | |
|---|---|---|
| Less: Reclassification adjustment for gain included in net income, net of tax expense of $721 in 2006 and $188 in 2005 | (995) | (260) |
| Net unrealized loss on securities, net of tax benefit of $1,578 in 2006 and $1,894 in 2005 | $ (2,179) | $ (2,616) |

See accompanying notes to condensed consolidated financial statements.

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EAST WEST BANCORP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
*(In thousands)*
*(Unaudited)*

| | Three Months Ended March 31, 2006 | 2005 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net income | $ 32,051 | $ 23,519 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 2,804 | 2,405 |
| Stock compensation costs | 1,456 | 658 |
| Deferred taxes | (2,288) | 544 |
| Provision for loan losses | 3,333 | 4,370 |
| Net gain on sales of investment securities, loans and other assets | (1,974) | (541) |
| Federal Home Loan Bank stock dividends | (547) | (425) |
| Originations of loans held for sale | (4,974) | (12,843) |
| Proceeds from sale of loans held for sale | 4,983 | 12,934 |
| Tax benefit from stock option exercises | (3,756) | 401 |
| Tax benefit from vested restricted stock | (543) | - |
| Net change in accrued interest receivable and other assets | (12,112) | (12,389) |
| Net change in accrued interest payable, accrued expenses, and other liabilities | 10,398 | 14,343 |
| Total adjustments | (3,220) | 9,457 |
| Net cash provided by operating activities | 28,831 | 32,976 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Net loan originations | (372,642) | (309,630) |
| Purchases of: | | |
| Interest-bearing deposits in other banks | (1,059) | - |
| Securities purchased under resale agreement | (50,000) | - |
| Investment securities available-for-sale | (282,251) | (59,868) |
| Federal Home Loan Bank stock | (4,277) | - |
| Investments in affordable housing partnerships | - | (18) |
| Premises and equipment | (3,170) | (1,120) |
| Proceeds from unsettled securities acquired | 224,160 | - |
| Proceeds from sale of: | | |
| Investment securities available-for-sale | 105,365 | 17,359 |
| Loans receivable | 2,863 | - |
| Premises and equipment | 41 | 1 |
| Other real estate owned | 387 | - |
| Maturity of interest-bearing deposits in other banks | - | 100 |
| Repayments, maturity and redemption of investment securities available-for-sale | 195,192 | 18,649 |
| Redemption of Federal Home Loan Bank stock | 2,350 | - |
| Cash obtained from acquisitions, net of cash paid | 99,150 | - |
| Net cash used in investing activities | (83,891) | (334,527) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Net increase in deposits | 38,568 | 219,608 |
| Net (decrease) increase in federal funds purchased | (86,000) | 31,500 |

| | | | | |
|---|---|---|---|---|
| Repayment of Federal Home Loan Bank advances | | (32,679,000) | | (34,332,600) |
| Repayment of notes payable on affordable housing investments | | - | | (338) |
| Payment of debt issue cost | | (77) | | - |
| Proceeds from Federal Home Loan Bank advances | | 32,730,000 | | 34,397,600 |
| Proceeds from issuance of long-term debt | | 30,000 | | - |
| Proceeds from common stock options exercised | | 2,634 | | 383 |
| Tax benefit from stock option exercises | | 3,756 | | - |
| Tax benefit from vested restricted stock | | 543 | | - |
| Dividends paid on common stock | | (2,830) | | (2,625) |
| Net cash provided by financing activities | | 37,594 | | 313,528 |
| | | | | |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | | (17,466) | | 11,977 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | | 151,192 | | 93,075 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $ | 133,726 | $ | 105,052 |
| | | | | |
| **SUPPLEMENTAL CASH FLOW INFORMATION:** | | | | |
| Cash paid during the period for: | | | | |
| Interest | $ | 56,784 | $ | 22,610 |
| Income tax payments, net of refunds | | 505 | | 2,000 |
| Noncash investing and financing activities: | | | | |
| Guaranteed mortgage loan securitizations | | - | | 50,375 |
| Real estate acquired through foreclosure | | 2,786 | | - |
| Issuance of common stock pursuant to acquisition | | 133,853 | | - |
| Issuance of common stock to employees | | 105 | | - |

See accompanying notes to condensed consolidated financial statements.

EAST WEST BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2006 and 2005
*(Unaudited)*

**1. BASIS OF PRESENTATION**

The consolidated financial statements include the accounts of East West Bancorp, Inc. (referred to herein on an unconsolidated basis as “East West” and on a consolidated basis as the “Company”) and its wholly owned subsidiaries, East West Bank and subsidiaries (the “Bank”) and East West Insurance Services, Inc. Intercompany transactions and accounts have been eliminated in consolidation. East West also has seven wholly-owned subsidiaries that are statutory business trusts (the “Trusts”). In accordance with Financial Accounting Standards Board Interpretation No. 46R, *Consolidation of Variable Interest Entities*, the Trusts are not consolidated into the accounts of East West Bancorp, Inc.

The interim consolidated financial statements, presented in accordance with accounting principles generally accepted in the United States of America (“GAAP”), are unaudited and reflect all adjustments which, in the opinion of management, are necessary for a fair statement of financial condition and results of operations for the interim periods. All adjustments are of a normal and recurring nature. Results for the three months ended March 31, 2006 are not necessarily indicative of results that may be expected for any other interim period or for the year as a whole. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted. The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in the Company’s annual report on Form 10-K for the year ended December 31, 2005.

**2. SIGNIFICANT ACCOUNTING POLICIES**

*Recent Accounting Standards*

In December 2003, the Accounting Standards Executive Committee of the AICPA issued Statement of Position No. 03-3 (“SOP 03-3”), *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*. SOP 03-3 addresses the accounting for differences between contractual cash flows and the cash flows expected to be collected from purchased loans or debt securities if those differences are attributable, in part, to credit quality. SOP 03-3 requires purchased loans and debt securities to be recorded initially at fair value based on the present value of the cash flows expected to be collected with no carryover of any valuation allowance previously recognized by the seller. Interest income should be recognized based on the effective yield from the cash flows expected to be collected. To the extent that the purchased loans or debt securities experience subsequent deterioration in credit quality, a valuation allowance would be established for any additional cash flows that are not expected to be received. However, if more cash flows subsequently are expected to be received than originally estimated, the effective yield would be adjusted on a prospective basis. SOP 03-3 is effective for loans and debt securities acquired by the Company after December 15, 2004. The adoption of this Statement on January 1, 2005 did not have a material impact on the Company’s financial position, results of operations, or cash flows.

In December 2004, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 123(R), *Share-Based Payment.* This Statement supersedes Accounting Principles Board (“APB”) Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related implementation guidance and is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation.* This Statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment

transactions.

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This Statement requires a public entity to measure the cost of employee services received in exchange for award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award - the requisite service period (usually the vesting period). No compensation cost is recognized for equity instruments for which employees do not render the requisite service. The grant-date fair value of employee share options and similar instruments will be estimated using option-pricing models adjusted for unique characteristics of those instruments (unless observable market prices for the same or similar instruments are available). If an equity award is modified after the grant date, incremental compensation cost will be recognized in an amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately before the modification.

The Company adopted the revised accounting standards for stock based compensation effective January 1, 2006. SFAS No. 123(R) allows for two alternative transition methods. The Company follows the modified prospective method, which requires application of the new Statement to new awards and to awards modified, repurchased or cancelled after the required effective date. Accordingly, prior period amounts have not been restated. Additionally, compensation cost for the portion of awards for which the requisite service has not been rendered that are outstanding as of January 1, 2006 will be recognized as the requisite services are rendered on or after January 1, 2006. The compensation cost of that portion of awards is based on the grant-date fair value of those awards as calculated for pro forma disclosures under the original SFAS No. 123. Under the transition provisions of SFAS No. 123(R), the Company has reduced additional paid in capital by $8.2 million, representing the remaining deferred compensation balance in the consolidated statement of stockholders’ equity as of January 1, 2006.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*, which addresses accounting for changes in accounting principle, changes in accounting estimates, changes required by an accounting pronouncement in the instance that the pronouncement does not include specific transition provisions and error correction. SFAS No. 154 requires retrospective application to prior periods’ financial statements of changes in accounting principle and error correction unless impracticable to do so. SFAS No. 154 states an exception to retrospective application when a change in accounting principle, or the method of applying it, may be inseparable from the effect of a change in accounting estimate. When a change in principle is inseparable from a change in estimate, such as depreciation, amortization or depletion, the change to the financial statements is to be presented in a prospective manner. SFAS No. 154 and the required disclosures are effective for accounting changes and error corrections in fiscal years beginning after December 15, 2005.

In November 2005, the FASB issued Staff Position (“FSP”) Nos. FAS 115-1 and 124-1 to address the determination as to when an investment is considered impaired, whether that impairment is other than temporary and the measurement of an impairment loss. This FSP nullified certain requirements of Emerging Issues Task Force 03-1 *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* (EITF 03-1), and references existing other than temporary guidance. Furthermore, this FSP creates a three step process in determining when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. The FSP is effective for reporting periods beginning after December 15, 2005. The adoption of this FSP did not have a material impact on the Company’s financial condition or results of operations.

During December 2005, the FASB issued FSP Statement of Position (“SOP”) 94-6-1, *Terms of Loan Products That May Give Rise to a Concentration of Credit Risk*, which addresses the circumstances under which the terms of loan products give rise to such risk and the disclosures or other accounting considerations that apply for entities that originate, hold, guarantee, service, or invest in loan products with terms that may give rise to a concentration of credit risk. The guidance under this FSP is effective for interim and annual periods ending after December 19, 2005 and for loan products that are determined to represent a concentration of credit risk, disclosure requirements of SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, should be provided for all periods presented. The adoption of this FSP did not have a significant impact on the Company’s consolidated financial statements.

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In March 2006 the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets (SFAS No. 156), which provides the following: 1) revised guidance on when a servicing asset and servicing liability should be recognized; 2) requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable; 3) permits an entity to elect to measure servicing assets and servicing liabilities at fair value each reporting date and report changes in fair value in earnings in the period in which the changes occur; 4) upon initial adoption, permits a onetime reclassification of available-for-sale securities to trading securities for securities which are identified as offsetting the entity's exposure to changes in the fair value of servicing assets or liabilities that a servicer elects to subsequently measure at fair value; and 5) requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional footnote disclosures. SFAS No. 156 is effective as of the beginning of an entity's first fiscal year that begins after September 15, 2006 with the effects of initial adoption being reported as a cumulative-effect adjustment to retained earnings. It is not anticipated that adoption will have a material impact on the Company's consolidated financial statements.

**3. STOCK-BASED COMPENSATION**

The Company issues stock options and restricted stock to employees under share-based compensation plans. As previously mentioned, the Company adopted SFAS No. 123(R) on January 1, 2006 using the modified prospective method. Under this method, the provisions of SFAS No. 123(R) are applied to new awards and to awards modified, repurchased or canceled after December 31, 2005 and to awards outstanding on December 31, 2005 for which requisite service has not yet been rendered. SFAS No. 123(R) requires companies to account for stock options using the fair value method, which generally results in compensation expense recognition. Prior to December 31, 2005, the Company accounted for its fixed stock options using the intrinsic-value method, as prescribed in APB Opinion No. 25. Accordingly, no stock option expense was recorded in periods prior to December 31, 2005.

In the first quarter of 2006, the adoption of SFAS No. 123(R) resulted in incremental stock-based compensation expense of $520 thousand. Since we have previously recognized compensation expense on restricted stock awards, the incremental stock-based compensation expense recognized pursuant to SFAS No. 123(R) relates only to issued and unvested stock option grants. The incremental stock-based compensation expense caused income before income taxes to decrease by $520 thousand, net income to decrease by $301 thousand, and basic and diluted earnings per share to decrease by $0.01. Cash provided by operating activities decreased by $3.8 million and cash provided by financing activities increased by an identical amount related to excess tax benefits from stock-based payment arrangements.

As required under SFAS No. 123(R), the reported net income and earnings per share for the three months ended March 31, 2005 have been presented below to reflect the impact had the Company been required to recognize compensation cost based on the fair value at the grant date for stock options. The pro forma amounts are as follows (amounts are reflected in thousands, except per share data):

| | | Three Months Ended March 31, 2005 |
|---|---|---|
| **Net income, as reported** | $ | 23,519 |
| Add: Stock-based employee compensation expense included in reported net income, net of related tax effects | | 382 |
| Deduct: Total stock-based employee compensation expense determined using fair value method, net of related tax effects | | (668) |
| **Net income, pro forma** | $ | 23,233 |
| **Basic earnings per share** | | |
| As reported | $ | 0.45 |
| Pro forma | $ | 0.44 |
| **Diluted earnings per share** | | |
| As reported | $ | 0.44 |
| Pro forma | $ | 0.43 |

For the three months ended March 31, 2006, the total combined compensation cost recognized in income related to stock options and restricted stock awards totaled $1.5 million. The related tax benefit of this compensation cost amounted to $611 thousand for the three months ended March 31, 2006. For the three months ended March 31, 2005 the total compensation recognized in income related to restricted stock awards and the related tax benefit amounted to $658 thousand and $276 thousand, respectively.

As of March 31, 2006, total unrecognized compensation cost related to stock options and restricted stock awards amounted to $4.1 million and $11.7 million, respectively. This cost is expected to be recognized over a weighted average period of 3.1 years and 3.3 years for stock options and restricted stock awards, respectively.

*Stock Options*

The Company issues fixed stock options to certain employees, officers, and directors. Stock options are issued at the current market price on the date of grant with a three-year or four-year vesting period and contractual terms of 7 or 10 years.

A summary of activity for the Company’s stock options as of and for the three months ended March 31, 2006 is presented below:

| | Shares | Weighted Average Exercise P rice |
|---|---|---|
| Outstanding at beginning of period | 3,209,183 | |

| | | |
|---|---|---|
| | | $ 13.51 |
| Granted | 193,630 | 36.90 |
| Exercised | (310,426) | 8.49 |
| Forfeited | (5,988) | 24.59 |
| Outstanding at end of period | 3,086,399 | $ 15.46 |
| Options exercisable at March 31, 2006 | 2,378,467 | |
| Weighted average fair value of options granted during the period | | $ 9.90 |

The weighted average grant-date fair value of options granted during the three months ended March 31, 2006 and 2005 was $9.90 and $9.49, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2006 | 2005 |
| Expected life (1) | 4 years | 3.5 years |
| Expected volatility (2) | 27.8% | 28.1% |
| Expected dividend yield | 0.6% | 0.5% |
| Risk-free interest rate (3) | 4.7% | 3.9% |

(1) The expected life (estimated period of time outstanding) of stock options granted was estimated using the historical exercise behavior of employees.
(2) The expected volatility was based on historical volatility for a period equal to the stock option's expected life.
(3) The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant.

The total intrinsic value of options exercised during the three months ended March 31, 2006 and 2005 was $8.9 million and $956 thousand, respectively. The total fair value of shares vested during the three months ended March 31, 2006 and 2005 amounted to $2.5 million and $2.9 million, respectively.

The following table summarizes information about stock options outstanding as of March 31, 2006:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number of Outstanding Options | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number of Exercisable Options | Weighted Average Exercise Price |
| $5.00 to $9.99 | 869,911 | 2.6 years | $ 5.43 | 869,911 | $ 5.43 |
| $10.00 to $14.99 | 707,225 | 5.5 years | 12.59 | 707,225 | 12.59 |
| $15.00 to $19.99 | 1,012,331 | 3.5 years | 16.88 | 746,431 | 16.88 |
| $25.00 to $29.99 | 123,775 | 4.9 years | 26.59 | 53,275 | 26.50 |
| $30.00 to $34.99 | 51,228 | 6.4 years | 33.94 | 750 | 32.92 |
| $35.00 to $39.99 | 320,929 | 6.5 years | 37.18 | 625 | 35.14 |
| $40.00 to $44.99 | 1,000 | 5.6 years | 42.97 | 250 | 42.97 |
| $5.00 to $44.99 | 3,086,399 | 4.1 years | $ 15.46 | 2,378,467 | $ 11.64 |

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*Restricted Stock*

In addition to stock options, the Company also grants restricted stock awards to directors, certain officers and employees. The restricted shares awarded become fully vested after three to five years of continued employment from the date of grant. The Company becomes entitled to an income tax deduction in an amount equal to the taxable income reported by the holders of the restricted shares when the restrictions are released and the shares are issued. Restricted shares are forfeited if officers and employees terminate prior to the lapsing of restrictions. The Company records forfeitures of restricted stock as treasury share repurchases.

A summary of the activity for restricted stock as of March 31, 2006, including changes during the three months then ended, is presented below:

| | Shares | | Weighted Average Price |
|---|---|---|---|
| Outstanding at beginning of period | 431,392 | $ | 30.60 |
| Granted | 135,061 | | 36.14 |
| Vested | (66,300) | | 18.21 |
| Forfeited | (12,648) | | 33.98 |
| Outstanding at end of period | 487,505 | $ | 33.73 |

In March 2006, the Company also granted performance restricted stock with two-year cliff vesting to an executive officer. The number of shares that the executive will receive under this stock award will ultimately depend on the Company's achievement of specified performance targets. The performance period is January 1, 2006 through December 31, 2007. At the end of the performance period, the number of stock awards issued will be determined by adjusting upward or downward from the target amount of shares in a range between 24% and 124%. The final performance percentage on which the payout will be based, considering performance metrics established for the performance period, will be determined by the Board of Directors or a committee of the Board. If the Company performs below its performance targets, the Board or the committee may, at its discretion, choose not to award any shares. Shares of stock, if any, will be issued following the end of the performance period two years from the date of grant. Compensation costs are accrued over the service period and are based on the probable outcome of the performance condition. The maximum number of shares subject to this grant cannot exceed 41,000 shares.

**4. ACQUISITION OF STANDARD BANK**

At the close of business on March 17, 2006, the Company completed the acquisition of Standard Bank ("SB"), a commercial bank headquartered in Monterey Park, California. The purchase price was $200.3 million with sixty-seven percent paid in stock and the remainder in cash. The results of SB's operations have been included in the Company's consolidated financial statements since that date. The acquisition was accounted for under the purchase method of accounting and accordingly, all assets and liabilities of SB were adjusted to and recorded at their estimated fair values as of the acquisition date. The estimated tax effect of differences between tax bases and market values has been reflected in deferred income taxes. The Company recorded total goodwill of $101.0 million and core deposit premium of $8.6 million. The core deposit premium will be amortized on an accelerated basis over its useful life, which is estimated to be 11 years.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

| | Fair Value of Assets Acquired and Liabilities Assumed | |
|---|---|---|
| | *(In thousands)* | |
| Cash and cash equivalents | $ | 165,660 |
| Loans receivable | | 487,110 |
| Premises and equipment, net | | 3,220 |
| Core deposit premium | | 8,648 |
| Goodwill | | 100,986 |
| Other assets | | 239,285 |
| Total assets acquired | | 1,004,909 |
| Deposits | | 728,514 |
| Other liabilities | | 76,123 |
| Total liabilities assumed | | 804,637 |
| Net assets acquired | $ | 200,272 |

**5. DEBT ISSUANCE**

On March 15, 2006, the Company issued $30.0 million in junior subordinated debt securities through a pooled trust preferred offering. Similar to previous offerings, these securities were issued through a newly formed statutory business trust, East West Capital Trust VII ("Trust VII"), a wholly-owned subsidiary of the Company. The proceeds from the debt securities are loaned by Trust VII to the Company and are included in long-term debt in the accompanying Condensed Consolidated Balance Sheet. The securities issued by Trust VII have a scheduled maturity of June 15, 2036 and bear interest at a per annum rate based on the three-month Libor plus 135 basis points, payable on a quarterly basis. At March 31, 2006, the interest rate on the junior subordinated debt was 6.28%. The junior subordinated debt issued qualifies as Tier I capital for regulatory reporting purposes.

**6. COMMITMENTS AND CONTINGENCIES**

*Credit Extensions* - In the normal course of business, the Company has various outstanding commitments to extend credit that are not reflected in the accompanying interim consolidated financial statements. As of March 31, 2006, undisbursed loan commitments and commercial and standby letters of credit amounted to $1.95 billion and $387.6 million, respectively.

*Guarantees* - From time to time, the Company sells loans with recourse in the ordinary course of business. For loans that have been sold with recourse, the recourse component is considered a guarantee. When the Company sells a loan with recourse, it commits to stand ready to perform if the loan defaults, and to make payments to remedy the default. As of March 31, 2006 and December 31, 2005, loans sold with recourse, comprised entirely of residential single family mortgage loans, totaled $30.5 million and $31.6 million, respectively. The Company's recourse reserve related to these loans totaled $70 thousand and $76 thousand as of March 31, 2006 and December 31, 2005, respectively, and is included in accrued expenses and other liabilities in the accompanying consolidated balance sheets.

The Company also sells loans without recourse that may have to be subsequently repurchased if a defect that occurred during the loan origination process results in a violation of a representation or warranty made in connection with the sale of the loan. When a loan sold to an investor without recourse fails to perform according to its contractual terms, the investor will typically review the loan file to determine whether defects in the origination process occurred and if such defects give rise to a violation of a representation or warranty made to the investor in connection with the sale. If such a defect is identified, the Company may be required to either repurchase the loan or indemnify the investor for losses sustained. If there are no such defects, the Company has no commitment to repurchase the loan. As of March 31, 2006 and December 31, 2005, the amount of loans sold without recourse totaled $768.6 million and $777.6 million, which substantially represents the unpaid principal balance of the Company's loans serviced for others portfolio.

*Litigation* - Neither the Company nor the Bank is involved in any material legal proceedings at March 31, 2006. The Bank, from time to time, is a party to litigation which arises in the ordinary course of business, such as claims to enforce liens, claims involving the origination and servicing of loans, and other issues related to the business of the Bank. After taking into consideration information furnished by counsel to the Company and the Bank, management believes that the resolution of such issues will not have a material adverse impact on the financial position, results of operations, or liquidity of the Company or the Bank.

*Regulated Investment Company* - On December 31, 2003, the California Franchise Tax Board ("FTB") announced that it is taking the position that certain tax deductions relating to regulated investment companies will be disallowed pursuant to California Senate Bill 614 and California Assembly Bill 1601, which were signed into law in the fourth quarter of 2003. East West Securities Company, Inc. (the "Fund"), a regulated investment company ("RIC") formed and funded in July 2000 to raise capital in an efficient and economical manner was dissolved on December 30, 2002 as a result of, among other reasons, proposed legislation to change the tax treatments of RICs. The Fund provided state tax benefits beginning in 2000 until the end of 2002, when the RIC was officially dissolved. While the Company's management continues to believe that the tax benefits realized in previous years were appropriate and fully defensible under the existing tax codes at that time, the Company has deemed it prudent to participate in the voluntary compliance initiative, or "VCI" offered by the State of California to avoid certain potential penalties should the FTB choose to litigate its announced position about the tax treatment of RICs for periods prior to enactment of the legislation described above and should the FTB be successful in that litigation.

Pursuant to the VCI program, the Company filed amended California income tax returns on April 15, 2004 for all affected years and paid the resulting taxes and interest due to the FTB. This amounted to an aggregate payment of $14.2 million for tax years 2000, 2001, and 2002. The Company's management continues to believe that the tax deductions are appropriate and, as such, refund claims have also been filed for the amounts paid with the amended returns. These refund claims are reflected as assets in the Company's consolidated financial statements. As a result of these actions—amending the Company's California income tax returns and subsequent related filing of refund claims—the Company retains its potential exposure for assertion of an accuracy-related penalty should the FTB prevail in its position, in addition to our risk of not being successful in our refund claim for taxes and interest. The Company's potential exposure to all other penalties, however, has been eliminated through this course of action.

The Franchise Tax Board is currently in the process of reviewing and assessing our refund claims for taxes and interest for tax years 2000 through 2002. Management is continuing to pursue these claims, to monitor developments in the law in this area, and to monitor the status of tax claims with respect to other registered investment companies.

**7. STOCKHOLDERS' EQUITY**

*Authorized Shares* - On May 25, 2005, the Company's shareholders approved an amendment to the Company's Certificate of Incorporation to increase the number of authorized shares of common stock from 100,000,000 to 200,000,000. The additional authorized shares provide the Company greater flexibility for stock splits and stock dividends, issuances under employee benefit plans, financings, corporate mergers and acquisitions, and other general corporate purposes.

*Earnings Per Share* - The actual number of shares outstanding at March 31, 2006 was 60,602,388. Basic earnings per share are calculated on the basis of the weighted average number of shares outstanding during the period. Diluted earnings per share are calculated on the basis of the weighted average number of shares outstanding during the period plus restricted stock and shares issuable upon the assumed exercise of outstanding common stock options and warrants.

The following table sets forth earnings per share calculations for the three months ended March 31, 2006 and 2005:

| | **Three Months Ended March 31,** | | | | | |
|---|---|---|---|---|---|---|
| | **2006** | | | **2005** | | |
| | **Net Income** | **Number of Shares** | **Per Share Amounts** | **Net Income** | **Number of Shares** | **Per Share Amounts** |
| | *(In thousands, except per share data)* | | | | | |
| Basic earnings per share | $ 32,051 | 56,807 | $ 0.56 | $ 23,519 | 52,245 | $ 0.45 |
| Effect of dilutive securities: | | | | | | |
| Stock options | | | | | | |

-

1,208

(0.01
)

-

1,415

(0.01
)
Restricted stock

-

189

-

-

168

-

Stock warrants

-

89

-

-

135

-

Dilutive earnings per share
$
32,051

58,293

$
0.55

| | |
|---|---|
| $ | 23,519 |
| | 53,963 |
| $ | 0.44 |

*Quarterly Dividends* - The Company's Board of Directors declared and paid quarterly common stock cash dividends of $0.05 per share payable on or about January 24, 2006 to shareholders of record on February 8, 2006. Cash dividends totaling $2.8 million were paid to the Company's shareholders during the first quarter of 2006.

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**8. BUSINESS SEGMENTS**

The Company utilizes an internal reporting system to measure the performance of various operating segments within the Bank and the Company overall. The Company has identified four principal operating segments for purposes of management reporting: retail banking, commercial lending, treasury, and residential lending. Information related to the Company's remaining centralized functions and eliminations of inter-segment amounts have been aggregated and included in "Other." Although all four operating segments offer financial products and services, they are managed separately based on each segment's strategic focus. While the retail banking segment focuses primarily on retail operations through the Bank's branch network, certain designated branches have responsibility for generating commercial deposits and loans. The commercial lending segment, which includes commercial real estate, primarily generates commercial loans and deposits through the efforts of commercial lending officers located in the Bank's northern and southern California production offices. The treasury department's primary focus is managing the Bank's investments, liquidity, and interest rate risk; the residential lending segment is mainly responsible for the Bank's portfolio of single family and multifamily residential loans.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies described in Note 1 of our annual report on Form 10-K for the year ended December 31, 2005. Operating segment results are based on the Company's internal management reporting process, which reflects assignments and allocations of capital, certain operating and administrative costs and the provision for loan losses. Net interest income is based on the Company's internal funds transfer pricing system which assigns a cost of funds or a credit for funds to assets or liabilities based on their type, maturity or re-pricing characteristics. Non-interest income and non-interest expense, including depreciation and amortization, directly attributable to a segment are assigned to that business. Indirect costs, including overhead expense, are allocated to the segments based on several factors, including, but not limited to, full-time equivalent employees, loan volume and deposit volume. The provision for credit losses is allocated based on actual losses incurred and an allocation of the remaining provision based on new loan originations for the period. The Company evaluates overall performance based on profit or loss from operations before income taxes not including nonrecurring gains and losses.

Future changes in the Company's management structure or reporting methodologies may result in changes in the measurement of operating segment results. Results for prior periods have been restated for comparability for changes in management structure or reporting methodologies. Specifically, an adjustment was made to reallocate the credit provided for the Company's capital to the treasury segment from the "Other" category. The adjustment resulted in an increase in the treasury segment's pretax profit of $ 6.5 million and $ 2.7 million for the three months ended March 31, 2006 and 2005 respectively.

The following tables present the operating results and other key financial measures for the individual operating segments for the three months ended March 31, 2006 and 2005:

**Three Months Ended March 31, 2006**

| | Retail Banking | Commercial Lending | Treasury | Residential Lending | Other | Total |
|---|---|---|---|---|---|---|
| | | | (In thousands) | | | |
| Interest income | $ 47,499 | $ 59,650 | $ 11,431 | $ 16,410 | $ 2,312 | $ 137,302 |
| Charge for funds used | (31,247) | (38,156) | (13,520) | (12,541) | - | (95,464) |
| Interest spread on funds used | 16,252 | 21,494 | (2,089) | 3,869 | 2,312 | 41,838 |
| Interest expense | (25,412) | (3,528) | (25,314) | - | - | (54,254) |
| Credit on funds provided | 53,724 | 7,872 | 33,868 | - | - | 95,464 |
| Interest spread on funds provided | 28,312 | 4,344 | 8,554 | - | - | 41,210 |
| Net interest income | $ 44,564 | $ 25,838 | $ 6,465 | $ 3,869 | $ 2,312 | $ 83,048 |
| | | | | | | |
| Depreciation and amortization | $ 2,593 | $ 173 | $ (570) | $ 345 | $ 263 | $ 2,804 |
| Goodwill | 182,391 | 12,159 | - | 48,637 | 958 | 244,145 |
| Segment pretax profit (loss) | 25,944 | 21,925 | 8,315 | 2,363 | (6,763) | 51,782 |
| Segment assets | 2,260,751 | 2,927,849 | 1,028,411 | 2,513,089 | 550,435 | 9,280,535 |

**Three Months Ended March 31, 2005**

| | Retail Banking | Commercial Lending | Treasury | Residential Lending | Other | Total |
|---|---|---|---|---|---|---|
| | | | (In thousands) | | | |
| Interest income | $ 27,417 | $ 38,467 | $ 5,803 | $ 12,032 | $ 1,037 | $ 84,756 |
| Charge for funds used | (14,283) | (19,337) | (5,534) | (6,732) | - | (45,886) |
| Interest spread on funds used | 13,134 | 19,130 | 269 | 5,300 | 1,037 | 38,870 |
| Interest expense | (10,773) | (1,412) | (10,349) | - | - | (22,534) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Credit on funds provided | 24,761 | 3,238 | 17,887 | - | - | 45,886 |
| Interest spread on funds provided | 13,988 | 1,826 | 7,538 | - | - | 23,352 |
| Net interest income | $ 27,122 | $ 20,956 | $ 7,807 | $ 5,300 | $ 1,037 | $ 62,222 |
| Depreciation and amortization | $ 1,196 | $ 111 | $ (140) | $ 265 | $ 973 | $ 2,405 |
| Goodwill | 32,133 | 2,142 | - | 8,569 | 958 | 43,802 |
| Segment pretax profit (loss) | 9,613 | 17,689 | 7,867 | 4,074 | (2,609) | 36,634 |
| Segment assets | 1,605,352 | 2,336,076 | 673,326 | 1,486,462 | 269,812 | 6,371,028 |

**9. SUBSEQUENT EVENTS**

On April 21, 2006, the Company securitized $217.0 million in single family loans in a private label guaranteed mortgage securitization issued through East West Mortgage Securities, LLC. The underlying loans for the pass through securities issued were all jumbo single family loans originated by the Bank. As a result of the securitization, the Company now has $211.5 million in AAA/Aa1 pass through mortgage-backed securities that were retained and are held in the available-for-sale portfolio. In accordance with SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a replacement of FASB Statement No. 125*, the transaction was accounted for as neither a sale nor a financing and the transaction had no impact on the Company's results of operations.

On April 25, 2006, the Company entered into a long-term transaction involving the sale of securities under a repurchase agreement totaling $200.0 million. The repurchase agreement has a term of ten years. The agreement is non-callable for the first two years with an interest rate based on the three-month Libor minus 125 basis points for the first two years. Thereafter, the interest rate is fixed rate at 5.128%. The counterparty has the right to a quarterly call after April 25, 2008. The collateral for the repurchase agreement consists of private label and agency mortgage-backed securities.



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

The following discussion provides information about the results of operations, financial condition, liquidity, and capital resources of East West Bancorp, Inc. and its subsidiaries. This information is intended to facilitate the understanding and assessment of significant changes and trends related to our financial condition and the results of our operations. This discussion and analysis should be read in conjunction with our 2005 annual report on Form 10-K for the year ended December 31, 2005, and the accompanying interim unaudited consolidated financial statements and notes thereto.

**Critical Accounting Policies**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make a number of judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses in our consolidated financial statements and accompanying notes. We believe that the judgments, estimates and assumptions used in the preparation of our consolidated financial statements are appropriate given the factual circumstances as of March 31, 2006.

Various elements of our accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. In particular, we have identified three accounting policies that, due to judgments, estimates and assumptions inherent in those policies, are critical to an understanding of our consolidated financial statements. These policies relate to the classification and valuation of investment securities, the methodologies that determine our allowance for loan losses, and the valuation of retained interests and mortgage servicing assets related to securitizations and sales of loans. In each area, we have identified the variables most important in the estimation process. We have used the best information available to make the estimations necessary to value the related assets and liabilities. Actual performance that differs from our estimates and future changes in the key variables could change future valuations and impact net income.

Our significant accounting policies are described in greater detail in our 2005 Annual Report on Form 10-K in the “Critical Accounting Policies” section of Management’s Discussion and Analysis and in Note 1 to the Consolidated Financial Statements—“Significant Accounting Policies” which are essential to understanding Management’s Discussion and Analysis of Results of Operations and Financial Condition.

**Overview**

During the first quarter of 2006, we again generated record earnings totaling $32.1 million, or $0.56 per basic share and $0.55 per diluted share, compared with $23.5 million, or $0.45 per basic share and $0.44 per diluted share, reported during the first quarter of 2005. Loan growth, operating efficiencies and solid asset quality contributed to our earnings performance for the first quarter of 2006. The annualized return on average assets during the first quarter of 2006 was 1.50%, compared with 1.52% for the same quarter in 2005. The annualized return on average equity was 16.72% during the first quarter of 2006, compared to 18.09% during the same period in 2005. The decrease in the annualized return on average equity is primarily due to additional shares issued in connection with the acquisition of Standard Bank. Based on the results of our performance in the first quarter of 2006 and expected growth for the remainder of 2006, we expect net income per diluted common share for the full year 2006 to be approximately 14% to 16% higher than in 2005. This estimate is based on a projected annualized loan growth of 15% to 17% for the remainder of 2006, annualized deposit growth of 14% to 16% for the remainder of 2006, and an increase in operating expenses of 25% to 28% for the entire year of 2006. Our earnings projection for the full year of 2006 also assumes a stable or marginally increasing interest rate environment and a net interest margin between 4.10% and 4.15%.

The most significant highlight of the first quarter of 2006 is the closing of the Standard Bank acquisition. Standard Bank represents our second largest acquisition to date, with total assets of $897.3 million as of the acquisition closing date of March 17, 2006. Net loans acquired totaled $490.0 million and total deposits assumed totaled $728.5 million. This acquisition resulted in total goodwill of $101.0 million and core deposit premium of $8.6 million. Standard Bank was headquartered in Monterey Park, California and provided community banking services through six branches located throughout the Los Angeles marketplace. Certain operating systems have been successfully integrated into our infrastructure with complete integration scheduled in the early part of the third quarter of 2006. This acquisition added several thousand deposit customers to our existing customer base, generating additional lending and deposit opportunities for the Company. Perhaps more noteworthy than the size of this transaction is the fact that this acquisition was consummated only six months after we closed the acquisition of United National Bank (“UNB”) in September 2005. United National Bank is our largest acquisition to date with $946.9 million in total assets as of the closing date.

Another highlight for the first quarter of 2006 is the issuance of $30.0 million in junior subordinated debt in a private placement transaction. Similar to previous offerings, these securities were issued through a newly formed statutory business trust, East West Capital Trust VII (“Trust VII”), a wholly owned subsidiary of the Company. The proceeds from the debt securities are loaned by Trust VII to the Company and are classified as junior subordinated debt and reported in the consolidated balance sheet under long-term debt. The securities issued by Trust VII have a 30-year maturity term and bear interest at a per annum rate based on the three-month Libor plus 135 basis points, payable on a quarterly basis. The interest rate on this instrument was 6.28% as of March 31, 2006. This additional issuance of capital securities provides the Bank with a cost-effective means of obtaining Tier 1 capital for regulatory purposes.

Total consolidated assets at March 31, 2006 increased 12% to $9.28 billion, compared with $8.28 billion at December 31, 2005. A 13% growth in gross loans was the primary driver of this increase, rising to a record $7.66 billion at March 31, 2006. Excluding the impact of the Standard Bank acquisition, organic loan growth was $367.7 million or 5% year to date. The loan portfolio continues to grow steadily and we estimate loan growth for the full year of 2006 to range from 15% to 17%, reflecting the core rate of growth in the Bank’s lending markets, the addition of new client relationships, and the utilization of additional lending programs and products.

Total average assets increased 39% to $8.57 billion during the first quarter of 2006, compared to $6.18 billion for the same quarter in 2005, primarily due to growth in average loans. Total average loans grew to $7.08 billion during the quarter ended March 31, 2006, an increase of 35% over the corresponding period in the prior year. The growth in average loans was driven by increases in all loan sectors, except for trade finance and consumer products. Total average deposits rose 35% during the first quarter of 2006 to $6.21 billion, compared to $4.62 billion for the same quarter in 2005. We experienced growth in almost all deposit categories during the first quarter of 2006, with the largest dollar impact coming from time deposits, money market accounts, and noninterest-bearing demand accounts.

Net interest income increased 33% to $83.0 million during the quarter ended March 31, 2006, compared with $62.2 million during the same quarter in 2005. The substantial increase in net interest income is predominantly due to significant loan growth and steady increases in interest rates by the Federal Reserve during the past year. These factors were partially offset by increases in both the volume and rates paid for time deposits and money market accounts, as well as growth in the volume of both short-term and long-term borrowings and higher rates paid on FHLB advances. Our net interest margin decreased 11 basis points to 4.18% during the first quarter of 2006, compared to 4.29% during the same period in 2005. Our margin was negatively impacted by continued competition in loan and deposit pricing and, to a lesser extent, by the impact of assets acquired from Standard Bank. Assuming a stable or marginally increasing interest rate environment during 2006, we anticipate the net interest margin for the full year of 2006 to be in the range of 4.10% to 4.15%.

Total noninterest income increased 37% to $8.9 million during the first quarter of 2006, compared with $6.5 million for the corresponding quarter in 2005. This increase is primarily attributable to higher branch-related fee income and net gains on sales of available-for-sale securities, partially offset by a decrease in letters of credit fees and commissions. For the full year of 2006, we anticipate our core noninterest income to be comparable to that of the prior year.

As a result of our continued expansion, total noninterest expense increased 33% to $36.8 million during the first quarter of 2006, compared with $27.7 million for the same period in 2005. This increase was largely due to increased staffing levels and an overall increase in operating costs due to the acquisition of United National Bank in the third quarter of 2005. Occupancy expense also increased due to the recent relocation and expansion of our corporate offices. Our efficiency ratio, which represents noninterest expense (excluding the amortization of intangibles and investments in affordable housing partnerships), divided by the aggregate of net interest income before provision for loan losses and non-interest income remained at 37% during the first quarter of 2006 which is comparable to the same period in 2005. We believe this to be a reflection of our ability to efficiently and effectively utilize our resources and operating platform to support our continuing growth. Due to the acquisition of Standard Bank and the overall growth of the Bank, as well as the recent relocation of our corporate headquarters, we anticipate noninterest expenses to increase by 25% to 28% for the full year of 2006, but expect our efficiency ratio to remain in the 37% to 38% range.

Total nonperforming assets amounted to $13.8 million, or 0.15% of total assets at March 31, 2006, compared with $30.1 million, or 0.36% of total assets, at December 31, 2005. The allowance for loan losses totaled $75.5 million at March 31, 2006, or 0.99% of outstanding total loans. Net recoveries totaled $46 thousand during the first quarter of 2006, representing less than 0.01% of average loans for the quarter. This compares with $765 thousand in net chargeoffs, or an annualized 0.06% of average loans, during the same quarter in 2005. We anticipate our overall asset quality to remain sound throughout the remainder of 2006. We project that nonperforming assets will continue to be below 0.50% of total assets and that net chargeoffs will remain below an annualized 0.35% of average loans in 2006.

We continue to be well-capitalized under all regulatory guidelines with a Tier 1 risk-based capital ratio of 9.26%, a total risk-based capital ratio of 11.27%, and a Tier 1 leverage ratio of 8.96% at March 31, 2006. As previously mentioned, we raised $30.0 million in additional regulatory capital through the issuance of trust preferred securities in a trust preferred offering. Trust preferred securities currently qualify as Tier 1 capital for regulatory purposes. The net proceeds from the trust preferred offering were used to partially fund the acquisition of Standard Bank and also to support the continued growth of the Bank.

**Results of Operations**

We reported first quarter 2006 net income of $32.1 million, or $0.56 per basic share and $0.55 per diluted share, compared with $23.5 million, or $0.45 per basic share and $0.44 per diluted share, reported during the first quarter of 2005. The 36% increase in net income is primarily attributable to higher net interest income and higher noninterest-related revenues, partially offset by higher operating expenses and a higher provision for income taxes. Our annualized return on average total assets slightly decreased to 1.50% for the quarter ended March 31, 2006, from 1.52% for the same period in 2005. The annualized return on average stockholders' equity also decreased to 16.72% for the first quarter of 2006, compared with 18.09% for the first quarter of 2005 primarily due to additional shares issued in connection with the Standard Bank acquisition.

*Components of Net Income*

| | Three Months Ended March 31, | |
|---|---|---|
| | 2006 | 2005 |
| | (In millions) | |
| Net interest income | $ 83.0 | $ 62.2 |
| Provision for loan losses | (3.3) | (4.4) |
| Noninterest income | 8.9 | 6.5 |
| Noninterest expense | (36.8) | (27.7) |
| Provision for income taxes | (19.7) | (13.1) |
| Net income | $ 32.1 | $ 23.5 |
| | | |
| Annualized return on average total assets | 1.50% | 1.52% |
| Annualized return on average stockholders' equity | 16.72% | 18.09% |

**Net Interest Income**

Our primary source of revenue is net interest income, which is the difference between interest income on earning assets and interest expense on interest-bearing liabilities. Net interest income for the first quarter of 2006 totaled $83.0 million, a 33% increase over net interest income of $62.2 million for the same period in 2005.

Total interest and dividend income during the quarter ended March 31, 2006 increased 62% to $137.3 million, compared with $84.8 million during the same period in 2005. The increase in interest and dividend income during the first quarter of 2006 is attributable to a 37%, or $2.19 billion growth in average earning assets for the quarter ended March 31, 2006. Growth in average loans was the primary driver for the growth in average earning assets for the quarter ended March 31, 2006. The net growth in average earning assets was largely funded by increases in time deposits, money market accounts, short-term borrowings, securities sold under repurchase agreements, and additional long-term debt.

Total interest expense during the first quarter of 2006 increased 141% to $54.3 million, compared with $22.5 million for the same period a year ago. The increase in interest expense during the first quarter of 2006 can be attributed to both a 44% growth in average interest-bearing liabilities, predominantly time deposits and money market accounts, as well as higher rates paid on almost all categories of interest-bearing liabilities, reflecting continuing increases in interest rates and sustained pricing competition in the deposit market.

Net interest margin, defined as taxable equivalent net interest income divided by average earning assets, decreased 11 basis points to 4.18% during the first quarter of 2006, compared with 4.29% during the first quarter of 2005. The overall yield on earning assets increased 105 basis points to 6.90% in the first quarter of 2006, from 5.85% in 2005, due to several consecutive Federal Reserve interest rate increases during the past year. Our overall cost of funds increased by 136 basis points to 3.38% for the three months ended March 31, 2006. The combined impact of an increasing interest rate environment and heightened competition in the deposit market were the primary drivers of our increased cost of funds during the first quarter of 2006. To help fund our loan growth, we increased our reliance on time deposits and other borrowings, further contributing to the overall increase in our cost of funds for the quarter ended March 31, 2006. We also continue to rely heavily on noninterest-bearing demand deposits as a funding source, with average noninterest-bearing demand deposits increasing 13% to $1.18 billion during the first quarter of 2006, compared to $1.05 billion during the same period in 2005.

The following table presents the net interest spread, net interest margin, average balances, interest income and expense, and the average yields and rates by asset and liability component for the three months ended March 31, 2006 and 2005:

| | **Three Months Ended March 31,** | | | | | |
|---|---|---|---|---|---|---|
| | **2006** | | | **2005** | | |
| | **Average Volume** | **Interest** | **Yield (1)** | **Average Volume** | **Interest** | **Yield (1)** |
| | (Dollars in Thousands) | | | | | |
| **ASSETS** | | | | | | |
| Interest-earning assets: | | | | | | |
| Short-term investments | $ 10,816 | $ 121 | 4.54 % | $ 7,043 | $ 42 | 2.42 % |
| Interest bearing deposits in other banks | 255 | 2 | 3.18 % | - | | |

-

-

Securities purchased under resale agreements

78,889

1,347

6.92

%

-

-

-

Investment securities available-for-sale (2) (3) (4)

838,142

9,214

4.46

%

579,986

5,257

3.68

%

Loans receivable (2) (5)

7,078,805

125,871

7.21

%

5,236,534

78,896

6.11

%

FHLB and FRB stock

60,105

747

5.04

%

54,410

561

4.18

%

Total interest-earning assets

8,067,012

137,302

6.90

%

5,877,973

84,756

5.85

%

Noninterest-earning assets:

Cash and due from banks

142,453

102,019

Allowance for loan losses

(70,429

)

(52,397

)

Other assets

429,212

252,907

Total assets
$
8,568,248

$
6,180,502

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Interest-bearing liabilities:

Checking accounts

438,484

1,326

1.23
%

335,850

633

0.76
%
Money market accounts

1,027,211

7,834

3.09
%

617,948

2,960

1.94
%
Savings deposits

337,329

337

0.41
%

330,172

190

0.23

%
Time deposits less than $100,000

993,794

7,836

3.20

%

769,485

3,866

2.04

%
Time deposits $100,000 or greater

2,232,937

21,556

3.92

%

1,516,440

8,642

2.31

%
Fed funds purchased

102,014

1,119

4.45

%

5,456

42

3.12

%
FHLB Advances

896,830

8,708

3.94

%

902,067

5,181

2.33

%

Securities sold under repurchase agreements

325,000

2,877

3.59

%

-

-

-

Long-term debt

158,250

2,661

6.82

%

57,476

1,020

7.20

%

Total interest-bearing liabilities

6,511,849

54,254

3.38

%

4,534,894

22,534

2.02

%

**Noninterest-bearing liabilities:**

Demand deposits

1,178,752

1,045,326

Other liabilities

110,793

80,250

Stockholders' equity

766,854

520,032

Total liabilities and stockholders' equity

$

8,568,248

$

6,180,502

Interest rate spread

3.52

%

3.83

%

Net interest income and net margin

$

83,048

4.18

%

$
62,222
4.29
%

(1) Annualized.
(2) Includes amortization of premium and accretion of discounts on investment securities and loans receivable totaling $525
thousand and $306 thousand, respectively, for the three months ended March 31, 2006, and $31 thousand and $231 thousand, respectively, for the three months ended March 31, 2005.
Also includes the amortization of deferred loan fees totaling $1.6 million and $980 thousand for the three months ended March 31, 2006 and 2005, respectively.
(3) Average balances exclude unrealized gains or losses on available for sales securities.
(4) The yields are not presented on a tax-equivalent basis as the effects are not material.
(5) Average balances include nonperforming loans.

**Analysis of Changes in Net Interest Margin**

Changes in net interest income are a function of changes in rates and volumes of both interest-earning assets and interest-bearing liabilities. The following table sets forth information regarding changes in interest income and interest expense for the periods indicated. The total change for each category of interest-earning asset and interest-bearing liability is segmented into the change attributable to variations in volume (changes in volume multiplied by old rate) and the change attributable to variations in interest rates (changes in rates multiplied by old volume). Nonaccrual loans are included in average loans used to compute this table.

| | **Three Months Ended March 31, 2006 vs. 2005** | | |
|---|---|---|---|
| | | **Changes Due to** | |
| | **Total Change** | **Volume (1)** | **Rates (1)** |
| | *(In thousands)* | | |
| **INTEREST-EARNING ASSETS:** | | | |
| Short-term investments | $ 79 | $ 30 | $ 49 |
| Interest bearing deposits in other banks | 2 | 2 | - |
| Securities purchased under resale agreements | 1,347 | 1,347 | - |
| Investment securities available-for-sale | 3,958 | 2,677 | |

| | |
|---|---|
| | 1,281 |
| Loans receivable | |
| | 46,975 |
| | 31,064 |
| | 15,911 |
| FHLB and FRB stock | |
| | 185 |
| | 6 |
| | 179 |
| Total interest and dividend income | |
| $ | 52,546 |
| $ | 35,126 |
| $ | 17,420 |
| **INTEREST-BEARING LIABILITIES** | |
| Checking accounts | |
| $ | 693 |
| $ | 233 |
| $ | 460 |
| Money market accounts | |
| | 4,874 |
| | 2,573 |
| | 2,301 |
| Savings deposits | |
| | 147 |
| | 4 |
| | 143 |
| Time deposits less than $100,000 | |

| | | | |
|---|---|---|---|
| | 3,970 | 1,344 | 2,626 |
| Time deposits $100,000 or greater | 12,914 | 5,231 | 7,683 |
| Federal funds purchased | 1,077 | 1,052 | 25 |
| FHLB advances | 3,527 | (30) | 3,557 |
| Securities sold under resale agreements | 2,877 | 2,877 | - |
| Long-term debt | 1,641 | 1,697 | (56) |
| Total interest expense | $ 31,720 | $ 14,981 | $ 16,739 |

| | | | |
|---|---|---|---|
| **CHANGE IN NET INTEREST INCOME** | **$ 20,826** | **$ 20,145** | **$ 681** |

(1) Change in interest income/expense not arising from volume or rate variances are allocated proportionately to rate and volume.

**Provision for Loan Losses**

The provision for loan losses amounted to $3.3 million for the first quarter of 2006, compared to $4.4 million for the same period in 2005. Provisions for loan losses are charged to income to bring the allowance for credit losses to a level deemed appropriate by management based on the factors discussed under the "Allowance for Loan Losses" section of this report.

**Noninterest Income**

*Components of Noninterest Income*

| | Three Months Ended March 31, | |
|---|---|---|
| | **2006** | **2005** |
| | *(In millions)* | |
| Branch fees | $ 2.54 | $ 1.59 |
| Letters of credit fees and commissions | 2.17 | 2.54 |
| Net gain on investment securities available-for-sale | 1.72 | 0.45 |
| Income from life insurance policies | 0.90 | 0.74 |
| Ancillary loan fees | 0.78 | 0.52 |
| Income from secondary market activities | 0.14 | 0.19 |

| | | |
|---|---|---|
| Net gain on sale of other real estate owned | 0.09 | - |
| Other operating income | 0.55 | 0.47 |
| Total | $ 8.89 | $ 6.50 |

Noninterest income includes revenues earned from sources other than interest income. These sources include: service charges and fees on deposit accounts, fees and commissions generated from trade finance activities and the issuance of letters of credit, income from secondary market activities, ancillary fees on loans, net gains on sales of loans, investment securities available-for-sale and other assets, and other noninterest-related revenues.

Noninterest income increased 37% to $8.9 million during the three months ended March 31, 2006 from $6.5 million for the same quarter in 2005. This is primarily due to higher net gain on sales of available-for-sale securities which increased 283% to $1.7 million for the first quarter of 2006, as compared to $448 thousand for the same period in 2005. Sales of investment securities during the first quarter of 2006 provided additional liquidity to sustain the increase in our loan production activity during the quarter, replacing lower yields on investment securities with higher yields on loans.

Branch fees, which represent revenues derived from branch operations, increased 59% to $2.5 million in the first quarter of 2006 from $1.6 million for the same quarter in 2005. The increase in branch-related fees can be attributed primarily to higher revenues from alternative investments offered to customers including mutual fund and annuity products, as well as growth in wire transfer fee income and analysis charges on commercial deposit accounts.

Net gain on sale of other real estate owned ("OREO") amounted to $88 thousand during the first quarter of 2006. This represents the gain on sale of an OREO property, specifically a condominium unit that was held as partial collateral for a commercial business loan.

Other noninterest income, which includes insurance commissions and insurance-related service fees, rental income, and other miscellaneous income, increased 20% to $561 thousand during the first quarter of 2006, from $469 thousand recorded during the same quarter of 2005.

**Noninterest Expense**

*Components of Noninterest Expense*

| | Three Months Ended March 31, | |
|---|---|---|
| | **2006** | **2005** |
| | *(In millions)* | |
| Compensation and employee benefits | $ 16.17 | $ 12.85 |
| Occupancy and equipment expense | 4.78 | 3.26 |
| Deposit-related expenses | 2.01 | 1.64 |
| Amortization of premiums on deposits acquired | 1.76 | 0.60 |
| Amortization of investments in affordable housing partnerships | 1.26 | 1.68 |
| Data processing | 0.76 | 0.57 |
| Deposit insurance premiums and regulatory assessments | 0.32 | |

| | | |
|---|---|---|
| | | 0.22 |
| Other operating expenses | 9.76 | 6.90 |
| Total | $ 36.82 | $ 27.72 |
| Efficiency Ratio (1) | 37% | 37% |

(1) Represents noninterest expense (excluding the amortization of intangibles and investments in afffordable housing partnerships) divided by the aggregate of net interest income before provision for loan losses and noninterest income.

Noninterest expense, which is comprised primarily of compensation and employee benefits, occupancy and other operating expenses increased 33% to $36.8 million during the first quarter of 2006, from $27.7 million for the same quarter in 2005.

Compensation and employee benefits increased 26% to $16.2 million during the first quarter of 2006, compared to $12.9 million for the same quarter last year primarily due to increased staffing levels related to the acquisition of UNB in September 2005. Moreover, the impact of annual salary adjustments and related cost increases for existing employees further contributed to the rise in compensation expense and employee benefits during the first quarter of 2006. The Company also recorded $520 thousand in compensation expense relating to stock options as a result of adopting SFAS No. 123(R) effective January 1, 2006. We anticipate compensation and employee benefit expenses to further increase during the remainder of 2006 as a result of the acquisition of Standard Bank in mid-March 2006.

Occupancy and equipment expenses increased 47% to $4.8 million during the quarter ended March 31, 2006, compared with $3.3 million during the same period in 2005. The rise in occupancy expenses can be attributed to the recent relocation and expansion of our corporate headquarters to Pasadena, California, increasing rent, common area, and depreciation expenses. Additionally, rent expense attributed to the eleven branch locations acquired from UNB in September 2005 further contributed to the increase in occupancy and equipment expense during the first quarter of 2006. Similar to compensation and employee benefit expenses, we expect occupancy and equipment expense to further increase during the remainder of 2006 due to additional rent expense attributed to the six branch locations acquired from Standard Bank as well as the opening of a new 99 Ranch in-store branch location during March 2006.

The amortization of premiums on deposits acquired increased 193% to $1.8 million during the first quarter of 2006, compared with $603 thousand for the corresponding quarter of 2005. The increase in amortization expense is due to additional deposit premiums of $15.0 million recorded in connection with the acquisition of UNB in September 2005. Premiums on acquired deposits are amortized over their estimated useful lives.

Deposit-related expenses increased 23% to $2.0 million during the first quarter of 2006, compared to $1.6 million for the same quarter last year. Deposit-related expenses, which represent various business-related expenses paid by the Bank on behalf of its commercial account customers, are eventually recouped by the Bank through subsequent account analysis charges to individual customer accounts. The increase in deposit-related expenses is directly correlated to the growth in the volume of commercial deposit accounts since the first quarter of 2005.

The amortization of investments in affordable housing partnerships decreased 25% to $1.3 million during the quarter ended March 31, 2006, from $1.7 million during the comparable quarter in 2005. No additional investments in affordable housing partnerships were purchased during 2005 and 2006 year-to-date. Total investments in affordable housing partnerships decreased to $29.7 million as of March 31, 2006, compared to $35.8 million as of March 31, 2005.

Data processing expenses increased 34% to $760 thousand during the first quarter of 2006, compared with $569 thousand for corresponding quarter in 2005. The increase in data processing expenses is primarily due to increased transaction volume stemming from overall growth, both organically and through acquisitions.

Other operating expenses include advertising and public relations, telephone and postage, stationery and supplies, bank and item processing charges, insurance, legal and other professional fees. Other operating expenses increased 42% to $9.8 million during the first quarter of 2006, from $6.9 million for the same quarter in 2005. The increase in other operating expenses is largely due to additional expenses incurred to support our continued overall expansion. Additionally, we have amplified our advertising, public relations, and marketing efforts to enhance our overall image and visibility in the community and in the industry.

Our efficiency ratio of 37% for the quarter ended March 31, 2006 remained stable compared to the corresponding period in 2005. Although the Company has experienced significant expansion and growth, we have managed to sustain our operational efficiencies as a result of past and ongoing infrastructure investments compounded by a general company-wide effort to monitor overall operating expenses.

**Provision for Income Taxes**

The provision for income taxes increased 50% to $19.7 million for the first quarter of 2006, compared with $13.1 million for the same quarter in 2005. The increase in the provision for income taxes is primarily attributable to a 41% increase in pretax earnings during the first quarter of 2006. The provision for income taxes for the first quarter of 2006 also reflects the utilization of affordable housing tax credits totaling $1.2 million, compared to $1.4 million utilized during the first quarter of 2005. The first quarter 2006 provision reflects an effective tax rate of 38.1%, compared with 35.8% for the corresponding period in 2005.

As previously reported, the California Franchise Tax Board announced that it is taking the position that certain tax deductions related to regulated investment companies will be disallowed pursuant to California Senate Bill 614 and California Assembly Bill 1601, which were signed into law in the fourth quarter of 2003. East West Securities Company, Inc., a regulated investment company formed and funded in July 2000 to raise capital in an efficient and economical manner was dissolved on December 30, 2002 as a result of, among other reasons, proposed legislation to change the tax treatments of RICs. The Fund provided state tax benefits beginning in 2000 until the end of 2002, when the RIC was officially dissolved. While the Company's management continues to believe that the tax benefits realized in previous years were appropriate and fully defensible under the existing tax codes at that time, the Company has deemed it prudent to participate in the voluntary compliance initiative offered by the State of California to avoid certain potential penalties should the FTB choose to litigate its announced position about the tax treatment of RICs for periods prior to enactment of the legislation described above and should the FTB be successful in that litigation.

Pursuant to the VCI program, we filed amended California income tax returns on April 15, 2004 for all affected years and paid the resulting taxes and interest due to the FTB. This amounted to an aggregate payment of $14.2 million for tax years 2000, 2001, and 2002. We continue to believe that the tax deductions are appropriate and, as such, we have also filed refund claims for the amounts paid with the amended returns. These refund claims are reflected as assets in the Company's consolidated financial statements. As a result of these actions—amending our California income tax returns and subsequent related filing of refund claims—we retain our potential exposure for assertion of an accuracy-related penalty should the FTB prevail in its position, in addition to our risk of not being successful in our refund claim for taxes and interest. Our potential exposure to all other penalties, however, has been eliminated through this course of action.

The Franchise Tax Board is currently in the process of reviewing and assessing our refund claims for taxes and interest for tax years 2000 through 2002. Management is continuing to pursue these refund claims, to monitor developments in the law in this area, and to monitor the status of tax claims with respect to other registered investment companies.

**Operating Segment Results**

The Company has identified four principal operating segments for purposes of management reporting: retail banking, commercial lending, treasury, and residential lending. Although all four operating segments offer financial products and services, they are managed separately based on each segment's strategic focus. While the retail banking segment focuses primarily on retail operations through the Bank's branch network, certain designated branches have responsibility for generating commercial deposits and loans. The commercial lending segment, which includes commercial real estate, primarily generates commercial loans and deposits through the efforts of commercial lending officers located in the Bank's northern and southern California production offices. The treasury department's primary focus is managing the Bank's investments, liquidity, and interest rate risk; the residential lending segment is mainly responsible for the Bank's portfolio of single family and multifamily residential loans. The Company's remaining centralized functions and eliminations of inter-segment amounts have been aggregated and included in "Other."

Future changes in the Company's management structure or reporting methodologies may result in changes in the measurement of operating segment results. Results for prior periods have been restated for comparability for changes in management structure or reporting methodologies. Specifically, an adjustment was made to reallocate the credit provided for the Company's capital to the treasury segment from the "Other" category. The adjustment resulted in an increase in the treasury segment's pretax profit of $ 6.5 million and $ 2.7 million for the three months ended March 31, 2006 and 2005 respectively. For more information about our segments, including information about the underlying accounting and reporting process, please see Note 8 to the Company's condensed consolidated financial statements presented elsewhere herein.

*Retail Banking Segment*

The retail banking segment's pre-tax income for the three months ended March 31, 2006 increased 170% to $25.9 million, compared to $9.6 million for the same period in 2005. The increase in pre-tax income is largely attributable to the 64% increase in net interest income to $44.6 million during the first quarter of 2006, compared to $27.1 million for the same quarter in 2005. The increase in net interest income is primarily due to our overall growth both organically and through acquisitions. The acquisition of UNB in September 2005 added eleven new locations to our expanding branch network as well as several thousand new customers to our existing customer base.

Noninterest income for this segment increased $1.8 million, or 54% to $5.1 million for the quarter ended March 31, 2006, compared to $3.3 million recorded during the same period in 2005. The increase in noninterest income is primarily due to increased fee income related to both loan origination and deposit gathering activities, as well as higher fees earned from alternative investment product offerings at the branches.

Noninterest expense for this segment increased 34% to $19.7 million during the first quarter of 2006, compared with $14.7 million recorded during the first quarter of 2005. The increase in noninterest expense is primarily due to a 35% increase in compensation and employee benefits to $10.2 million during the quarter ended March 31, 2006, from $7.5 million for the same quarter in 2005. The increase in compensation and employee benefits can be attributed to higher staffing levels due to the acquisition of UNB as well as the addition of relationship officers and operational personnel throughout the past year. Occupancy expenses also increased 40% to $3.1 million during the 2006 first quarter, from $2.2 million during the first quarter of 2005. The notable increase in occupancy expenses is due primarily to increased expenses associated with the eleven additional branch locations from UNB. Further contributing to the increase in noninterest expense is a 34% increase in other expenses to $3.8 million for the three months ended March 31, 2006, compared to $2.9 million for the same period in 2005. The increase in other expenses is due primarily to higher commercial deposit related expenses which can be correlated to the growth in the volume of commercial deposit accounts during the past year.

*Commercial Lending Segment*

The commercial lending segment's pre-tax income increased 234% to $21.9 million during the quarter ended March 31, 2006, compared with $17.7 million for the same period in 2005. The primary driver of the increase in pre-tax income for this segment is a 23% increase in net interest income to $25.8 million during the first quarter of 2006, from $21.0 million for the comparable quarter in 2005. The increase in net interest income is primarily due to the notable growth of our commercial loan portfolio, which includes commercial real estate, construction, and commercial business loans, during the first quarter of 2006, relative to the same period in the prior year. Specifically, the average aggregate balance of all commercial loan categories grew 40% during the first quarter of 2006, compared with the same period in 2005.

Noninterest income for this segment increased $1.2 million or 21% to $6.8 million during the first quarter of 2006, compared to the $5.6 million recorded in the same quarter of 2005. The increase in noninterest income is primarily due to higher loan fees collected as a result of the growth in loan origination volume during the quarter ended March 31, 2006, relative to the same period in 2005.

Noninterest expense also increased 22% to $7.6 million during the first quarter of 2006, from $6.2 million during the same quarter last year. The increase in noninterest expense is largely a result of higher compensation and employee benefits which increased 29% to $5.6 million during the first quarter of 2006, from $4.3 million during the corresponding quarter in 2005. The increase in compensation and employee benefits is a result of increasing staffing levels due to the acquisition of UNB as well as the addition of relationship officers and operational personnel to support the continuing growth of the Bank.

*Treasury Segment*

The treasury segment's pre-tax income increased 6% to $8.3 million during the first quarter of 2006, compared to $7.9 million for the same quarter in 2005. Net interest income decreased 17% to $6.5 million during the quarter ended March 31, 2006, from $7.8 million during the same quarter in 2005 largely as a result of increased market rates paid on borrowings relative to the interest earned on investment securities.

In contrast, there was a significant increase in noninterest income for this segment during the first quarter of 2006. Specifically, noninterest income increased 238% to $1.7 million during the quarter ended March 31, 2006, compared to only $507 thousand for the corresponding period in 2005. The increase in noninterest income can be attributed almost entirely to net gains on sales of investment securities, primarily U.S. Government sponsored enterprise mortgaged-backed securities and equity securities.

Noninterest expense also increased 135% to $562 thousand during the first quarter of 2006, from $239 thousand during the same quarter in 2005. The increase in noninterest expense is primarily due to guarantee fees paid to FNMA in connection with multifamily loan securitization transactions during 2005, and to a lesser degree, higher compensation expense resulting from increased staffing levels.

*Residential Lending Segment*

The residential lending segment's pre-tax income decreased 42% to $2.4 million during the first quarter of 2006, from $4.1 million during the same quarter in 2005. The decrease in pre-tax income is partly due to the decrease in net interest income for this segment, which declined 27% to $3.9 million during the first quarter of 2006, compared with $5.3 million for the corresponding quarter in 2005. The decrease in net interest income reflects the highly competitive market environment for residential single family and multifamily loans.

Noninterest income for this segment also decreased during the first quarter of 2006 to $738 thousand, a 26% decline from total noninterest income of $993 thousand recorded during the first quarter of 2005. The decrease in noninterest income is primarily due to the increase in fees waived on single family and multifamily loan products resulting from competitive market pressures.

Noninterest expense for this segment remained flat at $1.4 million for the three months ended March 31, 2006 and 2005.

**Balance Sheet Analysis**

Our total assets increased $1.00 billion, or 12%, to $9.28 billion, as of March 31, 2006, relative to total assets of $8.28 billion at December 31, 2005. The increase in total assets resulted primarily from increases in net loans of $852.2 million, securities purchased under resale agreements of $50.0 million, and goodwill of $100.9 million. The increase in total assets was largely funded by increases in deposits of $765.1 million and FHLB advances of $121.3 million.

**Investment Securities Available-for-Sale**

Total investment securities available-for-sale decreased 2% to $850.0 million as of March 31, 2006, compared with $869.8 million at December 31, 2005. Total repayments/maturities and proceeds from sales of available-for-sale securities amounted to $195.2 million and $105.4 million, respectively, during the three months ended March 31, 2006. Proceeds from repayments, maturities, sales, and redemptions were applied towards additional investment securities purchases totaling $282.3 million as well as funding a portion of loan originations made during the first quarter of 2006. We recorded net gains totaling $1.7 million on sales of available-for-sale securities during the first quarter of 2006.

The Company performs regular impairment analyses on the investment securities available-for-sale portfolio. If the Company determines that a decline in fair value is other-than-than temporary, an impairment writedown is recognized in current earnings. Other-than-temporary declines in fair value are assessed based on the duration the security has been in a continuous unrealized loss position, the severity of the decline in value, the rating of the security and our ability and intent on holding the securities until the fair values recover.

The increase in net unrealized losses in our investment securities available-for-sale portfolio of $3.2 million for the three-month period ended March 31, 2006 is largely a result of market interest rate fluctuations. Specifically, the increase in unrealized loss was largely due to a gross unrealized loss in U.S. Government sponsored enterprise debt securities of $5.9 million and a gross unrealized loss in U.S. Government sponsored enterprise mortgage-backed securities of $2.5 million at March 31, 2006. The issuers of these securities have not, to our knowledge, established any cause for default on these securities and the various rating agencies have reaffirmed these securities' long term investment grade status at March 31, 2006. The Company has the ability and the intention to hold these securities until their fair values recover. As such, management does not believe that there are any securities, other than those previously identified in prior periods, that are other-than-temporarily impaired, and therefore, no impairment charges as of March 31, 2006 are warranted.

The following table sets forth the amortized cost and the estimated fair values of investment securities available-for-sale as of March 31, 2006 and December 31, 2005:

| | **Amortized Cost** | **Gross Unrealized Gains** | **Gross Unrealized Losses** | **Estimated Fair Value** |
|---|---|---|---|---|
| | *(In thousands)* | | | |
| **As of March 31, 2006** | | | | |
| U.S. Treasury securities | $ 2,483 | $ - | $ (4) | $ 2,479 |
| U.S. Government agency securities and U.S. Government sponsored enterprise debt securities | 710,450 | - | (5,876) | 704,574 |
| U.S. Government sponsored enterprise mortgage-backed securities | 110,897 | 296 | (2,493) | 108,700 |
| Other mortgage-backed securities | | | | |

| | | | | |
|---|---|---|---|---|
| | 10,826 | - | (29) | 10,797 |
| Corporate debt securities | 18,000 | 42 | (248) | 17,794 |
| U.S. Government sponsored enterprise equity securities | 4,648 | 22 | - | 4,670 |
| Residual interest in securitized loans | - | 1,004 | - | 1,004 |
| Total investment securities available-for-sale | $ 857,304 | $ 1,364 | $ (8,650) | $ 850,018 |

**As of December 31, 2005**

| | | | | |
|---|---|---|---|---|
| U.S. Treasury securities | $ 1,497 | $ - | $ - | $ 1,497 |
| U.S. Government agency securities and U.S. Government sponsored enterprise debt securities | 615,105 | - | (4,868 ) | 610,237 |
| U.S. Government sponsored enterprise mortgage-backed securities | 189,147 | 2,526 | (1,758 ) | 189,915 |
| Other mortgage-backed securities | 14,119 | - | (15 ) | 14,104 |
| Corporate debt securities | 17,998 | 41 | | |

| | | | | |
|---|---|---|---|---|
| | | | (227) | 17,812 |
| U.S. Government sponsored enterprise equity securities | 36,103 | - | (235) | 35,868 |
| Residual interest in securitized loans | - | 404 | - | 404 |
| Total investment securities available-for-sale | $ 873,969 | $ 2,971 | $ (7,103) | $ 869,837 |

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**Loans**

We offer a broad range of products designed to meet the credit needs of our borrowers. Our lending activities consist of residential single family loans, residential multifamily loans, commercial real estate loans, construction loans, commercial business loans, trade finance loans, and consumer loans. Loan growth continued to be strong during the first three months of 2006. Total gross loans increased $862.8 million, or 13% to $7.66 billion at March 31, 2006. Excluding the impact of the $495.1 million in gross loans acquired from Standard Bank, organic loan growth for the first quarter of 2006 amounted to $367.7 million, or an increase of 5% (22% annualized).

The growth in loans, excluding the impact of the Standard Bank acquisition, is comprised of net increases in single family loans of $92.7 million or 18%, multifamily loans of $53.3 million or 4%, commercial real estate loans of $68.0 million or 2%, construction loans of $107.7 million or 17%, and commercial business loans of $75.3 million or 12%. These increases are partially offset by net decreases in trade finance loans of $11.4 million or 5% and consumer loans, including home equity lines of credit, of $17.8 million or 9%.

The following table sets forth the composition of the loan portfolio as of the dates indicated:

| | March 31, 2006 | | December 31, 2005 | |
|---|---|---|---|---|
| | **Amount** | **Percent** | **Amount** | **Percent** |
| | *(Dollars in thousands)* | | | |
| Real estate loans: | | | | |
| Residential, single family | $ 648,415 | 8.5% | $ 509,151 | 7.5% |
| Residential, multifamily | 1,597,442 | 20.8% | 1,239,836 | 18.3% |
| Commercial and industrial real estate | 3,512,886 | 45.9% | 3,321,520 | 48.9% |
| Construction | 767,925 | 10.0% | 640,654 | 9.4% |
| Total real estate loans | 6,526,668 | 85.2% | 5,711,161 | 84.1% |
| Other loans: | | | | |
| Commercial business | 718,833 | 9.4% | 643,296 | 9.5% |
| Trade finance | 219,350 | 2.9% | 230,771 | 3.4% |
| Automobile | 9,883 | 0.1% | 8,543 | 0.1% |
| Other consumer | 182,135 | 2.4% | 200,254 | 2.9% |
| Total other loans | 1,130,201 | 14.8% | 1,082,864 | 15.9% |
| Total gross loans | 7,656,869 | 100.0% | 6,794,025 | 100.0% |
| Unearned fees, premiums and discounts, net | (4,848) | | (1,070) | |
| Allowance for loan losses | (75,493) | | (68,635) | |
| Loan receivable, net | $ 7,576,528 | | $6,724,320 | |

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**Nonperforming Assets**

Nonperforming assets are comprised of nonaccrual loans, loans past due 90 days or more but not on nonaccrual, restructured loans and other real estate owned, net. Nonperforming assets totaled $13.8 million or 0.15% of total assets at March 31, 2006 and $30.1 million or 0.36% of total assets at December 31, 2005. Nonaccrual loans amounted to $11.0 million at March 31, 2006, compared with $24.1 million at year-end 2005. Loans totaling $5.8 million were placed on nonaccrual status during the first quarter of 2006. These additions to nonaccrual loans were offset by $8.3 million in payoffs and principal paydowns, $7.8 million in loans brought current, and one loan transferred to other real estate owned. Additions to nonaccrual loans during the first quarter of 2006 were comprised of $2.0 million in single family loans, a $437 thousand multifamily loan, $2.4 million in commercial real estate loans, a $186 thousand construction loan, a $750 thousand trade finance loan, a $7 thousand SBA loan, and a $6 thousand lease financing loan.

There were no loans past due 90 days or more but not on nonaccrual status at March 31, 2006. This compares to $5.7 million in such loans at December 31, 2005 representing four trade finance loans that were fully guaranteed by the Export-Import Bank of United States. During the first quarter of 2006, three of these loans totaling $2.2 million were paid in full through claims to the Export-Import Bank of the United States. The other loan amounting to $3.4 million was brought current during the quarter ended March 31, 2006.

Restructured loans represent loans that have had their original terms modified. There were no restructured loans as of March 31, 2006 and December 31, 2005.

Other real estate owned includes properties acquired through foreclosure or through full or partial satisfaction of loans. We had one OREO property at March 31, 2006 with a carrying value of $2.8 million representing an industrial park property held as collateral for a commercial real estate loan. In comparison, we had one OREO property with a carrying value of $299 thousand at December 31, 2005, representing a condominium unit that was held as partial collateral for a commercial business loan. This OREO property was sold in March 2006 resulting in a gain on sale of $88 thousand.

The following table sets forth information regarding nonaccrual loans, loans past due 90 days or more but not on nonaccrual, restructured loans and other real estate owned as of the dates indicated:

| | March 31, 2006 | December 31, 2005 |
|---|---|---|
| | *(Dollars in thousands)* | |
| Nonaccrual loans | $ 10,988 | $ 24,149 |
| Loans past due 90 days or more but not on nonaccrual | - | 5,670 |

| | | |
|---|---|---|
| Total nonperforming loans | 10,988 | 29,819 |
| Restructured loans | - | - |
| Other real estate owned, net | 2,786 | 299 |
| Total nonperforming assets | $ 13,774 | $ 30,118 |
| Total nonperforming assets to total assets | 0.15 % | 0.36 % |
| Allowance for loan losses to nonperforming loans | 687.05 % | 230.17 % |
| Nonperforming loans to total gross loans | 0.14 % | 0.44 % |

We evaluate loan impairment according to the provisions of SFAS No. 114, *Accounting by Creditors for Impairment of a Loan*, as amended. Under SFAS No. 114, loans are considered impaired when it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement, including scheduled interest payments. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as an expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent, less costs to sell. If the measure of the impaired loan is less than the recorded investment in the loan, the deficiency will be charged off against the allowance for loan losses.

At March 31, 2006, we classified $11.0 million of our loans as impaired, compared with $24.1 million at December 31, 2005. Specific reserves on impaired loans amounted to $444 thousand at March 31, 2006, compared with $1.3 million at December 31, 2005. Our average recorded investment in impaired loans for the three months ended March 31, 2006 and 2005 were $11.0 million and $4.1 million, respectively. During the three months ended March 31, 2006 and 2005, gross interest income that would have been recorded on impaired loans, had they performed in accordance with their original terms, totaled $245 thousand and $60 thousand, respectively. Of this amount, actual interest recognized on impaired loans, on a cash basis, was $78 thousand and $12 thousand, respectively.

**Allowance for Loan Losses**

We are committed to maintaining the allowance for loan losses at a level that is considered to be commensurate with estimated and known risks in the portfolio. Although the adequacy of the allowance is reviewed quarterly, our management performs an ongoing assessment of the risks inherent in the portfolio. While we believe that the allowance for loan losses is adequate at March 31, 2006, future additions to the allowance will be subject to continuing evaluation of estimated and known, as well as inherent, risks in the loan portfolio.

The allowance for loan losses is increased by the provision for loan losses which is charged against current period operating results, and is decreased by the amount of net chargeoffs during the period. At March 31, 2006, the allowance for loan losses amounted to $75.5 million, or .99% of total loans, compared with $68.6 million, or 1.01% of total loans, at December 31, 2005, and $53.9 million, or 1.00% of total loans, at March 31, 2005. The $6.9 million increase in the allowance for loan losses at March 31, 2006, from year-end 2005, is comprised of $3.3 million in additional loss provisions, and $4.1 million in loss reserves acquired from Standard Bank, and $46 thousand in net recoveries recorded during the period. Additionally, we reclassified $605 thousand from the allowance for loan losses to other liabilities during the first quarter of 2006. This amount represents additional loss allowances required for unfunded loan commitments and off-balance sheet credit exposures related primarily to our trade finance lending activities. The allowance for unfunded loan commitments and off-balance sheet credit exposures is included in accrued expenses and other liabilities and amounted to $11.7 million at March 31, 2006.

The provision for loan losses of $3.3 million for the first quarter of 2006 represents a 24% decrease from the $4.4 million in loss provisions charged during the first quarter of 2005. First quarter 2006 net recoveries amounted to $46 thousand and represent less than 0.01% of average loans outstanding for the three months ended March 31, 2006. This compares to net chargeoffs of $765 thousand or 0.01% of average loans outstanding for the same period in 2005. We continue to record loss provisions to compensate for both the sustained growth of our loan portfolio and our continued lending focus on increasing our portfolio of commercial real estate, commercial business, including trade finance, and construction loans.

The following table summarizes activity in the allowance for loan losses for the three months ended March 31, 2006 and 2005:

| | Three Months Ended March 31, | |
|---|---|---|
| | **2006** | **2005** |
| | *(Dollars in thousands)* | |
| Allowance balance, beginning of period | $ 68,635 | $ 50,884 |
| Allowance from acquisition | 4,084 | - |
| Allowance for unfunded loan commitments and letters of credit | (605) | (621) |
| Provision for loan losses | 3,333 | 4,370 |
| Chargeoffs: | | |
| Commercial business | - | 820 |
| Automobile | - | 44 |
| Other consumer | 1 | |

| | | |
|---|---|---|
| | | - |
| Total chargeoffs | 1 | 864 |
| Recoveries: | | |
| Residential, single family | - | 20 |
| Commercial business | 45 | 55 |
| Automobile | 2 | 24 |
| Total recoveries | 47 | 99 |
| Net chargeoffs | (46) | 765 |
| Allowance balance, end of period | $ 75,493 | $ 53,868 |
| Average loans outstanding | $ 7,078,805 | $ 5,236,534 |
| Total gross loans outstanding, end of period | $ 7,656,869 | |

| | |
|---|---|
| $ | 5,391,644 |
| Annualized net chargeoffs to average loans | 0.00% |
| | 0.06% |
| Allowance for loan losses to total gross loans at the end of period | 0.99% |
| | 1.00% |

Prior to the third quarter of 2005, we utilized two primary methodologies to determine the overall adequacy of the allowance - the classification migration model and the individual loan review analysis methodology. The results from these two methodologies were compared to various ancillary analyses, including historical loss analyses, peer group comparisons, and analyses based on the federal regulatory interagency policy for loan and lease losses to determine an overall allowance requirement amount. Largely in response to the significant growth of the Bank's loan portfolio in the past couple of years, we refined the classification migration analysis in the third quarter of 2005 to take into consideration the increasing diversity and risk profiles of loans within the same loan categories. As a result of our enhanced approach to the classification migration analysis, management has determined that the individual loan review analysis methodology and separate historical loss analyses are no longer necessary in determining the overall adequacy of the allowance since the results of these analyses have been incorporated into the enhanced migration model.

Under the classification migration approach implemented prior to the third quarter of 2005, we utilized only six risk-rated loan pools. This now has been expanded to eighteen categories. Automobile loans and homogeneous loans, which are predominantly consumer-related credits (i.e. home equity lines, overdraft protection, and credit card loans), remain unchanged under the enhanced model. All other categories (i.e. single family residential, multifamily residential, commercial real estate, construction, and commercial business) have been broken down into additional subcategories. For example, instead of one commercial real estate loan category, this category has been segmented into six subcategories based on industry sector, namely, retail, office, industrial, land, hotel/motel, and other miscellaneous. By sectionalizing loan categories into smaller subgroups, we are better able to isolate and identify the risk associated with each subgroup based on historical loss trends.

In addition to increasing the number of loan categories, we have also expanded the loss horizon from five to thirteen years in order to better capture the Bank's historical loss trends to make the analysis more complete and accurate. The thirteen-year loss horizon was selected because this represents the timeframe when the Bank started to monitor and track losses incurred in the loan portfolio. We continue to utilize minimum loss rates as a self-correcting mechanism to better reflect the loss potential for certain categories that have little or no historical losses. Similar to the previous periods, minimum loss rates are established based on relative risk profiles for certain loan categories. However, in contrast to previous periods, the current minimum loss rates utilized under the enhanced methodology more closely reflect historical loss rates than previously utilized minimum loss rates as a result of the expanded loss horizon. For example, minimum loss rates on construction loans will be higher than minimum loss rates established for commercial real estate loans due to their riskier credit profiles. Even within various subgroups in a broad loan category such as commercial real estate, minimum loss rates are also established based on the relative risk profile of various industry sectors. Commercial real estate loans in the retail sector, for example, will have a lower minimum loss rate than commercial real estate loans in the hotel/motel sector. The allowance requirement for each pool continues to be based on the higher of historical loss factors or established minimum loss rates for each classification category (i.e. pass, special mention, substandard, and doubtful).

Besides quantitative adjustments, the enhanced classification migration methodology also utilizes qualitative adjustments which were previously considered in conjunction with the individual loan review analysis methodology. These qualitative adjustments include, but are not limited to, credit concentrations, delinquency, non-accrual and problem loan trends, qualification of lending management and staff, and quality of the loan review system. Qualitative adjustments can either be positive or negative, and generally range from -2% to 5%. Total net qualitative adjustments for each loan pool are reflected as a percent adjustment and are calculated on top of the required allowance amount based on historical losses or minimum loss rates. By incorporating various qualitative adjustments into the migration methodology, we have essentially integrated the principles of the individual loan review analysis methodology.

Previously, we used a 10% estimation risk factor to compensate for the modeling risk associated with the classification migration and individual loan review analysis models. Additionally, we also used a 5% economic risk factor in consideration of the tenuous state of the national economy, recent corporate scandals, continuing geopolitical instability in the Middle East, and the unfavorable impact of Fed rate increases on consumer cash flows. With the enhanced migration model, both the estimation and economic risk factors are included in the qualitative adjustments for each loan category. Although a certain degree of subjectivity is still inevitable in determining the adequacy of the loan loss allowance, it is management's opinion that the new expanded classification migration method is more accurate in assessing the allowance requirement for each loan subcategory.

The following table reflects management's allocation of the allowance for loan losses by loan category and the ratio of each loan category to total loans as of the dates indicated:

| | March 31, 2006 | | December 31, 2005 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| | (Dollars in thousands) | | | |
| Residential, single family | $ 2,249 | 8.5% | $ 1,401 | 7.5% |
| Residential, multifamily | 6,192 | 20.8% | 5,152 | 18.3% |
| Commercial and industrial real estate | 22,757 | 45.9% | 22,241 | 48.9% |
| Construction | 13,363 | 10.0% | 10,751 | 9.4% |
| Commercial business | 15,333 | 9.4% | 13,452 | 9.5% |
| Trade finance | 14,747 | 2.9% | 14,680 | 3.4% |
| Automobile | 238 | 0.1% | 205 | 0.1% |
| Other consumer | 614 | 2.4% | 753 | 2.9% |
| Total | $ 75,493 | 100.0% | $ 68,635 | 100.0% |

Loss reserves on single family loans increased $848 thousand, or 61%, to $2.2 million due primarily to a 27% increase in the volume of single family loans at March 31, 2006 in comparison to year-end 2005 levels. Moreover, criticized (i.e. rated "special mention") and classified (i.e. rated "substandard" and "doubtful") single family loans amounted to $114 thousand and $2.9 million, respectively, at March 31, 2006. All criticized and classified single family loans at March 31, 2006 were assumed through the acquisition of Standard Bank in mid-March 2006. In comparison, there were no criticized or classified single family loans at December 31, 2005.

Loss reserves on multifamily loans increased $1.0 million, or 20%, to $6.2 million at March 31, 2006 primarily due to a 29% increase in the volume of multifamily loans at March 31, 2006 from year-end 2005 levels. Further contributing to the increase in loss allowances on multifamily loans is an increase in substandard loans to $2.8 million at March 31, 2006, compared to $2.0 million at December 31, 2005. Partially offsetting these factors is a decrease in special mention loans in this category to $2.0 million at March 31, 2006, compared to $3.7 million at year-end 2005.

Loss reserves on commercial real estate loans increased $516 thousand, or 2%, to $22.8 million at March 31, 2006 due primarily to a 6% increase in the volume of loans in this loan category relative to year-end 2005. Further contributing to the increase in loss allowances for this loan category is a $6.7 million increase in substandard commercial real estate loans, relative to year-end 2005, with the majority of the increase coming from the hotel sector and, to a much lesser degree, from the commercial retail and industrial sectors. Partially offsetting these factors is a $5.1 million decrease in commercial real estate loans rated special mention, relative to December 31, 2005, with notable decreases in the land, single purpose and commercial office sectors.

Loss reserves on construction loans increased $2.6 million, or 24%, to $13.4 million at March 31, 2006 primarily due to a 20% increase in the volume of loans in this category when compared to December 31, 2005. Furthermore, residential construction loans rated "substandard" increased to $7.6 million at March 31, 2006, compared to only $2.5 million at December 31, 2005. One substandard residential construction loan amounting to $3.4 million was inherited from the acquisition of Standard Bank in March 2006. In contrast, there were no residential construction loans rated "special mention" at March 31, 2006, representing a $5.0 million decrease from year-end 2005. There were no criticized or classified construction loans on commercial properties at March 31, 2006 and December 31, 2005. Residential construction loans represented 63% of the total construction loan portfolio at March 31, 2006, with the remaining 37% comprised of commercial construction loans.

Loss reserves on commercial business loans increased $1.9 million, or 14%, to $15.3 million at March 31, 2006 primarily due to a 12% increase in the volume of loans in this category relative to year-end 2005. Furthermore, substandard commercial business loans increased to $13.4 million at March 31, 2006, compared to $8.3 million at year-end 2005. This is partially offset by a decrease in commercial business loans rated "special mention" to $2.4 million at March 31, 2006, compared with $5.1 million at December 31, 2005.

Loss reserves on trade finance loans remained relatively flat, increasing by only $67 thousand, or less than 1%, to $14.7 million at March 31, 2006 primarily due to an increase in classified trade finance loans. Specifically, trade finance loans rated "substandard" increased to $7.7 million at March 31, 2006, from $1.3 million at December 31, 2005. Almost offsetting the entire impact of additional classified assets are the following factors: (1) a 5% decrease in the volume of loans in this category relative to year-end 2005; (2) a decrease in the historical loss rate in this loan category to 3.53% at March 31, 2006, compared to 3.75% at December 31, 2005; (3) a $2.0 million decrease in trade finance loans rated "special mention;" and (4) a $1.2 million decrease in specific allowances related to one loan.

Loss reserves on automobile loans increased $33 thousand, or 16%, to $238 thousand as of March 31, 2006, primarily reflecting the 16% increase in the volume of loans in this category at March 31, 2006 relative to December 31, 2005.

Loss reserves on consumer loans decreased $139 thousand, or 18%, to $614 thousand as of March 31, 2006, primarily due to the 8% decrease in the volume of consumer loans at March 31, 2006 relative to year-end 2005. Consumer loans are comprised predominantly of home equity loans and home equity lines of credit, and to a lesser extent, credit card and overdraft protection lines.

**Deposits**

Deposits increased 12% to $7.02 billion at March 31, 2006, from $6.26 billion at December 31, 2005, largely due to $728.5 million in deposits acquired from Standard Bank. Deposit growth was comprised of increases in time deposits of $439.4 million or 14%, money market accounts of $142.7 million or 15%, savings accounts of $125.6 million or 38%, and noninterest-bearing demand deposits of $57.7 million or 4%. These increases were partially offset by a decrease in interest-bearing checking accounts of $284 thousand, representing less than 1%. The acquisition of Standard Bank accounted for the large increase in time deposits, with their time deposit base comprising 74% of their total deposit portfolio. Core deposits, or non-time deposit accounts, amounted to $3.44 billion at March 31, 2006, representing 49% of total deposits, with time deposits representing the remaining 51%. This is comparable to the 50% core deposit ratio at year-end 2005.

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

| | March 31, 2006 | December 31, 2005 |
|---|---|---|
| | *(In thousands)* | |
| Demand deposits (noninterest-bearing) | $ 1,389,675 | $ 1,331,992 |
| Checking accounts (interest-bearing) | 472,327 | 472,611 |
| Money market accounts | 1,121,378 | 978,678 |
| Savings deposits | 452,428 | 326,806 |
| Total core deposits | 3,435,808 | 3,110,087 |
| Time deposits: | | |
| Less than $100,000 | 1,165,273 | 927,793 |
| $100,000 or greater | 2,422,595 | 2,220,707 |
| Total time deposits | 3,587,868 | 3,148,500 |

| Total deposits | $ 7,023,676 | $ 6,258,587 |
|---|---|---|

**Borrowings**

We utilize a combination of short-term and long-term borrowings to manage our liquidity position. Federal funds purchased generally mature within one to three business days from the transaction date. At March 31, 2006, federal funds purchased amounted to $5.5 million, a 94% decrease from the $91.5 million balance at December 31, 2005. The decrease in federal funds purchased can be attributed to the replacement of this funding source with FHLB advances which had more attractive market rates during the first quarter of 2006. FHLB advances increased 20% to $739.0 million as of March 31, 2006, compared to $617.7 million at December 31, 2005. A large portion of outstanding FHLB advances at March 31, 2006 totaling $345.0 million represents overnight advances, compared to $280.0 million as of December 31, 2005. During the first quarter of 2006, we assumed $70.0 million in term FHLB advances from Standard Bank with original maturity terms ranging from 15 months to 10 years and fixed interest rates ranging from 4.01% to 5.71%. Additionally, during the quarter ended March 31, 2006, we entered into $50.0 million in additional term FHLB advances with 3-year maturity terms at a fixed rate of 4.66%. These advances were entered into in connection with our community reinvestment initiatives.

In addition to federal funds purchased and FHLB advances, we have outstanding securities sold under repurchase agreements totaling $325.0 million at March 31, 2006 and December 31, 2005. Repurchase agreements are accounted for as collateralized financing transactions and recorded at the amounts at which the securities were sold. The terms of these repurchase agreements range from seven to ten years. The rates are all initially floating rate for the first one to three years, ranging from the three-month Libor minus 80 basis points to the three-month Libor minus 125 basis points. Thereafter, the rates are fixed for the remainder of the term, with interest rates ranging from 4.075% to 4.55%.

As of March 31, 2006, long-term debt totaled $184.0 million, compared to $153.1 million at December 31, 2005. Long-term debt is comprised of subordinated debt and junior subordinated debt issued in connection with our various trust preferred securities offerings. As previously mentioned, the increase in long-term debt at March 31, 2006 is due to the issuance of $30.0 million in junior subordinated debt securities through a pooled trust preferred offering. Similar to previous offerings, these securities were issued through a newly formed statutory business trust, East West Capital Trust VII, a wholly-owned subsidiary of the Company. The securities have a 30-year maturity and bear interest at a per annum rate based on the three-month Libor plus 135 basis points, payable on a quarterly basis.

**Off-Balance Sheet Arrangements and Aggregate Contractual Obligations**

During the quarter ended March 31, 2006, material changes outside the ordinary course of our business related to off-balance sheet arrangements or contractual obligations include $50.0 million in additional securities purchased under resale agreements and $30.0 million in additional junior subordinated debt.

The following table presents, as of March 31, 2006 the Company's significant fixed and determinable contractual obligations, within the categories described below, by payment date. These contractual obligations are included in the Condensed Consolidated Statement of Financial Condition. The payment amounts represent the amounts and interest contractually due to the recipient.

| | **Payment Due by Period** | | | | | |
|---|---|---|---|---|---|---|
| **Contractual Obligations** | **Less than 1 year** | **1-3 years** | **3-5 years** | **After 5 years** | **Indeterminate Maturity** | **Total** |
| | *(In thousands)* | | | | | |
| Deposits | $ 3,399,864 | $ 233,086 | $ 31,567 | $ 1,003 | $ 3,441,248 | $ 7,106,768 |
| Federal funds purchased | 5,501 | | | | | |

5,501

FHLB advances

539,903

135,410

73,095

13,987

-

762,395

Securities sold under

repurchase agreements

12,368

24,735

24,735

378,004

-

439,842

Notes payable

8,833

8,833

Long-term debt obligations

12,250

24,500

24,500

383,139

-

444,389

Operating lease obligations

9,239

17,711

13,728

35,228

-

75,906

Total contractual obligations

$ 3,979,125

$ 435,442

$ 167,625

$ 811,361

$ 3,450,081

$ 8,843,634

A schedule of significant commitments at March 31, 2006 follows:

| | **Payment Due** *(In thousands)* |
|---|---|
| Undisbursed loan commitments | $1,952,118 |
| Standby letters of credit | 347,227 |
| Commercial letters of credit | 40,342 |

Capital Resources

Our primary source of capital is the retention of net after tax earnings. At March 31, 2006, stockholders' equity totaled $903.5 million, a 23% increase from $734.1 million as of December 31, 2005. The increase is comprised of the following: (1) net income of $32.1 million recorded during the first three months of 2006; (2) stock compensation costs amounting to $1.9 million related to grants of restricted stock and stock options; (3) tax benefits of $3.8 million resulting from the exercise of nonqualified stock options; (4) tax benefits of $543 thousand resulting from the vesting of restricted stock; (5) net issuance of common stock totaling $2.6 million, representing 310,426 shares, pursuant to various stock plans and agreements; (6) net issuance of common stock totaling $133.9 million, representing 3,647,441 shares, in connection with the Standard Bank acquisition; and (7) issuance of common stock to Standard Bank employees totaling $105 thousand, representing 2,670 shares. These transactions were offset by (1) payments of first quarter 2006 cash dividends totaling $2.8 million, (2) an increase of $2.2 million in unrealized losses on available-for-sale securities, and (3) forfeitures of restricted stock totaling $440 thousand, representing 12,648 restricted shares cancelled during the first quarter of 2006.

As previously mentioned, we reduced additional paid-in capital in the amount of $8.2 million, representing the remaining deferred compensation balance in the consolidated statement of stockholders' equity as of January 1, 2006. The transaction was recorded in accordance with the transition provisions of SFAS No. 123(R) which we adopted on January 1, 2006.

On March 15, 2006, the Company issued $30.0 million in junior subordinated debt securities through a pooled trust preferred offering. Similar to previous offerings, these securities were issued through a newly formed statutory business trust, Trust VII, a wholly-owned subsidiary of the Company. The proceeds from the debt securities are loaned by Trust VII to the Company and are included in long-term debt in the accompanying Condensed Consolidated Statement of Financial Condition. The securities issued by Trust VII have a scheduled maturity of June 15, 2036 and bear interest at a per annum rate based on the three-month Libor plus 135 basis points, payable on a quarterly basis. At March 31, 2006, the interest rate on the junior subordinated debt was 6.28%. The junior subordinated debt issued qualifies as Tier I capital for regulatory reporting purposes.

Our management is committed to maintaining capital at a level sufficient to assure our shareholders, our customers and our regulators that our company and our bank subsidiary are financially sound. We are subject to risk-based capital regulations adopted by the federal banking regulators in January 1990. These guidelines are used to evaluate capital adequacy and are based on an institution's asset risk profile and off-balance sheet exposures. According to the regulations, institutions whose Tier 1 and total capital ratios meet or exceed 6% and 10%, respectively, are deemed to be "well-capitalized." At March 31, 2006, the Bank's Tier 1 and total capital ratios were 9.0% and 11.0%, respectively, compared to 8.8% and 11.0%, respectively, at December 31, 2005.

The following table compares East West Bancorp, Inc.'s and East West Bank's actual capital ratios at March 31, 2006, to those required by regulatory agencies for capital adequacy and well-capitalized classification purposes:

| | East West Bancorp | East West Bank | Minimum Regulatory Requirements | Well Capitalized Requirements |
|---|---|---|---|---|
| Total Capital (to Risk-Weighted Assets) | 11.3% | 11.0% | 8.0% | 10.0% |
| Tier 1 Capital (to Risk-Weighted Assets) | 9.3% | 9.0% | 4.0% | 6.0% |
| Tier 1 Capital (to Average Assets) | 9.0% | 8.7% | 4.0% | 5.0% |

**ASSET LIABILITY AND MARKET RISK MANAGEMENT**

**Liquidity**

Liquidity management involves our ability to meet cash flow requirements arising from fluctuations in deposit levels and demands of daily operations, which include funding of securities purchases, providing for customers' credit needs and ongoing repayment of borrowings. Our liquidity is actively managed on a daily basis and reviewed periodically by the Asset/Liability Committee and the Board of Directors. This process is intended to ensure the maintenance of sufficient funds to meet our liquidity needs, including adequate cash flow for off-balance sheet instruments.

Our primary sources of liquidity are derived from financing activities which include the acceptance of customer and broker deposits, federal funds facilities, repurchase agreement facilities and advances from the Federal Home Loan Bank of San Francisco. These funding sources are augmented by payments of principal and interest on loans, the routine liquidation of securities from the available-for-sale portfolio and securitizations of eligible loans. Primary uses of funds include withdrawal of and interest payments on deposits, originations and purchases of loans, purchases of investment securities, and payment of operating expenses.

During the first quarter of 2006, we experienced net cash inflows from operating activities of $28.8 million, compared to net cash inflows of $33.0 million for the first quarter of 2005. Net cash inflows from operating activities for the first three months of 2006 and 2005 were primarily due to the net income earned during the period.

Net cash outflows from investing activities totaled $83.9 million and $334.5 million for the first quarter of 2006 and 2005, respectively. Net cash outflows from investing activities for both periods can be attributed primarily to the growth in our loan portfolio and purchases of available-for-sale securities. These activities were partially offset by repayments, maturities, redemptions and net sales proceeds from investment securities. Additionally, during the first quarter of 2006, net cash outflows from investing activities were also offset by proceeds from unsettled securities acquired from Standard Bank totaling $224 million.

We experienced net cash inflows from financing activities of $37.6 million for the first quarter of 2006, primarily due to deposit growth, net proceeds from FHLB advances and the issuance of additional junior subordinated debt partially offset by a net decrease in short-term borrowings. During the same period in 2005, growth in deposits, net proceeds from FHLB advances and a net increase in short-term borrowings largely accounted for the net cash inflows from financing activities totaling $313.5 million.

As a means of augmenting our liquidity sources, we have established federal funds lines with six correspondent banks and several master repurchase agreements with major brokerage companies. At March 31, 2006, our available borrowing capacity includes $349.5 million in federal funds line facilities, $56.2 million in repurchase arrangements, and $1.91 billion in unused FHLB advances. We believe our liquidity sources to be stable and adequate. At March 31, 2006, we are not aware of any information that was reasonably likely to have a material effect on our liquidity position.

The liquidity of East West Bancorp, Inc. is primarily dependent on the payment of cash dividends by its subsidiary, East West Bank, subject to limitations imposed by the Financial Code of the State of California. For the three months ended March 31, 2006 and 2005, total dividends paid by East West Bank to East West Bancorp, Inc. amounted to $2.8 million and $2.6 million respectively. As of March 31, 2006, approximately $207.3 million of undivided profits of East West Bank were available for dividends to East West Bancorp, Inc.



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**Interest Rate Sensitivity Management**

Our success is largely dependent upon our ability to manage interest rate risk, which is the impact of adverse fluctuations in interest rates on our net interest income and net portfolio value. Although in the normal course of business we manage other risks, such as credit and liquidity risk, we consider interest rate risk to be our most significant market risk and could potentially have the largest material effect on our financial condition and results of operations.

The fundamental objective of the asset liability management process is to manage our exposure to interest rate fluctuations while maintaining adequate levels of liquidity and capital. Our strategy is formulated by the Asset/Liability Committee, which coordinates with the Board of Directors to monitor our overall asset and liability composition. The Committee meets regularly to evaluate, among other things, the sensitivity of our assets and liabilities to interest rate changes, the book and market values of assets and liabilities, unrealized gains and losses on our available-for-sale portfolio, purchase and securitization activity, and maturities of investments and borrowings.

Our overall strategy is to minimize the adverse impact of immediate incremental changes in market interest rates (rate shock) on net interest income and net portfolio value. Net portfolio value is defined as the present value of assets, minus the present value of liabilities and off-balance sheet instruments. The attainment of this goal requires a balance between profitability, liquidity and interest rate risk exposure. To minimize the adverse impact of changes in market interest rates, we simulate the effect of instantaneous interest rate changes on net interest income and net portfolio value on a monthly basis. The table below shows the estimated impact of changes in interest rates on our net interest income and market value of equity as of March 31, 2006 and December 31, 2005, assuming a parallel shift of 100 to 200 basis points in both directions:

| **Change in Interest Rates (Basis Points)** | **Net Interest Income Volatility (1)** | | **Net Portfolio Value Volatility (2)** | |
|---|---|---|---|---|
| | **March 31, 2006** | **December 31, 2005** | **March 31, 2006** | **December 31, 2005** |
| +200 | 2.8% | 1.1% | (10.5)% | (12.5)% |
| +100 | | | | |

1.8
%
0.9
%
(5.0
)%
(5.2
)%
-100
(2.7
)%
(1.6
)%
1.9
%
2.9
%
-200
(5.5
)%
(4.1
)%
3.0
%
3.8
%

(1) The percentage change represents net interest income for twelve months in a stable interest rate environment versus net interest income in the various rate scenarios.
(2) The percentage change represents net portfolio value of the Bank in a stable interest rate environment versus net portfolio value in the various rate scenarios.

All interest-earning assets, interest-bearing liabilities and related derivative contracts are included in the interest rate sensitivity analysis at March 31, 2006 and December 31, 2005. At March 31, 2006 and December 31, 2005, our estimated changes in net interest income and net portfolio value were within the ranges established by the Board of Directors.

Our primary analytical tool to gauge interest rate sensitivity is a simulation model used by many major banks and bank regulators, and is based on the actual maturity and re-pricing characteristics of interest-rate sensitive assets and

liabilities. The model attempts to predict changes in the yields earned on assets and the rates paid on liabilities in relation to changes in market interest rates. As an enhancement to the primary simulation model, prepayment assumptions and market rates of interest provided by independent broker/dealer quotations, an independent pricing model and other available public sources are incorporated into the model. Adjustments are made to reflect the shift in the Treasury and other appropriate yield curves. The model also factors in projections of anticipated activity levels by Bank product line and takes into account our increased ability to control rates offered on deposit products in comparison to our ability to control rates on adjustable-rate loans tied to published indices.

The following table provides the outstanding principal balances and the weighted average interest rates of our financial instruments as of March 31, 2006. The information presented below is based on the repricing date for variable rate instruments and the expected maturity date for fixed rate instruments.

| | Expected Maturity or Repricing Date by Year | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Thereafter | Total | Fair Value at March 31, 2006 |
| | (Dollars in thousands) | | | | | | | |

**Assets:**

Federal funds sold

$ 1,000

$ 1,000

$ 1,000

Weighted average rate

4.75 %

4.75 %

Interest-bearing deposits in other banks

$ 1,059

$ 1,059

$ 1,059

Weighted average rate

3.18 %

3.18 %

Securities purchased under resale agreements

$
100,000

$
100,000

$
99,393

Weighted average rate

7.50
%

7.50
%

Investment securities available-for-sale (fixed rate)

$
304,761

$
116,977

$
105,001

$
50,000

$
20,830

$
597,569

$
593,428

Weighted average rate

3.48
%

4.28
%

5.25
%

5.40
%

5.18
%

4.17
%

Investment securities available-for-sale (variable rate) (1)

$
178,333

$
25,885

29,171

24,922

1,424

$
259,735

$
256,590

Weighted average rate

4.59
%

3.95
%

4.12
%

4.04
%

5.20
%

4.42
%

Total gross loans

$
5,334,823
$
526,895
$
569,000
$
456,549
$
420,746
$
348,855
$
7,656,869
$
7,576,749

Weighted average rate
7.46
%
5.93
%
6.09
%
6.00
%
6.62
%
6.52
%
7.07
%

**Liabilities:**

Checking accounts

$

472,327

$

472,327

$

472,327

Weighted average rate

1.38

%

1.38

%

Money market accounts

$

1,121,378

$

1,121,378

$

1,121,378

Weighted average rate

3.29

%

3.29

%

Savings deposits

$

452,428

$

452,428

$

452,428

Weighted average rate

0.85

%

0.85

%

Time deposits

$

3,367,765

$

194,795

$

21,583

$

1,643

$

1,338

$

744

$

3,587,868

$

3,568,539

Weighted average rate

3.85

%

3.98

%

1.83

%

3.31

%

3.73

%

4.26

%

3.85

%

Federal funds purchased

$

5,500

$

5,500

$

5,500

Weighted average rate

4.26

%

4.26

%

FHLB advances (variable rate)

$

345,000

$

345,000

$

345,000

Weighted average rate

4.96

%

4.96

%

FHLB term advances (fixed rate)

$

246,458

$

23,500

$

91,000

$

10,000

$

10,000

$

13,000

$
393,958

$
387,538

Weighted average rate

3.04
%

4.49
%

4.77
%

4.27
%

5.01
%

4.45
%

3.65
%

Securities sold under repurchase agreements

$
325,000

$
325,000

$
311,263

Weighted average rate

3.81
%

3.81
%

Subordinated debt

$

75,000

$

75,000

$

72,314

Weighted average rate

5.79

%

5.79

%

Junior subordinated debt (fixed rate)

$

21,392

$

21,392

$

30,816

Weighted average rate

10.91

%

10.91

%

Junior subordinated debt (variable rate)

$

87,631

$

87,631

$

91,927

Weighted average rate

6.63

%

6.63

%

(1) Includes hybrid securities that have fixed interest rates for the first three or five years. Thereafter, interest rates become adjustable based on a predetermined index

Expected maturities of assets are contractual maturities adjusted for projected payment based on contractual amortization and unscheduled prepayments of principal as well as re-pricing frequency. Expected maturities for deposits are based on contractual maturities adjusted for projected rollover rates and changes in pricing for deposits with no stated maturity dates. We utilize assumptions supported by documented analyses for the expected maturities of our loans and repricing of our deposits. We also rely on third party data providers for prepayment projections for amortizing securities. The actual maturities of these instruments could vary significantly if future prepayments and repricing differ from our expectations based on historical experience.

The fair values of short-term investments approximate their book values due to their short maturities. For securities purchased under resale agreements, fair values are calculated by discounting future cash flows based on expected maturities or repricing dates utilizing estimated market discount rates. Bid quotations from securities brokers or third party data providers are the basis for fair values of investment securities available-for-sale. The fair values of loans are estimated for portfolios with similar financial characteristics and take into consideration discounted cash flows based on expected maturities or repricing dates utilizing estimated market discount rates as projected by third party data providers.

Transaction deposit accounts, which include checking, money market and savings accounts, are presumed to have equal book and fair values because the interest rates paid on these accounts are based on prevailing market rates. The fair values of time deposits are based upon the discounted values of contractual cash flows, which are estimated using current rates offered for deposits of similar remaining terms. For federal funds purchased, fair value approximates book value due to their short maturities. The fair value of FHLB advances is estimated by discounting the cash flows through maturity or the next repricing date based on current rates offered by the FHLB for borrowings with similar maturities. The fair values of securities sold under repurchase agreements are calculated by discounting future cash flows based on expected maturities or repricing dates, utilizing estimated market discount rates and taking into consideration the call features of each instrument. For both subordinated and junior subordinated debt instruments, fair values are estimated by discounting cash flows through maturity based on current market rates.

The Asset/Liability Committee is authorized to utilize a wide variety of off-balance sheet financial techniques to assist in the management of interest rate risk. We sometimes use derivative financial instruments as part of our asset and liability management strategy, with the overall goal of minimizing the impact of interest rate fluctuations on our net interest margin and stockholders’ equity. The use of derivatives has not had a material effect on our operating results or financial position.

In August and November 2004, we entered into four equity swap agreements with a major investment brokerage firm to hedge against market fluctuations in a promotional equity index certificate of deposit product that we offered to Bank customers for a limited time during the latter half of 2004. This product, which has a term of 5 1/2 years, pays interest based on the performance of the Hang Seng China Enterprises Index (the “HSCEI”). The combined notional amounts of the equity swap agreements total $24.6 million with termination dates similar to the stated maturity date on the underlying certificate of deposit host contracts. For the equity swap agreements, we agreed to pay interest based on the one-month Libor minus a spread on a monthly basis and receive any increase in the HSCEI at swap termination date. Under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, a certificate of deposit that pays interest based on changes in an equity index is a hybrid instrument with an embedded derivative (i.e. equity call option) that must be accounted for separately from the host contract (i.e. the certificate of deposit). In accordance with SFAS No. 133, both the embedded equity call options on the certificates of deposit and the freestanding equity swap agreements are marked-to-market every month with resulting changes in fair value recorded in the consolidated statements of income.

On April 1, 2005, the Company amended the four equity swap agreements entered into in 2004 effectively removing the swap payable leg. The amendments to the swap agreements changed the terms of the agreements such that instead of paying interest based on the one-month Libor minus a spread on a monthly basis for the remaining terms of the agreements, we prepaid this amount based on the current market value of the cash streams. The total amount paid in conjunction with these swap agreement amendments was $4.2 million on April 1, 2005. The fair value of both the embedded derivatives and equity swap agreement amounted to $6.9 million and $3.5 million at March 31, 2006 and December 31, 2005, respectively. The embedded derivatives are included in interest-bearing deposits and the equity swap agreements are included in other assets on the consolidated balance sheets. The fair value of the derivative contracts is estimated using discounted cash flow analyses based on the change in value of the HSCEI based upon the life of the individual swap agreement. The significant increase in the fair value of the derivative contracts since December 31, 2005 can be attributed to a 26% rise in the index value combined with a 40% increase in the implied volatility of the HSCEI call options as of March 31, 2006, relative to year-2005.

**ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES OF MARKET RISKS**

For quantitative and qualitative disclosures regarding market risks in our portfolio, see, "Management's Discussion and Analysis of Consolidated Financial Condition and Results of Operations -- Asset Liability and Market Risk Management."

**ITEM 4: CONTROLS AND PROCEDURES**

*Disclosure Controls and Procedures*

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e). Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures are effective. There have been no significant changes in our internal controls during the fiscal quarter covered by the report that has materially affected or is reasonably likely to materially affect our internal controls over financial reporting.

Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Our disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

We are not involved in any material legal proceedings. Our subsidiary, East West Bank, from time to time is party to litigation that arises in the ordinary course of business, such as claims to enforce liens, claims involving the origination and servicing of loans, and other issues related to the business of the Bank. In the opinion of our management, based upon the advice of legal counsel, the resolution of any such issues would not have a material adverse impact on our financial position, results of operations, or liquidity.

### ITEM 1A. RISK FACTORS

There are no material changes to our risk factors as presented in the Company's 2005 Form 10-K under the heading "Item 1A. Risk Factors."

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

Repurchases of the Company's securities during the first quarter of 2006 are as follows:

| Month Ended | Total Number of Shares Purchased (1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Programs | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs |
|---|---|---|---|---|
| January 31, 2006 | -- | $ - | -- | (2) |
| February 28, 2006 | -- | $ - | -- | (2) |
| March 31, 2006 | -- | $ - | -- | (2) |
| Total | -- | $ - | -- | $ 7,000,000 |

(1) Excludes 12,648 repurchased shares totaling $440 thousand due to forfeitures of restricted stock awards pursuant to the Company's 1998 Stock Incentive Plan.

(2) On November 27, 2001, the Company's Board of Directors announced its sixth repurchase program authorizing the repurchase of up to $7.0 million of its common stock. This repurchase program has no expiration date and, to date, no shares have been purchased under this program.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

Not applicable.

**ITEM 5. OTHER INFORMATION**

No events have transpired which would make response to this item appropriate.

**ITEM 6. EXHIBITS**

| | |
|---|---|
| (i) Exhibit 31.1 | Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| (ii) Exhibit 31.2 | Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| (iii) Exhibit 32.1 | Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| (iv) Exhibit 32.2 | Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

All other material referenced in this report which is required to be filed as an exhibit hereto has previously been submitted.



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**SIGNATURE**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: May 9, 2006

EAST WEST
BANCORP, INC.
By: /s/ Julia Gouw
JULIA GOUW
Executive Vice
President and Chief
Financial Officer