

EAST WEST BANCORP INC  
Form 10-K  
February 26, 2016

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

FORM 10-K

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

For the fiscal year ended December 31, 2015

Commission file number 000-24939

EAST WEST BANCORP, INC.  
(Exact name of registrant as specified in its charter)  
Delaware  
(State or other jurisdiction of incorporation or  
organization)  
135 North Los Robles Ave., 7th Floor, Pasadena,  
California  
(Address of principal executive offices)

95-4703316  
(I.R.S. Employer Identification No.)  
91101  
(Zip Code)

Registrant's telephone number, including area code:  
(626) 768-6000

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

Title of each class	Name of each exchange on which registered
Common Stock, \$0.001 Par Value	NASDAQ "Global Select Market"

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

NONE

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 registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No "

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer	<input checked="" type="checkbox"/>	Non-accelerated filer	<input type="checkbox"/>
Accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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

The aggregate market value of the registrant's common stock held by non-affiliates was approximately \$6,382,812,659 (based on the June 30, 2015 closing price of Common Stock of \$44.82 per share).

As of January 31, 2016, 143,917,846 shares of East West Bancorp, Inc. Common Stock were outstanding.

**DOCUMENT INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement relating to its 2016 Annual Meeting of Stockholders are incorporated by reference into Part III.

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EAST WEST BANCORP, INC.  
 2015 ANNUAL REPORT ON FORM 10-K  
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PART I

Forward-Looking Statements

Certain matters discussed in this Annual Report contain or incorporate statements that East West Bancorp, Inc. (referred to herein on an unconsolidated basis as “East West” and on a consolidated basis as the “Company” or “we” or “EWBC”) believes are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Rule 175 promulgated thereunder, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and Rule 3b-6 promulgated thereunder. These statements relate to the Company’s financial condition, results of operations, plans, objectives, future performance or business. They usually can be identified by the use of forward-looking language, such as “likely result in,” “expects,” “anticipates,” “estimates,” “forecasts,” “projects,” “intends to,” or may include other similar words or phrases, such as “believes,” “plans,” “trend,” “objective,” “continues,” “ren” or similar expressions, or future or conditional verbs, such as “will,” “would,” “should,” “could,” “may,” “might,” “can,” or similar verbs. You should not place undue reliance on these statements, as they are subject to risks and uncertainties, including, but not limited to, those described in the documents incorporated by reference. When considering these forward-looking statements, you should keep in mind these risks and uncertainties, as well as any cautionary statements the Company may make. Moreover, you should treat these statements as speaking only as of the date they are made and based only on information then actually known to the Company.

There are a number of important factors that could cause future results to differ materially from historical performance and these forward-looking statements. Factors that might cause such differences, some of which are beyond the Company’s control, include, but are not limited to:

- the Company’s ability to compete effectively against other financial institutions in its banking markets;
- changes in the commercial and consumer real estate markets;
- changes in the Company’s costs of operation, compliance and expansion;
- changes in the U.S. economy, including inflation, employment levels, rate of growth and general business conditions;
- changes in government interest rate policies;
- changes in laws or the regulatory environment including regulatory reform initiatives and policies of the U.S. Department of Treasury, the Board of Governors of the Federal Reserve Board (“Federal Reserve”) System, the Federal Deposit Insurance Corporation (“FDIC”), the U.S. Securities and Exchange Commission (“SEC”) and the Consumer Financial Protection Bureau (“CFPB”);
- changes in the economy of and monetary policy in the People’s Republic of China;
- changes in accounting standards as may be required by the Financial Accounting Standards Board (“FASB”) or other regulatory agencies and their impact on critical accounting policies and assumptions;
- changes in the equity and debt securities markets;
- future credit quality and performance, including our expectations regarding future credit losses and allowance levels;
- fluctuations of the Company’s stock price;
- fluctuations in foreign currency exchange rates;
- success and timing of the Company’s business strategies;
- impact of reputational risk from negative publicity, fines and penalties and other negative consequences from regulatory violations and legal actions;
- impact of potential federal tax increases and spending cuts;
- impact of adverse judgments or settlements in litigation;
- impact of regulatory enforcement actions;
- changes in the Company’s ability to receive dividends from its subsidiaries;
- impact of political developments, wars or other hostilities that may disrupt or increase volatility in securities or otherwise affect economic conditions;
- impact of natural or man-made disasters or calamities or conflicts;
- continuing consolidation in the financial services industry;
- the Company’s capital requirements and its ability to generate capital internally or raise capital on favorable terms;

• impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) on the Company’s business, business practices and cost of operations;

• impact of adverse changes to the Company’s credit ratings from the major credit rating agencies;

• impact of failure in, or breach of, the Company’s operational or security systems or infrastructure, or those of third parties with whom the Company does business, including as a result of cyber attacks; and other similar matters;

• adequacy of the Company’s risk management framework, disclosure controls and procedures and internal control over financial reporting;

the effect of the current low interest rate environment or changes in interest rates on our net interest income and net interest margin;

the effect of changes in the level of checking or savings account deposits on the Company's funding costs and net interest margin; and

a recurrence of significant turbulence or disruption in the capital or financial markets, which could result in, among other things, a reduction in the availability of funding or increased funding costs, reduced investor demand for mortgage loans and declines in asset values and/or recognition of other-than-temporary impairment on securities held in the Company's available-for-sale investment securities portfolio.

For a more detailed discussion of some of the factors that might cause such differences, see Item 1A. Risk Factors presented elsewhere in this report. 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 except as required by law.

## ITEM 1. BUSINESS

### Organization

East West is a bank holding company incorporated in Delaware on August 26, 1998 and registered under the Bank Holding Company Act of 1956, as amended (“BHCA”). The Company commenced business on December 30, 1998 when, pursuant to a reorganization, it acquired all of the voting stock of East West Bank, or the “Bank.” The Bank is the Company’s principal asset. In addition to the Bank, East West has six other subsidiaries established as statutory business trusts (the “Trusts”) as of December 31, 2015 and one subsidiary - East West Insurance Services, Inc. (the “Agency”) that provides business and consumer insurance services. The Trusts were set up for the purpose of issuing junior subordinated debt to third party investors.

East West’s principal business is to serve as a holding company for the Bank and other banking or banking-related subsidiaries which East West may establish or acquire. As a legal entity separate and distinct from its subsidiaries, East West’s principal source of funds is, and will continue to be, dividends that may be paid by its subsidiaries. East West’s other sources of funds include proceeds from the issuance of its common stock in connection with stock option and employee stock purchase plans. As of December 31, 2015, the Company had \$32.35 billion in total assets, \$23.41 billion in total loans (net of allowance), \$27.48 billion in total deposits and \$3.12 billion in stockholders’ equity.

As of December 31, 2015, the Bank has three wholly owned subsidiaries. The first subsidiary, E-W Services, Inc., is a California corporation organized by the Bank in 1977. E-W Services, Inc. holds properties used by the Bank in its operations. The second subsidiary, East-West Investments, Inc., primarily acts as a trustee in connection with real estate secured loans. The remaining subsidiary is East West Bank (China) Limited.

On November 6, 2009, the Bank acquired United Commercial Bank (“UCB”), a California state-chartered bank headquartered in San Francisco, California. Under the terms of the UCB Purchase and Assumption Agreement, the Bank acquired certain assets of UCB with a fair value of approximately \$9.86 billion and assumed liabilities with a fair value of approximately \$9.57 billion. On June 11, 2010, the Bank acquired certain assets and assumed certain liabilities of Washington First International Bank (“WFIB”), a Washington state-chartered bank headquartered in Seattle, Washington. Under the terms of the WFIB Purchase and Assumption Agreement, the Bank acquired certain assets of WFIB with a fair value of approximately \$492.6 million and liabilities with a fair value of approximately \$481.3 million were assumed. Both of these transactions were FDIC-assisted acquisitions. On January 17, 2014, the Bank completed the acquisition of MetroCorp Bancshares, Inc., (“MetroCorp”) parent of MetroBank, N.A. and Metro United Bank. MetroCorp, headquartered in Houston, Texas, operated 19 branch locations within Texas and California under its two banks. The Bank acquired MetroCorp to further expand its presence, primarily in Texas within the markets of Houston and Dallas, and in California within the San Diego market. Approximately \$1.70 billion of assets were acquired and \$1.41 billion of liabilities were assumed.

The Bank continues to develop its international banking capabilities. The Bank’s presence includes five full-service branches in Greater China, located in Hong Kong, two in Shanghai including one in the Shanghai Pilot Free Trade Zone, Shantou and Shenzhen. The Bank also has five representative offices in Greater China located in Beijing, Chongqing, Guangzhou, Taipei, and Xiamen. In addition to facilitating traditional letters of credit and trade finance to businesses, these representative offices allow the Bank to assist existing clients, as well as develop new business relationships. Through these offices, the Bank is focused on growing its export-import lending volume by aiding U.S. exporters in identifying and developing new sales opportunities to China-based customers, as well as capturing additional letters of credit business generated from China-based exporters through broader correspondent banking relationships.

The Bank continues to explore opportunities to establish other foreign offices, subsidiaries or strategic investments and partnerships to expand its international banking capabilities and to capitalize on the growing international trade business between the United States and Greater China.

### Banking Services

As of December 31, 2015, East West Bank was the fourth largest independent commercial bank headquartered in California based on total assets. East West Bank is the largest bank in the United States that focuses on the financial services needs of individuals and businesses which operate both in the United States and Greater China, as well as having a strong focus on the Chinese American community. Through its network of banking locations in the United States and Greater China, the Bank provides a wide range of personal and commercial banking services to small and medium-sized businesses, business executives, professionals, and other individuals. The Bank offers multilingual services to its customers in English, Cantonese, Mandarin, Vietnamese and Spanish. The Bank also offers a variety of deposit products which includes the traditional range of personal and business checking and savings accounts, time deposits and individual retirement accounts, travelers' checks, safe deposit boxes, and MasterCard® and Visa® merchant deposit services. The Bank's lending activities include commercial and residential real estate, construction, trade finance, and commercial business, including accounts receivable, small business administration, inventory and working capital loans. The Bank generally provides commercial business loans to small and medium-sized businesses. The Bank's commercial borrowers are engaged in a wide variety of manufacturing, wholesale trade and service businesses. In addition, the Bank is focused on providing financing to clients needing a financial bridge that facilitates their business transactions between the United States and Greater China.

The Bank's three operating segments: Retail Banking, Commercial Banking and Other are based on the Bank's core strategy. The Retail Banking segment focuses primarily on retail operations through the Bank's branch network. The Commercial Banking segment primarily generates commercial and industrial loans, and commercial real estate ("CRE") loans through the domestic commercial lending offices located in California, New York, Texas, Washington, Massachusetts, Nevada and Georgia, and through the foreign commercial lending offices located in China and Hong Kong. Furthermore, the Commercial Banking segment also offers a wide variety of international finance and trade services and products. The remaining centralized functions, including the treasury operations of the Company and eliminations of intersegment amounts have been aggregated and included in "Other." For complete discussion and disclosure, please see the information in Item 7. Management's Discussion and Analysis of the Financial Condition and Results of Operations ("MD&A") — Operating Segment Results and Note 20 — Business Segments to the Consolidated Financial Statements for additional information.

### Market Area and Competition

The banking and financial services industry in California generally, and in the Bank's market areas specifically, is highly competitive. The increasingly competitive environment is primarily a result of changes in laws and regulations, changes in technology and product delivery systems, as well as continuing consolidation among financial services providers. The Bank competes for loans, deposits, and customers with other commercial banks, other financial services institutions and other companies that offer banking services. Some of these competitors are larger in total assets and capitalization and offer a broader range of financial services than the Bank.

The Bank concentrates on marketing its services in the greater Los Angeles metropolitan area and the greater San Francisco Bay area as Greater China and other Pacific Rim countries continue to grow as California's top trading partners. This provides the Bank with an important competitive advantage to its customers participating in the Asia Pacific marketplace. The Bank believes that its customers benefit from the Bank's understanding of Asian markets through its physical presence in Greater China, the Bank's corporate and organizational ties throughout Asia, as well as the Bank's international banking products and services. The Bank believes that this approach, combined with the extensive ties of the Bank's management and Board of Directors (the "Board") to growing Asian business opportunities, as well as the Chinese-American communities, provides the Bank with an advantage in competing for customers in the Bank's market area.



## Supervision and Regulation

### General

East West and the Bank are extensively regulated under both federal and state laws. Regulation and supervision by the federal and state banking agencies are intended primarily for the protection of depositors and the Deposit Insurance Fund (“DIF”) administered by the FDIC and not for the protection of our stockholders. As a bank holding company, East West is subject to primary inspection, supervision, regulation and examination by the Board of Governors of the Federal Reserve under the BHCA. The Bank, as a California state-chartered bank and a member of the Federal Reserve System, is subject to primary supervision and examination by the Federal Reserve, as well as the California Department of Business Oversight (“DBO”) - Division of Financial Institutions. The Company is also subject to regulation by certain foreign regulatory agencies where we conduct business.

The Company is also subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Exchange Act as administered by the SEC. Our common stock is listed on the NASDAQ Global Select Market (“NASDAQ”) under the trading symbol “EWBC” and is subject to NASDAQ rules for listed companies. The Company is also subject to the accounting oversight and corporate governance of the Sarbanes-Oxley Act of 2002. Described below are material elements of selected laws and regulations applicable to East West and the Bank. The descriptions are not intended to be complete and are qualified in their entirety by reference to the full text of the statutes and regulations described. A change in applicable statutes, regulations or regulatory policy may have a material effect on the Company’s business.

### East West

East West is subject to regulation and examination by the Federal Reserve under the BHCA and its authority to, among other things:

- require periodic reports and such additional information as the Federal Reserve may require;
- require the Company to maintain certain levels of capital and, under the Dodd-Frank Act, limit the ability of bank holding companies to pay dividends or bonuses unless their capital levels exceed the capital conservation buffer (please see Item 1. Business — Supervision and Regulation — Capital Requirements);
- require bank holding companies to serve as a source of financial and managerial strength to subsidiary banks and commit resources, as necessary, to support each subsidiary bank. A bank holding company’s failure to meet its obligations to serve as a source of strength to its subsidiary banks will generally be considered by the Federal Reserve to be an unsafe and unsound banking practice or a violation of Federal Reserve regulations or both;
- restrict the receipt and the payment of dividends;
- terminate an activity or terminate control of or liquidate or divest certain subsidiaries, affiliates or investments if the Federal Reserve believes that the activity or the control of the subsidiary or affiliate constitutes a significant risk to the financial safety, soundness or stability of any bank subsidiary;
- regulate provisions of certain bank holding company debt, including the authority to impose interest ceilings and reserve requirements on such debt and require prior approval to purchase or redeem the Company’s securities in certain situations;
- require the prior approval of senior executive officer or director changes and prohibit golden parachute payments, including change in control agreements, or new employment agreements with such payment terms, which are contingent upon termination;
- approve acquisitions and mergers with banks and consider certain competitive, management, financial and other factors in granting these approvals. DBO approvals may also be required for certain mergers and acquisitions.

As a bank holding company within the meaning of the California Financial Code, East West is subject to examination by, and may be required to file reports with the DBO.



## The Bank and its subsidiaries

East West Bank is a California state-chartered bank, a member and stockholder of the Federal Reserve and a member of the FDIC. The Bank is subject to primary supervision, periodic examination, and regulation by the CFPB, DBO, and the Federal Reserve, as the Bank's primary federal regulator. The Federal Reserve and the DBO also regulate the Bank's foreign operations. These operations are subject to the supervisory authorities of the host countries in which the Bank's overseas offices reside. Specific federal and state laws and regulations which are applicable to banks regulate, among other things, the scope of their business, their investments, their reserves against deposits, the timing of the availability of deposited funds, and the nature and amount of collateral for certain loans. The regulatory structure also gives the bank regulatory agencies extensive discretion in connection with their supervisory and enforcement activities and examination policies. California law permits state chartered commercial banks to engage in any activity permissible for national banks, unless such activity is expressly prohibited by state law. Therefore, the Bank may form subsidiaries to engage in the many so-called "closely related to banking" or "nonbanking" activities commonly conducted by national banks in operating subsidiaries, and further, pursuant to the Gramm Leach Bliley Act, the Bank may conduct certain "financial" activities in a subsidiary to the same extent permitted for a national bank, provided the Bank is and remains "well-capitalized," "well-managed" and in satisfactory compliance with the Community Reinvestment Act ("CRA").

## Regulation of Subsidiaries/Branches

Foreign-based subsidiaries, including East West Bank China (Limited), are subject to applicable foreign laws and regulations, such as those implemented by the China Banking Regulatory Commission. Nonbank subsidiaries are subject to additional or separate regulation and supervision by other state, federal and self-regulatory bodies. The Agency is subject to the licensing and supervisory authority of the California Department of Insurance. The East West Hong Kong branch is subject to applicable foreign laws and regulations, such as those implemented by the Hong Kong Monetary Authority.

## Dodd-Frank Act

The Dodd-Frank Act, which was enacted in July 2010, comprehensively reformed the regulation of financial institutions and their products and services. The Dodd-Frank Act also significantly revised and expanded the rulemaking, supervisory and enforcement authority of the federal bank regulatory agencies. Among other things, the Dodd-Frank Act established the CFPB to be responsible for consumer protection in the financial services industry; provided for new capital standards that eliminate the treatment of trust preferred securities as Tier 1 regulatory capital; required that deposit insurance assessments be calculated based on an insured depository institution's assets rather than its insured deposits; raised the minimum Designated Reserve Ratio to 1.35%; established a comprehensive regulatory regime for the derivatives activities of financial institutions; established new compensation restrictions and standards regarding the time, manner and form of compensation given to key executives and other personnel receiving incentive compensation; prohibited banking entities, after a transition period, from engaging in certain types of proprietary trading, as well as having investments in, sponsoring, and maintaining certain types of relationships with hedge funds and private equity funds (through provisions commonly referred to as the "Volcker Rule"); placed limitations on the interchange fees charged for debit card transactions; and established new minimum mortgage underwriting standards for residential mortgages.

The Dodd-Frank Act impacts many aspects of the financial industry and will impact larger and smaller financial institutions and community banks differently over time. Many of the key provisions of the Dodd-Frank Act affecting the financial industry are either in effect or are in the proposed rules or implementation stages.



## CFPB Supervision

The Dodd-Frank Act centralized responsibility for consumer financial protection by creating a new agency, the CFPB, and giving it responsibility for implementing, examining and enforcing compliance with federal consumer financial laws. Depository institutions with assets exceeding \$10 billion (such as the Bank), their affiliates, and certain non-banks in the markets for consumer financial services (as determined by the CFPB) are subject to direct supervision by the CFPB, including any applicable examination, enforcement and reporting requirements the CFPB may establish. The CFPB is focused on:

- risks to consumers and compliance with the Federal consumer financial laws, when it evaluates the policies and practices of a financial institution;
- unfair, deceptive, or abusive acts or practices, which the Dodd-Frank Act empowers the agency to prevent through rulemaking, enforcement and examination;
- rulemaking to implement various federal consumer statutes such as the Home Mortgage Disclosure Act, Truth in Lending Act, Real Estate Settlement Procedures Act and Electronic Fund Transfer Act;
- the markets in which firms operate and risks to consumers posed by activities in those markets; and
- with respect to the indirect auto business, holding lenders accountable for discriminatory dealer markups.

The statutes and regulations that the CFPB enforces mandate certain disclosure and other requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans, collecting loans, and providing other services. In addition, the Department of Justice enforces the Servicemembers Civil Relief Act, which provides protection for military servicemembers and their family including a limitation on the ability to retake collateral in the event of default and a statutory interest rate cap for certain debts. Failure to comply with these laws can subject the Bank to various penalties, including, but not limited to, enforcement actions, injunctions, fines or criminal penalties, punitive damages or restitution to consumers, and the loss of certain contractual rights. The Bank and the Company are also subject to federal and state laws prohibiting unfair or fraudulent business practices, untrue or misleading advertising and unfair competition.

### Federal Home Loan Bank (“FHLB”) and Federal Reserve

The Bank is a member of the FHLB of San Francisco. As an FHLB member, the Bank is required to own a certain amount of capital stock in the FHLB. The Bank may also access FHLB for both short-term and long-term secured borrowing sources. The Federal Reserve requires all depository institutions to maintain interest-earning reserves at specified levels against their transaction accounts. As of December 31, 2015, the Bank was in compliance with these requirements. As a member bank, the Bank is also required to own capital stock in the Federal Reserve.

## Dividends and Other Transfers of Funds

Dividends from the Bank constitute the principal source of income to East West. The Bank is subject to various statutory and regulatory restrictions on its ability to pay dividends. In addition, the banking agencies have the authority to prohibit or limit the Bank from paying dividends, depending upon the Bank’s financial condition, if such payment is deemed to constitute an unsafe or unsound practice. Furthermore, under the federal prompt corrective action (“PCA”) regulations, the Federal Reserve or FDIC may prohibit a bank holding company from paying any dividends if the holding company’s bank subsidiary is classified as “undercapitalized.” For more information, please see Capital Requirements below.

It is the Federal Reserve’s policy that bank holding companies should generally pay dividends on common stock only out of income available over the past years and only if prospective earnings retention is consistent with the organization’s expected future needs and financial condition. It is also the Federal Reserve’s policy that bank holding companies should not maintain dividend levels that undermine the company’s ability to be a source of strength to its banking subsidiaries. Additionally, in consideration of the current financial and economic environment, the Federal

Reserve has stated that bank holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels, unless both asset quality and capital are very strong.

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## Transactions with Affiliates

Federal laws strictly limit the ability of banks to engage in transactions with their affiliates, including their bank holding companies. Regulations promulgated by the Federal Reserve limit the types and amounts of these transactions that may take place and generally require those transactions to be on an arm's length basis. In general, these regulations require that "covered transactions" between a subsidiary bank and its parent company or the nonbank subsidiaries of the bank holding company are limited to 10% of the bank subsidiary's capital and surplus and, with respect to such parent company and all such nonbank subsidiaries, to an aggregate of 20% of the bank subsidiary's capital and surplus. Further, these restrictions, contained in the Federal Reserve's Regulation W, prevent East West and other affiliates from borrowing from, or entering into other credit transactions with, the Bank or its operating subsidiaries, unless the loans or other credit transactions are secured by specified amounts of collateral. Federal law also limits a bank's authority to extend credit to its directors, executive officers and 10% shareholders, as well as to entities controlled by such persons. Among other things, extensions of credit to insiders are required to be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons. The terms of such extensions of credit may not involve more than the normal risk of repayment or present other unfavorable features and may not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the bank's capital. The Dodd-Frank Act treats derivative transactions resulting in credit exposure to an affiliate as covered transactions. It expands the transactions for which collateral is required to be maintained, and for all such transactions, it requires collateral to be maintained at all times. In addition, the Volcker Rule under the Dodd-Frank Act establishes certain prohibitions, restrictions and requirements (known as "Super 23A" and "Super 23B") on transactions between a covered fund and a banking entity that serves as an investment manager, investment adviser, organizer and offeror, or sponsor with respect to that covered fund, regardless of whether the banking entity has an ownership interest in the fund.

## Stress Testing for Banks with Assets of \$10 Billion to \$50 Billion

The Dodd-Frank Act requires stress testing of bank holding companies and banks that have more than \$10 billion but less than \$50 billion of consolidated assets ("\$10 - \$50 billion companies"). Additional stress testing is required for banking organizations having \$50 billion or more of assets. \$10 - \$50 billion companies, including the Company and the Bank, are required to conduct annual company-run stress tests under rules the federal bank regulatory agencies issued in October 2012. Stress tests assess the potential impact of scenarios on the consolidated earnings, balance sheet and capital of a bank holding company or bank over a designated planning horizon of nine quarters, taking into account the organization's current condition, risks, exposures, strategies, activities and such factors as the regulators may request of a specific organization. Each banking organization's Board and senior management are required to review and approve the policies and procedures of their stress testing processes as frequently as economic conditions or the condition of the organization may warrant, and at least annually. They are also required to consider the results of the stress test in the normal course of business, including the banking organization's capital planning (including dividends and share buybacks), assessment of capital adequacy and maintaining capital consistent with its risks, and risk management practices. The results of the stress tests are provided to the applicable federal banking agencies. The final rule requirement for public disclosure of a summary of the stress testing results for the \$10 - \$50 billion companies h