

EAST WEST BANCORP INC  
Form 10-Q  
November 09, 2010

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

FORM 10-Q

Mark One

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

For the quarterly period ended September 30, 2010

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  
(State or other jurisdiction of  
incorporation or organization)

95-4703316  
(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 whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

Exchange Act.

Large accelerated filer Accelerated filer  Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes

No

Number of shares outstanding of the issuer's common stock on the latest practicable date: 148,004,889 shares of common stock as of October 31, 2010.

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TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION		4
Item 1.	Condensed Consolidated Financial Statements (Unaudited)	4-7
	Notes to Condensed Consolidated Financial Statements (Unaudited)	8-42
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	43-70
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	71
Item 4.	Controls and Procedures	71
PART II - OTHER INFORMATION		72
Item 1.	Legal Proceedings	72
Item 1A.	Risk Factors	72
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	72
Item 3.	Defaults Upon Senior Securities	73
Item 4.	(Removed and Reserved)	73
Item 5.	Other Information	73
Item 6.	Exhibits	73
SIGNATURE		74

## Forward-Looking Statements

Certain matters discussed in this Quarterly 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 we operate and projections of future performance including future earnings and financial condition. Our actual results, performance, or achievements may differ significantly from the results, performance, or achievements expected or implied in such forward-looking statements. Such risk and uncertainties and other factors include, but are not limited to, adverse developments or conditions related to or arising from:

- our ability to integrate the former acquired institutions’, through Federal Deposit Insurance Corporation (“FDIC”) assisted acquisitions, and to achieve expected synergies, operating efficiencies or other benefits within expected time frames, or at all, or within expected cost projections;
  - our ability to integrate and retain former depositors and borrowers of the acquired institutions;
- our ability to manage the loan portfolio acquired from these institutions within the limits of the loss protection provided by the FDIC;
  - changes in our borrowers’ performance on loans;
  - changes in the commercial and consumer real estate markets;
  - changes in our costs of operation, compliance and expansion;
    - changes in the economy, including inflation;
    - changes in government interest rate policies;
    - changes in laws or the regulatory environment;
  - changes in critical accounting policies and judgments;
- changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or other regulatory agencies;
  - changes in the equity and debt securities markets;
- changes in competitive pressures on financial institutions;
  - effect of additional provision for loan losses;
    - effect of any goodwill impairment;
  - fluctuations of our stock price;
- success and timing of our business strategies;

impact of reputational risk created by these developments on such matters as business generation and retention, funding and liquidity;

- changes in our ability to receive dividends from our subsidiaries; and
- political developments, wars or other hostilities may disrupt or increase volatility in securities or otherwise affect economic conditions.

For a more detailed discussion of some of the factors that might cause such differences, see the Company's 2009 Form 10-K under the heading "ITEM 1A. RISK FACTORS" and the information set forth under "RISK FACTORS" in this Form 10-Q. 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.

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

	September 30, 2010	December 31, 2009
<b>ASSETS</b>		
Cash and cash equivalents	\$ 859,694	\$ 835,141
Short-term investments	381,799	510,788
Fed funds sold	75,000	—
Securities purchased under resale agreements	350,000	227,444
Investment securities available for sale, at fair value (with amortized cost of \$2,898,988 at September 30, 2010 and \$2,563,043 at December 31, 2009)	2,907,349	2,564,081
Loans held for sale, at fair value	16,902	28,014
Loans receivable, excluding covered loans (net of allowance for loan losses of \$240,286 at September 30, 2010 and \$238,833 at December 31, 2009)	8,306,782	8,218,671
Covered loans (net of allowance for loan losses of \$3,900 at September 30, 2010)	4,975,502	5,598,155
<b>Total loans receivable, net</b>	<b>13,282,284</b>	<b>13,816,826</b>
FDIC indemnification asset	874,759	1,091,814
Other real estate owned, net	16,936	13,832
Other real estate owned covered, net	137,353	44,273
<b>Total other real estate owned</b>	<b>154,289</b>	<b>58,105</b>
Accrued interest receivable	79,879	82,370
Due from customer acceptances	50,698	40,550
Investment in affordable housing partnerships	152,944	84,833
Premises and equipment, net	138,474	59,099
Premiums on deposits acquired, net	82,755	89,735
Goodwill	337,438	337,438
Other assets	672,982	732,974
<b>TOTAL</b>	<b>\$ 20,417,246</b>	<b>\$ 20,559,212</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Customer deposit accounts:		
Noninterest-bearing	\$ 2,571,750	\$ 2,291,259
Interest-bearing	12,726,221	12,696,354
<b>Total deposits</b>	<b>15,297,971</b>	<b>14,987,613</b>
Federal Home Loan Bank advances	1,018,074	1,805,387

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Securities sold under repurchase agreements	1,045,664	1,026,870
Notes payable and other borrowings	73,550	74,406
Bank acceptances outstanding	50,698	40,550
Long-term debt	235,570	235,570
Accrued interest payable, accrued expenses and other liabilities	310,959	104,157
<b>Total liabilities</b>	<b>18,032,486</b>	<b>18,274,553</b>
<b>COMMITMENTS AND CONTINGENCIES (Note 10)</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, \$0.001 par value, 5,000,000 shares authorized; Series A, non-cumulative convertible, 200,000 shares issued and 85,741 shares outstanding in 2010 and 2009; Series B, cumulative, 306,546 shares issued and outstanding in 2010 and 2009; Series C, cumulative convertible, 335,047 shares issued and outstanding in 2009	370,882	693,803
Common stock, \$0.001 par value, 200,000,000 shares authorized; 155,092,439 and 116,754,403 shares issued in 2010 and 2009, respectively; 147,981,714 and 109,962,965 shares outstanding in 2010 and 2009, respectively	155	117
Additional paid in capital	1,428,893	1,091,047
Retained earnings	689,356	604,223
Treasury stock, at cost - 7,110,725 shares in 2010 and 6,791,438 shares in 2009	(109,661 )	(105,130 )
Accumulated other comprehensive income, net of tax	5,135	599
<b>Total stockholders' equity</b>	<b>2,384,760</b>	<b>2,284,659</b>
<b>TOTAL</b>	<b>\$ 20,417,246</b>	<b>\$ 20,559,212</b>

See accompanying notes to condensed consolidated financial statements.

EAST WEST BANCORP, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	2010	Three Months Ended September 30, 2009	2010	Nine Months Ended September 30, 2009
<b>INTEREST AND DIVIDEND INCOME</b>				
Loans receivable, including fees	\$	210,086	\$ 114,512	\$ 731,813
Investment securities		15,725	28,485	50,642
Securities purchased under resale agreements		2,410	2,153	11,303
Short-term investments		2,362	1,856	7,405
Investment in Federal Reserve Bank stock		623	552	2,042
Investment in Federal Home Loan Bank stock		194	366	431
				365
<b>Total interest and dividend income</b>		<b>231,400</b>	<b>147,924</b>	<b>803,636</b>
				<b>439,180</b>
<b>INTEREST EXPENSE</b>				
Customer deposit accounts		28,498	26,970	91,078
Securities sold under repurchase agreements		12,189	12,140	36,775
Federal Home Loan Bank advances		5,725	11,172	20,905
Long-term debt		1,685	1,760	4,823
Other borrowings		498	2	1,903
				8
<b>Total interest expense</b>		<b>48,595</b>	<b>52,044</b>	<b>155,484</b>
				<b>175,359</b>
<b>NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES</b>				
		182,805	95,880	648,152
Provision for loan losses		38,648	159,244	170,325
				388,666
<b>NET INTEREST INCOME (LOSS) AFTER PROVISION FOR LOAN LOSSES</b>				
		144,157	(63,364 )	477,827
				(124,845 )
<b>NONINTEREST INCOME (LOSS)</b>				
Increase (decrease) in FDIC indemnification asset and receivable		5,826	—	(47,170 )
				—
Impairment loss on investment securities		(6,522 )	(45,199 )	(17,515 )
				(82,846 )
Less: noncredit-related impairment loss recorded in other comprehensive income		5,634	20,950	7,186
				20,950
		(888 )	(24,249 )	(10,329 )
				(61,896 )



Net impairment loss on investment  
securities recognized in earnings

Net gain on sale of investment securities	2,791	2,177	24,749	7,378
Branch fees	7,976	4,679	24,953	14,463
Gain on acquisition	—	—	27,571	—
Letters of credit fees and commissions	2,888	1,984	8,493	5,768
Ancillary loan fees	2,367	1,227	6,425	4,812
Income from life insurance policies	1,100	1,090	3,306	3,269
Net gain on sale of loans	4,177	8	12,250	19
Other operating income	3,078	1,204	6,301	1,902
<b>Total noninterest income (loss)</b>	<b>29,315</b>	<b>(11,880 )</b>	<b>56,549</b>	<b>(24,285 )</b>

**NONINTEREST EXPENSE**

Compensation and employee benefits	38,693	15,875	131,051	49,492
Other real estate owned expense	5,694	767	44,689	16,480
Occupancy and equipment expense	13,963	6,262	39,022	19,950
Deposit insurance premiums and regulatory assessments	5,676	6,057	21,785	18,950
Prepayment penalty for Federal Home Loan Bank advances	—	—	13,832	—
Amortization of premiums on deposits acquired	3,352	1,069	10,046	3,286
Amortization of investments in affordable housing partnerships	1,442	1,709	7,117	5,121
Loan related expenses	6,316	2,197	14,567	5,274
Legal expense	5,301	1,323	14,391	4,856
Data processing	2,646	1,079	8,174	3,362
Consulting expense	1,612	759	5,672	1,879
Deposit-related expenses	1,239	948	3,381	2,863
Other operating expenses	14,011	8,019	50,446	23,869
<b>Total noninterest expense</b>	<b>99,945</b>	<b>46,064</b>	<b>364,173</b>	<b>155,382</b>

**INCOME (LOSS) BEFORE  
PROVISION (BENEFIT) FOR**

<b>INCOME TAXES</b>	<b>73,527</b>	<b>(121,308 )</b>	<b>170,203</b>	<b>(304,512 )</b>
Provision (benefit) for income taxes	26,576	(52,777 )	61,988	(126,790 )

**NET INCOME (LOSS) BEFORE  
EXTRAORDINARY ITEMS**

Extraordinary item – impact of securitization, net of tax	—	—	—	(5,366 )
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**NET INCOME (LOSS) AFTER  
EXTRAORDINARY ITEMS**

	<b>46,951</b>	<b>(68,531 )</b>	<b>108,215</b>	<b>(183,088 )</b>
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Preferred stock dividends, amortization of preferred stock discount and inducement of preferred stock conversion	6,732	10,620	19,017	42,986
<b>NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS</b>				
	\$ 40,219	\$ (79,151 )	\$ 89,198	\$ (226,074 )
<b>EARNINGS (LOSS) PER SHARE AVAILABLE TO COMMON STOCKHOLDERS</b>				
Basic	\$ 0.27	\$ (0.91 )	\$ 0.66	\$ (3.19 )
Diluted	\$ 0.27	\$ (0.91 )	\$ 0.61	\$ (3.19 )
Dividends declared per common share	\$ 0.01	\$ 0.01	\$ 0.03	\$ 0.04
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>				
Basic	146,454	86,538	134,396	70,967
Diluted	147,113	86,538	146,993	70,967
See accompanying notes to condensed consolidated financial statements.				

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

	Preferred Stock	Additional Paid In Capital Preferred Stock	Common Stock	Additional Paid In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Compre- hensive Income (Loss)	Total Stockholders' Equity
BALANCE AS OF DECEMBER 31, 2008	\$—	\$472,311	\$70	\$695,521	\$572,172	\$(102,817)	\$(86,491)		\$1,550,766
Cumulative effect adjustment for reclassification of the previously recognized noncredit-related impairment loss on investment securities					8,110		(8,110 )		—
BALANCE AS OF JANUARY 1, 2009	—	472,311	70	695,521	580,282	(102,817)	(94,601)		1,550,766
Comprehensive loss									
Net loss after extraordinary item for the year					(183,088)			\$(183,088)	(183,088 )
Net unrealized gain on investment securities available-for-sale							53,021	53,021	53,021
Net unrealized loss as a result of deseuritization							30,551	30,551	30,551
Noncredit-related impairment loss on investment securities recorded in the							(12,150)	(12,150 )	(12,150 )

current year

Total  
comprehensive  
loss

\$(111,666)

Stock  
compensation  
costs

4,370

4,370

Tax provision  
from stock plans

(498 )

(498 )

Preferred stock  
issuance and  
conversion cost

(180 )

(180 )

Common stock  
issuance cost

(5,535 )

(5,535 )

Induced

conversion of  
110,764 shares of  
preferred stock

(107,474)

(107,474 )

Issuance of  
9,968,760 shares  
of common stock  
from

converted

110,764 shares of  
Preferred Stock

10 107,464

107,474

Issuance of  
5,000,000 shares  
of common stock  
from

private placement

5 27,495

27,500

Issuance of  
12,650,000  
shares of  
common  
stock from

public offering

12 80,316

80,328

Issuance of  
423,597 shares of  
common stock  
pursuant to

various stock  
plans and

agreements

1 399

400

Issuance of  
22,386 shares of  
common stock in  
lieu of

Board of Director  
retainer fees

219

219

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Cancellation of 60,578 shares of common stock due to forfeitures of issued restricted stock		1,467		(1,467 )			—
Purchase of 11,166 shares of treasury stock due to the vesting of restricted stock				(54 )			(54 )
Amortization of Series B preferred stock discount	3,265			(3,265 )			—
Preferred stock dividends				(21,381 )			(21,381 )
Common stock dividends				(2,487 )			(2,487 )
Inducement of preferred stock conversion		18,340		(18,340 )			—
BALANCE AS OF SEPTEMBER 30, 2009	\$—\$367,922	\$98	\$929,558	\$351,721	\$(104,338)	\$(23,179)	\$1,521,782
BALANCE AS OF JANUARY 1, 2010	\$—\$693,803	\$117	\$1,091,047	\$604,223	\$(105,130)	\$599	\$2,284,659
Comprehensive income:							
Net income				108,215		\$108,215	108,215
Net unrealized gain on investment securities available-for-sale						7,142	7,142
Noncredit-related impairment loss on investment securities recorded in the current year						(3,268 )	(3,268 )
Foreign currency translation						662	662

Total comprehensive income								\$112,751
Stock compensation costs			6,164					6,164
Tax provision from stock plans			(156	)				(156
Issuance of 1,234,302 shares of common stock pursuant to various stock plans and agreements	1		2,526					2,527
Conversion of 335,047 shares of Series C preferred stock into 37,103,734 shares of common stock	(325,299)	37	325,262					—
Cancellation of 293,105 shares of common stock due to forfeitures of issued restricted stock			4,050		(4,050	)		—
Purchase of 26,182 shares of treasury stock due to the vesting of restricted stock					(481	)		(481
Amortization of Series B preferred stock discount	2,378				(2,378	)		—
Preferred stock dividends					(16,640	)		(16,640
Common stock dividends					(4,064	)		(4,064
BALANCE AS OF SEPTEMBER 30, 2010	\$—	\$370,882	\$155	\$1,428,893	\$689,356	\$(109,661)	\$5,135	\$2,384,760

Nine Months Ended  
September 30,  
2010      2009  
(In  
thousands)

Disclosure of  
reclassification  
amounts:

Unrealized holding gain (loss) on securities arising during the period, net of tax expense of \$(8,862) in 2010 and \$(37,620) in 2009	\$ 12,237	\$ 51,952
Less: Reclassification adjustment for gain (loss) included in net income (loss), net of tax expense of \$6,057 in 2010 and \$(22,898) in 2009	(8,363 )	31,620
Net unrealized gain (loss) on securities, net of tax expense of \$(2,805) in 2010 and \$(60,518) in 2009	\$ 3,874	\$ 83,572

See accompanying notes to condensed consolidated financial statements.

EAST WEST BANCORP, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)  
(Unaudited)

	2010	Nine Months Ended September 30,	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income (loss) after extraordinary items	\$	108,215	\$ (183,088 )
Adjustments to reconcile net income (loss) after extraordinary items to net cash provided by operating activities:			
Depreciation and amortization		48,153	16,847
Accretion of discount and premium		(159,226 )	—
Decrease in FDIC indemnification asset and receivable		47,170	—
Gain on acquisition		(27,571 )	—
Net impairment loss on investment securities recognized in earnings		10,329	61,896
Impairment writedown on mortgage servicing assets		348	660
Stock compensation costs		6,164	4,370
Deferred tax expense (benefit)		32,355	(16,886 )
Provision for loan losses and impact of desecuritization		170,325	397,929
Impairment on other real estate owned		36,508	17,670
Impairment loss on other equity investment		—	581
Net gain on sales of investment securities, loans and other assets		(39,260 )	(2,827 )
Originations of loans held for sale		(22,013 )	(33,248 )
Proceeds from sale of loans held for sale		20,389	33,318
Prepayment penalty for Federal Home Loan Bank advances		13,832	—
Tax provision from stock plans		156	498
Net change in accrued interest receivable and other assets		278,386	(11,710 )
Net change in accrued expenses and other liabilities		162,446	(97,694 )
Total adjustments		578,491	371,404
Net cash provided by operating activities		686,706	188,316
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of WFIB assets		67,186	—
Net decrease in loans		662,655	318,232
Net decrease in short-term investments		103,989	(92,415 )
Purchases of:			
Securities purchased under resale agreements		(880,000 )	(50,000 )
Investment securities held-to-maturity		—	(697,768 )
Investment securities available-for-sale		(3,612,331 )	(1,314,263)
Loans receivable		(580,396 )	(350,000 )
Federal Reserve Bank stock		(10,500 )	(9,196 )



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Investments in affordable housing partnerships	(473 )	(22 )
Premises and equipment	(90,051 )	(433 )
Proceeds from sale of:		
Investment securities	1,047,173	336,710
Securities purchased under resale agreements	710,000	25,000
Loans receivable	427,087	105,227
Loans held for sale originated for investment	147,194	—
Other real estate owned	77,804	51,807
Premises and equipment	84	8
Repayments, maturity and redemption of investment securities available-for-sale	2,268,589	1,040,828
Dividends/redemption of Federal Home Loan Bank stock	13,427	182
Net cash provided by (used in) investing activities	351,437	(636,103 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net (payment for) proceeds from:		
Deposits	(87,053 )	526,598
Short-term borrowings	2,214	(3,980 )
Proceeds from:		
Issuance of long-term borrowings	350,000	—
Issuance of common stock from public offering	—	80,328
Issuance of common stock from private placement	—	27,500
Issuance of common stock pursuant to various stock plans and agreements	2,527	400
Payment for:		
Repayment of long-term borrowings	(1,223,137 )	(430,000 )
Repayment of notes payable and other borrowings	(37,300 )	(9,395 )
Purchase of treasury shares due to the vesting of restricted stock	(481 )	(54 )
Preferred stock issuance cost	—	(5,715 )
Cash dividends on preferred stock	(16,640 )	(20,530 )
Cash dividends on common stock	(4,064 )	(2,486 )
Tax benefit from stock plans	(156 )	(498 )
Net cash (used in) provided by financing activities	(1,014,090 )	162,168
Effect of exchange rate changes on cash and cash equivalents	500	—
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>24,553</b>	<b>(285,619 )</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>835,141</b>	<b>878,853</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 859,694</b>	<b>\$ 593,234</b>

**SUPPLEMENTAL CASH FLOW INFORMATION:**

Cash paid during the period for:

Interest	\$ 159,742	\$ 184,054
Income tax (refunds) payments	24,292	(13,126 )

Noncash investing and financing activities:		
Transfers to real estate owned/affordable housing partnership	203,276	116,124
Conversion of preferred stock to common stock	325,299	—
Desecuritization of loans receivable	—	635,614
Loans to facilitate sales of real estate owned	13,550	38,605
Loans transferred to loans held for sale	138,792	—
Loans to facilitate sales of loans	42,022	130,509
Issuance of common stock in lieu of Board of Director retainer fees	360	219

See accompanying notes to condensed consolidated financial statements.

7

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EAST WEST BANCORP, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
For the Three and Nine Months Ended September 30, 2010 and 2009  
(Unaudited)

NOTE 1 — BASIS OF PRESENTATION

The condensed 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 nine wholly-owned subsidiaries that are statutory business trusts (the “Trusts”). In accordance with Financial Accounting Standards Board Accounting Standards Codification (“ASC”) 810, the Trusts are not consolidated into the accounts of East West Bancorp, Inc.

The interim condensed consolidated financial statements, presented in accordance with accounting principles generally accepted in the United States of America (“GAAP”), are unaudited and reflect all adjustments that, 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 and nine months ended September 30, 2010 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. Events subsequent to the condensed consolidated balance sheet date have been evaluated through the date the financial statements are issued for inclusion in the accompanying financial statements. The unaudited condensed 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, 2009.

Certain prior year balances have been reclassified to conform to current year presentation.

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Standards

In September 2009, the Financial Accounting Standards Board (“FASB”) issued ASC 860 which requires additional information about transfers of financial assets, including securitization transactions, and where companies have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a “qualifying special-purpose entity,” changes the requirements for derecognizing financial assets, and requires additional disclosures. It was effective for the Company on January 1, 2010. The adoption of this guidance did not have a material impact on the Company’s condensed consolidated financial statements.

In September 2009, the FASB issued ASC 810 that changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity’s purpose and design and a company’s ability to direct the activities of the entity that most significantly impact the entity’s economic performance. It was effective for the Company on January 1, 2010. The adoption of this guidance did not have a material effect on the Company’s condensed consolidated financial statements.

In January 2010, the FASB issued Accounting Standards Update (“ASU”) 2010-06, Improving Disclosures about Fair Value Measurements. ASU 2010-06 requires separate disclosure of the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and reasons for the transfers and separate presentation of information

about purchases, sales, issuances and settlements in the

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reconciliation for Level 3 fair value measurements. Additionally, ASU 2010-06 clarifies existing disclosures regarding level of disaggregation and inputs and valuation techniques. The new disclosures and clarifications of existing disclosures under ASU 2010-06 are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years ending after December 15, 2010 and for interim periods within those fiscal years. The Company adopted the disclosure requirements of significant transfers in and out of Level 1 and Level 2 fair value measurements (see Note 3). The Company does not expect the adoption of the disclosure requirements to have a material effect on its condensed consolidated financial statements.

In April 2010, the FASB issued ASU 2010-18, *Receivables, Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset*, which amends ASC 310-30. This ASU clarifies the treatment of loan modifications for loans accounted for within a loan pool. Loans accounted for under ASC 310-30, should not be removed from the pool even if the loan modification would otherwise be considered a troubled debt restructuring. An entity is still required to assess the entire pool for impairment. The update does not require additional disclosures. This clarified treatment of loan modifications is effective for interim and annual reporting periods beginning after July 15, 2010. The adoption of this guidance did not have a material effect on the Company's condensed consolidated financial statements.

In July 2010, the FASB issued ASU 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivable and Allowance for Credit Losses*, which amends ASC 310, *Receivables*. ASU 2010-20 is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. Companies will be required to provide more information about the credit quality of their financing receivables in the disclosures to financial statements, such as aging information and credit quality indicators. Both new and existing disclosures must be disaggregated by portfolio segment or class. The disaggregation of information is based on how a company develops its allowance for credit losses and how it manages its credit exposure. The disclosures as of the end of a reporting period will be effective for interim and annual reporting periods ending on or after December 15, 2010. The Company does not expect the adoption of the disclosure requirements to have a material effect on its condensed consolidated financial statements.

### NOTE 3 — FAIR VALUE

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various methods including market and income approaches. Based on these approaches, the Company utilizes certain assumptions that market participants would use in pricing the asset or liability. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Company is required to provide the information according to the fair value hierarchy noted below. The hierarchy is based on the quality and reliability of the information used to determine fair values. The hierarchy gives the highest priority to quoted prices available in active markets and the lowest priority to data lacking transparency. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1 – Quoted prices for identical instruments that are highly liquid, observable and actively traded in over-the-counter markets. Level 1 financial instruments typically include U.S. Treasury securities.
- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable and can be corroborated by market data. Level 2 financial instruments typically include U.S. Government debt and agency mortgage-backed securities, municipal securities, U.S. Government sponsored enterprise preferred stock securities, single issue trust preferred securities, equity swap agreements, foreign exchange options and other real estate owned (“OREO”).
- Level 3 – Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose values are determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category typically includes mortgage servicing assets, impaired loans, private label mortgage-backed securities, pooled trust preferred securities and derivatives payable.

The Company records investment securities available-for-sale, equity swap agreements, derivatives payable and foreign exchange options at fair value on a recurring basis. Certain other assets such as mortgage servicing assets, impaired loans, other real estate owned, goodwill, premiums on acquired deposits and private equity investments are recorded at fair value on a nonrecurring basis. Nonrecurring fair value measurements typically involve assets that are periodically evaluated for impairment and for which any impairment is recorded in the period in which the remeasurement is performed.

In determining the appropriate hierarchy levels, the Company performs a detailed analysis of assets and liabilities that are subject to fair value disclosure. The following tables present both financial and non-financial assets and liabilities that are measured at fair value on a recurring and non-recurring basis. These assets and liabilities are reported on the condensed consolidated balance sheets at their fair values as of September 30, 2010 and December 31, 2009. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to their fair value measurement. There were no transfers in and out of Levels 1 and 2 during the first nine months of 2010. There were also no transfers in and out of levels 1 and 3 or levels 2 and 3.

Assets (Liabilities) Measured at Fair Value on a Recurring Basis  
as of September 30, 2010

	Fair Value Measurements September 30, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In thousands)				
Investment securities available-for-sale:				
U.S. Treasury securities	\$ 21,740	\$ 21,740	\$ —	\$ —
U.S. Government agency and U.S. Government sponsored enterprise debt securities	1,206,835	—	1,206,835	—
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	20,495	—	20,495	—
Residential mortgage-backed securities	339,007	—	339,007	—
Municipal securities	—	—	—	—
Other residential mortgage-backed securities:				
Investment grade	—	—	—	—
Non-investment grade	12,834	—	—	12,834
Corporate debt securities:				
Investment grade	1,175,431	—	1,175,431	—
Non-investment grade	24,599	—	22,446	2,153
U.S. Government sponsored enterprise equity securities	—	—	—	—
Other securities	106,408	—	106,408	—
Total investment securities available-for-sale	\$ 2,907,349	\$ 21,740	\$ 2,870,622	\$ 14,987
	\$ 2,828	\$ —	\$ 2,828	\$ —

Equity swap agreements				
Derivatives payable	(2,601 )	—	—	(2,601 )
Foreign exchange options	1,065	—	1,065	—

Assets (Liabilities) Measured at Fair Value on a Recurring Basis  
as of December 31, 2009

	Fair Value Measurements December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)  (In thousands)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment securities available-for-sale:				
U.S. Treasury securities	\$ 303,472	\$ 303,472	\$ —	\$ —
U.S. Government agency and U.S. Government sponsored enterprise debt securities	832,025	—	832,025	—
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	26,355	—	26,355	—
Residential mortgage-backed securities	724,348	—	724,348	—
Municipal securities	60,193	—	60,193	—
Other residential mortgage-backed securities:				
Investment grade	95,517	—	95,517	—
Non-investment grade	41,610	—	28,872	12,738
Corporate debt securities:				
Investment grade	460,895	—	459,917	978
Non-investment grade	8,861	—	6,906	1,955
U.S. Government sponsored enterprise equity securities	1,782	—	1,782	—
Other securities	9,023	9,023	—	—



Total investment securities available-for-sale	\$ 2,564,081	\$ 312,495	\$ 2,235,915	\$ 15,671
Equity swap agreements	\$ 14,177	\$ —	\$ 14,177	\$ —
Derivatives payable	(14,185 )	—	—	(14,185 )
Foreign exchange options	—	—	—	—

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	Assets Measured at Fair Value on a Non-Recurring Basis for the Three Months Ended September 30, 2010				
	Fair Value Measurements September 30, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2) (In thousands)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Non-covered impaired loans:					
Residential single-family	\$ —	\$ —	\$ —	\$ —	\$ —
Residential multifamily	2,694	—	—	2,694	(772 )
Commercial and industrial real estate, land	34,691	—	—	34,691	(15,222 )
Construction	6,521	—	—	6,521	(824 )
Commercial business	7,830	—	—	7,830	(3,053 )
Other consumer	167	—	—	167	96
<b>Total non-covered impaired loans</b>	<b>\$ 51,903</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 51,903</b>	<b>\$ (19,775 )</b>
Mortgage servicing assets (single-family, multifamily and commercial)					
	\$ 15,973	\$ —	\$ —	\$ 15,973	\$ (284 )
Non-covered OREO	\$ 2,574	\$ —	\$ 2,574	\$ —	\$ (1,099 )
Covered OREO (1)	\$ 27,205	\$ —	\$ 27,205	\$ —	\$ (6,569 )

	Assets Measured at Fair Value on a Non-Recurring Basis for the Three Months Ended September 30, 2009				
	Fair Value Measurements September 30, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2) (In thousands)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Non-covered impaired loans:					

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Residential single-family	\$ 2,563	\$ —	\$ —	\$ 2,563	\$ (707 )
Residential multifamily	3,878	—	—	3,878	(1,798 )
Commercial and industrial real estate, land	44,517	—	—	44,517	(27,261 )
Construction	49,640	—	—	49,640	(17,056 )
Commercial business	18,293	—	—	18,293	(7,917 )
Other consumer	522	—	—	522	198
<b>Total non-covered impaired loans</b>	<b>\$ 119,413</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 119,413</b>	<b>\$ (54,541 )</b>
Mortgage servicing assets (single-family, multifamily and commercial)	\$ 9,060	\$ —	\$ —	\$ 9,060	\$ (20 )
Non-covered OREO	\$ 16,092	\$ —	\$ 16,092	\$ —	\$ (4,644 )
Covered OREO	\$ —	\$ —	\$ —	\$ —	\$ —

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(1) Covered OREO results from the WFIB and UCB FDIC-assisted acquisitions for which the Company entered into shared-loss agreements with the FDIC whereby the FDIC will reimburse the Company for 80% of eligible losses. As such, the Company's liability for losses is 20% of the \$6.5 million or \$1.3 million.

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	Assets Measured at Fair Value on a Non-Recurring Basis for the Nine Months Ended September 30, 2010				
	Fair Value Measurements September 30, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2) (In thousands)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Non-covered impaired loans:					
Residential single-family	\$ 900	\$ —	\$ —	\$ 900	\$ (251 )
Residential multifamily	5,053	—	—	5,053	(1,983 )
Commercial and industrial real estate, land	62,218	—	—	62,218	(27,919 )
Construction	16,084	—	—	16,084	(9,839 )
Commercial business	7,925	—	—	7,925	(4,836 )
Other consumer	166	—	—	166	(245 )
<b>Total non-covered impaired loans</b>	<b>\$ 92,346</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 92,346</b>	<b>\$ (45,073 )</b>
Mortgage servicing assets (single-family, multifamily and commercial)					
	\$ 15,973	\$ —	\$ —	\$ 15,973	\$ (348 )
Non-covered OREO	\$ 4,101	\$ —	\$ 4,101	\$ —	\$ (4,012 )
Covered OREO (1)	\$ 57,234	\$ —	\$ 57,234	\$ —	\$ (32,496 )

	Assets Measured at Fair Value on a Non-Recurring Basis for the Nine Months Ended September 30, 2009				
	Fair Value Measurements September 30, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2) (In thousands)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Non-covered impaired loans:					

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Residential single-family	\$ 3,396	\$ —	\$ —	\$ 3,396	\$ (957 )
Residential multifamily	4,127	—	—	4,127	(1,956 )
Commercial and industrial real estate, land	48,644	—	—	48,644	(32,168 )
Construction	62,598	—	—	62,598	(29,454 )
Commercial business	21,743	—	—	21,743	(17,179 )
Other consumer	248	—	—	248	167
<b>Total non-covered impaired loans</b>	<b>\$ 140,756</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 140,756</b>	<b>\$ (81,547 )</b>
Mortgage servicing assets (single-family, multifamily and commercial)	\$ 9,060	\$ —	\$ —	\$ 9,060	\$ 660
Non-covered OREO	\$ 16,920	\$ —	\$ 16,920	\$ —	\$ (6,792 )
Covered OREO	\$ —	\$ —	\$ —	\$ —	\$ —

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(1) Covered OREO results from the WFIB and UCB FDIC-assisted acquisitions for which the Company entered into shared-loss agreements with the FDIC whereby the FDIC will reimburse the Company for 80% of eligible losses. As such, the Company's liability for losses is 20% of the \$32.5 million or \$6.5 million.

At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. The following tables provide a reconciliation of the beginning and ending balances for major asset and liability categories measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2010 and 2009:

	Investment Securities Available-for-Sale				
	Total	Other Residential Mortgage-Backed Securities, Non-Investment Grade	Corporate Debt Securities Investment Grade	Corporate Debt Securities Non-Investment Grade	Derivatives Payable
Beginning balance, July 1, 2010	\$ 15,350	\$ 12,506	\$ —	\$ 2,844	\$ (1,888 )
Total gains or (losses): (1)					
Included in earnings	(864 )	—	—	(864 )	(459 )
Included in other comprehensive loss (unrealized) (2)	508	328	—	180	—
Purchases, issuances, sales, settlements (3)	(7 )	—	—	(7 )	(254 )
Transfer from investment grade to non-investment grade	—	—	—	—	—
Transfers in and/or out of Level 3 (4)	—	—	—	—	—
Ending balance, September 30, 2010	\$ 14,987	\$ 12,834	\$ —	\$ 2,153	\$ (2,601 )
Changes in unrealized losses included in earnings relating to assets and liabilities still held at September 30, 2010	\$ (888 )	\$ —	\$ —	\$ (888 )	\$ 459

Investment Securities Available-for-Sale  
Other Residential Mortgage-Backed  
Corporate Debt Securities

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	Total	Securities, Non-Investment Grade	Investment Grade (In thousands)	Non-Investment Grade	Derivatives Payable
Beginning balance, July 1, 2009	\$ 32,460	\$ 16,628	\$ 1,245	\$ 14,587	\$ (13,323 )
Total gains or (losses): (1)					
Included in earnings	(24,164 )	1	5	(24,170 )	(410 )
Included in other comprehensive loss (unrealized) (2)	12,604	(1,095 )	(374 )	14,073	—
Purchases, issuances, sales, settlements (3)	985	—	(16 )	1,001	—
Transfer from investment grade to non-investment grade	—	—	—	—	—
Transfers in and/or out of Level 3 (4)	—	—	—	—	—
Ending balance, September 30, 2009	\$ 21,885	\$ 15,534	\$ 860	\$ 5,491	\$ (13,733 )
Changes in unrealized losses included in earnings relating to assets and liabilities still held at September 30, 2009	\$ (24,249 )	\$ —	\$ —	\$ (24,249 )	\$ 410

(1) Total gains or losses represent the total realized and unrealized gains and losses recorded for Level 3 assets and liabilities. Realized gains or losses are reported in the condensed consolidated statements of operations.

(2) Unrealized gains or losses as well as the non-credit portion of other-than-temporary impairment (“OTTI”) on investment securities are reported in accumulated other comprehensive loss, net of tax, in the condensed consolidated statements of changes in stockholders’ equity and comprehensive income.

(3) Purchases, issuances, sales and settlements represent Level 3 assets and liabilities that were either purchased, issued, sold or settled during the period. The amounts are recorded at their end of period fair values.

(4) Transfers in and/or out represent existing assets and liabilities that were either previously categorized as a higher level and the inputs to the model became unobservable or assets and liabilities that were previously classified as Level 3 and the lowest significant input became observable during the period. These assets and liabilities are recorded at their end of period fair values.





Investment Securities Available-for-Sale

	Total	Other Residential Mortgage-Backed Securities, Non-Investment Grade	Corporate Debt Securities Investment Grade	Non-Investment Grade	Derivatives Payable
Beginning balance, January 1, 2010	\$ 15,671	\$ 12,738	\$ 978	\$ 1,955	\$ (14,185 )
Total gains or (losses): (1)					
Included in earnings	(7,589 )	436	5	(8,030 )	(625 )
Included in other comprehensive loss (unrealized) (2)	7,047	90	308	6,649	—
Purchases, issuances, sales, settlements (3)	(142 )	(430 )	(9 )	297	12,209
Transfer from investment grade to non-investment grade	—	—	(1,282 )	1,282	—
Transfers in and/or out of Level 3 (4)	—	—	—	—	—
Ending balance, September 30, 2010	\$ 14,987	\$ 12,834	\$ —	\$ 2,153	\$ (2,601 )
Changes in unrealized losses included in earnings relating to assets and liabilities still held at September 30, 2010	\$ (8,107 )	\$ —	\$ —	\$ (8,107 )	\$ 625

	Total	Other Residential Mortgage-Backed Securities Investment Grade	Corporate Debt Securities Non-Investment Grade	Residual Securities	Derivatives Payable
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(In thousands)

Beginning balance, January 1, 2009	\$ 624,351	\$ 527,109	\$ 10,216	\$ 1,294	\$ 35,670	\$ 50,062	\$ (14,142 )
Total gains or (losses): (1)							
Included in earnings	(55,119 )	2,629	193	12	(61,810 )	3,857	409
Included in other comprehensive loss (unrealized) (2)	105,387	101,456	1,363	(408 )	27,996	(25,020 )	—
Purchases, issuances, sales, settlements (3)	(652,734 )	(613,582 )	(13,850 )	(38 )	3,635	(28,899 )	—
Transfer from investment grade to non-investment grade	—	(17,612 )	17,612	—	—	—	—
Transfers in and/or out of Level 3 (4)	—	—	—	—	—	—	—
Ending balance, September 30, 2009	\$ 21,885	\$ —	\$ 15,534	\$ 860	\$ 5,491	\$ —	\$ (13,733 )
Changes in unrealized losses included in earnings relating to assets and liabilities still held at September 30, 2009	\$ (61,896 )	\$ —	\$ —	\$ —	\$ (61,896 )	\$ —	\$ (409 )

- (1) Total gains or losses represent the total realized and unrealized gains and losses recorded for Level 3 assets and liabilities. Realized gains or losses are reported in the condensed consolidated statements of operations.
- (2) Unrealized gains or losses as well as the non-credit portion of OTTI on investment securities are reported in accumulated other comprehensive loss, net of tax, in the condensed consolidated statements of changes in stockholders' equity and comprehensive income.
- (3) Purchases, issuances, sales and settlements represent Level 3 assets and liabilities that were either purchased, issued, sold or settled during the period. The amounts are recorded at their end of period fair values. In May 2009, the Company securitized its portfolio of private-label mortgage-backed securities, resulting in a \$635.6 million decrease in Level 3 investment grade mortgage-backed securities for the nine months ended September 30, 2009.
- (4)

Transfers in and/or out represent existing assets and liabilities that were either previously categorized as a higher level and the inputs to the model became unobservable or assets and liabilities that were previously classified as Level 3 and the lowest significant input became observable during the period. These assets and liabilities are recorded at their end of period fair values.

## Valuation Methodologies

**Investment Securities Available-for-Sale** – The fair values of available-for-sale investment securities are generally determined by reference to the average of at least two quoted market prices obtained from independent external brokers or prices obtained from independent external pricing service providers who have experience in valuing these securities. In obtaining such valuation information from third parties, the Company has reviewed the methodologies used to develop the resulting fair values.

The Company's Level 3 available-for-sale securities include one private-label mortgage-backed security and three pooled trust preferred securities. The fair values of these investment securities represent less than 1% of the total available-for-sale investment securities. The fair values of the private-label mortgage-backed security and pooled trust preferred securities have traditionally been based on the average of at least two quoted market prices obtained from independent external brokers since broker quotes in an active market are given the highest priority. However, as a result of the global financial crisis and illiquidity in the U.S. markets, the market for these securities has been inactive since mid-2007. It is the Company's view that current broker prices (which are typically non-binding) on the private-label mortgage-backed security and certain pooled trust preferred securities are based on forced liquidation or distressed sale values in very inactive markets that are not representative of the fair value of these securities. As such, the Company considered what weight, if any, to place on transactions that are not orderly when estimating fair value.

For the private-label mortgage-backed security, the Company determined fair value by using the appropriate combination of the market approach reflecting current broker prices and a discounted cash flow approach. The values resulting from each approach (i.e., market and income approaches) were weighted to derive the final fair value on the private-label mortgage-backed security. For the pooled trust preferred securities, the fair value was derived based on discounted cash flow analyses (the income method) prepared by management. In order to determine the appropriate discount rate used in calculating fair values derived from the income method for the private-label mortgage-backed security and pooled trust preferred securities, the Company has made assumptions using an exit pricing approach related to the implied rate of return which have been adjusted for general changes in market rates, estimated changes in credit quality and liquidity risk premium, specific non-performance and default experience in the collateral underlying the securities. The losses recorded in the period are recognized in noninterest income.

**Equity Swap Agreements** – The Company has entered into equity swap agreements to hedge against market fluctuations in a promotional equity index certificate of deposit product offered to bank customers. This deposit product, which has a term of 5 years, pays interest based on the performance of the Hang Seng China Enterprise Index ("HSCEI"). The fair value of these equity swap agreements is based on the income approach. The fair value is based on the change in the value of the HSCEI and the volatility of the call option over the life of the individual swap agreement. The option value is derived based on the volatility, the interest rate and the time remaining to maturity of the call option. The Company's consideration of its counterparty's credit risk resulted in a \$197.3 thousand adjustment to the valuation of the equity swap agreements for the three months ended September 30, 2010. The valuation of equity swap agreements falls within Level 2 of the fair value hierarchy due to the observable nature of the inputs used in deriving the fair value of these derivative contracts. The fair value of the derivative contracts is provided by a third party that the Company places reliance on.

Derivatives Payable – The Company’s derivatives payable are recorded in conjunction with certain certificate of deposits (“host instrument”). These CDs pay interest based on changes in either the HSCEI or based on changes in the Chinese currency Renminbi (“RMB”) as designated and are included in interest-bearing deposits on the condensed consolidated balance sheets. The fair value of these embedded derivatives is based on the income approach. The Company’s consideration of its own credit risk resulted in a \$40.3 thousand adjustment to the valuation of the derivative liabilities for the three months ended September 30, 2010. The valuation of the derivatives payable falls within Level 3 of the fair value hierarchy since the significant inputs used in deriving the fair value of these derivative contracts are not directly observable.

Foreign Exchange Options – The Company has entered into foreign exchange option contracts with major investment firms. The settlement amount is determined based upon the performance of the RMB relative to the U.S. Dollar (“USD”) over the 5-year term of the contract. The performance amount is computed based on the average quarterly value of the RMB per the USD as compared to the initial value. The fair value of the derivative contract is provided by third parties and is determined based on the change in the RMB and the volatility of the option over the life of the agreement. The option value is derived based on the volatility of the option, interest rate and time remaining to the maturity. The Company has also considered the counterparty’s credit risk in determining the valuation. The valuation of the option contract falls within Level 2 of the fair value hierarchy due to the observable nature of the inputs used in deriving the fair value of this derivative contract.

Mortgage Servicing Assets (“MSAs”) – The Company records MSAs in conjunction with its loan sale and securitization activities since the servicing of the underlying loans is retained by the Bank. MSAs are initially measured at fair value using an income approach. The initial fair value of MSAs is determined based on the present value of estimated net future cash flows related to contractually-specified servicing fees. The valuation for MSAs falls within Level 3 of the fair value hierarchy since there are no quoted prices for MSAs and the significant inputs used to determine fair value are not directly observable. The valuation of MSAs is determined using a discounted cash flow approach utilizing the appropriate yield curve and several market-derived assumptions including prepayment speeds, servicing cost, delinquency and foreclosure costs and behavior, and float earnings rate. Net cash flows are present valued using a market-derived discount rate. The resulting fair value is then compared to recently observed bulk market transactions with similar characteristics.

Impaired Loans – The Company’s impaired loans are generally measured using the fair value of the underlying collateral, which is determined based on the most recent valuation information received. The fair values may be adjusted based on factors such as the Company’s historical knowledge and changes in market conditions from the time of valuation. Impaired loans fall within Level 3 of the fair value hierarchy since they are measured at fair value based on the most recent valuation information received on the underlying collateral.

Other Real Estate Owned – The Company’s OREO represents properties acquired through foreclosure or through full or partial satisfaction of loans, and are recorded at estimated fair value at the time of foreclosure and at the lower of cost or estimated fair value subsequent to acquisition. The fair values of OREO properties are based on third-party appraisals, broker price opinions or accepted written offers. These valuations are reviewed and approved by the Company’s appraisal department, credit review department or OREO department. OREO properties are classified as Level 2 assets in the fair value hierarchy. The non-covered OREO balance of \$16.9 million included in the condensed consolidated balance sheets as of September 30, 2010 is recorded net of estimated disposal costs.

## Fair Value of Financial Instruments

The carrying amounts and fair values of financial instruments as of September 30, 2010 and December 31, 2009 were as follows:

	September 30, 2010		December 31, 2009	
	Carrying Notional or Contract Amount	Estimated Fair Value	Carrying Notional or Contract Amount	Estimated Fair Value
(In thousands)				
<b>Financial Assets:</b>				
Cash and cash equivalents	\$ 859,694	\$ 859,694	\$ 835,141	\$ 835,141
Short-term investments	381,799	381,799	510,788	510,788
Fed Funds Sold	75,000	75,000	—	—
Securities purchased under resale agreements	350,000	350,276	227,444	232,693
Investment securities available-for-sale	2,907,349	2,907,349	2,564,081	2,564,081
Loans receivable, net	13,299,186	13,276,174	13,844,840	13,519,060
Investment in Federal Home Loan Bank stock	169,453	169,453	180,217	180,217
Investment in Federal Reserve Bank stock	47,285	47,285	36,785	36,785
Accrued interest receivable	79,879	79,879	82,370	82,370
Equity swap agreements	83,584	2,828	38,828	14,177
Foreign exchange options	25,000	1,065	—	—
<b>Financial Liabilities:</b>				
<b>Customer deposit accounts:</b>				
Demand, savings and money market deposits	8,480,110	7,771,750	7,088,822	6,214,848
Time deposits	6,817,861	6,825,371	7,898,791	7,912,384
Federal Home Loan Bank advances	1,018,074	1,037,512	1,805,387	1,791,326
Securities sold under repurchase agreements	1,045,664	1,279,892	1,026,870	1,265,565
Notes payable	45,223	45,223	7,366	7,366
Accrued interest payable	15,128	15,128	19,386	19,386
Long-term debt	235,570	122,107	235,570	103,442
Derivatives payable	75,628	2,601	38,828	14,185

The methods and assumptions used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value are explained below:

**Cash and Cash Equivalents** – The carrying amounts approximate fair values due to the short-term nature of these instruments.

**Short-Term Investments** – The fair values of short-term investments generally approximate their book values due to their short maturities.

Securities Purchased Under Resale Agreements – Securities purchased under resale agreements with original maturities of 90 days or less are included in cash and cash equivalents. The fair value of securities purchased under resale agreements with original maturities of more than 90 days is estimated by discounting the cash flows based on expected maturities or repricing dates utilizing estimated market discount rates.

Investment Securities Available-for-Sale – The fair values of the investment securities available-for-sale are generally determined by reference to the average of at least two quoted market prices obtained from independent external brokers or independent external pricing service providers who have experience in valuing these securities. In obtaining such valuation information from third parties, the Company has reviewed the methodologies used to develop the resulting fair values. For private label mortgage-backed securities and pooled trust preferred securities, fair values are based on discounted cash flow analyses.

Loans Receivable, Net (includes covered and non-covered loans) – The fair value of loans is determined based on the discounted cash flow approach. The discount rate is derived from the associated yield curve plus spreads, and reflects the offering rates in the market for loans with similar financial characteristics. No adjustments have been made for changes in credit within the loan portfolio. It is management’s opinion that the allowance for loan losses pertaining to performing and nonperforming loans results in a fair valuation of credit for such loans.

Investment in Federal Home Loan Bank Stock and Federal Reserve Bank Stock – The carrying amounts approximate fair value, as the stock may be sold back to the Federal Home Loan Bank and the Federal Reserve Bank at carrying value.

Accrued Interest Receivable – The carrying amount of accrued interest receivable approximates fair value due to its short-term nature.

Equity Swap Agreements – The fair value of the derivative contracts is provided by a third party and is determined based on the change in value of the HSCEI and the volatility of the call option over the life of the individual swap agreement. The option value is derived based on the volatility of the option, interest rate and time remaining to maturity. We also considered the counterparty’s credit risk in determining the fair value.

Foreign Exchange Options – The fair value of the derivative contracts is provided by third parties and is determined based on the change in the RMB and the volatility of the option over the life of the agreement. The option value is derived based on the volatility of the option, interest rate and time remaining to the maturity. We also considered the counterparty’s credit risk in determining the fair value.

Customer Deposit Accounts – The fair value of customer deposit accounts is determined based on the discounted cash flow approach. The discount rate is derived from the associated yield curve, plus spread, if any. For core deposits (demand, savings and money market deposits), the cash outflows are projected by the decay rate based on the Bank’s core deposit premium study and are discounted using the London Interbank Offered Rate (“LIBOR”) yield curve. For time deposits, the cash flows are based on the contractual runoff and are discounted by the Bank’s current offering rates, plus spread.

Federal Home Loan Bank Advances – The fair value of Federal Home Loan Bank (“FHLB”) advances is estimated based on the discounted value of contractual cash flows, using rates currently offered by the FHLB of San Francisco for fixed-rate credit advances with similar remaining maturities at each reporting date.

Securities Sold Under Repurchase Agreements – For securities sold under repurchase agreements with original maturities of 90 days or less, the carrying amounts approximate fair values due to the short-term nature of these instruments. At September 30, 2010 and December 31, 2009, most of the securities sold under repurchase agreements are long-term in nature and 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.

Notes Payable – The carrying amount of notes payable approximates fair value as these notes are payable on demand.

Accrued Interest Payable – The carrying amount of accrued interest payable approximates fair value due to its short-term nature.

Long-Term Debt – The fair values of long-term debt are estimated by discounting the cash flows through maturity based on current market rates the Bank would pay for new issuances.





Derivatives Payable – Derivatives payable are recorded in conjunction with certain certificate of deposits (“host instrument”). These CDs pay interest based on changes in either the HSCEI or based on changes in the RMB as designated. The fair value of derivatives payable is estimated using the income approach. Additionally, we considered our own credit risk in determining the valuation.

The fair value estimates presented herein are based on pertinent information available to management as of each reporting date. Although we are not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and therefore, current estimates of fair value may differ significantly from the amounts presented herein.

#### NOTE 4 — STOCK-BASED COMPENSATION

During the three and nine months ended September 30, 2010, total compensation cost recognized in the condensed consolidated statements of operations related to stock options and restricted stock awards amounted to \$2.3 million and \$6.2 million, respectively, with related tax benefit of \$61 thousand and tax liability of \$156 thousand, respectively.

During the three and nine months ended September 30, 2009, total compensation cost recognized in the condensed consolidated statements of operations related to stock options and restricted stock awards amounted to \$1.5 million and \$4.4 million, respectively, with related tax benefits of \$614 thousand and \$1.8 million, 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. The Company issues new shares upon the exercise of stock options.

A summary of activity for the Company’s stock options as of and for the nine months ended September 30, 2010 is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (1) (In thousands)
Outstanding at beginning of period	1,927,515	\$ 21.59		
Granted	-	-		
Exercised	(167,631 )	11.41		
Forfeited or expired	(174,895 )	16.29		
Outstanding at end of period	1,584,989	\$ 23.25	2.65 years	\$ 2,107
Vested or expected to vest at end of period	1,558,684	\$ 23.28	2.62 years	\$ 2,064

Exercisable at end of period	1,163,949	\$ 23.93	2.01 years	\$ 1,673
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(1) Includes in-the-money options only.

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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. The Company did not issue any stock options during the nine months ended September 30, 2010.

	Three Months Ended September 30, 2010		Nine Months Ended September 30, 2010	
	(5)	(5)	(5)	2009
Expected term (1)	—	—	—	4 years
Expected volatility (2)	—	—	—	60.5%
Expected dividend yield (3)	—	—	—	0.6%
Risk-free interest rate (4)	—	—	—	1.8%

(1) The expected term (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 term.

(3) The expected dividend yield is based on the Company's prevailing dividend rate at the time of grant.

(4) The risk-free rate is based on the U.S. Treasury strips in effect at the time of grant equal to the stock option's expected term.

(5) The Company did not issue any stock options during the nine months ended September 30, 2010 or the three months ended September 30, 2009.

During the three and nine months ended September 30, 2010 and 2009, information related to stock options is presented as follows:

	Three Months Ended September 30, 2010		Nine Months Ended September 30, 2010	
	2010	2009	2010	2009
Weighted average fair value of stock options granted during the period (1)	—	—	—	\$ 3.00
	\$ 353	\$ 8	\$ 989	\$ 13

Total intrinsic value of  
options exercised (in  
thousands)

Total fair value of options vested (in thousands)	\$ 32	\$ 74	\$ 2,108	\$ 1,512
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(1)The Company did not issue any stock options during the nine months ended September 30, 2010 or the three months ended September 30, 2009.

As of September 30, 2010, total unrecognized compensation cost related to stock options amounted to \$1.1 million. The cost is expected to be recognized over a weighted average period of 2.0 years.

## Restricted Stock

In addition to stock options, the Company also grants restricted stock awards to directors, 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.

The American Recovery and Reinvestment Act of 2009 (“ARRA”) places additional restrictions on restricted stock grants. The executive compensation standards are more stringent under ARRA than those in effect under the U.S. Treasury’s Troubled Asset Relief Program (“TARP”).

A summary of the activity for restricted stock as of September 30, 2010, including changes during the nine months then ended, is presented below:

	Shares	Weighted Average Price
Outstanding at beginning of period	864,717	\$ 20.12
Granted	1,027,380	\$ 16.82
Vested	(125,175 )	\$ 28.59
Forfeited or expired	(293,105 )	\$ 17.75
Outstanding at end of period	1,473,817	\$ 17.54

The weighted average fair values of restricted stock awards granted during the nine months ended September 30, 2010 and 2009 were \$16.82 and \$7.42, respectively.

As of September 30, 2010, total unrecognized compensation cost related to restricted stock awards amounted to \$15.0 million. This cost is expected to be recognized over a weighted average period of 2.5 years.

## NOTE 5 — INVESTMENT SECURITIES

An analysis of the investment securities available-for-sale portfolio is presented as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
As of September 30, 2010				
Investment securities available-for-sale:				
U.S. Treasury securities	\$ 20,838	\$ 902	\$ —	\$ 21,740
U.S. Government agency and U.S. Government sponsored enterprise debt securities	1,201,878	4,987	(30 )	1,206,835
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	19,791	704	—	20,495
Residential mortgage-backed securities	326,577	12,430	—	339,007
Municipal securities	—	—	—	—
Other residential mortgage-backed securities:				
Investment grade	—	—	—	—
Non-investment grade	21,335	—	(8,501 )	12,834
Corporate debt securities:				
Investment grade	1,168,667	10,206	(3,442 )	1,175,431
Non-investment grade (1)	35,915	80	(11,396 )	24,599
U.S. Government sponsored enterprise equity securities	—	—	—	—
Other securities	103,987	2,596	(175 )	106,408
<b>Total investment securities available-for-sale</b>	<b>\$ 2,898,988</b>	<b>\$ 31,905</b>	<b>\$ (23,544 )</b>	<b>\$ 2,907,349</b>
As of December 31, 2009				
Investment securities available-for-sale:				
U.S. Treasury securities	\$ 304,105	\$ 8	\$ (641 )	\$ 303,472
U.S. Government agency and U.S. Government sponsored enterprise debt securities	841,953	507	(10,435 )	832,025
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	25,503	852	—	26,355
Residential mortgage-backed securities	707,290	17,863	(805 )	724,348
Municipal securities	59,264	1,027	(98 )	60,193
Other residential mortgage-backed securities:				

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Investment grade	95,181	827	(492 )	95,516
Non-investment grade	50,843	368	(9,601 )	41,610
Corporate debt securities:				
Investment grade	441,606	20,428	(1,138 )	460,896
Non-investment grade	26,277	—	(17,416 )	8,861
U.S. Government sponsored enterprise equity securities	1,998	—	(216 )	1,782
Other securities	9,023	—	—	9,023
<b>Total investment securities available-for-sale</b>				
	\$ 2,563,043	\$ 41,880	\$ (40,842 )	\$ 2,564,081

(1) For the nine months ended September 30, 2010, the Company recorded \$10.3 million, on a pre-tax basis, of OTTI through earnings and \$7.2 million of the non-credit portion of OTTI for pooled trust preferred securities in other comprehensive income. The Company recorded \$107.7 million, on a pre-tax basis, of the credit portion of OTTI through earnings and \$8.2 million, net of tax, of the non-credit portion of OTTI for pooled trust preferred securities in other comprehensive income for the year ended December 31, 2009.

The Company did not have any investment securities held-to-maturity as of September 30, 2010 and December 31, 2009.



The fair values of investment securities are generally determined by reference to the average of at least two quoted market prices obtained from independent external brokers or prices obtained from independent external pricing service providers who have experience in valuing these securities. The Company performs a monthly analysis on the broker quotes received from third parties to ensure that the prices represent a reasonable estimate of fair value. The procedures include, but are not limited to, initial and ongoing review of third party pricing methodologies, review of pricing trends, and monitoring of trading volumes. The Company assesses that prices received from independent brokers represent a reasonable estimate of fair value through the use of internal and external cash flow models developed that are based on spreads, and when available, market indices. As a result of this analysis, if the Company determines there is a more appropriate fair value based upon available market data, the price received from third parties is adjusted accordingly.

Prices from third-party pricing services are often unavailable for securities that are rarely traded or are traded only in privately negotiated transactions. As a result, certain securities are priced via independent broker quotations that utilize inputs that may be difficult to corroborate with observable market based data. Additionally, the majority of these independent broker quotations are non-binding.

As a result of the global financial crisis and illiquidity in the U.S. markets, the Company believes current broker prices obtained on the private-label mortgage-backed security and certain pooled trust preferred securities are based on forced liquidation or distressed sale values in very inactive markets that are not representative of the fair value of these securities. In light of these circumstances, the Company has modified its approach in determining the fair values of these securities. For the pooled trust preferred securities and the private-label mortgage-backed security, the Company determined their fair values using the methodologies set forth in Note 3.

The following table shows the Company's rollforward of the amount related to OTTI credit losses for the periods shown:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
	(In thousands)			
Beginning balance	\$ 114,891	\$ 37,647	\$ 107,671	\$ —
Addition of other-than-temporary impairment that was not previously recognized	—	3,855	—	29,084
Additional increases to the amount related to the credit loss for which an other-than-temporary impairment was previously recognized	888	20,394	8,108	32,812
Ending balance	\$ 115,779	\$ 61,896	\$ 115,779	\$ 61,896

The following table shows the Company's investment portfolio's gross unrealized losses and related fair values, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of September 30, 2010 and December 31, 2009:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(In thousands)						
As of September 30, 2010						
Investment securities available-for-sale:						
U.S. Treasury securities	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
U.S. Government agency and U.S. Government sponsored enterprise debt securities	58,028	(30 )	—	—	58,028	(30 )
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:						
Commercial mortgage-backed securities	—	—	—	—	—	—
Residential mortgage-backed securities	—	—	—	—	—	—
Municipal securities	—	—	—	—	—	—
Other residential mortgage-backed securities:						
Investment grade	—	—	—	—	—	—
Non-investment grade	—	—	12,834	(8,501 )	12,834	(8,501 )
Corporate debt securities:						
Investment grade	449,442	(3,442 )	—	—	449,442	(3,442 )
Non-investment grade	8,263	(101 )	9,264	(11,295 )	17,527	(11,396 )
U.S. Government sponsored enterprise equity securities	—	—	—	—	—	—
Other securities	15,377	(175 )	—	—	15,377	(175 )
	\$ 531,110	\$ (3,748 )	\$ 22,098	\$ (19,796 )	\$ 553,208	\$ (23,544 )

Total investment securities available-for-sale						
As of December 31, 2009						
Investment securities available-for-sale:						
U.S. Treasury securities	\$ 253,002	\$ (641 )	\$ —	\$ —	\$ 253,002	\$ (641 )
U.S. Government agency and U.S. Government sponsored enterprise debt securities	673,067	(10,435 )	—	—	673,067	(10,435 )
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:						
Commercial mortgage-backed securities	—	—	—	—	—	—
Residential mortgage-backed securities	55,947	(805 )	—	—	55,947	(805 )
Municipal securities	12,369	(98 )	—	—	12,369	(98 )
Other residential mortgage-backed securities:						
Investment grade	47,343	(492 )	—	—	47,343	(492 )
Non-investment grade	19,970	(1,011 )	12,739	(8,590 )	32,709	(9,601 )
Corporate debt securities:						
Investment grade	32,342	(97 )	978	(1,041 )	33,320	(1,138 )
Non-investment grade	—	—	8,861	(17,416 )	8,861	(17,416 )
U.S. Government sponsored enterprise equity securities	1,782	(216 )	—	—	1,782	(216 )
Other securities	—	—	—	—	—	—
Total investment securities available-for-sale						
	\$ 1,095,822	\$ (13,795 )	\$ 22,578	\$ (27,047 )	\$ 1,118,400	\$ (40,842 )

As of September 30, 2010, there were six individual securities that have been in a continuous unrealized loss position for 12 months or more. These securities are comprised of five trust preferred securities with a total fair value of \$9.3 million and one mortgage-backed security with a fair value of \$12.8 million. In addition, as of September 30, 2010,

there were also 47 securities that have been in a continuous unrealized loss position for less than 12 months. The unrealized losses on these securities are primarily attributed to changes in interest rates as well as the liquidity crisis that has impacted all financial industries. The issuers of these securities have not, to our knowledge, established any cause for default on these securities. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated. The Company does not intend to sell these securities and it is not more likely than not that the company will be required to sell these securities before recovery of their amortized cost basis. As such, the Company does not deem these securities to be other-than-temporarily impaired.

## Corporate Debt Securities

The majority of unrealized losses at September 30, 2010 are related to five trust preferred debt securities with unrealized losses of 12 months or longer. As of September 30, 2010, these trust preferred securities had an estimated fair value of \$9.3 million, representing less than 1% of the total investment securities available-for-sale portfolio. One security was downgraded to non-investment grade during the second quarter of 2010. The ratings for the other four trust preferred securities were downgraded to non-investment grade status during 2009 due to increased deferral and default activity from the issuers of the underlying debt collateralizing these instruments. As of September 30, 2010, these non-investment grade debt instruments had gross unrealized losses amounting to \$11.3 million, or 55% of the total amortized cost basis of these securities, comprised of \$4.1 million in impairment losses on securities that are not other than temporarily impaired and \$7.2 million in noncredit-related impairment losses on securities that are other than temporarily impaired as of September 30, 2010 pursuant to the provisions of ASC 320-10-65. As a result of the previously discussed diminishing collateral values, deteriorating cash flows and increasing estimates of future deferrals and defaults, we recorded an impairment loss of \$888 thousand on our portfolio of pooled trust preferred securities during the third quarter of 2010 for additional increases to the amount related to the credit loss for which an other-than-temporary impairment was previously recognized.

## Mortgage-Backed Securities

As of September 30, 2010, the Company had one private-label available-for-sale mortgage-backed security with a fair value of \$12.8 million, with a gross unrealized loss of \$8.5 million, or 40% of the amortized cost basis of this security, for more than 12 months. This security is collateralized by single-family loans and secured by the first lien on these residential properties. Additionally, any principal and interest shortfall that may arise from the deterioration of the collateral will be covered by a monoline insurance provider. The Company does not intend to sell this security and it is not more likely than not that the Company will be required to sell this security before recovery of its amortized cost basis. As such, the Company does not deem this security to be other-than-temporarily impaired as of September 30, 2010.

The scheduled maturities of investment securities available-for-sale at September 30, 2010 are presented as follows:

	Amortized Cost	Estimated Fair Value
	(In thousands)	
Due within one year	\$ 1,127,432	\$ 1,125,464
Due after one year through five years	652,851	660,797
Due after five years through ten years	598,459	601,553
Due after ten years	520,246	519,535
Total investment securities available-for-sale	\$ 2,898,988	\$ 2,907,349

## NOTE 6 — COVERED ASSETS AND FDIC INDEMNIFICATION ASSET

## Covered Assets

Covered assets consist of loans receivable and OREO that were acquired in the Washington First International Bank (“WFIB”) Acquisition on June 11, 2010 and in the United Commercial Bank (“UCB”) Acquisition on November 6, 2009 for which the Company entered into shared-loss agreements (the “shared-loss agreements”) with the FDIC. The shared-loss agreements covered over 99% of the loans originated by WFIB and all of the loans originated by UCB, excluding the loans originated by UCB in

China under its United Commercial Bank China (Limited) subsidiary. The Company will share in the losses, which begins with the first dollar of loss incurred, on covered assets under the shared-loss agreements.

Pursuant to the terms of the shared-loss agreements, the FDIC is obligated to reimburse the Company 80% of eligible losses for both WFIB and UCB with respect to covered assets. For the UCB covered assets, the FDIC will reimburse the Company for 95% of eligible losses in excess of \$2.05 billion. The Company has a corresponding obligation to reimburse the FDIC for 80% or 95%, as applicable, of eligible recoveries with respect to covered assets. The commercial loan shared-loss agreement and single-family residential mortgage loan shared-loss agreement are in effect for 5 years and 10 years, respectively, from the acquisition date and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from the acquisition date.

Forty-five days following the 10th anniversary of the respective acquisition date, the Company will be required to pay to the FDIC a calculated amount, based on the specific thresholds of losses not being reached. The calculation of this potential liability as stated in the shared-loss agreements is 50% of the excess, if any of (i) 20% of the Intrinsic Loss Estimate and (ii) the sum of (A) 25% of the asset discount plus (B) 25% of the Cumulative Shared-Loss Payments plus (C) the Cumulative Servicing Amount if net losses on covered loans subject to the stated threshold is not reached. As of September 30, 2010, the Company's estimate for this liability for WFIB and UCB is \$7.0 million and zero, respectively.

At each date of acquisition, we accounted for the loan portfolio acquired from the respective bank at fair value. This represents the discounted value of the expected cash flows from the portfolio. In estimating the nonaccretable difference, we (a) calculated the contractual amount and timing of undiscounted principal and interest payments (the "undiscounted contractual cash flows") and (b) estimated the amount and timing of undiscounted expected principal and interest payments (the "undiscounted expected cash flows"). In the determination of contractual cash flows and cash flows expected to be collected, we assume no prepayment on the ASC 310-30 nonaccrual loan pools as we do not anticipate any significant prepayments on credit impaired loans. For the ASC 310-30 accrual loans for single-family, multifamily and commercial real estate, we used a third party vendor to obtain prepayment speeds, in order to be consistent with the market participant's notion of the accounting standards. The third party vendor is recognized in the mortgage-industry for the delivery of prepayment and default models for the secondary market to identify loan level prepayment, delinquency, default, and loss propensities. The prepayment rates for the construction, land, and commercial and consumer pools have historically been low and so we applied the prepayment assumptions of our current portfolio using our internal modeling. The difference between the undiscounted contractual cash flows and the undiscounted expected cash flows is the nonaccretable difference. The nonaccretable difference represents our estimate of the credit losses expected and was considered in determining the fair value of the loans as of the acquisition date. The amount by which the undiscounted expected cash flows exceed the estimated fair value (the "accretable yield") is accreted into interest income over the life of the loans. The Company has elected to account for all covered loans acquired in the FDIC-assisted acquisitions under ASC 310-30.

As of the acquisition date, WFIB's and UCB's loan portfolios included unfunded commitments for commercial lines of credit, construction draws and other lending activity. The total commitment outstanding as of the acquisition date is covered under the shared-loss agreements. However, any additional advances on these loans subsequent to acquisition date are not accounted for under ASC 310-30. As the advances on these commitments have increased, the bank has considered these amounts in the general reserve of the allowance for loan losses calculation. Therefore, as of September 30, 2010, \$3.9 million, or 1.6%, of the total allowance is allocated to covered loans not accounted for under ASC 310-30. However, any additional advances, up to the total commitment outstanding at the date of acquisition are still covered under the shared-loss agreements. The covered loans acquired are and will continue to be subject to the Bank's internal and external credit review and monitoring. If credit deteriorates beyond the respective acquisition date fair value amount of the covered loans under ASC 310-30, such





deterioration will be measured through our loss reserving methodology and a provision for credit losses will be charged to earnings with a partially offsetting noninterest income item reflected in the increase to the FDIC indemnification asset or receivable. As of September 30, 2010, there is no allowance for the covered loans accounted for under ASC 310-30 due to deterioration of credit quality.

The carrying amounts and the composition of the covered loans as of September 30, 2010 and December 31, 2009 are as follows:

	Credit Impaired	Other Loans (In thousands)	Total
As of September 30, 2010			
Real estate loans:			
Residential single-family	\$ 18,995	\$ 571,524	\$ 590,519
Residential multifamily	119,329	1,009,107	1,128,436
Commercial and industrial real estate	732,914	1,420,300	2,153,214
Construction and land	896,256	260,785	1,157,041
<b>Total real estate loans</b>	<b>1,767,494</b>	<b>3,261,716</b>	<b>5,029,210</b>
Other loans:			
Commercial business	347,738	745,547	1,093,285
Other consumer	235	109,346	109,581
<b>Total other loans</b>	<b>347,973</b>	<b>854,893</b>	<b>1,202,866</b>
<b>Total principal balance</b>	<b>2,115,467</b>	<b>4,116,609</b>	<b>6,232,076</b>
<b>Covered discount</b>	<b>(804,597 )</b>	<b>(448,077 )</b>	<b>(1,252,674 )</b>
<b>Net valuation of loans</b>	<b>1,310,870</b>	<b>3,668,532</b>	<b>4,979,402</b>
<b>Allowance on covered loans</b>	<b>—</b>	<b>(3,900 )</b>	<b>(3,900 )</b>
<b>Total covered loans, net</b>	<b>\$ 1,310,870</b>	<b>\$ 3,664,632</b>	<b>\$ 4,975,502</b>
As of December 31, 2009			
Real estate loans:			
Residential single-family	\$ 22,325	\$ 614,814	\$ 637,139
Residential multifamily	158,452	1,012,073	1,170,525
Commercial and industrial real estate	900,165	1,521,536	2,421,701
Construction and land	1,236,228	237,142	1,473,370
<b>Total real estate loans</b>	<b>2,317,170</b>	<b>3,385,565</b>	<b>5,702,735</b>
Other loans:			
Commercial business	603,507	677,772	1,281,279
Other consumer	422	122,387	122,809

Total other loans	603,929	800,159	1,404,088
Total principal balance	2,921,099	4,185,724	7,106,823
Covered discount	(1,033,720 )	(474,948 )	(1,508,668 )
Net valuation of loans	1,887,379	3,710,776	5,598,155
Allowance on covered loans	—	—	—
Total covered loans, net	\$ 1,887,379	\$ 3,710,776	\$ 5,598,155

At September 30, 2010 and December 31, 2009, \$425.0 million and \$675.6 million, respectively, of the ASC 310-30 credit impaired loans were considered to be nonperforming loans. The following table sets forth information regarding covered nonperforming assets as of the dates indicated:

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	September 30, 2010	December 31, 2009
	(In thousands)	
Covered nonaccrual loans (1)	\$ 424,956	\$ 675,625
Covered loans past due 90 days or more but not on nonaccrual	—	—
Total nonperforming loans	424,956	675,625
Other real estate owned covered, net	137,353	44,273
Total covered nonperforming assets	\$ 562,309	\$ 719,898

(1) Covered nonaccrual loans meet the criteria for nonaccrual but have a yield accreted through interest income under ASC 310-30.

As of September 30, 2010, we had 103 covered OREO properties with a combined aggregate carrying value of \$137.4 million. Approximately 53% of covered OREO properties as of September 30, 2010 were located in California. As of December 31, 2009, we had 61 covered OREO properties with an aggregate carrying value of \$44.3 million. During the first nine months of 2010, we added 81 properties with an aggregate carrying value of \$188.2 million as of the date added. The aggregate carrying value at September 30, 2010 includes \$32.5 million in net writedowns and \$680 thousand in net principal reductions on covered OREO. Included in the \$188.2 million are 26 properties acquired with a fair value of \$23.4 million on June 11, 2010 through the WFIB acquisition. During the first nine months of 2010, we sold 65 covered OREO properties with a total carrying value of \$61.2 million resulting in a total combined net loss on sale of \$740 thousand.

The following table shows the carrying amounts for the covered loans as of September 30, 2010 and December 31, 2009, respectively:

	September 30, 2010	December 31, 2009
	(In thousands)	
Contractually required payments of interest and principal	\$ 7,219,331	\$ 8,178,212
Nonaccretable difference	(1,281,455 )	(1,596,950 )
Cash flows expected to be collected (1)	5,937,876	6,581,262
Accretable difference	(958,474 )	(983,107 )
Carrying value of covered loans	\$ 4,979,402	\$ 5,598,155

(1) Represents undiscounted expected principal and interest cash flows.

Changes in the accretable yield for the covered loans are as follows for the periods shown:

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	Three Months Ended		Nine Months Ended	
	2010	September 30, 2009	2010	September 30, 2009
	(In thousands)			
Balance at beginning of period	\$ 986,389	\$ —	\$ 983,107	\$ —
Additions (1)	—	—	84,556	—
Accretion	(3,601 )	—	(11,118 )	—
Cash receipts, disposals and change in cash flows	(24,314 )	—	(98,071 )	—
Balance at end of period	\$ 958,474	\$ —	\$ 958,474	\$ —

(1)The additions included above for the nine months ended September 30, 2010, resulted from the June 11, 2010 WFIB acquisition.

The excess of cash flows expected to be collected over the initial fair value of acquired loans is referred to as the accretable yield and is accreted into interest income over the estimated life of the acquired loans using the effective yield method. The accretable yield will change due to:

- estimate of the remaining life of acquired loans which may change the amount of future interest income
- estimate of the amount of contractually required principal and interest payments over the estimated life that will not be collected (the nonaccretable difference); and
- indices for acquired loans with variable rates of interest.

From December 31, 2009 to September 30, 2010, excluding scheduled principal payments, a total of \$834.7 million of loans were removed from the covered loans accounted for under ASC 310-30 due to loans being paid in full, sold or transferred to covered OREO. As a result of this activity, management adjusted the prepayment assumptions in the third quarter to reflect the shorter duration resulting from historical paydown activities. The loan discount of \$91.4 million related to these payoffs and removals was recorded as an adjustment to interest income in the first nine months of 2010.

#### FDIC Indemnification Asset

For the three and nine months ended September 30, 2010, the Company recorded \$7.1 million and \$29.2 million, respectively, of accretion into income. Additionally, because of the high prepayment and removals activity during this timeframe, the Company reduced the FDIC indemnification asset by \$79.4 million and \$287.4 million for the three and nine months, respectively, ended September 30, 2010, and recorded the adjustment to noninterest income (loss). Due to the acquisition of WFIB in the second quarter of 2010, \$41.1 million of additional FDIC indemnification asset was recorded.

The table below shows FDIC indemnification asset activity for the periods shown:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(In thousands)			
Balance at beginning of period	\$ 947,011	\$ —	\$ 1,091,814	\$ —
Addition due to WFIB acquisition	—	—	41,131	—
Accretion	7,118	—	29,210	—
Reductions (1) (2)	(79,370 )	—	(287,396 )	—
Balance at end of period	\$ 874,759	\$ —	\$ 874,759	\$ —

(1) Reductions relate to higher cash flows received from principal amortization, partial prepayments, loan payoffs and loan sales.

(2) For the three and nine months ended September 30, 2010, the reduction amounts of \$79.4 million and \$287.4 million, respectively, also include chargeoffs, of which \$70.8 million and \$188.8 million, respectively, of these chargeoffs are recoverable from the FDIC and recorded in other assets.

## FDIC Receivable

As of September 30, 2010, the FDIC loss sharing receivable was \$66.3 million. This receivable represents 80% of reimbursable amounts from the FDIC that have not yet been received. These reimbursable amounts include chargeoffs, loan related expenses and OREO related expenses. The 80% of any reimbursable expense is recorded as noninterest income. 100% of the loan related and OREO expenses are recorded as non-interest expense, netting to the 20% of actual expense paid by the Company. The FDIC shares in 80% of recoveries received. Thus, the FDIC receivable is reduced when we receive payment from the FDIC as well as when recoveries occur.

## NOTE 7 — ALLOWANCE FOR LOAN LOSSES

The following table summarizes activity in the allowance for loan losses for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(Dollars in thousands)			
Allowance balance, beginning of period	\$ 249,462	\$ 223,700	\$ 238,833	\$ 178,027
Allowance for unfunded loan commitments and letters of credit	1,133	(1,051 )	(790 )	(617 )
Provision for loan losses	38,648	159,244	170,325	388,666
Impact of desecuritization	—	—	—	9,262
Chargeoffs:				
Single-family real estate	14,620	8,371	21,846	26,487
Multifamily real estate	7,541	7,235	20,511	11,333
Commercial real estate	11,967	23,715	33,665	39,574
Land	4,848	40,397	45,278	86,519
Construction	4,064	56,354	30,026	134,880
Commercial business	4,939	17,696	24,836	50,873
Automobile	8	6	104	41
Other consumer	324	109	1,653	1,727
Total chargeoffs	48,311	153,883	177,919	351,434
Recoveries:				
Single-family real estate	—	337	543	563
Multifamily real estate	15	4	573	222
Commercial and industrial real estate	188	610	1,849	1,207
Land	612	409	4,449	825
Construction	—	768	657	1,734
Commercial business	2,400	484	5,454	2,132
Automobile	6	14	49	45
Other consumer	33	14	163	18
Total recoveries	3,254	2,640	13,737	6,746
Net chargeoffs	45,057	151,243	164,182	344,688
Allowance balance, end of period (1)				
(2)	\$ 244,186	\$ 230,650	\$ 244,186	\$ 230,650
Average non-covered loans outstanding	\$ 8,499,048	\$ 8,471,766	\$ 8,525,484	\$ 8,305,602
Total gross non-covered loans outstanding, end of period	\$ 8,616,361	\$ 8,419,475	\$ 8,616,361	\$ 8,419,475
Annualized net chargeoffs to average non-covered loans				

outstanding	2.12	%	7.14	%	2.57	%	5.53	%
Allowance for loan losses on non-covered loans to total gross non-covered loans outstanding, end of period	2.79	%	2.74	%	2.79	%	2.74	%

- (1) Included in consumer loans are Federal Family Education Loan Program (FFELP) student loans. FFELP student loans are guaranteed by the U.S. Department of Education. Because of the guarantee there is no allowance allocated for these loans.
- (2) Included in the allowance is \$3.9 million related to covered loans at September 30, 2010. This allowance is related to drawdowns on commitments that were in existence as of the acquisition dates and, therefore, are covered under the shared-loss agreements with the FDIC. Allowance on these subsequent drawdowns is accounted for as part of our analysis of the adequacy of the allowance.

At September 30, 2010, the allowance for loan losses amounted to \$244.2 million which includes \$3.9 million allocated to covered loans. Prior to the third quarter of 2010, the total allowance was allocated to non-covered loans. At September 30, 2010, the allowance for loan losses on non-covered loans amounted to \$240.3 million, or 2.79% of total gross non-covered loans, compared with the allowance for loan losses of \$238.8 million, or 2.81% of total gross non-covered loans, at December 31, 2009, and the allowance of loan losses of \$230.7 million, or 2.74% of total gross non-covered loans, at September 30, 2009. The increase in the allowance for loan losses is primarily due to the \$170.3 million in provisions for loan losses recorded during the first nine months of 2010 offset by net chargeoffs of \$164.2 million. This compares to \$388.7 million in provisions for loan losses recorded during the first nine months of 2009 and \$9.3 million recorded during the second quarter of 2009 in conjunction with the securitization of single-family and multifamily loans completed in May 2009, offset by net chargeoffs of \$344.7 million.



#### NOTE 8 — PREMISES AND EQUIPMENT

At September 30, 2010, total premises and equipment was \$197.2 million with accumulated depreciation and amortization of \$58.7 million and a net value of \$138.5 million. At December 31, 2009, total premises and equipment was \$107.4 million with accumulated depreciation and amortization of \$48.3 million and a net value of \$59.1 million. The increase in total premises and equipment during the first nine months of 2010 is primarily due to the purchase of several properties and equipment totaling approximately \$84.0 million as part of the FDIC-assisted transactions of WFIB and UCB.

Capitalized assets are depreciated or amortized on a straight-line basis in accordance with the estimated useful life for each fixed asset class. The estimated useful life for furniture and fixtures is seven years; office equipment is for five years and twenty-five years for buildings and improvements. Leasehold improvements are amortized over the shorter of the term of the lease or useful life.

#### NOTE 9 — GOODWILL AND OTHER INTANGIBLE ASSETS

##### Goodwill

The carrying amount of goodwill remained at \$337.4 million as of September 30, 2010 and December 31, 2009. Goodwill is tested for impairment on an annual basis as of December 31, or more frequently as events occur, or as current circumstances and conditions warrant. The Company records impairment write-downs as charges to noninterest expense and adjustments to the carrying value of goodwill. Subsequent reversals of goodwill impairment are prohibited.

As of September 30, 2010, the Company's market capitalization based on total outstanding common and preferred shares was \$2.79 billion and its total stockholders' equity was \$2.38 billion. The Company performed its annual impairment test as of December 31, 2009 to determine whether and to what extent, if any, recorded goodwill was impaired. The analysis compared the fair value of each of the reporting units, including goodwill, to the respective carrying amounts. If the carrying amount of the reporting unit, including goodwill, exceeds the fair value of that reporting unit, then further testing for goodwill impairment is performed.

##### Premiums on Acquired Deposits

The Company also has premiums on acquired deposits, which represent the intangible value of depositor relationships resulting from deposit liabilities assumed in various acquisitions. Other intangibles are tested for impairment on an annual basis, or more frequently as events occur, or as current circumstances and conditions warrant. As of September 30, 2010 and December 31, 2009, the gross carrying amount of premiums on acquired deposits totaled \$117.6 million and \$116.6 million, respectively, and the related accumulated amortization totaled \$34.9 million and \$26.9 million, respectively. In June 2010, the Company recorded \$3.1 million in premiums on deposits acquired in the WFIB acquisition. In November 2009, the Company recorded \$74.4 million in premiums on deposits acquired in the UCB acquisition.

The Company amortizes premiums on acquired deposits based on the projected useful lives of the related deposits. Amortization expense of premiums on acquired deposits was \$3.4 million and \$1.1 million for the three months ended September 30, 2010 and 2009, respectively, and \$10.0 million and \$3.3 million for the nine months ended September 30, 2010 and 2009, respectively.

The following table provides the estimated future amortization expense of premiums on acquired deposits for the three months ending December 31, 2010 and the succeeding four years:

Estimated Future Amortization Expense of Premiums on  
 Acquired Deposits

Amount  
 (In thousands)

Three Months Ending December 31, 2010	\$ 3,294
Year Ending December 31, 2011	12,572
Year Ending December 31, 2012	11,176
Year Ending December 31, 2013	9,660
Year Ending December 31, 2014	8,775

NOTE 10 — 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 condensed consolidated financial statements. As of September 30, 2010 and December 31, 2009, undisbursed loan commitments amounted to \$1.85 billion and \$2.46 billion, respectively. Commercial and standby letters of credit amounted to \$723.1 million and \$715.2 million as of September 30, 2010 and December 31, 2009, respectively.

Guarantees – From time to time, the Company sells or securitizes loans with recourse in the ordinary course of business. For loans that have been sold or securitized with recourse, the recourse component is considered a guarantee. When the Company sells or securitizes 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 September 30, 2010, total loans sold or securitized with recourse amounted to \$465.0 million and were comprised of \$62.8 million in single-family loans with full recourse and \$402.2 million in multifamily loans with limited recourse. In comparison, total loans sold or securitized with recourse amounted to \$497.5 million at December 31, 2009, comprised of \$72.6 million in single-family loans with full recourse and \$425.0 million in multifamily loans with limited recourse. The recourse provision on multifamily loans is limited to 2.5% of the top loss on the underlying loans. The Company's recourse reserve related to loan sales and securitizations totaled \$4.5 million as of September 30, 2010 and \$2.9 million as of December 31, 2009, and is included in accrued expenses and other liabilities in the accompanying condensed consolidated balance sheets. Despite the challenging conditions in the real estate market, the Company continues to experience minimal losses from the single-family and multifamily loan portfolios.

The Company also sells or securitizes 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 securitization or sale of the loan. When a loan sold or securitized 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 or securitization. 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 September 30, 2010 and December 31, 2009, the amount of loans sold without recourse totaled \$1.29 billion and \$1.50 billion, respectively. Total loans securitized without recourse amounted to \$331.3 million and \$358.1 million, respectively, at September 30, 2010 and December 31, 2009. The loans sold or securitized without recourse represent 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 September 30, 2010. The Bank, from time to time, is a 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. 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.

#### NOTE 11 — STOCKHOLDERS' EQUITY

**Series A Preferred Stock Offering** – In April 2008, the Company issued 200,000 shares of 8% Non-Cumulative Perpetual Convertible Preferred Stock, Series A (“Series A”), with a liquidation preference of \$1,000 per share. The Company received \$194.1 million of additional Tier 1 qualifying capital, after deducting stock issuance costs. The holders of the Series A preferred stock have the right at any time to convert each share of Series A preferred stock into 64.9942 shares of the Company’s common stock, plus cash in lieu of fractional shares. This represents an initial conversion price of approximately \$15.39 per share of common stock or a 22.5% conversion premium based on the closing price of the Company’s common stock on April 23, 2008 of \$12.56 per share. On or after May 1, 2013, the Company will have the right, under certain circumstances, to cause the Series A preferred stock to be converted into shares of the Company’s common stock. Dividends on the Series A preferred stock, if declared, will accrue and be payable quarterly in arrears at a rate per annum equal to 8% on the liquidation preference of \$1,000 per share, on February 1, May 1, August 1 and November 1 of each year. The proceeds from this offering were used to augment the Company’s liquidity and capital positions and reduce its borrowings. As of September 30, 2010, 85,741 shares were outstanding.

**Series B Preferred Stock Offering** – On December 5, 2008, the Company issued 306,546 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series B (“Series B”), with a liquidation preference of \$1,000 per share. The Company received \$306.5 million of additional Tier 1 qualifying capital from the U.S. Treasury by participating in the U.S. Treasury’s Capital Purchase Program (“TCPP”). The Series B preferred stock will pay cumulative dividends at a rate of 5% per annum until the fifth anniversary of the investment date and thereafter at a rate of 9% per annum. The Series B preferred stock is transferable by the U.S. Treasury at any time. Subject to the approval of the Federal Reserve Board, the Series B preferred stock may be reacquired by the Company at 100% of liquidation preference (plus any accrued and unpaid dividends).

**Series C Preferred Stock** – On March 25, 2010, at a special meeting of the stockholders, our stockholders voted to approve the issuance of 37,103,734 shares of our common stock upon conversion of the 335,047 shares of the Series C Preferred Stock. The Series C Preferred Stock was subsequently automatically converted into shares of our common stock on March 30, 2010, and, as a result, no shares of the Series C Preferred Stock remain outstanding.

**Warrants** – During 2008, in conjunction with the Series B preferred stock offering, the Company issued warrants with an initial price of \$15.15 per share of common stock for which the warrants may be exercised, with an allocated fair value of \$25.2 million. The warrants may be exercised at any time on or before December 5, 2018. During the fourth quarter of 2009, the Company received a 50% reduction in the warrants we issued to the U.S. Treasury in conjunction with the TARP capital we received in December 2008. This adjustment to the warrants was due to the fact that within one year of issuance, the Company raised new capital in excess of the TARP capital issued in December, 2008. The warrants, and all rights under the warrants, are freely transferable. As of September 30, 2010, there were 1,517,555 warrants outstanding.

**Quarterly Dividends** – On October 25, 2010, the Company’s Board of Directors declared fourth quarter preferred stock cash dividends of \$20.00 per share on its Series A preferred stock, payable on or about November 1, 2010 to shareholders of record on October 15, 2010. On October 25, 2010, the Company’s Board of Directors declared and paid quarterly preferred cash dividends on its Series B preferred stock. Total cash dividends accrued and paid in conjunction with the Company’s Series A and B preferred stock amounted to \$5.5 million and \$16.6 million during the three and first nine months of 2010, respectively.



On October 25, 2010, the Company's Board of Directors declared quarterly common stock cash dividends of \$0.01 per share, payable on or about November 24, 2010 to shareholders of record on November 10, 2010. Cash dividends totaling \$1.5 million and \$4.1 million were paid to the Company's common shareholders during the third quarter and first nine months of 2010, respectively.

Earnings (Loss) Per Share ("EPS") – The actual number of shares outstanding at September 30, 2010 was 147,981,714. Basic EPS excludes dilution and is computed by dividing income or loss available to common stockholders by the weighted-average number of shares outstanding during the period. Diluted EPS is 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 convertible preferred stock, common stock options and warrants, unless they have an antidilutive effect.

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The following table sets forth earnings (loss) per share calculations for the three and nine months ended September 30, 2010 and 2009:

	2010		Three Months Ended September 30, 2009			
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(In thousands, except per share data)					
Net income (loss) before extraordinary items	\$ 46,951			\$ (68,531 )		
Less: Preferred stock dividends, amortization of preferred stock discount and inducement of preferred stock conversion	(6,732 )			(10,620 )		
Income (loss) available to common stockholders before extraordinary item	40,219			(79,151 )		
Extraordinary item – impact of desecuritization	—			—		
<b>BASIC EPS</b>						
Income (loss) available to common stockholders after extraordinary item	40,219	146,454	\$ 0.27	(79,151 )	86,538	\$ (0.91 )
<b>EFFECT OF DILUTIVE SECURITIES</b>						
Stock options	—	126		—	—	
Restricted stock	4	430		—	—	
Stock warrants	—	103		—	—	
Convertible preferred stock	—	—		—	—	
Income (loss) available to common stockholders before extraordinary item	40,223	147,113		(79,151 )	86,538	
	—	—		—	—	

Extraordinary item –  
impact of  
desecuritization

**DILUTED EPS**

Income (loss) available to common  
stockholders  
after extraordinary item  
plus assumed  
conversions

	\$	40,223	147,113	\$ 0.27	\$ (79,151 )	86,538	\$ (0.91 )
--	----	--------	---------	---------	--------------	--------	------------

Nine Months Ended September 30,  
2010

	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount

(In thousands, except per share data)

Net income (loss)  
before extraordinary  
items

	\$	108,215		\$	(177,722)	
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Less: Preferred stock  
dividends, amortization  
of

preferred stock discount  
and inducement of  
preferred stock  
conversion

	(19,017 )			(42,986 )		
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Income (loss) available to common  
stockholders

before extraordinary  
item

	89,198			(220,708 )	70,967	\$ (3.11 )
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Extraordinary item –  
impact of  
desecuritization

	—			(5,366 )	70,967	(0.08 )
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**BASIC EPS**

Income (loss) available to common  
stockholders

after extraordinary item

	89,198	134,396	\$ 0.66	(226,074 )	70,967	\$ (3.19 )
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**EFFECT OF  
DILUTIVE  
SECURITIES**

Stock options

	—	150		—	—	
--	---	-----	--	---	---	--

Restricted stock

	10	344		—	—	
--	----	-----	--	---	---	--

Stock warrants

	—	156		—	—	
--	---	-----	--	---	---	--

Convertible preferred  
stock

	—	11,947		—	—	
--	---	--------	--	---	---	--



Income (loss) available to common stockholders before extraordinary item	89,208	146,993	(220,708)	70,967	\$ (3.11 )
Extraordinary item – impact of desecuritization	—	—	(5,366 )	70,967	(0.08 )

**DILUTED EPS**

Income (loss) available to common stockholders after extraordinary item plus assumed conversions	\$ 89,208	146,993	\$ 0.61	\$ (226,074)	70,967	\$ (3.19 )
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The following outstanding convertible preferred stock, stock options and restricted stock for the three and nine months ended September 30, 2010 and 2009, respectively, were excluded from the computation of diluted EPS because including them would have had an antidilutive effect:

	Three Months Ended September 30, 2010		Nine Months Ended September 30, 2009	
	2010	2009	2010	2009
	(In thousands)			
Convertible preferred stock	5,573	6,169	5,573	10,547
Stock options	1,087	1,922	1,083	1,964
Restricted stock	32	583	271	802

#### NOTE 12 — BUSINESS SEGMENTS

The Company utilizes an internal reporting system to measure the performance of various operating segments within the Bank and the Company overall. We have identified three operating segments for purposes of management reporting: 1) Retail Banking; 2) Commercial Banking; and 3) Other. These three business divisions meet the criteria of an operating segment: the segment engages in business activities from which it earns revenues and incurs expenses and whose operating results are regularly reviewed by the Company's chief operating decision-maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. With the acquisition of UCB in November 2009, a fourth segment was added.

During the first quarter of 2010, the Company's management made the decision to fully integrate the UCB segment into its two-segment core business structure: Retail Banking and Commercial Banking. With this integration, effective the first quarter of 2010, the Company's business focus reverted back to a three-segment core business structure: Retail Banking, Commercial Banking and Other.

The Retail Banking segment focuses primarily on retail operations through the Bank's branch network. The Commercial Banking segment, which includes commercial real estate, primarily generates commercial loans through the efforts of the commercial lending offices located in the Bank's northern and southern California production offices. Furthermore, the Company's Commercial Banking segment also offers a wide variety of international finance and trade services and products. The remaining centralized functions, including Treasury activities and eliminations of inter-segment amounts, have been aggregated and included in the Other segment, which provides broad administrative support to the two core segments.

The Company's funds transfer pricing assumptions are intended to promote core deposit growth and to reflect the current risk profiles of various loan categories within the credit portfolio. Transfer pricing assumptions and methodologies are reviewed at least annually to ensure that the Company's process is reflective of current market conditions. The transfer pricing process is formulated with the goal of incenting loan and deposit growth that is consistent with the Company's overall growth objectives as well as provide a reasonable and consistent basis for the measurement of the Company's business segments and product net interest margins. Changes to the Company's transfer

pricing assumptions and methodologies are approved by the Asset Liability Committee.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. 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 repricing characteristics. Noninterest income and noninterest

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 loan losses is allocated based on actual charge-offs for the period as well as average loan balance for each segment during the period. The Company evaluates overall performance based on profit or loss from operations before income taxes excluding nonrecurring gains and losses.

Changes in our management structure or reporting methodologies may result in changes in the measurement of operating segment results. Results for prior periods are generally restated for comparability for changes in management structure or reporting methodologies unless it is not deemed practicable to do so.

The following tables present the operating results and other key financial measures for the individual operating segments for the three and nine months ended September 30, 2010 and 2009:

	Three Months Ended September 30, 2010			Total
	Retail Banking	Commercial Banking	Other	
	(In thousands)			
Interest income	\$ 69,311	\$ 143,729	\$ 18,360	\$ 231,400
Charge for funds used	(29,159 )	(46,446 )	21,583	(54,022 )
Interest spread on funds used	40,152	97,283	39,943	177,378
Interest expense	(26,851 )	(5,885 )	(15,859 )	(48,595 )
Credit on funds provided	48,391	2,431	3,200	54,022
Interest spread on funds provided	21,540	(3,454 )	(12,659 )	5,427
Net interest income	\$ 61,692	\$ 93,829	\$ 27,284	\$ 182,805
Provision for loan losses	\$ 26,261	\$ 12,387	\$ —	\$ 38,648
Depreciation, amortization and accretion	(2,796 )	(15,774 )	2,543	(16,027 )
Goodwill	320,566	16,872	—	337,438
Segment pretax profit (loss)	(18,021 )	64,698	26,850	73,527
Segment assets	6,450,883	9,728,305	4,238,058	20,417,246

	Three Months Ended September 30, 2009			Total
	Retail Banking	Commercial Banking	Other	
	(In thousands)			
Interest income	\$ 55,364	\$ 61,039	\$ 31,521	\$ 147,924
Charge for funds used	(17,024 )	(16,822 )	(36,441 )	(70,287 )
Interest spread on funds used	38,340	44,217	(4,920 )	77,637
Interest expense	(21,648 )	(3,680 )	(26,716 )	(52,044 )

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Credit on funds provided	32,132	3,157	34,998	70,287
Interest spread on funds provided	10,484	(523 )	8,282	18,243
Net interest income	\$ 48,824	\$ 43,694	\$ 3,362	\$ 95,880
Provision for loan losses	\$ 65,184	\$ 94,060	\$ —	\$ 159,244
Depreciation, amortization and accretion	2,512	1,354	1,409	5,275
Goodwill	320,566	16,872	—	337,438
Segment pretax loss	(44,984 )	(56,767 )	(19,557 )	(121,308 )
Segment assets	4,292,102	4,660,368	3,533,460	12,485,930

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Nine Months Ended September 30, 2010

	Retail Banking	Commercial Banking	Other	Total
	(In thousands)			
Interest income	\$ 244,274	\$ 498,183	\$ 61,179	\$ 803,636
Charge for funds used	(87,078 )	(111,119 )	11,406	(186,791 )
Interest spread on funds used	157,196	387,064	72,585	616,845
Interest expense	(89,422 )	(19,015 )	(47,047 )	(155,484 )
Credit on funds provided	161,796	11,738	13,257	186,791
Interest spread on funds provided	72,374	(7,277 )	(33,790 )	31,307
Net interest income	\$ 229,570	\$ 379,787	\$ 38,795	\$ 648,152
Provision for loan losses	\$ 59,976	\$ 110,349	\$ —	\$ 170,325
Depreciation, amortization and accretion	(10,749 )	(58,517 )	5,363	(63,903 )
Goodwill	320,566	16,872	—	337,438
Segment pretax profit (loss)	(4,363 )	128,832	45,734	170,203
Segment assets	6,450,883	9,728,305	4,238,058	20,417,246

Nine Months Ended September 30, 2009

	Retail Banking	Commercial Banking	Other	Total
	(In thousands)			
Interest income	\$ 164,304	\$ 185,437	\$ 89,439	\$ 439,180
Charge for funds used	(48,702 )	(48,926 )	(145,265 )	(242,893 )
Interest spread on funds used	115,602	136,511	(55,826 )	196,287
Interest expense	(73,196 )	(12,942 )	(89,221 )	(175,359 )
Credit on funds provided	116,897	12,479	113,517	242,893
Interest spread on funds provided	43,701	(463 )	24,296	67,534
Net interest income (expense)	\$ 159,303	\$ 136,048	\$ (31,530 )	\$ 263,821
Provision for loan losses	\$ 144,561	\$ 244,105	\$ —	\$ 388,666
Depreciation, amortization and accretion	8,584	3,226	5,037	16,847
Goodwill	320,566	16,872	—	337,438
Segment pretax loss	(84,964 )	(136,334 )	(83,214 )	(304,512 )
Segment assets	4,292,102	4,660,368	3,533,460	12,485,930



## NOTE 13 - BUSINESS COMBINATIONS

On June 11, 2010 the Bank acquired certain assets and assumed certain liabilities of Washington First International Bank “WFIB” from the FDIC in an FDIC-assisted transaction. As part of the Purchase and Assumption Agreement, the Bank and the FDIC entered into shared-loss agreements, whereby the FDIC will cover a substantial portion of any future losses on loans (and related unfunded loan commitments), OREO and accrued interest on loans for up to 90 days. Under the terms of the shared-loss agreements, the FDIC will absorb 80% of losses and share in 80% of loss recoveries. The shared-loss agreements for commercial and single family residential mortgage loans are in effect for 5 years and 10 years, respectively, from the June 11, 2010 acquisition date and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from the acquisition date. A summary of the fair value of assets acquired and liabilities assumed from the FDIC is as follows:

	June 11, 2010 (In thousands)
<b>ASSETS</b>	
Cash and cash equivalents	\$ 67,186
Investment securities	37,532
Core deposit intangible	3,065
Loans covered by FDIC loss sharing (gross balance \$395,156 and shown net of discount of \$84,174)	310,982
Loans not covered by FDIC loss sharing	2,869
FDIC indemnification asset	41,131
Other real estate owned covered, net	23,443
Other assets	6,380
<b>Total assets acquired</b>	<b>492,588</b>
<b>LIABILITIES</b>	
Deposits	395,910
FHLB advances	65,348
Securities sold under repurchase agreements	1,937
Deferred tax liability	8,189
Other liabilities	9,917
<b>Total liabilities assumed</b>	<b>481,301</b>
<b>NET ASSETS ACQUIRED (after-tax gain)</b>	<b>\$ 11,287</b>

The net gain represents the excess of the estimated fair value of the assets acquired over the estimated fair value of the liabilities assumed and is influenced significantly by the FDIC-assisted transaction process. Under the FDIC-assisted transaction process, only certain assets and liabilities are transferred to the acquirer and, depending on the nature and amount of the acquirer's bid, the FDIC may be required to make a cash payment to the acquirer. The Bank received a cash payment from the FDIC for \$51.7 million. In the WFIB acquisition, the book value of net assets transferred to the Bank was \$486.3 million. The pre-tax gain of \$19.5 million or the after-tax gain of \$11.3 million recognized by the Company is considered a bargain purchase transaction under ASC 805 Business Combinations since the total acquisition-date fair value of the identifiable net assets acquired exceeded the fair value of the consideration transferred. The gain was recognized as non-interest income in the Company's September 30, 2010 condensed



consolidated statements of operations.

As of September 30, 2010 WFIB's operations are partially integrated and will be fully integrated in the fourth quarter.

40

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## Unaudited Pro Forma Results of Operations

The following table presents our unaudited pro forma results of operations for the nine-month periods presented as if the WFIB acquisition had been completed on January 1, 2010 and January 1, 2009, respectively. The unaudited pro forma results of operations include the historical accounts of the Company and WFIB and pro forma adjustments as may be required, including the amortization of intangibles with definite lives and the amortization or accretion of any premiums or discounts arising from fair value adjustments for assets acquired and liabilities assumed. The unaudited pro forma information is intended for informational purposes only and is not necessarily indicative of our future operating results or operating results that would have occurred had these acquisitions been completed at the beginning of 2010 and 2009, respectively. No assumptions have been applied to the pro forma results of operations regarding possible revenue enhancements, expense efficiencies or asset dispositions.

	For the Nine Months Ended September 30,	
	2010 Combined	2009 Combined
	(In thousands)	
Revenues (net interest income plus noninterest income)	\$ 717,905	\$ 256,977
Net earnings (loss)	\$ 111,819	\$ (188,613 )
Net income (loss) per share after extraordinary items:		
Basic	\$ 0.69	\$ (3.26 )
Diluted	\$ 0.63	\$ (3.26 )

Note: Extraordinary item only relates to June 2009 EWB desecuritization.

Washington First International Bank was a full service commercial bank headquartered in Seattle, Washington that operated 4 branch locations in the greater Puget Sound Area. We made this acquisition to expand our presence in the Seattle - greater Puget Sound Area. The assets acquired and liabilities assumed have been accounted for under the acquisition method of accounting (formerly the purchase method). The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the June 11, 2010 acquisition date.

NOTE 14 — SUBSEQUENT EVENTS

Dividend Payout

On October 25, 2010, the Company's Board of Directors approved the payment of fourth quarter dividends of \$20.00 per share on the Company's Series A preferred stock. The dividend is payable on or about November 1, 2010 to shareholders of record as of October 15, 2010. Additionally, the Board declared a dividend of \$0.01 per share on the Company's common stock payable on or about November 24, 2010 to shareholders of record as of November 10, 2010.

## 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 Annual Report on Form 10-K for the year ended December 31, 2009, and the condensed consolidated financial statements and accompanying notes presented elsewhere in this report.

### Critical Accounting Policies

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and general practices within the banking industry. The financial information contained within these statements is, to a significant extent, financial information that is based on approximate measures of the financial effects of transactions and events that have already occurred. Various elements of our accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. In addition, certain accounting policies require significant judgment in applying complex accounting principles to individual transactions to determine the most appropriate treatment. We have established procedures and processes to facilitate making the judgments necessary to prepare financial statements.

The following is a summary of the areas which require more judgment and complex accounting estimates and principles. 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 the results of operations.

- fair valuation of financial instruments;
  - investment securities;
    - covered loans;
- FDIC indemnification asset;
- allowance for loan losses;
- other real estate owned;
  - loan sales;
- goodwill impairment;
- share-based compensation; and
- income taxes and deferred tax asset valuation

Our significant accounting policies are described in greater detail in our 2009 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 Financial Condition and Results of Operations.

## Overview

At September 30, 2010, total assets were \$20.4 billion as compared to \$20.0 billion at June 30, 2010. During the third quarter, total loans decreased \$157.8 million or 1% to \$13.6 billion as a result of a decrease in covered loan balances of \$300.0 million, offset by an increase in non-covered loans of \$142.2 million. Investment securities increased \$830.3 million or 40% during the quarter to \$2.9 billion as a result of purchases of \$1.7 billion of short-term corporate securities and agency securities, offset by sales of \$177.4 million, as well as normal maturities, calls and paydowns. Deposits increased \$379.3 million or 3% to \$15.3 billion. During the quarter, we continued to deploy cash and short-term investments into shorter duration investment securities.

Gross loans at September 30, 2010 totaled \$13.6 billion compared to \$13.7 billion at June 30, 2010. During the quarter non-covered loan balances increased \$142.2 million or 2%, to \$8.6 billion at September 30, 2010. This increase in non-covered loans was largely driven by a \$167.3 million increase in commercial and trade finance loans and a \$111.4 million increase in consumer loans. The increases in the commercial and trade finance and consumer portfolios were partially offset by reduction in the commercial real estate, construction and land portfolios. The net increase in non-covered loans was offset by decreases in the covered loan portfolio. Covered loans totaled \$5.0 billion at September 30, 2010, as compared to \$5.3 billion at June 30, 2010. The decrease in the covered loan portfolio was due to expected amortization paydowns, payoff and charge-off activity.

Deposit balances increased to a record \$15.3 billion at September 30, 2010, compared to \$14.9 billion at June 30, 2010. Total core deposits increased to a record \$8.5 billion as of September 30, 2010, or an increase of \$290.3 million or 4% from June 30, 2010. The increase in core deposits was largely driven by a \$175.7 million or 7% increase in noninterest-bearing demand deposits which grew to a record \$2.6 billion as of September 30, 2010.

The Bank remains committed to maintaining strong capital levels that exceed regulatory requirements. As of the end of the third quarter of 2010, our Tier 1 leverage capital ratio increased to 10.8%, Tier 1 risk-based capital ratio totaled 17.9% and the total risk-based capital ratio totaled 19.7%. The Bank exceeds well capitalized requirements for all regulatory guidelines by over \$1.0 billion.

Noninterest income for the third quarter totaled \$29.3 million, compared to noninterest income of \$35.7 million in the second quarter of 2010 and a loss of \$11.9 million in the third quarter of 2009. Noninterest income for the second quarter of 2010 included a purchase accounting gain of \$19.5 million from the acquisition of WFIB. The loss in the third quarter of 2009 was primarily due to impairment losses on investment securities.

Included within noninterest income for the third quarter is an increase in the FDIC indemnification asset and receivable of \$5.8 million. This amount is primarily comprised of an increase of \$7.8 million due to expenses reimbursable by the FDIC offset by a decrease of \$5.5 million due to the disposition of covered loans. Of the \$7.8 million of expenses reimbursable by the FDIC, \$4.6 million is related to net writedowns and expenses on other real estate owned, and \$3.2 million is related to legal and other loan related expenses. Additionally, we recorded a net increase of \$3.5 million related to discount accretion on the FDIC indemnification asset, settlement adjustments and recoveries.

During the third quarter we recorded \$4.2 million in gains on sales of loans, primarily from the sale of student loans. We also sold \$177.4 million in investment securities at a gain of \$2.8 million and recorded impairment losses on investment securities totaling \$888 thousand related to pooled trust preferred securities.

As compared to the third quarter of 2009, branch fees increased by \$3.3 million or 70%, letters of credit fees and commissions increased \$904 thousand or 46%, and ancillary loan fees increased \$1.1 million or 93%, primarily due to the acquisition of UCB. In total, fees and other operating income



increased \$7.2 million or 71% for the third quarter of 2010 as compared to third quarter of 2009. A summary of these fees and other operating income items is detailed below:

	Quarter Ended September 30, 2010	Quarter Ended September 30, 2009	% Change (Yr/Yr)	
Noninterest income:				
Branch fees	\$ 7,976	\$ 4,679	70	%
Letters of credit fees and commissions	2,888	1,984	46	%
Ancillary loan fees	2,367	1,227	93	%
Other operating income	4,178	2,294	82	%
Total fees & other operating income	\$ 17,409	\$ 10,184	71	%

Noninterest expense totaled \$99.9 million for the third quarter of 2010 compared to \$125.3 million for the second quarter of 2010. The primary reason for the decrease in noninterest expense was due to a decrease in other real estate owned expenses to \$5.7 million in the third quarter, compared to \$21.0 million in the second quarter. In the second quarter, other real estate owned expenses were largely related to writedowns on covered assets which were foreclosed on. Additionally, in the third quarter, we recorded gains on sales of other real estate owned of \$3.4 million, largely related to one asset, which reduced the net other real estate owned expenses to \$5.7 million. Further, we recorded prepayment penalties of \$3.9 million on FHLB advances in the second quarter which were included in other operating expenses. There were no FHLB advance prepayments in the third quarter.

A summary of the noninterest expenses for the third quarter, compared to the second quarter is detailed below:

(\$ in thousands)	Quarter Ended September 30, 2010	Quarter Ended June 30, 2010
Total noninterest expense:	\$ 99,945	\$ 125,318
Amounts to be reimbursed on covered assets (80% of actual expense amount)	7,834	19,103
Prepayment penalty for FHLB advances	-	3,900
Noninterest expense excluding reimbursement amounts and prepayment penalty for FHLB advances	\$ 92,111	\$ 102,315

These noninterest expense items are non-core in nature. The Company believes that presenting the operating noninterest expense excluding such non-core items, a non-GAAP disclosure, provides more clarity to the users of financial statements regarding the core noninterest expense items.

Under the shared-loss agreements with the FDIC, 80% of eligible expenses on covered assets are reimbursable from the FDIC. In the third quarter, we incurred \$9.8 million in expenses on covered loans and other real estate owned,



80%, or \$7.8 million of which we expect to be reimbursed by the FDIC and is recorded as an increase to the FDIC receivable as noninterest income.

#### Results of Operations

Net income for the third quarter of 2010 totaled \$47.0 million, compared with a net loss available to stockholders of \$68.5 million for the third quarter of 2009. On a per diluted share basis, net income (loss) was \$0.27 and \$(0.91) for the third quarters of 2010 and 2009, respectively. Our annualized return on average total assets increased to 0.93% for the quarter ended September 30, 2010, from (2.17)% for the same period in 2009. The annualized return on average common stockholders' equity increased to 8.11% for the third quarter of 2010, compared with (27.12)% for the third quarter of 2009.

## Components of Net Income (Loss)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(In millions)			
Net interest income	\$ 182.8	\$ 95.9	\$ 648.2	\$ 263.8
Provision for loan losses	(38.6 )	(159.2 )	(170.3 )	(388.7 )
Noninterest income (loss)	29.3	(11.9 )	56.5	(24.3 )
Noninterest expense	(99.9 )	(46.1 )	(364.2 )	(155.4 )
(Provision) benefit for income taxes	(26.6 )	52.8	(62.0 )	126.9
Net income (loss) before extraordinary item	47.0	(68.5 )	108.2	(177.7 )
Impact of securitization, net of tax	—	—	—	(5.4 )
Net income (loss) after extraordinary item	\$ 47.0	\$ (68.5 )	\$ 108.2	\$ (183.1 )
Annualized return on average total assets	0.93 %	(2.17 )%	0.72 %	(1.94 )%
Annualized return on average total equity	7.96 %	(17.76 )%	6.21 %	(15.87 )%
Annualized return on average common equity	8.11 %	(27.12 )%	6.47 %	(27.46 )%

## Net Interest Income

Our primary source of revenue is net interest income which is \$182.8 million and \$648.2 million for the three and nine months ended, respectively. Net interest income is the difference between interest earned on loans, investment securities and other earning assets less the interest expense on deposits, borrowings and other interest-bearing liabilities. Net interest income for the third quarter of 2010 totaled \$182.8 million, a 91% increase over net interest income of \$95.9 million for the same period in 2009.

Net interest margin, defined as net interest income divided by average interest earning assets, increased 90 basis points to 4.10% during the quarter ended September 30, 2010, from 3.20% during the third quarter of 2009. The increase in the net interest margin includes a yield adjustment of \$5.5 million related to covered loan dispositions.

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 September 30, 2010 and 2009:

	Three Months Ended September 30,					
	2010			2009		
	Average Volume	Interest	Average Yield/ Rate (1) (In thousands)	Average Volume	Interest	Average Yield/ Rate (1)
<b>ASSETS</b>						
Interest-earning assets:						
Short-term investments and interest-bearing deposits in other banks						
	\$ 736,658	\$ 2,362	1.27 %	\$ 897,527	\$ 1,856	0.82 %
Securities purchased under resale agreements						
	648,136	2,410	1.46 %	91,033	2,153	9.25 %
Investment securities held-to-maturity:						
Taxable						
	—	—	—	761,615	11,886	6.24 %
Tax-exempt (2) (3)						
	—	—	—	22,727	256	4.51 %
Investment securities available-for-sale:						
Taxable						
	2,482,951	15,725	2.51 %	1,543,004	16,425	4.22 %
Tax-exempt (2) (3)						
	—	—	—	—	—	—
Loans receivable						
	8,499,048	116,029	5.42 %	8,471,766	114,512	5.36 %
Loans receivable - covered						
	5,105,793	94,057	7.31 %	—	—	—
FHLB and FRB stock						
	219,416	817	1.49 %	123,514	918	2.97 %
<b>Total interest-earning assets</b>						
	17,692,002	231,400	5.19 %	11,911,186	148,006	4.93 %
Noninterest-earning assets:						
Cash and due from banks						
	668,277			124,708		
Allowance for loan losses						
	(253,078 )			(244,542 )		
Other assets						
	1,989,941			843,925		
<b>Total assets</b>						
	\$ 20,097,142			\$ 12,635,277		
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
Interest-bearing liabilities:						

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Checking accounts	\$ 731,267	550	0.30 %	\$ 342,922	286	0.33 %
Money market accounts	4,162,847	7,103	0.68 %	2,160,722	6,830	1.25 %
Savings deposits	960,927	818	0.34 %	421,844	608	0.57 %
Time deposits	6,719,637	20,028	1.18 %	4,398,704	19,246	1.74 %
FHLB advances	1,020,640	5,725	2.23 %	1,046,056	11,172	4.24 %
Securities sold under repurchase agreements	1,047,697	12,189	4.55 %	1,018,321	12,140	4.66 %
Subordinated debt and trust preferred securities	235,570	1,685	2.80 %	235,570	1,760	2.92 %
Other borrowings	32,337	497	6.01 %	1,385	2	0.57 %
<b>Total interest-bearing liabilities</b>	<b>14,910,922</b>	<b>48,595</b>	<b>1.29 %</b>	<b>9,625,524</b>	<b>52,044</b>	<b>2.15 %</b>
<b>Noninterest-bearing liabilities:</b>						
Demand deposits	2,436,031			1,335,131		
Other liabilities	390,164			130,800		
Stockholders' equity	2,360,025			1,543,822		
<b>Total liabilities and stockholders' equity</b>	<b>\$ 20,097,142</b>			<b>\$ 12,635,277</b>		
Interest rate spread			3.90 %			2.78 %
Net interest income and net interest margin		\$ 182,805	4.10 %		\$ 95,962	3.20 %

(1) Annualized.

(2) Amounts calculated on a fully taxable equivalent basis using the current statutory federal tax rate.

(3) There is no total interest income and average yield rate on an unadjusted basis for tax-exempt investment securities available-for-sale for the three months ended September 30, 2009 and 2010. Total interest income and average yield rate on an unadjusted basis for tax-exempt investment securities held-to-maturity is \$174 thousand and 3.06% for the three months ended September 30, 2009.

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 nine months ended September 30, 2010 and 2009:

	2010		Nine Months Ended September 30, 2009			
	Average Volume	Interest	Average Yield/ Rate (1) (In thousands)	Average Volume	Interest	Average Yield/ Rate (1)
<b>ASSETS</b>						
Interest-earning assets:						
Short-term investments and interest-bearing						
deposits in other banks	\$ 914,471	\$ 7,405	1.08 %	\$ 835,769	\$ 7,341	1.17 %
Securities purchased under resale agreements	455,824	11,303	3.27 %	64,286	4,695	9.63 %
Investment securities held-to-maturity:						
Taxable	—	—	—	646,936	30,464	6.28 %
Tax-exempt (2) (3)	—	—	—	20,737	907	5.83 %
Investment securities available-for-sale:						
Taxable	2,289,423	50,613	2.96 %	1,878,815	57,101	4.06 %
Tax-exempt (2) (3)	2,165	43	2.65 %	—		