

EAST WEST BANCORP INC  
Form 10-Q  
November 12, 2013  
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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, 2013

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: 137,767,583 shares of common stock as of October 31, 2013.



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**Forward-Looking Statements**

Certain matters discussed in this Quarterly Report contain or incorporate statements that we believe are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Exchange Act), and Rule 175 promulgated thereunder, and Section 21E of the Securities Exchange Act of 1934, as amended, and Rule 3b-6 promulgated thereunder. These statements relate to our financial condition, results of operations, plans, objectives, future performance or business. They usually can be identified by the use of forward-looking language, such as will likely result, may, are expected to, is anticipated, estimate, forecast, projected, intends to, or may include other similar phrases, such as believes, plans, trend, objective, continue, remain, or similar expressions, or future or conditional verbs, such as will, should, could, might, can, or similar verbs. You should not place undue reliance on these statements, as they are subject to risks and uncertainties, including, but not limited to, those described in the documents incorporated by reference. When considering these forward-looking statements, you should keep in mind these risks and uncertainties, as well as any cautionary statements we make. Moreover, you should treat these statements as speaking only as of the date they are made and based only on information then actually known to us.

There are a number of important factors that could cause future results to differ materially from historical performance and these forward-looking statements. Factors that might cause such a difference include, but are not limited to:

- our ability to complete the acquisition of MetroCorp Bancshares, Inc. ( MetroCorp ) and to successfully integrate and achieve the projected synergies of this acquisition;
- our ability to manage the loan portfolio acquired from FDIC-assisted acquisitions 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 U.S. economy, including inflation;
- changes in government interest rate policies;
- changes in laws or the regulatory environment;
- changes in the economy of and monetary policy in the People's Republic of China;
- 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;

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- effect of the new Consumer Financial Protection Bureau ability to repay rules on our single family lending;
- effect of additional provision for loan losses;
- effect of government budget cuts and government shut down;
- 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;
- impact of the European debt crisis;
- impact of potential federal tax increases and spending cuts;
- impact of adverse judgments or settlements in litigation against the Company;
- changes in our ability to receive dividends from our subsidiaries; and

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- political developments, wars or other hostilities that 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 2012 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.

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

	September 30, 2013	December 31, 2012
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,322,383	\$ 1,323,106
Short-term investments	293,092	366,378
Securities purchased under resale agreements	1,300,000	1,450,000
Investment securities available-for-sale, at fair value (with amortized cost of \$2,936,290 at September 30, 2013 and \$2,599,018 at December 31, 2012)	2,892,761	2,607,029
Loans held for sale	232,309	174,317
Loans receivable, excluding covered loans (net of allowance for loan losses of \$234,236 at September 30, 2013 and \$229,382 at December 31, 2012)	14,338,787	11,710,190
Covered loans (net of allowance for loan losses of \$8,665 at September 30, 2013 and \$5,153 at December 31, 2012)	2,359,504	2,935,595
Total loans receivable, net	16,698,291	14,645,785
FDIC indemnification asset	145,034	316,313
Other real estate owned, net	20,184	32,911
Other real estate owned covered, net	26,940	26,808
Total other real estate owned	47,124	59,719
Investment in Federal Home Loan Bank stock, at cost	75,426	107,275
Investment in Federal Reserve Bank stock, at cost	48,212	48,003
Investment in affordable housing partnerships	171,624	185,645
Premises and equipment, net	185,130	107,517
Accrued interest receivable	113,350	94,837
Due from customers on acceptances	26,434	28,612
Premiums on deposits acquired, net	49,153	56,285
Goodwill	337,438	337,438
Cash surrender value of life insurance policies	112,247	110,133
Other assets	448,827	517,718
<b>TOTAL</b>	<b>\$ 24,498,835</b>	<b>\$ 22,536,110</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Customer deposit accounts:		
Noninterest-bearing	\$ 5,757,341	\$ 4,535,877
Interest-bearing	14,601,799	13,773,477
Total deposits	20,359,140	18,309,354
Federal Home Loan Bank advances	314,557	312,975
Securities sold under repurchase agreements	995,000	995,000
Other borrowings		20,000
Bank acceptances outstanding	26,434	28,612
Long-term debt	187,178	137,178
Accrued expenses and other liabilities	304,650	350,869



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Total liabilities	22,186,959	20,153,988
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COMMITMENTS AND CONTINGENCIES (Note 12)

STOCKHOLDERS' EQUITY

Preferred stock, \$0.001 par value, 5,000,000 shares authorized; Series A, non-cumulative convertible, 200,000 shares issued; no shares outstanding as of September 30, 2013 and 85,710 shares outstanding as of December 31, 2012		83,027
Common stock, \$0.001 par value, 200,000,000 shares authorized; 163,060,192 and 157,160,193 shares issued in 2013 and 2012, respectively; 137,739,423 and 140,294,092 shares outstanding in 2013 and 2012, respectively	163	157
Additional paid in capital	1,564,105	1,464,739
Retained earnings	1,305,164	1,151,828
Treasury stock, at cost 25,320,769 shares in 2013 and 16,866,101 shares in 2012	(532,378)	(322,298)
Accumulated other comprehensive (loss) income, net of tax	(25,178)	4,669
Total stockholders' equity	2,311,876	2,382,122
<b>TOTAL</b>	<b>\$ 24,498,835</b>	<b>\$ 22,536,110</b>

See accompanying notes to condensed consolidated financial statements.

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>INTEREST AND DIVIDEND INCOME</b>				
Loans receivable, including fees	\$ 259,105	\$ 232,195	\$ 710,554	\$ 691,270
Investment securities	11,039	10,380	30,843	48,525
Securities purchased under resale agreements	5,168	5,530	16,132	14,602
Investment in Federal Home Loan Bank stock	1,395	127	2,945	514
Investment in Federal Reserve Bank stock	723	719	2,164	2,146
Due from banks and short-term investments	4,276	5,211	12,844	17,517
Total interest and dividend income	281,706	254,162	775,482	774,574
<b>INTEREST EXPENSE</b>				
Customer deposit accounts	15,099	18,202	47,691	57,543
Federal funds purchased				2
Federal Home Loan Bank advances	1,049	1,468	3,135	4,963
Securities sold under repurchase agreements	10,323	11,664	31,069	34,977
Long-term debt	985	920	2,402	3,106
Total interest expense	27,456	32,254	84,297	100,591
<b>Net interest income before provision for loan losses</b>	<b>254,250</b>	<b>221,908</b>	<b>691,185</b>	<b>673,983</b>
Provision for loan losses, excluding covered loans	4,535	13,321	12,050	46,395
(Reversal of) provision for loan losses on covered loans	(964)	5,179	4,848	5,705
<b>Net interest income after provision for loan losses</b>	<b>250,679</b>	<b>203,408</b>	<b>674,287</b>	<b>621,883</b>
<b>NONINTEREST (LOSS) INCOME</b>				
Impairment loss on investment securities				(5,165)
Less: Noncredit-related impairment loss recorded in other comprehensive income				5,066
Net impairment loss on investment securities recognized in earnings				(99)
Decrease in FDIC indemnification asset and receivable	(74,456)	(26,757)	(154,260)	(72,520)
Branch fees	8,123	7,720	23,896	23,204
Net gain on sales of investment securities	1,084	93	12,006	647
Net gain on sale of fixed assets	993	40	1,345	113
Letters of credit fees and commissions	5,615	5,001	16,103	13,814
Foreign exchange income	2,940	2,165	8,925	4,524
Ancillary loan fees	2,125	1,817	6,811	6,013
Income from life insurance policies	952	982	2,820	2,931
Net gain on sales of loans	3,945	5,346	3,685	16,900

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Other operating income	7,258	6,344	22,795	17,309
Total noninterest (loss) income	(41,421)	2,751	(55,874)	12,836
<b>NONINTEREST EXPENSE</b>				
Compensation and employee benefits	41,482	40,509	129,239	129,781
Occupancy and equipment expense	14,697	14,162	42,211	40,737
Amortization of investments in affordable housing partnerships and other investments	4,693	3,378	14,040	12,269
Amortization of premiums on deposits acquired	2,347	2,734	7,131	8,445
Deposit insurance premiums and regulatory assessments	4,191	3,461	11,848	10,776
Loan related expenses	2,752	4,011	9,909	12,667
Other real estate owned expense (gain on sale)	157	2,683	(2,015)	18,034
Legal expense	9,001	8,213	18,912	19,536
Prepayment penalty for FHLB advances and other borrowings		42		3,699
Data processing	2,159	2,313	6,796	6,974
Deposit related expenses	1,635	1,388	4,725	4,472
Consulting expense	1,264	2,692	2,721	5,727
Other operating expenses	15,974	15,370	45,610	44,210
Total noninterest expense	100,352	100,956	291,127	317,327
<b>INCOME BEFORE PROVISION FOR</b>				
<b>INCOME TAXES</b>	108,906	105,203	327,286	317,392
PROVISION FOR INCOME TAXES	35,749	34,093	108,023	107,642
<b>NET INCOME</b>	<b>73,157</b>	<b>71,110</b>	<b>219,263</b>	<b>209,750</b>
PREFERRED STOCK DIVIDENDS		1,714	3,428	5,142
<b>NET INCOME AVAILABLE TO COMMON STOCKHOLDERS</b>	<b>\$ 73,157</b>	<b>\$ 69,396</b>	<b>\$ 215,835</b>	<b>\$ 204,608</b>
<b>EARNINGS PER SHARE AVAILABLE TO COMMON STOCKHOLDERS</b>				
BASIC	\$ 0.53	\$ 0.49	\$ 1.56	\$ 1.42
DILUTED	\$ 0.53	\$ 0.48	\$ 1.56	\$ 1.40
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>				
BASIC	137,036	139,621	137,404	142,348
DILUTED	137,467	145,358	140,199	148,051
<b>DIVIDENDS DECLARED PER COMMON SHARE</b>				
	\$ 0.15	\$ 0.10	\$ 0.45	\$ 0.30

See accompanying notes to condensed consolidated financial statements.

Table of Contents**EAST WEST BANCORP, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME***(In thousands)**(Unaudited)*

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Net income	\$ 73,157	\$ 71,110	\$ 219,263	\$ 209,750
Other comprehensive (loss) income, net of tax:				
Unrealized (loss) gain on investment securities available-for-sale:				
Unrealized holding (losses) gains arising during period	(2,876)	15,355	(22,905)	36,627
Reclassification adjustment for net gains included in net income	(629)	(54)	(6,964)	(375)
Noncredit-related impairment loss on securities				(2,938)
Foreign currency translation adjustments		(900)		(900)
Unrealized gains on other investments	5	5	22	24
Reclassification adjustment for net gains included in net income				(15)
Other comprehensive (loss) income	(3,500)	14,406	(29,847)	32,423
<b>COMPREHENSIVE INCOME</b>	<b>\$ 69,657</b>	<b>\$ 85,516</b>	<b>\$ 189,416</b>	<b>\$ 242,173</b>

See accompanying notes to condensed consolidated financial statements.

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

<b>BALANCE, JANAUARY 1, 2012</b>	\$	\$	83,027	\$	157	\$	1,443,883	\$	934,617	\$	(116,001)	\$	(33,940)	\$	2,311,743
Net income									209,750						209,750
Other comprehensive income													32,423		32,423
Stock compensation costs							11,567								11,567
Tax benefit from stock compensation plans, net							461								461
Issuance of 299,964 shares of common stock pursuant to various stock compensation plans and agreements							3,136								3,136
Issuance of 26,151 shares pursuant to Director retainer fee							570								570
Cancellation of 154,508 shares of common stock due to forfeitures of issued restricted stock							2,653				(2,653)				
130,577 shares of restricted stock surrendered due to employee tax liability											(2,867)				(2,867)
Preferred stock dividends									(5,142)						(5,142)
Common stock dividends									(43,482)						(43,482)
Purchase of 9,068,105 shares of treasury stock pursuant to the Stock Repurchase Program											(199,950)				(199,950)
<b>BALANCE, SEPTEMBER 30, 2012</b>	\$	\$	83,027	\$	157	\$	1,462,270	\$	1,095,743	\$	(321,471)	\$	(1,517)	\$	2,318,209
<b>BALANCE, JANAUARY 1, 2013</b>	\$	\$	83,027	\$	157	\$	1,464,739	\$	1,151,828	\$	(322,298)	\$	4,669	\$	2,382,122
Net income									219,263						219,263
Other comprehensive loss													(29,847)		(29,847)
Stock compensation costs							9,263								9,263
Tax benefit from stock compensation plans, net							3,301								3,301
Issuance of 285,921 shares of common stock pursuant to various stock compensation plans and agreements							2,112								2,112
Issuance of 19,998 shares pursuant to Director retainer fee							630								630
Cancellation of 58,929 shares of common stock due to forfeitures of issued restricted stock							1,039				(1,039)				
											(9,049)				(9,049)

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368,932 shares of restricted stock surrendered due to employee tax liability									
Preferred stock dividends					(3,428)			(3,428)	
Common stock dividends					(62,499)			(62,499)	
Conversion of 85,710 shares of Series A preferred stock into 5,594,080 shares of common stock				(83,027)	6	83,021			
Purchase of 8,026,807 shares of treasury stock pursuant to the Stock Repurchase Program							(199,992)		(199,992)
<b>BALANCE, SEPTEMBER 30, 2013</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>163</b>	<b>\$</b>	<b>1,564,105</b>	<b>\$</b>	<b>1,305,164</b>	<b>\$</b>
							<b>(532,378)</b>	<b>\$</b>	<b>(25,178)</b>
									<b>2,311,876</b>

See accompanying notes to condensed consolidated financial statements.

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

	<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 219,263	\$ 209,750
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	69,907	58,978
(Accretion) of discount and amortization of premiums, net	(180,119)	(152,297)
Decrease in FDIC indemnification asset and receivable	154,260	72,520
Stock compensation costs	9,893	12,137
Deferred tax expense	34,107	12,131
Provision for loan losses	16,898	52,100
Impairment on other real estate owned	2,102	13,342
Net gain on sales of investment securities, loans and other assets	(23,354)	(22,654)
Prepayment penalty for Federal Home Loan Bank advances, net		3,699
Originations and purchases of loans held for sale	(99,258)	(58,237)
Proceeds from sales of loans held for sale	6,272	
Net proceeds from FDIC shared-loss agreements	51,890	83,801
Net change in accrued interest receivable and other assets	83,335	(71,753)
Net change in accrued expenses and other liabilities	(47,735)	(15,983)
Other net operating activities	(6,121)	(3,293)
Total adjustments	72,077	(15,509)
Net cash provided by operating activities	291,340	194,241
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net (increase) decrease in:		
Loans	(1,549,830)	88,965
Short-term investments	73,286	(285,167)
Federal funds sold		(20,000)
Purchases of:		
Securities purchased under resale agreements	(450,000)	(750,000)
Investment securities available-for-sale	(1,113,667)	(1,250,317)
Loans receivable	(577,811)	(371,352)
Premises and equipment	(87,443)	(5,826)
Investments in affordable housing partnerships and other investments	(25,860)	(45,500)
Proceeds from sale of:		
Investment securities available-for-sale	386,108	1,130,024
Loans receivable	184,679	61,979
Loans held for sale originated for investment		338,022
Other real estate owned	47,892	76,239
Premises and equipment	1,818	12
Repayments, maturities and redemptions of investment securities available-for-sale	376,593	999,518
Paydowns, maturities and termination of securities purchased under resale agreements	600,000	436,434
Redemption of Federal Home Loan Bank stock	31,849	18,943
Other net investing activities	(210)	(360)
Net cash (used in) provided by investing activities	(2,102,596)	421,614

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**CASH FLOWS FROM FINANCING ACTIVITIES**

Net increase (decrease) in:			
Deposits	2,049,786		213,425
Short-term borrowings	(20,000)		(25,208)
Proceeds from:			
Increase in long-term borrowing	50,000		
Issuance of common stock pursuant to various stock plans and agreements	2,112		3,136
Payment for:			
Repayment of FHLB advances			(57,615)
Modification of Federal Home Loan Bank advances			(37,678)
Repayment of long-term debt			(75,000)
Repurchase of shares of treasury stock pursuant to the Stock Repurchase Plan	(199,992)		(199,950)
Cash dividends	(65,625)		(48,472)
Other net financing activities	(5,748)		(2,406)
Net cash provided by (used in) financing activities	1,810,533		(229,768)
Effect of exchange rate changes on cash and cash equivalents			(900)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(723)		385,187
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,323,106		1,431,185
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 1,322,383	\$	1,816,372

**SUPPLEMENTAL CASH FLOW INFORMATION:**

Cash paid during the period for:			
Interest	\$ 84,643	\$	104,829
Income tax payments, net of refunds	118,408		188,739
Noncash investing and financing activities:			
Loans transferred to loans held for sale, net	13,912		148,755
Transfers to other real estate owned	33,685		62,755
Conversion of preferred stock to common stock	83,027		
Loans to facilitate sales of other real estate owned and short sales	139		3,060
Loans to facilitate sales of loans			1,018

See accompanying notes to condensed consolidated financial statements.



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**EAST WEST BANCORP, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*(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 ("East West Bank" or the "Bank") and East West Insurance Services, Inc. Intercompany transactions and accounts have been eliminated in consolidation. East West also has seven wholly-owned subsidiaries that are statutory business trusts (the "Trusts"). In accordance with Financial Accounting Standards Board ("FASB") 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, 2013 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, 2012.

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

**NOTE 2 SIGNIFICANT ACCOUNTING POLICIES**

***Recent Accounting Standards***

In October 2012, the FASB issued ASU 2012-06, *Business Combinations (Topic 805): Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution*. ASU 2012-06 clarifies the applicable guidance for subsequently measuring an indemnification asset recognized as a result of a government-assisted acquisition of a financial institution. The standard instructs that when a reporting entity recognizes an indemnification asset, it should subsequently account for the change in the measurement of the indemnification asset on the same basis as the change in the assets subject to indemnification. Any amortization of changes in value should be limited to the contractual term of the indemnification agreement. The amended guidance is effective for interim and annual periods beginning on or after December 15, 2012. The adoption of this guidance did not have a material effect on the Company's condensed consolidated financial statements, as the Company had applied this methodology prior to the issuance of this ASU.

In January 2013, the FASB issued ASU 2013-01, *Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*. ASU 2013-01 clarifies that the scope of ASU 2011-01 applies to derivatives, repurchase agreements, and securities lending transactions to the extent that they are (1) offset in the financial statements or (2) subject to an enforceable master netting arrangement or similar agreement. The amended guidance is effective for interim and annual periods beginning on or after January 1, 2013. The adoption of this guidance did not have a material effect on the Company's condensed consolidated financial statements. The Company did include additional disclosure in the notes to the condensed consolidated financial statements to comply with the requirements of the ASU.

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In February 2013, the FASB issued ASU 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. ASU 2013-02 enhances the reporting of reclassifications out of accumulated other comprehensive income by requiring entities to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under GAAP to be reclassified in its entirety to net income. For other amounts that are not required under GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under GAAP that provide additional detail about those amounts. The amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. The amendments are effective for interim and annual periods beginning on or after December 15, 2012. The adoption of this guidance did not have a material effect on the Company's condensed consolidated financial statements. The Company did include additional disclosure in the notes to the condensed consolidated financial statements to comply with the requirements of the ASU.

In July 2013, the FASB issued ASU 2013-10, *Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes*. ASU 2013-10 permits the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) to be used as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to interest rates on direct Treasury obligations of the U.S. government and the London Interbank Offered Rate (LIBOR). ASU 2013-10 is effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The Company does not expect the adoption of this guidance to have a material effect on the Company's condensed consolidated financial statements.

**NOTE 3 FAIR VALUE**

Fair value is defined as the price that would be received to sell an asset or be 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 following 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, corporate debt securities, single issuer trust preferred securities, equity swap agreements, foreign exchange options and interest rate swaps.

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- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value is not solely based on observable market inputs and requires management judgment or estimation. This category typically includes pooled trust preferred securities, impaired loans, other real estate owned ( OREO ) and derivatives payable.

The Company records investment securities available-for-sale, equity swap agreements, derivative liabilities, foreign exchange options, interest rate swaps and short-term foreign exchange contracts at fair value on a recurring basis. Certain other assets such as impaired loans, other real estate owned, loans held for sale, goodwill, premiums on acquired deposits and other 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 nonfinancial assets and liabilities that are measured at fair value on a recurring and nonrecurring basis. These assets and liabilities are reported on the condensed consolidated balance sheets at their fair values as of September 30, 2013 and December 31, 2012. 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 for assets measured on a recurring basis in and out of Levels 1 and 3 or Levels 2 and 3 during the first nine months of 2013 and 2012.

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Assets (Liabilities) Measured at Fair Value on a Recurring Basis as of September 30, 2013				
	Fair Value Measurements September 30, 2013	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	\$ 525,707	\$ 525,707	\$	\$
U.S. Government agency and U.S. Government sponsored enterprise debt securities	403,061		403,061	
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	179,258		179,258	
Residential mortgage-backed securities	977,950		977,950	
Municipal securities	250,006		250,006	
Other residential mortgage-backed securities:				
Investment grade	14,692		14,692	
Other commercial mortgage-backed securities:				
Investment grade	51,293		51,293	
Corporate debt securities:				
Investment grade	465,928		465,928	
Non-investment grade	14,942		8,810	6,132
Other securities	9,924		9,924	
Total investment securities available-for-sale	\$ 2,892,761	\$ 525,707	\$ 2,360,922	\$ 6,132
Foreign exchange options	\$ 5,955	\$	\$ 5,955	\$
Interest rate swaps	25,931		25,931	
Short-term foreign exchange contracts	4,068		4,068	
Derivative liabilities	(38,552)		(35,041)	(3,511)

Assets (Liabilities) Measured at Fair Value on a Recurring Basis as of December 31, 2012				
	Fair Value Measurements December 31, 2012	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	\$ 460,677	\$ 460,677	\$	\$
U.S. Government agency and U.S. Government sponsored enterprise debt securities	197,855		197,855	
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	180,665		180,665	
Residential mortgage-backed securities	1,144,085		1,144,085	
Municipal securities	167,093		167,093	
Other commercial mortgage-backed securities:				
Investment grade	17,084		17,084	
Corporate debt securities:				
Investment grade	411,983		411,983	
Non-investment grade	17,417		12,617	4,800

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Other securities		10,170		10,170	
Total investment securities available-for-sale	\$	2,607,029	\$	460,677	\$ 2,141,552 \$ 4,800
Foreign exchange options	\$	5,011	\$	5,011	\$
Interest rate swaps		36,943		36,943	
Short-term foreign exchange contracts		896		896	
Derivative liabilities		(42,060)		(39,008)	(3,052)

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Assets measured at fair value on a nonrecurring basis using significant unobservable inputs include certain impaired loans and OREO. The inputs and assumptions for nonrecurring Level 3 fair value measurements for impaired loans and OREO include adjustments to external and internal appraisals for change in the market, assumptions by appraiser embedded into appraisals, probability weighting of brokered price opinions, and management's adjustments for other relevant factors and market trends.

Assets Measured at Fair Value on a Non-Recurring Basis as of and for the Three Months Ended September 30, 2013					
	Fair Value Measurements September 30, 2013	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) for the Three Months Ended September 30, 2013
Non-covered impaired loans:					
Total residential	\$ 10,980	\$	\$	\$ 10,980	\$ (96)
Total commercial real estate	33,486			33,486	1,412
Total commercial and industrial	14,370			14,370	(7,172)
Total consumer					
Total non-covered impaired loans	\$ 58,836	\$	\$	\$ 58,836	\$ (5,856)
Non-covered OREO	\$ 300	\$	\$	\$ 300	\$ (17)
Covered OREO (1)	\$ 2,250	\$	\$	\$ 2,250	\$ (219)

Assets Measured at Fair Value on a Non-Recurring Basis as of and for the Three Months Ended September 30, 2012					
	Fair Value Measurements September 30, 2012	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) for the Three Months Ended September 30, 2012
Non-covered impaired loans:					
Total residential	\$ 24,978	\$	\$	\$ 24,978	\$ (4,509)
Total commercial real estate	13,671			13,671	(6,414)
Total commercial and industrial	9,557			9,557	(1,379)
Total consumer					
Total non-covered impaired loans	\$ 48,206	\$	\$	\$ 48,206	\$ (12,302)
Non-covered OREO	\$ 5,528	\$	\$	\$ 5,528	\$ (1,470)
Covered OREO (1)	\$ 8,688	\$	\$	\$ 8,688	\$ (1,597)

(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 \$219 thousand in losses, or \$44 thousand, and 20% of the \$1.6 million in losses, or \$319 thousand, for the three months ended September 30, 2013 and 2012, respectively.

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	Assets Measured at Fair Value on a Non-Recurring Basis as of and for the Nine Months Ended September 30, 2013				
	Fair Value Measurements September 30, 2013	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) for the Nine Months Ended September 30, 2013
Non-covered impaired loans:					
Total residential	\$ 9,257	\$	\$	\$ 9,257	\$ (677)
Total commercial real estate	23,201			23,201	(1,706)
Total commercial and industrial	19,938			19,938	(8,599)
Total consumer	286			286	(112)
Total non-covered impaired loans	\$ 52,682	\$	\$	\$ 52,682	\$ (11,094)
Non-covered OREO	\$ 12,998	\$	\$	\$ 12,998	\$ (1,420)
Covered OREO (1)	\$ 12,780	\$	\$	\$ 12,780	\$ (1,344)

	Assets Measured at Fair Value on a Non-Recurring Basis as of and for the Nine Months Ended September 30, 2012				
	Fair Value Measurements September 30, 2012	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) for the Nine Months Ended September 30, 2012
Non-covered impaired loans:					
Total residential	\$ 31,090	\$	\$	\$ 31,090	\$ (6,660)
Total commercial real estate	24,730			24,730	(8,527)
Total commercial and industrial	9,835			9,835	(9,827)
Total consumer	379			379	(321)
Total non-covered impaired loans	\$ 66,034	\$	\$	\$ 66,034	\$ (25,335)
Non-covered OREO	\$ 7,286	\$	\$	\$ 7,286	\$ (4,145)
Covered OREO (1)	\$ 15,919	\$	\$	\$ 15,919	\$ (9,286)
Loans held for sale	\$	\$	\$	\$	(4,730)

(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 \$1.3 million in losses, or \$269 thousand, and 20% of the \$9.3 million in losses, or \$1.9 million, for the nine months ended September 30, 2013 and 2012, respectively.



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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 months and nine months ended September 30, 2013 and 2012:

Opening balance, July 1, 2013	\$	5,517	\$ (3,257)
Total gains or (losses) for the period: (1)			
Included in earnings			(254)
Included in other comprehensive income (unrealized) (2)		619	
Purchases, issues, sales, settlements (3)			
Purchases			
Issues			
Sales			
Settlements		(4)	
Transfer from investment grade to non-investment grade			
Transfers in and/or out of Level 3			
Closing balance, September 30, 2013	\$	6,132	\$ (3,511)
Changes in unrealized losses included in earnings relating to assets and liabilities held at the end of September 30, 2013	\$		\$ 254

Opening balance, July 1, 2012	\$	2,422	\$ (2,814)
Total gains or (losses) for the period: (1)			
Included in earnings			(120)
Included in other comprehensive income (unrealized) (2)		1,428	
Purchases, issues, sales, settlements (3)			
Purchases			
Issues			
Sales			
Settlements		(1)	
Transfer from investment grade to non-investment grade			
Transfers in and/or out of Level 3			
Closing balance, September 30, 2012	\$	3,849	\$ (2,934)
Changes in unrealized losses included in earnings relating to assets and liabilities held at the end of September 30, 2012	\$		\$ 120

(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 income.

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(2) Unrealized gains or losses on investment securities are reported in accumulated other comprehensive income (loss), net of tax, in the condensed consolidated statements of 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.

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	Investment Securities Available-for-Sale Corporate Debt Securities Non-Investment Grade (In thousands)		Derivatives Payable
Beginning balance, January 1, 2013	\$	4,800	\$ (3,052)
Total gains or (losses) for the period: (1)			
Included in earnings			(459)
Included in other comprehensive income (unrealized) (2)			