EAST WEST BANCORP INC
Form 10-K
March 03, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Mark One

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

For the fiscal year ended December 31, 2013

or

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

For the transition period from to .

Commission file number 000-24939

EAST WEST BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**95-4703316**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
135 North Los Robles Ave., 7th Floor, Pasadena, California	**91101**
(Address of principal executive offices)	(Zip Code)

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

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

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

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

NONE

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

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

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

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

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

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

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

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

The aggregate market value of the registrant s common stock held by non-affiliates was approximately $3,745,654,275 (based on the June 30, 2013 closing price of Common Stock of $27.50 per share).

As of January 31, 2014, 143,207,881 shares of East West Bancorp, Inc. Common Stock were outstanding.

DOCUMENT INCORPORATED BY REFERENCE

Definitive Proxy Statement for the Annual Meeting of Stockholders	Part III

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EAST WEST BANCORP, INC.

2013 ANNUAL REPORT ON FORM 10-K

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PART I

Certain matters discussed in this Annual 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 may make. Moreover, you should treat these statements as speaking only as of the date they are made and based only on information then actually known to 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 integrate the former MetroCorp Bancshares, Inc. (MetroCorp) operations and to achieve the projected synergies of this acquisition;
- our ability to manage the loan portfolios acquired from the Federal Deposit Insurance Corporation (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;
- 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;
- 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 ITEM 1A. RISK FACTORS presented elsewhere in this report. The Company does not undertake, and specifically disclaims any obligation to update any forward-looking statements to reflect the occurrence of events or circumstances after the date of such statements, except as required by law.

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ITEM 1. BUSINESS

Organization

East West Bancorp, Inc. East West Bancorp, Inc. (referred to herein on an unconsolidated basis as East West and on a consolidated basis as the Company or we) is a bank holding company incorporated in Delaware on August 26, 1998 and registered under the Bank Holding Company Act of 1956, as amended (BHCA). The Company commenced business on December 30, 1998 when, pursuant to a reorganization, it acquired all of the voting stock of East West Bank, or the Bank . The Bank is the Company s principal asset. In addition to the Bank, the Company has 7 other subsidiaries, namely East West Insurance Services, East West Capital Trust IV, East West Capital Trust V, East West Capital Trust VI, East West Capital Trust VII, East West Capital Trust VIII, and East West Capital Trust IX.

East West Insurance Services, Inc. On August 22, 2000, East West completed the acquisition of East West Insurance Services, Inc. (the Agency) in a stock exchange transaction. The Agency provides business and consumer insurance services primarily to the Southern California market. The Agency runs its operations autonomously from the operations of the Company. The operations of the Agency are limited and are not deemed material in relation to the overall operations of the Company.

Other Subsidiaries of East West Bancorp, Inc. The Company established 9 other subsidiaries as statutory business trusts, East West Capital Trust I, East West Capital Trust II, East West Capital Statutory Trust III in 2003, East West Capital Trust IV and East West Capital Trust V in 2004, East West Capital Trust VI in 2005, East West Capital Trust VII in 2006, and East West Capital Trusts VIII and East West Capital Trust IX in 2007, collectively referred to as the Trusts . In nine separate private placement transactions, the Trusts have issued either fixed or variable rate capital securities representing undivided preferred beneficial interests in the assets of the Trusts. East West is the owner of all the beneficial interests represented by the common securities of the Trusts. The purpose of issuing the capital securities was to provide the Company with a cost-effective means of obtaining Tier I capital for regulatory purposes. However, the Trusts will be phased out as Tier I capital starting in 2013 through 2015. As of December 31, 2013, there were six trusts outstanding including East West Capital Trust IV, East West Capital Trust V, East West Capital Trust VI, East West Capital Trust VII, East West Capital Trusts VIII and East West Capital Trust IX. In accordance with Financial Accounting Standards Board Accounting Standards Codification (ASC) 810, *Consolidation*, the Trusts are not consolidated into the accounts of the Company.

East West s principal business is to serve as a holding company for the Bank and other banking or banking-related subsidiaries which East West may establish or acquire. East West has not engaged in any other activities to date. As a legal entity separate and distinct from its subsidiaries, East West s principal source of funds is, and will continue to be, dividends that may be paid by its subsidiaries. East West s other sources of funds include proceeds from the issuance of its common stock in connection with stock option and employee stock purchase plans. At December 31, 2013, the Company had $24.73 billion in total consolidated assets, $17.81 billion in net consolidated loans, and $20.41 billion in total consolidated deposits.

The principal office of the Company is located at 135 N. Los Robles Ave., 7th Floor, Pasadena, California 91101, and the telephone number is (626) 768-6000.

East West Bank. East West Bank was chartered by the Federal Home Loan Bank Board in June 1972, as the first federally chartered savings institution focused primarily on the Chinese-American community, and opened for business at its first office in the Chinatown district of Los Angeles in January 1973. From 1973 until the early 1990 s, the Bank conducted a traditional savings and loan business by making predominantly long-term, single-family and multifamily residential loans and commercial real estate loans. These loans were made principally within the ethnic Chinese market in Southern California and were funded primarily with retail savings deposits and advances from the Federal Home Loan Bank of San Francisco. The Bank has emphasized commercial lending since its conversion to a state-chartered commercial bank on July 31, 1995. The Bank now also provides commercial business and trade finance loans for companies primarily located in the U.S.

At December 31, 2013, the Bank has four wholly owned subsidiaries. The first subsidiary, E-W Services, Inc., is a California corporation organized by the Bank in 1977. E-W Services, Inc. holds property used by the Bank in its operations. The second subsidiary, East-West Investments, Inc., primarily acts as a trustee in connection with real estate secured loans. The remaining subsidiaries are East West Bank (China) Limited and East West Securities Investment Consulting Co., Ltd. (Taiwan).

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On November 6, 2009, the Bank entered into a purchase and assumption agreement (UCB Purchase and Assumption Agreement) with the Federal Deposit Insurance Corporation (FDIC), pursuant to which the Bank acquired certain assets and assumed certain liabilities of the former United Commercial Bank (UCB), a California state-chartered bank headquartered in San Francisco, California (the UCB Acquisition). The UCB Acquisition included all 63 U.S. branches of United Commercial Bank. It also included the Hong Kong branch of United Commercial Bank and United Commercial Bank (China) Limited, the subsidiary of United Commercial Bank headquartered in Shanghai, China.

Under the terms of the UCB Purchase and Assumption Agreement, the Bank acquired certain assets of United Commercial Bank with a fair value of approximately $9.86 billion, including $5.90 billion of loans, $1.56 billion of investment securities, $93.5 million of FHLB stock, $599.0 million of cash and cash equivalents, $147.4 million of securities purchased under sale agreements, $38.0 million of other real estate owned (OREO), and $207.6 million of other assets. Liabilities with a fair value of approximately $9.57 billion were also assumed, including $6.53 billion of insured and uninsured deposits, but excluding certain brokered deposits, $1.84 billion of FHLB advances, $858.2 million of securities sold under agreements to repurchase, $90.6 million in other borrowings and $254.2 million of other liabilities.

On June 11, 2010 the Bank entered into a purchase and assumption agreement (WFIB Purchase and Assumption Agreement) with the FDIC, pursuant to which the Bank acquired certain assets and assumed certain liabilities of the former Washington First International Bank (WFIB), a Washington state-chartered bank headquartered in Seattle, Washington. Under the terms of the WFIB Purchase and Assumption Agreement, the Bank acquired certain assets of WFIB with a fair value of approximately $492.6 million, including $313.9 million of loans, $37.5 million of investment securities, $67.2 million of cash and cash equivalents, $23.4 million of other real estate owned, and $50.6 million of other assets. Liabilities with a fair value of approximately $481.3 million were also assumed, including $395.9 million of insured and uninsured deposits, $65.3 million of FHLB advances, $1.9 million of securities sold under agreements to repurchase and $18.1 million of other liabilities.

The Bank has also grown through strategic partnerships. On August 30, 2001, the Bank entered into an agreement with 99 Ranch Market to provide retail banking services in their stores throughout California. 99 Ranch Market is the largest Asian-focused chain of supermarkets on the West Coast, with over 30 full-service stores in California, Texas, Washington, and Nevada. Tawa Supermarket Companies (Tawa) is the parent company of 99 Ranch Market. Tawa s property development division owns and operates many of the shopping centers where 99 Ranch Market stores are located. We are currently providing in-store banking services to twelve 99 Ranch Market locations in California.

On September 18, 2013 the Bank entered into a definitive agreement with MetroCorp Bancshares, Inc. pursuant to which MetroCorp will merge with and into the Company. MetroCorp is headquartered in Houston, Texas. As of December 31, 2013, MetroCorp had $1.6 billion in total assets. The acquisition subsequently closed on January 17, 2014, for consideration worth $268.0 million.

The Bank continues to develop its international banking capabilities. The Bank has one full-service branch in Hong Kong which commenced operations during the first quarter of 2007. The Hong Kong branch offers a variety of deposit, loan, and international banking products. In addition, the Bank has two full-service branches in mainland China through the Chinese bank subsidiary, which resulted from the UCB acquisition. The subsidiary branches include one branch in Shanghai and one branch in Shantou. The Bank also has three overseas representative offices in China located in Beijing, Guangzhou and Shenzhen and one in Taipei, Taiwan. The first office, located in Beijing, was opened in 2003. The other overseas representative offices located in Guangzhou and Shenzhen resulted from the UCB acquisition. The representative office in Taipei, Taiwan opened in 2008. In addition to facilitating traditional letters of credit and trade finance to businesses, these representative offices allow the Bank to assist existing clients, as well as develop new business relationships. Through these offices, the Bank is focused on growing its export-import lending volume by aiding U.S. exporters in identifying and developing new sales opportunities to China-based customers as well as capturing additional letters of credit business generated from China-based exports through broader correspondent banking relationships.

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

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Banking Services

East West Bank is the fifth largest independent commercial bank headquartered in California as of December 31, 2013 based on total assets. East West Bank is the largest bank in the United States that focuses on the financial services needs of individuals and businesses which operate both in the United States and Greater China, as well as having a strong focus on the Chinese American community. Through its network of 119 banking locations in the United States, China and Hong Kong, the Bank provides a wide range of personal and commercial banking services to small- and medium-sized businesses, business executives, professionals, and other individuals. The Bank offers multilingual services to its customers in English, Cantonese, Mandarin, Vietnamese, and Spanish. The Bank also offers a variety of deposit products which includes the traditional range of personal and business checking and savings accounts, time deposits and individual retirement accounts, travelers checks, safe deposit boxes, and MasterCard and Visa merchant deposit services.

The Bank s lending activities include commercial and residential real estate, construction, trade finance, and commercial business, including accounts receivable, small business administration (SBA), inventory, and working capital loans. The Bank s commercial borrowers are engaged in a wide variety of manufacturing, wholesale trade, and service businesses. The Bank generally provides commercial business loans to small- and medium-sized businesses. In addition, the Bank is focused on providing financing to clients needing a financial bridge that facilitates their business transactions between Asia and the United States.

The Bank s three operating segments: Retail Banking, Commercial Banking and Other are based on the Bank s core strategy. The Retail Banking segment focuses primarily on retail operations through the Bank s branch network. The Commercial Banking segment, which includes commercial, industrial, and commercial real estate, primarily generates commercial loans through the efforts of the commercial lending offices located in the Bank s production offices in California, New York, Texas, and the New England region, among others. Furthermore, the Commercial Banking segment also offers a wide variety of international finance and trade services and products. The remaining centralized functions, including the eliminations of intersegment amounts have been aggregated and included in Other. For complete discussion and disclosure see Note 24 to the Company s consolidated financial statements presented elsewhere in this report.

Market Area and Competition

The Bank has 94 branches located in Northern and Southern California. Additionally, the Bank has six branches in New York, four branches in Georgia, two branches in Massachusetts, one branch in Nevada, one branch in Texas, and four branches in Washington. In Greater China, East West s presence includes three full-service branches in Hong Kong, in Shanghai, and in Shantou. The Bank operates in China as East West Bank China (Limited), a full-service bank and wholly owned subsidiary of East West Bank. The Bank also has three representative offices in China located in Beijing, Guangzhou and Shenzhen and one in Taipei, Taiwan.

The Bank concentrates on marketing its services in the greater Los Angeles metropolitan area and the greater San Francisco Bay area. California is the eighth largest economy in the world, with a population of over 35 million people. China and other Pacific Rim countries continue to grow as California s top trading partners. This provides the Bank with an important competitive advantage to its customers participating in the Asia Pacific marketplace. We believe that our customers benefit from our understanding of Asian markets through our physical presence in Hong Kong, China and Taiwan, our corporate and organizational ties throughout Asia, as well as our international banking products and services. We believe that this approach, combined with the extensive ties of our management and Board of Directors to the growing Asian business opportunities as well as the Chinese-American communities, provides us with an advantage in competing for customers in our market area. The Bank is also committed to expanding its customer base in Asia, the rest of California, New York, Washington and other urban areas in which we operate, including Georgia, Massachusetts, and Texas.

The banking and financial services industry in California generally, and in our market areas specifically, is highly competitive. The increasingly competitive environment is a result primarily of changes in laws and regulations, changes in technology and product delivery systems, as well as continuing consolidation among financial services providers.

The Bank competes for loans, deposits, and customers with other commercial banks, and other financial services institutions. Some of these competitors are larger in total assets and capitalization, and offer a broader range of financial services than the Bank.

Economic Conditions, Government Policies, Legislation and Regulatory Developments

Economic Conditions and Government Policies

The Company s profitability, like most financial institutions, is primarily dependent on interest rate differentials. In general, the difference between the interest rates paid by the Bank on interest-bearing liabilities, such as deposits and other borrowings, and the interest rates received by the Bank on interest-earning assets, such as loans extended to customers and securities held in the investment portfolio, will comprise the major portion of the Company s earnings. These rates are highly sensitive to many factors that are beyond the control of the Company, such as inflation, recession, and unemployment and the impact which future changes in domestic and foreign economic conditions might have on the Company cannot be predicted.

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The Company s business is also influenced by the monetary and fiscal policies of the federal government and the policies of regulatory agencies, particularly the Board of Governors of the Federal Reserve System (the FRB). The FRB implements national monetary policies (with objectives such as curbing inflation and combating recession) through its open-market operations in United States Government securities. The FRB adjusts the required level of reserves for depository institutions subject to its reserve requirements, as well as adjusts the target federal funds and discount rates applicable to borrowings by depository institutions. The actions of the FRB in these areas influence the growth of bank loans, investments, and deposits and also affect interest earned on interest-earning assets and paid on interest-bearing liabilities. The nature and impact of any future changes in monetary and fiscal policies on the Company cannot be predicted.

The impact on the Bank of the negative credit cycle during recent years has stabilized. However, the overall economic environment remains challenging, with high unemployment rates and reduced general spending.

The Dodd-Frank Wall Street Reform and Consumer Protection Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act financial reform legislation (Dodd-Frank), significantly revised and expanded the rulemaking, supervisory and enforcement authority of the federal bank regulatory agencies. The Dodd-Frank followed the Emergency Economic Stabilization Act of 2008 and the American Recovery and Reinvestment Act of 2009 in response to the economic downturn and financial industry instability. Additional initiatives may be proposed or introduced before Congress, the California Legislature, and other government bodies in the future. Such proposals, if enacted, may further alter the structure, regulation and competitive relationship among financial institutions and may subject us to increased supervision and disclosure and reporting requirements. In addition, the various bank regulatory agencies often adopt new rules and regulations and policies to implement and enforce existing legislation. It cannot be predicted whether, or in what form, any such legislation or regulatory changes in policy may be enacted or the extent to which the business of the Bank would be affected thereby. In addition, the outcome of examinations, any litigation, or any investigations initiated by state or federal authorities may result in necessary changes in our operations and increased compliance costs.

Dodd-Frank impacts many aspects of the financial industry and, in many cases, will impact larger and smaller financial institutions and community banks differently over time. Many of the following key provisions of the Dodd-Frank affecting the financial industry are now either effective or are in the proposed rule or implementation stage:

- the creation of a Financial Services Oversight Counsel to identify emerging systemic risks and improve interagency cooperation;
- expanded FDIC authority to conduct the orderly liquidation of certain systemically significant non-bank financial companies in addition to depository institutions;
- the establishment of strengthened capital and liquidity requirements for banks and bank holding companies, including minimum leverage and risk-based capital requirements no less than the strictest requirements in effect for depository institutions as of the date of enactment;
- the requirement by statute that bank holding companies serve as a source of financial strength for their depository institution subsidiaries;
- the termination of investments by the U.S. Treasury under the Troubled Asset Relief Program (TARP) and Capital Purchase Program (CPP);
- the elimination and phase out of trust preferred securities from Tier 1 capital with certain exceptions;
- a permanent increase of the previously implemented temporary increase of FDIC deposit insurance to $250,000;
- authorization for financial institutions to pay interest on business checking accounts;
- changes in the calculation of FDIC deposit insurance assessments, such that the assessment base will no longer be the institution s deposit base, but instead, will be its average consolidated total assets less its average tangible equity;
- the elimination of remaining barriers to de novo interstate branching by banks;

- expanded restrictions on transactions with affiliates and insiders under Section 23A and 23B of the Federal Reserve Act and lending limits for derivative transactions, repurchase agreements, and securities lending and borrowing transactions;

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- the elimination of the Office of Thrift Supervision and the transfer of oversight of thrift institutions and their holding companies to the Office of the Comptroller of the Currency or the FDIC and Federal Reserve;
- provisions that affect corporate governance and executive compensation at most United States publicly traded companies, including (i) stockholder advisory votes on executive compensation, (ii) executive compensation clawback requirements for companies listed on national securities exchanges in the event of materially inaccurate statements of earnings, revenues, gains or other criteria (iii) enhances independence requirements for compensation committee members, and (iv) giving the SEC authority to adopt proxy access rules which would permit stockholders of publicly traded companies to nominate candidates for election as director and have those nominees included in a company s proxy statement;
- the creation of a Consumer Financial Protection Bureau (the CFPB), which is authorized to promulgate and enforce consumer protection regulations relating to bank and non-bank financial products and which may examine and enforce its regulations on banks with more than $10 billion in assets; and
- the adoption, on December 10, 2013, by five financial regulatory agencies, including our primary federal regulator, the Federal Reserve, of final rules implementing the Volcker Rule embodied in Section 13 of the Bank Holding Company Act, which was added by Section 619 of the Dodd-Frank Act. The final rules prohibit banking entities from, among other things, (1) engaging in short-term proprietary trading for their own accounts, and (2) having certain ownership interests in and relationships with hedge funds or private equity funds. The final rules are intended to provide greater clarity with respect to both the extent of those primary prohibitions and of the related exemptions and exclusions. The final rules also require each regulated entity to establish an internal compliance program that is consistent with the extent to which it engages in activities covered by the Volcker Rule, which must include (for the largest entities) making regular reports about those activities to regulators. The final rules are effective April 1, 2014, but the conformance period has been extended from its statutory end date of July 21, 2014 until July 21, 2015.

The numerous rules and regulations that have been promulgated and are yet to be promulgated and finalized under Dodd-Frank are likely to significantly impact our operations and compliance costs. More stringent capital, liquidity and leverage requirements are expected to impact our business as Dodd-Frank is fully implemented. The federal agencies are in the process of issuing the many rules required to implement provisions of Dodd Frank, some of which will apply directly to larger institutions with either more than $50 billion in assets or more than $10 billion in assets, such as proposed regulations for financial institutions deemed systemically significant, proposed rules requiring capital plans and stress tests, as well as a final rule for the largest banks (over $250 billion assets and internationally active) setting a new minimum risk-based capital floor. These and other requirements and policies imposed on larger institutions, such as expected countercyclical requirements for increased capital in times of economic expansion and a decrease in times of contraction, may subsequently become expected best practices for smaller institutions. Therefore, as a result of the changes required by Dodd-Frank, the profitability of our business activities may be impacted and we may be required to make changes to certain of our business practices. Such developments and new standards would require us to devote even more management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements.

Supervision and Regulation

General. The Company and the Bank are extensively regulated under both federal and state laws. Regulation and supervision by the federal and state banking agencies are intended primarily for the protection of depositors and the Deposit Insurance Fund administered by the FDIC and not for the benefit of stockholders. Set forth below is a brief description of key laws and regulations which relate to our operations. These descriptions are qualified in their entirety by reference to the applicable laws and regulations. The federal and state agencies regulating the financial services industry also frequently adopt changes to their regulations.

The Company. As a bank holding company, and pursuant to its election of financial holding company status, the Company is subject to regulation and examination by the FRB under the BHCA. Accordingly, the Company is subject to the FRB s regulation and its authority to:

- require periodic reports and such additional information as the FRB may require;
- require the Company to maintain certain levels of capital (see ITEM 1. BUSINESS Supervision and Regulation Capital Requirements);

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- require that bank holding companies serve as a source of financial and managerial strength to subsidiary banks and commit resources as necessary to support each subsidiary bank. A bank holding company s failure to meet its obligations to serve as a source of strength to its subsidiary banks will generally be considered by the FRB to be an unsafe and unsound banking practice or a violation of FRB regulations or both;
- restrict the receipt and the payment of dividends;
- terminate an activity or terminate control of or liquidate or divest certain subsidiaries, affiliates or investments if the FRB believes the activity or the control of the subsidiary or affiliate constitutes a significant risk to the financial safety, soundness or stability of any bank subsidiary;
- regulate provisions of certain bank holding company debt, including the authority to impose interest ceilings and reserve requirements on such debt and require prior approval to purchase or redeem our securities in certain situations;
- require the prior approval of senior executive officer or director changes and prohibit golden parachute payments, including change in control agreements, or new employment agreements with such payment terms, which are contingent upon termination;
- approve acquisitions and mergers with banks and consider certain competitive, management, financial and other factors in granting these approvals.

Nonbanking and Financial Activities

Subject to certain prior notice or FRB approval requirements, bank holding companies may engage in any of, or acquire shares of companies engaged in, those nonbanking activities determined by the FRB to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. The Company may engage in these nonbanking activities and broader securities, insurance, merchant banking and other activities that are determined to be financial in nature or are incidental or complementary to activities that are financial in nature without prior FRB approval pursuant to its election to become a financial holding company. Pursuant to the Gramm-Leach-Bliley Act of 1999 (GLBA) and Dodd-Frank, in order to elect and retain financial holding company status, both the bank holding company and all depository institution subsidiaries of a bank holding company must be well capitalized and well managed, and, except in limited circumstances, depository subsidiaries must be in satisfactory compliance with the Community Reinvestment Act (CRA). Failure to sustain compliance with these requirements or correct any noncompliance within a fixed time period could lead to divestiture of subsidiary banks or require all activities to conform to those permissible for a bank holding company.

The Company is also a bank holding company within the meaning of the California Financial Code. As such, the Company and its subsidiaries are subject to examination by, and may be required to file reports with, the Department of Business Oversight (DBO). DBO approvals may also be required for certain mergers and acquisitions.

Securities Laws

The Company s securities are registered with the Securities Exchange Commission (SEC) under the Exchange Act and listed on the Nasdaq stock market. As such, the Company is subject to the information, proxy solicitation, insider trading, corporate governance, and other requirements and restrictions of the Exchange Act. These requirements and regulations include the provisions of Dodd-Frank with respect to stockholder nominations of directors and say-on-pay voting and incentive compensation clawbacks and the listing requirements of the Nasdaq stock market.

The Sarbanes-Oxley Act

The Company is subject to the accounting oversight and corporate governance requirements of the Sarbanes-Oxley Act of 2002, including:

- required executive certification of financial presentations;
- increased requirements for board audit committees and their members;
- enhanced disclosure of controls and procedures and internal control over financial reporting;
- enhanced controls over, and reporting of, insider trading; and
- increased penalties for financial crimes and forfeiture of executive bonuses in certain circumstances.

The Bank. As a California state-chartered bank, the Bank is subject to primary supervision, periodic examination, and regulation by the CFPB, DBO, and by the FRB, as the Bank s primary federal regulator. As a member bank, the Bank is a stockholder of the FRB.

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In general, under the California Financial Code, California banks have all the powers of a California corporation, subject to the general limitation of state bank powers under the Federal Deposit Insurance Corporation Improvement Act (FDICIA) to those permissible for national banks. Specific federal and state laws and regulations which are applicable to banks regulate, among other things, the scope of their business, their investments, their reserves against deposits, the timing of the availability of deposited funds, and the nature and amount of and collateral for certain loans. The regulatory structure also gives the bank regulatory agencies extensive discretion in connection with their supervisory and enforcement activities and examination policies.

Permissible Activities and Subsidiaries

California law permits state chartered commercial banks to engage in any activity permissible for national banks. Therefore, the Bank may form subsidiaries to engage in the many so-called closely related to banking or nonbanking activities commonly conducted by national banks in operating subsidiaries, and further, pursuant to GLBA, the Bank may conduct certain financial activities in a subsidiary to the same extent as may a national bank, provided the Bank is and remains well-capitalized, well-managed and in satisfactory compliance with the CRA. Presently, none of the Bank s subsidiaries are financial subsidiaries.

Federal Home Loan Bank System

The Bank is a member of the Federal Home Loan Bank (FHLB) of San Francisco. Among other benefits, each FHLB serves as a reserve or central bank for its members within its assigned region and makes available loans or advances to its members. Each FHLB is financed primarily from the sale of consolidated obligations of the FHLB system. As an FHLB member, the Bank is required to own a certain amount of capital stock in the FHLB. At December 31, 2013, the Bank was in compliance with the FHLB s stock ownership requirement and our investment in FHLB capital stock totaled $62.3 million, which includes $3.0 million of the FHLB of Seattle capital stock as a result of the WFIB acquisition.

Federal Reserve System

The Federal Reserve Board requires all depository institutions to maintain interest-bearing reserves at specified levels against their transaction accounts. At December 31, 2013, the Bank was in compliance with these requirements. As a member bank, the Bank is also required to own capital stock in the FRB. At December 31, 2013, the Bank held an investment of $48.3 million in FRB capital stock.

Foreign Operations

East West Bank currently has three full-service branches in Greater Asia, which are located in Hong Kong, Shanghai, and Shantou. The Bank operates in China, as a full-service bank under East West Bank China (Limited), a wholly owned subsidiary of East West Bank. The Bank also has three representative offices in China located in Beijing, Guangzhou and Shenzhen and one in Taipei, Taiwan. The Bank s overseas activities are regulated by the FRB and the DBO and are also regulated by the supervisory authorities of the host countries in which the Bank has offices.

Dividends and Other Transfers of Funds

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

It is FRB policy that bank holding companies should generally pay dividends on common stock only out of income available over the past year, and only if prospective earnings retention is consistent with the organization s expected future needs and financial condition. It is also FRB policy that bank holding companies should not maintain dividend levels that undermine the company s ability to be a source of strength to its banking subsidiaries. Additionally, in consideration of the current financial and economic environment, the FRB has stated that bank holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong.

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During the second quarter of 2013, the Company converted approximately $83.0 million of 8% Non-Cumulative Perpetual Convertible Preferred Stock, Series A (Series A preferred stock) outstanding shares, which was originally issued in April 2008, into 5.6 million shares of common stock.

Capital Requirements

Bank holding companies and banks are subject to various regulatory capital requirements administered by state and federal banking agencies. Increased capital requirements are expected as a result of expanded authority set forth in Dodd-Frank and the Basel III international supervisory developments discussed below. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting, and other factors. At December 31, 2013, the Company s and the Bank s capital ratios exceeded the minimum capital adequacy guideline percentage requirements of the federal banking agencies for well capitalized institutions. For complete discussion and disclosure see Management s Discussion and Analysis of Financial Condition and Results of Operations Risk-Based Capital and Note 23 to the Company s consolidated financial statements presented elsewhere in this report.

The federal banking agencies have adopted risk-based minimum capital adequacy guidelines for bank holding companies and banks which are intended to provide a measure of capital that reflects the degree of risk associated with a banking organization s operations for both transactions reported on the balance sheet as assets and transactions which are recorded as off-balance sheet items. The risk-based capital ratio is determined by classifying assets and certain off-balance sheet financial instruments into weighted categories, with higher levels of capital being required for those categories perceived as representing greater risk. Bank holding companies and banks engaged in significant trading activity may also be subject to the market risk capital guidelines and be required to incorporate additional market and interest rate risk components into their risk-based capital standards. Under the capital adequacy guidelines, a banking organization s total capital is divided into tiers. Tier I capital currently includes common equity and trust preferred securities, subject to certain criteria and quantitative limits. Under Dodd-Frank depository institution holding companies, such as the Company, with more than $15 billion in total consolidated assets as of December 31, 2009, will no longer be able to include trust preferred securities as Tier I regulatory capital as of the end of a three-year phase-out period in 2016, and may be obligated to replace any outstanding trust preferred securities issued prior to May 19, 2010, with qualifying Tier I regulatory capital during the phase-out period. Tier II capital includes hybrid capital instruments, other qualifying debt instruments, a limited amount of the allowance for loan and lease losses, and a limited amount of unrealized holding gains on equity securities. Following the phase-out period under Dodd-Frank, trust preferred securities will be treated as Tier II capital. Tier III capital consists of qualifying unsecured debt. The sum of Tier II and Tier III capital may not exceed the amount of Tier I capital. The risk-based capital guidelines require a minimum ratio of qualifying total capital to risk-weighted assets of 8.0% and a minimum ratio of Tier I capital to risk-weighted assets of 4.0%. An institution is defined as well capitalized if its total capital to risk-weighted assets ratio is 10.0% or more; its core capital to risk-weighted assets ratio is 6.0% or more; and its core capital to adjusted average assets ratio is 5.0% or more.

Bank holding companies and banks are also required to comply with minimum leverage ratio requirements. The leverage ratio is the ratio of a banking organization s Tier I capital to its total adjusted quarterly average assets (as defined for regulatory purposes). The requirements necessitate a minimum leverage ratio of 3.0% for holding companies and banks that either have the highest supervisory rating or have implemented the appropriate federal regulatory authority s risk-adjusted measure for market risk. All other holding companies and banks are required to maintain a minimum leverage ratio of 4.0%, unless a different minimum is specified by an appropriate regulatory authority. For a depository institution to be considered well capitalized under the regulatory framework for prompt corrective action, its leverage ratio must be at least 5.0%.

Basel Accords

The regulatory agencies risk-based capital guidelines are based upon the 1988 capital accord (Basel I) of the International Basel Committee on Bank Supervision (Basel Committee), a committee of central banks and bank supervisors/regulators from the major industrialized countries that develops broad policy guidelines, which each country s supervisors can use to determine the supervisory policies they apply to their home jurisdiction. In 2004, the Basel Committee proposed a new capital accord (Basel II) to replace Basel I that provided approaches for setting capital standards for credit risk and capital requirements for operational risk and refining the existing capital requirements for market risk exposures. U.S. banking regulators published a final rule for Basel II implementation requiring banks with over $250 billion in consolidated total assets or on-balance sheet foreign exposure of $10 billion (core banks) to adopt the advanced approaches of Basel II while allowing other banks to elect to opt in. The regulatory agencies later issued a proposed rule for larger banks that would give banking organizations that do not use the advanced approaches the option to implement a new risk-based capital framework that would adopt the standardized approach of Basel II for credit risk, the basic indicator approach of Basel II for operational risk and related disclosure requirements. A definitive rule was not issued.

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In December 2010, the Basel Committee released its final framework for strengthening international capital and liquidity regulation, now officially identified as Basel III. The Basel III capital framework, among other things:

- introduces as a new capital measure, Common Equity Tier 1 (CET1), more commonly known in the United States as Tier 1 Common, and defines CET1 narrowly by requiring that most adjustments to regulatory capital measures be made to CET1 and not to the other components of capital, and expands the scope of the adjustments as compared to existing regulations;
- when fully phased in, requires covered banks to maintain: (i) a newly adopted international standard, a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer (which is added to the 4.5% CET1 ratio as that buffer is phased in, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7%); (ii) an additional SIFI buffer for those large institutions deemed to be systemically important, ranging from 1.0% to 2.5%, and up to 3.5% under certain conditions; (iii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation); (iv) a minimum ratio of total (that is, Tier 1 plus Tier 2) capital to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation); and (v) as a newly adopted international standard, a minimum leverage ratio of 3%, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposures (as the average for each quarter of the month-end ratios for the quarter); and
- an additional countercyclical capital buffer, generally to be imposed when national regulators determine that excess aggregate credit growth becomes associated with a buildup of systemic risk, that would be a CET1 add-on to the capital conservation buffer in the range of 0% to 2.5% when fully implemented.

The federal bank regulatory agencies issued joint proposed rules in June 2012 that would revise the risk-based capital requirement and the method for calculating risk-weighted assets to make them consistent with Basel III and provisions of the Dodd-Frank Act. On July 2, 2013, the Federal Reserve Board approved final rules implementing Basel III and certain changes required by the Dodd Frank Act, effective on January 1, 2015 (subject to a phase-in period). The final rules apply to all depository institutions and top-tier bank holding companies with assets of $500 million or more. As noted above, the final rules establish a new minimum common equity Tier 1 ratio of at least 4.5% of risk-weighted assets and implement a new capital conservation buffer of common equity Tier 1 capital equal to 2.5% of risk-weighted assets, which will be in addition to the 4.5% common equity Tier 1 capital ratio and be phased in over a three-year period beginning January 1, 2016. Also, as noted above, the final rules raise the minimum ratio of Tier 1 capital to risk-weighted assets to 6.0%. The final rules further assign higher risk weighting to exposures that are more than 90 days past due or are on nonaccrual status and certain commercial real estate facilities that finance the acquisition, development or construction of real property. The final rules also require unrealized gains and losses on certain securities holdings to be included in calculating capital ratios. The final rules, including alternative requirements for smaller community financial institutions like the Company, would, when finalized, be phased in through 2019.On July 9, 2013, the OCC adopted the same rules for national banks and federal savings associations, and the FDIC approved the same provisions, as an interim final rule, for state nonmember banks and state savings associations.

With respect to East West Bank, the Basel III Capital Rules also revise the prompt corrective action regulations pursuant to Section 38 of the Federal Deposit Insurance Act, as discussed below under Prompt Corrective Action. The Basel III Capital Rules prescribe a standardized approach for risk weightings that expand the risk-weighting categories from the current four Basel I-derived categories (0%, 20%, 50% and 100%) to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset categories.

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Liquidity Requirements

Historically, the regulation and monitoring of bank and bank holding company liquidity has been addressed as a supervisory matter, without required formulaic measures. The Basel III liquidity framework requires banks and bank holding companies to measure their liquidity against specific liquidity tests that, although similar in some respects to liquidity measures historically applied by banks and regulators for management and supervisory purposes, going forward would be required by regulation. One test, referred to as the liquidity coverage ratio (LCR), is designed to ensure that the banking entity maintains an adequate level of unencumbered high-quality liquid assets equal to the entity s expected net cash outflow for a 30-day time horizon (or, if greater, 25% of its expected total cash outflow) under an acute liquidity stress scenario. The other test, referred to as the net stable funding ratio (NSFR), is designed to promote more medium- and long-term funding of the assets and activities of banking entities over a one-year time horizon. These requirements will incent banking entities to increase their holdings of U.S. Treasury securities and other sovereign debt as a component of assets and increase the use of long-term debt as a funding source. In October 2013, the federal banking agencies proposed rules implementing the LCR for advanced approaches banking organizations and a modified version of the LCR for bank holding companies with at least $50 billion in total consolidated assets that are not advanced approach banking organizations, neither of which apply to East West Bank. The federal banking agencies have not yet proposed rules to implement the NSFR.

Enforcement Authority

The federal and California regulatory structure gives the bank regulatory agencies extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. The regulatory agencies have adopted guidelines to assist in identifying and addressing potential safety and soundness concerns before an institution s capital becomes impaired. The guidelines establish operational and managerial standards generally relating to: (i) internal controls, information systems, and internal audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) interest-rate exposure; (v) asset growth and asset quality; and (vi) compensation, fees, and benefits. Further, the regulatory agencies have adopted safety and soundness guidelines for asset quality and for evaluating and monitoring earnings to ensure that earnings are sufficient for the maintenance of adequate capital and reserves. If, as a result of an examination, the DBO or the FRB should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of the Bank s operations are unsatisfactory or that the Bank or its management is violating or has violated any law or regulation, the DBO and the FRB, and separately the FDIC as insurer of the Bank s deposits, have residual authority to:

- Require affirmative action to correct any conditions resulting from any violation or practice;
- Direct an increase in capital and the maintenance of higher specific minimum capital ratios, which may preclude the Bank from being deemed well capitalized and restrict its ability to accept certain brokered deposits;
- Restrict the Bank s growth geographically, by products and services, or by mergers and acquisitions, including bidding in FDIC receiverships for failed banks;
- Enter into or issue informal or formal enforcement actions, including required Board resolutions, memoranda of understanding, written agreements and consent or cease and desist orders or prompt corrective action orders to take corrective action and cease unsafe and unsound practices;
- Require prior approval of senior executive officer or director changes; remove officers and directors and assess civil monetary penalties; and
- Take possession of and close and liquidate the Bank or appoint the FDIC as receiver.

Prompt Corrective Action

The Federal Deposit Insurance Act, as amended (FDIA), requires among other things, the federal banking agencies to take prompt corrective action in respect of depository institutions that do not meet minimum capital requirements. The FDIA includes the following five capital tiers: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. A depository institut capital tier will depend upon how its capital levels compare with various relevant capital measures and certain other factors, as established by regulation. The relevant capital measures are the total capital ratio, the Tier 1 capital ratio and the leverage ratio.

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A bank will be (i) well capitalized if the institution has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, and a leverage ratio of 5.0% or greater, and is not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure; (ii) adequately capitalized if the institution has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 4.0% or greater, and a leverage ratio of 4.0% or greater and is not well capitalized ; (iii) undercapitalized if the institution has a total risk-based capital ratio that is less than 8.0%, a Tier 1 risk-based capital ratio of less than 4.0% or a leverage ratio of less than 4.0%; (iv) significantly undercapitalized if the institution has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 3.0% or a leverage ratio of less than 3.0%; and (v) critically undercapitalized if the institution s tangible equity is equal to or less than 2.0% of average quarterly tangible assets. An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. A bank s capital category is determined solely for the purpose of applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of the bank s overall financial condition or prospects for other purposes.

The FDIA generally prohibits a depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the depository institution would thereafter be undercapitalized. Undercapitalized institutions are subject to growth limitations and are required to submit a capital restoration plan. The agencies may not accept such a plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution s capital. In addition, for a capital restoration plan to be acceptable, the depository institution s parent holding company must guarantee that the institution will comply with such capital restoration plan. The bank holding company must also provide appropriate assurances of performance. The aggregate liability of the parent holding company is limited to the lesser of (i) an amount equal to 5.0% of the depository institution s total assets at the time it became undercapitalized and (ii) the amount which is necessary (or would have been necessary) to bring the institution into compliance with all capital standards applicable with respect to such institution as of the time it fails to comply with the plan. If a depository institution fails to submit an acceptable plan, it is treated as if it is significantly undercapitalized.

Significantly undercapitalized depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. Critically undercapitalized institutions are subject to the appointment of a receiver or conservator.

The appropriate federal banking agency may, under certain circumstances, reclassify a well capitalized insured depository institution as adequately capitalized. The FDIA provides that an institution may be reclassified if the appropriate federal banking agency determines (after notice and opportunity for hearing) that the institution is in an unsafe or unsound condition or deems the institution to be engaging in an unsafe or unsound practice.

The appropriate agency is also permitted to require an adequately capitalized or undercapitalized institution to comply with the supervisory provisions as if the institution were in the next lower category (but not treat a significantly undercapitalized institution as critically undercapitalized) based on supervisory information other than the capital levels of the institution.

The Basel III Capital Rules revise the current prompt corrective action requirements effective January 1, 2015 by (i) introducing a CET1 ratio requirement at each level (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category (other than critically undercapitalized), with the minimum Tier 1 capital ratio for well-capitalized status being 8% (as compared to the current 6%); and (iii) eliminating the current provision that provides that a bank with a composite supervisory rating of 1 may have a 3% leverage ratio and still be adequately capitalized. The Basel III Capital Rules do not change the total risk-based capital requirement for any prompt corrective action category.

FDIC Deposit Insurance

The FDIC insures our customer deposits through the Deposit Insurance Fund of the FDIC up to prescribed limits for each depositor. The FDIC may terminate a depository institution s deposit insurance upon a finding that the institution s financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices that pose a risk to the Deposit Insurance Fund or that may prejudice the interest of the bank s depositors. The termination of deposit insurance for the Bank would also result in the revocation of the Bank s charter by the DBO.

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All FDIC-insured institutions are also required to pay assessments to the FDIC to fund interest payments on bonds issued by the Financing Corporation (FICO), an agency of the Federal government established to recapitalize the predecessor to the Deposit Insurance Fund. The FICO assessment rates are determined quarterly. These assessments will continue until the FICO bonds mature in 2017.

Federal Banking Agency Compensation Guidelines

Guidelines adopted by the federal banking agencies pursuant to the Federal Deposit Insurance (FDI) Act prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal stockholder. Such guidance is intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The incentive compensation guidance covers all employees who have the ability to materially affect the risk profile of an organization, either individually or as part of a group. It is based upon the key principles that a banking organization s incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization s ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization s board of directors. Any deficiencies in compensation practices that are identified may be incorporated into the organization s supervisory ratings, which can affect its ability to make acquisitions or perform other actions. The incentive compensation guidance provides that enforcement actions may be taken against a banking organization if its incentive compensation arrangements or related risk-management control or governance processes pose a risk to the organization s safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

In 2011, the FRB and federal banking agencies, including the SEC, proposed joint rules to implement Section 956 of Dodd-Frank for banks with $1 billion or more in assets. Section 956 prohibits incentive-based compensation arrangements that encourage inappropriate risk taking by covered financial institutions and are deemed to be excessive, or that may lead to material losses. The proposed rule would move the U.S. closer to aspects of international compensation standards by (i) requiring deferral of a substantial portion of incentive compensation for executive officers of particularly large institutions described above; (ii) prohibiting incentive-based compensation arrangements for covered persons that would encourage inappropriate risks by providing excessive compensation; (iii) prohibiting incentive-based compensation arrangements for covered persons that would expose the institution to inappropriate risks by providing compensation that could lead to a material financial loss; (iv) requiring policies and procedures for incentive-based compensation arrangements that are commensurate with the size and complexity of the institution; and (v) requiring annual reports on incentive compensation structures to the institution s appropriate Federal regulator. Final rules are still pending.

The scope, content and application of the U.S. banking regulators policies on incentive compensation continue to evolve in the aftermath of the economic downturn. It cannot be determined at this time whether compliance with such policies will adversely affect the ability of the Company and the Bank to hire, retain and motivate key employees.

Loans-to-One Borrower Limitations

With certain limited exceptions, the maximum amount of obligations, secured or unsecured, that any borrower (including certain related entities) may owe to a United States bank at any one time may not exceed 25% of the sum of stockholders equity, allowance for loan losses, capital notes and debentures of the bank. Unsecured obligations may not exceed 15% of the sum of shareholders equity, allowance for loan losses, capital notes and debentures of the bank. The Bank has established internal loan limits which are lower than the legal lending limits for United States banks.

Extensions of Credit to Insiders and Transactions with Affiliates

The Federal Reserve Act and FRB Regulation O place limitations and conditions on loans or extensions of credit to:

- a bank or bank holding company s executive officers, directors and principal stockholders (i.e., in most cases, those persons who own, control or have power to vote more than 10% of any class of voting securities);
- any company controlled by any such executive officer, director or stockholder; or
- any political or campaign committee controlled by such executive officer, director or principal stockholder.

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Such loans and leases:

- must comply with loan-to-one-borrower limits;
- require prior full board approval when aggregate extensions of credit to the person exceed specified amounts;
- must be made on substantially the same terms (including interest rates and collateral) and follow credit underwriting procedures no less stringent than those prevailing at the time for comparable transactions with non-insiders; and
- must not involve more than the normal risk of repayment or present other unfavorable features.

In addition, Regulation O provides that the aggregate limit on extensions of credit to all insiders of a bank as a group cannot exceed the bank s unimpaired capital and unimpaired surplus. California has laws and the DBO has regulations which adopt and also apply Regulation O to the Bank.

The Bank also is subject to certain restrictions imposed by Federal Reserve Act Sections 23A and 23B and FRB Regulation W on any extensions of credit to, or the issuance of a guarantee or letter of credit on behalf of, any affiliates, the purchase of, or investments in, stock or other securities thereof, the taking of such securities as collateral for loans, and the purchase of assets of any affiliates. Affiliates include parent holding companies, sister banks, sponsored and advised companies, financial subsidiaries and investment companies where the Bank s affiliate serves as investment advisor. Sections 23A and 23B and Regulation W generally:

- prevent any affiliates from borrowing from the Bank unless the loans are secured by marketable obligations of designated amounts;
- limit such loans and investments to or in any affiliate individually to 10% of the Bank s capital and surplus;
- limit such loans and investments to all affiliates in the aggregate to 20% of the Bank s capital and surplus;
- place restrictions on certain asset sales to and from an insider to an institution; and
- require such loans to and investments in any affiliate to be on terms and under conditions substantially the same or at least as favorable to the Bank as those prevailing for comparable transactions with non-affiliated parties.

Additional restrictions on transactions with affiliates may be imposed on the Bank under the FDICIA prompt corrective action provisions and the supervisory authority of the federal and state banking agencies.

Securities Activities

FRB Regulation R implements exceptions provided in GLBA for securities activities which banks may conduct without registering with the SEC as a securities broker or moving such activities to a broker-dealer affiliate. Regulation R provides exceptions for networking arrangements with third party broker-dealers and authorizes compensation for bank employees who refer and assist retail and high net worth bank customers with their securities, including sweep accounts to money market funds, and with related trust, fiduciary, custodial and safekeeping needs. The current securities activities which the Bank provides customers are conducted in conformance with these rules and regulations.

Operations and Consumer Compliance Laws

The Bank must comply with numerous federal anti-money laundering and consumer privacy and protection statutes and regulations, including the Consumer Financial Protection Act of 2010, which constitutes part of the Dodd-Frank Act and establishes the CFPB, as described above, the USA PATRIOT Act of 2001, the Bank Secrecy Act, the Foreign Account Tax Compliance Act, effective in 2013, the CRA, the Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act, the Electronic Fund Transfer Act, the Equal Credit Opportunity Act, the Truth in Lending Act, the Fair Housing Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the National Flood Insurance Act, the Americans with Disabilities Act and various federal and state privacy protection laws.

The CFPB is an independent entity within the Federal Reserve. It has broad rulemaking, supervisory and enforcement authority over consumer financial products and services, including deposit products, residential mortgages, home-equity loans and credit cards, and contains provisions on mortgage-related matters such as steering incentives, determinations as to a borrower s ability to repay and prepayment penalties. The CFPB s functions include investigating consumer complaints, conducting market research, rulemaking, supervising and examining banks consumer transactions, and enforcing rules related to consumer financial products and services.

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Under the Dodd-Frank Act, regulators were required to mandate specific underwriting criteria to support a reasonable, good faith determination by lenders of a consumer s ability to repay a mortgage. The CFPB by amendment to Regulation Z, which implements the Truth in Lending Act and took effect on January 10, 2014, has defined what would be considered a qualified mortgage. Another Dodd-Frank provision requires banks and other mortgage lenders to retain a minimum 5% economic interest in mortgage loans sold through securitizations unless the loans meet a definition of a qualified residential mortgage yet to be promulgated. Banks will have to reevaluate their underwriting standards and the extent and type of their mortgage lending as a result of these regulations implementing Dodd-Frank.

These laws and regulations mandate certain disclosure and other requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans, collecting loans, and providing other services. Failure to comply with these laws and regulations can subject the Bank to various penalties, including but not limited to enforcement actions, injunctions, fines or criminal penalties, punitive damages to consumers, and the loss of certain contractual rights. The Bank and the Company are also subject to federal and state laws prohibiting unfair or fraudulent business practices, untrue or misleading advertising and unfair competition.

Regulation of Subsidiaries/Branches

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

Employees

East West does not have any employees other than officers who are also officers of the Bank. Such employees are not separately compensated for their employment with the Company. As of December 31, 2013, the Bank had a total of 2,434 full-time employees and 92 part-time employees and East West Insurance had a total of 16 full-time employees. None of the employees are represented by a union or collective bargaining group. The managements of the Bank and East West Insurance believe that their employee relations are satisfactory.

Recently Issued Accounting Standards

For a discussion of recent accounting pronouncements and their expected impact on the Company s consolidated financial statements, see Note 1 to the Company s consolidated financial statements presented elsewhere in this report.

Available Information

We file reports with the SEC, including our proxy statements, annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. These reports and other information on file can be inspected and copied at the SEC s Public Reference Room at 100 F Street, N.E., Washington, DC 20549, on official business days during the hours of 10 a.m. to 3 p.m. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The Commission maintains a website that contains the reports, proxy and information statements and other information we file with them. The address of the site is *http://www.sec.gov*.

The Company also maintains an internet website at *www.eastwestbank.com*. The Company makes its website content available for information purposes only. It should not be relied upon for investment purposes.

We make available free of charge through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and proxy statements for our annual stockholders meetings, as well as any amendments to those reports, as soon as reasonably practicable after the Company files such reports with the SEC. The Company s SEC reports can be accessed through the investor information page of its website. None of the information contained in or hyperlinked from our website is incorporated into this Form 10-K.

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Executive Officers of the Registrant

The following table sets forth the executive officers of the Company, their positions, and their ages. Each officer is appointed by the Board of Directors of the Company or the Bank and serves at their pleasure.

Name	Age *(1)*	Position with Company or Bank
Dominic Ng	55	Chairman and Chief Executive Officer of the Company and the Bank
Julia S. Gouw	54	President and Chief Operating Officer of the Company and the Bank
Ming Lin Chen	53	Executive Vice President and Head of Retail and Banking Operations of the Bank
William H. Fong	66	Executive Vice President and Head of Northern California Commercial Lending Division of the Bank
Karen Fukumura	49	Executive Vice President and Head of Change Execution of the Bank
John R. Hall	58	Executive Vice President and Chief Credit Officer of the Bank
Douglas P. Krause	57	Executive Vice President, Chief Risk Officer, General Counsel, and Secretary of the Company and the Bank
Wendy Cai-Lee	39	Senior Managing Director and Head of U.S. Eastern and Texas Regions
Irene H. Oh	36	Executive Vice President and Chief Financial Officer of the Company and the Bank
Bennett Pozil	52	Executive Vice President and Head of Corporate Banking of the Bank
James T. Schuler	65	Executive Vice President and Chief Human Resources Officer of the Bank
Andy Yen	56	Executive Vice President and Head of International Banking and the Business Banking Division of the Bank

(1) As of March 3, 2014

Dominic Ng serves as Chairman and Chief Executive Officer of the Company and the Bank. Prior to taking the helm of East West in 1991, Mr. Ng was President and Chief Executive Officer of Seyen Investment, Inc. and before that spent over a decade as a CPA with Deloitte & Touche LLP. Mr. Ng serves on the Board of Directors of Mattel, Inc. and served for six years as a director of the Federal Reserve Bank of San Francisco, Los Angeles Branch.

Julia S. Gouw serves as President and Chief Operating Officer of the Company and the Bank and as a member of the Board of Directors. Ms. Gouw served as Executive Vice President and Chief Financial Officer of the Company and the Bank from 1994 until April 2008. Ms. Gouw retired at the end of 2008 and rejoined the Bank in December 2009 as President and Chief Operating Officer. Prior to joining East West in 1989, Ms. Gouw was a Senior Audit Manager with KPMG LLP. Ms. Gouw serves on the boards of Pacific Mutual Holding Company and Pacific LifeCorp.

Ming Lin Chen serves as Executive Vice President and Head of Retail and Banking Operations. Ms. Chen joined East West Bank in 2004 as Senior Vice President and Senior Relationship Manager and was promoted to Executive Vice President in 2009. Prior to joining East West Bank, Ms. Chen was Senior Vice President and Corporate Secretary of General Bank and General Bancorp. She held several management positions including international banking, commercial and SBA lending, marketing and branch operations during her 19 years with General Bank.

William H. Fong serves as Executive Vice President and Head of the Bank s Northern California Commercial Lending Division. Mr. Fong joined East West Bank in April 2006 from United Commercial Bank where he was the Head of Commercial Banking. Prior to this, Mr. Fong spent 23 years with Bank of the West. As Executive Vice President, he was responsible for Pacific Rim Banking s corporate banking team in Bank of the West. Mr. Fong serves as a director on the boards of Cal-Asia Business Council and Hong Kong Association of Northern California.

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Karen Fukumura serves as Executive Vice President and Head of Change Execution of the Bank. Prior to joining East West Bank in April 2008, Ms. Fukumura was a Senior Vice President with Bank of America and held several transformational leadership roles within the Consumer Bank and Service & Fulfillment Operations. Additionally, Ms. Fukumura has seven years of management and technology consulting experience in Asia, and previously held sales and manufacturing operations roles within Mobil Oil and Xerox Corporation, respectively.

John R. Hall serves as Executive Vice President and Chief Credit Officer of East West Bank. Mr. Hall joined East West Bank in 2010, after serving six years as Regional Vice President/Senior Vice President of Commercial Banking for Wells Fargo Bank in the Los Angeles area. Mr. Hall spent 27 years at Wells Fargo and its predecessor bank, Norwest Bank, in various commercial banking management positions. Mr. Hall has over 35 years experience in the middle market lending and various specialized industry groups within commercial banking. He is an active member of the Board of Governors at Cedars-Sinai Medical Center in Los Angeles.

Douglas P. Krause serves as Executive Vice President, Chief Risk Officer, General Counsel, and Corporate Secretary of East West Bancorp, Inc. and East West Bank. Prior to joining East West Bank in 1996, Mr. Krause was General Counsel of Metrobank from 1991 to 1996. Mr. Krause started his career with the law firm of Jones, Day, Reavis and Pogue where he specialized in financial services. Mr. Krause has served as a commissioner on the governing board and as Chairman of the Audit Committee of the Port of Los Angeles. He also served on the governing board of the Alameda Corridor Transportation Authority and on the executive committee and project committee of the I-710 Project.

Wendy Cai-Lee serves as Senior Managing Director and Head of U.S. Eastern and Texas Regions, overseeing New England, Greater New York area, Southeast and Texas markets. Prior to joining East West Bank in 2011, she spent 10 years with Deloitte & Touche as a Managing Director, focusing on U.S. & China cross-border transactions. Ms. Cai-Lee serves as the Chair of the Board of Americans for United Nation s Population Fund, on the Board of the Douglass College of Rutgers University, and as Trustee at the Queens Museum of Arts.

Irene H. Oh serves as Executive Vice President and Chief Financial Officer of East West Bancorp, Inc. and East West Bank. Ms. Oh joined the Bank in 2004. Prior to being promoted to Chief Financial Officer, Ms. Oh served as Senior Vice President and Director of Corporate Finance. A CPA, she began her financial career in 1999 with Deloitte & Touche in Los Angeles and spent two years with Goldman Sachs.

Bennett Pozil serves as Executive Vice President and Head of Corporate Banking. Prior to joining East West Bank in April 2011, Mr. Pozil served 11 years as the Managing Director of the Los Angeles office for Natixis. Mr. Pozil is active in the Los Angeles community, serving as the Chairman of the Boards of the Music Center of Los Angeles Leadership Council and is on the Board of the Asia Society s Southern California Chapter.

James T. Schuler serves as Executive Vice President and Chief Human Resources Officer of East West Bank. Mr. Schuler joined the Bank in mid 2010, after serving more than 25 years with Avery Dennison where he was instrumental in transforming Avery into an integrated global corporation. Mr. Schuler has a wealth of human resources experience as well as extensive experience working throughout the Asia Pacific Region.

Andy Yen serves as Executive Vice President and Head of International Banking and the Business Banking Division. In this capacity, Mr. Yen oversees the Bank s greater China Region as well as the U.S. Business Banking Division. Mr. Yen joined the Bank in September 2005 through its merger with United National Bank (UNB). Before being promoted to President of UNB in 2001, Mr. Yen was the Executive Vice President from 1998 to 2000 and Senior Vice President from 1992 to 1997, overseeing both the operations and lending functions of UNB. Mr. Yen also served as a member of the Board of Directors of UNB from 1992 to 2005. Mr. Yen has over 30 years experience in commercial and real estate lending and also held positions at Tokai Bank of California and Trans National Bank before he joined UNB.

ITEM 1A. RISK FACTORS

Risk Factors That May Affect Future Results

Together with the other information on the risks we face and our management of risk contained in this Annual Report or in our other SEC filings, the following presents significant risks which may affect us. Events or circumstances arising from one or more of these risks could adversely affect our business, financial condition, operating results, cash flows and prospects, and the value and price of our common stock could decline. The risks identified below are not intended to be a comprehensive list of all risks we face and additional risks that we may currently view as not material may also impair our business operations and results.

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Recent changes in banking regulation may adversely affect our business. Regulation of the financial services industry continues to undergo major changes. Dodd-Frank significantly revises and expands the rulemaking, supervisory and enforcement authority of federal bank regulators. Dodd-Frank addresses many areas which may affect our operations and costs immediately or in the future. Among other provisions, Dodd-Frank:

- imposes new capital requirements on bank holding companies and eliminates certain trust preferred securities from Tier 1 capital;
- revises the FDIC s insurance assessment methodology so that premiums are assessed based upon the average consolidated total assets of a bank less tangible equity capital;
- expands the FDIC s authority to raise insurance premiums and permanently raises the current standard deposit insurance limit to $250,000;
- allows financial institutions to pay interest on business checking accounts;
- authorizes nationwide interstate branching for banks;
- limits interchange fees payable on debit card transactions;
- establishes the CFPB to promulgate and enforce consumer protection regulations relating to financial products that would affect banks and nonbank finance companies;
- contains provisions that affect corporate governance and executive compensation;
- restricts proprietary trading by financial institutions, their owning or sponsoring hedge and private equity funds, and regulates the derivatives activities of banks and their affiliates.

The CFPB has adopted revisions to Regulation Z, which implements the Truth in Lending Act, pursuant to Dodd-Frank. The revisions went into effect on January 10, 2014 and apply to all consumer mortgages (except home equity lines of credit, timeshare plans, reverse mortgages, or temporary loans). The revisions mandate specific underwriting criteria for home loans in order for creditors to make a reasonable, good faith determination of a consumer s ability to repay and establish certain protections from liability under this requirement for qualified mortgages meeting certain standards. This may impact our underwriting of single family residential loans and the resulting unknown effect on potential delinquencies. In particular, the revisions when they take effect will prevent us from making no documentation and low documentation home loans, because the rules require determining a consumer s ability to pay based in part on verified and documented information. Low documentation loans represent a substantial portion of our single family residential loan portfolio. Accordingly, these new provisions may adversely affect the growth in the residential loan portfolio.

Additionally, on December 10, 2013, five financial regulatory agencies, including our primary federal regulator, the Federal Reserve, adopted final rules implementing the Volcker Rule embodied in Section 13 of the Bank Holding Company Act, which was added by Section 619 of Dodd-Frank. The final rules prohibit banking entities from, among other things, (1) engaging in short-term proprietary trading for their own accounts, and (2) having certain ownership interests in and relationships with hedge funds or private equity funds. The final rules are intended to provide greater clarity with respect to both the extent of those primary prohibitions and of the related exemptions and exclusions. The final rules also require each regulated entity to establish an internal compliance program that is consistent with the extent to which it engages in activities covered by the Volcker Rule, which must include (for the largest entities) making regular reports about those activities to regulators. The final rules are effective April 1, 2014, but the conformance period has been extended from its statutory end date of July 21, 2014 until July 21, 2015.

In addition to the enactment of Dodd-Frank, the federal regulatory agencies recently have begun to take stronger supervisory actions against financial institutions that have experienced increased loan losses and other weaknesses as a result of the recent economic crisis. These actions include the entering into of written agreements and cease and desist orders that place certain limitations on their operations. Federal bank regulators recently have also been using with more frequency their ability to impose individual minimal capital requirements on banks, which requirements may be higher than those imposed under Dodd-Frank or which would otherwise qualify the bank as being well capitalized under the Office of the Comptroller of the Currency s prompt corrective action regulations. If we were to become subject to a supervisory agreement or higher individual capital requirements, such action may have a negative impact on our ability to execute our business plans, as well as our ability to grow, pay dividends, repurchase stock or engage in mergers and acquisitions and may result in restrictions in our operations.

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The CFPB may reshape the consumer financial laws through rulemaking and enforcement of the prohibitions against unfair, deceptive and abusive business practices. Compliance with any such change may impact the business operations of depository institutions offering consumer financial products or services, including the Bank. The CFPB has broad rulemaking authority to administer and carry out the provisions of Dodd-Frank with respect to financial institutions that offer covered financial products and services to consumers. The CFPB has also been directed to write rules identifying practices or acts that are unfair, deceptive or abusive in connection with any transaction with a consumer for a consumer financial product or service, or the offering of a consumer financial product or service. The concept of what may be considered to be an abusive practice is relatively new under the law. Moreover, the Bank will be supervised and examined by the CFPB for compliance with the CFPB s regulations and policies. The costs and limitations related to this additional regulatory reporting regimen have yet to be fully determined, although they may be material and the limitations and restrictions that will be placed upon the Bank with respect to its consumer product offering and services may produce significant, material effects on the Bank s (and the Company s) profitability.

We may be subject to more stringent capital requirements. Dodd-Frank phases out over a prescribed period of time certain trust preferred securities from Tier 1 capital and allows the federal banking agencies to establish minimum leverage and risk-based capital requirements that will apply to both insured banks and their holding companies. In the case of certain trust preferred securities issued prior to May 19, 2010 by bank holding companies with total consolidated assets of $15 billion or more as of December 31, 2009, these regulatory capital deductions are being implemented incrementally over a period of three years which commenced in January 2013. Dodd-Frank also requires the federal banking agencies to establish minimum leverage and risk-based capital requirements that will apply to both insured banks and their holding companies.

On July 2, 2013, the Federal Reserve Board approved the final rules implementing Basel III, capital adequacy. The rules include a new common equity Tier 1 capital to risk-weighted assets ratio of 4.5% and a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets. The final rules also raise the minimum ratio of Tier 1 capital to risk-weighted assets to 6.0%. On July 9, 2013, the OCC adopted the same rules for national banks and federal savings associations, and the FDIC approved the same provisions, as an interim final rule, for state nonmember banks and state savings associations. The phase-in period for the final rules will begin for us on January 1, 2015, with full compliance with all of the final rule s requirements phased in over a multi-year schedule. While management is currently evaluating the provisions of the final rules and their expected impact on us, and we anticipate that our capital ratios under Basel III will continue to exceed the well capitalized minimum capital requirements, there can be no assurance that such will be the case. If we are unable to meet or exceed the applicable minimum capital requirements, we may become subject to supervisory actions ranging in severity from losing our financial holding company status, to being precluded from making acquisitions or engaging in new activities or becoming subject to informal or formal regulatory enforcement actions.

Difficult economic and market conditions have adversely affected our industry. Since 2007, negative developments in the housing market, including decreased home prices and increased delinquencies and foreclosures by comparison with pre-recession levels, have negatively impacted the credit performance of mortgage and construction loans and have resulted in significant write-downs of assets by many financial institutions, including the Bank. In addition, the values of real estate collateral supporting many loans declined and may continue to decline. The impact on the Bank of the negative credit cycle has shown signs of stabilization. However, the overall economic environment remains problematic with high unemployment rates, reduced general spending, and decreased lending by financial institutions to their customers and to each other. Also, competition among depository institutions for deposits has continued to remain at heightened levels as compared to pre-recession times. Bank and bank holding company stock prices have been negatively affected as has the ability of banks and bank holding companies to raise capital or borrow in the debt markets compared to past years. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial institutions industry. In particular, we may face the following risks in connection with these events:

- We face increased regulation of our industry including heightened legal standards and regulatory requirements or expectations imposed in connection with Dodd-Frank. Compliance with such regulation may increase our costs and limit our ability to pursue business opportunities.

- The process we use to estimate losses inherent in our credit exposure requires difficult, subjective and complex judgments, including forecasts of economic conditions and how these economic conditions might impair the ability of our borrowers to repay their loans. The level of uncertainty concerning economic conditions may adversely affect the accuracy of our estimates which may, in turn, impact the reliability of the process.

- The Company s commercial and residential borrowers may be unable to make timely repayments of their loans, or the decrease in value of real estate collateral securing the payment of such loans could result in significant credit losses, increased delinquencies, foreclosures and customer bankruptcies, any of which could have a material adverse effect on the Company s operating results.

- The value of the portfolio of investment securities that we hold may be adversely affected by increasing interest rates and defaults by debtors.

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- Future disruptions in the capital markets or other events, including actions by rating agencies and deteriorating investor expectations, may result in an inability to borrow on favorable terms or at all from other financial institutions.

- Increased competition among financial services companies due to the recent consolidation of certain competing financial institutions and the conversion of certain investment banks to bank holding companies may adversely affect the Company s ability to market its products and services.

Adverse conditions in Asia could adversely affect our business. A substantial number of our customers have economic and cultural ties to Asia. Additionally, we have three representative offices in China and one in Taipei, Taiwan, and one full-service branch in Hong Kong and two full-service branches in China. As a result, our business and results of operations may be impacted by adverse economic and political conditions in Asia and, in particular, in China. Volatility in the Shanghai and Hong Kong stock exchanges and/or a potential dramatic fall in real estate prices in China, among other things, may negatively impact asset values and the profitability and liquidity of our customers who operate in this region. Pandemics and other public health crises or concerns over the possibility of such crises could create economic and financial disruptions in the region. United States and global economic policies, military tensions, and unfavorable global economic conditions may also adversely impact the Asian economies. Transfer risk may result when an entity is unable to obtain the foreign exchange needed to meet its obligations or to provide liquidity. This may adversely impact the recoverability of investments with or loans made to such entities.

Increased deposit insurance costs and changes in deposit regulation may adversely affect our results of operations. As a result of recent economic conditions and the enactment of Dodd-Frank, the FDIC has increased the deposit insurance assessment rates in recent years and thus raised deposit premiums for insured depository institutions. If these increases are insufficient for the Deposit Insurance Fund to meet its funding requirements, further special assessments or increases in deposit insurance premiums may be required which we may be required to pay. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If there are additional bank or financial institution failures, we may be required to pay even higher FDIC premiums than the recently increased levels. Any future additional assessments, increases or required prepayments in FDIC insurance premiums may materially adversely affect our results of operations.

United States and international financial markets and economic conditions, particularly in California, could adversely affect our liquidity, results of operations and financial condition. Although the Company and the Bank remain well capitalized and have not suffered any significant liquidity issues as a result of the recent economic downturn, the cost and availability of funds may be adversely impacted by illiquid credit markets and the demand for our products and services may be impacted as our borrowers and customers continue to experience the impact of the recent economic slowdown and recession. In view of the concentration of our operations and the collateral securing our loan portfolio primarily in Northern and Southern California, we may be particularly susceptible to the adverse economic conditions in the state of California, where our business is concentrated. In addition, the duration of the current economic conditions is unknown and may exacerbate the Company s exposure to credit risk and adversely affect the ability of borrowers to perform under the terms of their lending arrangements with us. Any turbulence in the United States and international markets and economy may adversely affect our liquidity, financial condition, results of operations and profitability.

We may be required to make additional provisions for loan losses and charge off additional loans in the future, which could adversely affect our results of operations. During the year ended December 31, 2013, we recorded a $18.3 million provision for loan losses on non-covered loans and charged off $15.7 million, gross of $12.1 million in recoveries on non-covered loans. The Bank has a concentration of real estate loans in California, including the areas of Los Angeles, Riverside, San Bernardino and Orange counties. Potential further deterioration in the real estate market generally and residential homes in particular could result in additional loan charge-offs and provisions for loan losses in the future, which could have a material adverse effect on the Company s financial condition, net income and capital.

Our allowance for loan losses may not be adequate to cover actual losses. A significant source of risk arises from the possibility that we could sustain losses because borrowers, guarantors, and related parties may fail to perform in accordance with the terms of their loans. The underwriting and credit monitoring policies and procedures that we have adopted to address this risk may not prevent unexpected losses that could have a material adverse effect on our business, financial condition, results of operations and cash flows. We maintain an allowance for loan losses to provide for loan defaults and nonperformance. The allowance is also appropriately increased for new loan growth. While we believe that our allowance for loan losses is adequate to cover current losses, we cannot assure you that we will not increase the allowance for loan losses further.

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Liquidity risk could impair our ability to fund operations and jeopardize our financial condition. Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a material adverse effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities could be impaired by factors that affect us specifically or the financial services industry in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity due to a market downturn or adverse regulatory action against us. Our ability to acquire deposits or borrow could also be impaired by factors that are not specific to us, such as a severe disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole as a result of conditions faced by banking organizations in the domestic and worldwide credit markets.

The actions and commercial soundness of other financial institutions could affect the Company s ability to engage in routine funding transactions. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. The Company has exposure to different industries and counterparties, and executes transactions with various counterparties in the financial industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. Defaults by financial services institutions, and even questions about one or more financial services institutions or the financial services industry in general, have led to market wide liquidity problems and could lead to losses or defaults by the Company or by other institutions. Many of these transactions expose the Company to credit risk in the event of default of its counterparty or client. In addition, the Company s credit risk may increase when the underlying collateral held cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due to the Company. Any such losses could materially and adversely affect the Company s results of operations.

A portion of our loan portfolio is secured by real estate and thus we have a higher degree of risk from a downturn in our real estate markets. A decline in our real estate markets could hurt our business because many of our loans are secured by real estate. Real estate values and real estate markets are generally affected by changes in national, regional or local economic conditions, fluctuations in interest rates and the availability of loans to potential purchasers, changes in tax laws and other governmental statutes, regulations and policies and acts of nature, such as earthquakes and national disasters particular to California. A significant portion of our real estate collateral is located in California. If real estate values decline, the value of real estate collateral securing our loans could be significantly reduced. Our ability to recover on defaulted loans by foreclosing and selling the real estate collateral would then be diminished and we would be more likely to suffer losses on defaulted loans. Furthermore, a significant portion of our loan portfolio is comprised of commercial real estate. Commercial real estate and multifamily loans typically involve large balances to single borrowers or groups of related borrowers. Since payments on these loans are often dependent on the successful operation or management of the properties, as well as the business and financial condition of the borrower, repayment of such loans may be subject to adverse conditions in the real estate market, adverse economic conditions or changes in applicable government regulations. Borrowers inability to repay such loans may have an adverse affect on our business.

Our business is subject to interest rate risk and variations in interest rates may negatively affect our financial performance. A substantial portion of our income is derived from the differential or spread between the interest earned on loans, investment securities and other interest-earning assets, and the interest paid on deposits, borrowings and other interest-bearing liabilities. Because of the differences in the maturities and repricing characteristics of our interest-earning assets and interest-bearing liabilities, changes in interest rates do not produce equivalent changes in interest income earned on interest-earning assets and interest paid on interest-bearing liabilities. Significant fluctuations in market interest rates could materially and adversely affect not only our net interest spread, but also our asset quality and loan origination volume.

We are subject to extensive government regulation that could limit or restrict our activities, which, in turn, may hamper our ability to increase our assets and earnings. Our operations are subject to extensive regulation by federal, state and local governmental authorities and are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of our operations. Because our business is highly regulated, the laws, rules, regulations and supervisory guidance and policies applicable to us are subject to regular modification and change. From time to time, various laws, rules and regulations are proposed, which, if adopted, could impact our operations by making compliance much more difficult or expensive, restricting our ability to originate or sell loans or further restricting the amount of interest or other charges or fees earned on loans or other products.

Failure to manage our growth may adversely affect our performance. Our financial performance and profitability depend on our ability to manage our possible future growth. Future acquisitions and our continued growth may present operating, integration and other issues that could have a material adverse effect on our business, financial condition, results of operations and cash flows.

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We could be liable for breaches of security in our online banking services. Fear of security breaches could limit the growth of our online services. We offer various Internet-based services to our clients, including online banking services. The secure transmission of confidential information over the Internet is essential to maintain our clients confidence in our online services. Advances in computer capabilities, new discoveries or other developments could result in a compromise or breach of the technology we use to protect client transaction data. In addition, individuals may seek to intentionally disrupt our online banking services or compromise the confidentiality of customer information with criminal intent. Although we have developed systems and processes that are designed to prevent security breaches and periodically test our security, failure to mitigate breaches of security could adversely affect our ability to offer and grow our online services, result in costly litigation and loss of customer relationships and could have an adverse effect on our business.

Our controls and procedures could fail or be circumvented. Management regularly reviews and updates our internal controls, disclosure controls and procedures and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, but not absolute, assurances of the effectiveness of these systems and controls, and that the objectives of these controls have been met. Any failure or circumvention of our controls and procedures, and any failure to comply with regulations related to controls and procedures could adversely affect our business, results of operations and financial condition.

We face strong competition from financial services companies and other companies that offer banking services. We conduct the majority of our operations in California. The banking and financial services businesses in California are highly competitive and increased competition in our primary market area may adversely impact the level of our loans and deposits. Ultimately, we may not be able to compete successfully against current and future competitors. These competitors include national banks, regional banks and other community banks. We also face competition from many other types of financial institutions, including savings and loan associations, finance companies, brokerage firms, insurance companies, credit unions, mortgage banks and other financial intermediaries. In particular, our competitors include major financial companies whose greater resources may afford them a marketplace advantage by enabling them to maintain numerous locations and mount extensive promotional and advertising campaigns. Areas of competition include interest rates for loans and deposits, efforts to obtain loan and deposit customers and a range in quality of products and services provided, including new technology-driven products and services. If we are unable to attract and retain banking customers, we may be unable to continue our loan growth and level of deposits.

If we cannot attract deposits, our growth may be inhibited. Our ability to increase our deposit base depends in large part on our ability to attract additional deposits at favorable rates. We seek additional deposits by offering deposit products that are competitive with those offered by other financial institutions in our markets.

We rely on communications, information, operating and financial control systems technology from third party service providers, and we may suffer an interruption in those systems. We rely heavily on third party service providers for much of our communications, information, operating and financial control systems technology, including our online banking services and data processing systems. Any failure or interruption of these services or systems or breaches in security of these systems could result in failures or interruptions in our customer relationship management, general ledger, deposit, servicing, and/or loan origination systems. The occurrence of any failures or interruptions may require us to identify alternative sources of such services, and we cannot assure you that we could negotiate terms that are as favorable to us, or could obtain services with similar functionality as found in our existing systems without the need to expend substantial resources, if at all.

We are dependent on key personnel and the loss of one or more of those key personnel may materially and adversely affect our prospects. Competition for qualified employees and personnel in the banking industry is intense and there is a limited number of qualified persons with knowledge of, and experience in, the regional banking industry, specially the West Coast market. The process of recruiting personnel with the combination of skills and attributes required to carry out our strategies is often lengthy. Our success depends to a significant degree upon our ability to attract and retain qualified management, loan origination, finance, administrative, marketing, and technical personnel, and upon the continued contributions of our management and personnel. In particular, our success has been and continues to be highly dependent upon the abilities of key executives, including our Chief Executive Officer and our President/Chief Operating Officer, and certain other employees.

Managing reputational risk is important to attracting and maintaining customers, investors and employees. Threats to the Company s reputation can come from many sources, including unethical practices, employee misconduct, failure to deliver minimum standards of service or quality, compliance deficiencies, and questionable or fraudulent activities of our customers. We have policies and procedures in place to protect our reputation and promote ethical conduct, but these policies and procedures may not be fully effective. Negative publicity regarding our business, employees, or customers, with or without merit, may result in the loss of customers, investors and employees, costly litigation, a decline in revenues and increased governmental regulation.

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Laws may restrict our ability to pay dividends. The ability of the Bank to pay dividends to the Company is limited by California law and the FRB. The Company s ability to pay dividends on its outstanding stock is limited by Delaware law. The FRB and the DBO have authority to prohibit the Bank from engaging in business practices which are considered to be unsafe or unsound. Depending upon the financial condition of the Bank and upon other factors, the FRB or DBO could assert that payments of dividends or other payments by the Bank might be such an unsafe or unsound practice. For complete discussion and disclosure see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources presented elsewhere in this report.

The price of our common stock may be volatile or may decline. The trading price of our common stock may fluctuate as a result of a number of factors, many of which are outside our control. In addition, the stock market is subject to fluctuations in the share prices and trading volumes that affect the market prices of the shares of many companies. These broad market fluctuations could adversely affect the market price of our common stock. Among the factors that could affect our stock price are:

- actual or anticipated quarterly fluctuations in our operating results and financial condition;
- changes in revenue or earnings estimates or publication of research reports and recommendations by financial analysts;
- failure to meet analysts revenue or earnings estimates;
- speculation in the press or investment community;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- actions by institutional stockholders;
- fluctuations in the stock price and operating results of our competitors;
- general market conditions and, in particular, developments related to market conditions for the financial services industry;
- proposed or adopted regulatory changes or developments;

- anticipated or pending investigations, proceedings or litigation that involve or affect us; or

- domestic and international economic factors unrelated to our performance.

The stock market and, in particular, the market for financial institution stocks, has experienced significant volatility during the past couple of years. As a result, the market price of our common stock may be volatile. In addition, the trading volume in our common stock may fluctuate more than usual and cause significant price variations to occur. The trading price of the shares of our common stock and the value of our other securities will depend on many factors, which may change from time to time, including, without limitation, our financial condition, performance, creditworthiness and prospects, and future sales of our equity or equity-related securities. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers underlying financial strength. A significant decline in our stock price could result in substantial losses for individual stockholders and could lead to costly and disruptive securities litigation.

Anti-takeover provisions could negatively impact our stockholders. Provisions of Delaware law and of our certificate of incorporation, as amended, and bylaws could make it more difficult for a third party to acquire control of us or have the effect of discouraging a third party from attempting to acquire control of us. For example, our certificate of incorporation requires the approval of the holders of at least two-thirds of our outstanding shares of voting stock to approve certain business combinations. We are subject to Section 203 of the Delaware General Corporation Law, which would make it more difficult for another party to acquire us without the approval of our Board of Directors. Additionally, our certificate of incorporation, as amended, authorizes our Board of Directors to issue preferred stock and preferred stock could be issued as a defensive measure in response to a takeover proposal. These and other provisions could make it more difficult for a third party to acquire us even if an acquisition might be in the best interest of our stockholders.

Natural disasters and geopolitical events beyond our control could adversely affect us. Natural disasters such as earthquakes, wildfires, extreme weather conditions, hurricanes, floods, and other acts of nature and geopolitical events involving terrorism or military conflict could adversely affect our business operations and those of our customers and cause substantial damage and loss to real and personal property. These natural disasters and geopolitical events could impair our borrowers ability to service their loans, decrease the level and duration of deposits by customers, erode the value of loan collateral, and result in an increase in the amount of our nonperforming loans and a higher level of nonperforming assets (including real estate owned), net charge-offs, and provision for loan losses, which could adversely affect our earnings.

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Our interest expense may increase following the repeal of the federal prohibition on payment of interest on demand deposits. The federal prohibition on the ability of financial institutions to pay interest on demand deposit accounts was repealed as part of Dodd-Frank. As a result, beginning on July 21, 2011, financial institutions could commence offering interest on demand deposits to compete for clients. Our interest expense will increase and our net interest margin will decrease if the Bank begins offering interest on demand deposits to attract additional customers or maintain current customers, which could have a material adverse effect on our financial condition, net income and results of operations.

We have engaged in and may continue to engage in further expansion through acquisitions, which could negatively affect our business and earnings. There are risks associated with expansion through acquisitions. These risks include, among others, incorrectly assessing the asset quality of a bank acquired in a particular transaction, encountering greater than anticipated costs in integrating acquired businesses, facing resistance from customers or employees, and being unable to profitably deploy assets acquired in the transaction. Additional country- and region-specific risks are associated with transactions outside the United States, including in China. To the extent we issue capital stock in connection with additional transactions, these transactions and related stock issuances may have a dilutive effect on earnings per share and share ownership.

We may experience difficulty in managing the loan portfolios acquired through FDIC-assisted acquisitions, which are within the limits of the loss protection provided by the FDIC. The Bank entered into shared-loss agreements with the FDIC that covered most of UCB s and all of WFIB s loans and other real estate owned, respectively. East West Bank shares in the losses, beginning with the first dollar of loss occurred, of the loans (including single-family residential mortgage loans, commercial loans, foreclosed loan collateral and other real estate owned) covered (covered loans) under the shared-loss agreements. Pursuant to the terms of the shared-loss agreements, the FDIC is obligated to reimburse East West Bank 80% of eligible losses with respect to covered loans. East West Bank has a corresponding obligation to reimburse the FDIC for 80%, of eligible recoveries with respect to covered loans.

The shared-loss agreements for commercial and single-family residential mortgage loans 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. Ten years after acquisition date, East West Bank is required to pay the FDIC 50% of the excess, if any, of specific amounts stated in the original agreements for each acquisition respectively. Although we have substantial expertise in asset resolution, we cannot guarantee that we will be able to adequately manage the loan portfolio within the limits of the loss protection provided by the FDIC. Failure to comply with the requirements of the shared-loss agreements could result in loss of indemnification by the FDIC. Additionally, the Bank is subject to audits by the FDIC, through its designated agent, under the terms of the shared-loss agreements. The required terms of the shared-loss agreements are extensive and failure to comply with any of the guidelines could result in a potential specific asset or group of assets losing indemnification.

The number of delinquencies and defaults in residential mortgages have created a backlog in U.S. courts and may lead to an increase in the amount of legislative action that might restrict or delay our ability to foreclose and, therefore, delay the collection of payments for single-family residential loans. Collateral-based loans on which the Bank forecloses could be delayed by an extended foreclosure process, including delays resulting from a court backlog, local or national foreclosure moratoriums or other delays, and these delays could negatively impact our results of operations. Homeowner protection laws may also delay the initiation or completion of foreclosure proceedings on specified types of residential mortgage loans. Any such limitations are likely to cause delayed or reduced collections. Significant restrictions on our ability to foreclose on loans, requirements that we forgo a portion of the amount otherwise due on a loan or requirements that we modify a significant number of original loan terms could negatively impact our business, financial condition, liquidity and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company currently neither owns nor leases any real or personal property. The Company uses the premises, equipment, and furniture of the Bank. The Agency also currently conducts its operations in one of the administrative offices of the Bank. The Company is currently reimbursing the Bank for the Agency s use of this facility.

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The Bank owns the buildings and land at 32 of its retail branch offices. Four of these retail branch locations are either attached or adjacent to offices that are being used by the Bank to house various administrative departments. All other branch and administrative locations are leased by the Bank, with lease expiration dates ranging from 2014 to 2023, exclusive of renewal options.

The Company believes that its existing facilities are adequate for its present purposes. The Company believes that, if necessary, it could secure alternative facilities on similar terms without adversely affecting its operations.

At December 31, 2013, the Bank s consolidated investment in premises and equipment, net of accumulated depreciation and amortization, totaled $177.7 million. Total occupancy expense, inclusive of rental payments and furniture and equipment expense, for the year ended December 31, 2013 was $56.6 million. Total annual rental expense (exclusive of operating charges and real property taxes) was approximately $26.2 million during 2013.

ITEM 3. LEGAL PROCEEDINGS

Certain lawsuits and claims arising in the ordinary course of business have been filed or are pending against us or our affiliates. Where appropriate, we establish reserves in accordance with ASC 450, *Contingencies*. The outcome of litigation and other legal and regulatory matters is inherently uncertain, however, and it is possible that one or more of the legal or regulatory matters currently pending or threatened could have a material adverse effect on our liquidity, consolidated financial position, and/or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is traded on the NASDAQ Global Select Market under the symbol EWBC. The following table sets forth the range of sales prices and dividend information for the Company s common stock for the years ended December 31, 2013 and 2012.

	2013				
	High		Low		Dividends
First quarter	$	25.78	$	22.11	$0.15 cash dividend
Second quarter		27.68		22.56	$0.15 cash dividend
Third quarter		31.98		27.55	$0.15 cash dividend
Fourth quarter		35.43		31.89	$0.15 cash dividend

	2012				
	High		Low		Dividends
First quarter	$	24.39	$	19.58	$0.10 cash dividend
Second quarter		23.49		20.71	$0.10 cash dividend
Third quarter		24.10		20.97	$0.10 cash dividend
Fourth quarter		22.16		19.68	$0.10 cash dividend

The closing price of our common stock on January 31, 2014 was $33.46 per share, as reported by the NASDAQ Global Select Market.

As of January 31, 2014, 143,207,881 shares of the Company s common stock were held by 2,427 stockholders of record.

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For information on the statutory and regulatory limitations on the ability of the Company to pay dividends to its stockholders and on the Bank to pay dividends to East West, see Item 1. BUSINESS Supervision and Regulation Dividends and Other Transfers of Funds and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Cash Flow presented elsewhere in this report.

Stock Performance Graph

The following graph shows a comparison of stockholder return on the Company s common stock based on the market price of the common stock assuming the reinvestment of dividends, with the cumulative total returns for the companies in the Standard & Poor s 500 Index and the SNL Western Bank Index for the 5-year period beginning on December 31, 2008 through December 31, 2013. This graph is historical only and may not be indicative of possible future performance of the Company s common stock. The information set forth under the heading Stock Performance Graph shall not be deemed soliciting material or to be filed with the Commission except to the extent we specifically request that such information be treated as soliciting material or specifically incorporate it by reference into a filing under the Securities Exchange Act of 1934, as amended, or the Securities Act of 1933, as amended.

Total Return Performance

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Purchases of Equity Securities by the Issuer and Affiliated Purchasers

On January 23, 2013, it was announced that the Company s Board of Directors authorized a stock repurchase program to buy back up to $200.0 million of the Company s common stock. The Company completed the authorized repurchase program during the second quarter of 2013, repurchasing 8,026,807 shares at a total cost of $199.9 million.

Additionally, on July 17, 2013, the Company s Board of Directors authorized a stock repurchase program to buy back up to $100.0 million of the Company s common stock. The Company did not repurchase any shares under this program during 2013.

The following summarizes share repurchase activities during the fourth quarter of 2013:

Period	**Total Number of Shares Purchased *(1)***	**Average Price Paid per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	**Approximate Dollar Value in Millions of Shares that May Yet Be Purchased Under the Plans or Programs**
October 1, 2013 - October 31, 2013		$		$ 100.0
November 1, 2013 - November 30, 2013				$ 100.0
December 1, 2013 - December 31, 2013				$ 100.0
Total		$		$ 100.0

(1) Excludes 146,343 shares surrendered due to employee tax liability and forfeitures of restricted stock awards, totaling $4.9 million, pursuant to the Company s 1998 Stock Incentive Plan, as amended.

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ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with the Company s consolidated financial statements and the accompanying notes presented elsewhere in this report. Certain items in the consolidated balance sheet and the consolidated statements of income were reclassified for prior years to conform to the 2013 presentation. These reclassifications did not affect previously reported net income.

	2013	2012	2011	2010	2009
			(In thousands, except per share data)		
Summary of Operations					
Interest and dividend income	$ 1,068,685	$ 1,051,095	$ 1,080,448	$ 1,095,831	$ 722,818
Interest expense	112,492	132,168	177,422	201,117	237,129
Net interest income	956,193	918,927	903,026	894,714	485,689
Provision for loan losses, excluding covered loans	18,336	60,168	92,584	195,934	528,666
Provision for loan losses on covered loans	4,028	5,016	2,422	4,225	
Net interest income (loss) after provision for loan losses	933,829	853,743	808,020	694,555	(42,977)
Noninterest (loss) income (1)	(92,468)	(5,618)	10,924	39,270	390,953
Noninterest expense	415,511	422,533	435,610	477,916	243,254
Income before provision for income taxes	425,850	425,592	383,334	255,909	104,722
Provision for income taxes	130,805	143,942	138,100	91,345	22,714
Net income before extraordinary item	295,045	281,650	245,234	164,564	82,008
Extraordinary item, net of tax					(5,366)
Net income	$ 295,045	$ 281,650	$ 245,234	$ 164,564	$ 76,642
Preferred stock dividends, amortization of preferred stock discount, and inducement of preferred stock conversion	3,428	6,857	6,857	43,126	49,115
Net income available to common stockholders	$ 291,617	$ 274,793	$ 238,377	$ 121,438	$ 27,527
Per Common Share					
Basic earnings per share	$ 2.11	$ 1.92	$ 1.62	$ 0.88	$ 0.35
Diluted earnings per share	$ 2.10	$ 1.89	$ 1.60	$ 0.83	$ 0.33
Common dividends per share	$ 0.60	$ 0.40	$ 0.16	$ 0.04	$ 0.05
Average number of shares outstanding, basic	137,342	141,457	147,093	137,478	78,770
Average number of shares outstanding, diluted	139,574	147,175	153,467	147,102	84,523
At Year End:					
Total assets	$ 24,730,068	$ 22,536,110	$ 21,968,667	$ 20,700,537	$ 20,559,212
Loans receivable	15,412,715	11,710,190	10,061,788	8,430,199	8,218,671
Covered loans	2,187,898	2,935,595	3,923,142	4,800,876	5,598,155
Investment securities	2,733,797	2,607,029	3,072,578	2,875,941	2,564,081
Deposits	20,412,918	18,309,354	17,453,002	15,641,259	14,987,613
Securities sold under repurchase agreements	995,000	995,000	1,020,208	1,083,545	1,026,870
Stockholders equity	2,364,225	2,382,122	2,311,743	2,113,931	2,284,659
Common shares outstanding	137,631	140,294	149,328	148,543	109,963
Book value per common share	$ 17.18	$ 16.39	$ 14.92	$ 13.67	$ 14.37
Financial Ratios:					
Return on average assets	1.25%	1.29%	1.14%	0.82%	0.55%
Return on average total equity	12.59	12.14	10.98	7.02	4.69
Common dividend payout ratio	28.57	20.96	10.02	4.57	13.03
Average stockholders equity to average assets	9.95	10.62	10.36	11.62	11.81
Net interest margin	4.38	4.63	4.66	5.05	3.76
Asset Quality Ratios:					
	0.03%	0.38%	1.16%	2.35%	5.69%

Net chargeoffs to average non-covered loans					
Nonperforming assets to total assets	0.53	0.63	0.80	0.94	0.91
Allowance for loan losses to total gross non-covered loans	1.54	1.92	2.04	2.64	2.81

(1) 2012, 2011 and 2010 include other-than-temporary impairment (OTTI) charges relating to investment securities of $99 thousand, $633 thousand and $16.7 million, respectively, and pre-tax gain on acquisition of $22.9 million and $471.0 million during 2010 and 2009, respectively.

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ITEM 7. 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 consolidated financial statements and the 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. All of our significant accounting policies are described in Note 1 to our consolidated financial statements presented elsewhere in this report and are essential to understanding Management s Discussion and Analysis of Financial Condition and Results of Operations. 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 more judgmental 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 net income.

Fair Value of Financial Instruments

Fair value is the price that could be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Based on the observability of the inputs used in the valuation techniques, we classify our financial assets and liabilities measured and disclosed at fair value in accordance with a three-level hierarchy (i.e., Level 1, Level 2 and Level 3). Fair value determination requires that we make a number of significant judgments. In determining the fair value of financial instruments, we use market prices of the same or similar instruments whenever such prices are available. We do not use prices involving distressed sellers in determining fair value. If observable market prices are unavailable or impracticable to obtain, then fair value is estimated using modeling techniques such as discounted cash flow analyses. These modeling techniques incorporate our assessments regarding assumptions that market participants would use in pricing the asset or the liability, including assumptions about the risks inherent in a particular valuation technique and the risk of nonperformance.

Fair value is used on a recurring basis for certain assets and liabilities in which fair value is the primary basis of accounting. Additionally, fair value is used on a nonrecurring basis to evaluate assets or liabilities for impairment or for disclosure purposes in accordance with ASC 825, *Financial Instruments*.

Investment Securities

The accounting for investment securities are discussed in detail in Note 1 to the Company s consolidated financial statements presented elsewhere in this report. The fair values of the investment securities are generally determined by independent external pricing service providers who have experience in valuing these securities and by comparison to and/or average of quoted market prices obtained from independent external brokers. In obtaining such valuation information from third parties, the Company has evaluated the methodologies used to develop the resulting fair values. The Company performs a monthly analysis on the broker quotes and pricing service values received from third parties to ensure that the prices represent a reasonable estimate of the fair value. The procedures include, but are not limited to, initial and on-going review of third party pricing methodologies, review of pricing trends, and monitoring of trading volumes. The Company ensures prices received from independent brokers represent a reasonable estimate of fair value through the use of observable market inputs including comparable trades, the yield curve, 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 the available market data, the price received from the third party 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 which utilize proprietary models that include observable market based inputs. Additionally, the majority of these independent broker quotations are non-binding.

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For broker prices obtained on certain investment securities that we believe are based on forced liquidation or distressed sale values in inactive markets, we individually examine these securities for the appropriate valuation methodology based on a combination of the market approach reflecting current broker prices and a discounted cash flow approach. In calculating the fair value derived from the income approach, the Company makes assumptions using an exit price approach related to the implied rate of return which have been adjusted for general change in market rates, estimated changes in credit risk and liquidity risk premium, specific nonperformance and default experience in the collateral underlying the security. The values resulting from each approach (i.e. market and income approaches) are weighted to derive the final fair value for each security trading in an inactive market.

We are obligated to assess, at each reporting date, whether there is an other-than-temporary impairment to our investment securities. If we determine that a decline in fair value is other-than-temporary, a credit-related impairment loss is recognized in current earnings. Noncredit-related impairment losses are charged to other comprehensive income, to the extent we intend and have the ability to hold these securities and it is not more likely than not that we will be required to sell these securities until recovery. The determination of other-than-temporary impairment is a subjective process, requiring the use of judgments and assumptions. We examine all individual securities that are in an unrealized loss position at each reporting date for other-than-temporary impairment. Specific investment-related factors are examined to assess impairment which include the nature of the investments, severity and duration of the loss, the probability that we will be unable to collect all amounts due, an analysis of the issuers of the securities and whether there has been any cause for default on the securities and any change in the rating of the securities by the various rating agencies. Additionally, we evaluate whether the creditworthiness of the issuer calls the realization of contractual cash flows into question. We take into consideration the financial resources, intent and the overall ability of the Company to hold the securities and not be required to sell the securities until their fair values recover. Investment securities are discussed in more detail in Note 5 to the Company s consolidated financial statements presented elsewhere in this report.

The Company considers available information relevant to the collectability of the security, including information about past events, current conditions, and reasonable and supportable forecasts, when developing the estimate of future cash flows and making its other-than-temporary impairment assessment for its portfolio of trust preferred securities. The Company considers factors such as remaining payment terms of the security, prepayment speeds, expected defaults, the financial condition of the issuer(s), and the value of any underlying collateral.

Acquired Loans

Acquired loans are initially recorded as of acquisition date at fair value in accordance with ASC 805, *Business Combinations*. Loans purchased with evidence of credit deterioration since origination for which it is probable that all contractually required payments will not be collected are accounted for under ASC 310-30, *Receivables Loans and Debt Securities Acquired with Deteriorated Credit Quality*. Further, the Company elected to account for all loans acquired through FDIC assisted transactions, within the scope of ASC 310-30 using the same methodology.

An allowance for loan losses is not carried over or recorded as of the acquisition date. In situations where loans have similar risk characteristics, loans were aggregated into pools to estimate cash flows under ASC 310-30. A pool is accounted for as a single asset with a single interest rate, cumulative loss rate and cash flow expectation. The Company aggregated all of the loans acquired in the FDIC-assisted acquisitions of WFIB and UCB into different pools, based on common risk characteristics.

The cash flows expected over the life of the pools are estimated using an internal cash flow model that projects cash flows and calculates the carrying values of the pools, book yields, effective interest income and impairment, if any, based on pool level events. Assumptions as to cumulative loss rates, loss curves and prepayment speeds are utilized to calculate the expected cash flows.

Under ASC 310-30, the excess of the expected cash flows at acquisition over the recorded investment is considered to be the accretable yield and is recognized as interest income over the life of the loan or pool. The excess of the contractual cash flows over the expected cash flows is considered to be the nonaccretable difference. Subsequent to the acquisition date, any increases in cash flow over those expected at purchase date in excess of the fair value that are probable are recorded as an adjustment to the accretable difference on a prospective basis. Any subsequent decreases in cash flow over those expected at purchase date that are probable and significant are recognized by recording an allowance for loan losses. Any disposals of loans, including sales of loans, payments in full or foreclosures result in the removal of the loan from the ASC 310-30 portfolio at the carrying amount.

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The majority of the loans acquired in the FDIC-assisted acquisitions of WFIB and UCB are included in the FDIC shared-loss agreements and are referred to as covered loans. Covered loans are reported exclusive of the expected cash flow reimbursements from the FDIC. At the date of acquisition, all covered loans were accounted for under ASC 805 and ASC 310-30.

FDIC Indemnification Asset

In conjunction with the FDIC-assisted acquisitions of WFIB and UCB, the Bank entered into shared-loss agreements with the FDIC for amounts receivable covered by the shared-loss agreements. At the date of the acquisition the Company elected to account for amounts receivable under the shared-loss agreements as an indemnification asset in accordance with ASC 805. Subsequent to the acquisition the indemnification asset is tied to the loss in the covered loans and is not being accounted for under fair value. The FDIC indemnification asset is accounted for on the same basis as the related covered loans and is the present value of the cash flows the Company expects to collect from the FDIC under the shared-loss agreements. The difference between the present value and the undiscounted cash flow the Company expects to collect from the FDIC is accreted into noninterest income over the life of the FDIC indemnification asset. The FDIC indemnification asset is adjusted for any changes in expected cash flows based on the loan performance. Any increases in cash flow of the loans over those expected will reduce the FDIC indemnification asset and any decreases in cash flow of the loans over those expected will increase the FDIC indemnification asset. Over the life of the FDIC indemnification asset, increases and decreases are recorded as adjustments to noninterest income. During the year, the Bank lowered the credit discount on the UCB covered loan portfolio as the credit quality was performing better than originally estimated. By lowering the credit discount, interest income will increase over the life of the loans. Correspondingly, with the lowered credit discount, the expected reimbursement from the FDIC under the loss sharing agreement will decrease, resulting in amortization of the FDIC indemnification asset which is recorded as a charge to noninterest income.

Allowance for Loan Losses

Our allowance for loan loss methodology incorporates a variety of risk considerations, both quantitative and qualitative, in establishing an allowance for loan loss that management believes is appropriate at each reporting date. Quantitative factors include our historical loss experience, delinquency and charge-off trends, collateral values, changes in nonperforming loans, and other factors. Qualitative considerations include, but are not limited to, prevailing economic or market conditions, relative risk profiles of various loan segments, volume concentrations, growth trends, delinquency and nonaccrual status, problem loan trends, and geographic concentrations.

For a detailed discussion of our allowance for loan loss methodology see Management s Discussion and Analysis of Consolidated Financial Condition and Results of Operations Allowance for Loan Losses presented elsewhere in this report. As we add new products, increase the complexity of our loan portfolio, and expand our geographic coverage, we continue to enhance our methodology to keep pace with the size and complexity of the loan portfolio and the changing credit environment. Changes in any of the factors cited above could have a significant impact on the loan loss calculation. We believe that our methodologies continue to be appropriate given our size and level of complexity. This discussion should also be read in conjunction with the Company s consolidated financial statements and the accompanying notes presented elsewhere in this report. See Note 8 to the Company s consolidated financial statements.

Goodwill Impairment

Under ASC 350, *Intangibles Goodwill and Other*, goodwill must be allocated to reporting units and tested for impairment. The Company tests goodwill for impairment at least annually or more frequently if events or circumstances, such as adverse changes in the business, indicate that there may be justification for conducting an interim test. Impairment testing is performed at the reporting-unit level (which is the same level as the Company s major operating segments identified in Note 24 to the Company s consolidated financial statements presented elsewhere in this report). The first part of the test is a comparison, at the reporting unit level, of the fair value of each reporting unit to its carrying value, including goodwill. In order to determine the fair value of the reporting units, a combined income approach and market approach was used. Under the income approach, the Company provided a net income projection and a terminal growth rate was used to calculate the discounted cash flows and the present value of the reporting units. Under the market approach, the fair value was calculated using the current fair values of comparable peer banks of similar size, geographic footprint and focus. The market capitalizations and multiples of these peer banks were used to calculate the market price of the Company and each reporting unit. The fair value was also subject to a control premium adjustment, which is the cost savings that a purchase of the reporting unit could achieve by eliminating duplicative costs. Under the combined income and market approach, the value from each approach was appropriately weighted to determine the fair value. If the fair value is less than the carrying value, then the second part of the test is needed to measure the amount of goodwill impairment. The implied fair value of the reporting unit goodwill is calculated and compared to the actual carrying value of goodwill recorded within the reporting unit. If the carrying value of reporting unit goodwill exceeds the implied fair value of that goodwill, then the Company would recognize an impairment loss for the amount of the difference, which would be recorded as a charge against net income. For complete discussion and disclosure see Note 12 to the Company s consolidated financial statements presented elsewhere in this report.

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Share-Based Compensation

We account for share-based awards to employees, officers, and directors in accordance with the provisions of ASC 505, *Equity*, and ASC 718, *Compensation Stock Compensation*. Share-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as expense over the employee s requisite service period.

We grant nonqualified stock options and restricted share awards, which include a service condition for vesting. Additionally, some of our stock awards include a company financial performance requirement for vesting. The stock option awards generally vest in one to four years from the grant date, while the restricted share awards generally vest in one to five years from the date of grant. Compensation expense is amortized on a straight-line basis over the requisite service period for the entire award, which is generally the maximum vesting period of the award.

We use an option-pricing model to determine the grant-date fair value of our stock options which is affected by assumptions regarding a number of complex and subjective variables. We make assumptions regarding expected term, expected volatility, expected dividend yield, and risk-free interest rate in determining the fair value of our stock options. The expected term represents the weighted-average period that stock options are expected to remain outstanding. The expected term assumption is estimated based on the stock options vesting terms and remaining contractual life and employees historical exercise behavior. The expected volatility is based on the historical volatility of our common stock over a period of time equal to the expected term of the stock options. The dividend yield assumption is based on the Company s current dividend payout rate on its common stock. The risk-free interest rate assumption is based upon the U.S. Treasury yield curve in effect at the time of grant appropriate for the term of the employee stock options.

For restricted share awards, the grant-date fair value is measured at the fair value of the Company s common stock as if the restricted share was vested and issued on the date of grant.

As share-based compensation expense is based on awards ultimately expected to vest, it is reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and are reviewed annually for reasonableness. If the estimated forfeitures are revised, a cumulative effect of a change in estimated forfeitures for current and prior periods are recognized in compensation cost in the period of change. Share-based compensation is discussed in more detail in Notes 1 and 20 to the Company s consolidated financial statements presented elsewhere in this report.

Overview

2013 marked the fourth consecutive year the Company generated record earnings. For the full year 2013, net income totaled a record $295.0 million, a 5% or $13.4 million increase from $281.7 million in 2012 and earnings per share totaled $2.10 for the full year 2013, an increase of 11% from $1.89 for the full year 2012. Capital levels for the Company remain strong. As of December 31, 2013, the Company s Tier 1 risk-based capital and total risk-based ratios were 11.9% and 13.5%, respectively, greater than the well capitalized requirements of 6% and 10%, respectively. Total deposits grew to a record $20.41 billion, a 11% or $2.10 billion increase during the full year 2013. Core deposits grew to a record $14.59 billion, an increase of 20% or $2.40 billion year to date.

Total loans receivables grew to a record $18.08 billion, an increase of 20% or $3.00 billion during the full year 2013. The growth was due to a 31% or $3.75 billion increase in non-covered loans, partially offset by a decrease in the covered loan portfolio. The continued trend of growth in non-covered loan portfolio was largely due to increases in commercial and industrial loans, single-family real estate loans, consumer loans and commercial real estate loans.

Net covered loans totaled $2.19 billion as of December 31, 2013, a decrease of $747.7 million or 25% from December 31, 2012. The decrease in the covered loan portfolio was primarily due to payoffs and paydown activity, as well as charge-offs.

The covered loan portfolio is comprised of loans acquired from the FDIC-assisted acquisitions of UCB and WFIB which are covered under loss-share agreements with the FDIC. For the full year 2013, we recorded a net decrease in the FDIC indemnification asset and receivable included in noninterest (loss)/income of ($228.6) million, largely due to continued payoffs and the continuing improved credit performance of the UCB portfolio.

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The Company reported total noninterest loss for the full year 2013 of ($92.5) million, an increased loss from a noninterest loss of ($5.6) million as compared to 2012. The increase in noninterest loss from the prior year was primarily attributable to an increase in the net reduction of the FDIC indemnification asset and FDIC receivable.

Noninterest expense totaled $415.5 million for the full year 2013, a decrease of 2% or $7.0 million as compared to 2012. The decrease was mainly due to other real estate owned gain on sale of $1.1 million as compared to other real estate owned expense of $22.3 million in 2012. The decrease was partially offset by increases in amortization of affordable housing partnerships and other investments of 51% or $9.2 million, legal expense of 25% or $6.3 million, compensation and employee benefits of 3% or $4.5 million and other operating expense of 8% or $4.9 million, respectively.

As a result of continued credit quality improvement, nonperforming assets, excluding covered assets, as of December 31, 2013, decreased to $130.6 million, a decrease of 7% or $10.5 million from prior year. The provision for loan losses for non-covered loans decreased 70% to $18.3 million for the full year 2013 as compared to the prior year of $60.2 million. Additionally, nonaccrual loans, excluding covered loans, totaled $111.7 million or 0.62% of total loans as of December 31, 2013.

For the full year 2013, the Company repurchased 6% or 8.0 million shares of our common stock for a total cost of $200.0 million. Additionally, the Company increased the common stock dividend rate 50% to $0.60 per year.

Additionally, on January 17, 2014, the Company announced the closing of the MetroCorp Bancshares, Inc. (MCBI) acquisition. As of December 31, 2013, MCBI, headquartered in Houston, Texas, had $1.6 billion in total assets and operated 18 branches under its two subsidiary banks, MetroBank and Metro United Bank.

Results of Operations

Net income for 2013 totaled $295.0 million, compared with a net income of $281.7 million for 2012 and $245.2 million in 2011.

Table 1: *Components of Net Income*

	Year Ended December 31,		
	2013	**2012**	**2011**
		(In millions)	
Net interest income	$ 956.2	$ 918.9	$ 903.0
Provision for loan losses, excluding covered loans	(18.3)	(60.2)	(92.6)
Provision for loan losses on covered loans	(4.0)	(5.0)	(2.4)
Noninterest (loss) income	(92.5)	(5.6)	10.9
Noninterest expense	(415.5)	(422.5)	(435.6)
Provision for income taxes	(130.8)	(143.9)	(138.1)

Net income	$ 295.0	$ 281.7	$ 245.2
Return on average total assets	1.25%	1.29%	1.14%
Return on average total equity	12.59%	12.14%	10.98%

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Net Interest Income

Our primary source of revenue is net interest income, which 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 in 2013 totaled $956.2 million, a 4% increase over net interest income of $918.9 million in 2012. Comparing 2012 to 2011, net interest income increased 2% to $918.9 million, as compared to $903.0 million in 2011.

Net interest margin, defined as net interest income divided by average earning assets, decreased 25 basis points to 4.38% during 2013, from 4.63% during 2012. During 2013 and 2012, our net interest margin and yield on interest-earning assets was positively impacted by the interest income from the covered loans accounted for under ASC 310-30. The interest income on covered loan was $395.2 million with a resulting yield of 15.55% for the year ended December 31, 2013. In comparison interest income on covered loans was $430.2 million with a resulting yield of 12.48% for the year ended December 31, 2012. The additional accretion from the covered loans accounted for under ASC 310-30 is the reason for the significant difference between the yields on the covered and the non-covered loans. Over time, as the covered loans payoff, the average covered loan balance will continue to decrease. As such, as the covered loan balances decrease, the interest income from the covered loans accounted for under ASC 310-30 will have less of an impact on our overall net interest margin. Comparing 2012 to 2011 our net interest margin decreased by 3 basis points to 4.63% during 2012, compared to 4.66% during 2011. The decrease in the net interest margin resulted primarily from the low interest rate environment, and the related lower average yield on non-covered loans.

The following table presents the interest rate spread, net interest margin, average balances, interest income and expense, and the average yield rates by asset and liability component for the years ended December 31, 2013, 2012 and 2011:

Table 2: *Summary of Selected Financial Data*

	Year Ended December 31,								
	2013			2012			2011		
	Average Balance	Interest	Average Yield Rate	Average Balance	Interest	Average Yield Rate	Average Balance	Interest	Average Yield Rate
	(Dollars in thousands)								
ASSETS									
Interest-earning assets:									
Due from banks and short-term investments	$ 1,184,709	$ 17,340	1.46%	$ 1,457,153	$ 22,316	1.53%	$ 1,018,490	$ 22,575	2.22%
Securities purchased under resale agreements	1,503,014	21,236	1.41%	1,267,284	20,392	1.61%	1,023,043	19,216	1.88%
Investment securities *(1)(2)*	2,729,019	43,846	1.61%	2,475,489	58,184	2.35%	3,116,671	89,469	2.87%
Loans receivable *(1)(3)*	13,734,759	584,164	4.25%	11,023,745	515,378	4.68%	9,668,106	478,724	4.95%
Loans receivable - covered *(3)*	2,541,238	395,230	15.55%	3,445,693	430,152	12.48%	4,369,320	467,074	10.69%
FHLB and FRB stock	134,918	6,869	5.09%	171,816	4,673	2.72%	197,774	3,390	1.71%
Total interest-earning assets	$ 21,827,657	$ 1,068,685	4.90%	$ 19,841,180	$ 1,051,095	5.30%	$ 19,393,404	$ 1,080,448	5.57%
Noninterest-earning assets:									
Cash and cash equivalents	306,551			255,975			271,393		
Allowance for loan losses	(241,049)			(228,355)			(228,160)		
Other assets	1,667,533			1,961,743			2,136,484		

Total assets	$23,560,692			$21,830,543			$ 21,573,121		
LIABILITIES AND STOCKHOLDERS EQUITY									
Interest-bearing liabilities:									
Checking accounts	$ 1,487,844	$ 3,556	0.24%	$ 1,059,517	$ 3,163	0.30%	$ 854,079	$ 3,009	0.35%
Money market accounts	5,217,666	15,019	0.29%	4,883,413	16,984	0.35%	4,429,567	20,610	0.47%
Savings deposits	1,546,188	2,961	0.19%	1,267,059	2,795	0.22%	1,045,546	2,988	0.29%
Time deposits	5,964,017	41,960	0.70%	6,435,102	52,953	0.82%	7,423,695	80,503	1.08%
Federal funds purchased and other borrowings	155			2,975	4	0.14%	16,684	458	2.75%
FHLB advances	315,867	4,173	1.32%	385,644	6,248	1.62%	679,630	15,461	2.27%
Securities sold under repurchase agreements	995,000	41,381	4.16%	997,938	46,166	4.63%	1,051,844	48,561	4.62%
Long-term debt	166,690	3,442	2.06%	183,285	3,855	2.10%	226,808	5,832	2.57%
Total interest-bearing liabilities	$15,693,427	$ 112,492	0.72%	$15,214,933	$ 132,168	0.87%	$15,727,853	$ 177,422	1.13%
Noninterest-bearing liabilities:									
Demand deposits	5,179,687			3,902,534			3,087,777		
Other liabilities	343,271			393,948			523,529		
Stockholders equity	2,344,307			2,319,128			2,233,962		
Total liabilities and stockholders equity	$23,560,692			$21,830,543			$21,573,121		
Interest rate spread			4.18%			4.43%			4.44%
Net interest income and net interest margin		$ 956,193	4.38%		$ 918,927	4.63%		$ 903,026	4.66%

(1) Includes (amortization) of premiums and accretion of discounts on investment securities and loans receivable totaling ($26.4) million, ($8.0) million, and $6.3 million for the years ended December 31, 2013, 2012 and 2011, respectively. Also includes the net (amortization) of deferred loan fees and cost totaling ($15.3) million, ($16.2) million, and ($13.1) million for the years ended December 31, 2013, 2012 and 2011.

(2) Average balances exclude unrealized gains or losses on available-for-sale securities.

(3) Average balances include nonperforming loans.

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Analysis of Changes in Net Interest Income

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

Table 3: *Analysis of Changes in Net Interest Income*

	Year Ended December 31,					
	2013 vs. 2012			2012 vs. 2011		
	Total Change	Changes Due to Volume *(1)*	Changes Due to Rate *(1)*	Total Change	Changes Due to Volume *(1)*	Changes Due to Rate *(1)*
	(In thousands)					
INTEREST-EARNING ASSETS:						
Due from banks and short-term investments	$ (4,976)	$ (4,023)	$ (953)	$ (259)	$ 7,973	$ (8,232)
Securities purchased under resale agreements	844	3,514	(2,670)	1,176	4,177	(3,001)
Investment securities	(14,338)	5,498	(19,836)	(31,285)	(16,633)	(14,652)
Loans receivable	68,786	118,376	(49,590)	36,654	64,445	(27,791)
Loan receivable covered	(34,922)	(127,243)	92,321	(36,922)	(107,971)	71,049
FHLB and FRB stock	2,196	(1,176)	3,372	1,283	(493)	1,776
Total interest and dividend income	$ 17,590	$ (5,054)	$ 22,644	$ (29,353)	$ (48,502)	$ 19,149
INTEREST-BEARING LIABILITIES:						
Checking accounts	$ 393	$ 1,108	$ (715)	$ 154	$ 656	$ (502)
Money market accounts	(1,965)	1,106	(3,071)	(3,626)	1,958	(5,584)
Savings deposits	166	565	(399)	(193)	564	(757)
Time deposits	(10,993)	(3,688)	(7,305)	(27,550)	(9,801)	(17,749)
Federal funds purchased and other borrowings	(4)	(2)	(2)	(454)	(210)	(244)
FHLB advances	(2,075)	(1,027)	(1,048)	(9,213)	(5,532)	(3,681)
Securities sold under repurchase agreements	(4,785)	(136)	(4,649)	(2,395)	(2,494)	99
Long-term debt	(413)	(344)	(69)	(1,977)	(1,015)	(962)
Total interest expense	$ (19,676)	$ (2,418)	$ (17,258)	$ (45,254)	$ (15,874)	$ (29,380)
CHANGE IN NET INTEREST INCOME	$ 37,266	$ (2,636)	$ 39,902	$ 15,901	$ (32,628)	$ 48,529

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

Provision for Loan Losses

The provision for loan losses on non-covered loans amounted to $18.3 million for 2013, as compared to $60.2 million for 2012 and $92.6 million for 2011. Throughout 2013, the Company continued to proactively manage credit, resulting in improvements in key asset quality metrics. Total non-covered net charge-offs amounted to $3.6 million or 0.03% of the average non-covered loans during 2013. This compares to $42.2 million or 0.38% of the average non-covered loans during 2012. The decrease in non-covered net charge-offs in 2013 was primarily due to the credit quality improvement. However, the non-covered allowance for loan losses on commercial and industrial, residential and consumer portfolio did increase which is commensurate with the increases in these portfolios. We continue to aggressively monitor delinquencies and proactively review the credit risk exposure of our loan portfolio to minimize and mitigate potential losses. Also, during the year we had note sale proceeds of $16.1 million on notes with a carrying value of $15.1 million. No loans were originated to facilitate sales of loans; the remaining difference between the carrying value and the sale amount was recorded against the allowance for loan losses.

In 2013, the Company also recorded a net provision for loan losses of $1.8 million on covered loans outside of the scope of ASC 310-30. In comparison, the Company recorded a net provision for loan losses of $5.0 million in 2012 and $2.4 million in 2011, on covered loans outside of the scope of ASC 310-30. Net charge-offs of $1.4 million was recorded on covered loans outside of the scope of ASC 310-30 in 2013. In comparison, the Company recorded net charge-offs of $6.5 million in 2012 and no net charge-offs were recorded in 2011 on covered loans outside of the scope of ASC 310-30.

The Company recorded a net provision for loan losses of $2.2 million on covered loans within the scope of ASC 310-30 in 2013. In comparison, no provision for loan losses on covered loans within the scope of ASC 310-30 was recorded in 2012 and 2011. Net charge-offs on covered loans within the scope of ASC 310-30 were not recorded in 2013, 2012 and 2011.

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Provisions for loan losses are charged to income to bring the allowance for credit losses as well as the allowance for unfunded loan commitments, off-balance sheet credit exposures, and recourse provisions to a level deemed appropriate by the Company based on the factors discussed under the Allowance for Loan Losses section of this report.

Noninterest (Loss) Income

Table 4: *Components of Noninterest (Loss) Income*

	2013	2012	2011
		(In millions)	
Branch fees	$ 32.03	$ 30.91	$ 31.51
Net gain on sales of loans	7.75	17.04	20.19
Letters of credit fees and commissions	22.12	19.10	14.00
Net gain on sales of investment securities	12.09	0.76	9.70
Foreign exchange income	12.66	7.17	9.14
Ancillary loan fees	9.37	8.83	8.35
Income from life insurance policies	3.78	4.01	4.03
Gain on sale of fixed assets	1.52	4.27	2.27
Other operating income	34.80	24.64	12.50
Fee and Other Operating Income	136.12	116.73	111.69
Impairment writedown on investment securities		(0.10)	(0.63)
Decrease in FDIC indemnification asset and receivable	(228.59)	(122.25)	(100.14)
Total	$ (92.47)	$ (5.62)	$ 10.92

Noninterest (loss) income includes revenues earned from sources other than interest income. These sources include service charges and fees on deposit accounts, fees and commissions generated from trade finance activities and the issuance of letters of credit, ancillary fees on loans, net gains on sales of loans, investment securities available-for-sale, and other assets, impairment write-downs on investment securities and other assets, decrease in the FDIC indemnification asset and receivable, income from life insurance policies and other noninterest-related revenues.

Noninterest loss amounted to $92.5 million for 2013 as compared to noninterest loss of $5.6 million for 2012. Total fee and other operating income increased to $136.1 million during 2013, compared with $116.7 million for the corresponding period in 2012. No impairment charges were recorded during 2013. In comparison, $99 thousand of impairment charges were recorded during 2012, which were related to credit-related impairment loss on our trust preferred securities.

Branch fees totaled $32.0 million in 2013, compared to $30.9 million earned in 2012. The majority of branch fees are earned from commercial demand deposit analysis services fees, non-sufficient funds fees and wire fee income.

The net gain on sales of loans of $7.8 million in 2013 was mainly due to the sale of $109.4 million and $39.2 million of government guaranteed student loans and SBA loans, respectively.

Letters of credit fees and commissions, which represent revenues from trade finance operations as well as fees related to the issuance and maintenance of standby letters of credit, increased 16% or $3.0 million to $22.1 million in 2013, from $19.1 million in 2012. The increase in letters of credit fees and commissions was primarily due to the increase in the volume of trade finance loans during 2013 relative to 2012.

Net gain on sales of investment securities available-for-sale increased to $12.1 million during 2013 compared with $757 thousand in 2012. In 2013, the Company elected to sell certain securities that were at a gain position.

Foreign exchange income increased to $12.7 million during 2013 compared with $7.2 million in 2012. This primarily represents the gain on our foreign exchange transactions.

Net gain on sales of fixed assets decreased to $1.5 million in 2013 as compared to $4.3 million in 2012. The decrease was primarily due to minimal sales of fixed assets activities in 2013. In comparison, the Company sold a building for $20.0 million in 2012 which was acquired through the UCB acquisition.

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Other operating income, which includes insurance commissions and insurance related service fees, rental income, and other miscellaneous income, increased to $34.8 million in 2013, compared to $24.6 million in 2012. The increase was primarily due to the $8.2 million increase in investment advisory and commission fees during 2013.

Comparing 2012 to 2011, the recorded noninterest loss was $5.6 million and noninterest income $10.9 million, respectively. Total fee and other operating income increased slightly to $116.7 million during 2012, compared with $111.7 million for the corresponding period in 2011. The $99 thousand and $633 thousand impairment charges recorded during 2012 and 2011, respectively, were related to credit-related impairment loss on our trust preferred securities.

Noninterest Expense

Table 5: *Components of Noninterest Expense*

	2013	2012	2011
		(In millions)	
Compensation and employee benefits	$ 175.91	$ 171.37	$ 160.09
Occupancy and equipment expense	56.64	55.48	50.08
Amortization of investments in affordable housing partnerships and other investments	27.27	18.06	17.32
Amortization of premiums on deposits acquired	9.36	10.91	12.33
Deposit insurance premiums and regulatory assessments	16.55	14.13	20.53
Loan related expense	12.52	14.99	19.38
Other real estate owned (gain on sale) expense	(1.13)	22.35	40.44
Legal expense	31.72	25.44	21.33
Prepayment penalty for FHLB advances and other borrowings		6.86	12.28
Data processing	9.10	9.23	8.60
Deposit-related expenses	6.54	6.01	5.70
Consulting expense	6.45	7.98	7.15
Other operating expenses	64.58	59.72	60.38
Total noninterest expense	$ 415.51	$ 422.53	$ 435.61

Noninterest expense, which is comprised primarily of compensation and employee benefits, occupancy and other operating expenses decreased 2% or $7.0 million to $415.5 million during 2013, compared to $422.5 million during 2012. Total noninterest expense for 2013 and 2012 included $8.4 million and $27.2 million, respectively, which is reimbursable by the FDIC within the loss share agreements. 80% of these amounts are included in noninterest income, resulting in a net impact to income of 20%.

Compensation and employee benefits increased 3% or $4.5 million to $175.9 million in 2013, compared to $171.4 million in 2012. The increase is primarily due to the overall increase in the cost of compensation. Occupancy and equipment expenses increased 2% or $1.2 million to $56.6 million during 2013, compared with $55.5 million during 2012.

The amortization of affordable housing partnerships investments and other investments increased to $27.3 million in 2013, from $18.1 million in 2012. The total of these investments as of December 31, 2013 was $234.9 million, an increase from $231.5 million at December 31, 2012. The increase in the amortization of investments in affordable housing partnerships and other investments was primarily due to two investments made during the fourth quarter of 2013 where the associated tax credit was largely for the 2013 tax year.

The amortization of premiums on deposits acquired decreased 14% to $9.4 million during 2013, compared with $10.9 million in 2012. The decrease is primarily due to the full amortization of specific core deposit premiums during 2012 that were acquired through previous acquisitions.

Deposit insurance premiums and regulatory assessments increased to $16.6 million during 2013, compared with $14.1 million in 2012. The increase in deposit insurance premiums and regulatory assessments during 2013 is primarily due to an increase in the assessment base partially offset by the decrease in the assessment rate.

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Loan-related expenses decreased to $12.5 million in 2013, compared to $15.0 million in 2012. The $12.5 million in loan-related expenses in 2013 includes $3.0 million of expenses that are covered under the FDIC shared-loss agreements.

We recorded net OREO gains of $1.1 million during 2013, compared with OREO expenses of $22.4 million during 2012. As of December 31, 2013, total net non-covered OREO amounted to $18.9 million, compared to $32.9 million as of December 31, 2012. The $1.1 million in total OREO gains during 2013 is comprised of $3.2 million in various operating and maintenance expenses related to our OREO properties, $3.9 million in valuation losses, and $8.2 million in net OREO gains from the sale of 81 OREO properties consummated in 2013. Net covered OREO amounted to $21.4 million and $26.8 million as of December 31, 2013 and 2012, respectively.

Deposit-related expenses increased 9% to $6.5 million during 2013, compared with $6.0 million during 2012. Deposit-related expenses represent various business-related expenses paid by the Bank on behalf of certain commercial deposit account customers.

Other operating expenses include advertising and public relations, telephone and postage, stationery and supplies, bank and item processing charges, insurance expenses, other professional fees, and charitable contributions. Other operating expenses increased 8% to $64.6 million in 2013, compared with $59.7 million in 2012.

Comparing 2012 to 2011, noninterest expense decreased $13.1 million, or 3%, to $422.5 million. The decrease is comprised primarily of the following: (1) OREO expenses, net of OREO revenues and gains, totaling $22.4 million during 2012, compared with $40.4 million during 2011. The $22.4 million in total OREO expenses incurred during 2012 is comprised of $12.0 million in various operating and maintenance expenses related to our OREO properties, $16.0 million in valuation losses, and $5.7 million in net OREO gain from the sale of 146 OREO properties consummated in 2012; (2) a decrease in deposit insurance premiums and regulatory assessments expense of $6.4 million or 31%; (3) a decrease in loan related expense of $4.4 million or 23%; (4) an increase in compensation and employee benefits of $11.3 million or 7%; and (5) an increase in occupancy and equipment expense of $5.4 million or 11%.

Income Taxes

The provision for income taxes was $130.8 million in 2013, representing an effective tax rate of 30.7%, compared to $143.9 million, representing an effective tax rate of 33.8%, and $138.1 million, representing an effective tax rate of 36.0% for 2012 and 2011, respectively. The lower effective tax rate is mainly due to the additional tax benefit from affordable housing investments and solar tax credits as well as the California enterprise zone net interest deduction. Included in the income tax recognized during 2013 is $35.0 million in tax credits generated from our investments in affordable housing partnerships and other investments and other federal tax credits. In comparison, included in the income tax recognized during 2012 and 2011 are $18.7 million and $11.1 million, respectively, in tax credits generated from our investments in affordable housing partnerships and other investments.

Management regularly reviews the Company s tax positions and deferred tax assets. Factors considered in this analysis include future reversals of existing temporary differences, future taxable income exclusive of reversing differences, taxable income in prior carryback years, and tax planning strategies. The Company accounts for income taxes using the asset and liability approach, the objective of which is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the tax basis of the Company s assets and liabilities at enacted rates expected to be in effect when such amounts are realized and settled. Based on the available evidence, Management has concluded that it is more likely than not that all of the benefit of the deferred tax assets will be realized, with the exception of the deferred tax assets related to certain state net operating loss carryforwards and losses from certain foreign subsidiaries. Accordingly, a valuation allowance has been recorded for these amounts.

As of December 31, 2013, the Company had a net deferred tax asset of $255.5 million.

Operating Segment Results

We define our operating segments based on our core strategy and we have three operating segments: 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, industrial, and commercial real estate, primarily generates commercial loans through the efforts of the commercial lending offices located in the Bank s production offices in California, New York, Texas, and the New England region, among others. Furthermore, the Commercial Banking segment also offers a wide variety of international finance and trade services and products. The remaining centralized functions, including the eliminations of intersegment amounts have been aggregated and included in Other.

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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.

Our 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 to provide a reasonable and consistent basis for measurement of our business segments and product net interest margins. Our transfer pricing assumptions and methodologies are reviewed at least annually to ensure that our process is reflective of current market conditions.

For more information about our segments, including information about the underlying accounting and reporting process, see Note 24 to the Company s consolidated financial statements presented elsewhere in this report.

Retail Banking

The Retail Banking segment reported a pretax income of $123.9 million during 2013, compared to a pretax income of $74.8 million for 2012. The increased earnings for this segment is due to higher net interest income and lower provision for loan losses, partially offset by higher noninterest expense and loss in noninterest income.

Net interest income for this segment increased $70.4 million, or 20%, from $343.7 million in 2012 to $414.2 million in 2013. The higher net interest income was attributed to growth from single family and consumer loans and lower cost deposits.

Noninterest loss for this segment declined $35.6 million compared to income of $17.7 million in 2012. The decrease was primarily due to a larger reduction of FDIC indemnification asset and receivable and lower gains on the sale of government guaranteed student loans, partially offset by an increase in wealth management fee income.

Noninterest expense for this segment increased $4.0 million, or 2%, from $189.0 million in 2012 to $193.0 million in 2013. The increase in noninterest expense was primarily from higher compensation and employee benefits and legal expenses, partially offset by lower OREO and occupancy related expenses.

Comparing 2012 to 2011, the Retail Banking segment reported a pre-tax profit of $74.8 million, down from a pre-tax loss of $102.2 million in 2011. Earnings declined from the prior year mainly due to a decrease in net interest income, partially offset by a reduction in noninterest expense. The $37.8 million decrease in net interest income for 2012 was attributable to a combination of an extended lower interest rate environment and a flattening yield curve. Noninterest income decreased $0.8 million to $17.7 million primarily due to reductions in branch and loan related fees and income from secondary market activities, offset by a lower reduction of FDIC indemnification asset and receivable. Noninterest expense from this segment decreased $14.9 million to $189.0 million in 2012. The decline was primarily due to decreases in FDIC deposit insurance premiums, amortization of intangibles, and promotion and advertising expenses, offset by an increase in OREO related expenses.

Commercial Banking

The Commercial Banking segment reported pre-tax income of $272.4 million for 2013 compared to $266.2 million for 2012. The increase was due to an increase in net interest income and reductions in provision for loan losses and noninterest expense, offset by a larger noninterest loss.

Net interest income for this segment increased $36.8 million, or 8%, to $525.0 million for 2013, compared to $488.3 million in 2012. The increase in net interest income, despite lower interest yields, was primarily due to growth on commercial loans combined with higher discount accretion into interest income from the covered loan portfolio, and lowered cost of deposits.

Noninterest loss for this segment totaled $98.9 million, compared to a loss of $34.3 million for 2012. The increase in loss for this segment is primarily due to a larger net reduction of the FDIC indemnification asset and FDIC receivables, partially offset by increases in loan related fee income.

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Noninterest expense for this segment decreased $5.9 million, or 4%, to $126.7 million in 2013, compared to $132.6 million for 2012. The decrease in noninterest expense was largely attributed to declines in OREO and loan related expenses, offset by increases in compensation and employee benefits, and occupancy expenses.

Comparing 2012 to 2011, the Commercial Banking segment reported a pre-tax income of $266.2 million, up from $227.8 million for 2011. The increase in profit was due to an increase in net interest income, a reduction in provision for loan losses, and noninterest expense, partially offset by a larger noninterest loss. The increase in net interest income was primarily impacted by the disposal activity on the covered loan portfolio and was adversely impacted by extended low interest rate environment. The increase in noninterest loss was due to larger decrease in the FDIC indemnification asset and receivable, partially offset by increases in loan-related fee income and swap income. The decrease in noninterest expense in 2012 was attributed to declines in OREO-related expenses and loan related expenses, offset by increases in compensation and employee benefits, legal, and occupancy expenses.

Other

The Other segment reported pre-tax income of $29.6 million for 2013 compared to $84.6 million in the prior year, a reduction of $55.0 million, or 65%. The decline was due to lower net interest income partially offset by an increase in noninterest income and a reduction in noninterest expense.

Net interest income decreased $69.9 million, or 80%, to $17.0 million for 2013 compared to $86.9 million for 2012. The Other segment includes activities of the treasury function. The treasury function is responsible for the liquidity and interest rate risk management of the bank. It also bears the cost of adverse movements in interest rates affecting our net interest margin and it supports the Retail Banking and Commercial Banking segments through funds transfer pricing which is the primary cause of the decrease in net interest income.

Noninterest income totaled $24.3 million for 2013, a $13.3 million, or 121%, improvement compared to $11.0 million recorded in 2012. The improvement of noninterest income was primarily driven by higher gains from sales of investment securities, rental income, and partially offset by lower gains from disposal of fixed assets.

Noninterest expense for this segment decreased $5.1 million, or 5%, to $95.8 million in 2013 compared to $100.9 million in 2012. The decrease was primarily due to lower compensation and employee benefits and no prepayment penalties on FHLB advances compared to prior year, net of increases from amortization of investments in affordable housing partnerships and legal expense.

Comparing 2012 to 2011, the Other segment reported a pre-tax income of $84.6 million compared to an income of $53.4 million in the prior year, an increase of $31.2 million or 59%. This was primarily due to an increase in net interest income, partially offset by decreases in noninterest income and noninterest expense. Net interest income for 2012 increased to $25.5 million compared to $61.4 million in 2011. Reduction in noninterest income of $3.3 million was primarily due to a lower net gain on sales of investments, partially offset by a larger net gain on sales of fixed assets. Noninterest expense increased $3.0 million primarily due to higher compensation and employee benefits and occupancy expenses, partially offset by reductions in legal expenses and prepayment penalties on FHLB advances.

Balance Sheet Analysis

Total assets increased $2.19 billion, or 10%, to $24.73 billion as of December 31, 2013. The increase is comprised primary of increases in net non-covered loans receivable of $3.70 billion and investment securities available-for-sale of $126.8 million offset by decreases in net covered loans receivable of $747.7 million, cash and cash equivalents of $427.3 million, FDIC indemnification asset and receivable of $241.6 million, securities purchased under resale agreements of $150.0 million and short-term investments of $108.9 million. The increase in total assets was funded primarily through increases in deposits of $2.10 billion.

Investment Securities

Income from investing activities provides a significant portion of our total income. We aim to maintain an investment portfolio with an appropriate mix of fixed-rate and adjustable-rate securities with relatively short maturities to minimize overall interest rate risk. Our investment securities portfolio primarily consists of U.S. Treasury securities, U.S. Government agency securities, U.S. Government sponsored enterprise debt securities, U.S. Government sponsored enterprise and other mortgage-backed securities, municipal securities, and corporate debt securities. Investments classified as available-for-sale are carried at their estimated fair values with the corresponding changes in fair values recorded in accumulated other comprehensive income or loss, as a component of stockholders equity. All investment securities have been classified as available-for-sale as of December 31, 2013 and December 31, 2012.

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Total investment securities available-for-sale increased 5% to $2.73 billion as of December 31, 2013, compared with $2.61 billion at December 31, 2012. As of December 31, 2013, the investment portfolio had a net unrealized loss of $52.7 million as compared to a net unrealized gain of $8.0 million as of December 31, 2012. Within the portfolio, all categories by security type were in a net unrealized loss position except for other commercial mortgage-backed securities. During 2013, total repayments/maturities and proceeds from sales of investment securities amounted to $444.1 million and $663.6 million, respectively. Proceeds from repayments, maturities, sales, and redemptions were applied towards additional investment securities purchases totaling $1.32 billion. We recorded net gains totaling $12.1 million and $757 thousand on sales of investment securities during 2013 and 2012, respectively. At December 31, 2013, investment securities available-for-sale with a par value of $1.97 billion were pledged to secure public deposits, FHLB advances, repurchase agreements, FRB discount window, and for other purposes required or permitted by law.

We perform regular impairment analyses on the investment securities. If we determine that a decline in fair value is other-than-temporary, the credit-related impairment loss is recognized in current earnings. The noncredit-related impairment losses are charged to other comprehensive income which is the portion of the loss attributed to market rates or other factors non-credit related. Other-than-temporary declines in fair value are assessed based on factors including the duration the security has been in a continuous unrealized loss position, the severity of the decline in value, the rating of the security, the probability that we will be unable to collect all amounts due, and our ability and intent to not sell the security before recovery of its amortized cost basis. For securities that are determined to not have other-than-temporary declines in value, we have both the ability and the intent to hold these securities and it is not more likely than not that we will be required to sell these securities before recovery of their amortized cost basis.

The fair values of the investment securities are generally determined by independent external pricing service providers who have experience in valuing these securities and by comparison to and/or average of quoted market prices obtained from independent external brokers. The Company performs a monthly analysis on the pricing service quotes and the broker quotes received from third parties to ensure that the prices represent a reasonable estimate of the 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 whether prices received from independent brokers represent a reasonable estimate of fair value through the use of observable market inputs including comparable trades, the yield curve, 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 ongoing financial crisis in the U.S. and global markets, the market for the pooled trust preferred securities has been distressed since mid-2007. It is the Company s view that current broker prices (which are typically non-binding) on these 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.

As of December 31, 2013, there were 65 individual securities that have been in a continuous unrealized loss position for twelve months or more. The majority of the $19.7 million unrealized loss were composed of 32 municipal securities with unrealized losses of $6.8 million, 5 positions in trust preferred securities with unrealized losses of $5.6 million, and 21 residential agency mortgage-backed securities with unrealized losses of $4.4 million. The remaining 7 securities or $2.9 million in unrealized losses were comprised of investment grade corporate debt and commercial agency mortgage-backed securities.

For complete discussion and disclosure see Note 5 to the Company s consolidated financial statements presented elsewhere in this report.

The following table sets forth certain information regarding the fair value of our investment securities available-for-sale, as well as the weighted average yields, and contractual maturity distribution, excluding periodic principal payments, of our available-for-sale portfolio at December 31, 2013.

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Table 6: *Yields and Maturities of Investment Securities*

	Within One Year Amount	Yield	After One But Within Five Years Amount	Yield	After Five But Within Ten Years Amount	Yield	After Ten Years Amount	Yield	Total Amount	Yield
					(Dollars in thousands)					
As of December 31, 2013										
Available-for-sale										
U.S. Treasury securities	$ 20,500	0.29%	$ 471,132	0.68%	$	%	$	%	$ 491,632	0.66%
U.S. Government agency and U.S. Government sponsored enterprise debt securities	352,913	1.61%	16,694	2.37%	24,716	3.71%		%	$ 394,323	1.77%
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:										
Commercial mortgage-backed securities	531	2.57%	2,102	3.93%	144,363	3.47%	31,874	3.79%	$ 178,870	3.53%
Residential mortgage-backed securities		%		%	13,816	1.35%	871,421	1.85%	$ 885,237	1.84%
Municipal securities	6,124	1.90%	25,915	2.66%	235,030	2.53%	13,910	3.73%	$ 280,979	2.59%
Other residential mortgage-backed securities:										
Investment grade		%		%		%	46,327	3.29%	$ 46,327	3.29%
Other commercial mortgage-backed securities:										
Investment grade		%		%	51,617	2.50%		%	$ 51,617	2.50%
Corporate debt securities:										
Investment grade	1,171	3.35%	26,450	1.91%	203,204	2.06%	79,170	1.60%	$ 309,995	1.94%
Non-investment grade	10,811	1.88%		%		%	4,290	3.89%	$ 15,101	2.49%
Other securities	9,920	2.33%		%	59,658	6.05%	10,138	6.31%	79,716	5.61%
Total investment securities available-for-sale	$ 401,970		$ 542,293		$ 732,404		$ 1,057,130		$ 2,733,797	

Covered Assets

Covered assets consist of loans receivable and OREO that were acquired in the WFIB Acquisition on June 11, 2010 and in the UCB Acquisition on November 6, 2009 for which the Company entered into 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 shares in the losses, which began with the first dollar of loss incurred, on the loan pools (including single-family residential mortgage loans, commercial loans, foreclosed loan collateral and other real estate owned) covered (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 with respect to covered assets. The Company has a corresponding obligation to reimburse the FDIC for 80% or 95%, as applicable, of eligible recoveries with respect to covered assets. For both acquisitions the shared-loss agreements for commercial and single-family residential mortgage loans 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.

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

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Table 7: *Composition of Covered Loan Portfolio*

	December 31,					
	2013			2012		
	Amount		Percent	Amount		Percent
	(In thousands)					
Real estate loans:						
Residential single-family	$	290,095	11.8%	$	362,345	10.5%
Residential multifamily		403,508	16.4%		647,440	18.8%
Commercial and industrial real estate		1,103,530	44.8%		1,348,556	39.1%
Construction and land		163,833	6.7%		417,631	12.1%
Total real estate loans	$	1,960,966	79.7%	$	2,775,972	80.5%
Other loans:						
Commercial business	$	426,621	17.3%	$	587,333	17.0%
Other consumer		73,973	3.0%		87,651	2.5%
Total other loans	$	500,594	20.3%	$	674,984	19.5%
Total principal balance	$	2,461,560	100.0%	$	3,450,956	100.0%
Covered discount		(265,917)			(510,208)	
Allowance on covered loans		(7,745)			(5,153)	
Total covered loans, net	$	2,187,898		$	2,935,595	

FDIC Indemnification Asset

The FDIC indemnification asset represents the present value of the amounts the Company expects to receive from the FDIC under the shared-loss agreements. The difference between the present value of undiscounted cash flow the Company expects to collect from the FDIC is accreted/(amortized) into noninterest income over the life of the FDIC indemnification asset. The FDIC indemnification asset was $74.7 million as of December 31, 2013, compared to $316.3 million as of December 31, 2012. For the years ended December 31, 2013 and 2012, the Company recorded $99.1 million and $33.8 million, respectively, of amortization in line with the improved accretable yield as discussed in Note 7 presented elsewhere in this report. The Company also recorded a $95.5 million and a $144.0 million reduction for the years ended December 31, 2013 and 2012, respectively, to the FDIC indemnification asset and recorded the adjustment to noninterest income (loss). The reduction in both years is primarily the result of covered loan payoffs. As these covered loans are removed from their respective pools, due to payoffs and charge-offs, the Company records a proportional amount of accretable yield into interest income. Correspondingly, the Company removes the indemnification asset associated with those removed loans and the adjustments are recorded into noninterest income. Additionally, during 2013 and 2012, respectively, $47.0 million and $17.0 million were recorded as the increase in the estimate of liability owed to the FDIC at the completion of the FDIC loss share agreements.

FDIC Receivable

As of December 31, 2013 and 2012, the FDIC loss-sharing receivable was $30.3 million and $73.1 million, respectively. This receivable represents 80% of reimbursable amounts from the FDIC, under the loss-sharing agreements that have not yet been received. These reimbursable amounts include net charge-offs, loan-related expenses and OREO-related expenses. 100% of the loan-related and OREO expenses are recorded as noninterest expense, 80% of any reimbursable expense is recorded as noninterest income, netting to the 20% of actual expense paid by the Company. The FDIC also 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. The FDIC loss-sharing receivable is included in other assets on the consolidated balance sheet.

For complete discussion and disclosure of covered assets, FDIC indemnification asset and FDIC receivable see Note 7 to the Company s consolidated financial statements presented elsewhere in this report.

Non-Covered Loans

We offer a broad range of products designed to meet the credit needs of our borrowers. Our lending activities consist of residential single-family loans, residential multifamily loans, income producing commercial real estate loans, land loans, construction loans, commercial business loans, trade finance loans, student loans, and other consumer loans. Net non-covered loans receivable increased $3.73 billion, or 31%, to $15.62 billion at December 31, 2013.

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

Table 8: *Composition of Loan Portfolio*

	December 31,									
	2013		2012		2011		2010		2009	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Residential:										
Single-family	$ 3,192,875	20%	$ 2,187,323	18%	$ 1,796,635	17%	$ 1,119,024	13%	$ 930,392	11%
Multifamily	992,434	6%	900,708	8%	933,168	9%	974,745	11%	1,022,383	12%
Total residential	$ 4,185,309	26%	$ 3,088,031	26%	$ 2,729,803	26%	$ 2,093,769	24%	$ 1,952,775	23%
Commercial Real Estate (CRE):										
Income producing	$ 4,301,030	27%	$ 3,644,035	30%	$ 3,487,866	34%	$ 3,392,984	39%	$ 3,606,178	43%
Construction	140,186	1%	121,589	1%	171,410	2%	278,047	3%	455,142	5%
Land	143,861	1%	129,071	1%	173,089	2%	235,707	3%	358,444	4%
Total CRE	$ 4,585,077	29%	$ 3,894,695	32%	$ 3,832,365	38%	$ 3,906,738	45%	$ 4,419,764	52%
Commercial and Industrial (C&I):										
Commercial business	$ 4,637,056	30%	$ 3,569,388	30%	$ 2,655,917	26%	$ 1,674,698	19%	$ 1,283,182	15%
Trade finance	723,137	5%	661,877	6%	486,555	4%	308,657	3%	220,528	3%
Total C&I	$ 5,360,193	35%	$ 4,231,265	36%	$ 3,142,472	30%	$ 1,983,355	22%	$ 1,503,710	18%
Consumer:										
Student loans	$ 679,220	4%	$ 475,799	4%	$ 306,325	3%	$ 490,314	6%	$ 395,151	5%
Other consumer	868,518	6%	269,083	2%	277,461	3%	243,212	3%	229,633	3%
Total consumer	$ 1,547,738	10%	$ 744,882	6%	$ 583,786	6%	$ 733,526	9%	$ 624,784	7%
Total gross loans	$ 15,678,317	100%	$ 11,958,873	100%	$ 10,288,426	100%	$ 8,717,388	100%	$ 8,501,033	100%
Unearned fees, premiums, and discounts, net	(23,672)		(19,301)		(16,762)		(56,781)		(43,529)	
Allowance for loan losses	(241,930)		(229,382)		(209,876)		(230,408)		(238,833)	
Loans held for sale	204,970		174,317		278,603		220,055		28,014	
Loans receivable, net	$ 15,617,685		$ 11,884,507		$ 10,340,391		$ 8,650,254		$ 8,246,685	

Residential Loans. The residential loan segment includes both single-family and multifamily loans. At December 31, 2013, $4.19 billion or 26% of the loan portfolio was residential real estate properties, compared to $3.09 billion or 26% at December 31, 2012.

The Bank offers adjustable rate (ARM) first mortgage loans secured by one-to-four unit residential properties located in its primary lending areas. The Bank originated $1.62 billion and $735.3 million in new residential single-family loans during 2013 and 2012, respectively.

The Bank also offers ARM residential multifamily loan programs. For the years ended December 31, 2013 and 2012, the Bank originated $247.1 million and $128.4 million, respectively, in multifamily residential loans. The Bank primarily offers ARM multifamily loan programs that have six-month, three-year, or five-year initial fixed periods and ARM single-family loan programs that have one-year or three-year initial fixed periods. The Bank originates single-family residential loans where the underwriting criteria are heavily based on a maximum loan to value ratio (generally of 60%) and no or limited verification or documentation of the borrower s assets is obtained. The Bank considers all of the single-family and multifamily loans originated to be prime loans and the underwriting criteria include maximum loan-to-value ratios and minimum debt coverage ratios, as applicable. The Bank has single-family loans with interest-only features which represents approximately less than 1% of total single-family loans at both December 31, 2013 and December 31, 2012. Additionally, the Bank owns residential loans that were purchased several years ago that permit different repayment options. For these loans, there is the potential for negative amortization if the borrower so chooses. These residential loans that permit different repayment options represent approximately less than 1% of total residential loans at both December 31, 2013 and December 31, 2012. None of these loans were negatively amortizing as of December 31, 2013 and December 31, 2012.

The Bank offered in 2013 and prior years a low loan documentation program for single family residential loans. These loans require a large down payment and a low loan to value LTV . These loans have historically experienced low delinquency and default rates. A majority of the 2013 single family residential loan originations were originated under this program. In 2014, this program was modified to be a non-qualified mortgage product also requiring a large down payment but requiring additional income or asset information to determine ability to repay.

Commercial Real Estate Loans. The commercial real estate loan segment includes income producing real estate loans, construction loans and land loans. We continue to originate commercial real estate loans that are advantageous opportunities for the Bank. Although real estate lending activities are collateralized by real property, these transactions are subject to similar credit evaluation, underwriting and monitoring standards as those applied to commercial business loans. Commercial real estate loans accounted for $4.59 billion or 29%, and $3.89 billion or 33%, of our non-covered loan portfolio at December 31, 2013, and 2012, respectively.

Since a significant portion of our real estate loans are secured by properties located in California, declines in the California economy and in real estate values could have a significant effect on the collectability of our loans and on the level of allowance for loan losses required.

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Commercial and Industrial Loans. The commercial and industrial loan segment includes commercial business and trade finance loans. We finance small and middle-market businesses in a wide spectrum of industries throughout California. Included in commercial business loans are loans for working capital, accounts receivable lines, inventory lines, small business administration loans and lease financing. Included in our trade finance loans are a variety of international trade services and products, including letters of credit, revolving lines of credit, import loans, bankers acceptances, working capital lines, domestic purchase financing and pre-export financing. At December 31, 2013, the commercial and industrial loans segment accounted for a total of $5.36 billion or 35% of our loan portfolio, compared to $4.23 billion or 35% at December 31, 2012. The increase in this loan segment is due to a focus during 2013 and going forward of growing the commercial and industrial loan portfolio while reducing our exposure to non income producing commercial real estate loans.

Most of our trade finance activities are related to trade with Asian countries. However, a majority of our loans are made to companies domiciled in the United States. A substantial portion of this business involves California based customers engaged in import and export activities. We also offer export-import financing to various domestic and foreign customers. Certain trade finance loans may be guaranteed by the Export-Import Bank of the United States or the Export-Import Bank of China. Our trade finance portfolio as of December 31, 2013 primarily represents loans made to borrowers that import goods into the U.S as well as some export of goods to China. These financings are generally made through letters of credit ranging from $100 thousand to $1 million. At December 31, 2013, total unfunded commitments related to trade finance loans decreased 5% to $660.9 million, compared to $697.2 million at December 31, 2012.

Consumer Loans. The consumer loans segment includes student loans and other consumer loans. Consumer loans increased from $744.9 million at December 31, 2012 to $1.55 billion at December 31, 2013, an increase of 108%. A majority of our student loans are 100% guaranteed by the U.S Department of Education. The other consumer loan portfolio is mainly comprised of home equity lines of credit, consumer insurance premium financing loans and auto loans.

Loans Held for Sale. At December 31, 2013, loans held for sale are mainly comprised of the student loans segment. Loans held for sale totaled $205.0 million and $174.3 million as of December 31, 2013 and 2012, respectively. During 2013, in total, loans receivable of $97.1 million were reclassified to loans held for sale. These loans were purchased by the Company with the intent to be held for investment; however, subsequent to the loan s purchase, the Company s intent for these loans changed and they were consequently reclassified to loans held for sale. Proceeds from sales of loans held for sale were $117.3 million in 2013, resulting in net gains on sales of $4.0 million. Proceeds from sales of loans held for sale were $351.9 million and $652.7 million in 2012 and 2011, respectively. Net gains on sales were $14.6 million in 2012 compared to $14.5 million in 2011.

Foreign Loans At December 31, 2013 $384.9 million of loans were held in our overseas offices, including our Hong Kong branch and our subsidiary bank in China. These loans represent 2% of total consolidated assets. These loans are included in the *Composition of Loan Portfolio* table above.

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Table 9: *Maturity of Loan Portfolio*

	Within One Year	After One But Within Five Years	More Than Five Years	Total
		(In thousands)		
Residential	$ 73,202	$ 173,010	$ 3,939,097	$ 4,185,309
Commercial Real Estate	544,419	2,056,942	1,983,716	4,585,077
Commercial and Industrial	3,439,960	1,232,288	687,945	5,360,193
Consumer	11,738	20,847	1,515,153	1,547,738
Total	$ 4,069,319	$ 3,483,087	$ 8,125,911	$ 15,678,317

As of December 31, 2013, outstanding loans, including projected prepayments, scheduled to be repriced within one year, after one but within five years, and in more than five years, excluding nonaccrual loans, are as follows:

Table 10: *Loans Scheduled to be Repriced*

	Within One Year	After One But Within Five Years	More Than Five Years	Total
		(In thousands)		
Total fixed rate	$ 635,801	$ 323,000	$ 882,410	$ 1,841,211
Total variable rate	7,069,247	4,680,849	2,087,010	13,837,106
Total	$ 7,705,048	$ 5,003,849	$ 2,969,420	$ 15,678,317

Non-covered Nonperforming Assets

Generally, the Company s policy is to place a loan on nonaccrual status if principal or interest payments are past due in excess of 90 days or the full collection of principal or interest becomes uncertain, regardless of the length of past due status. When a loan reaches nonaccrual status, any interest accrued on the loan is reversed and charged against current income. In general, subsequent payments received are applied to the outstanding principal balance of the loan. Nonaccrual loans that demonstrate a satisfactory payment trend for several months are returned to full accrual status subject to management s assessment of the full collectability of the loan.

Non-covered nonperforming assets are comprised of nonaccrual loans, accruing loans past due 90 days or more, and non-covered other real estate owned, net. Non-covered nonperforming assets totaled $130.6 million, or 0.53% of total assets at December 31, 2013, and $141.0 million, or 0.63% of total assets, at December 31, 2012. Nonaccrual loans totaled $111.7 million and $108.1 million at December 31, 2013 and 2012, respectively. During 2013, we took actions to reduce our exposure to problem assets. In conjunction with these efforts, we sold $22.1 million in non-covered OREO properties during 2013. Also during 2013, we sold notes with a carrying value of $15.1 million for proceeds of $16.1 million and no loans were issued to facilitate sale of loans. Net charge-offs for non-covered nonperforming loans were $3.6 million for the year ended December 31, 2013. For non-covered OREO properties, write-downs of $1.4 million were recorded for the year ended December 31, 2013.

All $15.1 million of our problem loan sales during 2013 were all-cash transactions. Problem loans are sold on a servicing released basis and the shortfall between the loan balance and any new note is charged-off. If the sale of a problem loan is financed, a substantial down payment, typically 20% or greater, is received from the new borrower purchasing the problem loan. The underlying sales agreements provide for full recourse to the new borrower and require that periodic updated financial information be provided to demonstrate their ability to service the new loan. The Company maintains no effective control over any sold loans.

Loans totaling $202.9 million were placed on nonaccrual status during 2013. Loans totaling $40.5 million which were not 90 days past due as of December 31, 2013 were included in nonaccrual loans as of December 31, 2013. Additions to nonaccrual loans during 2013 were offset by $16.3 million in gross charge-offs, $135.7 million in payoffs and principal paydowns, $9.4 million in loans that were transferred to other real estate owned, $2.0 million in loan sales and $35.9 million in loans brought current. Additions to nonaccrual loans during the year ended December 31, 2013 were comprised of $95.1 million in commercial real estate loans, $55.3 million in residential loans, $46.9 million in commercial and industrial loans and $5.6 million in consumer loans.

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The Company had $71.8 million and $94.6 million in total performing troubled debt restructured loans as of December 31, 2013 and 2012, respectively. Nonperforming TDR loans were $11.1 million and $10.0 million at December 31, 2013 and 2012, respectively, and are included in nonaccrual loans. Included in the total restructured loans as of December 31, 2013 and 2012 were $4.3 million and $34.8 million in performing A/B notes, respectively. In A/B note restructurings, the original note is bifurcated into two notes where the A note represents the portion of the original loan which allows for acceptable loan-to-value and debt coverage on the collateral and is expected to be collected in full and the B note represents the portion of the original loan where there is a shortfall in value and is fully charged-off. The A/B note is comprised of A note balances only. A notes are not disclosed as TDRs in years after the restructuring if the restructuring agreement specifies an interest rate equal to or greater than the rate that the Bank was willing to accept at the time of the restructuring for a new loan with comparable risk and the loan is performing based on the terms specified by the restructuring agreement. As of December 31, 2013, restructured loans were comprised of $21.0 million in residential loans, $41.0 million in commercial real estate loans, $20.2 million in commercial and industrial loans, and $747 thousand in consumer loans.

Non-covered other real estate owned includes properties acquired through foreclosure or through full or partial satisfaction of loans. As of December 31, 2013, the Company had OREO properties with a combined carrying value of $18.9 million. Approximately 30% and 68% of the carrying value of OREO properties as of December 31, 2013 were located in California and Nevada, respectively. During 2013, the Company foreclosed on properties with an aggregate carrying value of $9.4 million as of the foreclosure date. Additionally, the Company recorded $1.4 million in write-downs. During this period, the Company also sold 35 OREO properties for total proceeds of $25.5 million resulting in a total net gain on sale of $3.5 million. As of December 31, 2012, the Company had OREO properties with a carrying value of $32.9 million. During 2012, the Company foreclosed on properties with an aggregate carrying value of $40.6 million as of the foreclosure date. Additionally, the Company recorded $5.1 million in write-downs. During this period, the Company also sold 47 OREO properties for total proceeds of $34.1 million resulting in a total net gain on sale of $232 thousand and recoveries totaling $2.0 million. During the year ended December 31, 2011, the Company sold 51 OREO properties for total proceeds of $26.6 million for a net loss on sale of $151 thousand and charges against the allowance for loan losses totaling $780 thousand.

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

Table 11: *Nonperforming Assets*

				December 31,						
	2013		**2012**		**2011**		**2010**		**2009**	
					(Dollars in thousands)					
Nonaccrual loans	$	111,651	$	108,109	$	145,632	$	172,929	$	173,180
Loans 90 or more days past due but not on nonaccrual										
Total nonperforming loans	$	111,651	$	108,109	$	145,632	$	172,929	$	173,180
Non-covered other real estate owned, net		18,900		32,911		29,350		21,865		13,832
Total nonperforming assets	$	130,551	$	141,020	$	174,982	$	194,794	$	187,012
Performing restructured loans	$	71,826	$	94,580	$	99,603	$	122,139	$	114,800
Total nonperforming assets to total assets		0.53%		0.63%		0.80%		0.94%		0.91%
Allowance for loan losses to nonperforming loans		216.68%		212.18%		144.11%		133.24%		137.91%
Nonperforming loans to total gross non-covered loans		0.70%		0.89%		1.38%		1.93%		2.04%

Covered nonperforming assets totaled $148.3 million, representing less than 1% of total assets at December 31, 2013. These covered nonperforming assets are subject to the shared-loss agreements with the FDIC.

We evaluate loan impairment according to the provisions of ASC 310-10-35, *Receivables Overall Subsequent Measurement*. Under ASC 310-10-35, loans are considered impaired when it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement, including scheduled interest payments. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan s effective interest rate or, as an expedient, at the loan s observable market price or the fair value of the collateral if the loan is collateral dependent, less costs to sell. If the measure of the impaired loan is less than the recorded investment in the loan and the loan is classified as nonperforming and uncollectible, the deficiency will be charged off against the allowance for loan losses. Also, in accordance with ASC 310-10-35, loans that are considered impaired are specifically excluded from the quarterly migration analysis when determining the amount of the general valuation allowance for loan losses required for the period.

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For collateral dependent loans, an appraisal or evaluation is normally obtained to ensure the loan value is charged down to the fair value of the collateral. Appraisals are obtained from third party appraisers and reviewed by management. Evaluations are obtained from third-parties or prepared internally and are also reviewed by management. Updated appraisals and evaluations are obtained on a regular basis or at least annually, for impaired loans and other real estate owned. Further, on a quarterly basis, all appraisals and evaluations of nonperforming assets are reviewed to assess the current carrying value and to ensure that the current carrying value is appropriate. In calculating the discount to be applied to an appraisal or evaluation, if necessary, the Company would consider the location of collateral, the property type, and third party comparable sales. If it is assessed by management that the current value is not appropriate adjustments to the carrying value will be calculated and a charge-off may be taken to reduce the loan or the other real estate owned to the appropriate adjusted carrying value.

At December 31, 2013, the Company s total recorded investment in impaired loans was $183.5 million, compared with $200.5 million at December 31, 2012. The decrease in impaired loans is largely due to a decrease in nonperforming loans. All nonaccrual and doubtful loans held for investment are included in impaired loans. Impaired loans at December 31, 2013 are comprised of income producing commercial real estate loans totaling $65.3 million, multifamily loans totaling $41.1 million, commercial business loans totaling $39.5 million, single-family loans totaling $15.2 million, CRE land loans totaling $12.3 million, CRE construction loans totaling $6.9 million and other consumer loans totaling $3.2 million. As of December 31, 2013, the allowance for loan losses included $24.1 million for impaired loans with a total recorded balance of $73.5 million. As of December 31, 2012, the allowance for loan losses included $11.5 million for impaired loans with a total recorded balance of $33.3 million.

Our average recorded investment in impaired loans during 2013 and 2012 totaled $185.4 million and $214.0 million, respectively. During 2013 and 2012, gross interest income that would have been recorded on nonaccrual loans, had they performed in accordance with their original terms, totaled $7.4 million and $7.2 million, respectively. Of this amount, actual interest recognized on nonaccrual loans, on a cash basis, was $2.3 million and $2.3 million, respectively.

Allowance for Loan Losses

We are committed to maintaining the allowance for loan losses at a level that is commensurate with the estimated inherent loss in the loan portfolio. In addition to regular quarterly reviews of the allowance for loan losses, we perform an ongoing assessment of the risks inherent in the loan portfolio. The allowance for loan losses is increased by the provision for loan losses which is charged against current period operating results, and is increased or decreased by the amount of net recoveries or charge-offs, respectively, during the period. While we believe that the allowance for loan losses is appropriate at December 31, 2013, future additions to the allowance will be subject to a continuing evaluation of inherent risks in the loan portfolio.

Non-covered Loans

At December 31, 2013, the allowance for loan losses on non-covered loans amounted to $241.9 million, or 1.54% of total non-covered loans receivable, compared with $229.4 million or 1.92% of total non-covered loans receivable at December 31, 2012. The $12.5 million increase in the allowance for loan losses on non-covered loans at December 31, 2013, from year-end 2012, is primarily related to loan growth partially offset by the continued improvement in credit quality of the loan portfolio.

Credit quality remains stable as nonaccrual loans increased slightly as compared to 2012. Net charge-offs on non-covered loans also decreased compared to 2012. However, the allowance for loan losses on non-covered loans continues to increase due to the new originations. As of December 31, 2013, allowance related to residential, commercial and industrial, and consumer loans increased as compared to December 31, 2012, commensurate with the growth in these portfolios. The allowance related to commercial real estate loans decreased as of December 31, 2013, as compared to December 31, 2012, due to ongoing improvements in credit quality in this loan category.

The allowance for unfunded loan commitments, off-balance sheet credit exposures, and recourse provisions is included in accrued expenses and other liabilities and amounted to $11.3 million and $9.4 million at December 31, 2013 and 2012, respectively. Net adjustments to the allowance for unfunded loan commitments, off-balance sheet credit exposures and recourse provisions are included in the provision for loan losses.

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We recorded $18.3 million in loan loss provisions on non-covered loans during 2013. In comparison, we recorded $60.2 million in loan loss provisions on non-covered loans during 2012. During 2013, we recorded $3.6 million in net charge-offs on non-covered loans representing 0.03% of average non-covered loans outstanding during the year. In comparison, we recorded net charge-offs totaling $42.2 million, or 0.38% of average non-covered loans outstanding in 2012.

Covered Loans

At December 31, 2013, included in covered loans are $320.2 million of additional advances under the shared-loss agreements which are not accounted for under ASC 310-30, and are subject to the allowance for loan losses on covered loans. The Bank has considered these additional advances on commitments covered under the shared-loss agreements in the allowance for loan losses calculation. These additional advances are within our loan segments as follows: $230.6 million of commercial and industrial loans, $46.7 million of commercial real estate loans, $30.9 million of consumer loans and $12.0 million of residential loans. In comparison, at December 31, 2012, included in covered loans were $431.7 million of additional advances under the shared-loss agreements which were not accounted for under ASC 310-30, and are subject to the allowance for loan losses on covered loans. These additional advances were within our loan segments as follows: $302.3 million of commercial and industrial loans, $83.4 million of commercial real estate loans, $34.5 million of consumer loans and $11.5 million of residential loans.

At December 31, 2013, the total allowance for loan losses on covered loans amounted to $7.7 million, compared with $5.2 million at December 31, 2012. The increase in the allowance for loan losses on covered loans at December 31, 2013, compared to the year ended 2012, primarily reflects $4.0 million in additional loan loss provisions, less $1.4 million in net charge-offs recorded during 2013, specifically during the second quarter of 2013. Within the $7.7 million in total allowance for loan losses on covered loans at December 31, 2013 is $5.5 million related to covered loans outside of scope of ASC 310-30, which is allocated within our loan segments as follows: $3.2 million for commercial and industrial loans, $1.8 million for commercial real estate loans, $341 thousand for consumer loans and $176 thousand for residential loans. The remaining $2.2 million of allowance for loans losses on covered loans under ASC 310-30 is allocated mainly to the portfolio s commercial real estate segment.

We recorded $4.0 million of loan loss provisions on covered loans including $1.8 million outside the scope of ASC 310-30 and $2.2 million under ASC 310-30 during the full year of 2013. In comparison, we recorded loan loss provisions of $5.0 million on covered loans outside the scope of ASC 310-30 and no provision for loan losses on covered loans under ASC 310-30 was recorded, during the full year of 2012. There were $1.4 million in net charge-offs recorded on covered loans outside the scope of ASC 310-30, for the full year of 2013. In comparison, the Company recorded a net charge-offs of $6.5 million on these loans for the full year of 2012. There were no charge-offs recorded in either full year of 2013 or 2012 for the covered loans under ASC 310-30 that were beyond the loan pools associated discount.

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

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Table 12.1: *Allowance for Loan Losses 2013, 2012, 2011 and 2010*

	Year Ended December 31, 2013	2012	2011	2010
	(Dollars in thousands)			
NON-COVERED LOANS				
Allowance for non-covered loans, beginning of year	$ 229,382	$ 209,876	$ 230,408	$ 238,833
Allowance for unfunded loan commitments and letters of credit	(2,157)	1,563	(1,048)	(1,833)
Provision for loan losses, excluding covered loans	18,336	60,168	92,584	195,934
Gross charge-offs:				
Residential	3,197	7,700	13,323	49,685
Commercial real estate	3,357	27,060	78,803	137,460
Commercial and industrial	7,405	21,818	30,606	35,479
Consumer	2,385	1,824	1,959	2,579
Total gross charge-offs	16,344	58,402	124,691	225,203
Gross recoveries:				
Residential	2,647	1,614	596	1,626
Commercial real estate	4,793	9,482	4,691	10,073
Commercial and industrial	4,392	4,970	7,041	10,116
Consumer	881	111	295	862
Total gross recoveries	12,713	16,177	12,623	22,677
Net charge-offs	3,631	42,225	112,068	202,526
Allowance balance for non-covered loans, end of year	$ 241,930	$ 229,382	$ 209,876	$ 230,408
COVERED LOANS				
Allowance for covered loans not accounted under ASC 310-30, beginning of period *(1)*	$ 5,153	$ 6,647	$ 4,225	$
Provision for loan losses on covered loans not accounted under ASC 310-30	1,759	5,016	2,422	4,225
Gross chargeoffs:				
Commercial real estate	380	1,535		
Commercial and industrial	1,055	4,974		
Consumer	1	1		
Total gross charge-offs	1,436	6,510		
Allowance for covered loans not accounted under ASC 310-30, end of period *(1)*	$ 5,476	$ 5,153	$ 6,647	$ 4,225
Allowance for covered loans accounted under ASC 310-30, beginning of period *(2)*	$	$	$	$
Provision for loan losses on covered loans accounted under ASC 310-30	2,269			
Allowance for covered loans accounted under ASC 310-30, end of period *(2)*	2,269			
Allowance balance for covered loans, end of year	$ 7,745	$ 5,153	$ 6,647	$ 4,225
Average non-covered loans outstanding	$ 13,734,759	$ 11,023,745	$ 9,668,106	$ 8,634,283
Total gross non-covered loans outstanding, end of year	$ 15,678,317	$ 11,958,873	$ 10,288,426	$ 8,717,388
Net chargeoffs on non-covered loans to average non-covered loans	0.03%	0.38%	1.16%	2.35%
Allowance for non-covered loan losses to total gross non-covered loans held for investment at end of year	1.54%	1.92%	2.04%	2.64%

(1) This allowance is related to drawdowns on commitments that were in existence as of the acquisition dates of WFIB and UCB, and therefore, are covered under the shared-loss agreements with the FDIC but are not accounted for under ASC 310-30. Part of allowance on these subsequent drawdowns is accounted for as the allowance for loan losses.

(2) This allowance is related to loans covered under share-loss agreement with the FDIC, accounted for under ASC 310-30.

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Table 12.2: *Allowance for Loan Losses 2009*

	Year Ended December 31, 2009 *(1)*	
	(Dollars in thousands)	
Allowance balance, beginning of year	$	178,027
Allowance for unfunded loan commitments and letters of credit		(1,778)
Provision for loan losses		528,666
Impact of desecuritization		9,262
Gross chargeoffs:		
Residential single-family		33,778
Multifamily real estate		20,153
Commercial and industrial real estate		159,969
Construction		206,732
Commercial business		53,152
Trade finance		6,868
Automobile		85
Other consumer		4,519
Total gross chargeoffs		485,256
Gross recoveries:		
Residential single-family		771
Residential multifamily		617
Commercial and industrial real estate		2,213
Construction		3,312
Commercial business		2,684
Trade finance		237
Automobile		50
Other consumer		28
Total gross recoveries		9,912
Net chargeoffs		475,344
Allowance balance, end of year	$	238,833
Average loans outstanding	$	8,355,825
Total gross loans outstanding, end of year	$	8,501,033
Net chargeoffs to average loans		5.69%
Allowance for loan losses to total gross loans at end of year		2.81%

(1) There was no allowance for covered loans as of December 31, 2009.

Our methodology to determine the allowance is based on a loss migration model and qualitative considerations. The migration analysis looks at pools of loans having similar characteristics and analyzes their loss rates over a historical period. We utilize historical loss factors derived from trends and losses associated with each pool over a specified period of time. Based on this process, we assign loss factors to each loan grade within each pool of loans. Loss rates derived by the migration model are based predominantly on historical loss trends that may not be indicative of the actual or inherent loss potential. As such, we utilize qualitative and environmental factors as adjusting mechanisms to supplement the historical results of the classification migration model. Qualitative considerations include, but are not limited to, prevailing economic or market conditions, relative risk profiles of various loan segments, volume concentrations, growth trends, delinquency and nonaccrual status, problem loan trends, and geographic concentrations. Qualitative and environmental factors are reflected as percent adjustments and are added to the historical loss rates derived from the classified asset migration model to determine the appropriate allowance amount for each loan pool.

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The following table reflects the Company s allocation of the allowance for loan losses by loan segment and the ratio of each loan segment to total loans as of the dates indicated.

Table 13.1: *Allowance for Loan Losses by Loan Segment 2013 and 2012*

	At December 31,			
	2013		2012	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Residential	$ 50,717	26%	$ 49,349	26%
Commercial Real Estate	64,677	29%	69,856	33%
Commercial and Industrial	115,184	35%	105,376	35%
Consumer	11,352	10%	4,801	6%
Covered loans subject to general reserves	7,745	%	5,153	%
Total	$ 249,675	100%	$ 234,535	100%

The increase of $15.1 million in the allowance for loan losses at December 31, 2013, relative to year-end 2012, was primarily due to increases in the allowance for loan losses on commercial and industrial and consumer loans, commensurate with the increase in these portfolios.

Deposits

We offer a wide variety of deposit account products to both consumer and commercial customers. Total deposits increased $2.10 billion to $20.41 billion at December 31, 2013, as compared to $18.31 billion at December 31, 2012. The increase in total deposits was due to increases of $1.29 billion in noninterest-bearing demand deposits, $519.1 million in interest-bearing checking accounts, $383.4 million in money market accounts, and $212.2 million in savings deposits. The increase was partially offset by a decrease of $297.3 million, or 5%, in time deposits. During 2013, we grew deposits from our retail network and commercial customers by $2.45 billion and decreased brokered deposits by $343.4 million. At December 31, 2013, $840.8 million or 4% of total deposits were held in our overseas offices, including our Hong Kong branch and our subsidiary bank in China.

As of December 31, 2013, time deposits within the Certificate of Deposit Account Registry Service (CDARS) program decreased to $203.3 million, compared to $260.5 million at December 31, 2012. The CDARS program allows customers with deposits in excess of FDIC-insured limits to obtain full coverage on time deposits through a network of banks within the CDARS program. Additionally, we partner with another financial institution to offer a retail sweep product for non-time deposit accounts to provide added deposit insurance coverage for deposits in excess of FDIC-insured limits. Deposits gathered through these programs are considered brokered deposits under current regulatory reporting guidelines.

Public deposits increased 10% to $1.20 billion at December 31, 2013, from $1.09 billion at December 31, 2012. A large portion of these public funds are comprised of deposits from the State of California.

Time deposits greater than $100 thousand were $4.15 billion, representing 20% of the deposit portfolio at December 31, 2013. These accounts, consisting primarily of deposits by consumers, had a weighted average interest rate of 0.88% at December 31, 2013. The following table provides the remaining maturities at December 31, 2013 of time deposits greater than $100 thousand:

Table 14: *Time Deposits $100,000 or Greater*

	December 31, 2013 *(In thousands)*
3 months or less	$ 1,410,102
Over 3 months through 6 months	755,116
Over 6 months through 12 months	1,013,251
Over 12 months	967,029
Total	$ 4,145,498

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Borrowings

We utilize a combination of short-term and long-term borrowings to manage our liquidity position. FHLB advances increased 1% to $315.1 million as of December 31, 2013, compared to $313.0 million at December 31, 2012. The increase in FHLB advances does not represent additional advances but rather is the accretion adjustment for the discount associated with these advances. During 2013, the Company did not prepay or modify any FHLB advances. In comparison, long-term FHLB advances totaling $93.0 million were prepaid, with prepayment penalties of $6.8 million during 2012. Also in 2012, the Company modified $300.0 million and $75.0 million of fixed rate FHLB advances into adjustable rate, reducing the effective interest rate on these borrowings by 91 basis points and 86 basis points, respectively. The remainder of the decrease in FHLB advances is due to a $48.2 million modification cost incurred by the Company during 2012 that has been deferred and treated as a discount on the corresponding debt.

In addition to FHLB advances, we also utilize securities sold under repurchase agreements (repurchase agreements) to manage our liquidity position. Repurchase agreements totaled $995.0 million as of December 31, 2013 and 2012. No short-term repurchase agreements were outstanding as of December 31, 2013 and 2012. The interest rates for the long-term repurchase agreements are largely fixed ranging from 2.49% to 5.01% as of December 31, 2013. The counterparties have the right to a quarterly call for many of the repurchase agreements. Repurchase agreements are accounted for as collateralized financing transactions and recorded at the amounts at which the securities were sold. The collateral for these agreements consist of U.S. Government agency and U.S. Government sponsored enterprise debt and mortgage-backed securities.

Long-Term Debt

Long-term debt comprised of junior subordinated debt and a term loan increased $89.7 million or 65% to $226.9 million as of December 31, 2013, compared to $137.2 million as of December 31, 2012. The increase of $89.7 million was primarily due to the $100.0 million advance from a three-year term loan agreement the Company entered into during 2013, partially offset by $10.3 million of higher cost junior subordinated debt that was called during 2013. The remaining long-term debt of $126.9 million is comprised of junior subordinated debt, issued in connection with our various pooled trust preferred securities offerings, which qualifies as Tier I and Tier II capital, for regulatory purposes, as applicable due to the phase-out. Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, bank holding companies with more than $15 billion in total consolidated assets will no longer be able to include trust preferred securities as Tier I regulatory capital which began in 2013 with complete phase-out by 2016.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

In the course of our business, we may enter into or be a party to transactions that are not recorded on the balance sheet and are considered to be off-balance sheet arrangements. Off-balance sheet arrangements are any contractual arrangements whereby an unconsolidated entity is a party, under which we have: (1) any obligation under a guarantee contract; (2) a retained or contingent interest in assets transferred to an unconsolidated entity or similar arrangement that serves as credit, liquidity or market risk support to that entity for such assets; (3) any obligation under certain derivative instruments; or (4) any obligation under a material variable interest held by us in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to us, or engages in leasing, hedging or research and development services with us.

Commitments

As a financial services provider, we routinely enter into commitments to extend credit to customers, such as loan commitments, commercial letters of credit for foreign and domestic trade, standby letters of credit, and financial guarantees. Many of these commitments to extend credit may expire without being drawn upon. The same credit policies are used in extending these commitments as in extending loan facilities to customers. Under some of these contractual agreements, the Company may also have liabilities contingent upon the occurrence of certain events. A schedule of significant commitments to extend credit to customers as of December 31, 2013 is as follows:

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Table 15: *Significant Commitments*

	December 31, 2013
	(In thousands)
Undisbursed loan commitments	$ 4,021,140
Standby letters of credit	1,090,721
Commercial letters of credit	67,961

A discussion of significant contractual arrangements under which the Company may be held contingently liable is included in Note 19 to the Company s consolidated financial statements presented elsewhere in this report. In addition, the Company has commitments and obligations under post-retirement benefit plans as described in Note 21 to the Company s consolidated financial statements presented elsewhere in this report.

Contractual Obligations

The following table presents, as of December 31, 2013, the Company s significant fixed and determinable contractual obligations, within the categories and payment dates described below. With the exception of operating lease obligations, these contractual obligations are included in the consolidated balance sheets. The payment amounts represent the amounts and interest contractually due to the recipient.

Table 16: *Contractual Obligations*

	Payment Due by Period					
	Less than 1 year	1-3 years	3-5 years	After 5 years	Indeterminate Maturity	Total
	(In thousands)					
Contractual Obligations						
Deposits	$ 4,609,926	$ 715,873	$ 441,238	$ 127,434	$14,679,494	$20,573,965
FHLB advances	1,998	3,995	3,995	337,564		347,552
Securities sold under repurchase agreements	40,360	561,570	81,085	501,031		1,184,046
Affordable housing/CRA investment commitments					73,116	73,116
Long-term debt obligations	4,171	107,470	4,843	168,986		285,470
Operating lease obligations	23,356	34,058	18,987	21,400		97,801
Unrecognized tax liabilities		3,127	3,172			6,299
Postretirement benefit obligations	284	609	1,007	13,823		15,723
Total contractual obligations	$ 4,680,095	$ 1,426,702	$ 554,327	$ 1,170,238	$14,752,610	$22,583,972

Capital Resources

At December 31, 2013, stockholders equity totaled $2.36 billion, a 1% decrease from the year-end 2012 balance of $2.38 billion. The decrease is comprised of the following: (1) repurchase of treasury stock pursuant to the stock repurchase program totaling $200.0 million, representing 8,026,807 treasury stock shares; (2) accrual and payment of cash dividends on common and preferred stock totaling $86.7 million; (3) other comprehensive loss of $35.1 million; and (4) purchase of treasury shares related to restricted stock surrendered due to employee tax liability of $13.8 million, representing 508,518 shares. These transactions were offset by: (1) net income of $295.0 million; (2) stock compensation amounting to $13.6 million related to grants of restricted stock units; (3) tax benefits of $5.5 million from various stock plans; (4) issuance of common stock totaling $3.1 million, representing 323,737 shares, pursuant to various stock plans and agreements; and (5) issuance of shares pursuant to Director retainer fees of $630 thousand, representing 19,998 shares.

Historically, our primary source of capital has been the retention of operating earnings. In order to ensure adequate levels of capital, we conduct an ongoing assessment of projected sources, needs, and uses of capital in conjunction with projected increases in assets and the level of risk. As part of this ongoing assessment, the Board of Directors reviews the various components of capital and the adequacy of capital. As a result of the recently adopted federal regulatory changes to capital requirements, our Board of Directors, in consultation with management, will continue to assess the adequacy and components of our capital to ensure that we meet all required regulatory standards.

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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 proceeds from this offering were used to augment the Company s liquidity and capital positions and reduce its borrowings. See Note 22 of the Notes to Consolidated Financial Statements for additional information. On May 1, 2013, the Company exercised its mandatory conversion right related to all the outstanding shares of its Series A preferred stock. At the conversion date, the remaining 85,710 shares of outstanding Series A Preferred Stock were converted to 5,594,080 shares of common stock.

Risk-Based Capital

We are committed to maintaining capital at a level sufficient to assure our shareholders, our customers and our regulators that our company and our bank subsidiary are financially sound. We are subject to risk-based capital regulations and capital adequacy guidelines adopted by the federal banking regulators. These guidelines are used to evaluate capital adequacy and are based on an institution s asset risk profile and off-balance sheet exposures. According to these guidelines, institutions whose Tier I and total capital ratios meet or exceed 6.0% and 10.0%, respectively, may be deemed well-capitalized. At December 31, 2013, the Bank s Tier I and total capital ratios were 11.6% and 12.9%, respectively, compared to 14.3% and 15.6%, respectively, at December 31, 2012.

The following table compares East West Bancorp, Inc. s and East West Bank s actual capital ratios at December 31, 2013, to those required by regulatory agencies for capital adequacy and well-capitalized classification purposes:

Table 17: *Regulatory Required Ratios*

	East West Bancorp	**East West Bank**	**Minimum Regulatory Requirements**	**Well Capitalized Requirements**
Total Capital (to Risk-Weighted Assets)	13.5%	12.9%	8.0%	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	11.9%	11.6%	4.0%	6.0%
Tier 1 Capital (to Average Assets)	8.6%	8.4%	4.0%	5.0%

ASSET LIABILITY AND MARKET RISK MANAGEMENT

Liquidity

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

Our primary sources of liquidity are derived from financing activities which include the acceptance of customer and brokered deposits, federal funds facilities, repurchase agreement facilities, advances from the Federal Home Loan Bank of San Francisco, and issuances of long-term debt. These funding sources are augmented by payments of principal and interest on loans and securities. Primary uses of funds include withdrawal of and interest payments on deposits, originations and purchases of loans, purchases of investment securities, and payment of operating expenses.

During the years ended December 31, 2013, 2012 and 2011, we experienced net cash inflows from operating activities of $425.8 million, $287.5 million and $255.3 million, respectively. Net cash inflows from operating activities were primarily due to net income earned during the year.

Net cash outflows from investing activities totaled $2.73 billion, $758.9 million and $1.07 billion during 2013, 2012, and 2011, respectively. Net cash outflow from investing activities for 2013 were primarily due to loans and investment securities available-for-sale. Net cash outflow from investing activities for 2012 and 2011 were primarily due to investment securities available-for-sale and purchases of securities purchased under resale agreements.

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During the years ended December 31, 2013, 2012 and 2011, we experienced net cash inflows from financing activities of $1.88 billion, $364.2 million and $914.2 million, respectively. Net cash inflows from financing activities for 2013, 2012 and 2011 were primarily due to the increase in deposits.

As a means of augmenting our liquidity, we have available a combination of borrowing sources comprised of the Federal Reserve Bank s discount window, FHLB advances, federal funds lines with various correspondent banks, and several master repurchase agreements with major brokerage companies. We believe our liquidity sources to be stable and adequate to meet our day-to-day cash flow requirements. At December 31, 2013, we are not aware of any trends, events or uncertainties that had or were reasonably likely to have a material effect on our liquidity position. As of December 31, 2013, we are not aware of any material commitments for capital expenditures in the foreseeable future.

The liquidity of East West Bancorp, Inc. has historically been dependent on the payment of cash dividends by its subsidiary, East West Bank, subject to applicable statutes, regulations and special approval. For the years ended December 31, 2013 and 2012, total dividends paid by the Bank to East West Bancorp, Inc. amounted to $319.0 million and $324.0 million, respectively. In January 2014, $112.5 million in dividends were upstreamed to East West Bancorp. On January 22, 2014, the Board of Directors declared first quarter dividends on the Company s common stock and authorized common stock dividends of $0.18 per share for the first quarter of 2014.

Interest Rate Sensitivity Management

Our success is largely dependent upon our ability to manage interest rate risk, which is the impact of adverse fluctuations in interest rates on our net interest income and net portfolio value.

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

Our overall strategy is to minimize the adverse impact of immediate incremental changes in market interest rates (rate shock) on net interest income and net portfolio value. Net portfolio value is defined as the present value of assets, minus the present value of liabilities and off-balance sheet instruments. The attainment of this goal requires a balance between profitability, liquidity and interest rate risk exposure. To minimize the adverse impact of changes in market interest rates, we simulate the effect of instantaneous interest rate changes on net interest income and net portfolio value on a quarterly basis. The table below shows the estimated impact of changes in interest rates on net interest income and market value of equity as of December 31, 2013 and 2012, assuming a non-parallel shift of 100 and 200 basis points in both directions:

Table 18: *Rate Shock Table*

Change in Interest Rates (Basis Points)	Net Interest Income Volatility *(1)* December 31, 2013	Net Interest Income Volatility *(1)* December 31, 2012	Net Portfolio Value Volatility *(2)* December 31, 2013	Net Portfolio Value Volatility *(2)* December 31, 2012
+200	11.1 %	9.0 %	13.4 %	6.3 %
+100	4.9 %	4.0 %	6.1 %	2.4 %
-100	(0.5)%	(0.5)%	(1.8)%	(3.7)%
-200	(0.6)%	(0.8)%	(3.4)%	(6.8)%

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

(2) The percentage change represents net portfolio value of the Bank in a stable rate environment versus net portfolio value in the various rate scenarios.

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All interest-earning assets, interest-bearing liabilities and related derivative contracts are included in the interest rate sensitivity analysis at December 31, 2013 and 2012. In a declining rate environment, the interest rate floors on these loans contribute to the favorable impact on our net interest income. However, in a rising rate environment, these interest rate floors also serve to lessen the full benefit of higher interest rates. At December 31, 2013 and 2012, our estimated changes in net interest income and net portfolio value were within the ranges established by the Board of Directors.

Our primary analytical tool to gauge interest rate sensitivity is a simulation model used by many major banks and bank regulators, and is based on the actual maturity and repricing characteristics of interest-rate sensitive assets and liabilities. The model attempts to predict changes in the yields earned on assets and the rates paid on liabilities in relation to changes in market interest rates. As an enhancement to the primary simulation model, prepayment assumptions and market rates of interest provided by independent broker/dealer quotations, an independent pricing model and other available public sources are incorporated into the model. Adjustments are made to reflect the shift in the Treasury and other appropriate yield curves. The model also factors in projections of anticipated activity levels by product line and takes into account our increased ability to control rates offered on deposit products in comparison to our ability to control rates on adjustable-rate loans tied to the published indices.

The following table provides the outstanding principal balances and the weighted average interest rates of our financial instruments as of December 31, 2013. The information presented below is based on the repricing date for variable rate instruments and the expected maturity date for fixed rate instruments.

Table 19: *Expected Maturity for Financial Instruments*

	Expected Maturity or Repricing Date by Year						
	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Thereafter**	**Total**
	(Dollars in thousands)						
Assets:							
CD investments	$ 359,301	$	$	$	$	$	$ 359,301
Average yield (fixed rate)	3.76%	%	%	%	%	%	3.76%
Short-term investments	$ 381,574	$	$	$	$	$	$ 381,574
Weighted average rate	0.54%	%	%	%	%	%	0.54%
Securities purchased under resale agreements	$ 1,000,000	$ 50,000	$ 50,000	$	$ 200,000	$ 100,000	$ 1,400,000
Weighted average rate	1.34%	1.21%	4.00%	%	2.88%	3.38%	1.80%
Investment securities	$ 920,783	$ 255,115	$ 300,255	$ 256,484	$ 291,153	$ 710,007	$ 2,733,797
Weighted average rate	2.07%	2.44%	2.35%	2.34%	2.02%	3.41%	2.50%
Total covered gross loans	$ 2,064,928	$ 110,329	$ 88,633	$ 95,718	$ 58,041	$ 43,911	$ 2,461,560
Weighted average rate	4.38%	5.49%	5.22%	4.98%	5.10%	5.89%	4.53%
Total non-covered gross loans	$ 12,499,620	$ 992,660	$ 1,045,704	$ 463,388	$ 439,757	$ 442,158	$ 15,883,287
Weighted average rate	3.88%	4.94%	4.93%	5.16%	4.99%	5.75%	4.14%
Liabilities:							
Checking accounts	$ 1,471,284	$	$	$ &			