EAST WEST BANCORP INC
Form 10-K
February 27, 2019

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

FORM 10-K

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

For the fiscal year ended December 31, 2018

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 ¨

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes x No ¨

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

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

Large accelerated filer x Accelerated filer ¨ Emerging growth company ¨
Non-accelerated filer ¨ Smaller reporting company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

The aggregate market value of the registrant's common stock held by non-affiliates was approximately $9,400,135,868 (based on the June 30, 2018 closing price of Common Stock of $65.20 per share). As of January 31, 2019, 145,146,595 shares of East West Bancorp, Inc. Common Stock were outstanding.

DOCUMENT INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement relating to its 2019 Annual Meeting of Stockholders are incorporated by reference into Part III.

EAST WEST BANCORP, INC.
2018 ANNUAL REPORT ON FORM 10-K
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PART I

Forward-Looking Statements

This Annual Report on Form 10-K contains certain forward-looking information about us that is intended to be covered by the safe harbor for "forward-looking statements" provided by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements that are not historical facts. These statements relate to the Company's financial condition, results of operations, plans, objectives, future performance or business. They usually can be identified by the use of forward-looking language, such as "likely result in," "expects," "anticipates," "estimates," "forecasts," "projects," "intends to," "assumes," or may include other similar words or phrases, such as "believes," "plans," "trend," "objec "continues," "remains," or similar expressions, or future or conditional verbs, such as "will," "would," "should," "could," "may "might," "can," or similar verbs, and the negative thereof. You should not place undue reliance on these statements, as they are subject to risks and uncertainties, including, but not limited to, those described in the documents incorporated by reference. When considering these forward-looking statements, you should keep in mind these risks and uncertainties, as well as any cautionary statements the Company may make. Moreover, you should treat these statements as speaking only as of the date they are made and based only on information then actually known to the Company.

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

- the Company's ability to compete effectively against other financial institutions in its banking markets;
- success and timing of the Company's business strategies;
- the Company's ability to retain key officers and employees;
- impact on the Company's funding costs, net interest income and net interest margin due to changes in key variable market interest rates, competition, regulatory requirements and the Company's product mix;
- changes in the Company's costs of operation, compliance and expansion;
- the Company's ability to adopt and successfully integrate new technologies into its business in a strategic manner;
- impact of failure in, or breach of, the Company's operational or security systems or infrastructure, or those of third parties with whom the Company does business, including as a result of cyber attacks; and other similar matters which could result in, among other things, confidential and/or proprietary information being disclosed or misused;
- adequacy of the Company's risk management framework, disclosure controls and procedures and internal control over financial reporting;
- future credit quality and performance, including the Company's expectations regarding future credit losses and allowance levels;
- impact of adverse changes to the Company's credit ratings from major credit rating agencies;
- impact of adverse judgments or settlements in litigation;
- changes in the commercial and consumer real estate markets;
- changes in consumer spending and savings habits;
- changes in the United States ("U.S.") economy, including inflation, deflation, employment levels, rate of growth and general business conditions;
- changes in government interest rate policies;
- impact of benchmark interest rate reform in the U.S. that resulted in the Secured Overnight Financing Rate ("SOFR") selected as the preferred alternative reference rate to the London Interbank Offered Rate ("LIBOR");
- impact of political developments, wars or other hostilities that may disrupt or increase volatility in securities or otherwise affect economic conditions;
- changes in laws or the regulatory environment including regulatory reform initiatives and policies of the U.S. Department of Treasury, the Board of Governors of the Federal Reserve Board System ("Federal Reserve"), the Federal Deposit Insurance Corporation ("FDIC"), the Office of the Comptroller of the Currency (the "OCC"), the U.S. Securities

and Exchange Commission (“SEC”), the Consumer Financial Protection Bureau (“CFPB”) and the California Department of Business Oversight (“DBO”) - Division of Financial Institutions;

- impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) on the Company’s business, business practices, cost of operations and executive compensation;
- heightened regulatory and governmental oversight and scrutiny of the Company’s business practices, including dealings with consumers;
- impact of reputational risk from negative publicity, fines and penalties and other negative consequences from regulatory violations and legal actions and from the Company’s interactions with business partners, counterparties, service providers and other third parties;
- impact of regulatory enforcement actions;

- changes in accounting standards as may be required by the Financial Accounting Standards Board ("FASB") or other regulatory agencies and their impact on critical accounting policies and assumptions;
- changes in income tax laws and regulations and the impact of the Tax Cuts and Jobs Act of 2017 (the "Tax Act");
- impact of other potential federal tax changes and spending cuts;
- the Company's capital requirements and its ability to generate capital internally or raise capital on favorable terms;
- changes in the Company's ability to receive dividends from its subsidiaries;
- any future strategic acquisitions or divestitures;
- continuing consolidation in the financial services industry;
- changes in the equity and debt securities markets;
- fluctuations in the Company's stock price;
- fluctuations in foreign currency exchange rates;
- a recurrence of significant turbulence or disruption in the capital or financial markets, which could result in, among other things, a reduction in the availability of funding or increases in funding costs, a reduction in investor demand for mortgage loans and declines in asset values and/or recognition of other-than-temporary impairment ("OTTI") on securities held in the Company's available-for-sale investment securities portfolio;
- changes in the economy of and monetary policy in the People's Republic of China; and
- impact of natural or man-made disasters or calamities or conflicts or other events that may directly or indirectly result in a negative impact on the Company's financial performance.

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 or revise any forward-looking statements to reflect the occurrence of events or circumstances after the date of such statements except as required by law.

ITEM 1. BUSINESS

Organization

East West Bancorp, Inc. (referred to herein on an unconsolidated basis as "East West" and on a consolidated basis as the "Company", "we", or "EWBC") is a bank holding company incorporated in Delaware on August 26, 1998 and is registered under the Bank Holding Company Act of 1956, as amended ("BHC Act"). The Company commenced business on December 30, 1998 when, pursuant to a reorganization, it acquired all of the voting stock of East West Bank (the "Bank"), which became its principal asset. In addition to the Bank, East West has six subsidiaries as of December 31, 2018 that were established as statutory business trusts for the purpose of issuing junior subordinated debt to third party investors. East West also owns East West Insurance Services, Inc. ("EWIS"). In the third quarter of 2017, the Company sold the insurance brokerage business of EWIS for $4.3 million, and recorded a pre-tax gain of $3.8 million. EWIS remains a subsidiary of East West and continues to maintain its insurance broker license.

East West's principal business is to serve as a holding company for the Bank and other banking or banking-related subsidiaries that East West may establish or acquire. As a legal entity separate and distinct from its subsidiaries, East West's principal source of funds is, and will continue to be, dividends that may be paid by its subsidiaries. As of December 31, 2018, the Company had $41.04 billion in total assets, $32.07 billion in total loans (including loans held-for-sale, net of allowance), $35.44 billion in deposits and $4.42 billion in total stockholders' equity.

As of December 31, 2018, the Bank has three wholly-owned subsidiaries. The first subsidiary, E-W Services, Inc., is a California corporation organized by the Bank in 1977 to hold properties used by the Bank in its operations. The second subsidiary, East-West Investment, Inc., primarily acts as a trustee in connection with real estate secured loans. The remaining subsidiary is East West Bank (China) Limited, a banking subsidiary in China.

On November 11, 2017, the Bank entered into a Purchase and Assumption Agreement to sell all eight of its Desert Community Bank ("DCB") branches to Flagstar Bank, a wholly-owned subsidiary of Flagstar Bancorp, Inc. The sale of the Bank's eight DCB branches was completed on March 17, 2018. The assets and liability of the DCB branches that were sold in this transaction primarily consisted of $613.7 million of deposits, $59.1 million of loans, $9.0 million of cash and cash equivalents, and $7.9 million of premises and equipment. The transaction resulted in a net cash payment of $499.9 million by the Bank to Flagstar Bank. After transaction costs, the sale resulted in a pre-tax gain of $31.5 million during the year ended December 31, 2018, which was reported as Net gain on sale of business on the Consolidated Statement of Income.

The Bank continues to develop its international banking presence with its network of overseas branches and representative offices that include five full-service branches in Greater China, located in Hong Kong, Shanghai, Shantou and Shenzhen. The Bank has two branches in Shanghai with one in the Shanghai Pilot Free Trade Zone. The Bank also has five representative offices in Greater China, located in Beijing, Chongqing, Guangzhou, Taipei and Xiamen. In addition to facilitating traditional letters of credit and trade financing to businesses, these representative offices allow the Bank to assist existing clients and to develop new business relationships. Through these branches and offices, the Bank is focused on growing its cross-border client base between the U.S. and Greater China, helping U.S. based businesses expand in Greater China and companies based in Greater China pursue business opportunities in the U.S.

The Bank continues to explore opportunities to establish other foreign offices, subsidiaries, strategic investments and partnerships to expand its international banking capabilities and to capitalize on long-term cross-border business opportunities between the U.S. and Greater China.

Banking Services

As of December 31, 2018, the Bank was the fifth largest independent commercial bank headquartered in California based on total assets. The Bank is the largest bank in the U.S. focused on the financial service needs of individuals and businesses that operate both in the U.S. and Greater China. The Bank also has a strong focus on the Chinese-American community. Through its network of over 130 banking locations in the U.S. and Greater China, the Bank provides a wide range of personal and commercial banking services to businesses and individuals. The Bank provides multilingual services to its customers in English, Mandarin, Cantonese, Spanish, Vietnamese, Tagalog and Taiwanese. The Bank also offers a variety of deposit products that include personal and business checking and savings accounts, money market, time deposits, individual retirement accounts and also offer foreign exchange, and wealth management services. The Bank’s lending activities include commercial and residential real estate, lines of credit, construction, trade finance, letters of credit, commercial business, affordable housing loans, asset-based lending and equipment financing. In addition, the Bank is focused on providing financing to clients in need of a financial bridge to facilitate their business transactions between the U.S. and Greater China.

Operating Segments

The Bank's three operating segments, Consumer and Business Banking, Commercial Banking and Other, are based on the Bank's core strategy. The Consumer and Business Banking segment provides financial service products and services to consumer and commercial customers through the Company's branch network in the U.S. The Commercial Banking segment primarily generates commercial loans and deposits through commercial lending offices located in the U.S. and Greater China. The remaining centralized functions, including the treasury activities of the Company and elimination of inter-segment amounts are aggregated and included in the Other segment. For complete discussion and disclosure, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") — Operating Segment Results and Note 20 — Business Segments to the Consolidated Financial Statements.

Market Area and Competition

The Bank operates in a highly competitive environment. The Company faces competition from domestic and foreign lending institutions and numerous other providers of financial services. Competition is based on a number of factors including, among others, customer service, quality and range of products and services offered, reputation, interest rates on loans and deposits, lending limits and customer convenience. Competition also varies based on the types of customers and locations served. The Company has the leading banking market share among the Chinese-American community, and maintains a differentiated presence within selected markets by providing cross-border expertise to customers in a number of industry specializations between the U.S and Greater China.

The Bank believes that its customers benefit from the Bank's understanding of the Greater China markets through its physical presence, corporate and organizational ties in Greater China, as well as the Bank's international banking products and services. The Bank believes that this approach, combined with the Bank's senior managements' and Board of Directors' extensive ties to Chinese business opportunities and Chinese-American communities, provides the Bank with a competitive advantage. The Bank utilizes its presence in Greater China to identify and build corporate relationships, which the Bank may leverage to create business opportunities in California and other U.S. markets.

While the Company believes it is well positioned within a highly competitive industry, the industry could become even more competitive as a result of legislative, regulatory, economic, and technological changes, as well as continuing consolidation.

Supervision and Regulation

General

East West and the Bank are extensively regulated under U.S. federal and state laws. Regulation and supervision by the federal and state banking agencies are intended primarily for the protection of depositors, the Deposit Insurance Fund ("DIF") administered by the FDIC, consumers and the banking system as a whole, and not for the protection of our investors. As a bank holding company, East West is subject to primary inspection, supervision, regulation, and examination by the Federal Reserve under the BHC Act. In addition, the Bank is subject to regulations by certain foreign regulatory agencies in international jurisdictions where we conduct, or may in the future wish to conduct business, including Greater China and Hong Kong.

The Company is also subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), both as administered by the SEC. Our common stock is listed on the NASDAQ Global Select Market ("NASDAQ") under the trading symbol "EWBC" and is subject to NASDAQ rules for listed companies. The Company is also subject to the accounting oversight and corporate governance of the Sarbanes-Oxley Act of 2002.

Described below are material elements of selected laws and regulations applicable to East West and the Bank. The descriptions are not intended to be complete and are qualified in their entirety by reference to the full text of the statutes and regulations described. A change in applicable statutes, regulations or regulatory policies may have a material effect on the Company’s business.

East West

As a bank holding company and pursuant to its election of the financial holding company status, East West is subject to regulations and examinations by the Federal Reserve under the BHC Act and its authority to, among other things:

- require periodic reports and such additional information as the Federal Reserve may require in its discretion;
- require the Company to maintain certain levels of capital and, under the Dodd-Frank Act, limit the ability of bank holding companies to pay dividends or bonuses unless their capital levels exceed the capital conservation buffer (see Item 1. Business — Supervision and Regulation — Capital Requirements);
- require bank holding companies to serve as a source of financial and managerial strength to subsidiary banks and commit resources, as necessary, to support each subsidiary bank, including at times when bank holding companies may not be inclined to do so. A bank holding company's failure to meet its obligations to serve as a source of strength to its subsidiary banks will generally be considered by the Federal Reserve to be an unsafe and unsound banking practice or a violation of Federal Reserve regulations or both;
- restrict the payment to and receipt of dividends or other distributions from its subsidiary banks;
- terminate an activity or terminate control of or liquidate or divest certain nonbank subsidiaries, affiliates or investments if the Federal Reserve believes that the activity or the control of the nonbank subsidiary or affiliate constitutes a serious risk to the financial safety, soundness or stability of the bank holding company; and if the activity, ownership, or control is inconsistent with the purposes of the BHC Act;
- regulate provisions of certain bank holding company debt, including the authority to impose interest ceilings and reserve requirements on such debt and require prior approval to purchase or redeem the Company's securities in certain situations;
- require the prior approval of senior executive officer or director changes and prohibit golden parachute payments, including change in control agreements, or new employment agreements with such payment terms, which are contingent upon termination, under certain circumstances; and
- require the approval of acquisitions and mergers with banks and other financial companies, and consider certain competitive, management, financial, financial stability and other factors in granting these approvals. DBO approvals may also be required for certain acquisitions and mergers.

East West's election to be a financial holding company as permitted under the Gramm-Leach-Bliley Act of 1999 ("GLBA"), allows East West to generally engage in any activity, or acquire and retain the shares of a company engaged in any activity that the Federal Reserve has determined to be financial in nature or incidental or complementary to activities that are financial in nature without prior Federal Reserve approval. Activities that are considered to be financial in nature include securities underwriting and dealing, insurance agency and underwriting, merchant banking activities and activities that the Federal Reserve, in consultation with the Secretary of the U.S. Treasury, determines to be financial in nature or incidental to such financial activity. "Complementary activities" are activities that the Federal Reserve determines upon application to be complementary to a financial activity and do not pose a safety and soundness risk. To maintain financial holding company status, a financial holding company and all of its depository institution subsidiaries must be "well capitalized", "well managed" and in satisfactory compliance with the Community Reinvestment Act ("CRA"). A depository institution subsidiary is considered to be "well capitalized" if it satisfies the requirements for this status discussed in the sections captioned "Capital Requirements" and "Prompt Corrective Action," included elsewhere in this item. A depository institution subsidiary is considered "well managed" if it received a composite rating and a management rating of at least "satisfactory" in its most recent examination. See the section captioned "Community Reinvestment Act" included elsewhere under this item.

The Bank and its Subsidiaries

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

Regulation of Subsidiaries/Branches

The Bank's foreign-based subsidiary, East West Bank (China) Limited, is subject to applicable foreign laws and regulations, such as those implemented by the China Banking and Insurance Regulatory Commission. Nonbank subsidiaries are subject to additional or separate regulation and supervision by other state, federal and self-regulatory bodies. The East West Bank Hong Kong branch is subject to applicable foreign laws and regulations, such as those implemented by the Hong Kong Monetary Authority and the Securities and Futures Commission of Hong Kong. The Bank's representative office in Taiwan is subject to the regulation of the Taiwan Financial Supervisory Commission.

Economic Growth, Regulatory Relief, and Consumer Protection Act

The Dodd-Frank Act, enacted in 2010, has resulted in broad changes to the U.S. financial system where its provisions have resulted in enhanced regulation and supervision of the financial services industry. In May 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act, ("EGRRCPA") was signed into law. While the EGRRCPA preserves the fundamental elements of the post Dodd-Frank regulatory framework, it includes modifications that are intended to result in meaningful regulatory relief for smaller and certain regional banking organizations. The changes can be grouped into several areas that impact us:

1. Regulatory relief for bank holding companies with assets between $10 billion and $50 billion. We are among the bank holding companies in this range. The EGRRCPA lifts the current statutory requirement that these companies conduct various risk management activities, but the Federal Reserve will still examine our risk management for consistency with safety and soundness and prudent practices. The Dodd-Frank Act required us to conduct an annual prescribed scenario stress test to be submitted to the Federal Reserve. The EGRRCPA eliminated this required prescribed scenario stress test for companies between $10 billion and $50 billion in assets. This stress testing requirement also applied to the Bank. The EGRRCPA does not formally repeal this requirement for the Bank, but the Federal Reserve has indicated that it is likely to do so through regulation.
2. Regulatory relief for community banks. Although this relief does not apply to the Bank, because of its asset size, it may improve the competitiveness of smaller banks. Banks with under $10 billion in assets are exempt from the Volcker Rule, and certain banks that meet a new Community Bank Leverage Ratio are exempt from other risk-based capital ratio and leverage ratio requirements.

3. Regulatory relief for large banks. Our larger competitors also receive a degree of regulatory relief. Banks designated as global systemically important banks and banks with more than $250 billion in assets are still automatically subject to enhanced regulation. However, banks with between $100 billion and $250 billion in assets are automatically subject only to supervisory stress tests, while the Federal Reserve has discretion to apply other individual enhanced prudential provisions to these banks. Banks with assets between $50 billion and $100 billion will no longer be subject to enhanced regulation, except for the mandatory risk committee requirement. In addition, EGRRCPA relaxes leverage requirements for large custody banks and allows certain municipal bonds to be counted toward large banks’ liquidity requirements.

The legislation's increase in the systemically important financial institution ("SIFI") threshold takes effect immediately for bank holding companies with under $100 billion in total consolidated assets and generally will become effective 18 months after the date of enactment for bank holding companies with total consolidated assets of $100 billion or more but less than $250 billion. However, because the legislation does not amend the regulations itself, the federal banking agencies have promulgated to implement the enhanced prudential standards, the agencies will need to amend their existing regulations to account for the new thresholds. While the agencies have begun to propose new rules and amend existing rules to give effect to the EGRRCPA provisions, the rulemaking process will take some time before new provisions are finalized.

Capital Requirements

The federal banking agencies imposed risk-based capital adequacy guidelines intended to ensure that banking organizations maintain capital that is commensurate with the degree of risk associated with a banking organization's operations. In July 2013, the federal banking agencies adopted final rules (the "Basel III Capital Rules") establishing a new comprehensive capital framework for U.S. banking organizations. The rules implemented the Basel Committee's December 2010 framework for strengthening international capital standards, commonly referred to as Basel III, and implemented certain provisions of the Dodd-Frank Act. Some of the Basel III Capital Rules have phase-in periods through 2018, and they will take full effect on January 1, 2019.

The Basel III Capital Rules revised the definitions and the components of regulatory capital, in part through the introduction of a Common Equity Tier 1 ("CET1") capital requirement and a related regulatory capital ratio of CET1 to risk-weighted assets, restricted the type of instruments that may be recognized in Tier 1 and 2 capital (including the phase out of trust preferred securities from Tier 1 capital for bank holding companies). The Basel III Capital Rules also prescribed a new standardized approach for risk weighting assets and expanded the risk weighting categories to a larger and more risk-sensitive number of categories affecting the denominator in banking institutions' regulatory capital ratios.

Under the Basel III Capital Rules, to be considered adequately capitalized, the Company and the Bank are required to maintain minimum capital ratios of 4.5% CET1 to risk-weighted assets, 6.0% Tier 1 capital to risk-weighted assets, 8.0% total capital (Tier 1 plus Tier 2) to risk-weighted assets, and 4.0% Tier 1 leverage ratio. The Basel III Capital Rules also introduced a "capital conservation buffer", composed entirely of CET1, on top of these minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. The implementation of the capital conservation buffer began on January 1, 2016 at 0.625% and is being phased-in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019). When the capital conservation buffer requirement is fully phased in, to avoid constraints, a banking organization must maintain the following capital ratios (after any distribution): (i) CET1 to risk-weighted assets more than 7.0%, (ii) Tier 1 capital to risk-weighted assets more than 8.5%, and (iii) total capital to risk-weighted assets more than 10.5%.

With respect to the Bank, the Basel III Capital Rules also revised the Prompt Corrective Action ("PCA") regulations pursuant to Section 38 of the Federal Deposit Insurance Act ("FDIA"), as discussed below under the Prompt Corrective Action section.

As of December 31, 2018, 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 under the Basel III capital rules on a fully phased-in basis. For additional discussion and disclosure see Item 7. MD&A — Regulatory Capital and Ratios and Note 19 — Regulatory Requirements and Matters to the Consolidated Financial Statements.

Recent Regulatory Capital-Related Developments

From time to time, the regulatory agencies propose changes and amendments to, and issue interpretations of, risk-based capital guidelines and related reporting instructions. Such proposals and interpretations could, if implemented in the future, affect our reported capital ratios.

In September 2017, the federal banking agencies issued a proposed rule intended to reduce regulatory burden by simplifying certain requirements for non-advanced approaches banking organizations (i.e., banking organizations with less than $250 billion in total consolidated assets or with less than $10 billion of on-balance sheet foreign exposures) (the "Simplification Capital Proposal"), including the Company and the Bank. The Simplification Capital Proposal would amend the existing Basel III Capital Rules by: (1) replacing the definition of high volatility commercial real estate ("HVCRE") exposures with a simpler and narrower definition of high volatility acquisition, development or construction ("HVADC") exposures, where the proposed risk weight for HVADC exposures would be 130 percent, a reduction from the 150 percent risk weight that currently applies to HVCRE; (2) simplifying the threshold deductions from CET1 for mortgage servicing assets, certain deferred tax assets arising from temporary differences, investments in the capital of unconsolidated financial institutions, together with revisions to the risk-weight treatment for investments in the capital of unconsolidated financial institutions; and (3) simplifying the limits on the amount of a third-party minority interest in a consolidated subsidiary that could be included in regulatory capital. If the Simplification Capital Proposal is adopted in its current form, the impacts on the Company and the Bank are not expected to be significant.

In December 2017, the Basel Committee on Banking Supervision released the finalization of the reforms to the Basel III Capital Rules, also known as Basel IV. The reforms to the regulatory framework are intended to restore credibility in the calculation of risk weighted assets ("RWA") by: (1) enhancing the robustness and risk sensitivity of the standardized approaches for credit risk, credit valuation adjustment, and operational risk, which will facilitate the comparability of banks' capital ratios; (2) constraining the use of internally modeled approaches; and (3) complementing the risk-weighted capital ratio with a finalized leverage ratio and a revised and robust capital floor. These standards will become effective on January 1, 2022, with an aggregate output floor phasing in through January 1, 2027. The federal banking agencies announced their support for the Basel Committee's efforts, and that they will consider appropriate application of these revisions to the regulatory capital rules. Any changes to Basel III Capital Rules that are based on the Basel Committee's reforms must go through the federal banking agencies' standard notice-and-comment rulemaking process. The agencies have not begun the process and have not indicated when they may do so.

In December 2018, the regulatory agencies approved a final rule to address changes to credit loss accounting, including banking organizations' implementation of the new Accounting Standards Update ("ASU") 2016-13 Financial Instruments— Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instrument, which introduces the current expected credit losses methodology ("CECL"). See Note 1 — Summary of Significant Accounting Policies to the Consolidated Financial Statements for additional information. The final rule provides banking organizations with the option to phase in over a three-year period the day-one adverse effects on regulatory capital upon the adoption of ASU 2016-13. In addition, it revises the regulatory capital rule, stress testing rules, and disclosure requirements to reflect CECL, and amends other regulations that reference credit loss allowances. The final rule is applicable to banking organizations that are subject to the regulatory capital rule, including the Company and the Bank, and is effective on April 1, 2019.

Prompt Corrective Action

The FDIA, as amended, requires federal banking agencies to take PCA with respect to 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 institution's capital tier will depend upon how its capital levels compare with various relevant capital measures and certain other factors, as established by regulation. The Basel III Capital Rules revised the PCA requirements effective January 1, 2015. Under the revised PCA provisions of the FDIA, an insured depository institution generally is classified in the following categories based on the capital measures indicated:

PCA Category	Total Risk-Based Capital Ratio	Tier 1 Risk-Based Capital Ratio	CET1 Risk-Based Ratio	Tier 1 Leverage Ratio
Well capitalized	≥ 10%	≥ 8%	≥ 6.5%	≥ 5%
Adequately capitalized	≥ 8%	≥ 6%	≥ 4.5%	≥ 4%
Undercapitalized	< 8%	< 6%	< 4.5%	< 4%
Significantly undercapitalized	< 6%	< 4%	< 3.0%	< 3%
Critically undercapitalized	Tangible Equity/Total Assets ≤ 2%			

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 PCA 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 any 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 capital restoration plans. 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, cessation of receipt of deposits from correspondent banks, and/or restrictions on interest rates paid on deposits. “Critically undercapitalized” institutions are subject to the appointment of a receiver or conservator. The FDIA also permits only well-capitalized insured depository institutions to accept brokered deposits, but an adequately capitalized institution may apply to the FDIC for a waiver of this restriction.

Consumer Financial Protection Bureau Supervision

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

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

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

Federal Home Loan Bank and the Federal Reserve’s Reserve Requirements

The Bank is a member of the Federal Home Loan Bank (“FHLB”) of San Francisco. As an FHLB member, the Bank is required to own a certain amount of capital stock in the FHLB. The Bank may also access the FHLB for both short-term and long-term secured borrowing sources. The Bank is also a member bank and stockholder of the Federal Reserve Bank of San Francisco (“FRB”). The Federal Reserve requires all depository institutions to maintain reserves at specified levels against their transaction accounts either in the form of vault cash, an interest-bearing account at the Federal Reserve Bank, or a pass-through account as defined by the Federal Reserve. As of December 31, 2018, the Bank was in compliance with these requirements.

Dividends and Other Transfers of Funds

Dividends from the Bank constitute the principal source of income to East West. The Bank is subject to various statutory and regulatory restrictions on its ability to pay dividends. In addition, the banking agencies have an 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 PCA regulations, the Federal Reserve or FDIC may prohibit a bank holding company from paying any dividends if the holding company's bank subsidiary is classified as "undercapitalized" or below. For more information, see Item 1. Business — Supervision and Regulation — Capital Requirements. It is the Federal Reserve's policy that bank holding companies should generally pay dividends on common stock only if the organization's net income available to common stockholders over the past year has been sufficient to fully fund the dividends, and if the prospective rate of earnings retention appears consistent with the organization's capital needs, asset quality and overall financial condition. It is also the Federal Reserve's policy that bank holding companies should not maintain dividend levels that undermine the company's ability to be a financial source of strength to its banking subsidiaries. The Federal Reserve requires bank holding companies to continuously review their dividend policy in light of their organizations' financial condition and compliance with regulatory capital requirements, and has discouraged payment ratios that are at maximum allowable levels, unless both asset quality and capital are very strong.

Transactions with Affiliates and Insiders

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

Community Reinvestment Act

Under the terms of the CRA as implemented by Federal Reserve regulations, an insured depository institution has a continuing and affirmative obligation to help serve the credit needs of its communities, including the extension of

credit to low to moderate-income neighborhoods. The Federal Reserve periodically evaluates the CRA performance of state member banks and takes this performance into account when reviewing applications to expand branches, relocate, add subsidiaries and affiliates, expand into new financial activities and merge with or purchase other financial institutions. Unsatisfactory CRA performance may result in the denial of such applications.

FDIC Deposit Insurance Assessments

The FDIC insures the Bank’s customer deposits through the DIF of the FDIC up to $250,000 for each depositor, per FDIC-insured bank, per ownership category. The DIF is funded mainly through quarterly assessments on member banks. The Dodd-Frank Act revised the FDIC's fund management authority by setting requirements for the Designated Reserve Ratio (reserve ratio or “DRR”) that the DIF must meet and redefining the assessment base, which is used to calculate banks' quarterly assessments. The reserve ratio is the DIF balance divided by estimated insured deposits. The Bank’s DIF quarterly assessment is calculated by multiplying its assessment rate by the assessment base, which is defined as the average consolidated total assets less the average tangible equity of the Bank. The initial base assessment rate is assigned based on an institution’s capital adequacy, asset quality, management, earnings, liquidity and sensitivity to market risk (“CAMELS”) ratings, certain financial measures to assess an institution’s ability to withstand asset related stress and funding related stress, and a measure of loss severity that estimates the relative magnitude of potential losses to the FDIC in the event of the Bank’s failure. Assessment rates are subject to adjustment from the initial base assessment rate. The FDIC adopted a DIF restoration plan to ensure that the DIF reserve ratio reaches 1.35% by September 30, 2020. In order to reach a DIF reserve ratio of 1.35%, the FDIC approved a final rule in March 2016 to require insured depository institutions with $10 billion or more in total assets, such as the Bank, to pay a quarterly surcharge equal to an annual rate of 4.5 basis points applied to the Bank’s assessment base (with certain adjustments), in addition to regular assessments. If the reserve ratio does not reach 1.35% by December 31, 2018, the FDIC will impose a shortfall assessment on large banks in the first quarter of 2019. As of December 31, 2018, the DIF reserve ratio was 1.36%, which exceeded the statutory required minimum of 1.35%. The temporary surcharge imposed on large banks ended on October 1, 2018. The FDIA requires the FDIC's Board to set a target or DRR for the DIF annually. The FDIC views the 2.0% DRR as a long-term goal and the minimum level needed to withstand future crises of the magnitude of past crises. For additional information regarding deposit insurance, see Item 1A. Risk Factors. The FDIC may terminate a depository institution’s deposit insurance upon a finding that the institution’s financial condition is unsafe or unsound, that the institution has engaged in unsafe or unsound practices, or has violated any applicable rule, regulation, condition, or order imposed by the FDIC.

Anti-Money Laundering and Office of Foreign Assets Control Regulation

The Bank Secrecy Act (“BSA”) and its implementing regulations and parallel requirements of the federal banking regulators require the Bank to maintain a risk-based Anti-Money Laundering (“AML”) program reasonably designed to prevent and detect money laundering and terrorist financing and to comply with the recordkeeping and reporting requirements of the BSA, including the requirement to report suspicious activities. The Federal Reserve expects that the Bank will have an effective governance structure for the program which includes effective oversight by our Board of Directors and management. The program must include, at a minimum, a designated compliance officer, written policies, procedures and internal controls, training of appropriate personnel, and independent testing of the program and risk-based customer due diligence procedures. The U.S. Department of Treasury’s Financial Crimes Enforcement Network (“FinCEN”) and the federal banking agencies continue to issue regulations and guidance with respect to the application and requirements of the BSA and their expectations for effective AML programs. Banking regulators also examine banks for compliance with regulations administered by the Office of Foreign Assets Control (“OFAC”) for economic sanctions against targeted foreign countries, nationals and others. Failure of a financial institution to maintain and implement adequate BSA/AML and OFAC programs, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution.

Future Legislation and Regulation

From time to time, legislators, presidential administrations and regulators may enact rules, laws, and policies to regulate the financial services industry and public companies. Further legislative changes and additional regulations may change the Company’s operating environment in substantial and unpredictable ways. Such legislation and

regulations could increase the cost of conducting business, impede the efficiency of the internal business processes, and restrict or expand the activities in which the Company may engage. The Company cannot predict whether future legislative proposals will be enacted and, if enacted, the impact they would have on the business strategy, results of operations or financial condition of the Company.

Employees

As of December 31, 2018, the Company had approximately 3,200 full-time equivalent employees. None of the Company's employees are subject to a collective bargaining agreement.

Available Information

The Company's website is https://www.eastwestbank.com. The Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, proxy statements, current reports on Form 8-K, amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, and other filings with the SEC are available free of charge at http://investor.eastwestbank.com under the heading "SEC Filings", as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC. These reports are also available for free on the SEC's website at http://www.sec.gov. In addition, the Code of Conduct, Corporate Governance Guidelines, charters of Audit Committee, Compensation Committee, Executive Committee, Risk Oversight Committee and Nominating/Corporate Governance Committee, and other corporate governance materials are available on the Investor Relations section of the Company's website. The information contained on the Company's website as referenced in this report is not part of this report.

Shareholders may request a copy of any of the above-referenced reports and corporate governance documents without charge by writing to: Investor Relations, East West Bancorp, Inc., 135 N. Los Robles Avenue, 7th Floor, Pasadena, California 91101; by calling (626) 768-6000; or by sending an e-mail to InvestorRelations@eastwestbank.com.

ITEM 1A. RISK FACTORS

In the course of conducting the Company's businesses, the Company is exposed to a variety of risks, some of which are inherent in the financial services industry and others of which are more specific to the Company's businesses. The Company's Enterprise Risk Management ("ERM") program incorporates risk management throughout the organization in identifying, managing, monitoring, and reporting risks. Our ERM program identifies EWBC's major risk categories as capital risk, strategic risk, credit risk, liquidity risk, market risk, operational risk, reputational risk, and legal and compliance risk. ERM, which is comprised of senior management of the Company, is headed by the Chief Risk Officer.

Described below are the primary risks and uncertainties that, if realized, could have a material and adverse effect on our businesses, results of operations and financial condition. The risk factors below should not be considered a complete discussion of all of the risks and uncertainties the Company may face.

Market Risks

Unfavorable general economic, political or industry conditions may adversely affect our operating results. Our businesses and results of operations are affected by the financial markets and general economic conditions in the U.S. and Greater China, including factors such as the level and volatility of short-term and long-term interest rates, inflation, deflation, home prices, unemployment and under-employment levels, bankruptcies, household income, consumer spending, fluctuations in both debt and equity capital markets and currencies, liquidity of the global financial markets, availability and cost of capital and credit, investor sentiment and confidence in the financial markets, and sustainability of economic growth in the U.S. and Greater China. The deterioration of any of these conditions could adversely affect our consumer and commercial businesses, our securities and derivatives portfolios, our level of charge-offs and provision for credit losses, the carrying value of our deferred tax assets, our capital levels and liquidity, and our results of operations. In addition, because the Company's operations and the collateral securing its real estate lending portfolio are concentrated in Northern and Southern California, the Company may be particularly susceptible to the adverse economic conditions in the state of California. Any unfavorable changes in the economic and market conditions could lead to the following risks:

- the process the Company uses to estimate losses inherent in the Company's credit exposure requires difficult, subjective and complex judgments, including consideration of how these economic conditions might impair the ability of the borrowers to repay their loans. The level of uncertainty concerning economic conditions may adversely affect the accuracy of the Company's estimates of losses inherent in the Company's credit exposure which may, in turn, adversely impact the Company's operating results and financial conditions;
- the Company's commercial and residential borrowers may not be able to make timely repayments of their loans, or a decrease in the value of real estate collateral securing the payment of such loans could result in credit losses, delinquencies, foreclosures and customer bankruptcies, any of which could have a material adverse effect on the Company's operating results;
- a decrease in the demand for loans and other products and services;
- a decrease in deposit balances;
- 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;
- the value of the available-for-sale investment securities portfolio that the Company holds may be adversely affected by defaults by debtors; and
- a loss of confidence in the financial services industry, our market sector and the equity markets by investors, placing pressure on the Company's stock price.

Further, the trade conflict between the U.S. and China could impose damage to the global economy, in terms of lower GDP growth, job displacements, diminishing investments to both the U.S. and China economies and long-term damage to the world trading system. In addition, U.S. banks exposed to the sectors most sensitive to the tariffs, and Chinese companies and borrowers may experience a decrease in the demand for loans and other products and services and a deterioration in the credit quality of the loans to these borrowers.

A portion of the Company's loan portfolio is secured by real estate and thus the Company has a higher degree of risk from a downturn in real estate markets. As discussed in the risk factor above entitled "Unfavorable general economic, political or industry conditions may adversely affect our operating results," a decline in real estate markets could impact the Company's business and financial condition because many of the Company's loans are secured by real estate. Real estate values and real estate markets are generally affected by changes in general 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 natural disasters, such as earthquakes and wildfires, which are particular to California. A significant portion of the Company's real estate collateral is located in California. If real estate values decline, the value of real estate collateral securing the Company's loans could be significantly reduced. The Company's ability to recover on defaulted loans by foreclosing and selling the real estate collateral would then be diminished and the Company would be more likely to suffer losses on defaulted loans. Furthermore, commercial real estate ("CRE") 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 effect on the Company's businesses, results of operations and financial condition.

The Company's businesses are subject to interest rate risk and variations in interest rates may have a material adverse effect on the Company's financial performance. Our financial results depend substantially on net interest income, which is the difference between the interest income we earn on interest-earning assets and the interest expense we pay on interest-bearing liabilities. Interest-earning assets primarily include loans extended, securities held in our investment portfolio and excess cash held to manage short-term liquidity. We fund our assets using deposits and borrowings. While we offer interest-bearing deposit products, a portion of our deposit balances are from noninterest-bearing products. Overall, the interest rates we receive on our interest-earning assets and pay on our interest-bearing liabilities could be affected by a variety of factors, including market interest rate changes, competition, regulatory requirements and a change in our product mix. Changes in key variable market interest rates such as the Federal Funds, National Prime, LIBOR or Treasury rates generally impact our interest rate spread. Because of the differences in maturities and repricing characteristics of the Company's 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. Increases in interest rates may result in a change in the mix of noninterest and interest-bearing deposit accounts. Rising interest rates may cause our funding costs to increase at a faster pace than the yield we earn on our assets, ultimately causing our net interest margin to decrease. Higher interest rates may also result in lower mortgage production income and increased charge-offs in certain segments of the loan portfolio, such as CRE and home equity. In contrast, declining interest rates would increase the Bank's lending capacity, decrease funding cost, increase prepayments of loans and mortgage related securities, as borrowers refinance to reduce borrowing costs. Accordingly, changes in levels of interest rates could materially and adversely affect our net interest income, net interest margin, cost of deposits, loan origination volume, average loan portfolio balance, asset quality, liquidity and overall profitability.

Reforms to and uncertainty regarding LIBOR may adversely affect our business. On July 27, 2017, the United Kingdom's Financial Conduct Authority ("FCA"), which regulates LIBOR, announced that it will no longer persuade or compel banks to submit rates for the calculation of LIBOR after 2021. While Intercontinental Exchange Inc., the company that administers LIBOR plans to continue publishing LIBOR, liquidity in the interbank markets that those LIBOR estimates are based upon has been declining. Accordingly, there is considerable uncertainty regarding the publication of such rates beyond 2021. In April 2018, the Federal Reserve Bank of New York in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, announced the replacement of U.S. LIBOR with a new index calculated by short-term repurchase agreements, backed by U.S. Treasury securities called the SOFR. The first publication of SOFR was released in April 2018. Whether or

not SOFR attains market traction as a LIBOR replacement tool remains in question and the future of LIBOR at this time is uncertain. The uncertainty as to the nature and effect of such reforms and actions and the political discontinuance of LIBOR may adversely affect the value of and return on our financial assets and liabilities that are based on or are linked to LIBOR, our results of operations or financial condition. In addition, these reforms may also require extensive changes to the contracts that govern these LIBOR based products, as well as our systems and processes.

The fiscal and monetary policies of the federal government and its agencies could have a material adverse effect on our earnings. The Federal Reserve Board regulates the supply of money and credit in the U.S. Its policies determine in large part the cost of funds for lending and investing and the return earned on those loans and investments, both of which affect our net interest margin. They can also materially decrease the value of financial assets we hold. Federal Reserve policies may also adversely affect borrowers, potentially increasing the risk that they may fail to repay their loans, or could adversely create asset bubbles which result from prolonged periods of accommodative policy. This, in turn, may result in volatile markets and rapidly declining collateral values. Changes in Federal Reserve policies are beyond our control and difficult to predict. Consequently, the impact of these changes on our business and results of operations is difficult to predict.

We face risks associated with international operations. A substantial number of our customers have economic and cultural ties to Asia. The Bank's international presence includes five full-service branches in Greater China, located in Hong Kong, Shanghai, Shantou and Shenzhen. The Bank has two branches in Shanghai, including one in the Shanghai Pilot Free Trade Zone. The Bank also has five representative offices in Greater China located in Beijing, Chongqing, Guangzhou, Taipei and Xiamen. Our efforts to expand our business in Greater China carries certain risks, including risks arising from the uncertainty regarding our ability to generate revenues from foreign operations, risks associated with leveraging and conducting business on an international basis, including among others, legal, regulatory and tax requirements and restrictions, cross-border trade restrictions or tariffs, uncertainties regarding liability, trade barriers, difficulties in staffing and managing foreign operations, political and economic risks, and financial risks including currency and payment risks. Further, volatility in the Shanghai and Hong Kong stock exchanges and/or a potential fall in real estate prices in China, among other things, may negatively impact asset values and the profitability and liquidity of the Company's customers operating in this region. These risks could adversely affect the success of our international operations and could have a material adverse effect on our overall business, results of operations and financial condition. In addition, we face risks that our employees and affiliates may fail to comply with applicable laws and regulations governing our international operations, including the U.S. Foreign Corrupt Practices Act, anti-corruption laws, and other foreign laws and regulations. Failure to comply with such laws and regulations could, among other things, result in enforcement actions and fines against us, as well as limitations on our conduct, any of which could have a material adverse effect on our businesses, results of operations and financial condition.

The Company is subject to fluctuations in foreign currency exchange rates. The Company's foreign currency translation exposure relates primarily to its China subsidiary that has its functional currency denominated in Chinese Renminbi ("RMB"). In addition, as the Company continues to expand its businesses in China and Hong Kong, certain transactions are conducted in currencies other than the U.S. Dollar ("USD"). Although the Company has entered into derivative instruments to offset the impact of the foreign exchange fluctuations, given the volatility of exchange rates, there is no assurance that the Company will be able to effectively manage foreign currency translation risk. Fluctuations in foreign currency exchange rates could have a material unfavorable impact on the Company's net income, therefore adversely affecting the Company's business, results of operations and financial condition.

Capital and Liquidity Risks

As a regulated entity, we are subject to capital requirements, and a failure to meet these standards could adversely affect our financial condition. The Company and the Bank are subject to certain capital and liquidity rules, including the Basel III Capital Rules, which establish the minimum capital adequacy requirements and may require us to increase our regulatory capital or liquidity targets, increase regulatory capital ratios, or change how we calculate regulatory capital. As such, we are required to adopt more stringent capital adequacy standards than we have in the past. In addition, we may be required to increase our capital levels, even in the absence of actual adverse economic conditions or forecasts, and capital planning based on the hypothetical future adverse economic scenarios. As of January 1, 2019, we met the requirements of the Basel III Capital Rules, including the capital conservation buffer fully phased-in. Compliance with these capital requirements may limit capital-intensive operations and increase operational costs, and we may be limited or prohibited from distributing dividends or repurchasing stocks. This could adversely affect our ability to expand or maintain present business levels, which may adversely affect our businesses, results of operations and financial condition. Additional information on the regulatory capital requirements applicable to the Company and the Bank is set forth in Item 1. Business — Supervision and Regulation — Capital Requirements.

The Company's dependence on dividends from the Bank could affect the Company's liquidity and ability to pay dividends. East West is dependent on the Bank for dividends, distributions and other payments. Our principal source of cash flows, including cash flows to pay dividends to our stockholders and principal and interest on our outstanding debt, is dividend income from the Bank. The ability of the Bank to pay dividends to East West is limited by federal and California law. Subject to the Bank meeting or exceeding regulatory capital requirements, regulatory approval is

required if the total of all dividends declared by the Bank in any calendar year would exceed the sum of the Bank's net income for that year and its retained earnings for the preceding two years. Federal law also prohibits the Bank from paying dividends that would be greater than its undivided profits. In addition, Federal Reserve guidance sets forth the supervisory expectation that bank holding companies will inform and consult with the Federal Reserve in advance of issuing a dividend that exceeds earnings for the quarter and should not pay dividends in a rolling four quarter period in an amount that exceeds net income for the period.

The Company is subject to liquidity risk, which could negatively affect the Company's funding levels. Market conditions or other events could negatively affect the level of or cost of funding, which in turn could affect the Company's ongoing ability to accommodate liability maturities and deposit withdrawals, meet contractual obligations, or fund asset growth and new business initiatives at a reasonable cost, in a timely manner and without adverse consequences. Although the Company has implemented strategies to maintain sufficient and diverse sources of funding to accommodate planned, as well as unanticipated changes in assets, liabilities, and off-balance sheet commitments under various economic conditions, a substantial, unexpected or prolonged change in the level or cost of liquidity could have a material adverse effect on the Company's businesses, results of operations and financial condition. If the cost effectiveness or the availability of supply in the credit markets is reduced for a prolonged period of time, the Company's funding needs may require the Company to access funding and manage liquidity by other means. These alternatives may include generating client deposits, securitizing or selling loans, and further managing loan growth and investment opportunities. These alternative means of funding may not be available under stressed market conditions or realized timely.

Any downgrades in our credit ratings could have a material adverse effect on our liquidity, cost of funding, cash flows, results of operations and financial condition. Credit rating agencies regularly evaluate us, and their ratings are based on a number of factors, including our financial strength, capital adequacy, liquidity, asset quality and ability to generate earnings. Some of these factors are not entirely within our control, such as conditions affecting the financial services industry. Severe downgrades in credit ratings could impact our business and reduce the Company's profitability in different ways, including a reduction in the Company's access to capital markets, triggering additional collateral or funding obligations which could negatively affect our liquidity. In addition, our counterparties, as well as our clients, rely on our financial strength and stability and evaluate the risks of doing business with us. If we experience a decline in our credit rating, this could result in a decrease in the number of counterparties and clients who may be willing to transact with us. Our borrowing costs may also be affected by various external factors, including market volatility and concerns or perceptions about the financial services industry. There can be no assurance that we can maintain our credit ratings nor will this be lowered in the future.

Credit Risks

The Company's allowance for credit losses level may not be adequate to cover actual losses. In accordance with United States Generally Accepted Accounting Principles ("U.S. GAAP"), we maintain an allowance for loan losses to provide for loan defaults and non-performance, and an allowance for unfunded credit reserves which, when combined, are referred to as the allowance for credit losses. Our allowance for loan losses is based on our evaluation of risks associated with our loans held-for-investment portfolio, including historical loss experience, expected loss calculations, delinquencies, performing status, the size and composition of the loan portfolio, economic conditions, and concentrations within the portfolio. The allowance estimation process requires subjective and complex judgments, including analysis of economic conditions and how these economic conditions might impair the ability of our borrowers to repay their loans. Current economic conditions in the U.S. and in the international markets could deteriorate, which could result in, among other things, greater than expected deterioration in credit quality of our loan portfolio or in the value of collateral securing these loans. Our allowance for credit losses may not be adequate to absorb actual credit losses, and future provisions for credit losses could materially and adversely affect our operating results. The amount of future losses is influenced by changes in economic, operating and other conditions, including changes in interest rates that may be beyond our control, and these losses may exceed current estimates.

Additionally, in order to maximize the collection of loan balances, we sometimes modify loan terms when there is a reasonable chance that an appropriate modification would allow the borrower to continue servicing the debt. If such modifications ultimately are less effective at mitigating loan losses than we expect, we may incur losses in excess of the specific amount of allowance for loan losses associated with a modified loan, and this would result in additional provision for loan losses. In addition, we establish a reserve for losses associated with our unfunded credit reserves.

The level of the allowance for unfunded credit reserves is determined by following a methodology similar to that used to establish our allowance for loan losses in our loans held-for-investment portfolio. There can be no assurance that our allowance for unfunded credit reserves will be adequate to provide for the actual losses associated with our unfunded credit commitments. An increase in the allowance for unfunded credit reserves in any period may result in a charge to earnings.

We may be subject to increased credit risk and higher credit losses to the extent that our loans are concentrated by loan type, industry segment, borrower type, or location of the borrower or collateral. Our credit risk and credit losses can increase if our loans are concentrated in borrowers affected by the same or similar economic conditions in the markets in which we operate or elsewhere, which could result in materially higher credit losses. For example, the Bank has a concentration of real estate loans in California. Potential deterioration in the California real estate market could result in additional loan charge-offs and provision for loan losses, which could have a material adverse effect on the Company’s business, results of operations and financial condition. If any particular industry or market sector were to experience economic difficulties, loan collectability from customers operating in those industries or sectors may differ from what we expected, which could have a material adverse impact on our results of operations and financial condition.

Operational Risks

A failure in or breach of our operational or security systems or infrastructure, or those of third parties, could disrupt our businesses, and adversely impact our results of operations, financial condition, cash flows, and liquidity, as well as cause reputational harm. The potential for operational risk exposure exists throughout our organization and from our interactions with third parties. Our operational and security systems, infrastructure, including our computer systems, network infrastructure, data management and internal processes, as well as those of third parties, are integral to our performance. In addition, we rely on our employees and third parties in our ongoing operations, who may, as a result of human error or malfeasance or failure or breach of third-party systems or infrastructure, expose us to risk. We have taken measures to implement backup systems and safeguards to support our operations, but our ability to conduct business may be adversely affected by any significant disruptions to us or to the third parties with whom we interact. In addition, our ability to implement backup systems and other safeguards with respect to third-party systems is more limited than with respect to our own systems. Our financial, accounting, data processing, backup or other operating or security systems and infrastructure may fail to operate properly or may become disabled or damaged as a result of a number of factors including events that are wholly or partially beyond our control which could adversely affect our ability to process these transactions or provide certain services. There could be electrical, telecommunications or other major physical infrastructure outages, natural disasters such as earthquakes, tornadoes, hurricanes and floods, wildfires, disease pandemics, and events arising from local or larger scale political or social matters, including terrorist acts. We continuously update these systems to support our operations and growth, and this entails significant costs and creates risks associated with implementing new systems and integrating them with existing ones. Operational risk exposures could adversely impact our results of operations, financial condition, cash flows, and liquidity, and may result in loss of confidence, significant litigation exposure and harm to our reputation.

A cyber-attack, information or security breach, or a technology failure of ours or of a third party could adversely affect our ability to conduct businesses, manage our exposure to risk or expand our businesses, result in the disclosure or misuse of confidential or proprietary information, increase our costs to maintain and update our operational and security systems and infrastructure, and adversely impact our results of operations, financial condition, cash flows and liquidity, as well as cause reputational harm. The Company offers various internet-based services to its clients, including online banking services. The secure transmission of confidential information over the internet is essential in maintaining our clients' confidence in the Company's online services. In addition, our business is highly dependent on the security and efficacy of our infrastructure, computer and data management systems, as well as those of third parties with whom we interact. Cyber security risks for financial institutions have significantly increased in recent years in part because of the proliferation of new technologies, the use of the internet and telecommunication technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, nation-states and other external parties. Our businesses rely on the secure processing, transmission, storage and retrieval of confidential, proprietary and other information in our computer and data management systems and networks, and in the computer and data management systems and networks of third parties. We rely on digital technologies, computer, database and email systems, software and networks. Notwithstanding our defensive systems and processes that are designed to prevent security breaches and periodically test the Company's security, there is no assurance that all of our security measures will be effective, especially as the threat from cyber-attacks is continuous and severe, attacks are becoming more sophisticated and increasing in volume, and attackers respond rapidly to changes in defensive measures. Failure to mitigate breaches of security could result in violation of applicable privacy laws, reputational damage, regulatory fines, litigation exposure, increase security compliance costs, affect the Company's ability to offer and grow the online services, and could have an adverse effect on the Company's businesses, results of operations and financial condition. We have not experienced any known attacks on our information technology systems that have resulted in any material system failure, incident or security breach to date.

Failure to keep pace with technological change could adversely affect the Company’s businesses. The Company may face risks associated with the ability to utilize information technology systems to support our operations effectively. The financial services industry is continuously undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. The Company’s future success depends, in part, upon its ability to address the needs of its customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in the Company’s operations. Many of the Company’s competitors have substantially greater resources to invest in technological improvements. The Company may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to its customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on the Company’s businesses and, in turn, the Company’s results of operations and financial condition. In addition, if we do not implement systems effectively or if our outsourcing business partners do not perform their functions properly, there could be an adverse effect on us. There can be no assurance that we will be able to effectively maintain or improve our systems and processes, or utilize outsourced talent, to meet our business needs efficiently. Any such failure could adversely affect our businesses, results of operations, financial condition, and reputation.

Natural disasters and geopolitical events beyond the Company's control could adversely affect the Company. 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 the Company's business operations and those of the Company's customers and cause substantial damage and loss to real and personal property. These natural disasters and geopolitical events could impair the 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 nonperforming assets, net charge-offs, and provision for loan losses, which could adversely affect the Company's businesses, results of operations and financial condition.

The actions and soundness of other financial institutions could affect the Company. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. The Company executes transactions with various counterparties in the financial industry, including brokers and dealers, commercial banks and investment banks. Defaults by financial services institutions and uncertainty in the financial services industry in general could lead to market-wide liquidity problems and may expose the Company to credit risk in the event of default of its counterparties or clients. Further, 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 businesses, results of operations and financial condition.

The Company's controls and procedures could fail or be circumvented. Management regularly reviews and updates the Company's 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 the Company's controls and procedures, and any failure to comply with regulations related to controls and procedures could adversely affect the Company's businesses, results of operations and financial condition.

The Company is dependent on key personnel and the loss of one or more of those key personnel may materially and adversely affect the Company's prospects. Competition for qualified 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, especially in the West Coast market. The process of recruiting personnel with the combination of skills and attributes required to carry out the Company's strategies is often lengthy. The Company's success depends, to a significant degree, upon its ability to attract and retain qualified management, loan origination, finance, administrative, marketing and technical personnel, as well as upon the continued contributions of its management and personnel. In particular, the Company's success has been and continues to be highly dependent upon the abilities of certain key executives.

We face strong competition in the financial services industry and we could lose business or suffer margin declines as a result. The Company operates in a highly competitive environment. The Company conducts the majority of its operations in California. Our competitors include commercial banks, savings and loan associations, finance companies, brokerage firms, insurance companies, credit unions, mortgage banks and other regional, national, and global financial institutions. Some of the major competitors include multinational financial service 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 on loans and deposits, customer services, and a range of price and quality of products and services, including new technology-driven products and services. Failure to attract and retain banking customers may adversely impact the Company's loan and deposit growth.

The Company has engaged in and may continue to engage in further expansion through acquisitions, which could negatively affect the Company's businesses and earnings. There are risks associated with expanding 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 or region-specific risks are associated with transactions outside the U.S., including in Greater China. To the extent the Company issues capital stock in connection with additional transactions, these transactions and related stock issuances may have a dilutive effect on earnings per share ("EPS") and share ownership.

Regulatory, Compliance and Legal Risks

Changes in current and future legislation and regulation may require the Company to change its business practices, increase costs, limit the Company's ability to make investments and generate revenue, or otherwise adversely affect business operations and/or competitiveness. EWBC is subject to extensive regulation under federal and state laws, as well as supervisions and examinations by the DBO, FDIC, Federal Reserve, FHLB, SEC, CFPB, U.S. and State Attorneys General, and other government bodies. Our overseas operations in China, Hong Kong and Taiwan are subject to extensive regulation under the laws of those jurisdictions as well as supervisions and examinations by financial regulators for those jurisdictions, which have also increased their focus on the regulation of the financial services industry. Moreover, regulation of the financial services industry continues to undergo major changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies could affect the manner in which EWBC conducts business. In addition, such changes could also subject us to additional costs and may limit the types of financial services and products we offer, and the investments we make.

Good standing with our regulators is of fundamental importance to the continuation and growth of our businesses given that banks operate in an extensively regulated environment under state and federal law. In the performance of their supervisory and enforcement duties, federal, state and non-U.S. regulators have significant discretion and power to initiate enforcement actions for violations of laws and regulations, and unsafe and unsound practices. Further, regulators and bank supervisors continue to exercise qualitative supervision and regulation of our industry and specific business operations and related matters. Violations of laws and regulations or deemed deficiencies in risk management or other qualitative practices also may be incorporated into the Company's bank supervisory ratings. A downgrade in these ratings, or other regulatory actions and settlements could limit the Company's ability to pursue acquisitions or conduct other expansionary activities and require new or additional regulatory approvals before engaging in certain other business activities.

Failure to comply with laws, regulations or policies could result in civil or criminal sanctions by state, federal and non-U.S. agencies, the loss of FDIC insurance, the revocation of our banking charter, civil or criminal monetary penalties and/or reputational damage, which could have a material adverse impact on the Company's businesses, results of operations and financial condition. We continue to make adjustments to our business and operations, capital, policies, procedures and controls to comply with these laws and regulations, final rulemaking, and interpretations from the regulatory authorities. See Item 1. Business — Supervision and Regulation for more information about the regulations to which we are subject.

We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations. The BSA, the U.S.A. Patriot Act of 2001, and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective AML program and file suspicious activity and currency transaction reports when appropriate. They also mandate that we are ultimately responsible to ensure our third party vendors adhere to the same laws and regulations. In addition to other bank regulatory agencies, FinCEN is authorized to impose significant civil money penalties for violations of those requirements and has been engaging in coordinated enforcement efforts with the state and federal banking regulators, as well as the Department of Justice, CFPB, Drug Enforcement Administration, and the Internal Revenue Service ("IRS").

We are also subject to increased scrutiny of compliance with the rules enforced by OFAC regarding, among other things, the prohibition of transacting business with, and the need to freeze assets of, certain persons and organizations identified as a threat to the national security, foreign policy or economy of the U.S. If our policies, procedures and systems or those of our third party vendors are deemed deficient, we would be subject to liability, including fines and regulatory actions, which may include restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including any acquisition plans. Any of

these results could have a material adverse effect on our business, results of operations, financial condition and future prospects.

We are subject to significant financial and reputational risk arising from lawsuits and other legal proceedings. We face significant risk from lawsuits and claims brought by consumers, borrowers and counterparties. This includes claims for monetary damages, penalties and fines, as well as demands for injunctive relief. If these lawsuits or claims, whether founded or unfounded, are not resolved in a favorable manner to us, they could lead to significant financial obligations for the Company, as well as restrictions or changes to how we conduct our businesses. Although we establish accruals for legal matters when and as required by U.S. GAAP and certain expenses and liabilities in connection with such matters may be covered by insurance, the amount of loss ultimately incurred in relation to those matters may be substantially higher than the amounts accrued and/or insured. Substantial legal liability could adversely affect our business, financial condition, results of operations, and reputation. In addition, we may suffer significant reputational harm as a result of lawsuits and claims, adversely impacting our ability to attract and retain customers and investors. Moreover, it may be difficult to predict the outcome of certain legal proceedings, which may present additional uncertainty to our business prospects.

Accounting and Tax Risks

Changes in accounting standards or changes in how the accounting standards are interpreted or applied could materially impact the Company's financial statements. From time to time, the FASB or the SEC may change the financial accounting and reporting standards that govern the preparation of the Company's financial statements. In addition, the FASB, SEC, banking regulators and the Company's independent registered public accounting firm may also amend or even reverse their previous interpretations or positions on how various standards should be applied. These changes may be difficult to predict and could impact how we prepare and report the Company's financial statements. In some cases, the Company could be required to apply a new or revised standard retroactively, potentially resulting in restatements to the prior period's financial statements. In June 2016, the FASB issued a new accounting standard ASU 2016-13, Financial Instruments — Credit Losses (Topic 326) that will require the earlier recognition of credit losses on loans and other financial instruments based on an expected loss model, replacing the incurred loss model that is currently in use. The new guidance is effective on January 1, 2020. This new accounting standard is expected to result in an increase in the allowance for credit losses. For more information related to the impacts of ASU 2016-13, see Note 1 — Summary of Significant Accounting Principles — Recent Accounting Pronouncements — Standards not yet Adopted to the Consolidated Financial Statements.

The Company's consolidated financial statements are based in part on assumptions and estimates which, if incorrect, could cause unexpected losses in the future. Pursuant to U.S. GAAP, we are required to use certain assumptions and estimates in preparing our financial statements, including in determining credit loss reserves, reserves related to litigation and the fair value of certain assets and liabilities, among other items. Accounting policies related to these estimates and assumptions are critical because they require management to make subjective and complex judgments about matters that are inherently uncertain. If these estimates and assumptions are incorrect, we may be required to restate prior-period financial statements. For a description of these policies, refer to Note 1 — Summary of Significant Accounting Policies to the Consolidated Financial Statements.

There may be substantial changes to fiscal and tax policies that may adversely affect our business. From time to time, the U.S. government may make substantial changes to a variety of federal policies and regulations, including fiscal and tax policies that may affect our business. In addition, new tax laws, the expiration of or changes in the existing tax laws, or the interpretation of those laws, could have a material impact on the Company's businesses, results of operations and financial condition. The Company's positions or its actions taken prior to such changes, may be compromised by such changes. In addition, the Company's actions taken in response to, or reliance upon, such changes in the tax laws may impact our tax position in a manner that may result in adverse financial conditions. On December 22, 2017, the Tax Act was enacted and made significant changes to the U.S. Internal Revenue Code. The changes enacted by the Tax Act were partially effective in the 2017 tax year and were fully effective in the 2018 tax year. It is possible that the IRS could issue subsequent guidance or take positions upon audit that differ from our prior interpretations and assumptions, which could have a material adverse effect on our income tax liabilities, results of operations and financial condition. For information on the impact of the Tax Act on our 2018 financial results, refer to Note 13 — Income Taxes to the Consolidated Financial Statements.

The Company’s investments in certain tax-advantaged projects may not generate returns as anticipated and may have an adverse impact on the Company’s results of operations. The Company invests in certain tax-advantaged projects that support affordable housing, community development and renewable energy resources. The Company’s investments in these projects are designed to generate a return primarily through the realization of federal and state income tax credits, and other tax benefits, over specified time periods. Due diligence review is performed both prior to the initial investment and on an ongoing basis. The Company is subject to the risk that previously recorded tax credits, which remain subject to recapture by taxing authorities based on compliance features required to be met at the project level, may fail to meet certain government compliance requirements and may not be able to be realized. The possible inability to realize these tax credits and other tax benefits may have a negative impact on the Company’s financial results. The risk of not being able to realize the tax credits and other tax benefits depends on many factors outside the Company’s control, including changes in the applicable tax code and the ability of the projects to be completed. The Company has previously invested in mobile solar generators sold and managed by DC Solar and its affiliates ("DC Solar"). For reasons that were not known or knowable to the Company, DC Solar had its assets frozen in December 2018. DC Solar filed for Chapter 11 bankruptcy protection in February 2019. In February 2019, an affidavit from a Federal Bureau of Investigation (“FBI”) special agent stated that DC Solar was operating a fraudulent "Ponzi-like scheme" and that the majority of mobile solar generators sold to investors and managed by DC Solar and the majority of the related lease revenues claimed to have been received by DC Solar may not have existed. Certain investors in DC Solar, including the Company, received tax credits for making these renewable resource investments. As a result of the information provided in the FBI special agent's affidavit filed in the U.S. District Court for the Eastern District of California, the Company believes that, in 2019, it may be required to record an uncertain tax position liability under Accounting Standards Codification (“ASC”) 740, Income Taxes for a significant portion of the tax credit benefits the Company had received in the past. The Company will continue to evaluate its existing tax positions, as well as new positions as they arise. However, if the Company is required to recognize an uncertain tax position liability in its 2019 consolidated financial statements, the uncertain tax position liability and charge-offs may have an adverse impact on our income tax liabilities, results of operations and financial condition.

Other Risks

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

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 the Company’s customers. The Company has policies and procedures in place to protect its reputation and promote ethical conduct, but these policies and procedures may not be fully effective. Negative publicity regarding the Company’s businesses, 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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The price of the Company's common stock may be volatile or may decline. The trading price of the Company's common stock may fluctuate as a result of a number of factors, many of which are outside the Company's control. These broad market fluctuations could adversely affect the market price of the Company's common stock. Among the factors that could affect the Company's stock price are:

- actual or anticipated quarterly fluctuations in the Company's results of operations 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 the Company or its competitors, such as acquisitions or restructurings;
- actions by institutional stockholders;
- addition or departure of key personnel;
- fluctuations in the stock price and operating results of the Company's competitors;
- general market conditions and, in particular, developments related to market conditions for the financial services industry;
- proposed or adopted regulatory changes or developments;
- cyclical fluctuations;
- trading volume of the Company's common stock; and
- anticipated or pending investigations, proceedings or litigation that involve or affect the Company.

Industry factors, general economic and political conditions and events, such as cyber or terrorist attacks, economic downturn or recessions, interest rate changes, credit loss trends or currency fluctuations, could also cause our stock price to decrease regardless of our operating results. A significant decline in the Company's stock price could result in substantial losses for stockholders.

If the Company's goodwill was determined to be impaired, it would result in a charge against earnings and thus a reduction in stockholders' equity. The Company tests goodwill for impairment on an annual basis, or more frequently, if necessary. Quoted market prices in active markets are the best evidence of fair value and are to be used as the basis for measuring impairment, when available. Other acceptable valuation methods include present value measurements based on multiples of earnings or revenues, or similar performance measures. If the Company were to determine that the carrying amount of the goodwill exceeded its implied fair value, the Company would be required to write down the value of the goodwill on the balance sheet, adversely affecting earnings as well as capital.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

East West's corporate headquarters is located at 135 North Los Robles Avenue, Pasadena, California, in an eight-story office building that it owns. The Company operates in more than 120 locations in the U.S. and 10 locations in Greater China. In the U.S., the Bank's corporate headquarters and main administrative offices are located in California, and branches are located in California, Texas, New York, Washington, Georgia, Massachusetts and Nevada. In the Greater China, East West's presence includes full service branches in Hong Kong, Shanghai, Shantou and Shenzhen, and representative offices in Beijing, Chongqing, Guangzhou, Taipei and Xiamen.

As of December 31, 2018, the Bank owns approximately 162 thousand square feet of properties at 20 U.S. locations and leases approximately 730 thousand square feet in the remaining U.S. locations. Expiration dates for these leases range from 2019 to 2032, exclusive of renewal options. The Bank leases all of its branches and offices in Greater China, totaling approximately 86 thousand square feet. Expiration dates for these leases range from 2019 to 2022. All properties occupied by the Bank are used across all business segments and for corporate purposes. For further information concerning leases, see Lease Commitments under Note 14 — Commitments, Contingencies and Related Party Transactions to the Consolidated Financial Statements.

On an ongoing basis, the Company evaluates its current and projected space requirements and, from time to time, it may determine that certain premises or facilities are no longer necessary for its operations. The Company believes that, if necessary, it could secure alternative properties on similar terms without adversely affecting its operations.

ITEM 3. LEGAL PROCEEDINGS

See Note 14 — Commitments, Contingencies and Related Party Transactions — Litigation to the Consolidated Financial Statements, which is incorporated herein by reference.

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, Holders of Common Stock and Dividends

The Company’s common stock is traded on the NASDAQ under the symbol “EWBC.” As of January 31, 2019, 145,146,595 shares of the Company’s common stock were held by 746 stockholders of record and by approximately 93,432 additional stockholders whose common stock were held for them in street name or nominee accounts.

Holders of the Company’s common stock are entitled to receive cash dividends when declared by the Company’s Board of Directors out of legally available funds. The Board of Directors presently intends to continue the policy of paying quarterly cash dividends, however, there can be no assurance as to future dividends because they are dependent on the Company’s future earnings, capital requirements and financial condition. For information regarding quarterly cash dividends declared for the two-year period ended December 31, 2018 and 2017, respectively, see Note 22 — Quarterly Financial Information (Unaudited) to the Consolidated Financial Statements, which is incorporated herein by reference.

Securities Authorized for Issuance under Equity Compensation Plans

For information regarding securities authorized for issuance under the Company’s equity compensation plans, see Note 15 — Stock Compensation Plans to the Consolidated Financial Statements and Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters presented elsewhere in this report, which are incorporated herein by reference.

Five-Year Stock Performance

The following graph and table compare the Company's cumulative total return on its common stock with the cumulative total return of the Standard & Poor's ("S&P") 500 Index and the Keefe, Bruyette and Woods ("KBW") NASDAQ Regional Banking Index ("KRX") over the five-year period through December 31, 2018. The S&P 500 Index is utilized as a benchmark against performance and is a commonly referenced U.S. equity benchmark consisting of leading companies from different economic sectors. The KRX is used to align EWBC with those companies of a relatively similar size. This index seeks to reflect the performance of publicly traded U.S. companies that do business as regional banks or thrifts, and is composed of 50 companies. The graph and table below assume that on December 31, 2013, $100 was invested in EWBC's common stock, the S&P 500 Index and the KRX, and that all dividends were reinvested. Historical stock price performance shown on the graph is not necessarily indicative of future price performance. The information set forth under the heading "Five-Year Stock Performance" shall not be deemed to be "soliciting material" or to be "filed" with the SEC or subject to the liabilities of Section 18 of the Exchange Act, except to the extent that the Company specifically requests that such information to be treated as soliciting material or specifically to be incorporated by reference into a filing under the Securities Act or the Exchange Act.

	December 31,					
Index	2013	2014	2015	2016	2017	2018
East West Bancorp, Inc.	$100.00	$112.90	$123.60	$154.40	$187.40	$136.20
KRX	$100.00	$102.40	$108.50	$150.80	$153.40	$126.60
S&P 500 Index	$100.00	$113.70	$115.30	$129.00	$157.20	$150.30

Repurchases of Equity Securities by the Issuer and Affiliated Purchasers

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 thereafter, including during 2018 and 2017. Although this program has no stated expiration date, the Company does not intend to repurchase any stock pursuant to this program absent further action of the Company's Board of Directors.

ITEM 6. SELECTED FINANCIAL DATA

For selected financial data information, see Item 7. MD&A — Five-Year Summary of Selected Financial Data, which is incorporated herein by reference.

EAST WEST BANCORP, INC.
ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
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Overview

The following discussion provides information about the results of operations, financial condition, liquidity, and capital resources of East West, and its subsidiaries, including its subsidiary bank, East West Bank and its subsidiaries (referred to herein as “East West Bank” or the “Bank”). This information is intended to facilitate the understanding and assessment of significant changes and trends related to the Company’s results of operations and financial condition. This discussion and analysis should be read in conjunction with the Consolidated Financial Statements and the accompanying notes presented elsewhere in this report.

Company Overview

East West is a bank holding company incorporated in Delaware on August 26, 1998 and is registered under the BHC Act. The Company commenced business on December 30, 1998 when, pursuant to a reorganization, it acquired all of the voting stock of the Bank, which became its principal asset. The Bank is an independent commercial bank headquartered in California that has a strong focus on the financial service needs of the Chinese-American community. Through over 130 locations in the U.S. and Greater China, the Company provides a full range of consumer and commercial products and services through three business segments: Consumer and Business Banking, Commercial Banking, with the remaining operations included in Other. The Company’s principal activity is lending to and accepting deposits from businesses and individuals. The primary source of revenue is net interest income, which is principally derived from the difference between interest earned on loans and investment securities and interest paid on deposits and other funding sources. As of December 31, 2018, the Company had $41.04 billion in assets and approximately 3,200 full-time equivalent employees. For additional information on products and services provided by the Bank, see Item 1. Business — Banking Services.

Corporate Strategy

We are committed to enhancing long-term shareholder value by executing on the fundamentals of growing loans, deposits and revenue, improving profitability, and investing for the future while managing risk, expenses and capital. Our business model is built on customer loyalty and engagement, understanding of our customers’ financial goals, and meeting our customers’ financial needs through our diverse products and services. The Company’s approach is concentrated on seeking out and deepening client relationships that meet our risk/return measures. This focus guides our decision-making across every aspect of our operations: the products we develop, the expertise we cultivate and the infrastructure we build to help our customers conduct business. We expect our relationship-focused business model to continue to generate organic growth and to expand our targeted customer bases. On an ongoing basis, we invest in technology related to critical business infrastructure and streamlining core processes, in the context of maintaining appropriate expense management. Our risk management activities are focused on ensuring that the Company identifies and manages risks to maintain safety and soundness while maximizing profitability.

Five-Year Summary of Selected Financial Data

($ and shares in thousands, except per share data)	2018	2017	2016	2015	2014
Summary of operations:					
Interest and dividend income	$1,651,703	$1,325,119	$1,137,481	$1,053,815	$1,153,698
Interest expense	265,195	140,050	104,843	103,376	112,820
Net interest income before provision for credit losses	1,386,508	1,185,069	1,032,638	950,439	1,040,878
Provision for credit losses	64,255	46,266	27,479	14,217	49,158
Net interest income after provision for credit losses	1,322,253	1,138,803	1,005,159	936,222	991,720
Noninterest income (loss) [1]	210,909	257,748	182,278	182,779	(12,183)
Noninterest expense	714,466	661,451	615,249	540,280	532,514
Income before income taxes	818,696	735,100	572,188	578,721	447,023
Income tax expense [2]	114,995	229,476	140,511	194,044	101,145
Net income	$703,701	$505,624	$431,677	$384,677	$345,878
Per common share:					
Basic earnings	$4.86	$3.50	$3.00	$2.67	$2.42
Diluted earnings	$4.81	$3.47	$2.97	$2.66	$2.41
Dividends declared	$0.86	$0.80	$0.80	$0.80	$0.72
Book value	$30.52	$26.58	$23.78	$21.70	$19.89
Weighted-average number of shares outstanding:					
Basic	144,862	144,444	144,087	143,818	142,952
Diluted	146,169	145,913	145,172	144,512	143,563
Common shares outstanding at period-end	144,961	144,543	144,167	143,909	143,582
At year end:					
Total assets	$41,042,356	$37,121,563	$34,788,840	$32,350,922	$28,743,592
Total loans	$32,385,464	$29,053,935	$25,526,215	$23,675,706	$21,775,899
Available-for-sale investment securities	$2,741,847	$3,016,752	$3,335,795	$3,773,226	$2,626,617
Total deposits, excluding held-for-sale deposits	$35,439,628	$31,615,063	$29,890,983	$27,475,981	$24,008,774
Long-term debt	$146,835	$171,577	$186,327	$206,084	$225,848
FHLB advances	$326,172	$323,891	$321,643	$1,019,424	$317,241
Stockholders' equity	$4,423,974	$3,841,951	$3,427,741	$3,122,950	$2,856,111
Performance metrics:					
Return on average assets	1.83%	1.41%	1.30%	1.27%	1.25%
Return on average equity	17.04%	13.71%	13.06%	12.74%	12.72%
Net interest margin	3.78%	3.48%	3.30%	3.35%	4.03%
Efficiency ratio	44.73%	45.84%	50.64%	47.68%	51.77%
Credit quality metrics:					
Allowance for loan losses	$311,322	$287,128	$260,520	$264,959	$261,679
Allowance for loan losses to loans held-for-investment [3]	0.96%	0.99%	1.02%	1.12%	1.20%
Non-PCI nonperforming assets to total assets [3]	0.23%	0.31%	0.37%	0.40%	0.46%

Annual net charge-offs to average loans held-for-investment	0.13	%	0.08	%	0.15	%	0.01	%	0.18	%
Selected metrics:										
Total average equity to total average assets	10.72	%	10.30	%	9.97	%	9.95	%	9.83	%
Common dividend payout ratio	17.90	%	23.14	%	27.01	%	30.21	%	30.07	%
Loan-to-deposit ratio	91.38	%	90.17	%	85.40	%	86.17	%	90.70	%
Capital ratios of EWBC (4):										
Total capital	13.7	%	12.9	%	12.4	%	12.2	%	12.6	%
Tier 1 capital	12.2	%	11.4	%	10.9	%	10.7	%	11.0	%
CET1 capital	12.2	%	11.4	%	10.9	%	10.5	%	N/A	
Tier 1 leverage capital	9.9	%	9.2	%	8.7	%	8.5	%	8.4	%

N/A — Not applicable.

(1) Includes $31.5 million of pretax gain recognized from the sale of the DCB branches for 2018. Includes $71.7 million and $3.8 million of pretax gains recognized from the sales of a commercial property in California and EWIS's insurance brokerage business, respectively, for 2017. Includes changes in FDIC indemnification asset and receivable/payable charges of $38.0 million and $201.4 million for 2015 and 2014, respectively. The Company terminated the United Commercial Bank and Washington First International Bank shared-loss agreements during 2015.

(2) Includes an additional $41.7 million in income tax expense recognized during 2017 due to the enactment of the Tax Act.

(3) Total assets and loans held-for-investment include purchased credit-impaired ("PCI") loans of $308.0 million, $482.3 million, $642.4 million, $970.8 million and $1.32 billion as of December 31, 2018, 2017, 2016, 2015 and 2014, respectively.

(4) Capital ratios are calculated under the Basel III Capital Rules which became effective on January 1, 2015. Prior to this date, the ratios were calculated under the Basel I Capital Rules. The CET1 capital ratio was introduced under the Basel III Capital Rules.

2018 Financial Highlights

We achieved strong earnings for the ninth consecutive year in 2018. Net income of $703.7 million in 2018 grew $198.1 million or 39% from $505.6 million in 2017. Total revenue, or the sum of net interest income before provision for credit losses and noninterest income, of $1.60 billion grew 11% year-over-year, primarily driven by an expanding net interest margin and robust loan growth. Full year 2018 net interest margin of 3.78% expanded 30 basis points year-over-year, from 3.48% in 2017. Revenue growth outpaced expense increases in 2018, improving our operating efficiency. Finally, net income growth in 2018 also benefited from a reduction in income tax expense related to the Tax Act. We earned a return on average assets ("ROA") of 1.83% and a return on average equity ("ROE") of 17.04% in 2018.

On November 11, 2017, the Bank entered into a Purchase and Assumption Agreement to sell all of its eight DCB branches located in the High Desert area of Southern California to Flagstar Bank, a wholly-owned subsidiary of Flagstar Bancorp, Inc. The sale of the Bank's DCB branches was completed on March 17, 2018. The assets and liability of the DCB branches that were sold in this transaction included primarily $613.7 million of deposits, $59.1 million of loans, $9.0 million of cash and cash equivalents and $7.9 million of premises and equipment. The transaction resulted in a net cash payment of $499.9 million by the Bank to Flagstar Bank. After transaction costs, the sale resulted in a pre-tax gain of $31.5 million, which was reported as Net gain on sale of business as part of Noninterest Income on the Consolidated Statement of Income. The 2018 EPS impact from the sale of the DCB branches was $0.15 per share, net of tax.

Noteworthy items about the Company's performance for 2018 included:

- Earnings: Full year 2018 net income of $703.7 million and diluted EPS of $4.81 both increased 39%, compared to full year 2017 net income of $505.6 million and diluted EPS of $3.47. Strong returns on average assets and average equity during 2018 reflected our ability to expand profitability while growing the loan and deposit base. Return on average assets increased 42 basis points to 1.83% in 2018, compared to 1.41% in 2017. Return on average equity increased 333 basis points to 17.04% in 2018, compared to 13.71% in 2017.
- Adjusted Earnings: Excluding the impact of the after-tax gain on the sale of the DCB branches recognized in 2018, and the impacts of the Tax Act and after-tax gains on the sales of the commercial property and EWIS insurance brokerage business recognized in 2017, non-GAAP full year diluted EPS was $4.66 in 2018, an increase of $1.20 or 35% from $3.46 in 2017. Non-GAAP return on average assets was 1.77% in 2018, a 36 basis point increase from 1.41% in 2017, while non-GAAP return on average equity was 16.50% in 2018, a 284 basis point increase from 13.66% in 2017. (See reconciliations of non-GAAP measures used below under Item 7. MD&A — Supplemental Information — Explanation of GAAP and Non-GAAP Financial Measures.)
- Net Interest Income Growth and Net Interest Margin Expansion: Full year 2018 net interest income was $1.39 billion, an increase of $201.4 million or 17% year-over-year. Full year 2018 net interest margin of 3.78% expanded by 30 basis points, compared to full year 2017 net interest margin of 3.48%. Net interest income growth primarily reflected loan yield expansion and loan growth, partially offset by an increase in the cost of funds.
- Record Loans: Total loans were $32.39 billion as of December 31, 2018, an increase of $3.33 billion or 11% from $29.05 billion as of December 31, 2017. The largest increase in loans was in single-family residential loans, followed by commercial and industrial ("C&I") loans.
- Record Deposits: Total deposits were $35.44 billion as of December 31, 2018, an increase of $3.82 billion or 12% from $31.62 billion[(1)] as of December 31, 2017. The sequential growth was largely from an increase in time deposits, followed by noninterest-bearing demand deposits.
- Asset Quality Metrics: The allowance for loan losses was $311.3 million or 0.96% of loans held-for-investment as of December 31, 2018, compared to $287.1 million or 0.99% of loans held-for-investment as of December 31, 2017. Net charge-offs were 0.13% and 0.08% of average loans held-for-investment for 2018 and 2017, respectively. Non-PCI performing assets decreased 19% to $93.0 million or 0.23% of total assets as of December 31, 2018 from $115.1 million or 0.31% of total assets as of December 31, 2017.
- Capital Levels: Our capital levels remained strong in 2018. As of December 31, 2018, stockholders' equity of $4.42 billion increased $582.0 million or 15%, compared to $3.84 billion as of December 31, 2017. We returned $126.0 million and $116.8 million in cash dividends to our stockholders during 2018 and 2017, respectively. The CET1 capital ratio was 12.2% as of December 31, 2018, compared to 11.4% as of December 31, 2017. The total risk-based capital ratio was 13.7% and 12.9% as of December 31, 2018 and 2017, respectively. Our other regulatory capital ratios remained well above required minimum levels. See Item 7. MD&A — Regulatory Capital and Ratios for more information regarding our capital.
- Cash Dividend: We increased our quarterly common stock dividend by 15% to $0.23 per share from $0.20 per share in the third quarter of 2018.
- Operating Efficiency: Efficiency ratio, calculated as noninterest expense divided by the sum of net interest income before provision for credit losses and noninterest income, was 44.73% in 2018, an improvement of 111 basis points compared to 45.84% in 2017. The improvement in the efficiency ratio reflects revenue growth, driven by net interest income growth, exceeding noninterest expense growth during 2018.
- Tax: Our full year 2018 effective tax rate was 14.0%, resulting in tax expense of $115.0 million, compared to an effective tax rate of 31.2% and tax expense of $229.5 million for the full year 2017. The income tax rate for 2018 was positively impacted by the decrease in the corporate federal income tax rate to 21% from 35%, effective January 1, 2018.

(1) Excludes
$605.1

million of
branch
liability
held-for-sale
as of
December
31, 2017.

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Results of Operations

Net Interest Income

The Company's primary source of revenue is net interest income, which is the difference between interest income earned on interest-earning assets less interest expense paid on interest-bearing liabilities. Net interest margin is the ratio of net interest income to average interest-earning assets. Net interest income and net interest margin are impacted by several factors, including changes in average balances and composition of interest-earning assets and funding sources, market interest rate fluctuations and slope of the yield curve, repricing characteristics and maturity of interest-earning assets and interest-bearing liabilities, volume of noninterest-bearing sources of funds and asset quality.
Net interest income for 2018 was $1.39 billion, an increase of $201.4 million or 17%, compared to $1.19 billion in 2017. The increase in net interest income for 2018 was primarily due to the expansion of loan yields and loan growth, partially offset by a higher cost of funds. Net interest income for 2017 was $1.19 billion, an increase of $152.4 million or 15%, compared to $1.03 billion in 2016. The increase in net interest income for 2017 was primarily due to strong loan growth and higher yields from interest-earning assets, partially offset by a higher cost of funds.

Net interest margin for 2018 was 3.78%, a 30 basis point increase from 3.48% in 2017. Net interest margin for 2017 increased 18 basis points from 3.30% in 2016. The expanding net interest margin reflected the benefits of higher interest rates on the Company's interest rate sensitive assets. Comparing 2018 to 2017, the year-over-year increase in the average loan yield exceeded the increase in total funding costs, driving net interest margin expansion.

Average loan yield for 2018 was 4.97%, a 57 basis point increase from 4.40% in 2017. Average loan yield in 2017 increased 13 basis points from 4.27% in 2016. The increases in the average loan yield in 2018 and 2017 reflected the favorable impacts of higher interest rates on the Company's variable rate and hybrid adjustable-rate loan portfolio. Average loans of $30.23 billion in 2018 increased $2.98 billion or 11% from $27.25 billion in 2017. Average loans in 2017 increased $2.99 billion or 12% from $24.26 billion in 2016. Loan growth was broad-based across single-family residential, C&I and CRE loan portfolios.

Average interest-earning assets of $36.71 billion in 2018 increased $2.67 billion or 8% from $34.03 billion in 2017. This was primarily due to increases of $2.98 billion in average loans and $367.2 million in average interest-bearing cash and deposits with banks, partially offset by decreases of $417.9 million in average securities purchased under resale agreements ("resale agreements") and $253.5 million in average investment securities. Average interest-earning assets of $34.03 billion in 2017 increased $2.74 billion or 9% from $31.30 billion in 2016. This was primarily due to increases of $2.99 billion in average loans and $349.2 million in average interest-bearing cash and deposits with banks, partially offset by decreases of $328.4 million in average investment securities and $269.7 million in average resale agreements.

Deposits are an important source of funds and impact both net interest income and net interest margin. Average noninterest-bearing demand deposits provide us with zero-cost funding and totaled $11.09 billion in 2018 and $10.63 billion in 2017, an increase of $461.8 million or 4% year-over-year. Average noninterest-bearing demand deposits in 2017 increased $1.26 billion or 13% from $9.37 billion in 2016. Average noninterest-bearing demand deposits made up 33%, 34% and 33% of average total deposits in 2018, 2017 and 2016, respectively. Average interest-bearing deposits of $22.14 billion in 2018 increased $1.95 billion or 10% from $20.19 billion in 2017. Average interest-bearing deposits in 2017 increased $1.06 billion or 6% from $19.13 billion in 2016.

The cost of funds was 0.78%, 0.44% and 0.36% in 2018, 2017 and 2016, respectively. The year-over-year increases in the cost of funds were primarily due to increases in the cost of interest-bearing deposits. The cost of interest-bearing deposits increased 48 basis points to 1.06% in 2018, and 14 basis points to 0.58% in 2017, up from 0.44% in 2016.

Other sources of funding primarily include FHLB advances, long-term debt and securities sold under repurchase agreements ("repurchase agreements").

The Company utilizes various tools to manage interest rate risk. Refer to the "Interest Rate Risk Management" section of Item 7. MD&A — Asset Liability and Market Risk Management for details.

The following table presents the interest spread, net interest margin, average balances, interest income and expense, and the average yield/rate by asset and liability component in 2018, 2017 and 2016:

	Year Ended December 31,								
	2018			2017			2016		
($ in thousands)	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Averag Yield/ Rate
ASSETS									
Interest-earning assets:									
Interest-bearing cash and deposits with banks	$2,609,463	$54,804	2.10 %	$2,242,256	$33,390	1.49%	$1,893,064	$14,731	0.78%
Resale agreements (1)	1,020,822	29,328	2.87 %	1,438,767	32,095	2.23%	1,708,470	30,547	1.79%
Investment securities (2)(3)	2,773,152	60,911	2.20 %	3,026,693	58,670	1.94%	3,355,086	53,399	1.59%
Loans (4)(5)	30,230,014	1,503,514	4.97 %	27,252,756	1,198,440	4.40%	24,264,895	1,035,377	4.27%
Restricted equity securities	73,691	3,146	4.27 %	73,593	2,524	3.43%	75,260	3,427	4.55%
Total interest-earning assets	$36,707,142	$1,651,703	4.50 %	$34,034,065	$1,325,119	3.89%	$31,296,775	$1,137,481	3.63%
Noninterest-earning assets:									
Cash and due from banks	445,768			395,092			365,104		
Allowance for loan losses	(298,600)			(272,765)			(262,804)		
Other assets	1,688,259			1,631,221			1,770,298		
Total assets	$38,542,569			$35,787,613			$33,169,373		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Interest-bearing liabilities:									
Checking deposits (6)	$4,477,793	$34,657	0.77 %	$3,951,930	$18,305	0.46%	$3,495,094	$12,640	0.36%
Money market deposits (6)	7,985,526	83,696	1.05 %	8,026,347	44,181	0.55%	7,679,695	27,094	0.35%
Saving deposits (6)	2,245,644	8,621	0.38 %	2,369,398	6,431	0.27%	2,104,060	4,719	0.22%
Time deposits (6)	7,431,749	107,778	1.45 %	5,838,382	47,474	0.81%	5,852,042	39,771	0.68%
Federal funds purchased and other short-term borrowings	32,222	1,398	4.34 %	34,546	1,003	2.90%	25,591	713	2.79%
FHLB advances	327,435	10,447	3.19 %	391,480	7,751	1.98%	380,868	5,585	1.47%
Repurchase agreements (1)	50,000	12,110	24.22%	140,000	9,476	6.77%	211,475	9,304	4.40%
Long-term debt	159,185	6,488	4.08 %	178,882	5,429	3.03%	198,589	5,017	2.53%

Total interest-bearing liabilities	$22,709,554	$265,195	1.17 %	$20,930,965	$140,050	0.67%	$19,947,414	$104,843	0.53%
Noninterest-bearing liabilities and stockholders' equity:									
Demand deposits (6)	11,089,537			10,627,718			9,371,481		
Accrued expenses and other liabilities	612,656			541,717			544,549		
Stockholders' equity	4,130,822			3,687,213			3,305,929		
Total liabilities and stockholders' equity	$38,542,569			$35,787,613			$33,169,373		
Interest rate spread			3.33 %			3.22%			3.10%
Net interest income and net interest margin		$1,386,508	3.78 %		$1,185,069	3.48%		$1,032,638	3.30%

(1) Average balances of resale and repurchase agreements are reported net pursuant to ASC 210-20-45-11, Balance Sheet Offsetting: Repurchase and Reverse Repurchase Agreements. The weighted-average yields of gross resale agreements were 2.63%, 2.19% and 1.78% for 2018, 2017 and 2016, respectively. The weighted-average interest rates of gross repurchase agreements were 4.46%, 3.48% and 2.97% for 2018, 2017 and 2016, respectively.
(2) Yields on tax-exempt securities are not presented on a tax-equivalent basis.
(3) Includes the amortization of premiums on investment securities of $16.1 million, $21.2 million and $26.2 million for 2018, 2017 and 2016, respectively.
(4) Average balances include nonperforming loans and loans held-for-sale.
(5) Includes the accretion of net deferred loan fees, unearned fees, ASC 310-30 discounts and amortization of premiums, which totaled $39.2 million, $30.8 million and $53.5 million for 2018, 2017 and 2016, respectively.
(6) Average balance of deposits for 2018 and 2017 includes average deposits held-for-sale related to the sale of the DCB branches.

The following table summarizes the extent to which changes in interest rates and changes in average interest-earning assets and average interest-bearing liabilities affected the Company's net interest income for the periods presented. The total change for each category of interest-earning assets and interest-bearing liabilities is segmented into changes attributable to variations in volume and interest rates. Changes that are not solely due to either volume or rate are allocated proportionally based on the absolute value of the change related to average volume and average rate. Nonaccrual loans are included in average loans to compute the table below:

($ in thousands)	Year Ended December 31,					
	2018 vs. 2017			2017 vs. 2016		
	Total	Changes Due to		Total	Changes Due to	
	Change	Volume	Yield/Rate	Change	Volume	Yield/Rate
Interest-earning assets:						
Interest-bearing cash and deposits with banks	$21,414	$6,108	$ 15,306	$18,659	$3,134	$ 15,525
Resale agreements	(2,767)	(10,671)	7,904	1,548	(5,287)	6,835
Investment securities	2,241	(5,167)	7,408	5,271	(5,580)	10,851
Loans	305,074	138,724	166,350	163,063	130,282	32,781
Restricted equity securities	622	3	619	(903)	(74)	(829)
Total interest and dividend income	$326,584	$128,997	$ 197,587	$187,638	$122,475	$ 65,163
Interest-bearing liabilities:						
Checking deposits	$16,352	$2,706	$ 13,646	$5,665	$1,800	$ 3,865
Money market deposits	39,515	(226)	39,741	17,087	1,274	15,813
Saving deposits	2,190	(351)	2,541	1,712	642	1,070
Time deposits	60,304	15,579	44,725	7,703	(93)	7,796
Federal funds purchased and other short-term borrowings	395	(71)	466	290	259	31
FHLB advances	2,696	(1,432)	4,128	2,166	160	2,006
Repurchase agreements	2,634	(9,226)	11,860	172	(3,796)	3,968
Long-term debt	1,059	(648)	1,707	412	(531)	943
Total interest expense	$125,145	$6,331	$ 118,814	$35,207	$(285)	$ 35,492
Change in net interest income	$201,439	$122,666	$ 78,773	$152,431	$122,760	$ 29,671

Noninterest Income

The following table presents the components of noninterest income for the periods indicated:

($ in thousands)	Year Ended December 31,				
	2018	2017	2016	2018 vs. 2017 % Change	2017 vs. 2016 % Change
Branch fees	$39,859	$40,925	$39,654	(3)%	3 %
Letters of credit fees and foreign exchange income	56,282	44,344	47,284	27 %	(6)%
Ancillary loan fees and other income	24,052	23,333	19,352	3 %	21 %
Wealth management fees	13,785	13,974	12,600	(1)%	11 %
Derivative fees and other income	18,980	17,671	16,781	7 %	5 %
Net gains on sales of loans	6,590	8,870	6,085	(26)%	46 %
Net gains on sales of available-for-sale investment securities	2,535	8,037	10,362	(68)%	(22)%
Net gains on sales of fixed assets	6,683	77,388	3,178	(91)%	NM

Net gain on sale of business	31,470	3,807	—	NM	100 %
Other fees and operating income	10,673	19,399	26,982	(45)%	(28)%
Total noninterest income	$210,909	$257,748	$182,278	(18)%	41 %

NM — Not Meaningful

Noninterest income represented 13%, 18% and 15% of total revenue for 2018, 2017 and 2016, respectively. Noninterest income decreased $46.8 million or 18% to $210.9 million in 2018 from $257.7 million in 2017. This decrease was primarily due to decreases in net gains on sales of fixed assets, other fees and operating income and net gains on sales of available-for-sale investments securities, partially offset by increases in net gain on sale of business, as well as letters of credit fees and foreign exchange income during 2018. Noninterest income increased $75.5 million or 41% to $257.7 million in 2017 from $182.3 million in 2016. This increase was primarily attributable to an increase in net gains on sales of fixed assets, partially offset by a decrease in other fees and operating income during 2017. The following discussion provides the composition of the major changes in noninterest income.

Letters of credit fees and foreign exchange income increased $11.9 million or 27% to $56.3 million in 2018, primarily driven by the remeasurement of balance sheet items denominated in foreign currencies, partially offset by a decrease in foreign exchange derivative gains. The $2.9 million or 6% decrease in letters of credit fees and foreign exchange income to $44.3 million in 2017 was primarily due to a decrease in foreign exchange income.

Net gains on sales of available-for-sale investment securities were $2.5 million, $8.0 million and $10.4 million in 2018, 2017 and 2016, respectively. The decreases of $5.5 million or 68% in 2018, and the $2.3 million or 22% in 2017, were due to a reduction in the quantities of available-for-sale investment securities sold.

Net gains on sales of fixed assets decreased $70.7 million in 2018 and increased $74.2 million in 2017. In 2017, net gains on sales of fixed assets included the $71.7 million pre-tax gain recognized from the sale of a commercial property in California. During 2017, East West Bank completed the sale and leaseback of a commercial property in California for cash consideration of $120.6 million and entered into a lease agreement for part of the property, consisting of a retail branch and office facilities. The total pre-tax profit from the sale was $85.4 million, of which $71.7 million was recognized in the first quarter of 2017, and $13.7 million was deferred and would be recognized over the term of the lease agreement.

Net gain on sale of business in 2018 reflected the $31.5 million pre-tax gain recognized from the sale of the Bank's eight DCB branches as discussed in Item 7. MD&A — 2018 Financial Highlights, and in 2017, this line item reflected the $3.8 million pre-tax gain recognized from the sale of the EWIS insurance brokerage business, for a year-over-year increase of $27.7 million.

Other fees and operating income decreased $8.7 million or 45% to $10.7 million in 2018, primarily due to a $4.3 million decrease in rental income and $3.0 million decrease in distribution income from the Company's investments in qualified affordable housing partnerships, tax credit investment and other investments. The $7.6 million or 28% decrease in other fees and operating income to $19.4 million in 2017 was primarily due to a $5.6 million decrease in rental income following the aforementioned sale of the commercial property.

Noninterest Expense

The following table presents the components of noninterest expense for the periods indicated:

($ in thousands)	Year Ended December 31, 2018	2017	2016	2018 vs. 2017 % Change	2017 vs. 2016 % Change
Compensation and employee benefits	$379,622	$335,291	$300,115	13 %	12 %
Occupancy and equipment expense	68,896	64,921	61,453	6 %	6 %
Deposit insurance premiums and regulatory assessments	21,211	23,735	23,279	(11)%	2 %

Legal expense	8,781	11,444	2,841	(23)%	303 %
Data processing	13,177	12,093	11,683	9 %	4 %
Consulting expense	11,579	14,922	22,742	(22)%	(34)%
Deposit related expense	11,244	9,938	10,394	13 %	(4)%
Computer software expense	22,286	18,183	12,914	23 %	41 %
Other operating expense	88,042	82,974	86,382	6 %	(4)%
Amortization of tax credit and other investments	89,628	87,950	83,446	2 %	5 %
Total noninterest expense	$714,466	$661,451	$615,249	8 %	8 %

Noninterest expense increased $53.0 million or 8% to $714.5 million in 2018 from $661.5 million in 2017. This increase was primarily due to increases in compensation and employee benefits, and computer software expense. Noninterest expense increased $46.2 million or 8% to $661.5 million in 2017 from $615.2 million in 2016. This increase was primarily due to increases in compensation and employee benefits, legal expense and computer expense, partially offset by a decrease in consulting expense.

Compensation and employee benefit increased $44.3 million or 13% in 2018 and $35.2 million or 12% in 2017, primarily attributable to the annual employee merit increases and staffing growth to support the Company's growing business. The larger increase noted during 2018 was also primarily due to an increase in stock-based compensation and severance costs recognized in 2018 as a result of the departure of one of the Company's executives.

Legal expense decreased $2.7 million or 23% to $8.8 million in 2018 but increased $8.6 million or 303% in 2017. The increase in 2017 was mainly due to a $13.4 million reversal of a legal accrual, recognized in 2016, following a legal settlement.

Consulting expense decreased $3.3 million or 22% in 2018 and $7.8 million or 34% in 2017. The decreases in 2018 and 2017 were primarily due to a decline in BSA and AML related consulting expenses, reflecting progress made by the Company in strengthening its BSA and AML compliance programs. In 2018, consulting expenses spent on digital banking, loan-related operations and CECL partially offset the cost savings from decreased BSA and AML-related spending.

Computer software expense increased $4.1 million or 23% in 2018 and $5.3 million or 41% in 2017. The increases in both 2018 and 2017 were due to new system implementations and software upgrades incurred to support the Company's growing business.

Other operating expense primarily consists of travel, telecommunication and postage expenses, marketing, charitable contributions and other miscellaneous expense categories. The $5.1 million or 6% increase to $88.0 million in 2018, was primarily due to increases in charitable contributions, marketing, travel, and telecommunication and postage expenses, partially offset by a decrease in other real estate owned ("OREO") expense. Other operating expense decreased $3.4 million or 4% to $83.0 million in 2017 primarily due to decreases in OREO expense, telecommunication and postage expenses and amortization of core deposit intangibles, partially offset by an increase in loan related expenses.

Amortization of tax credit and other investments increased $1.7 million or 2% in 2018 and $4.5 million or 5% in 2017. The increases in both 2018 and 2017 were primarily due to an increase in renewable energy tax credit investments amortization expense, partially offset by a reduction in historical tax credit investments.

Income Taxes

($ in thousands)	Year Ended December 31,				
	2018	2017	2016	2018 vs. 2017 % Change	2017 vs. 2016 % Change
Income before income taxes	$818,696	$735,100	$572,188	11 %	28 %
Income tax expense	$114,995	$229,476	$140,511	(50)%	63 %
Effective tax rate	14.0 %	31.2 %	24.6 %	(17)%	7 %

See Note 13 — Income Taxes to the Consolidated Financial Statements for a reconciliation of the effective tax rates to the U.S. federal statutory income tax rate. The changes in effective tax rates, as illustrated in the table above, were mainly due to the enactment of the Tax Act on December 22, 2017. The Tax Act significantly changed U.S. corporate income tax laws by, among other things, reducing the U.S. federal corporate income tax rate from 35% to 21% effective January 1, 2018; allowing the expensing of 100% of the cost of acquired qualified property placed in service after September 27, 2017; transitioning from a worldwide tax system to a territorial system; imposing a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017; and eliminating the carrybacks of tax credits and net operating losses (“NOLs”) incurred after December 31, 2017. In addition, NOLs incurred after December 31, 2017 cannot offset more than 80% of taxable income for any future year, but may be carried forward indefinitely. ASC 740, Income Taxes, requires companies to recognize the effect of the Tax Act in the period of enactment. Hence, such effects were recognized in the Company’s 2017 Consolidated Financial Statements, even though the effective date of the law for most provisions is January 1, 2018. The SEC staff issued Staff Accounting Bulletin No. 118 to address the application of U.S. GAAP in situations where a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. Based on reasonable estimates, the Company recorded $41.7 million of income tax expense in the fourth quarter of 2017 related to the impact of the Tax Act, the period in which the legislation was enacted. This amount was primarily related to the remeasurements of certain deferred tax assets and liabilities of $33.1 million, as well as the remeasurements of tax credits and other tax benefits related to qualified affordable housing partnerships of $7.9 million. As a result, the effective tax rate increased to 31.2% during 2017, compared to 24.6% in 2016. During 2018, management finalized its assessment of the initial impact of the Tax Act, which resulted in an increase in income tax expense by $985 thousand during the same period ensuing from the remeasurements of deferred tax assets and liabilities. As most of the income tax effects of the Tax Act were recorded during 2017, coupled with the lower U.S. federal corporate income tax rate, the effective tax rate decreased to 14.0% in 2018, compared to 31.2% in 2017. The overall impact of the Tax Act was a one-time increase in income tax expense of $42.7 million.

Management regularly reviews the Company’s tax positions and deferred tax balances. Factors considered in this analysis include the Company’s ability to generate future taxable income, implement tax-planning strategies (as defined in ASC 740, Income Taxes) and utilize taxable income from prior carryback years (if such carryback is permitted under the applicable tax law), as well as future reversals of existing taxable temporary differences. 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 tax rates expected to be in effect when such amounts are realized and settled. Net deferred tax assets increased $20.2 million or 21% to $117.6 million as of December 31, 2018, compared to $97.4 million as of December 31, 2017, mainly attributable to an increase in tax credit carryforwards as a result of the lower income tax rate. For additional details on the components of net deferred tax assets, see Note 13 — Income Taxes to the Consolidated Financial Statements.

A valuation allowance is established for deferred tax assets if, based on the weight of all positive evidence against all negative evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. A valuation allowance is used, as needed, to reduce the deferred tax assets to the amount that is more likely than not to be realized. Management has concluded that it is more likely than not that all of the benefits of the deferred tax assets will be realized, with the exception of the deferred tax assets related to NOLs in certain states. Accordingly, a valuation allowance has been recorded for these amounts. The Company believes that adequate provisions have been made for all income tax uncertainties consistent with ASC 740, Income Taxes as of December 31, 2018. The Company is also evaluating the possibility of recording an uncertain tax position liability in 2019 with regards to its investments in mobile solar generators sold and managed by DC Solar. For further information, see Item 7. MD&A — Other Matters.

Operating Segment Results

The Company organizes its operations into three reportable operating segments: (1) Consumer and Business Banking (referred to as “Retail Banking” in the Company’s prior quarterly Form 10-Q and annual Form 10-K filings); (2) Commercial Banking; and (3) Other.

The Consumer and Business Banking segment primarily provides financial products and services to consumer and commercial customers through the Company’s domestic branch network. This segment offers consumer and commercial deposits, mortgage and home equity loans, and other products and services. The Consumer and Business Banking segment also originates commercial loans through the Company’s branch network. However, since a portion of these commercial loans are referred to the Commercial Banking segment, they are maintained and reported in the Commercial Banking segment. Other products and services provided by the Consumer and Business Banking segment include wealth management, treasury management, and foreign exchange services.

The Commercial Banking segment primarily generates commercial loans and deposits through commercial lending offices located in the U.S. and Greater China. Commercial loan products include commercial business loans and lines of credit, trade finance loans and letters of credit, CRE loans, construction lending, affordable housing loans and letters of credit, asset-based lending, and equipment financing. Commercial deposit products and other financial services include treasury management, foreign exchange services, and interest rate and commodity hedging risk management.

The remaining centralized functions, including the treasury activities of the Company and eliminations of inter-segment amounts, have been aggregated and included in the Other segment, which provides broad administrative support to the two core segments, the Consumer and Business Banking and Commercial Banking segments.

The Company utilizes an internal reporting process to measure the performance of the three operating segments within the Company. The internal reporting process derives operating segment results by utilizing allocation methodologies for revenue and expenses. Net interest income of each segment represents the difference between actual interest earned on assets and interest incurred on liabilities of the segment, adjusted for funding charges or credits through the Company's internal funds transfer pricing process. The process charges a cost to fund loans and allocates credits for funds provided from deposits using internal funds transfer pricing rates, which are based on market interest rates and other factors. With the increase in market interest rates during 2018, the costs charged to the segments for the funding of loans increased, as did the credits allocated to the segments for deposit balances. The treasury function within the Other segment is responsible for liquidity and interest rate management of the Company. Therefore, the net spread between the total internal funds transfer pricing charges and credits is recorded as part of net interest income in the Other segment.

The Company's internal funds transfer pricing process is managed by the treasury function within the Other segment. The process is formulated with the goal of encouraging loan and deposit growth that is consistent with the Company's overall profitability objectives, as well as to provide a reasonable and consistent basis for the measurement of its business segments' net interest margins and profitability. The Company's internal funds transfer pricing assumptions and methodologies are reviewed at least annually to ensure that the process is reflective of current market conditions. Noninterest income and noninterest expense directly attributable to a segment are assigned to the related business segment. Indirect costs, including technology-related costs and corporate overhead, are allocated based on that segment's estimated usage using factors, including but not limited to, full-time equivalent employees, net interest margin, and loan and deposit volume. Charge-offs are allocated to the respective segment directly associated with the loans that are charged off, and the remaining provision for credit losses is allocated to each segment based on loan volume. The Company's internal reporting process utilizes a full-allocation methodology. Under this methodology, corporate expenses and indirect expenses incurred by the Other segment are allocated to the Consumer and Business Banking and the Commercial Banking segments, except certain treasury-related expenses and insignificant unallocated expenses.

Changes in the Company's management structure and allocation or reporting methodologies may result in changes in the measurement of operating segment results. For comparability, results for prior year periods are generally reclassified for such changes, unless it is deemed not practicable to do so.

Note 20 — Business Segments to the Consolidated Financial Statements describes the Company's segment reporting methodology and the business activities of each business segment, and presents financial results of these business segments in 2018, 2017 and 2016.

The following tables present the selected segment information in 2018, 2017 and 2016:

Year Ended December 31, 2018

($ in thousands)

	Consumer and Business Banking	Commercial Banking	Other	Total
Net interest income	$727,215	$ 605,650	$53,643	$1,386,508
Noninterest income	$85,607	$ 110,287	$15,015	$210,909
Noninterest expense	$336,412	$ 228,627	$149,427	$714,466
Segment income (loss) before income taxes	$467,046	$ 432,419	$(80,769)	$818,696
Segment net income	$334,255	$ 309,926	$59,520	$703,701

($ in thousands)	Year Ended December 31, 2017			
	Consumer and Business Banking	Commercial Banking	Other	Total
Net interest income	$590,821	$ 553,817	$40,431	$1,185,069
Noninterest income	$54,451	$ 110,089	$93,208	$257,748
Noninterest expense	$319,645	$ 193,161	$148,645	$661,451
Segment income (loss) before income taxes	$323,815	$ 426,291	$(15,006)	$735,100
Segment net income	$190,404	$ 251,834	$63,386	$505,624

($ in thousands)	Year Ended December 31, 2016			
	Consumer and Business Banking	Commercial Banking	Other	Total
Net interest income	$459,442	$ 530,908	$42,288	$1,032,638
Noninterest income	$51,251	$ 95,556	$35,471	$182,278
Noninterest expense	$306,386	$ 171,805	$137,058	$615,249
Segment income (loss) before income taxes	$208,663	$ 422,824	$(59,299)	$572,188
Segment net income	$122,256	$ 248,474	$60,947	$431,677

Consumer and Business Banking

The Consumer and Business Banking segment reported net income of $334.3 million in 2018, compared to $190.4 million in 2017. The year-over-year increase of $143.9 million or 76% in net income was primarily driven by increases in net interest income and noninterest income, partially offset by an increase in noninterest expense, combined with a lower effective tax rate of 28%, which decreased from 41% in the prior year. Net interest income for this segment increased $136.4 million or 23% to $727.2 million in 2018, up from $590.8 million in 2017. The increase in net interest income was primarily due to this segment's deposit growth during the year, and due to higher interest income credits received for deposits in 2018 under the internal funds transfer pricing process. Noninterest income for this segment increased $31.2 million or 57% to $85.6 million in 2018, up from $54.5 million in 2017. This increase reflects the $31.5 million pre-tax gain from the sale of the Bank's DCB branches, which was recognized in 2018. Noninterest expense for this segment increased $16.8 million or 5% to $336.4 million in 2018, up from $319.6 million in 2017. The increase was primarily due to increases in compensation and employee benefits and other operating expenses, driven by investment in human capital and technology.

The Consumer and Business Banking segment reported net income of $190.4 million in 2017, compared to $122.3 million in 2016. The $68.1 million or 56% year-over-year increase in net income for this segment was primarily driven by an increase in net interest income, partially offset by an increase in noninterest expense. The $131.4 million or 29% increase in net interest income to $590.8 million in 2017, up from $459.4 million in 2016, was primarily due to deposit growth and higher interest income credits received for deposits under the internal funds transfer pricing process. The $13.3 million or 4% increase in noninterest expense to $319.6 million for 2017, up from $306.4 million for 2016, was primarily due to increased compensation and employee benefits. Income tax expense increased $47.0 million or 54% to $133.4 million in 2017, compared to $86.4 million in 2016, reflecting growth in pre-tax income as the effective corporate income tax rate did not change.

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Commercial Banking

The Commercial Banking segment reported net income of $309.9 million in 2018, compared to $251.8 million in 2017. The year-over-year increase of $58.1 million or 23% in net income primarily reflected an increase in net interest income, partially offset by an increase in noninterest expense, combined with a lower effective corporate income tax rate of 28%, which decreased from 41% in the prior year. Net interest income for this segment increased $51.8 million or 9% to $605.7 million in 2018, up from $553.8 million in 2017. The increase in net interest income was primarily due to this segment's loan and deposit growth during the year and higher interest income credits received for deposits in 2018 under the internal funds transfer pricing process. Noninterest expense for this segment increased $35.5 million or 18% to $228.6 million in 2018, up from $193.2 million in 2017. The increase in noninterest expense was primarily due to increases in compensation and employee benefits, and other operating expenses, driven by investment in human capital and technology, partially offset by a decrease in consulting expense.

The Commercial Banking segment reported net income of $251.8 million in 2017, compared to $248.5 million in 2016. The $3.4 million or 1% year-over-year increase in net income was attributable to increases in net interest income and noninterest income, partially offset by an increase in noninterest expense. The $22.9 million or 4% increase in net interest income to $553.8 million in 2017, up from $530.9 million in 2016, was primarily due to loan and deposit growth and higher interest income credits received for deposits under the internal funds transfer pricing process. Noninterest income increased $14.5 million or 15% to $110.1 million in 2017, up from $95.6 million in 2016. The increase was attributable to increases in ancillary loan fees and letters of credit fees, and the net gain on sale of EWIS's insurance brokerage business, which was recognized in 2017. Noninterest expense increased $21.4 million or 12% to $193.2 million in 2017, up from $171.8 million in 2016. The increase in noninterest expense was primarily due to increased legal expense and compensation and employee benefits.

Other

The Other segment reported a pretax loss of $80.8 million and net income of $59.5 million in 2018, reflecting income tax benefit of $140.3 million. The Other segment reported a pretax loss of $15.0 million and net income of $63.4 million in 2017, reflecting income tax benefit of $78.4 million. The $65.8 million year-over-year change in the pretax loss primarily reflected a decrease in noninterest income, partially offset by an increase in net interest income. Net interest income attributable to the Other segment increased $13.2 million or 33% to $53.6 million in 2018, up from $40.4 million in 2017. This increase in net interest income was due to an increase in the net spread between the total internal funds transfer pricing charges and credits provided to the Consumer and Business Banking and Commercial Banking segments, partially offset by an increase in interest expense on borrowings and deposits. Noninterest income for the Other segment decreased $78.2 million or 84% to $15.0 million in 2018, compared to $93.2 million in 2017. This decrease reflects the $71.7 million net gain on sale of a commercial property in California, which was recognized in 2017. Excluding this gain, noninterest income for this segment decreased $6.5 million or 30%, during 2018. This was driven by decreases in rental income and lower net gains on sales of available-for-sale investment securities, partially offset by an increase in foreign exchange income due to remeasurement of balance sheet items denominated in foreign currencies. The income tax benefit attributed to the Other segment was $140.3 million in 2018, compared to $78.4 million in 2017. The year-over-year change reflects the allocation of tax expense to the Consumer and Business Banking and the Commercial Banking segments at the statutory corporate income tax rates, with the residual being allocated to the Other segment. In addition, for 2017, the Other segment tax benefit allocation included the one-time tax expense related to the implementation of the Tax Act, as described in Item 7. MD&A — Income Taxes.

During 2017, the Other segment reported a pretax loss of $15.0 million and net income of $63.4 million, compared to a pretax loss of $59.3 million and net income of $60.9 million in 2016. The year-over-year change in the pretax loss reflects higher noninterest income, due to the net gain on sale of a commercial property in California recognized in 2017, partially offset by an increase in noninterest expense. Noninterest income for this segment increased $57.7

million or 163% to $93.2 million in 2017, up from $35.5 million in 2016. Noninterest expense for this segment increased $11.6 million or 8% to $148.6 million in 2017, up from $137.1 million in 2016. This increase was primarily attributable to increases in compensation and employee benefits, and in the amortization of tax credit and other investments. The income tax benefit for this segment decreased to $78.4 million in 2017, compared to $120.2 million in 2016, in part reflecting the allocation of one-time tax expense related to the implementation of the Tax Act during 2017.

Balance Sheet Analysis

The following table presents a discussion of the significant changes between December 31, 2018 and 2017:

Selected Consolidated Balance Sheet Data

($ in thousands)	December 31, 2018	December 31, 2017	Change $	Change %
ASSETS				
Cash and cash equivalents	$3,001,377	$2,174,592	$826,785	38 %
Interest-bearing deposits with banks	371,000	398,422	(27,422)	(7)%
Resale agreements	1,035,000	1,050,000	(15,000)	(1)%
Available-for-sale investment securities, at fair value	2,741,847	3,016,752	(274,905)	(9)%
Restricted equity securities, at cost	74,069	73,521	548	1 %
Loans held-for-sale	275	85	190	224 %
Loans held-for-investment (net of allowance for loan losses of $311,322 in 2018 and $287,128 in 2017)	32,073,867	28,688,590	3,385,277	12 %
Investments in qualified affordable housing partnerships, net	184,873	162,824	22,049	14 %
Investments in tax credit and other investments, net	231,635	224,551	7,084	3 %
Premises and equipment	119,180	121,209	(2,029)	(2)%
Goodwill	465,547	469,433	(3,886)	(1)%
Branch assets held-for-sale	—	91,318	(91,318)	(100)%
Other assets	743,686	650,266	93,420	14 %
TOTAL	$41,042,356	$37,121,563	$3,920,793	11 %
LIABILITIES				
Noninterest-bearing	$11,377,009	$10,887,306	$489,703	4 %
Interest-bearing	24,062,619	20,727,757	3,334,862	16 %
Total deposits	35,439,628	31,615,063	3,824,565	12 %
Branch liability held-for-sale	—	605,111	(605,111)	(100)%
Short-term borrowings	57,638	—	57,638	100 %
FHLB advances	326,172	323,891	2,281	1 %
Repurchase agreements	50,000	50,000	—	— %
Long-term debt	146,835	171,577	(24,742)	(14)%
Accrued expenses and other liabilities	598,109	513,970	84,139	16 %
Total liabilities	36,618,382	33,279,612	3,338,770	10 %
STOCKHOLDERS’ EQUITY	4,423,974	3,841,951	582,023	15 %
TOTAL	$41,042,356	$37,121,563	$3,920,793	11 %

As of December 31, 2018, total assets were $41.04 billion, an increase of $3.92 billion or 11% from December 31, 2017. The predominant area of asset growth was in loans, which was driven by strong increases in single-family residential and C&I loans, as well as higher cash and cash equivalents stemming from deposit growth, which temporarily increased short-term liquidity, and active liquidity management. These increases were partially offset by a decrease in available-for-sale investment securities, as well as a decrease in branch assets held-for-sale following the completion of the sale of the Bank’s DCB branches in March 2018.

As of December 31, 2018, total liabilities were $36.62 billion, an increase of $3.34 billion or 10% from December 31, 2017, primarily due to an increase in deposits, which was largely driven by an increase in time deposits. The increase in deposits was partially offset by a decrease in branch liability held-for-sale following the completion of the sale of

the Bank's DCB branches in March 2018.

As of December 31, 2018, total stockholders' equity was $4.42 billion, an increase of $582.0 million or 15% from December 31, 2017. This increase was primarily due to $703.7 million in net income, partially offset by $126.0 million of cash dividends declared on common stock.

Investment Securities

The Company maintains an investment securities portfolio that consists of high quality and liquid securities with relatively short durations to minimize overall interest rate and liquidity risks. The Company's available-for-sale investment securities provide:

- interest income for earnings and yield enhancement;
- availability for funding needs arising during the normal course of business;
- the ability to execute interest rate risk management strategies due to changes in economic or market conditions which influence loan origination, prepayment speeds, or deposit balances and mix; and
- collateral to support pledging agreements as required and/or to enhance the Company's borrowing capacity.

Available-for-Sale Investment Securities

As of December 31, 2018 and 2017, the Company's available-for-sale investment securities portfolio was primarily comprised of U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities, U.S. Treasury securities and foreign bonds. Investment securities classified as available-for-sale are carried at their fair value with the corresponding changes in fair value recorded in Accumulated other comprehensive loss ("AOCI"), net of tax, as a component of Stockholders' equity on the Consolidated Balance Sheet.

The following table presents the amortized cost and fair value by major categories of available-for-sale investment securities as of December 31, 2018, 2017 and 2016:

($ in thousands)	December 31,					
	2018		2017		2016	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-sale investment securities:						
U.S. Treasury securities	$577,561	$564,815	$651,395	$640,280	$730,287	$720,479
U.S. government agency and U.S. government sponsored enterprise debt securities	219,485	217,173	206,815	203,392	277,891	274,866
U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities	1,377,705	1,355,296	1,528,217	1,509,228	1,539,044	1,525,546
Municipal securities	82,965	82,020	99,636	99,982	148,302	147,654
Non-agency mortgage-backed securities	35,935	35,983	9,136	9,117	11,592	11,477
Corporate debt securities	11,250	10,869	37,585	37,003	232,381	231,550
Foreign bonds [(1)]	489,378	463,048	505,396	486,408	405,443	383,894
Asset-backed securities	12,621	12,643	—	—	—	—
Other securities [(2)]	—	—	31,887	31,342	40,501	40,329
Total available-for-sale investment securities	$2,806,900	$2,741,847	$3,070,067	$3,016,752	$3,385,441	$3,335,795

(1) There were no securities of a single issuer other than International Bank for Reconstruction and Development that exceeded 10% of stockholders' equity, with an amortized cost of $474.9 million and a fair value of $448.6 million as of December 31, 2018.

(2) Other securities are comprised of mutual funds, which are equity securities with readily determinable fair value. Prior to the adoption of ASU 2016-01, Financial Instruments — Overall (Subtopic 825-10): Recognition and

Measurement of Financial Assets and Financial Liabilities, these securities were reported as available-for-sale investment securities with changes in fair value recorded in other comprehensive income. Upon adoption of ASU 2016-01, which became effective January 1, 2018, these securities were reclassified from Available-for-sale investment securities, at fair value to Investments in tax credit and other investments, net, on the Consolidated Balance Sheet with changes in fair value recorded in net income.

The fair value of available-for-sale investment securities totaled $2.74 billion as of December 31, 2018, compared to $3.02 billion as of December 31, 2017. The $274.9 million or 9% decrease was primarily attributable to the sales, repayments and redemptions of U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities, and maturities and sales of U.S. Treasury securities, partially offset by purchases of U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities and U.S. Treasury securities. In addition, upon the adoption of ASU 2016-01 in the first quarter of 2018, the Company reclassified its equity securities that were previously categorized as Other securities in Available-for-sale investment securities, at fair value to Investment in tax credit and other investments, net.

The Company’s investment securities portfolio had an effective duration of 4.1 as of December 31, 2018 compared to 3.6 as of December 31, 2017. Approximately 99% and 97% of the carrying value of the investment securities portfolio was rated “AAA” or “AA” as of December 31, 2018 and 2017, respectively.

The Company's available-for-sale investment securities are carried at fair value with changes in fair value reflected in Other comprehensive income (loss) unless a security is deemed to be OTTI. As of December 31, 2018, the Company's net unrealized losses on available-for-sale investment securities were $65.1 million, compared to $53.3 million as of December 31, 2017. The increase in net unrealized losses was primarily attributed to an increase in interest rates. Gross unrealized losses on available-for-sale investment securities totaled $70.8 million as of December 31, 2018, compared to $58.3 million as of December 31, 2017. As of December 31, 2018, the Company had no intention to sell securities with unrealized losses and believed it is more likely than not that it would not be required to sell such securities before recovery of their amortized cost. The Company assesses individual securities for OTTI for each reporting period. No OTTI loss was recognized for 2018 and 2017. For a complete discussion and disclosure, see Note 1 — Summary of Significant Accounting Policies, Note 3 — Fair Value Measurement and Fair Value of Financial Instruments, and Note 5 — Securities to the Consolidated Financial Statements.

As of December 31, 2018 and 2017, available-for-sale investment securities with fair value of $435.8 million and $534.3 million, respectively, were primarily pledged to secure public deposits, repurchase agreements and for other purposes required or permitted by law.

The following table presents the weighted-average yields and contractual maturity distribution, excluding periodic principal payments, of the Company's investment securities as of December 31, 2018 and 2017. Actual maturities of mortgage-backed securities can differ from contractual maturities as the borrowers have the right to prepay obligations with or without prepayment penalties. In addition, factors such as prepayments and interest rates may affect the yields on the carrying values of mortgage-backed securities.

($ in thousands)	December 31, 2018 Amortized Cost	Fair Value	Yield [1]	2017 Amortized Cost	Fair Value	Yield [1]
Available-for-sale investment securities:						
U.S. Treasury securities:						
Maturing in one year or less	$50,134	$49,773	1.08 %	$120,233	$119,844	1.01 %
Maturing after one year through five years	527,427	515,042	1.69 %	531,162	520,436	1.55 %
Total	577,561	564,815	1.64 %	651,395	640,280	1.45 %
U.S. government agency and U.S. government sponsored enterprise debt securities:						
Maturing in one year or less	26,955	26,909	3.51 %	24,999	24,882	1.02 %
Maturing after one year through five years	10,181	10,037	2.18 %	9,720	9,743	2.36 %
Maturing after five years through ten years	114,771	113,812	2.30 %	119,645	116,570	2.05 %
Maturing after ten years	67,578	66,415	2.79 %	52,451	52,197	2.58 %
Total	219,485	217,173	2.59 %	206,815	203,392	2.07 %
U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities:						
Maturing in one year or less	2,633	2,600	1.62 %	—	—	— %
Maturing after one year through five years	30,808	30,487	2.11 %	48,363	47,811	2.34 %
Maturing after five years through ten years	96,822	95,365	2.68 %	71,562	70,507	2.48 %
Maturing after ten years	1,247,442	1,226,844	2.74 %	1,408,292	1,390,910	2.31 %
Total	1,377,705	1,355,296	2.72 %	1,528,217	1,509,228	2.32 %
Municipal securities [2]:						
Maturing in one year or less	29,167	28,974	2.60 %	7,395	7,424	2.69 %
Maturing after one year through five years	48,398	47,681	2.39 %	83,104	83,301	2.31 %
Maturing after five years through ten years	500	476	2.38 %	4,156	4,215	2.92 %
Maturing after ten years	4,900	4,889	5.03 %	4,981	5,042	4.40 %
Total	82,965	82,020	2.62 %	99,636	99,982	2.47 %
Non-agency mortgage-backed securities:						
Maturing after ten years	35,935	35,983	3.67 %	9,136	9,117	2.79 %
Corporate debt securities:						
Maturing in one year or less	1,250	1,231	5.50 %	12,650	11,905	2.29 %
Maturing after one year through five years	10,000	9,638	4.00 %	—	—	— %
Maturing after five years through ten years	—	—	— %	24,935	25,098	2.90 %
Total	11,250	10,869	4.17 %	37,585	37,003	2.70 %
Foreign bonds:						
Maturing in one year or less	439,378	414,065	2.19 %	405,396	387,729	2.13 %
Maturing after one year through five years	50,000	48,983	3.12 %	100,000	98,679	2.71 %
Total	489,378	463,048	2.28 %	505,396	486,408	2.24 %
Asset-backed securities:						
Maturing after ten years	12,621	12,643	3.22 %	—	—	— %
Other securities:						

Maturing in one year or less	—	—	—	%	31,887	31,342	2.71	%
Total available-for-sale investment securities	$2,806,900	$2,741,847	2.43	%	$3,070,067	$3,016,752	2.15	%
Total aggregated by maturities:								
Maturing in one year or less	$549,517	$523,552	2.18	%	$602,560	$583,126	1.90	%
Maturing after one year through five years	676,814	661,868	1.91	%	772,349	759,970	1.84	%
Maturing after five years through ten years	212,093	209,653	2.47	%	220,298	216,390	2.37	%
Maturing after ten years	1,368,476	1,346,774	2.78	%	1,474,860	1,457,266	2.38	%
Total available-for-sale investment securities	$2,806,900	$2,741,847	2.43	%	$3,070,067	$3,016,752	2.15	%

(1) Weighted-average yields are computed based on amortized cost balances.
(2) Yields on tax-exempt securities are not presented on a tax-equivalent basis.

Total Loan Portfolio

Loan Portfolio

The Company offers a broad range of financial products designed to meet the credit needs of its borrowers. The Company's loan portfolio segments include commercial loans (comprised of C&I, CRE, multifamily residential, and construction and land loans) and consumer loans (comprised of single-family residential, home equity lines of credit ("HELOCs") and other consumer loans). Total net loans, including loans held-for-sale, increased $3.31 billion or 11% to $32.07 billion as of December 31, 2018 from $28.77 billion as of December 31, 2017. The increase was primarily driven by increases of $1.38 billion or 30% in single-family residential loans and $1.34 billion or 13% in C&I loans. Overall, the loan type composition remained relatively stable as of December 31, 2018 and 2017.

The following table presents the composition of the Company's total loan portfolio by segment as of the periods indicated:

($ in thousands)	December 31, 2018		2017		2016		2015		2014	
	Amount [1]	%	Amount [1]	%	Amount [1]	%	Amount [1]	%	Amount [1]	%
Commercial:										
C&I	$12,056,970	37 %	$10,697,231	37 %	$9,640,563	38 %	$8,991,535	38 %	$8,076,450	37
CRE	9,449,835	29 %	8,936,897	31 %	8,016,109	31 %	7,471,812	32 %	6,253,195	29
Multifamily residential	2,281,032	7 %	1,916,176	7 %	1,585,939	6 %	1,524,367	6 %	1,451,918	7
Construction and land	538,794	2 %	659,697	2 %	674,754	3 %	628,260	3 %	563,196	2
Total commercial	24,326,631	75 %	22,210,001	77 %	19,917,365	78 %	18,615,974	79 %	16,344,759	75
Consumer:										
Single-family residential	6,036,454	19 %	4,646,289	16 %	3,509,779	14 %	3,069,969	13 %	3,872,141	18
HELOCs	1,690,834	5 %	1,782,924	6 %	1,760,776	7 %	1,681,228	7 %	1,258,079	6
Other consumer	331,270	1 %	336,504	1 %	315,219	1 %	276,577	1 %	254,970	1
Total consumer	8,058,558	25 %	6,765,717	23 %	5,585,774	22 %	5,027,774	21 %	5,385,190	25
Total loans held-for-investment [2]	32,385,189	100 %	28,975,718	100 %	25,503,139	100 %	23,643,748	100 %	21,729,949	10
Allowance for loan losses	(311,322)		(287,128)		(260,520)		(264,959)		(261,679)	
Loans held-for-sale [3]	275		78,217		23,076		31,958		45,950	
Total loans, net	$32,074,142		$28,766,807		$25,265,695		$23,410,747		$21,514,220	

(1) Includes net deferred loan fees, unearned fees, unamortized premiums and unaccreted discounts of $(48.9) million, $(34.0) million, $1.2 million, $(16.0) million and $2.8 million as of December 31, 2018, 2017, 2016, 2015 and 2014, respectively.

(2) Includes ASC 310-30 discount of $22.2 million, $35.3 million, $49.4 million, $80.1 million and $133.6 million as of December 31, 2018, 2017, 2016, 2015 and 2014, respectively.

(3) Includes $78.1 million of loans held-for-sale in Branch assets held-for-sale as of December 31, 2017.

Commercial

The Company's commercial portfolio comprised 75% and 77% of the total loan portfolio as of December 31, 2018 and 2017, respectively, and is discussed below.

Commercial — Commercial and Industrial Loans. C&I loans, which totaled $12.06 billion and $10.70 billion as of December 31, 2018 and 2017, respectively, accounted for 37% of total loans and were the largest share of the total loan portfolio as of both December 31, 2018 and 2017. The C&I loan portfolio is well diversified by industry sectors, with higher concentrations in the wholesale trade, manufacturing, real estate and leasing, entertainment, and private equity industries. The Company's wholesale trade exposure within the C&I loan portfolio, which totaled $1.67 billion and $1.56 billion as of December 31, 2018 and 2017, respectively, was largely related to U.S. domiciled companies that import goods from Greater China for U.S. consumer consumption, many of which are companies based in California. The Company also has a syndicated loan portfolio within the C&I loan portfolio, which totaled $778.7 million and $616.2 million as of December 31, 2018 and 2017, respectively. The Company monitors concentrations within the C&I loan portfolio by customer exposure and industry classifications, setting limits for specialized portfolios and diversification targets. The majority of the loans in the C&I loan portfolio have variable rates.

Commercial — Commercial Real Estate Loans. The Company focuses on providing financing to experienced real estate investors and developers who have moderate levels of leverage, many of whom are long-time customers. Loans are generally underwritten with high standards for cash flows, debt service coverage ratios and loan-to-value ratios. The CRE loan portfolio is made up of income producing real estate loans where the interest rates may be fixed, variable or hybrid.

The following tables summarize the Company's CRE, multifamily residential, and construction and land loans by geographic market as of December 31, 2018 and 2017:

($ in thousands)	December 31, 2018							
	CRE	%	Multifamily Residential	%	Construction and Land	%	Total	%
Geographic markets:								
Southern California	$5,228,305		$1,390,546		$ 215,370		$6,834,221	
Northern California	2,168,055		545,300		133,828		2,847,183	
California	7,396,360	79 %	1,935,846	85 %	349,198	65 %	9,681,404	79 %
New York	659,026	7 %	103,324	5 %	46,702	9 %	809,052	7 %
Texas	509,375	5 %	71,683	3 %	12,055	2 %	593,113	5 %
Washington	290,141	3 %	56,675	2 %	29,079	5 %	375,895	3 %
Arizona	108,102	1 %	24,808	1 %	24,890	5 %	157,800	1 %
Nevada	94,924	1 %	44,052	2 %	47,897	9 %	186,873	2 %
Other markets	391,907	4 %	44,644	2 %	28,973	5 %	465,524	3 %
Total loans (1)	$9,449,835	100%	$2,281,032	100%	$ 538,794	100%	$12,269,661	100%

($ in thousands)	December 31, 2017							
	CRE	%	Multifamily Residential	%	Construction and Land	%	Total	%
Geographic markets:								
Southern California	$4,809,095		$1,170,565		$ 293,814		$6,273,474	
Northern California	1,975,890		446,068		137,539		2,559,497	
California	6,784,985	76 %	1,616,633	84 %	431,353	65 %	8,832,971	77 %
New York	707,910	8 %	98,391	5 %	132,866	20 %	939,167	8 %
Texas	555,397	6 %	46,910	2 %	34,330	5 %	636,637	6 %
Washington	328,570	4 %	61,779	3 %	25,377	4 %	415,726	4 %
Arizona	76,685	1 %	—	— %	20,757	3 %	97,442	1 %
Nevada	152,451	2 %	50,143	3 %	—	— %	202,594	2 %
Other markets	330,899	3 %	42,320	3 %	15,014	3 %	388,233	2 %
Total loans (1)	$8,936,897	100%	$1,916,176	100%	$ 659,697	100%	$11,512,770	100%

(1) Loans net of ASC 310-30 discount.

As illustrated by the tables above, due to the nature of the Company's geographical footprint and market presence, the Company's CRE loan concentration is primarily in California, which comprised 79% and 76% of the CRE loan portfolio as of December 31, 2018 and 2017, respectively. Accordingly, changes in the California economy and real estate values could have a significant impact on the collectability of these loans and the required level of allowance for loan losses. As of both December 31, 2018 and 2017, 20% of the total CRE loans were owner occupied properties, while the remaining were non-owner occupied properties where 50% or more of the debt service for the loan is primarily provided by unaffiliated rental income from a third party.

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The Company's CRE loans are broadly diversified across all property types, which serves to mitigate some of the geographical concentration in California. The following table summarizes the Company's CRE loan portfolio by property type, as of December 31, 2018 and 2017:

($ in thousands)	December 31, 2018		2017	
	Amount	%	Amount	%
Retail	$3,171,374	33 %	$3,077,556	34 %
Offices	2,160,382	23 %	1,714,821	19 %
Industrial	1,883,444	20 %	1,696,253	19 %
Hotel/Motel	1,619,905	17 %	1,279,884	14 %
Other	614,730	7 %	1,168,383	14 %
Total CRE loans (1)	$9,449,835	100%	$8,936,897	100%

(1) Loans net of ASC 310-30 discount.

Commercial — Multifamily Residential Loans. The Company's multifamily residential loans in the commercial portfolio are largely comprised of loans secured by smaller multifamily properties ranging from five to 15 units in the Company's primary lending areas. As of December 31, 2018 and 2017, 85% and 84%, respectively, of the Company's multifamily residential loans were concentrated in California. The Company offers a variety of first lien mortgage loan programs, including fixed and variable rate loans, as well as hybrid loans with interest rates that adjust annually after the initial fixed rate periods of one to seven years.

Commercial — Construction and Land Loans. The Company's construction and land loan portfolio included construction loans of $477.2 million and $583.9 million as of December 31, 2018 and 2017, respectively. The unfunded commitments related to the construction and land loans totaled $525.1 million and $522.0 million as of December 31, 2018 and 2017, respectively. The portfolio consists of construction financing for multifamily and residential condominiums, hotels, offices, industrial, as well as mixed use (residential and retail) structures. Similar to CRE and multifamily residential loans, the Company has a geographic concentration of construction and land loans in California.

Consumer

The following tables summarize the Company's single-family residential and HELOC loan portfolios by geographic market as of December 31, 2018 and 2017:

($ in thousands)	December 31, 2018					
	Single-Family Residential	%	HELOCs	%	Total	%
Geographic markets:						
Southern California	$2,768,725		$839,790		$3,608,515	
Northern California	954,835		350,008		1,304,843	
California	3,723,560	62 %	1,189,798	70 %	4,913,358	64 %
New York	1,165,135	19 %	279,792	17 %	1,444,927	19 %
Washington	572,017	9 %	149,579	9 %	721,596	9 %
Other markets	575,742	10 %	71,665	4 %	647,407	8 %
Total (1)	$6,036,454	100%	$1,690,834	100%	$7,727,288	100%

(1) Loans net of ASC 310-30 discount.

($ in thousands)	December 31, 2017 Single-Family Residential	%	HELOCs	%	Total	%
Geographic markets:						
Southern California	$2,270,420		$918,492		$3,188,912	
Northern California	738,680		380,184		1,118,864	
California	3,009,100	65 %	1,298,676	73 %	4,307,776	67 %
New York	788,917	17 %	270,291	15 %	1,059,208	16 %
Washington	408,497	9 %	144,950	8 %	553,447	9 %
Other markets	439,775	9 %	69,007	4 %	508,782	8 %
Total [(1)]	$4,646,289	100%	$1,782,924	100%	$6,429,213	100%

(1) Loans net of ASC 310-30 discount.

Consumer — Single-Family Residential Loans. As of December 31, 2018 and 2017, 62% and 65% of the Company's single-family residential loans, respectively, were concentrated in California. Many of the single-family residential loans within the Company's portfolio are reduced documentation loans where a substantial down payment is required, resulting in a low loan-to-value ratio at origination, typically 60% or less. These loans have historically experienced low delinquency and default rates. The Company offers a variety of first lien mortgage loan programs, including fixed and variable rate loans, as well as hybrid loans with variable interest rates.

Consumer — Home Equity Lines of Credit Loans. As of December 31, 2018 and 2017, 70% and 73% of the Company's HELOC loans, respectively, were concentrated in California. The HELOC loan portfolio is comprised largely of loans that were originated through a reduced documentation loan program, where a substantial down payment is required, resulting in a low loan-to-value ratio at origination, typically 60% or less. The Company is in a first lien position for many of these reduced documentation HELOC loans. These loans have historically experienced low delinquency and default rates.

All loans originated are subject to the Company's underwriting guidelines and loan origination standards. Management believes that the Company's underwriting criteria and procedures adequately consider the unique risks associated with these products. The Company conducts a variety of quality control procedures and periodic audits, including the review of lending and legal requirements, to ensure the Company is in compliance with these requirements.

The following table presents the contractual loan maturities by loan categories and the contractual distribution of loans in those categories to changes in interest rates as of December 31, 2018:

($ in thousands)	Due within one year	Due after one year through five years	Due after five years	Total
Commercial:				
C&I	$4,011,269	$6,821,768	$1,223,933	$12,056,970
CRE	597,987	3,550,164	5,301,684	9,449,835
Multifamily residential	191,104	323,538	1,766,390	2,281,032
Construction and land	351,296	139,344	48,154	538,794
Total commercial	5,151,656	10,834,814	8,340,161	24,326,631
Consumer:				
Single-family residential	1,035	9,797	6,025,622	6,036,454
HELOCs	1	52	1,690,781	1,690,834
Other consumer	92,476	222,055	16,739	331,270
Total consumer	93,512	231,904	7,733,142	8,058,558
Total loans held-for-investment [(1)]	$5,245,168	$11,066,718	$16,073,303	$32,385,189
Distribution of loans to changes in interest rates:				
Variable rate loans	$4,247,953	$9,772,877	$7,837,990	$21,858,820
Fixed rate loans	974,938	999,888	1,232,551	3,207,377
Hybrid adjustable-rate loans	22,277	293,953	7,002,762	7,318,992
Total loans held-for-investment [(1)]	$5,245,168	$11,066,718	$16,073,303	$32,385,189

(1) Loans net of ASC 310-30 discount.

Purchased Credit-Impaired Loans

Loans acquired with evidence of credit deterioration since their origination and where it is probable that the Company will not collect all contractually required principal and interest payments are PCI loans. PCI loans are recorded at fair value at the date of acquisition.The carrying value of PCI loans totaled $308.0 million and $482.3 million as of December 31, 2018 and 2017, respectively. PCI loans are considered to be accruing due to the existence of the accretable yield, which represents the cash expected to be collected in excess of their carrying value, and not based on consideration given to contractual interest payments. The accretable yield was $74.9 million and $102.0 million as of December 31, 2018 and 2017, respectively. A nonaccretable difference is established for PCI loans to absorb losses expected on the contractual amounts of those loans in excess of the fair value recorded on the date of acquisition. Amounts absorbed by the nonaccretable difference do not affect the Consolidated Statement of Income or the allowance for credit losses. For additional details regarding PCI loans, see Note 7 — Loans Receivable and Allowance for Credit Losses to the Consolidated Financial Statements.

Loans Held-for-Sale

At the time of commitment to originate or purchase a loan, the loan is determined to be held-for-investment if it is the Company's intent to hold the loan to maturity or for the "foreseeable future," subject to periodic reviews under the Company's evaluation processes, including asset/liability and credit risk management. When the Company subsequently changes its intent to hold certain loans, the loans are transferred from held-for-investment to held-for-sale at the lower of cost or fair value. As of December 31, 2018, loans held-for-sale of $275 thousand

consisted of single-family residential loans. In comparison, as of December 31, 2017, loans held-for-sale of $78.2 million consisted primarily of loans related to the then pending sale of DCB branches of $78.1 million included in Branch assets held-for-sale on the Consolidated Balance Sheet. The sale was completed in March 2018. For additional information on the sale of DCB branches, see Note 2 — Dispositions and Held-for-Sale to the Consolidated Financial Statements. As of December 31, 2016, loans held-for-sale of $23.1 million were primarily comprised of student loans.

Loan Purchases, Transfers and Sales

In 2018, the Company purchased loans held-for-investment of $596.9 million, compared to $534.7 million and $1.14 billion in 2017 and 2016, respectively. The purchased loans held-for-investment in 2018 and 2017 were primarily comprised of C&I syndicated loans. The purchased loans held-for-investment in 2016 were primarily comprised of C&I syndicated and single-family residential loans. The higher amount of purchased loans in 2016 primarily included $488.3 million of purchased single-family residential loans to support the Company’s CRA efforts.

Certain purchased and originated loans are transferred from held-for-investment to held-for-sale and corresponding write-downs to allowance for loan losses are recorded, as appropriate. Loans transferred from held-for-investment to held-for-sale were $481.6 million, $613.1 million and $819.1 million in 2018, 2017 and 2016, respectively. These loan transfers were comprised primarily of C&I and CRE loans in both 2018 and 2017, and C&I, multifamily residential and CRE loans in 2016. As a result of these loan transfers, the Company recorded $14.6 million, $473 thousand and $1.9 million in write-downs to the allowance for loan losses for 2018, 2017 and 2016, respectively.

In 2018, the Company sold $309.7 million in originated loans resulting in net gains of $6.6 million. The sale of originated loans in 2018 was comprised of $212.5 million of C&I loans, $62.3 million of CRE loans and $35.0 million of single-family residential loans. In comparison, during 2017, the Company sold $178.2 million in originated loans resulting in net gains of $8.3 million. Originated loans sold in 2017were primarily comprised of $99.1 million of C&I loans, $52.2 million of CRE loans and $21.1 million of single-family residential loans. During 2016, the Company sold or securitized $571.3 million in originated loans, resulting in net gains of $11.5 million. These amounts included $201.7 million of multifamily residential loans securitized during the first quarter of 2016, which resulted in net gains of $1.1 million, mortgage servicing rights of $641 thousand and a held-to-maturity investment security of $160.1 million. The remaining $369.6 million of originated loans sold in 2016, was primarily comprised of $175.1 million of C&I loans, $110.9 million of CRE loans and $61.3 million of multifamily residential loans, which resulted in net gains of $10.4 million.

From time to time, the Company purchases and sells loans in the secondary market. In 2018, the Company sold $201.4 million in purchased loans, resulting in net gains of $33 thousand. In comparison, for 2017 and 2016, the Company sold $399.8 million and $259.1 million in purchased loans, respectively, resulting in net gains of $588 thousand and $188 thousand, respectively.

The Company records valuation adjustments in Net gains on sales of loans on the Consolidated Statement of Income to carry the loans held-for-sale portfolio at the lower of cost or fair value. No lower of cost or fair value adjustments were recorded for 2018. In comparison, for 2017 and 2016, the Company recorded lower of cost or fair value adjustments of $61 thousand and $5.6 million, respectively.

Non-PCI Nonperforming Assets

Non-PCI nonperforming assets are comprised of nonaccrual loans, other nonperforming assets and OREO. Other nonperforming assets and OREO, respectively, represents repossessed assets and properties acquired through foreclosure, or through full or partial satisfaction of loans held-for-investment. Generally, loans are placed on nonaccrual status when they become 90 days past due or when the full collection of principal or interest becomes uncertain regardless of the length of past due status. Collectability is generally assessed based on economic and business conditions, the borrower's financial conditions and the adequacy of collateral, if any. The following table presents information regarding non-PCI nonperforming assets as of the periods indicated:

($ in thousands)	December 31, 2018	2017	2016	2015	2014
Nonaccrual loans:					
Commercial:					
C&I	$43,840	$69,213	$81,256	$64,883	$28,801
CRE	24,218	26,986	26,907	29,345	28,513
Multifamily residential	1,260	1,717	2,984	16,268	20,819
Construction and land	—	3,973	5,326	700	9,636
Consumer:					
Single-family residential	5,259	5,923	4,214	8,759	8,625
HELOCs	8,614	4,006	2,130	1,743	703
Other consumer	2,502	2,491	—	—	3,165
Total nonaccrual loans	85,693	114,309	122,817	121,698	100,262
OREO, net	133	830	6,745	7,034	32,111
Other nonperforming assets	7,167	—	—	—	—
Total nonperforming assets	$92,993	$115,139	$129,562	$128,732	$132,373
Non-PCI nonperforming assets to total assets [(1)]	0.23 %	0.31 %	0.37 %	0.40 %	0.46 %
Non-PCI nonaccrual loans to loans held-for-investment [(1)]	0.26 %	0.39 %	0.48 %	0.51 %	0.46 %
Allowance for loan losses to non-PCI nonaccrual loans	363.30 %	251.19 %	212.12 %	217.72 %	261.00 %

(1) Total assets and loans held-for-investment include PCI loans of $308.0 million, $482.3 million, $642.4 million, $970.8 million and $1.32 billion as of December 31, 2018, 2017, 2016, 2015 and 2014, respectively.

Typically, changes to nonaccrual loans period-over-period represent loans that are placed on nonaccrual status in accordance with the Company's accounting policy, offset by reductions for loans that are paid down, charged off, sold, foreclosed, or no longer classified as nonaccrual as a result of continued performance and improvement in the borrowers' financial conditions and loan repayments. Nonaccrual loans decreased by $28.6 million or 25% to $85.7 million as of December 31, 2018 from $114.3 million as of December 31, 2017. Nonaccrual loans as a percentage of loans held-for-investment declined from 0.39% as of December 31, 2017 to 0.26% as of December 31, 2018. C&I nonaccrual loans comprised 51% and 61% of total nonaccrual loans as of December 31, 2018 and 2017, respectively. Credit risks related to the C&I nonaccrual loans were partially mitigated by the collateral in place. As of December 31, 2018, $23.8 million or 28% of the $85.7 million non-PCI nonaccrual loans consisted of nonaccrual loans that were less than 90 days delinquent. In comparison, $34.4 million or 30% of the $114.3 million non-PCI nonaccrual loans consisted of nonaccrual loans that were less than 90 days delinquent as of December 31, 2017.

For additional details regarding the Company's non-PCI nonaccrual loan policy, see Note 1 — Summary of Significant Accounting Policies to the Consolidated Financial Statements.

A loan is classified as a troubled debt restructuring ("TDR") when the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that the Company would not otherwise consider. Loans with contractual terms that have been modified as a TDR and are current at the time of restructuring may remain on accrual status if there is demonstrated performance prior to the restructuring and payment in full under the restructured terms is expected. Otherwise, the loans are placed on nonaccrual status and are reported as nonperforming, until the borrower demonstrates a sustained period of performance, generally six months, and the ability to repay the loan according to the contractual terms. If accruing TDRs cease to perform in accordance with their modified contractual terms, they are placed on nonaccrual status and reported as nonperforming TDRs.

The following table presents the performing and nonperforming TDRs by loan segments as of December 31, 2018 and 2017:

($ in thousands)	December 31,			
	2018		2017	
	Performing TDRs	Nonperforming TDRs	Performing TDRs	Nonperforming TDRs
Commercial:				
C&I	$13,248	$ 10,715	$29,472	$ 39,509
CRE	6,134	17,272	8,570	17,830
Multifamily residential	4,300	260	8,919	289
Construction and land	—	—	—	3,973
Consumer:				
Single-family residential	8,201	325	8,415	778
HELOCs	1,342	1,743	1,202	530
Total TDRs	$33,225	$ 30,315	$56,578	$ 62,909

Performing TDRs decreased by $23.4 million or 41% to $33.2 million as of December 31, 2018, primarily due to paydowns, payoffs and charge-offs of several C&I, multifamily residential, and CRE loans, partially offset by the transfer of a C&I loan from nonperforming status during 2018. Likewise, nonperforming TDRs decreased by $32.6 million or 52% to $30.3 million as of December 31, 2018, primarily due to paydowns, payoffs and charge-offs of several C&I and land loans, and the aforementioned transfer of the C&I loan to performing status during 2018.

The Company’s impaired loans include predominantly non-PCI loans held-for-investment on nonaccrual status and any non-PCI loans modified as a TDR, on either accrual or nonaccrual status. See Note 1 — Summary of Significant Accounting Policies to the Consolidated Financial Statements for additional information regarding the Company’s TDR and impaired loan policies. As of December 31, 2018, the allowance for loan losses included $4.0 million for impaired loans with a total recorded investment balance of $31.1 million. In comparison, the allowance for loan losses included $19.9 million for impaired loans with a total recorded investment balance of $91.8 million as of December 31, 2017.

The following table presents the recorded investment balances for non-PCI impaired loans as of December 31, 2018 and 2017:

($ in thousands)	December 31,			
	2018		2017	
	Amount	%	Amount	%
Commercial:				
C&I	$57,088	48 %	$98,685	58 %
CRE	30,352	26 %	35,556	21 %
Multifamily residential	5,560	5 %	10,636	6 %
Construction and land	—	— %	3,973	2 %
Total commercial	93,000	79 %	148,850	87 %
Consumer:				
Single-family residential	13,460	11 %	14,338	8 %
HELOCs	9,956	8 %	5,208	3 %
Other consumer	2,502	2 %	2,491	2 %
Total consumer	25,918	21 %	22,037	13 %

Total non-PCI impaired loans	$118,918	100%	$170,887	100%

Allowance for Credit Losses

Allowance for credit losses consists of allowance for loan losses and allowance for unfunded credit reserves. Allowance for loan losses is comprised of reserves for two components, performing loans with unidentified incurred losses, and nonperforming loans and TDRs (collectively, impaired loans). It excludes loans held-for-sale. The allowance for loan losses is estimated after analyzing internal historical loss experience, internal risk rating, economic conditions, bank risks, portfolio risks and any other pertinent information. Unfunded credit reserves include reserves provided for unfunded lending commitments, standby letters of credit ("SBLCs"), and recourse obligations for loans sold. The allowance for credit losses is increased by the provision for credit losses which is charged against the current period's results of operations, and is increased or decreased by the amount of net recoveries or charge-offs, respectively, during the period. The allowance for unfunded credit reserves is included in Accrued expenses and other liabilities on the Consolidated Balance Sheet. Net adjustments to the allowance for unfunded credit reserves are included in Provision for credit losses on the Consolidated Statement of Income.

The Company is committed to maintaining the allowance for credit losses at a level that is commensurate with the estimated inherent losses in the loan portfolio, including unfunded credit reserves. In addition to regular quarterly reviews of the adequacy of the allowance for credit losses, the Company performs an ongoing assessment of the risks inherent in the loan portfolio. While the Company believes that the allowance for loan losses is appropriate as of December 31, 2018, future allowance levels may increase or decrease based on a variety of factors, including but not limited to, loan growth, portfolio performance and general economic conditions. The estimation of the allowance for credit losses involves subjective and complex judgments. For additional details on the Company's allowance for credit losses, including the methodologies used, see Item 7. MD&A — Critical Accounting Policies and Estimates, Note 1 — Summary of Significant Accounting Policies and Note 7 — Loans Receivable and Allowance for Credit Losses to the Consolidated Financial Statements.

The following table presents a summary of activities in the allowance for credit losses for the periods indicated:

($ in thousands)	Year Ended December 31, 2018	2017	2016	2015	2014
Allowance for loan losses, beginning of period	$287,128	$260,520	$264,959	$261,679	$249,675
Provision for loan losses	65,007	49,069	31,718	6,569	47,583
Gross charge-offs:					
Commercial:					
C&I	(59,244)	(38,118)	(47,739)	(20,423)	(39,984)
CRE	—	—	(464)	(1,052)	(2,317)
Multifamily residential	—	(635)	(29)	(1,650)	(1,011)
Construction and land	—	(149)	(117)	(493)	(1,343)
Consumer:					
Single-family residential	(1)	(1)	(137)	(36)	(92)
HELOCs	—	(55)	(9)	(98)	(125)
Other consumer	(188)	(17)	(13)	(502)	(5,746)
Total gross charge-offs	(59,433)	(38,975)	(48,508)	(24,254)	(50,618)
Gross recoveries:					
Commercial:					
C&I	10,417	11,371	9,003	9,259	10,198
CRE	5,194	2,111	1,488	2,488	1,134
Multifamily residential	1,757	1,357	1,476	4,298	2,287
Construction and land	740	259	203	4,647	848
Consumer:					
Single-family residential	1,214	546	401	323	123
HELOCs	38	24	7	54	252
Other consumer	3	152	323	373	197
Total gross recoveries	19,363	15,820	12,901	21,442	15,039
Net charge-offs	(40,070)	(23,155)	(35,607)	(2,812)	(35,579)
Foreign currency translation adjustments	(743)	694	(550)	(477)	—
Allowance for loan losses, end of period	311,322	287,128	260,520	264,959	261,679
Allowance for unfunded credit reserves, beginning of period	13,318	16,121	20,360	12,712	11,282
(Reversal of) provision for unfunded credit reserves	(752)	(2,803)	(4,239)	7,648	1,575
Charge-offs	—	—	—	—	(145)
Allowance for unfunded credit reserves, end of period	12,566	13,318	16,121	20,360	12,712
Allowance for credit losses	$323,888	$300,446	$276,641	$285,319	$274,391
Average loans held-for-investment	$30,209,219	$27,237,981	$24,223,535	$22,140,443	$20,093,921
Loans held-for-investment	$32,385,189	$28,975,718	$25,503,139	$23,643,748	$21,729,949
Allowance for loan losses to loans held-for-investment	0.96%	0.99%	1.02%	1.12%	1.20%
	0.13%	0.08%	0.15%	0.01%	0.18%

Net charge-offs to average loans held-for-investment

As of December 31, 2018, the allowance for loan losses amounted to $311.3 million or 0.96% of loans held-for-investment, compared to $287.1 million or 0.99% and $260.5 million or 1.02% of loans held-for-investment as of December 31, 2017 and 2016, respectively. The increase in the allowance for loan losses was largely due to loan portfolio growth. As of December 31, 2018, the allowance for loan losses to loans held-for-investment ratio decreased compared to both December 31, 2017 and 2016 as the rate of loan growth outpaced the rate of increase in the allowance for loan losses. This decrease was attributable to improvements in loan portfolio credit quality and economic factors, including improvements in the U.S. economy and labor markets. Additionally, total nonperforming loans decreased $29.9 million and $14.9 million during 2018 and 2017, respectively, as returns to performing status, charge-offs, paydowns and loan sales continued to outpace new nonaccrual loans.

Provision for credit losses includes provision for loan losses and unfunded credit reserves. Provision for credit losses is charged to income to bring the allowance for credit losses to a level deemed appropriate by the Company based on the factors described above. The increase in the provision for credit losses for 2018, compared to 2017 and 2016, was reflective of the overall loan portfolio growth and increased net charge-offs, partially offset by a decline in the historical loss rates during 2018. The year-over-year increase in net charge-offs of 73% during 2018 was mainly attributable to the charge-offs in the C&I portfolio due to a combination of deterioration in collateral value and borrower cash flows. The loan portfolio growth and decline in historical loss rates were driven by the continued improvement in the U.S. economy and labor markets and prudent proactive credit risk management.

The Company believes the allowance for credit losses as of December 31, 2018, 2017 and 2016 was appropriate to cover credit losses inherent in the loan portfolio, including unfunded credit commitments, on each respective date.

The following table presents the Company's allocation of the allowance for loan losses by segment and the ratio of each loan segment to total loans held-for-investment as of the periods indicated:

	December 31, 2018		2017		2016		2015		2014	
($ in thousands)	Allowance Allocation	% of Total Loans	Allowance Allocation	% of Total Loans	Allowance Allocation	% of Total Loans	Allowance Allocation	% of Total Loans	Allowance Allocation	% of Total Loans
Commercial:										
C&I	$191,340	37 %	$163,058	37 %	$142,167	38 %	$134,606	38 %	$134,598	37 %
CRE	39,053	29 %	41,237	31 %	47,927	31 %	58,623	32 %	53,989	29 %
Multifamily residential	19,283	7 %	19,109	7 %	17,543	6 %	19,630	6 %	14,043	7 %
Construction and land	20,282	2 %	26,881	2 %	24,989	3 %	22,915	3 %	18,988	2 %
Consumer:										
Single-family residential	31,340	19 %	26,362	16 %	19,795	14 %	19,665	13 %	29,813	18 %
HELOCs	5,774	5 %	7,354	6 %	7,506	7 %	8,745	7 %	10,538	6 %
Other consumer	4,250	1 %	3,127	1 %	593	1 %	775	1 %	(290)	1 %
Total	$311,322	100%	$287,128	100%	$260,520	100%	$264,959	100%	$261,679	100%

The Company maintains an allowance on non-PCI and PCI loans. Based on the Company's estimates of cash flows expected to be collected, an allowance for the PCI loans is established, with a charge to income through the provision for loan losses. PCI loan losses are estimated collectively for groups of loans with similar characteristics. As of December 31, 2018, the Company established an allowance of $22 thousand on $308.0 million of PCI loans. In comparison, the Company established the allowance of $58 thousand and $118 thousand on $482.3 million and $642.4 million of PCI loans as of December 31, 2017 and 2016, respectively. The allowance balances of the PCI loans for these periods were attributed mainly to CRE loans.

Deposits

The Company offers a wide variety of deposit products to both consumer and commercial customers. Deposits are the Company's primary source of funding, the cost of which has a significant impact on the Company's net interest income and net interest margin. The following table presents the deposit balances as of December 31, 2018 and 2017:

($ in thousands)	December 31, 2018	% of Total Deposits	December 31, 2017	% of Total Deposits	Change $	Change %
Core deposits:						
Noninterest-bearing demand	$ 11,377,009	32 %	$ 10,887,306	34 %	$ 489,703	4 %
Interest-bearing checking	4,584,447	13 %	4,419,089	14 %	165,358	4 %
Money market	8,262,677	23 %	8,359,425	26 %	(96,748)	(1)%
Savings	2,146,429	6 %	2,308,494	7 %	(162,065)	(7)%
Total core deposits	26,370,562	74 %	25,974,314	82 %	396,248	2 %
Time deposits	9,069,066	26 %	5,640,749	18 %	3,428,317	61 %
Total deposits	$ 35,439,628	100 %	$ 31,615,063	100 %	$ 3,824,565	12 %

The Company's deposit strategy is to grow and retain relationship-based deposits, which provides a stable and low-cost source of funding and liquidity to the Company. The $3.82 billion or 12% increase in total deposits to $35.44 billion as of December 31, 2018 from $31.62 billion as of December 31, 2017, was primarily due to a $3.43 billion or 61% increase in time deposits. Core deposits comprised 74% and 82% of total deposits as of December 31, 2018 and 2017, respectively. The $396.2 million increase in core deposits was primarily due to an increase in noninterest-bearing demand deposits. Noninterest-bearing demand deposits comprised 32% and 34% of total deposits as of December 31, 2018 and 2017, respectively. The Company's loan-to-deposit ratio was 91% and 90% as of December 31, 2018 and 2017, respectively. For disclosure regarding the compositions of the Company's average deposits and average interest rates, see Item 7 — MD&A — Results of Operations — Net Interest Income.

Domestic time deposits of $100,000 or more totaled $5.91 billion, representing 17% of the total deposit portfolio as of December 31, 2018. The following table presents the maturity distribution of domestic time deposits of $100,000 or more:

($ in thousands)	December 31, 2018
3 months or less	$ 1,502,563
Over 3 months through 6 months	1,907,673
Over 6 months through 12 months	2,107,738
Over 12 months	388,367
Total	$ 5,906,341

Foreign time deposits in the $100,000 or greater category included (i) $504.0 million and $322.0 million of deposits held in the Company's branch in Hong Kong as of December 31, 2018 and 2017, respectively; and (ii) $701.6 million and $507.1 million of deposits held in the Company's subsidiary bank in China as of December 31, 2018 and 2017, respectively.

Borrowings

The Company utilizes short-term and long-term borrowings to manage its liquidity position. Borrowings include short-term borrowings, long-term FHLB advances and repurchase agreements.

The $57.6 million short-term borrowings as of December 31, 2018 were entered into by the Company's subsidiary, East West Bank (China) Limited. These short-term borrowings held interest rates ranging from 3.70% to 4.55% as of December 31, 2018 and will all mature in 2019. In comparison, the Company had no short-term borrowings outstanding as of December 31, 2017.

The following table presents the selected information for short-term borrowings as of the periods indicated:

($ in thousands)	2018	2017	2016
Year-end balance	$57,638	$—	$60,050
Weighted-average rate on amount outstanding at year-end	4.21 %	— %	3.01 %
Maximum month-end balance	$58,523	$60,603	$60,050
Average amount outstanding	$31,612	$31,725	$25,560
Weighted-average rate	4.28 %	3.11 %	2.84 %

FHLB advances increased $2.3 million or 1% to $326.2 million as of December 31, 2018 from $323.9 million as of December 31, 2017. As of December 31, 2018, FHLB advances had floating interest rates ranging from 2.67% to 2.98% with remaining maturities between 0.1 to 3.9 years.

Gross repurchase agreements totaled $450.0 million as of both December 31, 2018 and 2017. Resale and repurchase agreements are reported net pursuant to ASC 210-20-45-11, Balance Sheet Offsetting: Repurchase and Reverse Repurchase Agreements. Net repurchase agreements totaled $50.0 million as of both December 31, 2018 and 2017 after offsetting $400.0 million of gross repurchase agreements against gross resale agreements that were both eligible for netting pursuant to ASC 210-20-45-11. As of December 31, 2018, gross repurchase agreements had interest rates ranging between 4.76% to 5.00%, original terms ranging between 8.5 and 10.0 years and remaining maturities ranging between 3.8 and 4.7 years.

Repurchase agreements are accounted for as collateralized financing transactions and recorded as liabilities based on the values at which the securities are sold. As of December 31, 2018, the collateral for the repurchase agreements was comprised of U.S. Treasury securities, U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities. To ensure the market value of the underlying collateral remains sufficient, the Company monitors the fair value of collateral pledged relative to the principal amounts borrowed under the repurchase agreements. The Company manages liquidity risks related to the repurchase agreements by sourcing funding from a diverse group of counterparties and entering into repurchase agreements with longer durations, when appropriate. For additional details, see Note 4 — Securities Purchased under Resale Agreements and Sold under Repurchase Agreements to the Consolidated Financial Statements.

Long-Term Debt

The Company uses long-term debt to provide funding to acquire interest-earning assets and enhance liquidity. Long-term debt, which consists of junior subordinated debt and a term loan, decreased $24.7 million or 14% to $146.8 million as of December 31, 2018 from $171.6 million as of December 31, 2017. The decrease was primarily due to the quarterly repayment and maturity of the term loan, totaling $25.0 million during 2018.

The junior subordinated debt, which qualifies as Tier 2 capital, was issued in connection with the Company's various pooled trust preferred securities offerings. Junior subordinated debt is recorded as a component of long-term debt and includes the value of the common stock issued by six wholly-owned subsidiaries of the Company in conjunction with these offerings. The junior subordinated debt totaled $146.8 million and $146.6 million as of December 31, 2018 and 2017, respectively. The junior subordinated debt had a weighted-average interest rate of 3.77% and 2.79% during 2018 and 2017, respectively, with remaining maturities ranging between 15.9 years to 18.7 years as of December 31, 2018.

In 2013, the Company entered into a $100.0 million three-year term loan agreement. The terms of the agreement were modified in 2015 to extend the term loan maturity from July 1, 2016 to December 31, 2018, where principal

repayments of $5.0 million were due quarterly. The term loan bears interest at the rate of the three-month LIBOR plus 150 basis points. The weighted-average interest rate was 3.60% and 2.70% during 2018 and 2017, respectively. As of December 31, 2018, the Company has made all scheduled principal repayments on the term loan leaving the Company with no outstanding balance. The outstanding balance of the term loan was $25.0 million as of December 31, 2017. For additional details of the junior subordinated debt and the term loan, see Note 11 — Federal Home Loan Bank Advances and Long-Term Debt to the Consolidated Financial Statements.

Foreign Outstandings

The Company’s overseas offices, which include the branch in Hong Kong and the subsidiary bank in China, are subject to the general risks inherent in conducting business in foreign countries, such as regulations and economic uncertainties. In addition, the Company’s financial assets held in the Hong Kong branch and in the China subsidiary bank may be affected by changes in demand or pricing resulting from fluctuations in currency exchange rates or other factors. The Company’s country risk exposure is largely concentrated in China and Hong Kong. The following table presents the major financial assets held in the Company’s overseas offices as of December 31, 2018, 2017 and 2016:

($ in thousands)	December 31, 2018 Amount	% of Total Consolidated Assets		2017 Amount	% of Total Consolidated Assets		2016 Amount	% of Total Consolidated Assets	
Hong Kong Branch:									
Cash and cash equivalents	$360,786	1	%	$151,631	0	%	$46,895	0	%
Available-for-sale investment securities (1)	$221,932	1	%	$242,107	1	%	$251,680	1	%
Loans held-for-investment (2)(3)	$653,860	2	%	$713,728	2	%	$733,286	2	%
Total assets	$1,244,532	3	%	$1,100,471	3	%	$1,040,465	3	%
Subsidiary Bank in China:									
Cash and cash equivalents	$695,527	2	%	$626,658	2	%	$387,354	1	%
Interest-bearing deposits with banks	$221,000	1	%	$188,422	1	%	$173,148	0	%
Loans held-for-investment (3)	$777,412	2	%	$484,214	1	%	$425,336	1	%
Total assets	$1,700,287	4	%	$1,302,562	4	%	$987,286	3	%

(1) Comprised of U.S.Treasury securities and foreign bonds as of December 31, 2018. Comprised of U.S. Treasury securities, U.S. government agency and U.S. government sponsored enterprise debt securities, and foreign bonds as of each of December 31, 2017 and 2016.

(2) Includes ASC 310-30 discount of $103 thousand, $353 thousand and $747 thousand as of December 31, 2018, 2017 and 2016, respectively.

(3) Primarily comprised of C&I loans.

The following table presents the total revenue generated by the Company’s overseas offices in 2018, 2017 and 2016:

($ in thousands)	Year Ended December 31, 2018 Amount	% of Total Consolidated Revenue		2017 Amount	% of Total Consolidated Revenue		2016 Amount	% of Total Consolidated Revenue	
Hong Kong Branch:									
Total revenue	$31,122	2	%	$28,096	2	%	$26,754	2	%
Subsidiary Bank in China:									
Total revenue	$34,143	2	%	$24,235	2	%	$21,055	2	%

Capital

The Company maintains an adequate capital base to support its anticipated asset growth, operating needs and credit risks, and to ensure that East West and the Bank are in compliance with all regulatory capital guidelines. The Company engages in regular capital planning processes to optimize the use of available capital and to appropriately plan for future capital needs. The capital plan considers capital needs for the foreseeable future and allocates capital to both existing and future business activities. In addition, the Company conducts capital stress tests as part of its annual capital planning process. The stress tests enable the Company to assess the impact of adverse changes in the economy and interest rates on its capital base.

The Company's stockholders' equity increased $582.0 million or 15% to $4.42 billion as of December 31, 2018, compared to $3.84 billion as of December 31, 2017. The Company's primary source of capital is the retention of its operating earnings. Retained earnings increased $583.8 million or 23% to $3.16 billion as of December 31, 2018, compared to $2.58 billion as of December 31, 2017. The increase was primarily due to net income of $703.7 million, partially offset by $126.0 million cash dividends declared during 2018. For other factors that contributed to the changes in stockholders' equity, refer to Item 8. Financial Statements and Supplemental Data - Consolidated Statement of Changes in Stockholders' Equity.

Book value was $30.52 per common share based on 145.0 million common shares outstanding as of December 31, 2018, compared to $26.58 per common share based on 144.5 million common shares outstanding as of December 31, 2017. The Company's dividend policy reflects the Company's anticipated earnings, dividend payout ratio, capital objectives, and alternate opportunities. During 2018, the Company made quarterly dividend payments of $0.20 per common share in the first two quarters and $0.23 per common share in the last two quarters. In comparison, the Company made quarterly dividend payments of $0.20 per common share during 2017. In January 2019, the Company's Board of Directors declared first quarter 2019 cash dividends for the Company's common stock. The common stock cash dividend of $0.23 per share was paid on February 15, 2019 to stockholders of record as of February 4, 2019.

Regulatory Capital and Ratios

The federal banking agencies have risk-based capital adequacy guidelines intended to ensure that banking organizations maintain capital that is commensurate with the degree of risk associated with a banking organization's operations. In 2013, the Federal Reserve Board, FDIC and Office of the Comptroller of the Currency issued the final Basel III Capital Rules establishing a new comprehensive capital framework for strengthening international capital standards as well as implementing certain provisions of the Dodd-Frank Act. See Item 1. Business — Supervision and Regulation — Capital Requirements for additional details. The Basel III Capital Rules became effective for the Company and the Bank on January 1, 2015 (subject to phase-in periods for certain components).

The Basel III Capital Rules require that banking organizations maintain a minimum CET1 capital ratio of 4.5%, a minimum Tier 1 capital ratio of 6.0%, and a minimum total capital ratio of 8.0% to be considered adequately capitalized. In addition, the rules require banking organizations to maintain a capital conservation buffer of 2.5% above the capital minimums in order to absorb losses during periods of economic stress. The capital conservation buffer is being phased-in over four years beginning in 2016 (increasing by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019). As of January 1, 2019, banking organizations are required to maintain a minimum CET1 capital ratio of 7.0%, a minimum Tier 1 capital ratio of 8.5% and a minimum total capital ratio of 10.5% in a fully phased-in basis to avoid limitations on capital distributions (including common stock dividends and share repurchases) and certain discretionary incentive compensation payments.

The Company is committed to maintaining capital at a level sufficient to assure the Company's investors, customers and regulators that the Company and the Bank are financially sound. As of December 31, 2018 and 2017, both the Company and the Bank were considered "well-capitalized," and met all capital requirements on a fully phased-in basis under the Basel III Capital Rules.

The following table presents the Company's and the Bank's capital ratios as of December 31, 2018 and 2017 under the Basel III Capital Rules, and those required by regulatory agencies for capital adequacy and well-capitalized classification purposes:

	Basel III Capital Rules				
	December 31, 2018	December 31, 2017	Minimum Regulatory	Well-Capitalized Requirements	Fully Phased-in Minimum

	Company	East West Bank	Company	East West Bank	Requirements				Regulatory Requirements	
Total risk-based capital	13.7%	13.1%	12.9%	12.4%	8.0	%	10.0	%	10.5	%
Tier 1 risk-based capital	12.2%	12.1%	11.4%	11.4%	6.0	%	8.0	%	8.5	%
CET1 risk-based capital	12.2%	12.1%	11.4%	11.4%	4.5	%	6.5	%	7.0	%
Tier 1 leverage capital (1)	9.9 %	9.8 %	9.2 %	9.2 %	4.0	%	5.0	%	4.0	%

(1) The Tier 1 leverage capital well-capitalized requirement applies to the Bank only since there is no Tier 1 leverage ratio component in the definition of a well-capitalized bank-holding company.

The Company’s CET1, Tier 1 capital ratios improved by 78 basis points, while the total risk-based and Tier 1 leverage capital ratios improved by 72 and 68 basis points, respectively, during 2018. The improvement was primarily driven by increases in revenues largely due to increases in net interest income and a reduction in income tax expense related to the enactment of the Tax Act. The $2.83 billion or 10% increase in risk-weighted assets from $29.67 billion as of December 31, 2017 to $32.50 billion as of December 31, 2018 was primarily due to the growth of the Company’s loan portfolio. As of December 31, 2018 and 2017, the Company’s CET1 risk-based capital, Tier 1 risk-based capital, total risk-based capital and Tier 1 leverage capital ratios were all well above the well-capitalized requirements.

Regulatory Matters

The Bank entered into a Written Agreement (the “Written Agreement”), dated November 9, 2015, with the FRB, to correct less than satisfactory BSA and AML programs detailed in a joint examination by the FRB and the DBO. The Bank also entered into a related Memorandum of Understanding (“MOU”) with the DBO in 2015. The Written Agreement, among other things, required the Bank to enhance compliance programs related to the BSA and AML and OFAC laws, rules and regulations and retain an independent firm to conduct a review of the account and transaction activities covering a six-month period to determine whether any suspicious activity was properly identified and reported in accordance with applicable regulatory requirements. On July 9, 2018, the DBO terminated the MOU. On July 18, 2018, the FRB terminated the Written Agreement.

Notwithstanding the termination of the Written Agreement and the MOU, the operating and other conditions in the BSA/AML and OFAC programs and the auditing and oversight of the programs that led to the Written Agreement and MOU could lead to an increased risk of future examinations that may downgrade the regulatory ratings of the Bank or could lead to regulatory authorities taking other actions. This could have a material adverse effect on the Bank if the current programs are not sustained in a satisfactory way, which could lead to an increased risk of investigations by other government agencies that may result in fines, penalties, increased expenses or restrictions on operations.

Other Matters

The Company has previously invested in mobile solar generators sold and managed by DC Solar, which were included in Investments in tax credit and other investments, net on the Consolidated Balance Sheet. For reasons that were not known or knowable to the Company, DC Solar had its assets frozen in December 2018. DC Solar filed for Chapter 11 bankruptcy protection in February 2019. In February 2019, an affidavit from a FBI special agent stated that DC Solar was operating a fraudulent "Ponzi-like scheme" and that the majority of mobile solar generators sold to investors and managed by DC Solar and the majority of the related lease revenues claimed to have been received by DC Solar may not have existed. Certain investors in DC Solar, including the Company, received tax credits for making these renewable resource investments. The Company has claimed tax credit benefits of approximately $53.9 million in the Consolidated Financial Statements between 2014 through 2018. If the allegations set forth in the declaration filed by the FBI are proven to be accurate, up to the entire amount of the tax credits claimed by the Company could potentially be disallowed. Based on the information known as of the date of this annual report on the Form 10-K, the Company believes that this has not met the more-likely-than-not criterion to record an uncertain tax position liability. As a result of the information in the FBI declaration, the Company is evaluating whether or not an unrecognized tax liability exists under ASC 740, Income Taxes for an uncertain tax position in 2019 for at least part, if not potentially all, of the tax credit benefits the Company has claimed. If the Company is required to recognize an uncertain tax position liability in its 2019 consolidated financial statements, the uncertain tax position liability and charge-offs may have an adverse impact on our income tax liabilities, results of operations and financial condition. For additional information on the risks surrounding the Company's investments in tax-advantaged products, see Item 1A. Risk Factors.

Off-Balance Sheet Arrangements and Contractual Obligations

In the course of the Company's business, the Company may enter into or be a party to transactions that are not recorded on the Consolidated Balance Sheet and are considered to be off-balance sheet arrangements. Off-balance sheet arrangements are any contractual arrangements to which a nonconsolidated entity is a party and under which the Company has: (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 the Company in a nonconsolidated entity that provides financing, liquidity, market risk or credit risk support to the Company, or engages in leasing, hedging or research and development services with the Company.

Off-Balance Sheet Arrangements

Commitments to extend credit

As a financial service provider, the Company routinely enters into commitments to extend credit such as loan commitments, commercial letters of credit for foreign and domestic trade, SBLCs and financial guarantees to meet the financing needs of our customers. Many of these commitments to extend credit may expire without being drawn upon. The credit policies used in underwriting loans to customers are also used to extend these commitments. Under some of these contractual agreements, the Company may also have liabilities contingent upon the occurrence of certain events. The Company's liquidity sources have been, and are expected to be, sufficient to meet the cash requirements of its lending activities. Information about the Company's loan commitments, commercial letters of credit and SBLCs is provided in Note 14 — Commitments, Contingencies and Related Party Transactions to the Consolidated Financial Statements.

Guarantees

In the ordinary course of business, the Company enters into various guarantee agreements in which the Company sells or securitizes loans with recourse. Under these guarantee arrangements, the Company is contingently obligated to repurchase the recourse component of the loans when the loans default. Additional information regarding guarantees is provided in Note 14 — Commitments, Contingencies and Related Party Transactions to the Consolidated Financial Statements.

Contractual Obligations

The following table presents the Company's significant fixed and determinable contractual obligations, along with the categories and payment dates described below as of December 31, 2018:

($ in thousands)	Payment Due by Period					
	Less than 1 year	1-3 years	3-5 years	After 5 years	Indeterminate Maturity [1]	Total
On-balance sheet obligations:						
Deposits	$8,413,358	$552,572	$76,208	$26,928	$26,370,562	$35,439,628
FHLB advances	81,924	—	244,248	—	—	326,172
Gross repurchase agreements	—	—	450,000	—	—	450,000
Affordable housing partnership and other tax credit investment commitments	108,602	39,015	11,625	1,750	—	160,992
Short-term borrowings	57,638	—	—	—	—	57,638
Long-term debt	—	—	—	146,835	—	146,835
Unrecognized tax liabilities [2]	10,719	—	—	—	—	10,719
Projected cash payments for post-retirement benefit plan	329	688	729	7,484	—	9,230
Total on-balance sheet obligations	8,672,570	592,275	782,810	182,997	26,370,562	36,601,214
Off-balance sheet obligations:						
Operating lease obligations [3]	42,008	66,904	36,381	40,357	—	185,650
Contractual interest payments [4]	176,824	99,349	49,972	83,955	—	410,100
Total off-balance sheet obligations	218,832	166,253	86,353	124,312	—	595,750
Total contractual obligations	$8,891,402	$758,528	$869,163	$307,309	$26,370,562	$37,196,964

(1) Includes deposits with no defined maturity, such as noninterest-bearing demand, interest-bearing checking, money-market and savings accounts.
(2) Balance includes interest and penalties.
(3) Represents the Company’s lease obligations for rental properties.
(4) Represents the future interest obligations related to interest-bearing time deposits, FHLB, gross repurchase agreements, short-term borrowings and long-term debt in the normal course of business, net of derivative hedges. These interest obligations assume no early debt redemption. The Company estimated variable interest rate payments using December 31, 2018 rates, which the company held constant until maturity.

Asset Liability and Market Risk Management

Liquidity

Liquidity is a financial institution's capacity to meet its deposit and other counterparties' obligations as they come due or obtain adequate funding at a reasonable cost to meet those obligations. The objective of liquidity management is to manage the potential mismatch of asset and liability cash flows. Maintaining an adequate level of liquidity depends on the institution's ability to efficiently meet both expected and unexpected cash flows and collateral needs without adversely affecting either daily operations or the financial condition of the institution. To achieve this objective, the Company analyzes its liquidity risk, maintains readily available liquid assets and utilizes diverse funding sources including its stable core deposit base. The Company's Asset/Liability Committee ("ALCO") sets the liquidity guidelines that govern the day-to-day active management of the Company's liquidity position. The ALCO regularly monitors the Company's liquidity status and related management processes, and provides regular reports to the Board of Directors.

The Company maintains its liquidity in the form of cash and cash equivalents, interest-bearing deposits with banks, short-term resale agreements and unpledged investment securities. These assets, which includes our reserve requirement of $707.3 million, totaled $6.05 billion and accounted for 15% of total assets as of December 31, 2018. In comparison, these assets, which includes our reserve requirement of $699.4 million, totaled $5.51 billion and accounted for 15% of total assets as of December 31, 2017. Investment securities included as part of liquidity sources are primarily comprised of mortgage-backed securities and debt securities issued by U.S. government agency and U.S. government sponsored enterprises, as well as the U.S. Treasury securities. The Company believes these investment securities provide quick sources of liquidity through sales or pledging to obtain financing, regardless of market conditions. In particular, the Company deemed cash and cash equivalents, and unencumbered high quality liquid securities as the Company's primary source of liquidity. Traditional forms of funding such as deposit growth and borrowings augment these liquid assets. Total deposits amounted to $35.44 billion as of December 31, 2018, compared to $31.62 billion of December 31, 2017, of which core deposits comprised 74% and 82% of total deposits as of December 31, 2018 and 2017, respectively.

As a means of augmenting the Company's liquidity, the Company maintains available borrowing capacity under secured borrowing lines with the FHLB and FRB, unsecured federal funds lines of credit with various correspondent banks and several master repurchase agreements with major brokerage companies. The Company's available borrowing capacity with the FHLB and FRB was $6.11 billion and $2.84 billion, respectively, as of December 31, 2018. Unencumbered loans and/or securities were pledged to the FHLB and FRB discount window as collateral. Eligibility of collateral is defined in guidelines from the FHLB and FRB and is subject to change at their discretion. The Bank's unsecured federal funds lines of credit, subject to availability, totaled $663.5 million with correspondent banks as of December 31, 2018. The Company believes that its liquidity sources are sufficient to meet all reasonably foreseeable short-term needs over the next 12 months.

While the Company's long-term funding source is predominantly provided by core deposits, the Company may use long-term borrowings, repurchase agreements and unsecured debt issuance to sustain an adequate liquid asset portfolio, meet daily cash demands and allow management flexibility to execute business strategy. The economic conditions and stability of capital markets impact the Company's access to, and cost of wholesale financing. Access to the capital markets for the Company is also affected by the credit ratings received from various rating agencies.

As of December 31, 2018, the Company is not aware of any trends, events or uncertainties that will or are reasonably likely to have a material effect on its liquidity position. Furthermore, the Company is not aware of any material commitments for capital expenditures in the foreseeable future.

East West's liquidity has historically been dependent on the payment of cash dividends by its subsidiary, East West Bank, which are subject to applicable statutes, regulations and special approval as discussed in Item 1. Business — Supervision and Regulation — Dividends and Other Transfers of Funds. The Bank paid total dividends of $160.0 million and $255.0 million to East West during 2018 and 2017, respectively. In addition, in January 2019, the Board of Directors declared a quarterly common stock cash dividend of $0.23 per share, payable on February 15, 2019 to stockholders of record on February 4, 2019.

Liquidity stress testing is performed at the Company level as well as at the foreign subsidiary and foreign branch levels. Stress testing and scenario analysis are intended to quantify the potential impact of a liquidity event on the financial and liquidity position of the entity. These scenarios include assumptions about significant changes in key funding sources, market triggers and potential uses of funding and economic conditions in certain countries. In addition, Company specific events are incorporated into the stress testing. Liquidity stress tests are conducted to ascertain potential mismatches between liquidity sources and uses over a variety of time horizons, both immediate and longer term, and over a variety of stressed conditions. Given the range of potential stresses, the Company maintains a series of contingency funding plans on a consolidated basis and for individual entities.

Consolidated Cash Flows Analysis

The following table presents a summary of the Company’s Consolidated Statement of Cash Flows for the periods indicated, which may be helpful to highlight business strategies and macro trends. In addition to this cash flow analysis, the discussion related to liquidity in Item 7 — MD&A — Asset Liability and Market Risk Management — Liquidity may provide a more useful context in evaluating the Company’s liquidity position and related activity.

($ in thousands)	Year Ended December 31,		
	2018	2017	2016
Net cash provided by operating activities	$883,172	$703,275	$650,183
Net cash used in investing activities	(3,832,412)	(2,506,824)	(1,800,086)
Net cash provided by financing activities	3,800,808	2,068,460	1,679,459
Effect of exchange rate changes on cash and cash equivalents	(24,783)	31,178	(11,940)
Net increase in cash and cash equivalents	826,785	296,089	517,616
Cash and cash equivalents, beginning of year	2,174,592	1,878,503	1,360,887
Cash and cash equivalents, end of year	$3,001,377	$2,174,592	$1,878,503

Operating activities — The Company’s operating assets and liabilities support the Company’s lending and capital market activities. Net cash provided by operating activities was $883.2 million, $703.3 million and $650.2 million in 2018, 2017 and 2016, respectively. During 2018, 2017 and 2016, net cash provided by operating activities mainly reflected $703.7 million, $505.6 million and $431.7 million of net income, respectively. During 2018, net operating cash inflows also benefited from $150.4 million in non-cash adjustments to reconcile net income to net operating cash and $88.1 million in changes in accrued expenses and other liabilities, partially offset by $60.8 million of changes in accrued interest receivable and other assets. In comparison, net operating cash inflows for 2017 benefited from $149.2 million in non-cash adjustments to reconcile net income to net operating cash and $45.4 million in changes in accrued interest receivable and other assets. Net operating cash inflows for 2016 benefited from $168.5 million in non-cash adjustments to reconcile net income to net operating cash, $23.2 million of changes in accrued interest receivable and other assets, and $15.4 million in changes in accrued expenses and other liabilities.

Investing activities — Net cash used in investing activities was $3.83 billion, $2.51 billion and $1.80 billion in 2018, 2017 and 2016, respectively. During 2018, net cash used in investing activities primarily reflected a $3.43 billion increase in net loans held-for-investment, a $503.7 million payment for the sale of the Bank’s eight DCB branches to Flagstar Bank and a $132.6 million in net funding of investments in qualified affordable housing partnerships, tax credit and other investments, partially offset by $217.7 million of net cash inflows from available-for-sale investment securities. In comparison, during 2017, net cash used in investing activities primarily reflected $3.48 billion increase in net loans held-for-investment, and $173.6 million increase in investments in qualified affordable housing partnerships, tax credit and other investments, partially offset by net cash inflows from resale agreements and available-for-sale investment securities of $650.0 million and $417.8 million, respectively, and $116.0 million in cash received from the sale of a commercial property during 2017. Net cash used in investing activities in 2016 primarily reflected $2.03 billion increase in net loans held-for-investment, and $100.5 million increase in investments in qualified affordable housing partnerships, tax credit and other investments, partially offset by $382.6 million of net cash inflows from available-for-sale investment securities.

Financing activities — Net cash provided by financing activities of $3.80 billion, $2.07 billion and $1.68 billion in 2018, 2017 and 2016, respectively, were primarily reflective of $3.90 billion, $2.27 billion and $2.45 billion net increases in deposits during 2018, 2017 and 2016, respectively. The Company paid cash dividends of $126.0 million, $116.8 million and $115.8 million during 2018, 2017 and 2016, respectively. The net cash provided during 2016 was also

partially offset by $700.0 million in repayment of FHLB advances.

Interest Rate Risk Management

Interest rate risk results primarily from the Company’s traditional banking activities of gathering deposits and extending loans, and is the primary market risk for the Company. Economic and financial conditions, movements in interest rates and consumer preferences affect the difference between the interest the Company earns on interest-earning assets and pays on interest-bearing liabilities, and the level of the noninterest-bearing funding sources. In addition, changes in interest rates can influence the rate of principal prepayments on loans and the speed of deposit withdrawals. Due to the pricing term mismatches and the embedded options inherent in certain products, changes in market interest rates not only affect expected near-term earnings, but also the economic value of these interest-earning assets and interest-bearing liabilities. Other market risks include foreign currency exchange risk and equity price risk. These risks are not considered significant to the Company and no separate quantitative information concerning these risks is presented herein.

With oversight by the Company’s Board of Directors, the ALCO coordinates the overall management of the Company’s interest rate risk. The ALCO meets regularly and is responsible for reviewing the Company’s open market positions and establishing policies to monitor and limit exposure to market risk. Management of interest rate risk is carried out primarily through strategies involving the Company’s investment securities portfolio, loan portfolio, available funding channels and capital market activities. In addition, the Company’s policies permit the use of derivative instruments to assist in managing interest rate risk. Refer to Item 7. MD&A — Asset Liability and Market Risks Management — Derivatives for additional information.

The interest rate risk exposure is measured and monitored through various risk management tools which include a simulation model that performs interest rate sensitivity analysis under multiple interest rate scenarios. The model incorporates the Company’s loans, investment securities, resale agreements, deposits and borrowing portfolios, and repurchase agreements. The financial instruments from the Company’s domestic and foreign operations, forecasted noninterest income and noninterest expense items are also incorporated in the simulation. The simulated interest rate scenarios include an instantaneous parallel shift, non-parallel shift in the yield curve (“rate shock”) and a gradual non-parallel shift in the yield curve (“rate ramp”). In addition, the Company also performs various simulations using alternative interest rate scenarios. The alternative interest rate scenarios include yield curve flattening, yield curve steepening and yield curve inverting. In order to apply the assumed interest rate environment, adjustments are made to reflect the shift in the U.S. Treasury and other appropriate yield curves. The Company incorporates both a static balance sheet and a forward growth balance sheet in order to perform these analyses. Results of these various simulations are used to formulate and gauge strategies to achieve a desired risk profile within the Company’s capital and liquidity guidelines.

The simulation model is based on the actual maturity and re-pricing characteristics of the Company’s interest-rate sensitive assets, liabilities and related derivative contracts. The Company’s net interest income simulation model incorporates various assumptions, which management believes to be reasonable but may have a significant impact on results. They include the timing and magnitude of changes in interest rates, the yield curve evolution and shape, repricing characteristics, and the effect of interest rate floors, periodic loan caps and lifetime loan caps. In addition, the modeled results are highly sensitive to the deposit decay assumptions used for deposits that do not have specific maturities. The Company uses historical regression analysis of the Company’s internal deposit data as a guide to set deposit decay assumptions. The model is also highly sensitive to certain assumptions on the correlation of the change in interest rates paid on core deposits to changes in benchmark market interest rates, commonly referred to as deposit beta assumptions. Deposit beta assumptions are developed based on the Company’s historical experience. The model is also sensitive to the loan and investment prepayment assumptions. The loan and investment prepayment assumptions, which consider the anticipated prepayments under different interest rate environments, are based on an independent model, as well as the Company’s historical prepayment experiences.

Existing investment securities, loans, deposits and borrowings are assumed to roll into new instruments at a similar spread relative to benchmark interest rates and internal pricing guidelines. The assumptions applied in the model are documented and supported for reasonableness. Changes to key model assumptions are reviewed by the ALCO. Simulation results are highly dependent on these assumptions. To the extent actual behavior is different from the assumptions in the models, there could be a material change in interest rate sensitivity. The Company performs periodic testing to assess the sensitivity of the model results to the assumptions used. The Company also makes appropriate calibrations to the model when necessary. Scenario results do not reflect strategies that management could employ to limit the impact as interest rate expectations change.

Twelve-Month Net Interest Income Simulation

Net Interest Income simulation is a modeling technique that looks at interest rate risk through earnings. It projects the changes in asset and liability cash flows, expressed in terms of Net Interest Income, over a specified time horizon for defined interest rates scenarios. Net Interest Income simulations generate insight into the impact of changes in market rates on earnings and guide risk management decisions. The Company assesses interest rate risk by comparing net interest income using different interest rate scenarios.

The following table presents the Company's net interest income sensitivity as of December 31, 2018 and 2017 related to an instantaneous and sustained non-parallel shift in market interest rates of 100 and 200 basis points in both directions:

Change in Interest Rates (Basis Points)	Net Interest Income Volatility [1]	
	December 31,	
	2018	2017
+200	16.6 %	18.9%
+100	8.4 %	10.7%
-100	(8.3)%	(7.4)%
-200	(16.7)%	