EAST WEST BANCORP INC
Form 10-K
February 29, 2012

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-K

**Mark One**

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

**For the fiscal year ended December 31, 2011**

**or**

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

**For the transition period from to .**
**Commission file number 000-24939**

# EAST WEST BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

**Securities registered pursuant to Section 12(g) of the Act:**
NONE

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

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

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 ý No o

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

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

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

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

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

The aggregate market value of the registrant's common stock held by non-affiliates was approximately $2,979,804,336 (based on the June 30, 2011 closing price of Common Stock of $20.21 per share).

As of January 31, 2012, 148,678,084 shares of East West Bancorp, Inc. Common Stock were outstanding.

**DOCUMENT INCORPORATED BY REFERENCE**

Definitive Proxy Statement for the Annual Meeting of Stockholders Part III

Table of Contents

**EAST WEST BANCORP, INC.**
**2011 ANNUAL REPORT ON FORM 10-K**
**TABLE OF CONTENTS**

Table of Contents

## PART I

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

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

- our ability to manage the loan portfolios acquired from FDIC assisted acquisitions within the limits of the loss protection provided by the FDIC;
- changes in our borrowers' performance on loans;
- changes in the commercial and consumer real estate markets;
- changes in our costs of operation, compliance and expansion;
- changes in the economy, including inflation;
- changes in government interest rate policies;
- changes in laws or the regulatory environment;
- changes in critical accounting policies and judgments;
- changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or other regulatory agencies;
- changes in the equity and debt securities markets;
- changes in competitive pressures on financial institutions;
- effect of additional provision for loan losses;

fluctuations of our stock price;

success and timing of our business strategies;

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

changes in our ability to receive dividends from our subsidiaries; and

political developments, wars or other hostilities may disrupt or increase volatility in securities or otherwise affect economic conditions.

Table of Contents

For a more detailed discussion of some of the factors that might cause such differences, see "ITEM 1A. RISK FACTORS" presented elsewhere in this report. The Company does not undertake, and specifically disclaims any obligation to update any forward-looking statements to reflect the occurrence of events or circumstances after the date of such statements, except as required by law.

**ITEM 1. BUSINESS**

***Organization***

*East West Bancorp, Inc.* East West Bancorp, Inc. (referred to herein on an unconsolidated basis as "East West" and on a consolidated basis as the "Company" or "we") is a bank holding company incorporated in Delaware on August 26, 1998 and registered under the Bank Holding Company Act of 1956, as amended ("BHCA"). The Company commenced business on December 30, 1998 when, pursuant to a reorganization, it acquired all of the voting stock of East West Bank, or the "Bank". The Bank is the Company's principal asset. In addition to the Bank, the Company has 8 other subsidiaries, namely East West Insurance Services, East West Capital Statutory Trust III, East West Capital Trust IV, East West Capital Trust V, East West Capital Trust VI, East West Capital Trust VII, East West Capital Trust VIII, and East West Capital Trust IX.

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

*Other Subsidiaries of East West Bancorp, Inc.* The Company established 9 other subsidiaries as statutory business trusts, East West Capital Trust I, East West Capital Trust II, East West Capital Statutory Trust III in 2003, East West Capital Trust IV and East West Capital Trust V in 2004, East West Capital Trust VI in 2005, East West Capital Trust VII in 2006, and East West Capital Trusts VIII and East West Capital Trust IX in 2007, collectively referred to as the "Trusts". In nine separate private placement transactions, the Trusts have issued either fixed or variable rate capital securities representing undivided preferred beneficial interests in the assets of the Trusts. East West is the owner of all the beneficial interests represented by the common securities of the Trusts. Business Trusts I and II were dissolved in 2011, and the corresponding securities were called. The purpose of issuing the capital securities was to provide the Company with a cost-effective means of obtaining Tier I capital for regulatory purposes. However, the Trusts will be phased out as Tier I capital starting in 2013. In accordance with Financial Accounting Standards Board Accounting Standards Codification ("ASC") 810, *Consolidation*, the Trusts are not consolidated into the accounts of the Company.

East West's principal business is to serve as a holding company for the Bank and other banking or banking-related subsidiaries which East West may establish or acquire. East West has not engaged in any other activities to date. As a legal entity separate and distinct from its subsidiaries, East West's principal source of funds is, and will continue to be, dividends that may be paid by its subsidiaries. East West's other sources of funds include proceeds from the issuance of its common stock in connection with stock option and warrant exercises and employee stock purchase plans. At December 31, 2011, the Company had $21.97 billion in total consolidated assets, $14.26 billion in net consolidated loans, and $17.45 billion in total consolidated deposits.

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

Table of Contents

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

At December 31, 2011, the Bank had three wholly owned subsidiaries. The first subsidiary, E-W Services, Inc., is a California corporation organized by the Bank in 1977. E-W Services, Inc. holds property used by the Bank in its operations. The secondary subsidiary, East-West Investments, Inc., primarily acts as a trustee in connection with real estate secured loans. The remaining subsidiary is East West Bank (China) Limited.

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

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

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

The Bank has also grown through strategic partnerships. On August 30, 2001, the Bank entered into an agreement with 99 Ranch Market to provide retail banking services in their stores throughout California. 99 Ranch Market is the largest Asian-focused chain of supermarkets on the West Coast, with over 30 full-service stores in California, Texas, Washington, and Nevada. Tawa Supermarket Companies or "Tawa" is the parent company of 99 Ranch Market. Tawa's property development division owns and

Table of Contents

operates many of the shopping centers where 99 Ranch Market stores are located. We are currently providing in-store banking services to eleven 99 Ranch Market locations in California.

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

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

***Banking Services***

East West Bank is the fourth largest independent commercial bank headquartered in California as of December 31, 2011 based on total assets. East West Bank is the largest bank in the United States that focuses on the financial services needs of businesses which operate both in Asia and the United States as well as having a strong focus on the Asian American community. Through its network of 137 branches in the United States, China and Hong Kong, the Bank provides a wide range of personal and commercial banking services to small- and medium-sized businesses, business executives, professionals, and other individuals. The Bank offers multilingual services to its customers in English, Cantonese, Mandarin, Vietnamese, and Spanish. The Bank also offers a variety of deposit products which includes the traditional range of personal and business checking and savings accounts, time deposits and individual retirement accounts, travelers' checks, safe deposit boxes, and MasterCard and Visa merchant deposit services.

The Bank's lending activities include commercial, residential real estate, trade finance, and commercial business, including accounts receivable, small business administration ("SBA"), inventory, and working capital loans. The Bank also holds income-producing commercial real estate, and construction loan portfolios, but is not growing or actively lending in these portfolios. The Bank's commercial borrowers are engaged in a wide variety of manufacturing, wholesale trade, and service businesses. The Bank provides commercial business loans to small- and medium-sized businesses with annual revenues that generally range from $50 million to $500 million. In addition, the Bank is focused on providing financing to clients needing a financial bridge that facilitates their business transactions between Asia and the United States.

***Market Area and Competition***

The Bank concentrates on marketing its services primarily in the greater Los Angeles metropolitan area and the greater San Francisco Bay area. California is the eighth largest economy in the world, with a population of over 35 million people. China and other Pacific Rim countries continue to grow as California's top trading partners. This provides the Bank with an important competitive advantage to its customers participating in the Asia Pacific marketplace. We believe that our customers benefit from our

Table of Contents

understanding of Asian markets through our physical presence in Hong Kong, China and Taiwan, our corporate and organizational ties throughout Asia, as well as our international banking products and services. We believe that this approach, combined with the extensive ties of our management and Board of Directors to the growing Asian business opportunities as well as the Chinese-American communities, provides us with an advantage in competing for customers in our market area. The Bank is also committed to expanding its customer base in the rest of California, Asia, Washington and other urban areas in which we operate including: New York, Georgia, Massachusetts, and Texas.

The Bank has 103 branches in California located in the following counties: Los Angeles, Orange, San Bernardino, San Francisco, San Mateo, Santa Clara and Alameda. Additionally, the Bank has eight branches in New York, five branches in Georgia, three branches in Massachusetts, two branches in Texas, and four branches in Washington. In Greater China, East West's presence includes three full-service branches in Hong Kong, in Shanghai, and in Shantou. The Bank operates in China, as a full-service bank under East West Bank China (Limited), a wholly owned subsidiary of East West Bank. The Bank also has representative offices in Beijing, Guangzhou, Shanghai and Shenzhen, China, and Taipei, Taiwan.

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

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

***Economic Conditions, Government Policies, Legislation and Regulatory Developments***

*Economic Conditions and Government Policies*

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

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

The negative developments, in the past few years, in the housing market, included decreased home prices and increased delinquencies and foreclosures, which negatively impacted the credit performance of

Table of Contents

mortgage and construction loans and resulted in significant write-downs of assets by many financial institutions, including the Bank. In addition, the values of real estate collateral supporting many loans have declined and may continue to decline. The impact on the Bank of the negative credit cycle is beginning to stabilize. However, the overall economic environment remains problematic, with high unemployment rates, reduced general spending and decreased lending by financial institutions to their customers and to each other. Additionally, the sovereign debt crisis in Europe has increased the instability of the economic environment. Also, competition among depository institutions for deposits has continued to remain at heightened levels as compared to pre-recession levels. Bank and bank holding company stock prices have been significantly negatively affected as has the ability of banks and bank holding companies to raise capital or borrow in the debt markets compared to recent years. The bank regulatory agencies have been very aggressive in responding to concerns and trends identified in examinations, and this has resulted in the increased issuance of enforcement orders requiring action to address credit quality, liquidity and risk management, and capital adequacy concerns, as well as other safety and soundness concerns.

*Legislation and Regulatory Developments*

*The Dodd-Frank Wall Street Reform and Consumer Protection Act*

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

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

- the creation of a Financial Services Oversight Counsel to identify emerging systemic risks and improve interagency cooperation;

- expanded FDIC authority to conduct the orderly liquidation of certain systemically significant non-bank financial companies in addition to depository institutions;

- the establishment of strengthened capital and liquidity requirements for banks and bank holding companies, including minimum leverage and risk-based capital requirements no less than the strictest requirements in effect for depository institutions as of the date of enactment;

- the requirement by statute that bank holding companies serve as a source of financial strength for their depository institution subsidiaries;

- enhanced regulation of financial markets, including the derivative and securitization markets, and the elimination of certain proprietary trading activities by banks (the "Volcker Rule");

Table of Contents

- the termination of investments by the U.S. Treasury under the Troubled Asset Relief Program ("TARP") and Capital Purchase Program ("CPP");
- the elimination and phase out of trust preferred securities from Tier 1 capital with certain exceptions;
- a permanent increase of the previously implemented temporary increase of FDIC deposit insurance to $250,000 and an extension of federal deposit coverage until January 1, 2013, for the full net amount held by depositors in non-interesting bearing transaction accounts;
- authorization for financial institutions to pay interest on business checking accounts;
- changes in the calculation of FDIC deposit insurance assessments, such that the assessment base will no longer be the institution's deposit base, but instead, will be its average consolidated total assets less its average tangible equity;
- the elimination of remaining barriers to de novo interstate branching by banks;
- expanded restrictions on transactions with affiliates and insiders under Section 23A and 23B of the Federal Reserve Act and lending limits for derivative transactions, repurchase agreements, and securities lending and borrowing transactions;
- the elimination of the Office of Thrift Supervision and the transfer of oversight of thrift institutions and their holding companies to the Office of the Comptroller of the Currency or the FDIC and Federal Reserve;
- provisions that affect corporate governance and executive compensation at most United States publicly traded companies, including (i) stockholder advisory votes on executive compensation, (ii) executive compensation "clawback" requirements for companies listed on national securities exchanges in the event of materially inaccurate statements of earnings, revenues, gains or other criteria (iii) enhances independence requirements for compensation committee members, and (iv) giving the SEC authority to adopt proxy access rules which would permit stockholders of publicly traded companies to nominate candidates for election as director and have those nominees included in a company's proxy statement; and
- the creation of a Bureau of Consumer Financial Protection, which is authorized to promulgate and enforce consumer protection regulations relating to bank and non-bank financial products and which may examine and enforce its regulations on banks with more than $10 billion in assets.

The numerous rules and regulations that have been promulgated and are yet to be promulgated and finalized regulatory under Dodd-Frank are likely to significantly impact our operations and compliance costs, such as changes in FDIC assessments, the permitted payment of interest on demand deposits and projected enhanced consumer compliance requirements. More stringent capital, liquidity and leverage requirements are expected to impact our business as Dodd-Frank is fully implemented. The federal agencies are in the process of issuing the many rules required to implement provisions of Dodd Frank, some of which will apply directly to larger institutions with either more than $50 billion in assets or more than $10 billion in assets, such as proposed regulations for financial institutions deemed systemically significant, proposed rules requiring capital plans and stress tests and the Federal Reserve proposed rules to implement the Volcker Rule, as well as a final rule for the largest (over $250 billion assets and internationally active banks) setting a new minimum risk-based capital floor. These and other requirements and policies imposed on larger institutions, such as expected countercyclical requirements for increased capital in times of economic expansion and a decrease in times of contraction, may subsequently become expected "best practices" for smaller institutions. Therefore, as a result of the changes required by Dodd-Frank, the profitability of our business activities may be impacted and we may

Table of Contents

be required to make changes to certain of our business practices. Such developments and new standards would require us to devote even more management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements.

New legislative and regulatory initiatives which could affect us, and the banking industry in general could be proposed or introduced before Congress, the California Legislature, and other governmental bodies in the future. Such proposals, if enacted, may further alter the structure, regulation, and competitive relationship among financial institutions, and may subject us to increased regulation, disclosure, and reporting requirements. In addition, the various bank regulatory agencies often adopt new rules and regulations and policies to implement and enforce existing legislation. It cannot be predicted whether, or in what form, any such legislation or regulations or changes in policy may be enacted or the extent to which the business of the Bank would be affected thereby. In addition, the outcome of examinations, any litigation, or any investigations initiated by state or federal authorities may result in necessary changes in our operations and increased compliance costs.

*Troubled Asset Relief Program and Capital Purchase Program*

The Company participated in the TARP, pursuant to which the Company sold preferred stock and warrants to the U.S. Treasury for an aggregate purchase price of $306.5 million. Under the terms of the TARP, the Company was prohibited from increasing dividends on its common stock and from making certain repurchases of equity securities, including its common stock, without the U.S. Treasury's consent. Furthermore, as long as the preferred stock issued to the U.S. Treasury was outstanding, dividend payments and repurchases or redemptions relating to certain equity securities, including the Company's common stock, were prohibited until all accrued and unpaid dividends were paid on such preferred stock.

In order to participate in the TARP CPP, financial institutions were required to adopt certain standards for executive compensation and corporate governance. The Company complied with all of the TARP requirements and restrictions.

The ARRA included a wide variety of programs intended to stimulate the economy and provide for extensive infrastructure, energy, health, and education needs. The ARRA imposed certain new, more stringent executive compensation and corporate expenditure limits on all current and future TARP recipients until the U.S. Treasury was repaid. The Company also complied with all ARRA requirements.

The Company complied with the executive compensation requirements through December 29, 2010, the date of the Company's repurchase of the TARP CPP preferred stock, and has certified as to such compliance in the exhibits attached to this report pursuant to Section 111(b) of the Emergency Economic Stabilization Act ("EESA"). The Company did not deduct for tax purposes executive compensation in excess of $500,000 for each senior executive paid through December 31, 2010.

On December 29, 2010, the Company repurchased all shares of the TARP CPP preferred stock in the aggregate amount of $306.5 million and paid a final dividend to the U.S. Treasury of $1.8 million. At the time the Company repurchased the TARP CPP preferred stock, it did not repurchase the related warrants. The warrants were outstanding as of December 31, 2010. On January 26, 2011, the Company repurchased all TARP CPP warrants. For complete discussion and disclosure see "Management's Discussion and Analysis of Financial Condition and Results of Operations  Liquidity and Capital Resources" presented elsewhere in this report.

Table of Contents

***Supervision and Regulation***

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

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

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

*Nonbanking and Financial Activities*

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

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

*Securities Laws*

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

*The Sarbanes-Oxley Act*

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

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

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

In general, under the California Financial Code, California banks have all the powers of a California corporation, subject to the general limitation of state bank powers under the Federal Deposit Insurance Corporation Improvement Act ("FDICIA") to those permissible for national banks. Specific federal and state laws and regulations which are applicable to banks regulate, among other things, the scope of their business, their investments, their reserves against deposits, the timing of the availability of deposited funds, and the nature and amount of and collateral for certain loans. The regulatory structure also gives the bank regulatory agencies extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. If, as a result of an examination, the DFI or the FRB should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of the Bank's operations are

Table of Contents

unsatisfactory or that the Bank or its management is violating or has violated any law or regulation, the DFI and the FRB, and separately the FDIC as insurer of the Bank's deposits, have residual authority to:

- require affirmative action to correct any conditions resulting from any violation or practice;
- direct an increase in capital and the maintenance of specific minimum capital ratios;
- restrict the Bank's growth geographically, by products and services or by mergers and acquisitions;
- enter into informal or formal enforcement orders, including required board resolutions, memoranda of understanding, written agreements, and consent or cease and desist orders to take corrective action and enjoin unsafe and unsound practices;
- remove officers and directors and assess civil monetary penalties; and
- take possession and close and liquidate the Bank.

*Permissible Activities and Subsidiaries*

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

*Federal Home Loan Bank System*

The Bank is a member of the Federal Home Loan Bank ("FHLB") of San Francisco. Among other benefits, each FHLB serves as a reserve or central bank for its members within its assigned region and makes available loans or advances to its members. Each FHLB is financed primarily from the sale of consolidated obligations of the FHLB system. As an FHLB member, the Bank is required to own a certain amount of capital stock in the FHLB. At December 31, 2011, the Bank was in compliance with the FHLB's stock ownership requirement and our investment in FHLB capital stock totaled $136.9 million, which includes $3.2 million of the Federal Home Loan Bank of Seattle capital stock which is a result of the WFIB acquisition. In January 2009, the FHLB began a suspension of dividend payments to preserve capital given the possibility of other-than-temporary charges on certain non-agency mortgage-backed securities and it also suspended the repurchase of excess capital stock. In 2010, the FHLB ended the suspension of dividend payments and returned to quarterly dividends. Also, on May 14, 2010, the FHLB returned to repurchasing excess capital stock from banking members.

*Federal Reserve System*

The Federal Reserve Board requires all depository institutions to maintain interest-bearing reserves at specified levels against their transaction accounts. At December 31, 2011, the Bank was in compliance with these requirements. As a member bank, the Bank is also required to own capital stock in the FRB. At December 31, 2011, the Bank held an investment of $47.5 million in FRB capital stock.

Table of Contents

*Foreign Operations*

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

*Dividends and Other Transfers of Funds*

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

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

Under the terms of the TARP CPP, during the period the preferred stock issued under the TARP CPP remained outstanding, the Company was prohibited from increasing dividends on its common stock, and from making certain repurchases of equity securities, including its common stock, without the U.S. Treasury's consent. On December 29, 2010, the Company repurchased all shares of the TARP CPP preferred stock.

As of December 31, 2011, the Company had outstanding approximately $83.0 million of 8% Non-Cumulative Perpetual Convertible Preferred Stock, Series A ("Series A preferred stock"), which was originally issued in April 2008. So long as the Company's Series A preferred stock is outstanding, dividend payments and repurchases or redemptions relating to certain equity securities, including the Company's common stock, are prohibited until all accrued and unpaid dividends are paid on such Series A preferred stock, subject to certain limited exceptions (for complete discussion and disclosure see "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources" presented elsewhere in this report).

Table of Contents

*Capital Requirements*

Bank holding companies and banks are subject to various regulatory capital requirements administered by state and federal banking agencies. Increased capital requirements are expected as a result of expanded authority set forth in Dodd-Frank and the Basel III international supervisory developments discussed below. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting, and other factors. At December 31, 2011, the Company's and the Bank's capital ratios exceeded the minimum capital adequacy guideline percentage requirements of the federal banking agencies for "well capitalized" institutions. For complete discussion and disclosure see "Management's Discussion and Analysis of Financial Condition and Results of Operations Risk-Based Capital" and Note 25 to the Company's consolidated financial statements presented elsewhere in this report.

The federal banking agencies have adopted risk-based minimum capital adequacy guidelines for bank holding companies and banks which are intended to provide a measure of capital that reflects the degree of risk associated with a banking organization's operations for both transactions reported on the balance sheet as assets and transactions which are recorded as off-balance sheet items. The risk-based capital ratio is determined by classifying assets and certain off-balance sheet financial instruments into weighted categories, with higher levels of capital being required for those categories perceived as representing greater risk. Bank holding companies and banks engaged in significant trading activity may also be subject to the market risk capital guidelines and be required to incorporate additional market and interest rate risk components into their risk-based capital standards. Under the capital adequacy guidelines, a banking organization's total capital is divided into tiers. "Tier I capital" currently includes common equity and trust preferred securities, subject to certain criteria and quantitative limits. Under Dodd-Frank depository institution holding companies, such as the Company, with more than $15 billion in total consolidated assets as of December 31, 2009, will no longer be able to include trust preferred securities as Tier I regulatory capital as of the end of a three-year phase-out period in 2016, and may be obligated to replace any outstanding trust preferred securities issued prior to May 19, 2011, with qualifying Tier I regulatory capital during the phase-out period. "Tier II capital" includes hybrid capital instruments, other qualifying debt instruments, a limited amount of the allowance for loan and lease losses, and a limited amount of unrealized holding gains on equity securities. Following the phase-out period under Dodd-Frank, trust preferred securities will be treated as Tier II capital. "Tier III capital" consists of qualifying unsecured debt. The sum of Tier II and Tier III capital may not exceed the amount of Tier I capital. The risk-based capital guidelines require a minimum ratio of qualifying total capital to risk-weighted assets of 8% and a minimum ratio of Tier I capital to risk-weighted assets of 4%. An institution is defined as well capitalized if its total capital to risk-weighted assets ratio is 10.00% or more; its core capital to risk-weighted assets ratio is 6.00% or more; and its core capital to adjusted average assets ratio is 5.00% or more.

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

Table of Contents

*Basel Accords*

The current risk-based capital guidelines which apply to the Company and the Bank are based upon the 1988 capital accord (referred to as "Basel I") of the International Basel Committee on Banking Supervision (the "Basel Committee"), a committee of central banks and bank supervisors and regulators from the major industrialized countries. The Basel Committee develops broad policy guidelines for use by each country's supervisors in determining the supervisory policies they apply. A new framework and accord referred to as Basel II evolved from 2004 to 2006 out of the efforts to revise capital adequacy standards for internationally active banks. Basel II emphasizes internal assessment of credit, market and operational risk; supervisory assessment and market discipline in determining minimum capital requirements and became mandatory for large or "core" international banks outside the United States in 2008 (total assets of $250 billion or more or consolidated foreign exposures of $10 billion or more). Basel II was optional for others, and if adopted, must first be complied with in a "parallel run" for two years along with the existing Basel I standards. The Company is not required to comply with Basel II and has not elected to apply the Basel II standards.

The United States federal banking agencies issued a proposed rule for banking organizations that do not use the "advanced approaches" under Basel II. While this proposed rule generally parallels the relevant approaches under Basel II, it diverges where United States markets have unique characteristics and risk profiles. A definitive final rule has not yet been issued. The United States banking agencies indicated, however, that they would retain the minimum leverage requirement for all United States banks.

In 2010 and 2011 the Basel Committee finalized proposed reforms on capital and liquidity, generally referred to as Basel III, to reconsider regulatory capital standards, supervisory and risk-management requirements and additional disclosures to further strengthen the Basel II framework in response to the worldwide economic downturn. Although Basel III is intended to be implemented by participating countries for large, internationally active banks, its provisions are likely to be considered by United States banking regulators in developing new regulation applicable to other banks in the United States, including the Bank. Basel III provides for increases in the minimum Tier 1 common equity ratio and the minimum requirement for the Tier 1 capital ratio. Basel III additionally includes a "capital conservation buffer" on top of the minimum requirement designed to absorb losses in periods of financial and economic distress; and an additional required countercyclical buffer percentage to be implemented according to a particular nation's circumstances. These capital requirements are further supplemented under Basel III by a non-risk-based leverage ratio. Basel III also reaffirms the Basel Committee's intention to introduce higher capital requirements on securitization and trading activities.

The Basel III liquidity proposals have three main elements: (i) a "liquidity coverage ratio" designed to meet the bank's liquidity needs over a 30-day time horizon under an acute liquidity stress scenario, (ii) a "net stable funding ratio" designed to promote more medium and long-term funding over a one-year time horizon, and (iii) a set of monitoring tools that the Basel Committee indicates should be considered as the minimum types of information that banks should report to supervisors.

Final provisions to the Basel Committee's Basel III proposals are projected to be implemented by December 31, 2012. Implementation of Basel III in the United States will require regulations and guidelines by United States banking regulators, which may differ in significant ways from the recommendations published by the Basel Committee. It is unclear how United States banking regulators will define "well-capitalized" in their implementation of Basel III and to what extent and when smaller banking organizations in the United States will be subject to these regulations and guidelines. Basel III standards, if adopted, would lead to significantly higher capital requirements, higher capital charges and more restrictive leverage and liquidity ratios. The Basel III standards, if adopted, could lead to significantly

Table of Contents

higher capital requirements, higher capital charges and more restrictive leverage and liquidity ratios. The standards would, among other things:

- impose more restrictive eligibility requirements for Tier 1 and Tier 2 capital;
- increase the minimum Tier 1 common equity ratio to 4.5 percent, net of regulatory deductions, and introduce a capital conservation buffer of an additional 2.5 percent of common equity to risk-weighted assets, raising the target minimum common equity ratio to 7 percent;
- increase the minimum Tier 1 capital ratio to 8.5 percent inclusive of the capital conservation buffer;
- increase the minimum total capital ratio to 10.5 percent inclusive of the capital conservation buffer; and
- introduce a countercyclical capital buffer of up to 2.5 percent of common equity or other fully loss absorbing capital for periods of excess credit growth.

Basel III also introduces a non-risk adjusted Tier 1 leverage ratio of 3 percent, based on a measure of total exposure rather than total assets, and new liquidity standards. The new Basel III capital standards will be phased in from January 1, 2013 until January 1, 2019.

United States banking regulators must also implement Basel III in conjunction with the provisions of Dodd-Frank related to increased capital and liquidity requirements. The regulations ultimately applicable to the Company may be substantially different from the Basel III final framework. Requirements to maintain higher levels of capital or to maintain higher levels of liquid assets could adversely impact the Company's net income and return on equity.

*Prompt Corrective Action*

The Federal Deposit Insurance Corporation Improvement Act ("FDICIA") provides a framework for the regulation of depository institutions and their affiliates, including parent holding companies, by their federal banking regulators. Among other things, it requires the relevant federal banking regulator to take "prompt corrective action" with respect to a depository institution if that institution does not meet certain capital adequacy standards, including requiring the prompt submission of an acceptable capital restoration plan. Supervisory actions by the appropriate federal banking regulator under the prompt corrective action rules generally depend upon an institution's classification within five capital categories as defined in the regulations. The relevant capital measures are the capital ratio, the Tier 1 capital ratio, and the leverage ratio. However, the federal banking agencies have also adopted non-capital safety and soundness standards to assist examiners in identifying and addressing potential safety and soundness concerns before capital becomes impaired. These include operational and managerial standards relating to: (i) internal controls, information systems and internal audit systems, (ii) loan documentation, (iii) credit underwriting, (iv) asset quality and growth, (v) earnings, (vi) risk management, and (vii) compensation and benefits.

A depository institution's capital tier under the prompt corrective action regulations will depend upon how its capital levels compare with various relevant capital measures and the other factors established by the regulations. A bank will be: (i) "well capitalized" if the institution has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, and a leverage ratio of 5.0% or greater and is not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure; (ii) "adequately capitalized" if the institution has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 4.0% or greater, and a leverage ratio of 4.0% or greater and is not "well capitalized"; (iii) "undercapitalized" if the institution has a total risk-based capital ratio that is less than 8.0%, a Tier 1 risk-based capital ratio of less than 4.0%, or a leverage ratio of less than 4.0%; (iv) "significantly undercapitalized" if the institution has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 3.0%, or a leverage ratio of less than 3.0%; and (v) "critically undercapitalized" if the institution's tangible equity is equal to or less than 2.0% of average quarterly tangible assets. An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters.

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

The appropriate federal banking agency may, under certain circumstances, reclassify a well capitalized insured depository institution as adequately capitalized. The FDICIA provides that an institution may be reclassified if the appropriate federal banking agency determines (after notice and opportunity for a hearing) that the institution is in an unsafe or unsound condition or deems the institution to be engaging in an unsafe or unsound practice. The appropriate agency is also permitted to require an adequately capitalized or undercapitalized institution to comply with the supervisory provisions as if the institution were in the next lower category (but not treat a significantly undercapitalized institution as critically undercapitalized) based on supervisory information other than the capital levels of the institution.

*FDIC Deposit Insurance*

The FDIC insures our customer deposits through the Deposit Insurance Fund up to prescribed limits for each depositor. Pursuant to Dodd-Frank, the maximum deposit insurance amount has been permanently increased to $250,000 and all noninterest-bearing transaction accounts are insured through December 31, 2012. The amount of FDIC assessments paid by each Deposit Insurance Fund member institution is based on its relative risk of default as measured by regulatory capital ratios and other supervisory factors. Due to the greatly increased rate of bank failures experienced in the current period of financial stress, as well as the extraordinary programs in which the FDIC has been involved to support the banking industry generally, the FDIC's Deposit Insurance Fund was substantially depleted and the FDIC has incurred substantially increased operating costs. On November 12, 2009, the FDIC adopted a requirement for institutions to prepay in 2009 their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012.

Table of Contents

As required by Dodd-Frank, the FDIC adopted a new Deposit Insurance Fund restoration plan which became effective on January 1, 2011. Among other things, the plan: (1) raises the minimum designated reserve ratio, which the FDIC is required to set each year, to 1.35 percent (from the former minimum of 1.15 percent) and removes the upper limit on the designated reserve ratio (which was formerly capped at 1.5 percent) and consequently on the size of the fund; (2) requires that the fund reserve ratio reach 1.35 percent by September 30, 2020 (3) requires that, in setting assessments, the FDIC offset the effect of requiring that the reserve ratio reach 1.35 percent by September 30, 2020, rather than 1.15 percent by the end of 2016 on insured depository institutions with total consolidated assets of less than $10 million; (4) eliminates the requirement that the FDIC provide dividends from the fund when the reserve ratio is between 1.35 percent and 1.5 percent; and (5) continues the FDIC's authority to declare dividends when the reserve ratio at the end of a calendar year is at least 1.5 percent, but grants the FDIC sole discretion in determining whether to suspend or limit the declaration or payment of dividends. The Federal Deposit Insurance Act continues to require that the FDIC's Board of Directors consider the appropriate level for the designated reserve ratio annually and, if changing the designated reserve ratio, engage in notice-and-comment rulemaking before the beginning of the calendar year. The FDIC has set a long-term goal of increasing its reserve ratio to 2% of insured deposits by 2027.

On February 7, 2011, the FDIC approved a final rule, as mandated by Dodd-Frank, changing the deposit insurance assessment system from one that is based on total domestic deposits to one that is based on average consolidated total assets minus average tangible equity. In addition, the final rule creates a scorecard-based assessment system for larger banks (those with more than $10 billion in assets) and suspends dividend payments if the Deposit Insurance Fund reserve ratio exceeds 1.5 percent, but provides for decreasing assessment rates when the Deposit Insurance Fund reserve ratio reaches certain thresholds. Larger insured depository institutions will likely pay higher assessments to the Deposit Insurance Fund than under the old system. Additionally, the final rule includes a new adjustment for depository institution debt whereby an institution would pay an additional premium equal to 50 basis points on every dollar of long-term, unsecured debt held as an asset that was issued by another insured depository institution (excluding debt guaranteed under the FDIC's Temporary Liquidity Guarantee Program) to the extent that all such debt exceeds 3 percent of the other insured depository institution's Tier 1 capital. The new rule became effective for the quarter beginning April 1, 2011.

The FDIC may terminate a depository institution's deposit insurance upon a finding that the institution's financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices that pose a risk to the Deposit Insurance Fund or that may prejudice the interest of the bank's depositors. The termination of deposit insurance for a bank would also result in the revocation of the bank's charter by the DFI.

All FDIC-insured institutions are also required to pay assessments to the FDIC to fund interest payments on bonds issued by the Financing Corporation ("FICO"), an agency of the Federal government established to recapitalize the predecessor to the Deposit Insurance Fund. The FICO assessment rates are determined quarterly. Beginning April 1, 2011 the assessment rates are based on the level of risk based assets. Prior to April 2011 the assessment rates were based on deposit levels. As of December 31, 2011 the assessment rate was 0.0762% . These assessments will continue until the FICO bonds mature in 2017.

*Loans-to-One Borrower Limitations*

With certain limited exceptions, the maximum amount of obligations, secured or unsecured, that any borrower (including certain related entities) may owe to a United States bank at any one time may not exceed 25% of the sum of stockholders' equity, allowance for loan losses, capital notes and debentures of the bank. Unsecured obligations may not exceed 15% of the sum of shareholders' equity, allowance for

Table of Contents

loan losses, capital notes and debentures of the bank. The Bank has established internal loan limits which are lower than the legal lending limits for United States banks.

*Extensions of Credit to Insiders and Transactions with Affiliates*

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

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

Such loans and leases:

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

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

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

- prevent any affiliates from borrowing from the Bank unless the loans are secured by marketable obligations of designated amounts;
- limit such loans and investments to or in any affiliate individually to 10% of the Bank's capital and surplus;
- limit such loans and investments to all affiliates in the aggregate to 20% of the Bank's capital and surplus;
- place restrictions on certain asset sales to and from an insider to an institution; and

require such loans to and investments in any affiliate to be on terms and under conditions substantially the same or at least as favorable to the Bank as those prevailing for comparable transactions with non-affiliated parties.

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

*Securities Activities*

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

*Operations and Consumer Compliance Laws*

The Bank must comply with numerous federal anti-money laundering and consumer privacy and protection statutes and implementing regulations, including the USA PATRIOT Act of 2001, the Bank Secrecy Act, the Foreign Account Tax Compliance Act, effective in 2013, the CRA, the Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act, the Electronic Fund Transfer Act, the Equal Credit Opportunity Act, the Truth in Lending Act, the Fair Housing Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the National Flood Insurance Act, the Americans with Disabilities Act and various federal and state privacy protection laws. These laws and regulations mandate certain disclosure and other requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans, collecting loans, and providing other services. Failure to comply with these laws and regulations can subject the Bank to various penalties, including but not limited to enforcement actions, injunctions, fines or criminal penalties, punitive damages to consumers, and the loss of certain contractual rights. The Bank and the Company are also subject to federal and state laws prohibiting unfair or fraudulent business practices, untrue or misleading advertising and unfair competition.

*Regulation of Subsidiaries/Branches*

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

***Employees***

East West does not have any employees other than officers who are also officers of the Bank. Such employees are not separately compensated for their employment with the Company. As of December 31, 2011, the Bank had a total of 2,204 full-time employees and 115 part-time employees and East West Insurance had a total of 10 full-time employees. None of the employees are represented by a union or

Table of Contents

collective bargaining group. The managements of the Bank and East West Insurance believe that their employee relations are satisfactory.

***Recently Issued Accounting Standards***

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

***Available Information***

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

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

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

Table of Contents

***Executive Officers of the Registrant***

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

| Name | Age(1) | Position with Company or Bank |
|---|---|---|
| Dominic Ng | 53 | Chairman and Chief Executive Officer of the Company and the Bank |
| Julia S. Gouw | 52 | President and Chief Operating Officer of the Company and the Bank |
| Ming Lin Chen | 51 | Executive Vice President and Director of Loan Operations of the Bank |
| William H. Fong | 64 | Executive Vice President and Head of Northern California Commercial Lending Division of the Bank |
| Karen Fukumura | 47 | Executive Vice President and Head of Retail Banking of the Bank |
| John Hall | 56 | Executive Vice President and Chief Credit Officer of the Bank |
| Sue Yang | 44 | Executive Vice President and Head of Greater China and Corporate Strategy for the Bank |
| Douglas P. Krause | 55 | Executive Vice President, Chief Risk Officer, General Counsel, and Secretary of the Company and the Bank |
| Marty Newton | 52 | Executive Vice President and Head of Commercial Banking Services of the Bank |
| Irene H. Oh | 34 | Executive Vice President and Chief Financial Officer of the Company and the Bank |
| James T. Schuler | 63 | Executive Vice President and Chief Human Resources Officer of the Bank |
| Lawrence B. Schiff | 59 | Executive Vice President and Director of Credit Risk Management of the Bank |
| Andy Yen | 54 | Executive Vice President and Director of the Business Banking Division of the Bank |

(1) As of February 28, 2012

**Dominic Ng** serves as Chairman and Chief Executive Officer of East West Bancorp, Inc. and East West Bank. Prior to taking the helm of East West in 1992, Mr. Ng was President and Chief Executive Officer of Seyen Investment, Inc. and before that spent over a decade as a CPA with Deloitte & Touche LLP. Mr. Ng serves on the Board of Directors of Mattel, Inc. and served for six years as a director of the Federal Reserve Bank of San Francisco, Los Angeles Branch.

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

Table of Contents

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

**William H. Fong** serves as Executive Vice President and Head of the Bank's Northern California Commercial Lending Division. Mr. Fong joined East West Bank in April 2006 from United Commercial Bank where he was the Head of Commercial Banking. Prior to this, Mr. Fong spent 23 years with the BNP Paribas/Bank of the West group. As Executive Vice President, he was responsible for Pacific Rim Banking's corporate banking team in Bank of the West. In addition to serving as a director on the boards of Cal-Asia Business Council and Hong Kong Association of Northern California, Mr. Fong is a charter member of The Bay Area Council (BAC) and Asia American MultiTechnology Association. (AAMA). Mr. Fong was appointed in 2009 as a member of the California Economic Development Commission Goods Movement International Trade Advisory Committee.

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

**John Hall** serves as Executive Vice President and Chief Credit Officer of East West Bank. Mr. Hall joined East West in mid 2011, after serving seven years as regional Vice President/Senior Vice President for Wells Fargo Bank managing a regional commercial banking office in Los Angeles for Wells Fargo Bank middle market commercial banking. Prior to Wells Fargo Bank, Mr. Hall spent fifteen years in various commercial management positions at Norwest Bank.

**Sue Yang** serves as Executive Vice President, Head of Greater China and Corporate Strategy. Prior to joining East West Bank in November 2011, Ms. Yang was a senior executive at Bank of America from 1997 to 2011. Ms. Yang held various senior positions at Bank of America, including Chief Risk Officer for Global Wealth and Investment Management and Corporate Strategy Executive of Global Corporate Strategy. Ms. Yang also oversaw Bank of America's investment in China Construction Bank Corporation and served on the China Construction Bank Corporation Board of Directors from 2010 to 2011.

**Douglas P. Krause** serves as Executive Vice President, Chief Risk Officer, General Counsel, and Corporate Secretary of East West Bancorp, Inc. and East West Bank. Prior to joining East West in 1996, Mr. Krause was General Counsel of Metrobank from 1991 to 1996. Mr. Krause started his career with the law firms of Dewey & LeBoeuf and Jones, Day, Reavis and Pogue where he specialized in financial services. Mr. Krause also serves as commissioner on the governing board and as chairman of the audit committee of the Port of Los Angeles. He also serves on the executive committee and project committee of the I-710 Project.

**Marty Newton** serves as Executive Vice President and Head of Commercial Banking Services. Mr. Newton joined East West Bank in early 2011. Before joining East West, Mr. Newton spent the majority of his career with Wells Fargo Bank in a variety of positions as well as several years with Bank of America. Mr. Newton has twenty years of commercial and retail banking experience in management, sales and training.

Table of Contents

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

**James T. Schuler** serves as Executive Vice President and Chief Human Resources Officer of East West Bank. Mr. Schuler joined East West in mid 2011, after serving more than 25 years with Avery Dennison where he was instrumental in transforming Avery into an integrated global corporation. Mr. Schuler has a wealth of human resources experience as well as extensive experience working throughout the Asia Pacific Region.

**Lawrence B. Schiff** serves as Executive Vice President and Director of Credit Risk Management. Mr. Schiff joined East West Bank in 2010, after serving for several years as Director of National Credit Risk Management at KPMG and as a Group Vice President in SunTrust Bank's Credit Risk Management Division. Mr. Schiff spent the majority of his career as a commercial bank examiner with the Federal Reserve System, both in Washington, DC and in New York. Earlier in his career, Mr. Schiff was a Senior Vice President and Chief Financial Officer of a community bank in Honolulu. Mr. Schiff is an MBA graduate of the University of Pennsylvania. Mr. Schiff is a board member of the City of Hope Hospital's LA Real Estate Council.

**Andy Yen** serves as Executive Vice President and Director of the Business Banking Division. Mr. Yen joined the Bank in September 2005 through its merger with United National Bank ("UNB"). Before being promoted to President of UNB in 2001, Mr. Yen was the Executive Vice President from 1998 to 2000 and Senior Vice President from 1992 to 1997, overseeing both the operations and lending functions of UNB. Mr. Yen also served as a member of the Board of Directors of UNB from 1992 to 2005. Mr. Yen has over 25 years experience in commercial and real estate lending and also held positions at Tokai Bank of California and Trans National Bank before he joined UNB.

Table of Contents

## ITEM 1A. RISK FACTORS

***Risk Factors That May Affect Future Results***

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

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

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

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

We may be required to pay significantly higher FDIC premiums because market developments have significantly depleted the insurance fund of the FDIC and reduced the ratio of reserves to insured deposits.

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

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

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

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

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

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

- imposes new capital requirements on bank holding companies and eliminates certain trust preferred securities from Tier 1 capital;

- expands the FDIC's authority to raise insurance premiums and permanently raises the current standard deposit insurance limit to $250,000;

- provides for the insurance of all noninterest-bearing and transaction accounts until January 1, 2013;

- allows financial institutions to pay interest on business checking accounts;

- authorizes nationwide interstate branching for banks;

- limits interchange fees payable on debit card transactions;

- establishes the Bureau of Consumer Financial Protection to promulgate and enforce consumer protection regulations relating to financial products that would affect banks and nonbank finance companies;

- contains provisions that affect corporate governance and executive compensation;

- restricts proprietary trading by financial institutions, their owning or sponsoring hedge and private equity funds, and regulates the derivatives activities of banks and their affiliates.

Table of Contents

Many aspects of Dodd-Frank are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on us and the financial services industry more generally. Nonetheless, we anticipate increased costs associated with these new regulations.

The proposed revisions to Regulation Z, which implements the Truth in Lending Act (TILA), are being made pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act. The proposal would apply to all consumer mortgages (except home equity lines of credit, timeshare plans, reverse mortgages, or temporary loans) mandating specific underwriting criteria for home loans and provides various repayment options to the borrower. This may impact our underwriting of single family residential loans and the resulting unknown effect on potential delinquencies. In addition, the uniformity of the requirements may make it difficult for regional and community banks to compete against the larger national banks for single family residential loan originations.

***We may be subject to more stringent capital requirements.*** Dodd-Frank phases out over a prescribed period of time certain trust preferred securities from Tier 1 capital and allows the federal banking agencies to establish minimum leverage and risk-based capital requirements that will apply to both insured banks and their holding companies. In the case of certain trust preferred securities issued prior to May 19, 2010 by bank holding companies with total consolidated assets of $15 billion or more as of December 31, 2009, these "regulatory capital deductions" are to be implemented incrementally over a period of three years beginning on January 13, 2013. Dodd-Frank also requires the federal banking agencies to establish minimum leverage and risk-based capital requirements that will apply to both insured banks and their holding companies. Implementing regulations must be issued within 18 months of July 21, 2010.

In addition, internationally, the "Basel III" standards recently announced by the Basel Committee, if applied to banks of our size, could lead to significantly higher capital requirements, higher capital charges and more restrictive leverage and liquidity ratios. The standards would, among other things:

- impose more restrictive eligibility requirements for Tier 1 and Tier 2 capital;
- increase the minimum Tier 1 common equity ratio to 4.5 percent, net of regulatory deductions, and introduce a capital conservation buffer of an additional 2.5 percent of common equity to risk-weighted assets, raising the target minimum common equity ratio to 7 percent;
- increase the minimum Tier 1 capital ratio to 8.5 percent inclusive of the capital conservation buffer;
- increase the minimum total capital ratio to 10.5 percent inclusive of the capital conservation buffer; and
- introduce a countercyclical capital buffer of up to 2.5 percent of common equity or other fully absorbing capital for periods of excess credit growth.

Basel III also introduces a non-risk adjusted Tier 1 leverage ratio of 3 percent, based on a measure of total exposure rather than total assets, and new liquidity standards. The Basel III capital standards will be phased in from January 1, 2013 until January 1, 2019, and it is not yet known how these standards will be implemented by United States regulators generally or how they will be applied to banks of our size. Implementation of these standards, or any other new regulations, may adversely affect our ability to pay dividends, or require us to reduce business levels or raise capital, including in ways that may adversely affect our results of operations or financial condition.

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

***United States and international financial markets and economic conditions, particularly in California, could adversely affect our liquidity, results of operations and financial condition.*** As described in "Management's Discussion and Analysis of Financial Condition and Results of Operations," the turmoil and downward economic trends in the past couple of years have been particularly acute in the financial sector. Although the Company and the Bank remain well capitalized and have not suffered any significant liquidity issues as a result of these events, the cost and availability of funds may be adversely affected by illiquid credit markets and the demand for our products and services may decline as our borrowers and customers realize the impact of an economic slowdown and recession. In view of the concentration of our operations and the collateral securing our loan portfolio primarily in Northern and Southern California, we may be particularly susceptible to the adverse economic conditions in the state of California, where our business is concentrated. In addition, the severity and duration of these adverse conditions is unknown and may exacerbate the Company's exposure to credit risk and adversely affect the ability of borrowers to perform under the terms of their lending arrangements with us. Accordingly, continued turbulence in the United States and international markets and economy may adversely affect our liquidity, financial condition, results of operations and profitability.

***We may be required to make additional provisions for loan losses and charge off additional loans in the future, which could adversely affect our results of operations.*** During the year ended December 31, 2011, we recorded a $95.0 million provision for loan losses and charged off $124.7 million, gross of $12.6 million in recoveries. There has been a continued slowdown in the housing market in portions of Los Angeles, Riverside, San Bernardino and Orange counties where a majority of our loan customers are based. This slowdown reflects the continuation of depressed prices and excess inventories of homes to be sold, which has contributed to financial strain on home builders and suppliers.

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

***Liquidity risk could impair our ability to fund operations and jeopardize our financial condition.*** Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a material adverse effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities could be impaired by factors that affect us specifically

Table of Contents

or the financial services industry in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity due to a market downturn or adverse regulatory action against us. Our ability to acquire deposits or borrow could also be impaired by factors that are not specific to us, such as a severe disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole due to the turmoil faced by banking organizations in the domestic and worldwide credit markets.

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

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

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

***We are subject to extensive government regulation that could limit or restrict our activities, which, in turn, may hamper our ability to increase our assets and earnings.*** Our operations are subject to extensive regulation by federal, state and local governmental authorities and are subject to various laws and judicial and

Table of Contents

administrative decisions imposing requirements and restrictions on part or all of our operations. Because our business is highly regulated, the laws, rules, regulations and supervisory guidance and policies applicable to us are subject to regular modification and change. From time to time, various laws, rules and regulations are proposed, which, if adopted, could impact our operations by making compliance much more difficult or expensive, restricting our ability to originate or sell loans or further restricting the amount of interest or other charges or fees earned on loans or other products.

***The short-term and long-term impact of the new Basel II and Basel III capital standards and the forthcoming new capital rules to be proposed for non-Basel II United States banks is uncertain.*** As a result of the deterioration during the past few years in the global credit markets and the potential impact of increased liquidity risk and interest rate risk, it is unclear what the short-term impact of the implementation of Basel II may be or what impact a pending alternative standardized approach to Basel II option for non-Basel II U.S. banks may have on the cost and availability of different types of credit and the potential compliance costs of implementing the new capital standards. In addition, the Basel III standards, if adopted by the United States regulators, could lead to substantially higher capital requirements and capital charges as well as more restrictive leverage and liquidity ratios. The new Basel III capital standards will be phased in from January 1, 2013 to January 1, 2019, and it is not yet known how these standards will be implemented by United States regulators, in general, or how they will be applied to community banks of our size.

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

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

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

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

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

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

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

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

***State laws may restrict our ability to pay dividends.*** Our ability for the Bank to pay dividends to East West is limited by California law and the Company's ability to pay dividends on its outstanding stock is limited by Delaware law. For complete discussion and disclosure see "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources" presented elsewhere in this report.

Table of Contents

***The terms of our outstanding preferred stock limit our ability to pay dividends on and repurchase our common stock, and there can be no assurance of any future dividends on our common stock.*** The terms of our outstanding Series A preferred stock have limitations on our ability to redeem or repurchase our common stock. In addition, we are unable to pay any dividends on our common stock unless we are current in our dividend payments on the Series A preferred stock. These restrictions, together with the potentially dilutive impact of the common stock issuable upon conversion of the Series A preferred stock, described below, could have a negative effect on the value of our common stock. Moreover, holders of our common stock are entitled to receive dividends only when, as and if declared by our Board of Directors. Although we have historically paid cash dividends on our common stock, we are not required to do so. For complete discussion and disclosure see "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources" presented elsewhere in this report.

***Our outstanding preferred stock impacts net income available to our common stockholders and earnings per common share, and the potential issuances of equity securities may be dilutive to holders of our common stock.*** The dividends declared on our outstanding preferred stock will reduce the net income available to common stockholders and our earnings per common share. Our outstanding preferred stock will also receive preferential treatment in the event of liquidation, dissolution or winding up of the Company. In addition, to the extent shares of our Series A preferred stock are converted, or options to purchase common stock under our employee and director stock option plans are exercised, holders of our common stock will incur additional dilution. Further, if we sell additional equity or convertible debt securities, such sales could result in increased dilution to our stockholders.

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

- actual or anticipated quarterly fluctuations in our operating results and financial condition;
- changes in revenue or earnings estimates or publication of research reports and recommendations by financial analysts;
- failure to meet analysts' revenue or earnings estimates;
- speculation in the press or investment community;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- actions by institutional stockholders;
- fluctuations in the stock price and operating results of our competitors;
- general market conditions and, in particular, developments related to market conditions for the financial services industry;
- proposed or adopted regulatory changes or developments;
- anticipated or pending investigations, proceedings or litigation that involve or affect us; or
- domestic and international economic factors unrelated to our performance.

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

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

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

***Our interest expense may increase following the repeal of the federal prohibition on payment of interest on demand deposits.*** The federal prohibition on the ability of financial institutions to pay interest on demand deposit accounts was repealed as part of Dodd-Frank. As a result, beginning on July 21, 2010, financial institutions could commence offering interest on demand deposits to compete for clients. We do not yet know what interest rates other institutions may offer. Our interest expense will increase and our net interest margin will decrease if the Bank begins offering interest on demand deposits to attract additional customers or maintain current customers, which could have a material adverse effect on our financial condition, net income and results of operations.

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

***We may experience difficulty in managing the loan portfolios acquired through FDIC-assisted acquisitions, which are within the limits of the loss protection provided by the FDIC.*** The Bank entered into

Table of Contents

shared-loss agreements with the FDIC that covered, most of UCB's and all of WFIB's loans and other real estate owned, respectively. East West Bank shares in the losses, beginning with the first dollar of loss occurred, of the loans (including single-family residential mortgage loans, commercial loans, foreclosed loan collateral and other real estate owned) covered ("covered loans") under the shared-loss agreements. Pursuant to the terms of the shared-loss agreements, the FDIC is obligated to reimburse East West Bank 80% of eligible losses with respect to covered loans. East West Bank has a corresponding obligation to reimburse the FDIC for 80%, of eligible recoveries with respect to covered loans.

The shared-loss agreements for commercial and single-family residential mortgage loans are in effect for 5 years and 10 years, respectively, from the acquisition date and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from the acquisition date. Ten years after acquisition date, East West Bank is required to pay the FDIC 50% of the excess, if any, of specific amounts stated in the original agreements for each acquisition respectively. Although we have substantial expertise in asset resolution, we cannot guarantee that we will be able to adequately manage the loan portfolio within the limits of the loss protection provided by the FDIC. Failure to comply with the requirements of the shared-loss agreements could result in loss of indemnification by the FDIC. Additionally, the Bank is subject to audits by the FDIC, through its designated agent, under the terms of the shared-loss agreements. The required terms of the shared-loss agreements are extensive and failure to comply with any of the guidelines could result in a potential specific asset or group of assets losing indemnification.

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

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

## ITEM 2. PROPERTIES

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

The Bank owns the buildings and land at 23 of its retail branch offices. Five of these retail branch locations are either attached or adjacent to offices that are being used by the Bank to house various administrative departments. All other branch and administrative locations are leased by the Bank, with lease expiration dates ranging from 2012 to 2023, exclusive of renewal options.

In 2010, we assumed approximately forty-nine leases and agreed to purchase approximately $5.2 million and $73.7 million in fair value of real property from the FDIC as part of the FDIC-assisted acquisitions of Washington First International Bank and United Commercial Bank, respectively. During

Table of Contents

2011, in an effort to consolidate properties acquired, the Company strategically sold and consolidated several locations.

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

At December 31, 2011, the Bank's consolidated investment in premises and equipment, net of accumulated depreciation and amortization, totaled $118.9 million. Total occupancy expense, inclusive of rental payments and furniture and equipment expense, for the year ended December 31, 2011 was $50.1 million. Total annual rental expense (exclusive of operating charges and real property taxes) was approximately $22.9 million during 2011.

## ITEM 3. LEGAL PROCEEDINGS

Neither the Company nor the Bank is involved in any material legal proceedings. The Bank, from time to time, is party to litigation which arises in the ordinary course of business, such as claims to enforce liens, claims involving the origination and servicing of loans, and other issues related to the business of the Bank. After taking into consideration information furnished by counsel to the Company and the Bank, management believes that the resolution of such issues would not have a material adverse impact on the financial position, results of operations, or liquidity of the Company or the Bank.

## ITEM 4. (REMOVED AND RESERVED)

Table of Contents

**PART II**

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

*Market Information*

Our common stock is traded on the NASDAQ Global Select Market under the symbol "EWBC." The following table sets forth the range of sales prices and dividend information for the Company's common stock for the years ended December 31, 2011 and 2010.

| | 2011 | | |
|---|---|---|---|
| | **High** | **Low** | **Dividends** |
| First quarter | $ 23.79 | $ 19.30 | $0.01 cash dividend |
| Second quarter | 23.37 | 17.97 | $0.05 cash dividend |
| Third quarter | 20.65 | 14.31 | $0.05 cash dividend |
| Fourth quarter | 20.19 | 13.94 | $0.05 cash dividend |

| | 2010 | | |
|---|---|---|---|
| | **High** | **Low** | **Dividends** |
| First quarter | $ 19.25 | $ 14.76 | $0.01 cash dividend |
| Second quarter | 20.55 | 14.75 | $0.01 cash dividend |
| Third quarter | 18.00 | 14.11 | $0.01 cash dividend |
| Fourth quarter | 20.17 | 15.98 | $0.01 cash dividend |

The closing price of our common stock on January 31, 2012 was $21.96 per share, as reported by the NASDAQ Global Select Market.

As of January 31, 2012, 148,678,084 shares of the Company's common stock were held by 2,713 stockholders of record.

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

Table of Contents

*Stock Performance Graph*

The following graph shows a comparison of stockholder return on the Company's common stock based on the market price of the common stock assuming the reinvestment of dividends, with the cumulative total returns for the companies in the Standard & Poor's 500 Index and the SNL Western Bank Index for the 5-year period beginning on December 31, 2006 through December 31, 2011. This graph is historical only and may not be indicative of possible future performance of the Company's common stock. The information set forth under the heading "Stock Performance Graph" shall not be deemed "soliciting material" or to be "filed" with the Commission except to the extent we specifically request that such information be treated as soliciting material or specifically incorporate it by reference into a filing under the Securities Exchange Act of 1934, as amended, or the Securities Act of 1933, as amended.

**Total Return Performance**

| | **Period Ending** | | | | | |
|---|---|---|---|---|---|---|
| **Index** | **12/31/06** | **12/31/07** | **12/31/08** | **12/31/09** | **12/31/10** | **12/31/11** |
| East West Bancorp, Inc. | 100.00 | 69.16 | 46.73 | 46.47 | 57.63 | 58.72 |
| SNL Western Bank Index | 100.00 | 83.53 | 81.33 | 74.68 | 84.62 | 76.45 |
| SNL Bank and Thrift | 100.00 | 76.26 | 43.85 | 43.27 | 48.30 | 37.56 |
| S&P 500 | 100.00 | 105.49 | 66.46 | 84.05 | 96.71 | 98.76 |

Source: SNL Financial LC, Charlottesville, VA, (434) 977-1600, www.snl.com

*Purchases of Equity Securities by the Issuer and Affiliated Purchasers*

During the first quarter of 2007, the Company's Board of Directors authorized a stock repurchase program authorizing the repurchase of up to $80.0 million of its common stock. This repurchase program has no expiration date and 1,391,176 shares were repurchased under this program during 2007.

On January 19, 2012, it was announced that the Company's Board of Directors authorized a stock repurchase program to buy back up to $200.0 million of the Company's common stock. This repurchase program has no expiration date. The Company made no repurchases of its common stock during the year ended December 31, 2011.

Table of Contents

## ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with the Company's consolidated financial statements and the accompanying notes presented elsewhere in this report. Certain items in the consolidated balance sheet and the consolidated statements of income were reclassified for prior years to conform to the 2011 presentation. These reclassifications did not affect previously reported net income.

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| | | | *(In thousands, except per share data)* | | |
| **Summary of Operations** | | | | | |
| Interest and dividend income | $ 1,080,448 | $ 1,095,831 | $ 722,818 | $ 664,858 | $ 773,607 |
| Interest expense | 177,422 | 201,117 | 237,129 | 309,694 | 365,613 |
| Net interest income | 903,026 | 894,714 | 485,689 | 355,164 | 407,994 |
| Provision for loan losses | 95,006 | 200,159 | 528,666 | 226,000 | 12,000 |
| Net interest income (loss) after provision for loan losses | 808,020 | 694,555 | (42,977) | 129,164 | 395,994 |
| Noninterest income (loss)[(1)] | 10,924 | 39,270 | 390,953 | (25,062) | 49,520 |
| Noninterest expense | 435,610 | 477,916 | 243,254 | 201,270 | 183,255 |
| Income (loss) before provision (benefit) for income taxes | 383,334 | 255,909 | 104,722 | (97,168) | 262,259 |
| Provision (benefit) for income taxes | 138,100 | 91,345 | 22,714 | (47,485) | 101,092 |
| Net income (loss) before extraordinary item | 245,234 | 164,564 | 82,008 | (49,683) | 161,167 |
| Extraordinary item, net of tax | | | (5,366) | | |
| Net income (loss) | $ 245,234 | $ 164,564 | $ 76,642 | $ (49,683) | $ 161,167 |
| PREFERRED STOCK DIVIDENDS, AMORTIZATION OF PREFERRED STOCK DISCOUNT, AND INDUCEMENT OF PREFERRED STOCK CONVERSION | 6,857 | 43,126 | 49,115 | 9,474 | |
| NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS | $ 238,377 | $ 121,438 | $ 27,527 | $ (59,157) | $ 161,167 |
| **Per Common Share** | | | | | |
| Basic earnings (loss) per share | $ 1.62 | $ 0.88 | $ 0.35 | $ (0.94) | $ 2.63 |
| Diluted earnings (loss) per share | $ 1.60 | $ 0.83 | $ 0.33 | $ (0.94) | $ 2.60 |
| Common dividends per share | $ 0.16 | $ 0.04 | $ 0.05 | $ 0.40 | $ 0.40 |
| Average number of shares outstanding, basic | 147,093 | 137,478 | 78,770 | 62,673 | 61,180 |
| Average number of shares outstanding, diluted | 153,467 | 147,102 | 84,523 | 62,673 | 62,093 |
| **At Year End:** | | | | | |
| Total assets | $ 21,968,667 | $ 20,700,537 | $ 20,559,212 | $ 12,422,816 | $ 11,852,212 |
| Loans receivable | 10,061,788 | 8,430,199 | 8,218,671 | 8,069,377 | 8,750,921 |
| Covered loans | 3,923,142 | 4,800,876 | 5,598,155 | | |
| Investment securities | 3,072,578 | 2,875,941 | 2,564,081 | 2,162,511 | 1,887,136 |
| Deposits | 17,453,002 | 15,641,259 | 14,987,613 | 8,141,959 | 7,278,914 |
| Federal Home Loan Bank advances | 455,251 | 1,214,148 | 1,805,387 | 1,353,307 | 1,808,419 |
| Stockholders' equity | 2,311,743 | 2,113,931 | 2,284,659 | 1,550,766 | 1,171,823 |
| Common shares outstanding | 149,328 | 148,543 | 109,963 | 63,746 | 63,137 |
| Book value per common share | $ 14.92 | $ 13.67 | $ 14.37 | $ 16.92 | $ 18.56 |
| **Financial Ratios:** | | | | | |
| Return on average assets | 1.14% | 0.82% | 0.55% | (0.42)% | 1.45% |
| Return on average common equity | 11.08 | 6.42 | 2.37 | (5.41) | 14.89 |
| Return on average total equity | 10.98 | 7.02 | 4.69 | (3.99) | 14.89 |
| Common dividend payout ratio | 10.02 | 4.57 | 13.03 | N/A | 15.27 |
| Average stockholders' equity to average assets | 10.36 | 11.62 | 11.81 | 10.55 | 9.77 |
| Net interest margin | 4.66 | 5.05 | 3.76 | 3.19 | 3.94 |
| Efficiency ratio[(2)] | 43.04 | 47.51 | 43.85 | 45.94 | 37.44 |

| | | | | | |
|---|---|---|---|---|---|
| **Asset Quality Ratios:** | | | | | |
| Net chargeoffs to average non-covered loans | 1.16% | 2.35% | 5.69% | 1.64% | 0.08% |
| Nonperforming assets to total assets | 0.80 | 0.94 | 0.91 | 2.12 | 0.57 |
| Allowance for loan losses to total gross non-covered loans | 2.04 | 2.64 | 2.81 | 2.16 | 1.00 |

*(1)* 2011, 2010 and 2009 include other-than-temporary ("OTTI") charges relating to investment securities of $633 thousand, $16.7 million and $107.7 million, respectively, and pre-tax gain on acquisition of $22.9 million and $471.0 million during 2010 and 2009, respectively.

*(2)* Represents noninterest expense, excluding the amortization of intangibles, amortization and impairment write-downs of premiums on deposits acquired, impairment write-down on goodwill, and investments in affordable housing partnerships, divided by the aggregate of net interest income before provision for loan losses and noninterest income, excluding impairment write-downs on investment securities and other equity investments.

Table of Contents

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion provides information about the results of operations, financial condition, liquidity, and capital resources of East West Bancorp, Inc. and its subsidiaries. This information is intended to facilitate the understanding and assessment of significant changes and trends related to our financial condition and the results of our operations. This discussion and analysis should be read in conjunction with our consolidated financial statements and the accompanying notes presented elsewhere in this report.

**Critical Accounting Policies**

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and general practices within the banking industry. The financial information contained within these statements is, to a significant extent, financial information that is based on approximate measures of the financial effects of transactions and events that have already occurred. All of our significant accounting policies are described in Note 1 to our consolidated financial statements presented elsewhere in this report and are essential to understanding Management's Discussion and Analysis of Financial Condition and Results of Operations. Various elements of our accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. In addition, certain accounting policies require significant judgment in applying complex accounting principles to individual transactions to determine the most appropriate treatment. We have established procedures and processes to facilitate making the judgments necessary to prepare financial statements.

The following is a summary of the more judgmental and complex accounting estimates and principles. In each area, we have identified the variables most important in the estimation process. We have used the best information available to make the estimations necessary to value the related assets and liabilities. Actual performance that differs from our estimates and future changes in the key variables could change future valuations and impact net income.

*Fair Value of Financial Instruments*

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

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

Table of Contents

*Investment Securities*

The accounting for investment securities are discussed in detail in Note 1 to the Company's consolidated financial statements presented elsewhere in this report. The fair values of the investment securities are generally determined by independent external pricing service providers who have experience in valuing these securities and by comparison to and/or average of quoted market prices obtained from independent external brokers. In obtaining such valuation information from third parties, the Company has evaluated the methodologies used to develop the resulting fair values. The Company performs a monthly analysis on the broker quotes and pricing service values received from third parties to ensure that the prices represent a reasonable estimate of the fair value. The procedures include, but are not limited to, initial and on-going review of third party pricing methodologies, review of pricing trends, and monitoring of trading volumes. The Company ensures prices received from independent brokers represent a reasonable estimate of fair value through the use of internal and external cash flow models developed based on spreads and, when available, market indices. As a result of this analysis, if the Company determines there is a more appropriate fair value based upon the available market data, the price received from the third party is adjusted accordingly. Prices from third party pricing services are often unavailable for securities that are rarely traded or are traded only in privately negotiated transactions. As a result, certain securities are priced via independent broker quotations which utilize proprietary models that include observable market based inputs. Additionally, the majority of these independent broker quotations are non-binding.

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

We are obligated to assess, at each reporting date, whether there is an other-than-temporary impairment to our investment securities. If we determine that a decline in fair value is other-than-temporary, a credit-related impairment loss is recognized in current earnings. Noncredit-related impairment losses are charged to other comprehensive income, to the extent we intend to hold the security until recovery. The determination of other-than-temporary impairment is a subjective process, requiring the use of judgments and assumptions. We examine all individual securities that are in an unrealized loss position at each reporting date for other-than-temporary impairment. Specific investment-related factors are examined to assess impairment which include the nature of the investment, severity and duration of the loss, the probability that we will be unable to collect all amounts due, an analysis of the issuers of the securities and whether there has been any cause for default on the securities and any change in the rating of the securities by the various rating agencies. Additionally, we evaluate whether the creditworthiness of the issuer calls the realization of contractual cash flows into question. We take into consideration the financial resources, intent and the overall ability of the Company to hold the securities until their fair values recover. Management does not believe that there are any investment securities, other than those identified in the current and previous periods, which are deemed to be other-than-temporarily impaired as of December 31, 2011. Investment securities are discussed in more detail in Note 6 to the Company's consolidated financial statements presented elsewhere in this report.

The Company considers all available information relevant to the collectability of the security, including information about past events, current conditions, and reasonable and supportable forecasts,

Table of Contents

when developing the estimate of future cash flows and making its other-than-temporary impairment assessment for its portfolio of trust preferred securities. The Company considers factors such as remaining payment terms of the security, prepayment speeds, expected defaults, the financial condition of the issuer(s), and the value of any underlying collateral.

*Acquired Loans*

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

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

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

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

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

*FDIC Indemnification Asset*

In conjunction with the FDIC-assisted acquisitions of Washington First International Bank and United Commercial Bank, the Bank entered into shared-loss agreements with the FDIC for amounts receivable covered by the shared-loss agreements. At the date of the acquisition the Company elected to account for amounts receivable under the shared-loss agreements as an indemnification asset in accordance with ASC 805. Subsequent to the acquisition the indemnification asset is tied to the loss in the covered loans and is not being accounted for under fair value. The FDIC indemnification asset is accounted for on the same basis as the related covered loans and is the present value of the cash flows the Company expects to collect from the FDIC under the shared-loss agreements. The difference between the present value and the undiscounted cash flow the Company expects to collect from the FDIC is accreted into noninterest income over the life of the FDIC indemnification asset. The FDIC indemnification asset is adjusted for any changes in expected cash flows based on the loan performance. Any increases in cash flow of the loans over those expected will reduce the FDIC indemnification asset and any decreases in cash flow of the loans over those expected will increase the FDIC indemnification asset. Over the life of the FDIC indemnification asset, increases and decreases are recorded as adjustments to noninterest income. In December 2010, the bank lowered the credit discount on the UCB covered loan portfolio as the credit quality is performing better than originally estimated. By lowering the credit discount, interest income will increase over the life of the loans. Correspondingly, with the lowered credit discount, the expected reimbursement from the FDIC under the loss sharing agreement will decrease, resulting in amortization on the FDIC indemnification asset which is recorded as a charge to noninterest income.

*Allowance for Loan Losses*

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

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

*Goodwill Impairment*

Under ASC 350, *Intangibles Goodwill and Other*, goodwill must be allocated to reporting units and tested for impairment. The Company tests goodwill for impairment at least annually or more frequently if events or circumstances, such as adverse changes in the business, indicate that there may be justification for conducting an interim test. Impairment testing is performed at the reporting-unit level (which is the same level as the Company's two major operating segments identified in Note 26 to the Company's consolidated financial statements presented elsewhere in this report). The first part of the test is a comparison, at the reporting unit level, of the fair value of each reporting unit to its carrying value, including goodwill. In order to determine the fair value of the reporting units, a combined income approach and market approach was used. Under the income approach, the Company provided a net income projection and a terminal growth rate was used to calculate the discounted cash flows and the present value of the reporting units. Under the market approach, the fair value was calculated using the current fair values of comparable peer banks of similar size, geographic footprint and focus. The market capitalizations and multiples of these peer banks were used to calculate the market price of the Company and each reporting unit. The fair value was also subject to a control premium adjustment, which is the cost savings that a purchase of the reporting unit could achieve by eliminating duplicative costs. Under the combined income and market approach, the value from each approach was appropriately weighted to

Table of Contents

determine the fair value. If the fair value is less than the carrying value, then the second part of the test is needed to measure the amount of goodwill impairment. The implied fair value of the reporting unit goodwill is calculated and compared to the actual carrying value of goodwill recorded within the reporting unit. If the carrying value of reporting unit goodwill exceeds the implied fair value of that goodwill, then the Company would recognize an impairment loss for the amount of the difference, which would be recorded as a charge against net income. For complete discussion and disclosure see Note 13 to the Company's consolidated financial statements presented elsewhere in this report.

*Share-Based Compensation*

We account for share-based awards to employees, officers, and directors in accordance with the provisions of ASC 505, *Equity*, and ASC 718, *Compensation Stock Compensation*. Share-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as expense over the employee's requisite service period. We adopted these standards, as required, on January 1, 2006.

We adopted ASC 505 and ASC 718 using the modified prospective approach. Under the modified prospective approach, prior periods are not restated for comparative purposes. The valuation provisions of these standards apply to new awards and to awards that are outstanding on the effective date and subsequently modified, repurchased or cancelled. Compensation expense, net of estimated forfeitures, for awards outstanding at the effective date is recognized over the remaining service period using the compensation cost calculated for pro forma disclosures under ASC 718. All outstanding unvested awards were granted after January 1, 2006 and are accounted for under ASC 718.

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

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

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

As share-based compensation expense is based on awards ultimately expected to vest, it is reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Share-based compensation is discussed in more detail in Notes 1 and 22 to the Company's consolidated financial statements presented elsewhere in this report.

**Overview**

East West increased net income each consecutive quarter of 2011. For the full year 2011, net income totaled a record $245.2 million, a 49% or $80.7 million increase from $164.6 million in 2010. Total noncovered loans grew to a record $10.6 billion, an increase of 18% or $1.6 billion during the full year 2011. The growth in noncovered loans was fueled by strong growth in commercial and trade finance loans and single family loans. Total deposits grew to a record $17.5 billion, a 12% or $1.8 billion increase during the full year 2011. Core deposits grew to a record $10.3 billion, an increase of 16% or $1.4 billion year to date. Capital levels for East West remain high. As of December 31, 2011, East West's Tier 1 risk-based capital and total risk-based ratios were 14.8% and 16.4%, respectively, over $800 million greater than the well capitalized requirements of 6% and 10%, respectively.

As of December 31, 2011, total assets grew to $22.0 billion $20.7 billion at December 31, 2010. The increase in the balance sheet is primarily due to loan growth of 5% or $751.9 million for the full year 2011. This growth was funded with an increase in deposits of 12% or $1.8 billion for the full year 2011.

Loans receivable increased to $14.5 billion at December 31, 2011, compared to $13.7 billion at December 31, 2010. This increase in loans receivable was due to growth in the noncovered loan portfolio. During 2011, noncovered loan balances increased 19% or $1.6 billion to $10.1 billion at December 31, 2011. The increase in noncovered loans during the 2011 was driven by growth in commercial and trade finance loans, and single family loans which increased 58% or $1.2 billion, and 61% or $0.7 billion, respectively.

Covered loans totaled $3.9 billion as of December 31, 2011, a decrease of 18% or $0.9 billion from December 31, 2011. The decrease in the covered loan portfolio was primarily due to payoffs and paydown activity, as well as charge-offs.

The covered loan portfolio is comprised of loans acquired from the FDIC-assisted acquisitions of United Commercial Bank (UCB) and Washington First International Bank (WFIB) which are covered under loss share agreements with the FDIC. For the full year 2011, we recorded a net decrease in the FDIC indemnification asset and receivable included in noninterest income (loss) of $(100.1) million, largely due to continued improved credit performance of the UCB portfolio as compared to our original estimate.

Noninterest expense totaled $435.6 million for the full year 2011, a decrease of 9% or $42.3 million as compared to 2010. The decrease in noninterest expense was due to a reduction in credit cycle costs and active expense control. As compared to full year 2010, other real estate owned expenses declined 34% or $21.1 million, compensation expense declined 6% or $10.0 million, deposit insurance premium decreased 19% or $4.7 million, and data processing expense decreased 19% or $2.0 million. These decreases in the full year 2011 as compared to the full year 2010 were partially offset by an increase in amortization of investments in affordable housing partnerships of 73% or $7.3 million due to increased investments.

Credit quality continued to improve for the full year 2011. In each quarter of 2010 and 2011, East West reduced charge-offs and maintained a nonperforming asset to total asset ratio of less than 1.00%. Additionally, total nonaccrual loans and total nonperforming assets excluding covered assets, continued to remain low, with total nonperforming assets excluding covered assets, to total assets under 1.00% for the ninth consecutive quarter. Nonperforming assets, totaled $175.0 million or 0.80% of total assets at December 31, 2011.

Table of Contents

East West continues to maintain a strong allowance for noncovered loan losses at $209.9 million or 2.04% of noncovered loans receivable at December 31, 2011. This compares to an allowance for noncovered loan losses of $230.4 million or 2.64% of noncovered loans at December 31, 2010. The reduction represents improving credit performance of the loan portfolio.

Our capital ratios remain very strong. As of December 31, 2011, our Tier 1 leverage capital ratio totaled 9.7%, our Tier 1 risk-based capital ratio totaled 14.8% and our total risk-based capital ratio totaled 16.4%. East West exceeds well capitalized requirements for all regulatory guidelines by over $800 million. The Company is focused on active capital management and is committed to maintaining strong capital levels that exceed regulatory requirements while also supporting balance sheet growth and providing a strong return to our shareholders.

In light of our commitment to our shareholders, our excellent capital levels and our strong financial performance, the board of directors for East West has approved an increase in our quarterly common stock cash dividend to $0.10 per share from $0.05 per share. Further, the board of directors has also authorized a new stock repurchase program to buy back up to $200.0 million of the Company's common stock.

**Results of Operations**

Net income for 2011 totaled $245.2 million, compared with a net income of $164.6 million for 2010 and $76.6 million in 2009.

Table 1: *Components of Net Income*

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2011** | **2010** | **2009** |
| | | ***(In millions)*** | |
| Net interest income | $ 903.0 | $ 894.7 | $ 485.7 |
| Provision for loan losses | (95.0) | (200.2) | (528.7) |
| Noninterest income | 10.9 | 39.3 | 391.0 |
| Noninterest expense | (435.6) | (477.9) | (243.3) |
| (Provision) benefit for income taxes | (138.1) | (91.3) | (22.7) |
| Net income before extraordinary item | 245.2 | 164.6 | 82.0 |
| Extraordinary item, net of tax | | | (5.4) |
| Net income after extraordinary item | $ 245.2 | $ 164.6 | $ 76.6 |
| Return on average total assets | 1.14% | 0.82% | 0.55% |
| Return on average common equity | 11.08% | 6.42% | 2.37% |
| Return on average total equity | 10.98% | 7.02% | 4.69% |

**Net Interest Income**

Our primary source of revenue is net interest income, which is the difference between interest earned on loans, investment securities and other earning assets less the interest expense on deposits, borrowings and other interest-bearing liabilities. Net interest income in 2011 totaled $903.0 million, a 1% increase over net interest income of $894.7 million in 2010. Comparing 2010 to 2009, net interest income increased 84% to $894.7 million, as compared to $485.7 million in 2009.

Table of Contents

Net interest margin, defined as net interest income divided by average earning assets, decreased 39 basis points to 4.66% during 2011, from 5.05% during 2010. Although the low interest rate environment reduced our total interest-earning assets yield in 2011 as compared to 2010, the overall net decrease in the interest margin was partially offset by an increase in our covered loan yield and a decrease in the cost of funds. During 2011 and 2010, our covered loan yield was positively impacted by the accretion from the covered loans under ASC 310-30. Actions were also taken throughout the year to reduce deposit and borrowing costs. Comparing 2010 to 2009 our net interest margin increased by 129 basis points to 5.05% during 2010, compared to 3.76% during 2009.

The following table presents the interest rate spread, net interest margin, average balances, interest income and expense, and the average yield rates by asset and liability component for the years ended December 31, 2011, 2010 and 2009:

Table 2: *Summary of Selected Financial Data*

| | **Year Ended December 31,** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2011** | | | **2010** | | | **2009** | | |
| | **Average Balance** | **Interest** | **Average Yield Rate** | **Average Balance** | **Interest** | **Average Yield Rate** | **Average Balance** | **Interest** | **Average Yield Rate** |
| | ***(Dollars in thousands)*** | | | | | | | | |
| **ASSETS** | | | | | | | | | |
| Interest-earning assets: | | | | | | | | | |
| Due from banks and short-term investments | $ 1,018,490 | $ 22,575 | 2.22% | $ 828,039 | $ 9,634 | 1.16% | $ 881,282 | $ 9,047 | 1.03% |
| Securities purchased under resale agreements | 1,023,043 | 19,216 | 1.88% | 529,817 | 14,208 | 2.64% | 89,883 | 7,985 | 8.76% |
| Investment securities(1)(2)(3) | 3,116,671 | 89,469 | 2.87% | 2,439,034 | 70,052 | 2.87% | 2,569,792 | 116,688 | 4.54% |
| Loans receivable(2)(4) | 9,668,106 | 478,724 | 4.95% | 8,634,283 | 479,451 | 5.55% | 8,355,825 | 452,019 | 5.41% |
| Loans receivable - covered(2) | 4,369,320 | 467,074 | 10.69% | 5,074,631 | 519,138 | 10.23% | 877,029 | 135,144 | 15.41% |
| FHLB and FRB stock | 197,774 | 3,390 | 1.71% | 219,710 | 3,348 | 1.52% | 137,001 | 2,337 | 1.71% |
| Total interest-earning assets | 19,393,404 | 1,080,448 | 5.57% | 17,725,514 | 1,095,831 | 6.18% | 12,910,812 | 723,220 | 5.60% |
| Noninterest-earning assets: | | | | | | | | | |
| Cash and cash equivalents | 271,393 | | | 365,041 | | | 147,694 | | |
| Allowance for loan losses | (228,160) | | | (252,318) | | | (216,775) | | |
| Other assets | 2,136,484 | | | 2,339,872 | | | 997,214 | | |
| Total assets | $ 21,573,121 | | | $ 20,178,109 | | | $ 13,838,945 | | |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | | | | | | | |
| Interest-bearing liabilities: | | | | | | | | | |
| Checking accounts | 854,079 | $ 3,009 | 0.35% | $ 677,529 | $ 2,349 | 0.35% | $ 398,619 | $ 1,507 | 0.38% |
| Money market accounts | 4,429,567 | 20,610 | 0.47% | 3,974,936 | 29,514 | 0.74% | 2,035,821 | 25,583 | 1.26% |
| Savings deposits | 1,045,546 | 2,988 | 0.29% | 967,953 | 3,986 | 0.41% | 506,706 | 3,322 | 0.66% |
| Time deposits | 7,423,695 | 80,503 | 1.08% | 6,851,461 | 80,888 | 1.18% | 5,037,122 | 99,065 | 1.97% |
| Federal funds purchased | 3,496 | 4 | 0.11% | 871 | 2 | 0.23% | 2,379 | 9 | 0.37% |
| FHLB advances | 679,630 | 15,461 | 2.27% | 1,324,709 | 26,641 | 2.01% | 1,333,846 | 49,940 | 3.74% |
| Securities sold under repurchase agreements | 1,051,844 | 48,561 | 4.62% | 1,047,090 | 48,993 | 4.61% | 1,027,665 | 49,725 | 4.77% |
| Long-term debt | 226,808 | 5,832 | 2.57% | 235,570 | 6,420 | 2.69% | 235,570 | 7,816 | 3.27% |
| Other borrowings | 13,188 | 454 | 3.44% | 51,312 | 2,324 | 4.47% | 12,311 | 162 | 1.32% |
| Total interest-bearing liabilities | 15,727,853 | 177,422 | 1.13% | 15,131,431 | 201,117 | 1.33% | 10,590,039 | 237,129 | 2.24% |
| Noninterest-bearing liabilities: | | | | | | | | | |
| Demand deposits | 3,087,777 | | | 2,418,816 | | | 1,459,871 | | |
| Other liabilities | 523,529 | | | 282,284 | | | 154,138 | | |
| Stockholders' equity | 2,233,962 | | | 2,345,578 | | | 1,634,897 | | |
| Total liabilities and stockholders' equity | $ 21,573,121 | | | $ 20,178,109 | | | $ 13,838,945 | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Interest rate spread | | 4.44% | | 4.85% | | 3.36% |
| Net interest income and net interest margin | $ 903,026 | 4.66% | $ 894,714 | 5.05% | $ 486,091 | 3.76% |

(1) Amounts calculated on a fully taxable equivalent basis using the current statutory federal tax rate. There was no fully taxable equivalent basis for 2011 and 2010. Total interest income and average yield rate on an unadjusted basis for tax-exempt investment securities available-for-sale is $842 thousand and 3.0% for the twelve months ended December 31, 2009.

(2) Includes (amortization) of premiums and accretion of discounts on investment securities and loans receivable totaling $6.3 million, $9.3 million, and $(5.5) million for the years ended December 31, 2011, 2010, and 2009, respectively. Also includes the net (amortization) of deferred loan fees and cost totaling ($13.1) million, ($7.4) million, and ($6.3) million for the years ended December 31, 2011, 2010 and 2009.

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

(4) Average balances include nonperforming loans.

Table of Contents

**Analysis of Changes in Net Interest Income**

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

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

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 vs. 2010 | | | 2010 vs. 2009 | | |
| | Total Change | Changes Due to Volume(1) | Changes Due to Rate(1) | Total Change | Changes Due to Volume(1) | Changes Due to Rate(1) |
| | (In thousands) | | | | | |
| **INTEREST-EARNING ASSETS:** | | | | | | |
| Due from banks and short-term investments | $ 12,941 | $ 2,622 | $ 10,319 | $ 587 | $ (569) | $ 1,156 |
| Securities purchased under resale agreements | 5,008 | 10,229 | (5,221) | 6,223 | 15,204 | (8,981) |
| Investment securities(2) | 19,417 | 19,453 | (36) | (46,636) | (21,831) | (24,805) |
| Loans receivable | (727) | 54,143 | (54,870) | 27,432 | 15,286 | 12,146 |
| Loans receivable covered | (52,064) | (74,604) | 22,540 | 383,994 | 441,017 | (57,023) |
| FHLB and FRB stock | 42 | (353) | 395 | 1,011 | 1,283 | (272) |
| Total interest and dividend income | $ (15,383) | $ 11,490 | $ (26,873) | $ 372,611 | $ 450,390 | $ (77,779) |
| **INTEREST-BEARING LIABILITIES:** | | | | | | |
| Checking accounts | $ 660 | $ 621 | $ 39 | $ 842 | $ 976 | $ (134) |
| Money market accounts | (8,904) | 3,080 | (11,984) | 3,931 | 17,394 | (13,463) |
| Savings deposits | (998) | 299 | (1,297) | 664 | 2,226 | (1,562) |
| Time deposits | (385) | 6,477 | (6,862) | (18,177) | 28,922 | (47,099) |
| Federal funds purchased | 2 | 3 | (1) | (7) | (4) | (3) |
| FHLB advances | (11,180) | (14,314) | 3,134 | (23,299) | (340) | (22,959) |
| Securities sold under repurchase agreements | (432) | 222 | (654) | (732) | 929 | (1,661) |
| Long-term debt | (588) | (233) | (355) | (1,396) | | (1,396) |
| Other borrowings | (1,870) | (1,414) | (456) | 2,162 | 1,211 | 951 |
| Total interest expense | $ (23,695) | $ (5,259) | $ (18,436) | $ (36,012) | $ 51,314 | $ (87,326) |
| **CHANGE IN NET INTEREST INCOME** | $ 8,312 | $ 16,749 | $ (8,437) | $ 408,623 | $ 399,076 | $ 9,547 |

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

(2) Amounts calculated on a fully taxable equivalent basis using the current statutory federal tax rate. There was no fully taxable equivalent basis for 2011 and 2010.

Table of Contents

**Provision for Loan Losses**

The provision for loan losses amounted to $95.0 million for 2011, compared to $200.2 million for 2010 and $528.7 million for 2009. Throughout 2011, the Company continued to proactively manage credit, resulting in improvements in key asset quality metrics. Total net charge-offs amounted to $112.1 million during 2011, representing 1.16% of average non-covered loans during 2011. This compares to $202.5 million, representing 2.35% of average non-covered loans during 2010. The net charge-offs in 2011 were largely driven by charge-offs of land and constructions loans within the commercial real estate portfolio. The decrease in net charge-offs in 2011 was primarly due to the credit quality improvement. However, the allowance for loan losses on commercial and residential loans did increase which is commensurate with the increases in these portfolios. We continue to aggressively monitor delinquencies and proactively review the credit risk exposure of our loan portfolio to minimize and mitigate potential losses. Also during the year we had note sale proceeds of $49.1 million on notes with a carrying value of $83.5 million. $27.1 million in loans were originated to facilitate sales of loans; the remaining difference between the carrying value and the sale amount was charged against the allowance for loan losses.

Comparing 2010 to 2009, the decrease in loan loss provisions during 2010 reflects decreased charge-off levels as a result of proactive measures to reduce our exposure to land and construction loans. As a result of these efforts, the total noncovered construction and land loan balances declined to $513.8 million or 6% of total loans as of December 31, 2010.

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

**Noninterest Income**

Table 4: *Components of Noninterest Income*

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| | | *(In millions)* | |
| Branch fees | $ 33.78 | $ 32.63 | $ 22.33 |
| Net gain on sales of loans | 20.19 | 18.51 | |
| Letters of credit fees and commissions | 14.00 | 11.82 | 8.34 |
| Net gain on sales of investment securities | 9.70 | 31.24 | 11.92 |
| Foreign exchange income | 9.14 | 3.17 | 1.20 |
| Ancillary loan fees | 8.35 | 8.53 | 6.29 |
| Income from life insurance policies | 4.03 | 4.08 | 4.37 |
| Other operating income (loss) | 12.50 | 6.30 | (3.49) |
| Fee and Other Operating Income | 111.69 | 116.28 | 50.95 |
| Gain on acquisition | | 22.87 | 471.01 |
| Impairment writedown on investment securities | (0.63) | (16.67) | (107.67) |
| Decrease in FDIC indemnification asset and receivable | (100.14) | (83.21) | (23.34) |
| Total | $ 10.92 | $ 39.27 | $ 390.95 |

Noninterest income includes revenues earned from sources other than interest income. These sources include service charges and fees on deposit accounts, fees and commissions generated from trade finance activities and the issuance of letters of credit, ancillary fees on loans, net gains on sales of loans,

Table of Contents

investment securities available-for-sale, and other assets, impairment write-downs on investment securities and other assets, gain on acquisitions, decrease in the FDIC indemnification asset and receivable, income from life insurance policies and other noninterest-related revenues.

Noninterest income amounted to $10.9 million and $39.3 million during 2011 and 2010, respectively. Total fee and other operating income decreased slightly to $111.7 million during 2011, compared with $116.3 million for the corresponding period in 2010. The $633 thousand impairment charge recorded during 2011 was related to credit-related impairment loss on our trust preferred securities recorded pursuant to the provisions of ASC 320-10-65, *Investments Debt and Equity Securities Overall Transition and Open Effective Date Information*.

Branch fees totaled $33.8 million in 2011, representing a 4% increase from the $32.6 million earned in 2010. The majority of branch fees are earned from commercial demand deposit analysis services fees, non-sufficient funds fees and wire fee income The increase in branch-related fee income during 2011 can be attributed primarily to higher revenues from a combination of these types of transaction charges on deposit accounts.

The net gain on sales of loans of $20.2 million in 2011 was mainly due to the sale of $569.2 million of student loans.

Letters of credit fees and commissions, which represent revenues from trade finance operations as well as fees related to the issuance and maintenance of standby letters of credit, increased 18% to $14.0 million in 2011, from $11.8 million in 2010. The increase in letters of credit fees and commissions is primarily due to the increase in the volume of standby letters of credit originated during 2011 relative to 2010.

Net gain on sales of investment securities available-for-sale decreased to $9.7 million during 2011 compared with $31.2 million in 2010. The proceeds from the sale of investment securities during 2011 provided additional liquidity to purchase additional high credit quality investment securities and short-term investments as well as to pay down our borrowings.

Foreign exchange income increased to $9.1 million during 2011 compared with $3.2 million in 2010. This primarily represents the re-evaluation of Bank's net monetary assets in foreign currencies and our foreign exchange transactions which are typically entered into to hedge against foreign exchange products offered to bank customers.

Other operating income, which includes insurance commissions and insurance related service fees, rental income, and other miscellaneous income, increased to $12.5 million in 2011, compared to $6.3 million in 2010. The increase was primarily due to the $6.2 million increase in fee income from customer derivatives.

Comparing 2010 to 2009, our recorded noninterest income was $39.3 million and $391.0 million, respectively. Total fee and other operating income increased to $116.3 million during 2010, compared with $51.0 million for the corresponding period in 2009. The $16.7 million impairment charge recorded during 2010 was related to credit-related impairment loss on agency preferred stock, trust preferred and other mortgage backed securities recorded pursuant to the provisions of ASC 320-10-65 which the Company implemented during the first quarter of 2009.

Table of Contents

**Noninterest Expense**

Table 5: *Components of Noninterest Expense*

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| | | *(In millions)* | |
| Compensation and employee benefits | $ 160.09 | $ 170.05 | $ 79.48 |
| Occupancy and equipment expense | 50.08 | 52.07 | 30.22 |
| Amortization of investments in affordable housing partnerships and other investments | 17.32 | 10.03 | 7.45 |
| Amortization and impairment writedowns of premiums on deposits acquired | 12.33 | 13.28 | 5.90 |
| Deposit insurance premiums and regulatory assessments | 20.53 | 25.20 | 28.07 |
| Loan related expense | 19.38 | 21.07 | 7.58 |
| Other real estate owned expense | 40.44 | 61.57 | 19.10 |
| Legal expense | 21.33 | 19.58 | 8.02 |
| Prepayment penalty for FHLB advances | 12.28 | 13.83 | 2.37 |
| Data processing | 8.60 | 10.62 | 5.64 |
| Deposit-related expenses | 5.70 | 4.75 | 3.91 |
| Consulting expense | 7.15 | 7.99 | 8.14 |
| Other operating expenses | 60.38 | 67.88 | 37.38 |
| Total noninterest expense | $ 435.61 | $ 477.92 | $ 243.25 |
| Efficiency Ratio[(1)] | 43.04% | 47.51% | 48.64% |

(1) Represents noninterest expense, excluding the amortization of intangibles, amortization of premiums on deposits acquired, amortization of investments in affordable housing partnerships and prepayment penalties for FHLB advances and other borrowings, divided by the aggregate of net interest income before provision for loan losses and noninterest income, excluding items that are non-recurring in nature.

Noninterest expense, which is comprised primarily of compensation and employee benefits, occupancy and other operating expenses decreased 9% to $435.6 million during 2011, compared to $477.9 million during 2010. Total noninterest expense for 2011 and 2010 included $43.9 million and $63.3 million, respectively, which is reimbursable by the FDIC within the loss share agreements. 80% of these amounts are included in noninterest income, resulting in a net impact to income of 20%.

Compensation and employee benefits decreased to $160.1 million in 2011, compared to $170.1 million in 2010. Occupancy and equipment expenses also remained fairly stable, decreasing 4% to $50.1 million during 2011, compared with $52.1 million during 2010.

The amortization of affordable housing partnerships investments and other investments increased to $17.3 million in 2011, from $10.0 million in 2010. The increase includes $1.3 million of impairment on certain investments. The total of these investments as of December 31, 2011 was $194.1 million, an increase from $156.2 million at December 31, 2010.

The amortization and impairment write-downs of premiums on deposits acquired decreased 7% to $12.3 million during 2011, compared with $13.3 million in 2010. The decrease is primarily due to the leveling out of the amortization of core deposit premiums from the UCB acquisition.

Deposit insurance premiums and regulatory assessments decreased to $20.5 million during 2011, compared with $25.2 million in 2010. Although total deposits increased in 2011 compared to 2010, the assessment rate was lower.

Table of Contents

Loan-related expenses decreased to $19.4 million in 2011, compared to $21.1 million in 2010. The $19.4 million in loan-related expenses in 2011 includes $8.0 million of expenses that are covered under the FDIC shared-loss agreements.

We recorded OREO expenses, net of OREO revenues and gains, totaling $40.4 million during 2011, compared with $61.6 million during 2010. As of December 31, 2011, total net non-covered OREO amounted to $29.4 million, compared to $21.9 million as of December 31, 2010. The $40.4 million in total OREO expenses during 2011 is comprised of $13.7 million in various operating and maintenance expenses related to our OREO properties, $29.2 million in valuation losses, and $2.5 million in net OREO losses from the sale of 214 OREO properties consummated in 2011. Net covered OREO amounted to $63.6 million and $123.9 million as of December 31, 2011 and 2010, respectively. The $40.4 million in total OREO expenses for 2011 includes $24.9 million of expenses that are covered under the FDIC shared-loss agreements. The $61.6 million in total OREO expenses for 2010 includes $51.8 million of expenses that are covered under the FDIC shared-loss agreements.

Deposit-related expenses increased 20% to $5.7 million during 2011, compared with $4.8 million during 2010. Deposit-related expenses represent various business-related expenses paid by the Bank on behalf of its commercial account customers.

Other operating expenses include advertising and public relations, telephone and postage, stationery and supplies, bank and item processing charges, insurance expenses, other professional fees, and charitable contributions. Other operating expenses decreased 11% to $60.4 million in 2011, compared with $67.9 million in 2010. The decrease is in line with the Company's efforts to reduce expenses.

Comparing 2010 to 2009, noninterest expense increased $234.7 million, or 97%, to $477.9 million. The increase is comprised primarily of the following: (1) compensation and employee benefits totaling $170.1 million during 2010, compared with $79.5 million during 2009. The increase is primarily due to compensation related to former UCB and WFIB employees and; (2) OREO expenses, net of OREO revenues and gains, totaling $61.6 million during 2010, compared with $19.1 million during 2009. The $61.6 million in total OREO expenses incurred during 2010 is comprised of $11.5 million in various operating and maintenance expenses related to our OREO properties, $49.7 million in valuation losses, and $350 thousand in net OREO losses from the sale of 183 OREO properties consummated in 2010; (3) an increase in other operating expenses of $30.5 million, or 82%; and (4) and increase in occupancy and equipment expense of $21.9 million or 72%.

The Company's efficiency ratio decreased to 43.04% in 2011 compared to 47.51% in 2010 and 48.64% in 2009. Comparing 2011 to 2010, the decrease in our efficiency ratio can be attributed to expense reduction, most significantly a reduction of expenses associated with OREO/ foreclosure transactions.

**Income Taxes**

The provision for income taxes was $138.1 million in 2011, representing an effective tax rate of 36.0%, compared to $91.3 million in 2010, representing an effective tax rate of 35.7%. Included in the income tax recognized during 2011 and 2010 are $11.1 million and $12.4 million, respectively, in tax credits generated from our investments in affordable housing partnerships.

Comparing 2010 to 2009, the income tax provision totaled $91.3 million in 2010, representing an effective tax rate of 35.7%, compared to $22.7 million in 2009, representing an effective tax rate of 21.7%. Included in the income tax recognized during 2010 and 2009 are $12.4 million and $7.1 million, respectively, in tax credits generated from our investments in affordable housing partnerships.

Table of Contents

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

As of December 31, 2011, the Company had a net deferred tax asset of $201.9 million.

**Operating Segment Results**

We define our operating segments based on our core strategy and we have three operating segments: Retail Banking, Commercial Banking and Other. During the fourth quarter of 2009, a fourth operating segment, the United Commercial Bank segment (the "UCB segment") was identified as a result of the UCB Acquisition. During the first quarter of 2011, the Company's management made the decision to fully integrate the UCB segment into its two-segment core business structure: Retail Banking and Commercial Banking. With this integration, effective the first quarter of 2010, the Company's business focus reverted back to a three-segment core business structure: Retail Banking, Commercial Banking and Other.

The Retail Banking segment focuses primarily on retail operations through the Bank's branch network. The Commercial Banking segment, which includes commercial, industrial, and commercial real estate, primarily generates commercial loans through the efforts of the commercial lending offices located in the Bank's production offices in California, New York, Texas, and New England region, among others. Furthermore, the Commercial Banking segment also offers a wide variety of international finance and trade services and products. The remaining centralized functions, including the former Treasury segment and eliminations of intersegment amounts have been aggregated and included in "Other."

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

Given the significant decline in short-term and long-term interest rates since 2007, we reassessed our transfer pricing assumptions during the first quarter of 2009 to be consistent with the Company's strategic goal of growing core deposits and originating profitable, good credit quality loans. Changes to our funds transfer pricing assumptions were made with the intent to promote core deposit growth and, given our recent credit experience, to better reflect the current risk profiles of various loan categories within our credit portfolio. Our transfer pricing process is formulated with the goal of incenting loan and deposit growth that is consistent with the Company's overall growth objectives as well as to provide a reasonable and consistent basis for measurement of our business segments and product net interest margins. Our transfer pricing assumptions and methodologies are reviewed at least annually to ensure that our process is reflective of current market conditions.

For more information about our segments, including information about the underlying accounting and reporting process, see Note 26 to the Company's consolidated financial statements presented elsewhere in this report.

Table of Contents

*Retail Banking*

The Retail Banking segment reported a $102.2 million pre-tax income during 2011, compared to a $5.0 million pre-tax loss in 2010, an improvement of $107.2 million or 2148%. The improvement for this segment was largely due to increase in net interest income and decreases in loan loss provisions and noninterest expense, offset by a reduction in noninterest income.

Net interest income for this segment increased $43.1 million or 13% to $381.5 million during 2011, compared to $338.4 in 2010. The increase in net interest income during 2011 is attributable to the lower cost of funds on deposits, an increase in the mortgage portfolio and an increase in disposal activity in the covered loan portfolio, partially offset by lower loan yields from the extended low interest rate environment. The decrease in loan loss provisions for this segment of $45.1 million during 2011 relative to 2010 was due to decreased charge-off activity. Loan loss provisions are also impacted by average loan balances for each reporting segment.

Noninterest income for this segment decreased $9.0 million or 33% to $18.5 million during 2011, compared to $27.5 million in 2010. The decrease is primarily due higher net reduction from the FDIC indemnification asset and receivable, partially offset by increase in branch fee income.

Noninterest expense for this segment decreased $28.5 million or 12% to $203.9 million during 2011, compared to $232.4 million in 2010. The decrease is primarily due to decreases in OREO and loan related expenses and compensation and employee benefits.

Comparing 2010 to 2009, the Retail Banking segment reported a pre-tax loss of $5.0 million, representing a 78% improvement, compared to a pre-tax loss of $23.2 million in 2009. The reduction in the pre-tax loss was primarily driven by a 58% reduction in provision for loan losses of $102.8 million due to lower charge-off activity, which was partially offset by a 58% increase in noninterest expense of $85.7 million as a result of the UCB and WFIB acquisitions. Net interest income for this segment also increased $82.9 million or 32% from the acquired loan receivables.

*Commercial Banking*

The Commercial Banking segment reported a pre-tax income of $227.7 million during 2011, compared to a pre-tax income of $157.9 million in 2010, an improvement of $69.8 million or 44%. The improvement for this segment is primarily due to reductions in loan loss provision and noninterest expense and improvements in noninterest income, partially offset by the decrease in net interest income.

Net interest income for this segment decreased by $32.8 million or 7% to $460.2 million during 2011, compared to $493.0 million in 2010. The change in net interest income for this segment is primarily impacted by the disposal activity on the covered loan portfolio and the extended low interest rates on loans. The decrease in loan loss provisions for this segment of $60.0 million during 2011 relative to 2010 was due to decreased charge-off activity. Loan loss provisions are also impacted by average loan balances for each reporting segment.

Noninterest income for this segment increased by $4.0 million or 15% to a loss of $21.9 million during 2011, compared to a loss of $25.9 million in 2010. The decrease in noninterest loss for this segment is attributed to higher loan related fees, swap income, foreign exchange fee income, offset by a higher net reduction from the FDIC indemnification asset and receivable.

Noninterest expense for this segment decreased $8.2 million or 6% to $133.8 million during 2011, compared to $142.0 million in 2010. The decrease is primarily driven by decreases in OREO and loan related expenses and FDIC deposit insurance premiums, offset by an increase in compensation and employee benefits.

Comparing 2010 to 2009, the Commercial Banking segment reported a pre-tax income of $157.9 million, or 191% increase, compared to a pre-tax loss of $173.4 million for 2009. The increase is primarily due to 86% increase in net interest income of $227.3 and 64% reduction in provision for loan losses of $225.7 million due to lower charge-off activities, offset by an 1120% reduction in noninterest income of $23.8 million and a 169% increase in noninterest expense of $89.1 million. The higher net interest income is due to the increase in loan receivables and accretion from the WFIB and UCB acquisitions. The decrease in noninterest income is primarily due to the higher reduction in the FDIC indemnification assets and receivables from the covered portfolio. The increase in noninterest expense in 2010 is attributed to the increases in compensation and employee benefits, OREO operations and loan and legal expenses.

*Other*

This segment reported a pre-tax income of $53.4 million during 2011, compared to a pre-tax income of $103.0 million for 2010, a decrease of $49.6 million or 48%. The decrease is primarily due to decreases in net interest income and noninterest income, partially offset by a reduction in noninterest expense. Net interest income for this segment decreased $1.9 million or 3% to $61.4 million during 2011 compared to $63.3 million in 2010.

Noninterest income for this segment decreased $23.4 million or 62% to $14.2 million income during 2011, compared to $ 37.6 million in 2010. This reduction is due to the gain on acquisition and higher gain on sales of investment securities in 2010, offset by lower impairment on investment securities in 2011.

Noninterest expense for this segment decreased $5.7 million or 6% to $97.9 million during 2011, compared to $103.6 million in 2010. The decrease is mainly a reduction in compensation and employee benefits, partially offset by an increase in amortization of investments in affordable housing partnerships.

Comparing 2010 to 2009, this segment reported a pre-tax income of $103.0 million compared to an income of $301.3 million in 2009, a change of $198.3 million or 66%. This decrease is primarily due to a $334.2 million or 90% reduction in noninterest income as well as a $59.9 million or 137% increase in noninterest expense, partially offset by a $98.9 million or 278% increase in net interest income. The lower noninterest income is due to the larger gain on the UCB acquisition recorded in 2009 compared to a smaller gain on acquisition recorded in 2010. Noninterest expense and net interest income were also impacted by the growth from acquisitions.

**Balance Sheet Analysis**

Total assets increased $1.27 billion, or 6%, to $21.97 billion as of December 31, 2011. The increase is comprised predominantly of increases in cash and cash equivalents of $97.2 million, securities purchased under resale agreements of $286.4 million, available-for-sale investment securities of $196.6 million, loans held for sale of $58.4 million, net loans receivable of $753.9 million, due from customers on acceptances of $125.0 million and other assets of $212.5 million offset by decreases in short term investments of $81.7 million, FDIC indemnification asset and receivable of $273.9 million and OREO of $52.8 million. The increase in total assets was funded primarily through increases in deposits of $1.81 billion.

Table of Contents

**Investment Securities**

Income from investing activities provides a significant portion of our total income. We aim to maintain an investment portfolio with an adequate mix of fixed-rate and adjustable-rate securities with relatively short maturities to minimize overall interest rate risk. Our investment securities portfolio primarily consists of U.S. Treasury securities, U.S. Government agency securities, U.S. Government sponsored enterprise debt securities, U.S. Government sponsored enterprise and other mortgage-backed securities, municipal securities, and corporate debt securities. Investments classified as available-for-sale are carried at their estimated fair values with the corresponding changes in fair values recorded in accumulated other comprehensive income or loss, net of tax, as a component of stockholders' equity. All investment securities have been classified as available-for-sale as of December 31, 2011 and December 31, 2010.

Total investment securities available-for-sale increased 7% to $3.07 billion as of December 31, 2011, compared with $2.88 billion at December 31, 2010. The increase in investment securities was primarily funded by deposit growth. Total repayments/maturities and proceeds from sales of investment securities amounted to $1.78 billion and $702.6 million, respectively, during 2011. Proceeds from repayments, maturities, sales, and redemptions were applied towards additional investment securities purchases totaling $2.71 billion. We recorded net gains totaling $9.7 million and $31.2 million on sales of investment securities during 2011 and 2010, respectively. At December 31, 2011, investment securities available-for-sale with a par value of $2.17 billion were pledged to secure public deposits, FHLB advances, repurchase agreements, FRB discount window, and for other purposes required or permitted by law.

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

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

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

Table of Contents

As a result of the financial crisis in the U.S. and global markets, the market for certain pooled trust preferred securities has been distressed since mid-2007. It is the Company's view that current broker prices (which are typically non-binding) on certain pooled trust preferred securities are based on forced liquidation or distressed sale values in very inactive markets that are not representative of the fair value of these securities. As such, the Company considered what weight, if any, to place on transactions that are not orderly when estimating fair value.

We have 24 individual securities that have been in a continuous unrealized loss position for twelve months or longer as of December 31, 2011. These securities are comprised of 19 investment grade debt securities and with a total fair value of $350.2 million and five positions in trust preferred securities with a total fair value of $9.6 million. The Company recorded other-than-temporary impairment losses in 2011 of $633 thousand for one trust preferred security.

The majority of unrealized losses in the available-for-sale portfolio at December 31, 2011 are related to investment grade corporate debt securities that have been in a continuous loss position for less than twelve months. As of December 31, 2011, the Company had $1.32 billion in investment grade corporate debt securities available-for-sale, representing approximately 43% of the total investment securities available-for-sale portfolio.

For complete discussion and disclosure see Note 6 to the Company's consolidated financial statements presented elsewhere in this report.

The following table sets forth certain information regarding the fair values of our investment securities available-for-sale, as well as the weighted average yields, and contractual maturity distribution, excluding periodic principal payments, of our available-for-sale portfolio at December 31, 2011.

Table 6: *Yields and Maturities of Investment Securities*

| | **Within One Year** | | **After One But Within Five Years** | | **After Five But Within Ten Years** | | **After Ten Years** | | **Total** | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Amount** | **Yield** | **Amount** | **Yield** | **Amount** | **Yield** | **Amount** | **Yield** | **Amount** | **Yield** |
| | | | | | ***(Dollars in thousands)*** | | | | | |
| **As of December 31, 2011** | | | | | | | | | | |
| **Available-for-sale** | | | | | | | | | | |
| U.S. Treasury securities | $ | | $ 20,725 | 2.11% | $ | | $ | | $ 20,725 | 2.11% |
| U.S. Government agency and U.S. Government sponsored enterprise debt securities | 569,387 | 1.80% | 7,191 | 2.09% | | | | | $ 576,578 | 1.81% |
| U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities: | | | | | | | | | | |
| Commercial mortgage-backed securities | 1,241 | 6.81% | 741 | 3.26% | 32,522 | 4.05% | 14,811 | 3.80% | $ 49,315 | 4.04% |
| Residential mortgage-backed securities | 2,884 | | | | 16,662 | 1.62% | 974,224 | 2.81% | $ 993,770 | 2.78% |
| Municipal securities | 14,763 | 5.62% | 9,766 | 2.22% | 39,635 | 3.26% | 15,782 | 5.09% | $ 79,946 | 3.91% |
| Other residential mortgage-backed securities: | | | | | | | | | | |
| Investment grade | | | | | | | | | $ | |
| Non-investment grade | | | | | | | | | $ | |
| Corporate debt securities: | | | | | | | | | | |
| Investment grade | 94,972 | 3.52% | 313,442 | 2.97% | 844,611 | 3.61% | 69,536 | 5.56% | $ 1,322,561 | 3.55% |
| Non-investment grade | 10,745 | 2.66% | 5,580 | 5.38% | | | 3,290 | 5.33% | $ 19,615 | 3.92% |
| Other securities | 10,068 | 4.18% | | | | | | | 10,068 | 4.18% |
| **Total investment securities available-for-sale** | $ 704,060 | | $ 357,445 | | $ 933,430 | | $ 1,077,643 | | $ 3,072,578 | |

## Covered Assets

Covered assets consist of loans receivable and OREO that were acquired in the WFIB Acquisition on June 11, 2010 and in the UCB Acquisition on November 6, 2009 for which the Company entered into shared-loss agreements (the "shared-loss agreements") with the FDIC. The shared-loss agreements covered over 99% of the loans originated by WFIB and all of the loans originated by UCB, excluding the loans originated by UCB in China under its United Commercial Bank China (Limited) subsidiary. The Company will share in the losses, which began with the first dollar of loss incurred, on the loan pools (including single-family residential mortgage loans, commercial loans, foreclosed loan collateral and other real estate owned) covered ("covered assets") under the shared-loss agreements.

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

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

Table 7: *Composition of Covered Loan Portfolio*

| | December 31, | | | |
|---|---|---|---|---|
| | 2011 | | 2010 | |
| | Amount | Percent | Amount | Percent |
| | *(In thousands)* | | | |
| Real estate loans: | | | | |
| Residential single-family | $ 442,732 | 9.4% | $ 553,541 | 9.3% |
| Residential multifamily | 918,941 | 19.5% | 1,093,331 | 18.4% |
| Commercial and industrial real estate | 1,773,760 | 37.6% | 2,085,674 | 35.0% |
| Construction and land | 653,045 | 13.8% | 1,043,717 | 17.5% |
| Total real estate loans | 3,788,478 | 80.3% | 4,776,263 | 80.2% |
| Other loans: | | | | |
| Commercial business | 831,762 | 17.6% | 1,072,020 | 18.0% |
| Other consumer | 97,844 | 2.1% | 107,490 | 1.8% |
| Total other loans | 929,606 | 19.7% | 1,179,510 | 19.8% |
| Total principal balance | 4,718,084 | 100.0% | 5,955,773 | 100.0% |
| Covered discount | (788,295) | | (1,150,672) | |
| Allowance on covered loans | (6,647) | | (4,225) | |
| Total covered loans, net | $ 3,923,142 | | $ 4,800,876 | |

**FDIC Indemnification Asset**

The FDIC indemnification asset represents the present value of the amounts the Company expects to receive from the FDIC under the shared-loss agreements. The difference between the present value of undiscounted cash flow the Company expects to collect from the FDIC is accreted into noninterest income over the life of the FDIC indemnification asset. The FDIC indemnification asset was $511.1 million as of December 31, 2011, compared to $785.0 million as of December 31, 2010. During the year, the FDIC indemnification asset was reduced by $210.4 million as a result of paydowns, payoffs, loan sales, and charge-offs. The Company also recorded $59.9 million of amortization against income during the year. Additionally, during 2011 $3.6 million was recorded as the increase in the estimate of liability owed to the FDIC at the completion of the FDIC loss share agreements.

Table of Contents

**FDIC Receivable**

As of December 31, 2011 and 2010, the FDIC loss-sharing receivable was $76.6 million and $62.6 million, respectively. This receivable represents 80% of reimbursable amounts from the FDIC that have not yet been received. These reimbursable amounts include charge-offs, loan-related expenses and OREO-related expenses. The 80% of any reimbursable expense is recorded as noninterest income. 100% of the loan-related and OREO expenses are recorded as noninterest expense, netting to the 20% of actual expense paid by the Company. The FDIC shares in 80% of recoveries received. Thus, the FDIC receivable is reduced when we receive payment from the FDIC as well as when recoveries occur.

For complete discussion and disclosure of covered assets, FDIC indemnification asset and FDIC receivable see Note 8 to the Company's consolidated financial statements presented elsewhere in this report.

**Non-Covered Loans**

We offer a broad range of products designed to meet the credit needs of our borrowers. Our lending activities consist of residential single-family loans, residential multifamily loans, income producing commercial real estate loans, land loans, construction loans, commercial business loans, trade finance loans, and student and other consumer loans. Net non-covered loans receivable increased $1.69 billion, or 20%, to $10.34 billion at December 31, 2011.

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

Table 8: *Composition of Loan Portfolio*

| | **December 31,** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2011** | | **2010** | | **2009** | | **2008** | | **2007** | |
| | **Amount** | **Percent** | **Amount** | **Percent** | **Amount** | **Percent** | **Amount** | **Percent** | **Amount** | **Percent** |
| | ***(Dollars in thousands)*** | | | | | | | | | |
| Residential: | | | | | | | | | | |
| Single-family | $ 1,796,635 | 17.5% | $ 1,119,024 | 12.8% | $ 930,392 | 10.9% | $ 491,315 | 6.0% | $ 433,337 | 4.9% |
| Multifamily | 933,168 | 9.1% | 974,745 | 11.2% | 1,022,383 | 12.0% | 677,989 | 8.2% | 690,941 | 7.8% |
| Total residential | $ 2,729,803 | 26.6% | $ 2,093,769 | 24.0% | $ 1,952,775 | 22.9% | $ 1,169,304 | 14.2% | $ 1,124,278 | 12.7% |
| Commercial Real Estate ("CRE"): | | | | | | | | | | |
| Income producing | 3,487,866 | 33.8% | 3,392,984 | 39.0% | 3,606,178 | 42.5% | 3,472,000 | 42.1% | 4,183,473 | 47.4% |
| Construction | 171,410 | 1.7% | 278,047 | 3.2% | 455,142 | 5.4% | 1,260,724 | 15.3% | 1,547,082 | 17.5% |
| Land | 173,089 | 1.7% | 235,707 | 2.7% | 358,444 | 4.2% | 576,564 | 7.0% | | 0.0% |
| Total CRE | $ 3,832,365 | 37.2% | $ 3,906,738 | 44.9% | $ 4,419,764 | 52.1% | $ 5,309,288 | 64.4% | $ 5,730,555 | 64.9% |
| Commercial and Industrial ("C&I"): | | | | | | | | | | |
| Commercial business | $ 2,655,917 | 25.8% | $ 1,674,698 | 19.2% | $ 1,283,182 | 15.1% | $ 1,210,260 | 14.6% | $ 1,314,068 | 14.8% |
| Trade finance | 486,555 | 4.7% | 308,657 | 3.5% | 220,528 | 2.6% | 343,959 | 4.2% | 491,690 | 5.6% |
| Total C&I | $ 3,142,472 | 30.5% | $ 1,983,355 | 22.7% | $ 1,503,710 | 17.7% | $ 1,554,219 | 18.8% | $ 1,805,758 | 20.4% |
| Consumer: | | | | | | | | | | |
| Student loans | 306,325 | 3.0% | 490,314 | 5.6% | 395,151 | 4.6% | | 0.0% | | 0.0% |
| Other consumer | 277,461 | 2.7% | 243,212 | 2.8% | 229,633 | 2.7% | 216,642 | 2.6% | 184,518 | 2.0% |
| Total consumer | $ 583,786 | 5.7% | $ 733,526 | 8.4% | $ 624,784 | 7.3% | $ 216,642 | 2.6% | $ 184,518 | 2.0% |
| Total gross loans | 10,288,426 | 100.0% | 8,717,388 | 100.0% | 8,501,033 | 100.0% | 8,249,453 | 100.0% | 8,845,109 | 100.0% |
| | (16,762) | | (56,781) | | (43,529) | | (2,049) | | (5,781) | |

| | | | | | |
|---|---|---|---|---|---|
| Unearned fees, premiums, and discounts, net | | | | | |
| Allowance for loan losses | (209,876) | (230,408) | (238,833) | (178,027) | (88,407) |
| Loans held for sale | 278,603 | 220,055 | 28,014 | | |
| Loans receivable, net | $ 10,340,391 | $ 8,650,254 | $ 8,246,685 | $ 8,069,377 | $ 8,750,921 |

Table of Contents

*Residential Loans.* The residential loan segment includes both single-family and multifamily loans. At December 31, 2011, $2.73 billion or 27% of the loan portfolio was residential real estate properties, compared to $2.09 billion or 24% at December 31, 2010.

The Bank offers both fixed and adjustable rate ("ARM") first mortgage loans secured by one-to-four unit residential properties located in its primary lending areas. The Bank originated $924.3 million and $430.8 million in new residential single-family loans during 2011 and 2010, respectively.

The Bank also offers both fixed and ARM residential multifamily loan programs. For the years ended December 31, 2011 and 2010, the Bank originated $47.6 million and $26.4 million, respectively, in multifamily residential loans. The Bank primarily offers ARM multifamily loan programs that have six-month, three-year, or five-year initial fixed periods. The Bank considers all of the single-family and multifamily loans originated to be prime loans and underwriting criteria include minimum FICO scores, maximum loan-to-value ratios and minimum debt coverage ratios, as applicable. The Bank does have some single-family loans with interest-only features. Single-family loans with interest-only features totaled $5.6 million or less than 1% and $7.8 million or 1% of total single-family loans at December 31, 2011 and 2010, respectively. Additionally, the Bank owns residential loans that permit different repayment options that were purchased years ago. For these loans, there is the potential for negative amortization if the borrower chooses so. These residential loans that permit different repayment options totaled $14.0 million, or 1%, and $16.9 million, or 1%, of total residential loans at December 31, 2011 and 2010, respectively. None of these loans were negatively amortizing as of December 31, 2011 and 2010.

The bank also offers a low loan documentation program for single family residential loans. These loans require a large down payment and a low loan to value "LTV". These loans have historically experienced low delinquency and default rates. Loans originated under this program during 2011 totaled $800.1 million. Historically, the Bank has offered this program; however, due to the uncertain regulatory and legislative environments the bank did not originate these loans during 2010.

*Commercial Real Estate Loans.* The commercial real estate loan segment includes income producing real estate loans, construction loans and land loans. We continue to originate commercial real estate loans that are advantageous opportunities for the Bank. Although real estate lending activities are collateralized by real property, these transactions are subject to similar credit evaluation, underwriting and monitoring standards as those applied to commercial business loans. Commercial real estate loans accounted for $3.83 billion or 37%, and $3.91 billion or 45%, of our non-covered loan portfolio at December 31, 2011, and 2010, respectively.

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

*Commercial and Industrial Loans.* The commercial and industrial loan segment includes commercial business and trade finance loans. We finance small and middle-market businesses in a wide spectrum of industries throughout California. Included in commercial business loans are loans for working capital, accounts receivable lines, inventory lines, small business administration loans and lease financing. Included in our trade finance loans are a variety of international trade services and products, including letters of credit, revolving lines of credit, import loans, bankers' acceptances, working capital lines, domestic purchase financing and pre-export financing. At December 31, 2011, the commercial and industrial loans segment accounted for a total of $3.14 billion or 31% of our loan portfolio, compared to $1.98 billion or 23% at December 31, 2010. The increase in this loan segment is due to a focus during 2011 and going forward of growing the commercial and industrial loan portfolio while reducing our exposure to non income producing commercial real estate loans.

Table of Contents

Most of our trade finance activities are related to trade with Asian countries. However, a significant majority of our loans are made to companies domiciled in the United States. A substantial portion of this business involves California based customers engaged in import and export activities. In addition, we also offer Export-Import financing to various domestic and foreign customers; the export loans are guaranteed by the Export-Import Bank of the United States. Our trade finance portfolio as of December 31, 2011 primarily represents loans made to borrowers that import goods into the U.S. These financings are generally made through letters of credit ranging from $100 thousand to $1 million. At December 31, 2011, total unfunded commitments related to trade finance loans increased 4% to $551.0 million, compared to $529.0 million at December 31, 2010.

*Consumer Loans.* The consumer loans segment includes student loans and other consumer loans. Consumer loans decreased from $733.5 million at December 31, 2010 to $583.8 million at December 31, 2011, a decrease of 20%. A majority of our student loans are 100% guaranteed by the U.S Department of Education. The other consumer loan portfolio is mainly comprised of home equity lines of credit and auto loans.

*Loans Held for Sale.* At December 31, 2011, loans held for sale are mainly comprised of the student loans segment. Loans held for sale totaled $278.6 million and $220.1 million as of December 31, 2011 and 2010, respectively. During 2011, in total, loans receivable of $644.9 million were reclassified to loans held for sale. These loans were purchased by the Company with the intent to be held for investment; however, subsequent to the loan's purchase, the Company's intent for these loans changed and they were consequently reclassified to loans held for sale. Proceeds from sales of loans held for sale were $652.7 million in 2011, resulting in net gains on sales of $14.5 million. Proceeds from sales of loans held for sale were $409.5 million and $37.1 million in 2010 and 2009, respectively. Net gains on sales were $18.5 million in 2010 compared to an insignificant amount in 2009.

*Foreign Loans* At December 31, 2011 $628.4 million of loans were originated or acquired and held in our overseas offices, including our Hong Kong branch and our subsidiary bank in China. These loans represent 2.9% of total consolidated assets. These loans are included in the *Composition of Loan Portfolio* table above.

Table 9: *Maturity of Loan Portfolio*

| | Within One Year | After One But Within Five Years | More Than Five Years | Total |
|---|---|---|---|---|
| | | *(In thousands)* | | |
| Residential | $ 1,834 | $ 208,387 | $ 2,519,582 | $ 2,729,803 |
| Commercial Real Estate | 81,265 | 2,378,459 | 1,372,641 | 3,832,365 |
| Commercial and Industrial | 56,942 | 2,810,405 | 275,125 | 3,142,472 |
| Consumer | 6,626 | 23,087 | 554,073 | 583,786 |
| Total | $ 146,667 | $ 5,420,338 | $ 4,721,421 | $ 10,288,426 |

Table of Contents

As of December 31, 2011, outstanding loans, including projected prepayments, scheduled to be repriced within one year, after one but within five years, and in more than five years, excluding nonaccrual loans, are as follows:

Table 10: *Loans Scheduled to be Repriced*

| | Within One Year | After One But Within Five Years | More Than Five Years | Total |
|---|---|---|---|---|
| | | *(In thousands)* | | |
| Total fixed rate | $ 604,151 | $ 315,921 | $ 636,330 | $ 1,556,402 |
| Total variable rate | 4,502,239 | 3,201,995 | 907,813 | 8,612,047 |
| Total | $ 5,106,390 | $ 3,517,916 | $ 1,544,143 | $ 10,168,449 |

**Mortgage Servicing Assets**

As of December 31, 2011, we had $6.9 million in mortgage servicing assets, which is net of $4.3 million in total valuation allowances. Mortgage servicing assets are initially recorded at fair value. The fair value of servicing assets is determined based on the present value of estimated net future cash flows related to contractually-specified servicing fees. The primary determinants of the fair value of mortgage servicing assets are prepayment speeds and discount rates. Published industry standards are used to derive market-based assumptions. Changes in the assumptions used may have a significant impact on the valuation of mortgage servicing assets. Evaluation of impairment is performed on a quarterly basis. We record mortgage servicing assets for loans sold or securitized for which servicing has been retained by the Bank.

We recorded an impairment of $927 thousand in mortgage servicing assets during 2011, compared with an impairment of $808 thousand in 2010. The decline in interest rates as well as the overall increases in borrower refinancing and prepayment rates related to the underlying sold or securitized loans have caused the value of mortgage servicing assets to decrease. For complete discussion and disclosure see Note 14 to the Company's consolidated financial statements presented elsewhere in this report.

**Non-covered Nonperforming Assets**

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

Non-covered nonperforming assets are comprised of nonaccrual loans, accruing loans past due 90 days or more, and non-covered other real estate owned, net. Non-covered nonperforming assets as a percentage of total assets were 0.80% and 0.94% at December 31, 2011 and 2010, respectively. Nonaccrual loans totaled $145.6 million and $172.9 million at December 31, 2011 and 2010, respectively. During 2011, we took actions to reduce our exposure to problem assets. In conjunction with these efforts, we sold $83.5 million in problem loans and $27.6 million in non-covered OREO properties during 2011. Net charge-offs for non-covered nonperforming loans were $112.1 million for the year ended December 31, 2011. For non-covered OREO properties, write-downs of $3.0 million were recorded for the year ended December 31, 2011.

Approximately $43.8 million, or 52%, of our problem loan sales during 2011 were all-cash transactions. We also partially financed selected loan sales to unrelated third parties. Problem loans are sold on a servicing released basis and the shortfall between the loan balance and any new notes is charged off. A substantial down payment, typically 20% or greater, is generally received from the new borrower purchasing the problem loan. The underlying sales agreements provide for full recourse to the new borrower and require that periodic updated financial information be provided to demonstrate their ability to service the new loan. The Company maintains no effective control over the transferred loans.

Loans totaling $236.9 million were placed on nonaccrual status during 2011. As part of our loan review process, loans totaling $45.8 million which were not 90 days past due as of December 31, 2011 were included in nonaccrual loans as of December 31, 2011. Additions to nonaccrual loans during 2011 were offset by $124.7 million in gross charge-offs, $73.3 million in payoffs and principal paydowns, $38.1 million in loans that were transferred to other real estate owned, and $28.1 million in loans brought current. Additions to nonaccrual loans during the year ended December 31, 2011 were comprised of $48.6 million in residential loans $155.3 million in commercial real estate loans, $28.2 million in commercial and industrial loans and $4.8 million in consumer loans.

The Company did not have any loans 90 or more days past due accruing interest at December 31, 2011 and 2010.

The Company had $99.6 million and $122.1 million in total performing restructured loans as of December 31, 2011 and 2010, respectively. Nonperforming restructured loans were $38.9 million and $42.1 million at December 31, 2011 and 2010, respectively, and are included in nonaccrual loans. Included in the total restructured loans as of December 31, 2011 and 2010 were $22.8 million and $57.3 million in performing A/B notes, respectively. In A/B note restructurings, the original note is bifurcated into two notes where the A note represents the portion of the original loan which allows for acceptable loan-to-value and debt coverage on the collateral and is expected to be collected in full and the B note represents the portion of the original loan where there is a shortfall in value and is fully charged off. The A/B notes balance as of December 31, 2011 is comprised of A note balances only. A notes are not disclosed as TDRs in years after the restructuring if the restructuring agreement specifies an interest rate equal to or greater than the rate that the Bank was willing to accept at the time of the restructuring for a new loan with comparable risk and the loan is performing based on the terms specified by the restructuring agreement. At December 31, 2011, the amount of unfunded commitments for restructured loans was $7.1 million. As of December 31, 2011, restructured loans were comprised of $5.6 million in single-family loans, $16.3 million in multifamily loans, $50.5 million in commercial real estate loans, $7.7 million in CRE construction loans, $36.5 million in CRE land loans and $21.9 million in commercial business loans.

Non-covered other real estate owned includes properties acquired through foreclosure or through full or partial satisfaction of loans. As of December 31, 2011, the Company had 37 OREO properties with a combined carrying value of $29.3 million. Approximately 62% of the carrying value of OREO properties as of December 31, 2011 were located in California, compared to 75% in 2010. During 2011, the Company foreclosed on 58 properties with an aggregate carrying value of $38.0 million as of the foreclosure date. Additionally, the Company recorded $3.0 million in write-downs. During this period, the Company also sold 51 OREO properties for total proceeds of $26.6 million resulting in a total net loss on sale of $151 thousand and charges against the allowance for loan losses totaling $780 thousand. As of December 31, 2010, the Company had 30 OREO properties with a carrying value of $21.9 million. During 2010, the Company foreclosed on 81 properties with an aggregate carrying value of $57.3 million as of the foreclosure date. Additionally, the Company recorded $7.0 million in write-downs. During this period, the Company also sold 79 OREO properties for total proceeds of $39.5 million resulting in a total net loss on sale of $145 thousand and charges against the allowance for loan losses totaling $2.6 million. During the

Table of Contents

year ended December 31, 2009, the Company sold 153 OREO properties with a combined carrying value of $112.2 million for a net loss of $5.4 million.

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

Table 11: *Nonperforming Assets*

| | December 31, | | | | |
|---|---|---|---|---|---|
| | 2011 | 2010 | 2009 | 2008 | 2007 |
| | (Dollars in thousands) | | | | |
| Nonaccrual loans | $ 145,632 | $ 172,929 | $ 173,180 | $ 214,607 | $ 63,882 |
| Loans 90 or more days past due but not on nonaccrual | | | | | |
| Total nonperforming loans | 145,632 | 172,929 | 173,180 | 214,607 | 63,882 |
| Non-covered other real estate owned, net | 29,350 | 21,865 | 13,832 | 38,302 | 1,500 |
| Total nonperforming assets | $ 174,982 | $ 194,794 | $ 187,012 | $ 252,909 | $ 65,382 |
| Performing restructured loans | $ 99,603 | $ 122,139 | $ 114,800 | $ 10,950 | $ 2,081 |
| Total nonperforming assets to total assets | 0.80% | 0.94% | 0.91% | 2.12% | 0.57% |
| Allowance for loan losses to nonperforming loans | 144.11% | 133.24% | 137.91% | 82.95% | 138.39% |
| Nonperforming loans to total gross non-covered loans | 1.38% | 1.93% | 2.04% | 2.60% | 0.72% |

Covered nonperforming assets totaled $258.1 million, representing 1.17% of total assets at December 31, 2011. These covered nonperforming assets are subject to the shared-loss agreements with the FDIC.

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

At December 31, 2011, the Company's total recorded investment in impaired loans was $219.6 million, compared with $281.0 million at December 31, 2010. The decrease in impaired loans is

Table of Contents

largely due to a decrease in nonperforming loans. All nonaccrual and doubtful loans are included in impaired loans. Impaired loans at December 31, 2011 are comprised of single-family loans totaling $9.1 million, multifamily loans totaling $31.8 million, income producing commercial real estate loans totaling $63.6 million, CRE construction loans totaling $46.5 million, CRE land loans totaling $34.5 million, commercial business loans totaling $31.6 million and other consumer loans totaling $2.5 million. As of December 31, 2011, the allowance for loan losses included $13.0 million for impaired loans with a total recorded balance of $30.4 million. As of December 31, 2010, the allowance for loan losses included $10.0 million for impaired loans with a total recorded balance of $20.6 million.

Our average recorded investment in impaired loans during 2011 and 2010 totaled $252.4 million and $317.2 million, respectively. During 2011 and 2010, gross interest income that would have been recorded on nonaccrual loans, had they performed in accordance with their original terms, totaled $9.4 million and $12.7 million, respectively. Of this amount, actual interest recognized on impaired loans, on a cash basis, was $3.5 million and $7.2 million, respectively.

**Allowance for Loan Losses**

We are committed to maintaining the allowance for loan losses at a level that is commensurate with the estimated inherent loss in the loan portfolio. In addition to regular quarterly reviews of the adequacy of the allowance for loan losses, we perform an ongoing assessment of the risks inherent in the loan portfolio. While we believe that the allowance for loan losses is appropriate at December 31, 2011, future additions to the allowance will be subject to a continuing evaluation of inherent risks in the loan portfolio.

The allowance for loan losses is increased by the provision for loan losses which is charged against current period operating results, and is increased or decreased by the amount of net recoveries or charge-offs, respectively, during the year. At December 31, 2011, the allowance for loan losses amounted to $216.5 million, which includes $6.6 million allocated to covered loans. In comparison, at December 31, 2010, the allowance for loan losses amounted to $234.6 million, which includes $4.2 million allocated to covered loans. At December 31, 2011, the allowance for loan losses on non-covered loans amounted to $209.9 million, or 2.04% of total non-covered loans receivable, compared with $230.4 million, or 2.64% of total non-covered loans receivable, at December 31, 2010. The $18.1 million decrease in the allowance for loan losses at December 31, 2011, from year-end 2010, reflects lower loan loss provisions, and less net charge-offs recorded during the year. The allowance for unfunded loan commitments, off-balance sheet credit exposures, and recourse provisions is included in accrued expenses and other liabilities and amounted to $11.0 million at December 31, 2011, compared to $10.0 million at December 31, 2010. Net adjustments to the allowance for unfunded loan commitments, off-balance sheet credit exposures and recourse provisions are included in the provision for loan losses.

We recorded $95.0 million in loan loss provisions during 2011, as compared to $200.2 million in loss provisions recorded during 2010. The decrease in loss provisions recorded during 2011, compared to 2010 was primarily due to credit quality improvement, partially offset by increases in the allowance for loan losses on commercial and residential loans, commensurate with the increases in these portfolios. During 2011, we recorded $112.1 million in net charge-offs representing 1.16% of average loans outstanding during the year. In comparison, we recorded net charge-offs totaling $202.5 million, or 2.35% of average loans outstanding, during 2010. Also during the year, sale proceeds of $49.1 million were received on notes with a carrying value of $83.5 million. $27.1 million in loans were originated to facilitate the sales of loans; the remaining difference between the carrying value and the sale amount was charged against the allowance for loan losses. Given the improvements in credit quality we are seeing in the loan portfolio, it is expected that provision for loan losses and net charge-offs will continue to decrease throughout 2012.

Table of Contents

The following tables summarize activity in the allowance for loan losses for the periods indicated:

Table 12.1: *Allowance for Loan Losses 2011 and 2010*

| | Year Ended December 31, 2011 | 2010 |
|---|---|---|
| | *(Dollars in thousands)* | |
| Allowance balance, beginning of year | $ 234,633 | $ 238,833 |
| Allowance for unfunded loan commitments and letters of credit | (1,048) | (1,833) |
| Provision for loan losses | 95,006 | 200,159 |
| Gross chargeoffs: | | |
| Residential | 13,323 | 49,685 |
| Commercial real estate | 78,803 | 137,460 |
| Commercial and industrial | 30,606 | 35,479 |
| Consumer | 1,959 | 2,579 |
| Total gross chargeoffs | 124,691 | 225,203 |
| Gross recoveries: | | |
| Residential | 596 | 1,626 |
| Commercial real estate | 4,691 | 10,073 |
| Commercial and industrial | 7,041 | 10,116 |
| Consumer | 295 | 862 |
| Total gross recoveries | 12,623 | 22,677 |
| Net chargeoffs | 112,068 | 202,526 |
| Allowance balance, end of year[(1)] | $ 216,523 | $ 234,633 |
| Average loans outstanding | $ 9,668,106 | $ 8,634,283 |
| Total gross loans outstanding, end of year | $ 10,288,426 | $ 8,717,388 |
| Net chargeoffs to average loans | 1.16% | 2.35% |
| Allowance for loan losses to total gross loans at end of year | 2.10% | 2.69% |

(1) Includes allowance for loan losses allocated to covered loans subject to general reserves. Allowance for covered loans totaled $6.6 million and $4.2 million as of December 31, 2011 and 2010, respectively.

Table of Contents

Table 12.2: *Allowance for Loan Losses 2009, 2008 and 2007*

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| | (Dollars in thousands) | | |
| Allowance balance, beginning of year | $ 178,027 | $ 88,407 | $ 78,201 |
| Allowance from acquisitions | | | 4,125 |
| Allowance for unfunded loan commitments and letters of credit | (1,778) | 5,044 | 841 |
| Provision for loan losses | 528,666 | 226,000 | 12,000 |
| Impact of desecuritization | 9,262 | | |
| Gross chargeoffs: | | | |
| Residential single-family | 33,778 | 3,522 | 335 |
| Multifamily real estate | 20,153 | 1,966 | |
| Commercial and industrial real estate | 159,969 | 53,459 | |
| Construction | 206,732 | 57,629 | 2,810 |
| Commercial business | 53,152 | 24,639 | 3,740 |
| Trade finance | 6,868 | 5,707 | 249 |
| Automobile | 85 | 268 | 30 |
| Other consumer | 4,519 | 261 | 42 |
| Total gross chargeoffs | 485,256 | 147,451 | 7,206 |
| Gross recoveries: | | | |
| Residential single-family | 771 | 37 | |
| Residential multifamily | 617 | | |
| Commercial and industrial real estate | 2,213 | 2,467 | 7 |
| Construction | 3,312 | 2,654 | |
| Commercial business | 2,684 | 835 | 419 |
| Trade finance | 237 | 9 | |
| Automobile | 50 | 25 | 20 |
| Other consumer | 28 | | |
| Total gross recoveries | 9,912 | 6,027 | 446 |
| Net chargeoffs | 475,344 | 141,424 | 6,760 |
| Allowance balance, end of year | $ 238,833 | $ 178,027 | $ 88,407 |
| Average loans outstanding | $ 8,355,825 | $ 8,601,825 | $ 8,354,989 |
| Total gross loans outstanding, end of year | $ 8,501,033 | $ 8,249,453 | $ 8,845,109 |
| Net chargeoffs to average loans | 5.69% | 1.64% | 0.08% |
| Allowance for loan losses to total gross loans at end of year | 2.81% | 2.16% | 1.00% |

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

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

Table 13.1: *Allowance for Loan Losses by Loan Segment 2011 and 2010*

| | At December 31, | | | |
|---|---|---|---|---|
| | 2011 | | 2010 | |
| | Amount | % | Amount | % |
| | (Dollars in thousands) | | | |
| Residential | $ 52,180 | 26.6% | $ 49,491 | 24.0% |
| Commercial Real Estate | 66,457 | 37.2% | 117,752 | 44.9% |
| Commercial and Industrial | 87,020 | 30.5% | 59,737 | 22.7% |
| Consumer | 4,219 | 5.7% | 3,428 | 8.4% |
| Covered loans subject to general reserves | 6,647 | 0.0% | 4,225 | 0.0% |
| Total | $ 216,523 | 100.0% | $ 234,633 | 100.0% |

The decrease of $18.1 million in the allowance for loan losses at December 31, 2011, relative to year-end 2010, was primarily due to credit quality improvement, partially offset by increases in the allowance for loan losses on commercial and residential loans, commensurate with the increases in these portfolios.

**Deposits**

We offer a wide variety of deposit account products to both consumer and commercial customers. Total deposits increased $1.81 billion to $17.45 billion at December 31, 2011, as compared to $15.64 billion at December 31, 2010. The increase in total deposits was due to increases of $816.3 million, or 30.5%, in noninterest-bearing demand deposits, $380.5 million, or 5.6% in time deposits, $221.0 million, or 5.0%, in money market accounts, $213.7 million, or 28.2% in interest-bearing checking and $180.1 million, or 18.3% in savings deposits. During 2011, we grew deposits from our retail network and commercial customers by $1.74 billion and increased brokered deposits by $70.9 million.

As of December 31, 2011, time deposits within the Certificate of Deposit Account Registry Service ("CDARS") program decreased to $580.9 million, compared to $713.5 million at December 31, 2010. The CDARS program allows customers with deposits in excess of FDIC-insured limits to obtain full coverage on time deposits through a network of banks within the CDARS program. Additionally, we partner with another financial institution to offer a retail sweep product for non-time deposit accounts to provide added deposit insurance coverage for deposits in excess of FDIC-insured limits. Deposits gathered through these programs are considered brokered deposits under current regulatory reporting guidelines.

Public deposits increased 58.3% to $928.0 million at December 31, 2011, from $586.2 million at December 31, 2010. A large portion of these public funds are comprised of deposits from the State of California.

Time deposits greater than $100 thousand were $4.96 billion, representing 28.4% of the deposit portfolio at December 31, 2011. These accounts, consisting primarily of deposits by consumers, had a

Table of Contents

weighted average interest rate of 1.83% at December 31, 2011. The following table provides the remaining maturities at December 31, 2011 of time deposits greater than $100 thousand:

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

| | | *(In thousands)* |
|---|---|---|
| 3 months or less | $ | 2,022,492 |
| Over 3 months through 6 months | | 1,081,147 |
| Over 6 months through 12 months | | 1,138,193 |
| Over 12 months | | 717,565 |
| Total | $ | 4,959,397 |

**Borrowings**

We utilize a combination of short-term and long-term borrowings to manage our liquidity position. At December 31, 2011 we had no federal funds purchased and $22 thousand of federal funds purchased at December 31, 2010, respectively. FHLB advances decreased 63% to $455.3 million as of December 31, 2011, compared to $1.21 billion at December 31, 2010. The decrease in FHLB advances is consistent with our overall strategy to improve our cost of funds. During 2011, a portion of the proceeds from the maturities and sales of investment securities and redemption of our money market mutual funds was used to pay down our borrowings. During 2011, long-term FHLB advances totaling $523.5 million were prepaid, with additional prepayment penalties of $11.8 million. We also paid off $200.0 million in matured overnight FHLB advances during 2011. As of December 31, 2011 and December 31, 2010 we had no overnight FHLB advances and $200.0 million in overnight FHLB advances, respectively.

In addition to federal funds purchased and FHLB advances, we also utilize securities sold under repurchase agreements ("repurchase agreements") to manage our liquidity position. Repurchase agreements totaled $1.02 billion and $1.08 billion as of December 31, 2011 and 2010, respectively. Included in these balances are $25.2 million and $88.5 million in short-term repurchase agreements as of December 31, 2011 and 2010, respectively. The interest rates on these short-term repurchase agreements were 0.57% and 0.54% at December 31, 2011 and 2010, respectively. The remaining repurchase agreements are long-term with interest rates that are largely fixed primarily ranging from 4.15% to 5.13% as of December 31, 2011. The counterparties have the right to a quarterly call for many of the repurchase agreements. Repurchase agreements are accounted for as collateralized financing transactions and recorded at the amounts at which the securities were sold. The collateral for these agreements consist of U.S. Government agency and U.S. Government sponsored enterprise debt and mortgage-backed securities.

**Long-Term Debt**

Long-term debt is comprised of subordinated debt and junior subordinated debt. Long-term debt decreased $23.4 million or 10% to $212.2 million as of December 31, 2011, compared to $235.6 million as of December 31, 2010. The decrease is mainly due to repayment of $21.4 million of junior subordinated debt securities, which were called with a repayment penalty of $526 thousand during 2011. These debt securities were repaid in order to reduce higher interest-bearing debt and in anticipation of the phase out of trust preferred securities as Tier I regulatory capital, beginning in 2013. Subordinated debt, qualifies as Tier II capital for regulatory purposes, and junior subordinated debt, qualifies as Tier I capital for regulatory purposes, both issues in connection with our various pooled trust preferred securities offerings. Under the Dodd-Frank Act, bank holding companies with more than $15 billion in total consolidated assets will no longer be able to include trust preferred securities as Tier I regulatory capital beginning in 2013 with phase-out complete by 2016.

**Off-Balance Sheet Arrangements and Aggregate Contractual Obligations**

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

*Commitments*

As a financial service provider, we routinely enter into commitments to extend credit to customers, such as loan commitments, commercial letters of credit for foreign and domestic trade, standby letters of credit, and financial guarantees. Many of these commitments to extend credit may expire without being drawn upon. The same credit policies are used in extending these commitments as in extending loan facilities to customers. Under some of these contractual agreements, the Company may also have liabilities contingent upon the occurrence of certain events. A schedule of significant commitments to extend credit to customers as of December 31, 2011 is as follows:

Table 15: *Significant Commitments*

| | **December 31, 2011** |
|---|---|
| | ***(In thousands)*** |
| Undisbursed loan commitments | $ 2,187,562 |
| Standby letters of credit | 1,576,867 |
| Commercial letters of credit | 61,585 |

A discussion of significant contractual arrangements under which the Company may be held contingently liable is included in Note 21 to the Company's consolidated financial statements presented elsewhere in this report. In addition, the Company has commitments and obligations under post-retirement benefit plans as described in Note 23 to the Company's consolidated financial statements presented elsewhere in this report.

*Contractual Obligations*

The following table presents, as of December 31, 2011, the Company's significant fixed and determinable contractual obligations, within the categories described below, by payment date. With the exception of operating lease obligations, these contractual obligations are included in the consolidated balance sheets. The payment amounts represent the amounts and interest contractually due to the recipient.

Table of Contents

Table 16: *Contractual Obligations*

| | Payment Due by Period | | | | | |
|---|---|---|---|---|---|---|
| Contractual Obligations | Less than 1 year | 1-3 years | 3-5 years | After 5 years | Indeterminate Maturity | Total |
| | | | | *(In thousands)* | | |
| Deposits | $ 6,244,874 | $ 663,619 | $ 180,446 | $ 229,707 | $ 10,398,589 | $ 17,717,235 |
| Federal funds purchased | | | | | | |
| FHLB advances | 17,744 | 155,310 | 118,420 | 207,215 | | 498,689 |
| Securities sold under repurchase agreements | 72,619 | 94,822 | 1,016,220 | 51,546 | | 1,235,207 |
| Notes payable | | | | | 85,987 | 85,987 |
| Long-term debt obligations | 4,260 | 8,519 | 82,056 | 196,688 | | 291,523 |
| Operating lease obligations | 22,149 | 37,494 | 23,206 | 24,900 | | 107,749 |
| Unrecognized tax benefits | (1,750) | (2,086) | (952) | | | (4,788) |
| Postretirement benefit obligations | 267 | 813 | 929 | 17,652 | | 19,661 |
| Total contractual obligations | $ 6,360,163 | $ 958,491 | $ 1,420,325 | $ 727,708 | $ 10,484,576 | $ 19,951,263 |

The operating lease obligation as of December 31, 2011 includes the leases assumed by the Company as part of the FDIC-assisted transactions of WFIB and UCB.

**Capital Resources**

At December 31, 2011, stockholders' equity totaled $2.31 billion, a 9.4% increase from the year-end 2010 balance of $2.11 billion. The increase is comprised of the following: (1) net income of $245.2 million recorded during 2011; (2) stock compensation costs amounting to $13.5 million related to grants of restricted stock and stock options; (3) issuance of common stock totaling $5.7 million, representing 1,052,756 shares, pursuant to various stock plans and agreements; and (4) net tax benefit of $717 thousand from various stock plans. These transactions were offset by: (1) dividends on common stock and preferred stock totaling $30.7 million; (2) unrealized loss on investment securities available-for-sale, net of tax, of $18.0 million; (3) repurchase of common stock warrants amounting to $14.5 million, representing 1,517,555 shares; (4) additional noncredit-related impairment loss on investment securities amounting to $3.0 million; (5) purchase of treasury shares related to vested restricted stock amounting to $649 thousand, representing 29,610 shares; and (6) foreign currency translation adjustments, net of tax, of $605 thousand.

Historically, our primary source of capital has been the retention of operating earnings. In order to ensure adequate levels of capital, we conduct an ongoing assessment of projected sources, needs and uses of capital in conjunction with projected increases in assets and level of risk. As part of this ongoing assessment, the Board of Directors reviews the various components of capital and the adequacy of capital.

*Series A Preferred Stock Offering*

In April 2008, the Company issued 200,000 shares of 8% Non-Cumulative Perpetual Convertible Preferred Stock, Series A ("Series A"), with a liquidation preference of $1,000 per share. The Company received $194.1 million of additional Tier 1 qualifying capital, after deducting stock issuance costs. The proceeds from this offering were used to augment the Company's liquidity and capital positions and reduce its borrowings. See Note 24 of the Notes to Consolidated Financial Statements for additional information.

Table of Contents

*TARP Repayment*

In October 2008, the U.S. Treasury announced its intention to inject capital into certain eligible financial institutions under the TARP Capital Purchase Program ("TARP CPP"). In December 2008, we participated in the TARP CPP by issuing to the U.S. Treasury 306,546 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series B, and warrants for an aggregate purchase price of $306.5 million. On December 29, 2010, in accordance with approvals received from the U.S. Treasury and the Federal Reserve Board, the Company repurchased all shares of the TARP CPP preferred stock and the related accrued and unpaid dividends by using $308.4 million of available cash, without raising any capital or debt. As of December 31, 2010, there were 1,517,555 warrants outstanding. On January 26, 2011, the Company repurchased all 1,517,555 outstanding warrants for $14.5 million.

*Private Placement*

On March 25, 2010, at a special meeting of the stockholders, our stockholders voted to approve the issuance of 37,103,734 shares of common stock upon conversion of the 335,047 shares of the Series C preferred stock. Subsequently, on March 30, 2010, each share of the Series C preferred stock was automatically converted into 110.74197 shares of our common stock at a per common share conversion price of $9.03, as adjusted in accordance with the terms of the Series C preferred stock. As a result, no shares of the Series C preferred stock remain outstanding.

*Risk-Based Capital*

We are committed to maintaining capital at a level sufficient to assure our shareholders, our customers and our regulators that our company and our bank subsidiary are financially sound. We are subject to risk-based capital regulations and capital adequacy guidelines adopted by the federal banking regulators. These guidelines are used to evaluate capital adequacy and are based on an institution's asset risk profile and off-balance sheet exposures. According to these guidelines, institutions whose Tier I and total capital ratios meet or exceed 6.0% and 10.0%, respectively, may be deemed "well-capitalized." At December 31, 2011, the Bank's Tier I and total capital ratios were 14.7% and 16.3%, respectively, compared to 15.7% and 17.4%, respectively, at December 31, 2010.

The following table compares East West Bancorp, Inc.'s and East West Bank's actual capital ratios at December 31, 2011, to those required by regulatory agencies for capital adequacy and well-capitalized classification purposes:

Table 17: *Regulatory Required Ratios*

| | **East West Bancorp** | **East West Bank** | **Minimum Regulatory Requirements** | **Well Capitalized Requirements** |
|---|---|---|---|---|
| Total Capital (to Risk-Weighted Assets) | 16.4% | 16.3% | 8.0% | 10.0% |
| Tier 1 Capital (to Risk-Weighted Assets) | 14.8% | 14.7% | 4.0% | 6.0% |
| Tier 1 Capital (to Average Assets) | 9.7% | 9.6% | 4.0% | 5.0% |

Table of Contents

**ASSET LIABILITY AND MARKET RISK MANAGEMENT**

**Liquidity**

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

Our primary sources of liquidity are derived from financing activities which include the acceptance of customer and brokered deposits, federal funds facilities, repurchase agreement facilities, advances from the Federal Home Loan Bank of San Francisco, and issuances of long-term debt. These funding sources are augmented by payments of principal and interest on loans and securities. In addition, government programs, such as the FDIC's Temporary Liquidity Guarantee Program ("TLGP"), may influence deposit behavior. Primary uses of funds include withdrawal of and interest payments on deposits, originations and purchases of loans, purchases of investment securities, and payment of operating expenses.

During the years ended December 31, 2011, 2010, and 2009, we experienced net cash inflows from operating activities of $255.3 million, $869.2 million, and $155.3 million, respectively. Net cash inflows from operating activities were primarily due to net income earned during the year.

Net cash (outflows) inflows from investing activities totaled ($1.07) billion, $93.2 million, and $1.45 billion during 2011, 2010, and 2009, respectively. Net cash outflow from investing activities for 2011 was primarily due to purchases of securities purchased under resale agreements and investment securities available-for-sale. Net cash inflows from investment activities for 2010 and 2009 were due primarily to repayment, redemption and sales of investment securities offset by purchases of investment securities.

We experienced net cash inflows from financing activities of $914.2 million during the year ended December 31, 2011, primarily due to the increase in deposits. During 2010, we had net cash outflows from financing activities of $729.7 million primarily due to repayment of FHLB advances. During 2009, we had net cash outflows from financing activities of $1.38 billion primarily due to repayment of short-term borrowings.

As a means of augmenting our liquidity, we have available a combination of borrowing sources comprised of the Federal Reserve Bank's discount window, FHLB advances, federal funds lines with various correspondent banks, and several master repurchase agreements with major brokerage companies. We believe our liquidity sources to be stable and adequate to meet our day-to-day cash flow requirements. At December 31, 2011, we are not aware of any trends, events or uncertainties that had or were reasonably likely to have a material effect on our liquidity position. As of December 31, 2011, we are not aware of any material commitments for capital expenditures in the foreseeable future.

The liquidity of East West Bancorp, Inc. has historically been dependent on the payment of cash dividends by its subsidiary, East West Bank, subject to applicable statutes and regulations. For the years ended December 31, 2011 and 2010, total dividends paid by the Bank to East West Bancorp, Inc. amounted to $72.0 million and $85.0 million, respectively. As of December 31, 2011, approximately $262.7 million of undivided profits of the Bank were available for dividends to the Company. In January 2012, $250.0 million in dividends were upstreamed to East West Bancorp. On January 19, 2012, the Board of Directors declared first quarter dividends on the Company's common stock and Series A preferred stock. The Board of Directors authorized common stock dividends of $0.10 per share for the first quarter of 2012.

**Interest Rate Sensitivity Management**

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

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

Our overall strategy is to minimize the adverse impact of immediate incremental changes in market interest rates (rate shock) on net interest income and net portfolio value. Net portfolio value is defined as the present value of assets, minus the present value of liabilities and off-balance sheet instruments. The attainment of this goal requires a balance between profitability, liquidity and interest rate risk exposure. To minimize the adverse impact of changes in market interest rates, we simulate the effect of instantaneous interest rate changes on net interest income and net portfolio value on a quarterly basis. The table below shows the estimated impact of changes in interest rates on net interest income and market value of equity as of December 31, 2011 and 2010, assuming a non-parallel shift of 100 and 200 basis points in both directions:

Table 18: *Rate Shock Table*

| | **Net Interest Income Volatility**[(1)] | | **Net Portfolio Value Volatility**[(2)] | |
|---|---|---|---|---|
| **Change in Interest Rates (Basis Points)** | **December 31, 2011** | **December 31, 2010** | **December 31, 2011** | **December 31, 2010** |
| +200 | 6.2% | (0.4)% | 2.4% | 1.5% |
| +100 | 3.0% | (1.6)% | 0.5% | 0.4% |
| -100 | (0.9)% | 6.8% | (5.9)% | 0.5% |
| -200 | (1.2)% | 7.1% | (14.2)% | (0.9)% |

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

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

All interest-earning assets, interest-bearing liabilities and related derivative contracts are included in the interest rate sensitivity analysis at December 31, 2011 and 2010. In a declining rate environment, the interest rate floors on these loans contribute to the favorable impact on our net interest income. However, in a rising rate environment, these interest rate floors also serve to lessen the full benefit of higher interest rates. At December 31, 2011 and 2010, our estimated changes in net interest income and net portfolio value were within the ranges established by the Board of Directors.

Our primary analytical tool to gauge interest rate sensitivity is a simulation model used by many major banks and bank regulators, and is based on the actual maturity and repricing characteristics of

Table of Contents

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

The following table provides the outstanding principal balances and the weighted average interest rates of our financial instruments as of December 31, 2011. The information presented below is based on the repricing date for variable rate instruments and the expected maturity date for fixed rate instruments.

Table 19: *Expected Maturity for Financial Instruments*

| | Expected Maturity or Repricing Date by Year | | | | | | | Fair Value at December 31, 2011 |
|---|---|---|---|---|---|---|---|---|
| | **Year 1** | **Year 2** | **Year 3** | **Year 4** | **Year 5** | **Thereafter** | **Total** | |
| | | | | *(Dollars in thousands)* | | | | |
| **Assets:** | | | | | | | | |
| CD investments | $ 526,374 | $ | $ 250 | $ | $ | $ | $ 526,624 | $ 528,885 |
| Average yield (fixed rate) | 4.36% | 0.00% | 4.00% | 0.00% | 0.00% | 0.00% | 4.36% | |
| Short-term investments | $ 488,098 | $ | $ | $ | $ | $ | $ 488,098 | $ 488,098 |
| Weighted average rate | 0.41% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.41% | |
| Securities purchased under resale agreements | $ 765,316 | $ | $ | $ | $ | $ 225,000 | $ 990,316 | $ 995,627 |
| Weighted average rate | 1.71% | 0.00% | 0.00% | 0.00% | 0.00% | 4.06% | 2.24% | |
| Investment securities | $ 1,643,664 | $ 197,929 | $ 134,292 | $ 177,720 | $ 111,417 | $ 807,556 | $ 3,072,578 | $ 3,072,578 |
| Weighted average rate | 2.99% | 4.39% | 3.83% | 3.93% | 3.88% | 4.19% | 3.52% | |
| Total covered gross loans | $ 3,859,795 | $ 431,548 | $ 190,681 | $ 106,100 | $ 63,217 | $ 127,841 | $ 4,779,182 | $ 4,616,986 |
| Weighted average rate | 4.77% | 6.18% | 6.28% | 6.19% | 6.06% | 6.28% | 5.05% | |
| Total non-covered gross loans | $ 8,233,200 | $ 808,427 | $ 480,573 | $ 308,077 | $ 225,923 | $ 454,188 | $ 10,510,388 | $ 10,208,365 |
| Weighted average rate | 4.75% | 5.49% | 5.75% | 5.78% | 5.86% | 5.40% | 4.93% | |
| **Liabilities:** | | | | | | | | |
| Checking accounts | $ 971,179 | $ | $ | $ | $ | $ | $ 971,179 | $ 971,179 |
| Weighted average rate | 0.28% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.28% | |
| Money market accounts | $ 4,678,409 | $ | $ | $ | $ | $ | $ 4,678,409 | $ 4,678,409 |
| Weighted average rate | 0.35% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.35% | |
| Savings deposits | $ 1,164,618 | $ | $ | $ | $ | $ | $ 1,164,618 | $ 1,164,618 |
| Weighted average rate | 0.19% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.19% | |
| Time deposits | $ 6,182,939 | $ 511,332 | $ 133,462 | $ 88,858 | $ 79,428 | $ 149,982 | $ 7,146,001 | $ 7,194,125 |
| Weighted average rate | 0.93% | 1.08% | 1.81% | 1.52% | 1.47% | 3.34% | 1.02% | |
| Short term borrowings | $ | $ | $ | $ | $ | $ | $ | $ |
| Weighted average rate | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | |
| FHLB advances | $ | $ 75,000 | $ 50,000 | $ 20,000 | $ 75,000 | $ 205,000 | $ 425,000 | $ 479,029 |
| Weighted average rate | 0.00% | 4.43% | 4.43% | 4.46% | 3.96% | 4.07% | 4.17% | |
| Short term repurchase agreements | $ 25,208 | $ | $ | $ | $ | $ | $ 25,208 | $ 25,207 |
| Weighted average rate | 0.57% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.57% | |
| Securities sold under repurchase agreements (fixed rate) | $ | $ | $ | $ 245,000 | $ 700,000 | $ | $ 945,000 | $ 1,094,789 |
| Weighted average rate | 0.00% | 0.00% | 0.00% | 4.50% | 4.92% | 0.00% | 4.81% | |
| Securities sold under repurchase agreements (variable rate) | $ 50,000 | $ | $ | $ | $ | $ | $ 50,000 | $ 57,334 |
| Weighted average rate | 4.15% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 4.15% | |
| Subordinated notes (variable rate) | $ 75,000 | $ | $ | $ | $ | $ | $ 75,000 | $ 68,622 |
| Weighted average rate | 1.54% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 1.54% | |
| Junior subordinated debt (variable rate) | $ 137,178 | $ | $ | $ | $ | $ | $ 137,178 | $ 75,770 |
| Weighted average rate | 2.26% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 2.26% | |

Expected maturities of assets are contractual maturities adjusted for projected payment based on contractual amortization and unscheduled prepayments of principal as well as repricing frequency. Expected maturities for deposits are based on contractual maturities adjusted for projected rollover rates for deposits with no stated maturity dates. We utilize assumptions supported by documented analyses for the expected maturities of our loans and repricing of our deposits. We also use prepayment projections for amortizing securities. The actual maturities of these instruments could vary significantly if future prepayments and repricing frequencies differ from our expectations based on historical experience.

Table of Contents

The fair values of interest-bearing deposits in other banks are based on the discounted cash flow approach. The discount rate is derived from the Bank's time deposit rate curve. The fair values of short-term investments generally approximate their book values due to their short maturities. For securities purchased under resale agreements, fair values are calculated by discounting future cash flows based on expected maturities or repricing dates utilizing estimated market discount rates and taking into consideration the call features of each instrument. The fair values of the investment securities are generally determined by reference to the average of at least two quoted market prices obtained from independent external brokers or prices obtained from independent external pricing service providers who have experience in valuing these securities. In obtaining such valuation information from third parties, the Company has reviewed the methodologies used to develop the resulting fair values. For the private-label mortgage-backed security, the fair value was derived based on weighted average of broker prices based on market approach and income approach (discounted cash flow). For the pooled trust preferred securities, the fair value was derived based on discounted cash flow analyses. The discount rate is derived from assumptions using an exit pricing approach related to the implied rate of return which have been adjusted for general changes in market rates, estimated changes in credit quality and liquidity risk premiums, and specific nonperformance and default experience in the collateral underlying the securities.

The fair value of deposits is determined based on the discounted cash flow approach. The discount rate is derived from the associated yield curve, plus spread, if any. For core deposits, the cash outflows are projected by the decay rate based on the Bank's core deposit premium study. Cash flows for all non-time deposits are discounted using the LIBOR yield curve. For time deposits, the cash flows are based on the contractual runoff and are discounted by the Bank's current offering rates, plus spread. For federal funds purchased, fair value approximates book value due to their short maturities. The fair value of FHLB term advances is estimated by discounting the cash flows through maturity or the next repricing date based on current rates offered by the FHLB for borrowings with similar maturities. Customer repurchase agreements, which have maturities ranging from one to three days, are presumed to have equal book and fair values because the interests rates paid on these instruments are based on prevailing market rates. The fair values of securities sold under repurchase agreements are calculated by discounting future cash flows based on expected maturities or repricing dates, utilizing estimated market discount rates and taking into consideration the call features of each instrument. For both subordinated and junior subordinated debt instruments, fair values are estimated by discounting cash flows through maturity based on current market rates the Bank would pay for new issuances.

The Asset/Liability Committee is authorized to utilize a wide variety of off-balance sheet financial techniques to assist in the management of interest rate risk. We may elect to use derivative financial instruments as part of our asset and liability management strategy, with the overall goal of minimizing the impact of interest rate fluctuations on our net interest margin and stockholders' equity. Currently, derivative instruments do not have a material effect on our operating results or financial position.

Table of Contents

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For quantitative and qualitative disclosures regarding market risk in our portfolio, see "Management's Discussion and Analysis of Consolidated Financial Condition and Results of Operations Asset Liability and Market Risk Management" presented elsewhere in this report.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements of the Company, including the "Report of Independent Registered Public Accounting Firm," are included in this report immediately following Part IV.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

## ITEM 9A. CONTROLS AND PROCEDURES

*Disclosure Controls and Procedures*

As of December 31, 2011, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e) and 15d-15(e). Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures are effective as of December 31, 2011.

Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Our disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

*Management's Annual Report on Internal Control over Financial Reporting*

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rules 13a-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2011. In making this assessment, management used the criteria set forth in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway

Table of Contents

Commission (COSO). Based on our assessment, we concluded, as of December 31, 2011, the Company's internal control over financial reporting is effective based on those criteria.

*Changes in Internal Control over Financial Reporting*

There have been no changes in our internal control over financial reporting during the quarter ended December 31, 2011, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

*Audit Report of the Company's Registered Public Accounting Firm*

The independent registered public accounting firm of KPMG LLP, as auditors of East West Bancorp's consolidated financial statements, has issued an audit report on the effectiveness of internal control over financial reporting based on criteria established in *Internal Control Integrated Framework,* issued by COSO, which is presented on the following page.

Table of Contents

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders
East West Bancorp, Inc.:

We have audited East West Bancorp, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2011, based on criteria established in the *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company, maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in the *Internal Control Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2011, and our report dated February 28, 2012 expressed an unqualified opinion on those consolidated financial statements.

/s/KPMG LLP

Los Angeles, California
February 28, 2012

## ITEM 9B. OTHER INFORMATION

None.

# PART III

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information concerning directors and executive officers of the Company, to the extent not included under Item 1 under the heading "*Executive Officers of the Registrant*" appearing at the end of Part I of this report, will appear in the Company's definitive proxy statement for the 2012 Annual Meeting of Shareholders (the "2012 Proxy Statement"), and such information either shall be (i) deemed to be incorporated herein by reference from the section entitled "ELECTION OF DIRECTORS," if filed with the SEC pursuant to Regulation 14A not later than 120 days after the end of the Company's most recently completed fiscal year, or (ii) included in an amendment to this report filed with the SEC on Form 10-K/A not later than the end of such 120 day period. Additionally, information on compensation arrangements for the Board of Directors of the Company is set forth as Exhibit 10.12 "Director Compensation."

**Code of Ethics**

The Company has adopted a code of ethics that applies to its principal executive officer, principal financial and accounting officer, controller, and persons performing similar functions. The code of ethics is posted on our internet website at www.eastwestbank.com.

**Audit Committee Financial Experts**

The Company has determined that all members of the Audit Committee, namely Directors Andrew Kane, John Lee, Paul Irving and Keith Renken are "Audit Committee Financial Experts" as defined under Section 407 of the Sarbanes-Oxley Act of 2002 and the rules promulgated by the SEC in furtherance of Section 407. All members of the Audit Committee are independent of management.

## ITEM 11. EXECUTIVE COMPENSATION

Information concerning executive compensation of the Company's named executives will appear in the 2012 Proxy Statement, and such information either shall be (i) deemed to be incorporated herein by reference from the sections entitled "DIRECTOR COMPENSATION," "COMPENSATION OF EXECUTIVE OFFICERS," "COMPENSATION DISCUSSION AND ANALYSIS," and "REPORT BY THE COMPENSATION COMMITTEE," if filed with the SEC pursuant to Regulation 14A not later than 120 days after the end of the Company's most recently completed fiscal year, or (ii) included in an amendment to this report filed with the SEC on Form 10-K/A not later than the end of such 120 day period.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information concerning security ownership of certain beneficial owners and management will appear in the 2012 Proxy Statement, and such information either shall be (i) deemed to be incorporated herein by reference from the sections entitled "BENEFICIAL STOCK OWNERSHIP OF PRINCIPAL STOCKHOLDERS AND MANAGEMENT" if filed with the SEC pursuant to Regulation 14A not later than 120 days after the end of the Company's most recently completed fiscal year, or (ii) included in an

Table of Contents

amendment to this report filed with the SEC on Form 10-K/A not later than the end of such 120 day period.

*Securities Authorized for Issuance Under Equity Compensation Plans*

The following table provides information as of December 31, 2011 regarding equity compensation plans under which equity securities of the Company were authorized for issuance.

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in Column (a) (c) |
|---|---|---|---|
| Equity compensation plans approved by security holders | 945,080 | $ 27.19 | 4,648,828 |
| Equity compensation plans not approved by security holders | | | |
| Total | 945,080 | $ 27.19 | 4,648,828 |

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information concerning certain relationships and related transactions will appear in the 2012 Proxy Statement, and such information either shall be (i) deemed to be incorporated herein by reference from the section entitled "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS," if filed with the SEC pursuant to Regulation 14A not later than 120 days after the end of the Company's most recently completed fiscal year, or (ii) included in an amendment to this report filed with the SEC on Form 10-K/A not later than the end of such 120 day period.

## ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information concerning principal accountant fees and services will appear in the 2012 Proxy Statement, and such information either shall be (i) deemed to be incorporated herein by reference from the section entitled "INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM," if filed with the SEC pursuant to Regulation 14A not later than 120 days after the end of the Company's most recently completed fiscal year, or (ii) included in an amendment to this report filed with the SEC on Form 10-K/A not later than the end of such 120 day period.

Table of Contents

## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

*(a)(1) Financial Statements*

The following financial statements included in the registrant's 2011 Annual Report to Shareholders are included. Page number references are to the 2011 Annual Report to Shareholders.



*(a)(2) Financial Statement Schedules*

Schedules have been omitted because they are not applicable, not material or because the information is included in the consolidated financial statements or the notes thereto.

*(a)(3) Exhibits*

| Exhibit No. | Exhibit Description |
|---|---|
| 3.1 | Certificate of Incorporation of the Registrant [Incorporated by reference from Registrant's Registration Statement on Form S-4 filed with the Commission on September 17, 1998 (File No. 333-63605).] |
| 3.2 | Certificate of Amendment to Certificate of Incorporation of the Registrant [Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2002 filed with the Commission on March 28, 2003.] |
| 3.3 | Amendment to the Certification of Incorporation of the Registrant [Incorporated by reference from Registrant's Definitive Proxy Statement on Schedule 14A filed with the Commission on April 15, 2005.] |
| 3.4 | Certificate of Amendment to Certificate of Incorporation of the Registrant [Incorporated by reference from Registrant's Exhibit A of the Registrant's Definitive Proxy Statement on Schedule 14A filed with the Commission on April 24, 2008.] |
| 3.5 | Bylaws of the Registrant [Incorporated by reference from Registrant's Registration Statement on Form S-4 filed with the Commission on September 17, 1998 (File No. 333-63605).] |
| 3.6 | Amended and Restated Bylaws of the Registrant dated May 29, 2008 [Incorporated by reference from Registrant's Current Report on Form 8-K, filed with the Commission on June 3, 2008.] |
| 3.7 | Certificate of Designations of 8.00% Non-Cumulative Perpetual Convertible Preferred Stock, Series A, including Form of Series A Preferred Stock Certificate [Incorporated by reference from Registrant's Current Report on Form 8-K, filed with the Commission on April 30, 2008.] |

Table of Contents

| Exhibit No. | Exhibit Description |
|---|---|
| 3.8 | Certificate of Designations of Fixed Rate Cumulative Perpetual Preferred Stock, Series B [Incorporated by reference from Registrant's Current Report on Form 8-K, filed with the Commission on December 9, 2008.] (Repurchased in December 2010) |
| 3.9 | Certificate of Designations of Mandatory Convertible Cumulative Non-Voting Perpetual Preferred Stock, Series C [Incorporated by reference from Registrant's Current Report on Form 8-K, filed with the Commission on November 12, 2009.] (Converted in March 2010) |
| 4.1 | Specimen Common Stock Certificate of Registrant [Incorporated by reference from Registrant's Registration Statement on Form S-4 filed with the Commission on September 17, 1998 (File No. 333-63605).] |
| 4.2 | Form of Certificate of the Registrant's 8.00% Non-Cumulative Perpetual Convertible Preferred Stock, Series A [Incorporated by reference from Registrant's Current report on Form 8-K, filed with the Commission on April 30, 2008.] |
| 4.3 | Form of Preferred Share Certificate for Fixed Rate Cumulative Perpetual Preferred Stock, Series B. [Incorporated by reference from Registrant's Current report on Form 8-K, filed with the Commission on December 9, 2008.] (Repurchased in December 2010) |
| 4.4 | Warrant to purchase up to 3,035,109 shares of Common Stock [Incorporated by reference from Registrant's Current Report on Form 8-K, filed with the Commission on December 9, 2008.] (Repurchased in January 2011) |
| 10.1 | Employment Agreement with Dominic Ng+ [Incorporated by reference from Registrant's Registration Statement on Form S-4 filed with the Commission on November 13, 1998 (File No. 333-63605).] |
| 10.2 | Employment Agreement with Julia Gouw+ [Incorporated by reference from Registrant's Registration Statement on Form S-4 filed with the Commission on November 13, 1998 (File No. 333-63605).] |
| 10.5 | Employment Agreement with Douglas P. Krause+ [Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2005 filed with the Commission on March 11, 2005.] |
| 10.6.1 | East West Bancorp, Inc. 1998 Stock Incentive Plan and Forms of Agreements+ [Incorporated by reference from Registrant's Registration Statement on Form S-4 filed with the Commission on November 13, 1998 (File No. 333-63605).] |
| 10.6.2 | Amended East West Bancorp, Inc. 1998 Stock Incentive Plan+ [Incorporated by reference from Registrant's Definitive Proxy Statement Exhibit A filed with the Commission on April 14, 2011.] |
| 10.6.3 | 1998 NonQualified Stock Option Program for Employees and Independent Contractors+ [Incorporated by reference from Registrant's Current Report on Form 8-K filed with the Commission on March 9, 2005.] |
| 10.6.4 | Performance-Based Bonus Plan+ [Incorporated by reference from Registrant's Current Report on Form 8-K filed with the Commission on March 9, 2005.] |
| 10.6.5 | 1999 Spirit of Ownership Restricted Stock Program+ [Incorporated by reference from Registrant's Current Report on Form 8-K filed with the Commission on March 9, 2005.] |
| 10.6.6 | 2003 Directors' Restricted Stock Program+ [Incorporated by reference from Registrant's Current Report on Form 8-K filed with the Commission on March 9, 2005.] |
| 10.7 | East West Bancorp, Inc. 1998 Employee Stock Purchase Plan+ [Incorporated by reference from Registrant's Registration Statement on Form S-4 filed with the Commission on November 13, 1998 (File No. 333-63605).] |
| 10.9.1 | Employment Agreement with James T. Schuler%+ |
| 10.10 | Supplemental Executive Retirement Plans+ [Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2005 filed with the Commission on March 11, 2005.] |
| 10.12 | Director Compensation%+ |

Table of Contents

| Exhibit No. | Exhibit Description |
|---|---|
| 10.14 | Letter Agreement, dated December 5, 2008, including Securities Purchase Agreement Standard Terms incorporated by reference therein, by and between the Registrant and the United States Department of Treasury [Incorporated by reference from Registrant's Current report on Form 8-K, filed with the Commission on December 9, 2008.] |
| 10.15 | Form of Investment Agreement by and between the Company and the respective Purchaser thereto [Incorporated by reference from Registrant's Current Report on Form 8-K, filed with the Commission on November 12, 2009.] |
| 10.16 | Purchase and Assumption Agreement Whole Bank All Deposits, among the Federal Deposit Insurance Corporation, Receiver of United Commercial Bank, San Francisco, California, the Federal Deposit Insurance Corporation and East West Bank, dated as of November 6, 2009 [Incorporated by reference from Registrant's Current Report on Form 8-K, filed with the Commission on November 12, 2009.] |
| 10.17 | Purchase and Assumption Agreement Whole Bank All Deposits, among the Federal Deposit Insurance Corporation, Receiver of Washington First International Bank, Seattle, Washington, the Federal Deposit Insurance Corporation and East West Bank, dated as of June 11, 2010 [Incorporated by reference from Registrant's Current Report on Form 8-K/A, filed with the Commission on August 27, 2010.] |
| 12.1 | Computation of Ratio of Earnings to Fixed Charges% |
| 21.1 | Subsidiaries of the Registrant% |
| 23.1 | Consent of Independent Registered Public Accounting Firm KPMG LLP% |
| 31.1 | Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002% |
| 31.2 | Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002% |
| 32.1 | Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002% |
| 32.2 | Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002% |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase |
| 101.PRE | XBRL Extension Presentation Linkbase |
| 101.DEF | XBRL Extension Definition Linkbase |

Forms 8-K, 10-Q and 10-K identified in the exhibit index have SEC file number 000-24939.

+ Denotes management contract or compensatory plan or arrangement.

% A copy of this exhibit is being filed with this Annual Report on Form 10-K.

Table of Contents

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders
East West Bancorp, Inc.:

We have audited the accompanying consolidated balance sheet of East West Bancorp, Inc. and subsidiaries (the Company) as of December 31, 2011 and 2010 and the related consolidated statements of income, changes in stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2011. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2011 and 2010 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2011, based on criteria established in the *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 28, 2012 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Los Angeles, California
February 28, 2012

Table of Contents

**EAST WEST BANCORP, INC. AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS**
*(In thousands, except share data)*

| | December 31, 2011 | December 31, 2010 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 1,431,185 | $ 1,333,949 |
| Short-term investments | 61,834 | 143,560 |
| Securities purchased under resale agreements | 786,434 | 500,000 |
| Investment securities available-for-sale, at fair value (with amortized cost of $3,132,968 at December 31, 2011 and $2,900,410 at December 31, 2010) | 3,072,578 | 2,875,941 |
| Loans held for sale | 278,603 | 220,055 |
| Loans receivable, excluding covered loans (net of allowance for loan losses of $209,876 at December 31, 2011 and $230,408 at December 31, 2010) | 10,061,788 | 8,430,199 |
| Covered loans (net of allowance for loan losses of $6,647 at December 31, 2011 and $4,225 at December 31, 2010) | 3,923,142 | 4,800,876 |
| Total loans receivable, net | 13,984,930 | 13,231,075 |
| FDIC indemnification asset | 511,135 | 785,035 |
| Other real estate owned, net | 29,350 | 21,865 |
| Other real estate owned covered, net | 63,624 | 123,902 |
| Total other real estate owned | 92,974 | 145,767 |
| Investment in Federal Home Loan Bank stock, at cost | 136,897 | 162,805 |
| Investment in Federal Reserve Bank stock, at cost | 47,512 | 47,285 |
| Investment in affordable housing partnerships | 144,445 | 155,074 |
| Premises and equipment, net | 118,926 | 135,919 |
| Accrued interest receivable | 89,686 | 82,090 |
| Due from customers on acceptances | 198,774 | 73,796 |
| Premiums on deposits acquired, net | 67,190 | 79,518 |
| Goodwill | 337,438 | 337,438 |
| Cash surrender value of life insurance policies | 107,486 | 103,048 |
| Other assets | 500,640 | 288,182 |
| **TOTAL** | **$ 21,968,667** | **$ 20,700,537** |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Customer deposit accounts: | | |
| Noninterest-bearing | $ 3,492,795 | $ 2,676,466 |
| Interest-bearing | 13,960,207 | 12,964,793 |
| Total deposits | 17,453,002 | 15,641,259 |
| Federal Home Loan Bank advances | 455,251 | 1,214,148 |
| Securities sold under repurchase agreements | 1,020,208 | 1,083,545 |
| Notes payable and other borrowings | 85,987 | 60,686 |
| Bank acceptances outstanding | 198,774 | 73,796 |
| Long-term debt | 212,178 | 235,570 |
| Accrued expenses and other liabilities | 231,524 | 277,602 |
| Total liabilities | 19,656,924 | 18,586,606 |
| COMMITMENTS AND CONTINGENCIES (Note 21) | | |
| STOCKHOLDERS' EQUITY | | |
| | 83,027 | 83,058 |

| | | |
|---|---|---|
| Preferred stock, $0.001 par value, 5,000,000 shares authorized; Series A, non-cumulative convertible, 200,000 shares issued and 85,710 and 85,741 shares outstanding in 2011 and 2010, respectively. | | |
| Common stock, $0.001 par value, 200,000,000 shares authorized; 156,798,011 and 155,743,241 shares issued in 2011 and 2010, respectively; 149,327,907 and 148,542,940 shares outstanding in 2011 and 2010, respectively. | 157 | 156 |
| Additional paid in capital | 1,443,883 | 1,434,277 |
| Retained earnings | 934,617 | 720,116 |
| Treasury stock, at cost 7,470,104 shares in 2011 and 7,200,301 shares in 2010. | (116,001) | (111,262) |
| Accumulated other comprehensive loss, net of tax | (33,940) | (12,414) |
| Total stockholders' equity | 2,311,743 | 2,113,931 |
| **TOTAL** | **$ 21,968,667** | **$ 20,700,537** |

See accompanying notes to consolidated financial statements.

Table of Contents

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2011** | **2010** | **2009** |
| **INTEREST AND DIVIDEND INCOME** | | | |
| Loans receivable, including fees | $ 945,798 | $ 998,589 | $ 587,163 |
| Investment securities | 89,469 | 70,052 | 116,286 |
| Securities purchased under resale agreements | 19,216 | 14,208 | 7,985 |
| Investment in Federal Home Loan Bank stock | 550 | 597 | |
| Investment in Federal Reserve Bank stock | 2,840 | 2,751 | 2,337 |
| Short-term investments | 22,575 | 9,634 | 9,047 |
| Total interest and dividend income | 1,080,448 | 1,095,831 | 722,818 |
| **INTEREST EXPENSE** | | | |
| Customer deposit accounts | 107,110 | 116,737 | 129,477 |
| Federal Home Loan Bank advances | 15,461 | 26,641 | 49,940 |
| Securities sold under repurchase agreements | 48,561 | 48,993 | 49,725 |
| Long-term debt | 5,832 | 6,420 | 7,816 |
| Other borrowings | 458 | 2,326 | 171 |
| Total interest expense | 177,422 | 201,117 | 237,129 |
| **Net interest income before provision for loan losses** | 903,026 | 894,714 | 485,689 |
| Provision for loan losses | 95,006 | 200,159 | 528,666 |
| **Net interest income (loss) after provision for loan losses** | 808,020 | 694,555 | (42,977) |
| **NONINTEREST INCOME** | | | |
| Gain on acquisition | | 22,874 | 471,009 |
| Impairment loss on investment securities | (5,736) | (32,127) | (121,802) |
| Less: Noncredit-related impairment loss recorded in other comprehensive income | 5,103 | 15,458 | 14,131 |
| Net impairment loss on investment securities recognized in earnings | (633) | (16,669) | (107,671) |
| Decrease in FDIC indemnification asset and receivable | (100,141) | (83,213) | (23,338) |
| Branch fees | 33,776 | 32,634 | 22,326 |
| Net gain on sales of investment securities | 9,703 | 31,237 | 11,923 |
| Letters of credit fees and commissions | 13,997 | 11,816 | 8,338 |
| Foreign exchange income | 9,143 | 3,171 | 1,201 |
| Ancillary loan fees | 8,350 | 8,526 | 6,286 |
| Income from life insurance policies | 4,031 | 4,083 | 4,368 |
| Net gain on sales of loans | 20,185 | 18,515 | |
| Net gain (loss) on sale of fixed assets | 2,274 | (189) | 93 |
| Other operating income (loss) | 10,239 | 6,485 | (3,582) |
| Total noninterest income | 10,924 | 39,270 | 390,953 |
| **NONINTEREST EXPENSE** | | | |
| Compensation and employee benefits | 160,093 | 170,052 | 79,475 |
| Occupancy and equipment expense | 50,082 | 52,073 | 30,218 |
| Amortization of investments in affordable housing partnerships and other investments | 17,324 | 10,032 | 7,450 |
| Amortization of premiums on deposits acquired | 12,327 | 13,283 | 5,895 |
| Deposit insurance premiums and regulatory assessments | 20,531 | 25,201 | 28,073 |
| Loan related expenses | 19,379 | 21,070 | 7,580 |
| Other real estate owned expense | 40,435 | 61,568 | 19,104 |
| Legal expense | 21,327 | 19,577 | 8,024 |
| Prepayment penalty for FHLB advances and other borrowings | 12,281 | 13,832 | 2,370 |
| Data processing | 8,598 | 10,615 | 5,641 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Deposit-related expenses | | 5,699 | | 4,750 | | 3,909 |
| Consulting expense | | 7,151 | | 7,984 | | 8,135 |
| Other operating expenses | | 60,383 | | 67,879 | | 37,380 |
| Total noninterest expense | | 435,610 | | 477,916 | | 243,254 |
| INCOME BEFORE PROVISION FOR INCOME TAXES | | 383,334 | | 255,909 | | 104,722 |
| PROVISION FOR INCOME TAXES | | 138,100 | | 91,345 | | 22,714 |
| NET INCOME BEFORE EXTRAORDINARY ITEMS | | 245,234 | | 164,564 | | 82,008 |
| Extraordinary item, net of tax | | | | | | (5,366) |
| **NET INCOME AFTER EXTRAORDINARY ITEMS** | | **245,234** | | **164,564** | | **76,642** |
| PREFERRED STOCK DIVIDENDS AMORTIZATION OF PREFERRED STOCK DISCOUNT, AND INDUCEMENT OF PREFERRED STOCK CONVERSION | | 6,857 | | 43,126 | | 49,115 |
| **NET INCOME AVAILABLE TO COMMON STOCKHOLDERS** | **$** | **238,377** | **$** | **121,438** | **$** | **27,527** |
| **EARNINGS PER SHARE AVAILABLE TO COMMON STOCKHOLDERS** | | | | | | |
| BASIC | $ | 1.62 | $ | 0.88 | $ | 0.35 |
| DILUTED | $ | 1.60 | $ | 0.83 | $ | 0.33 |
| **WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING** | | | | | | |
| BASIC | | 147,093 | | 137,478 | | 78,770 |
| DILUTED | | 153,467 | | 147,102 | | 84,523 |
| **DIVIDENDS DECLARED PER COMMON SHARE** | $ | 0.16 | $ | 0.04 | $ | 0.05 |

See accompanying notes to consolidated financial statements.

Table of Contents

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

| | Preferred Stock | Additional Paid In Capital Preferred Stock | Common Stock | Additional Paid In Capital Common Stock | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Income (Loss), Net of Tax | Comprehensive Income | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|---|---|
| **BALANCE, JANUARY 1, 2009** | **$** | **$ 472,311** | **$ 70** | **$ 695,521** | **$ 580,282** | **$ (102,817)** | **$ (94,601)** | | **$ 1,550,766** |
| Comprehensive income: | | | | | | | | | |
| Net income | | | | | 76,642 | | | $ 76,642 | 76,642 |
| Net unrealized gain on investment securities available-for-sale, net of taxes of $52,749 and reclassification of $63,730 net loss included in net income | | | | | | | 72,844 | 72,844 | 72,844 |
| Net unrealized gain as a result of desecuritization, net of taxes of $22,124 | | | | | | | 30,552 | 30,552 | 30,552 |
| Noncredit-related impairment loss on securities, net of tax benefits of $5,935 | | | | | | | (8,196) | (8,196) | (8,196) |
| Total comprehensive income | | | | | | | | $ 171,842 | |
| Stock compensation costs | | | | 5,330 | | | | | 5,330 |
| Tax provision from stock compensation plans, net | | | | (1,012) | | | | | (1,012) |
| Preferred stock issuance and conversion costs | | (9,928) | | | | | | | (9,928) |
| Common stock issuance costs | | | | (10,392) | | | | | (10,392) |
| Induced conversion of 110,764 shares of Series A preferred stock | | (107,474) | | | | | | | (107,474) |
| Issuance of 9,968,760 shares of common stock from converted 110,764 shares of Series A preferred stock | | | 10 | 125,804 | (18,340) | | | | 107,474 |
| Issuance of 23,247,012 shares common stock from various private placements | | | 24 | 192,430 | | | | | 192,454 |
| Issuance of 12,650,000 shares common stock from public offering | | | 12 | 80,316 | | | | | 80,328 |
| Issuance of 488,256 shares pursuant to various stock compensation plans and agreements | | | 1 | 948 | | | | | 949 |
| Issuance of 22,386 shares pursuant to Director retainer fee | | | | 219 | | | | | 219 |
| Issuance of 335,047 shares Series C preferred stock, net of stock issuance costs | | 335,047 | | | | | | | 335,047 |
| Cancellation of 76,962 shares due to forfeitures of issued restricted stock | | | | 1,883 | | (1,883) | | | |
| Purchase of 37,020 shares of treasury stock due to the vesting of restricted stock | | | | | | (430) | | | (430) |
| Amortization of Series B preferred stock discount | | 3,847 | | | (3,847) | | | | |
| Preferred stock dividends | | | | | (26,928) | | | | (26,928) |
| Common stock dividends | | | | | (3,586) | | | | (3,586) |
| **BALANCE, DECEMBER 31, 2009** | **$** | **$ 693,803** | **$ 117** | **$ 1,091,047** | **$ 604,223** | **$ (105,130)** | **$ 599** | | **$ 2,284,659** |
| Comprehensive income: | | | | | | | | | |
| Net income | | | | | 164,564 | | | $ 164,564 | 164,564 |
| Net unrealized loss on investment securities available-for-sale, net of tax benefits of $4,028 and reclassification of $5,714 net gain included in net income | | | | | | | (5,563) | (5,563) | (5,563) |
| Noncredit-related impairment loss on securities, net of taxes of $6,492 | | | | | | | (8,966) | (8,966) | (8,966) |
| Foreign currency translation adjustments, net of taxes of $1,098 | | | | | | | 1,516 | 1,516 | 1,516 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Total comprehensive income | | | | | | | | $ 151,551 | |
| Stock compensation costs | | | | 8,480 | | | | | 8,480 |
| Tax provision from stock compensation plans, net | | | | (170) | | | | | (170) |
| Issuance of 1,867,194 shares of common stock pursuant to various stock compensation plans and agreements | | | 2 | 4,452 | | | | | 4,454 |
| Conversion of 335,047 shares of Series C preferred stock into 37,103,734 shares of common stock | | (325,299) | 37 | 325,262 | | | | | |
| Issuance of 17,910 shares pursuant to Director retainer fee | | | | 281 | | | | | 281 |
| Cancellation of 343,029 shares of common stock due to forfeitures of issued restricted stock | | | | 4,925 | | (4,925) | | | |
| Purchase of 65,834 shares of treasury stock due to the vesting of restricted stock | | | | | | (1,207) | | | (1,207) |
| Amortization of Series B preferred stock discount | | 21,042 | | | (21,042) | | | | |
| Preferred stock dividends | | | | | (22,084) | | | | (22,084) |
| Common stock dividends | | | | | (5,545) | | | | (5,545) |
| Repurchase of 306,546 shares of Series B preferred stock | | (306,488) | | | | | | | (306,488) |
| **BALANCE, DECEMBER 31, 2010** | **$** | **$ 83,058** | **$ 156** | **$ 1,434,277** | **$ 720,116** | **$ (111,262)** | **$ (12,414)** | | **$ 2,113,931** |
| Comprehensive income: | | | | | | | | | |
| Net income | | | | | 245,234 | | | $ 245,234 | 245,234 |
| Net unrealized loss on investment securities available-for-sale, net of tax benefits of $13,007 and reclassification of $12,084 net loss included in net income | | | | | | | (17,961) | (17,961) | (17,961) |
| Noncredit-related impairment loss on securities, net of taxes of $2,143 | | | | | | | (2,960) | (2,960) | (2,960) |
| Foreign currency translation adjustments, net of tax benefits of $438 | | | | | | | (605) | (605) | (605) |
| Total comprehensive income | | | | | | | | $ 223,708 | |
| Stock compensation costs | | | | 13,543 | | | | | 13,543 |
| Tax benefit from stock compensation plans, net | | | | 717 | | | | | 717 |
| Issuance of 1,024,925 shares of common stock pursuant to various stock compensation plans and agreements | | | 1 | 5,205 | | | | | 5,206 |
| Conversion of 31 shares of Series A preferred stock into 2,014 shares of common stock | | (31) | | 31 | | | | | |
| Issuance of 27,831 shares pursuant to Director retainer fee | | | | 520 | | | | | 520 |
| Cancellation of 240,193 shares of common stock due to forfeitures of issued restricted stock | | | | 4,090 | | (4,090) | | | |
| Purchase of 29,610 shares of treasury stock due to the vesting of restricted stock | | | | | | (649) | | | (649) |
| Preferred stock dividends | | | | | (6,857) | | | | (6,857) |
| Common stock dividends | | | | | (23,876) | | | | (23,876) |
| Repurchase of 1,517,555 common stock warrants | | | | (14,500) | | | | | (14,500) |
| **BALANCE, DECEMBER 31, 2011** | **$** | **$ 83,027** | **$ 157** | **$ 1,443,883** | **$ 934,617** | **$ (116,001)** | **$ (33,940)** | | **$ 2,311,743** |

See accompanying notes to consolidated financial statements.

Table of Contents

**EAST WEST BANCORP, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
*(In thousands)*

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Net income after extraordinary items | $ 245,234 | $ 164,564 | $ 76,642 |
| Adjustments to reconcile net income after extraordinary items to net cash provided by operating activities: | | | |
| Depreciation and amortization | 67,460 | 57,593 | 81,901 |
| (Accretion) of discount and amortization of premiums, net | (210,868) | (235,988) | (116,770) |
| Decrease in FDIC indemnification asset and receivable | 100,141 | 83,213 | 23,338 |
| Gain on acquisition | | (22,874) | (471,009) |
| Net impairment loss on investment securities available-for-sale recognized in earnings | 633 | 16,669 | 107,671 |
| Stock compensation costs | 13,543 | 8,761 | 5,549 |
| Deferred tax expenses | 189,497 | 12,377 | 127,132 |
| Provision for loan losses | 95,006 | 200,159 | 528,666 |
| Impairment on other real estate owned | 29,266 | 49,669 | 7,759 |
| Net gain on sales of investment securities, loans and other assets | (30,998) | (51,776) | (6,340) |
| Originations and purchases of loans held for sale | (72,761) | (42,985) | (65,047) |
| Proceeds from sales of loans held for sale | 41,388 | 42,059 | 37,127 |
| Prepayment penalty for Federal Home Loan Bank advances and other borrowings | 12,281 | 13,832 | 2,370 |
| Net proceeds from FDIC shared-loss agreements | 159,983 | 331,500 | |
| Net change in accrued interest receivable and other assets | (146,911) | 87,009 | (143,966) |
| Net change in accrued expenses and other liabilities | (233,868) | 157,275 | (39,498) |
| Other net operating activities | (3,709) | (1,861) | (250) |
| Total adjustments | 10,083 | 704,632 | 78,633 |
| Net cash provided by operating activities | 255,317 | 869,196 | 155,275 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Net cash acquired in acquisitions | | 67,186 | 599,036 |
| Net (increase) decrease in loans | (934,773) | 498,187 | 467,149 |
| Net decrease (increase) in short-term investments | 81,726 | 103,285 | (18,404) |
| Purchases of: | | | |
| Securities purchased under resale agreements | (1,292,066) | (950,000) | (30,044) |
| Investment securities held-to-maturity | | | (551,608) |
| Investment securities available-for-sale | (2,713,546) | (4,207,000) | (1,976,701) |
| Loans receivable | (675,298) | (861,490) | (530,345) |
| Federal Reserve Bank stock | (227) | (10,500) | (9,196) |
| Premises and equipment | (10,507) | (90,931) | (179) |
| Investments in affordable housing partnerships | (36,642) | (42,833) | (10,989) |
| Proceeds from sale of: | | | |
| Investment securities available-for-sale | 702,616 | 1,338,910 | 1,650,680 |
| Loans receivable | 188,407 | 473,961 | 299,322 |
| Loans held for sale originated for investment | 611,291 | 367,404 | |
| Other real estate owned | 177,015 | 140,710 | 81,825 |
| Premises and equipment | 9,227 | 112 | 18 |
| Investments in affordable housing partnerships | 7,100 | 2,000 | |
| Other investments | 2,454 | | |
| Repayments, maturities and redemptions of investment securities available-for-sale | 1,780,457 | 2,564,157 | 1,477,470 |
| Paydowns, maturities and termination of securities purchased under resale agreements | 1,005,632 | 680,000 | |
| Redemption of Federal Home Loan Bank stock | 25,908 | 20,075 | |
| Net cash (used in) provided by investing activities | (1,071,226) | 93,233 | 1,448,034 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Net increase (decrease) in: | | | |
| Deposits | 1,812,375 | 254,985 | 325,211 |
| Short-term borrowings | (63,337) | 40,095 | (2,215,097) |
| Proceeds from: | | | |

| | | | |
|---|---|---|---|
| FHLB advances | | 550,000 | |
| Issuance of common stock pursuant to various stock plans and agreements | 5,726 | 4,454 | 949 |
| Issuance of preferred stock, net of stock issuance costs, and common stock warrants | | | 335,047 |
| Issuance of common stock from public offering | | | 80,328 |
| Issuance of common stock from private placement | | | 192,454 |
| Payment for: | | | |
| Repayment of FHLB advances | (760,274) | (1,198,312) | |
| Repayment of long-term debt | (23,918) | | |
| Repayment of notes payable and other borrowings | (11,250) | (43,365) | (51,558) |
| Repurchase of Series B preferred stock | | (306,546) | |
| Issuance and conversion costs of preferred stock and common stock | | | (20,320) |
| Repurchase of common stock warrants | (14,500) | | |
| Cash dividends | (30,679) | (29,605) | (29,662) |
| Other net financing activities | 68 | (1,377) | (430) |
| Net cash provided by (used in) financing activities | 914,211 | (729,671) | (1,383,078) |
| Effect of exchange rate changes on cash and cash equivalents | (1,066) | 2,107 | |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 97,236 | 234,865 | 220,231 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 1,333,949 | 1,099,084 | 878,853 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | $ 1,431,185 | $ 1,333,949 | $ 1,099,084 |
| **SUPPLEMENTAL CASH FLOW INFORMATION:** | | | |
| Cash paid during the year for: | | | |
| Interest | $ 175,772 | $ 206,706 | $ 230,667 |
| Income tax payments, net of refunds | 326,725 | (60,621) | (21,180) |
| Noncash investing and financing activities: | | | |
| Transfers to other real estate owned/affordable housing partnership | 175,551 | 270,995 | 135,844 |
| Conversion of preferred stock to common stock | 31 | 325,299 | |
| Loans to facilitate sales of other real estate owned | 8,882 | 15,888 | 40,687 |
| Loans to facilitate sales of loans | 27,149 | 45,522 | |
| Loans to facilitate sale of premises and equipment | 11,100 | | |
| Loans transferred to loans held for sale | 644,915 | 563,974 | |
| Issuance of common stock in lieu of Board of Directors retainer fees | 520 | 281 | 219 |
| Transfers from investment securities held-to-maturity to available-for-sale | | | 681,404 |
| Desecuritization of loans receivable | | | 635,614 |
| Transfers from other real estate owned/affordable housing partnership | | | 13,982 |
| Accrued preferred stock dividend | | | 852 |
| Amortization of preferred stock discount | | 21,042 | 3,847 |

See accompanying notes to consolidated financial statements.

Table of Contents

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

## 1. SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

***OPERATIONS SUMMARY***

East West Bancorp, Inc. (referred to herein on an unconsolidated basis as "East West" and on a consolidated basis as the "Company" or "we") is a registered bank holding company that offers a full range of banking services to individuals and small to mid-size businesses through its subsidiary bank, East West Bank and its subsidiaries ("East West Bank" or the "Bank"). The Bank is the Company's principal asset. The Bank operates 103 banking locations throughout California, eight branches in New York, five branches in Georgia, three branches in Massachusetts, two branches in Texas, and four branches in Washington. In Greater China, the Bank's presence includes three full-service branches in Hong Kong, in Shanghai, and in Shantou. The Bank also has representative offices in Beijing, Guangzhou, Shanghai and Shenzhen, China and Taipei, Taiwan.

The Bank focuses on commercial lending, including commercial real estate loans, commercial business loans and trade finance loans. The Bank also provides financing for residential loans including single-family and multifamily loans. To a lesser extent, the Bank also makes construction development and consumer loans. Included in the Bank's locations are eleven in-store branches located in 99 Ranch Market stores in Southern and Northern California. The Bank's revenues are derived from providing financing for residential and commercial real estate and business customers, as well as investing activities. Funding for lending and investing activities is obtained through acceptance of customer deposits, Federal Home Loan Bank advances and other borrowing activities.

***SIGNIFICANT ACCOUNTING POLICIES***

***Basis of Presentation*** The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and general practices within the banking industry. The following is a summary of significant principles used in the preparation of the accompanying financial statements. In preparing the financial statements, management of the Company has made a number of estimates and assumptions pertaining to the reporting of assets and liabilities, including the fair value of assets acquired and liabilities assumed, the FDIC indemnification asset, valuation of OREO, the allowance for loan losses, the disclosure of contingent assets and liabilities and the disclosure of income and expenses for the periods presented in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

***Principles of Consolidation*** The consolidated financial statements include the accounts of East West Bancorp, Inc., and its wholly owned subsidiaries, East West Bank and East West Insurance Services, Inc. Intercompany transactions and accounts have been eliminated in consolidation. East West also has seven wholly owned subsidiaries that are statutory business trusts (the "Trusts"). In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 810, the Trusts are not consolidated into the accounts of East West Bancorp, Inc.

***Fair Value*** Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and, in many cases, may require us to make a number of significant judgments. Based on the observability of the inputs used in the valuation techniques, we classify our assets and liabilities measured and disclosed at fair value in accordance with a three-level hierarchy (e.g., Level 1, Level 2 and Level 3) established under ASC

820. In determining the fair value of financial instruments, we use market prices of the same or similar instruments whenever such prices are available. We do not use prices involving distressed sellers in determining fair value. If observable market prices are unavailable or impracticable to obtain, then fair value is estimated using modeling techniques such as discounted cash flow analyses. These modeling techniques incorporate our assessments regarding assumptions that market participants would use in pricing the asset or the liability, including assumptions about the risks inherent in a particular valuation technique and the risk of nonperformance.

***Securities Purchased Under Resale Agreements ("Resale Agreements")*** The Company purchases securities under resale agreements with terms that range from one day to several years. These agreements are collateralized by mortgage-backed securities and mortgage or commercial loans that are generally held by a third party custodian. The purchases are over-collateralized to ensure against unfavorable market price movements. In the event that the fair value of the securities decreases below the carrying amount of the related repurchase agreement, the counterparty is required to deliver an equivalent value of additional securities. The counterparties to these agreements are nationally recognized investment banking firms that meet credit eligibility criteria and with whom a master repurchase agreement has been duly executed. Resale agreements which are short-term in nature, or have terms of up to 90 days, are included in cash and cash equivalents. Resale agreements with terms greater than 90 days are separately categorized. The Company had no short-term resale agreements as of December 31, 2011 and 2010.

***Investment Securities*** The Company classifies its investment securities according to their purpose and holding period. Trading account securities are typically investment grade securities which are generally held by the Bank for a period of seven days or less. Trading account securities are carried at fair value. Realized and unrealized gains or losses on trading account securities are included in noninterest income. As of December 31, 2011 and 2010, there were no trading account securities in the investment portfolio. Held-to-maturity debt securities are recorded at amortized cost. As of December 31, 2011 and 2010 there were no held-to-maturity debt securities in the investment portfolio. Investment securities available-for-sale are reported at estimated fair value, with unrealized gains and losses excluded from operations and reported as a separate component of accumulated other comprehensive income or loss, net of tax, in stockholders' equity.

The fair values of the investment securities are generally determined by independent external pricing service providers who have experience in valuing these securities and by comparison to and/or average of quoted market prices obtained from independent external brokers. In obtaining such valuation information from third parties, the Company has evaluated the methodologies used to develop the resulting fair values. The Company performs a monthly analysis on the broker quotes and the third party pricing service quotes to ensure that the prices represent a reasonable estimate of the fair value. The procedures include, but are not limited to, initial and ongoing review of third party pricing methodologies, review of pricing trends, and monitoring of trading volumes. The Company considers whether prices received from independent brokers represent a reasonable estimate of fair value through the use of internal and external cash flow models developed based on spreads, and when available, market indices. As a result of this analysis, if the Company determines there is a more appropriate fair value based upon the available market data, the price received from the third party is adjusted accordingly. Prices from third party pricing services are often unavailable for securities that are rarely traded or are traded only in privately negotiated transactions. As a result, certain securities are priced via independent broker quotations which utilize proprietary models that include observable market based inputs. Additionally, the majority of these independent broker quotations are non-binding.

The Company applies a modified valuation approach to certain investment securities for which it believes the current broker prices obtained are based on forced liquidation or distressed sale values in inactive markets. The fair value of each of these securities is individually determined based on a combination of the market approach, reflecting current broker prices, and the income approach, which is a discounted cash flow approach. In calculating the fair value derived from the income approach, the Company makes assumptions related to the implied rate of return, general change in market rates, estimated changes in credit quality and liquidity risk premium, specific non-performance and default experience in the collateral underlying the security; additionally, broker discount rates are taken into consideration in determining the discount rate. The values resulting from each approach (i.e. market and income approaches) are weighted to derive the final fair value of each security trading in an inactive market.

Amortization of premiums and accretion of discounts on securities are recorded as yield adjustments on such securities using the effective interest method. The specific identification method is used for purposes of determining cost in computing realized gains and losses on investment securities sold.

At each reporting date, the Company assesses whether there is an "other-than-temporary" impairment ("OTTI") in its portfolio of investment securities. If we determine that a decline in fair value is other-than-temporary, an impairment loss is recognized in current earnings. When we have the intent and ability to hold debt securities with OTTI for a period necessary to recover the noncredit-related impairment losses, only the credit-related impairment losses are recognized in current earnings. In these instances, the noncredit-related impairment losses are charged to other comprehensive income. The Company examines all individual securities that are in an unrealized loss position at each reporting date for other-than-temporary impairment. Specific investment level factors that are examined to assess impairment include the nature of the investments, the severity and duration of the loss, the probability that the Company will be unable to collect all amounts due, an analysis of the issuers of the securities and whether there has been any cause for default on the securities, and any change in the rating of the securities by the various rating agencies. Additionally, management takes into consideration the Company's financial resources as well as the Company's overall ability and intent to hold the securities until their fair values recover.

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

***Loans Receivable*** Loans receivable that the Company has the intent and ability to hold for the foreseeable future, or until maturity, are stated at their outstanding principal, reduced by an allowance for loan losses and net deferred loan fees or costs on originated loans and unamortized premiums or discounts on purchased loans. Nonrefundable fees and direct costs associated with the origination or purchase of loans are deferred and netted against outstanding loan balances. The deferred net loan fees and costs are recognized in interest income as an adjustment to yield over the loan term using the effective interest method. Discounts or premiums on purchased loans are accreted or amortized to interest income using the effective interest method over the remaining period to contractual maturity adjusted for anticipated prepayments. Interest on loans is calculated using the simple-interest method on daily balances of the principal amounts outstanding. Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that full collection of principal or interest becomes uncertain, regardless of the length of past due status. Generally, loans are placed on nonaccrual status when they become 90 days past due. When interest accrual is discontinued, all unpaid accrued interest is reversed against interest income. In general, subsequent payments received are applied to the outstanding principal balance of the loan. A loan

Table of Contents

is returned to accrual status when the borrower has demonstrated a satisfactory payment trend subject to management's assessment of the borrower's ability to repay the loan.

Loans held for sale are carried at the lower of aggregate cost or fair value using the aggregate method. Origination fees on loans held for sale, net of certain costs of processing and closing the loans, are deferred until the time of sale and are included in the computation of the gain or loss from the sale of the related loans. A valuation allowance is established if the fair value of such loans is lower than their cost, with a corresponding charge to noninterest income.

***Troubled Debt Restructurings ("TDR")*** A loan is identified as a troubled debt restructure when a borrower is experiencing financial difficulties and for economic or legal reasons related to these difficulties the Company grants a concession to the borrower in the restructuring that it would not otherwise consider. The Company has granted a concession when, as a result of the restructuring, it does not expect to collect all amounts due, including principal and/or interest accrued at the original terms of the loan. The concessions may be granted in various forms, including a below-market change in the stated interest rate, a reduction in the loan balance or accrued interest, an extension of the maturity date, or a note split with principal forgiveness. A restructuring executed at an interest rate that is at or near market interest rates for nontroubled debt is not a TDR. All troubled debt restructurings are reviewed for potential impairment. For modifications where we forgive principal, the entire amount of such principal forgiveness is immediately charged off. Generally, a nonaccrual loan that is restructured remains on nonaccrual status for a period of six months to demonstrate that the borrower can perform under the restructured terms. However, the borrower's performance prior to the restructuring, or other significant events at the time of restructuring may be considered in assessing whether the borrower can meet the new terms and may result in the loan remaining on accrual status or being returned to accrual status after a shorter performance period. If the borrower's performance under the new terms is not reasonably assured, the loan remains classified as a nonaccrual loan. Loans classified as TDRs are reported as impaired loans.

***Allowance for Loan Losses*** The allowance for loan losses is established as management's estimate of probable losses inherent in the loan portfolio. The allowance is increased by the provision for loan losses and decreased by charge-offs when management believes the uncollectability of a loan is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance for loan losses is evaluated on a regular basis by management and is based on management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to revision as more information becomes available. Additionally, non-classified loans are also considered in the allowance for loan losses calculation and are factored in based on the historical loss experience adjusted for various qualitative factors.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all scheduled payments of principal or interest due according to the contractual terms of the loan agreement. Factors considered by management in determining and measuring loan impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for residential, commercial real estate, and commercial and industrial loans based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as an expedient, at the loan's observable market price or the fair value of

Table of Contents

the collateral, less costs to sell, if the loan is collateral dependent. If the measure of the impaired loan is less than the recorded investment in the loan, the deficiency is charged off against the allowance for loan losses. Consumer loans consist of homogeneous smaller balance loans and are reviewed on a collective basis for impairment.

***Acquired Loans*** Acquired loans are valued as of acquisition date in accordance with ASC 805. Loans purchased with evidence of credit deterioration since origination for which it is probable that all contractually required payments will not be collected are accounted for under ASC 310-30. Further, the Company has elected to account for all other acquired loans within the scope of ASC 310-30 using the same methodology.

Under ASC 805 and ASC 310-30, loans are recorded at fair value at acquisition date, factoring in credit losses expected to be incurred over the life of the loan. Accordingly, an allowance for loan losses is not carried over or recorded as of the acquisition date. In situations where loans have similar risk characteristics, loans are aggregated into pools to estimate cash flows under ASC 310-30. A pool is accounted for as a single asset with a single interest rate, cumulative loss rate and cash flow expectation.

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

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

***Covered Loans*** Loans acquired in an FDIC-assisted acquisition that are subject to an FDIC shared-loss agreement are referred to as covered loans. Covered loans are reported exclusive of the expected cash flow reimbursements we expect to collect from the FDIC. All covered loans are accounted for under ASC 805 and ASC 310-30.

***FDIC Indemnification Asset*** In conjunction with the FDIC-assisted acquisitions of Washington First International Bank and United Commercial Bank, the Bank entered into shared-loss agreements with the FDIC related to covered loans and covered other real estate owned (see "Covered Other Real Estate Owned" below). The FDIC indemnification asset is initially recorded at fair value, based on the discounted value of expected future cash flows under the shared-loss agreement. The Company has elected to account for amounts receivable under the shared-loss agreements as an indemnification asset in accordance with ASC 805. The difference between the present value and the undiscounted cash flows the Company expects to collect from the FDIC is accreted into noninterest income over the life of the FDIC indemnification asset. The FDIC indemnification asset is reviewed quarterly and adjusted for any changes in expected cash flows based on recent performance and expectations for future performance of the covered portfolio. These adjustments are measured on the same basis as the related covered loans and covered other real estate owned. Any increases in cash flow of the covered loans over those expected will reduce the FDIC indemnification asset and any decreases in cash flow of the covered loans over those expected will increase

Table of Contents

the FDIC indemnification asset. Over the life of the FDIC indemnification asset, increases and decreases to the are recorded as adjustments to noninterest income. In December 2010, the bank lowered the credit discount on the UCB covered loan portfolio as the credit quality is performing better than originally estimated. By lowering the credit discount, interest income will increase over the life of the loans. Correspondingly, with the lowered credit discount, the expected reimbursement from the FDIC under the loss sharing agreement will also decrease, resulting in amortization on the FDIC indemnification asset which is recorded as a charge to noninterest income.

***Other Real Estate Owned*** Other real estate owned ("OREO") represents properties acquired through foreclosure or through full or partial satisfaction of loans, is considered held for sale, and is recorded at the lower of cost or estimated fair value at the time of foreclosure. Loan balances in excess of the fair value of the real estate acquired at the date of foreclosure are charged against the allowance for loan losses. After foreclosure, the real estate is carried at the lower of carrying value or fair value less costs to sell. Subsequent declines in the fair value of OREO below the carrying value are recorded through the use of a valuation allowance by charges to noninterest expense. Any subsequent operating expenses or income of such properties are also charged to noninterest expense. If the OREO is sold within three months of foreclosure, the Company substitutes the value received in the sale (net of costs to sell) for the fair value (less costs to sell). Any adjustment made to the loss originally recognized at the time of foreclosure is then charged against or credited to the allowance for loan losses, if deemed material. Otherwise, any declines in value, after foreclosure, are recorded in non-interest expense as gains or losses from the sale or disposition of the real estate. Gain recognition upon disposition of a property is dependent on the sale having met certain criteria relating to the buyer's initial investment in the property sold.

***Covered Other Real Estate Owned*** All other real estate owned acquired in an FDIC-assisted acquisition that are subject to an FDIC shared-loss agreement are referred to as covered other real estate owned. Covered other real estate owned is reported exclusive of the expected cash flow reimbursements we expect to collect from the FDIC. Upon transferring covered loan collateral to covered other real estate owned status, acquisition date fair value discounts on the related loan are also transferred to covered other real estate owned. Fair value adjustments on covered other real estate owned result in a reduction of the covered other real estate carrying amount and a corresponding increase in the FDIC reimbursement. the non-reimbursed portion of the estimated loss to the Bank is charged against earnings.

***Investment in Affordable Housing Partnerships*** The Company owns limited partnership interests in projects of affordable housing for lower income tenants. The investments in which the Company has a limited partnership interest that exceeds 5% are recorded using the equity method of accounting. The remaining investments are recorded using the cost method and are being amortized over the life of the related tax credits. The tax credits are being recognized in the consolidated financial statements to the extent they are utilized on the Company's income tax returns. The investments are reviewed for impairment on an annual basis on or on an interim basis if an event occurs that would trigger potential impairment.

***Goodwill and Other Intangible Assets*** The Company has goodwill, which represents the excess of the purchase price over the fair value of net assets acquired, as a result of various past acquisitions. Goodwill is not amortized and is reviewed for impairment on an annual basis or on an interim basis if an event occurs or circumstances change that would reduce the fair value of a reporting unit below its carrying value. Premiums on deposits, which represent the intangible value of depositor relationships resulting from deposit liabilities assumed in acquisitions, are amortized over the projected useful lives of the deposits, which is typically 7 to 15 years. Core deposit intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment on goodwill and premiums on deposits is recognized by writing down the asset to the extent that the carrying value exceeds the estimated fair value.

***Investment in Federal Home Loan Bank Stock*** As a member of the Federal Home Loan Bank ("FHLB") of San Francisco, the Bank is required to own common stock in the FHLB of San Francisco based upon our balance of residential mortgage loans and outstanding FHLB advances. As a result of the acquisition of WFIB, the Bank also owns common stock in the FHLB of Seattle. FHLB stock is carried at cost and may be sold back to the FHLB at its carrying value. Both cash and stock dividends received are reported as dividend income.

***Investment in Federal Reserve Bank Stock*** As a member of the Federal Reserve Bank ("FRB") of San Francisco, the Bank is required to maintain stock in the FRB of San Francisco based on a specified ratio relative to our capital. FRB stock is carried at cost and may be sold back to the FRB at its carrying value. Cash dividends are accrued and are reported as dividend income.

***Premises and Equipment*** The Company's premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed based on the straight-line method over the estimated useful lives of the various classes of assets. The ranges of useful lives for the principal classes of assets are as follows:

| | |
|---|---|
| Buildings and building improvements | 25 years |
| Furniture, fixtures and equipment | 3 to 7 years |
| Leasehold improvements | Term of lease or useful life, whichever is shorter |

The Company reviews its long-lived assets for impairment annually or when events or circumstances indicate that the carrying amount of these assets may not be recoverable. An asset is considered impaired when the expected undiscounted cash flows over the remaining useful life is less than the net book value. When impairment is indicated for an asset, the amount of impairment loss is the excess of the net book value over its fair value.

***Mortgage Servicing Assets*** Mortgage servicing assets are initially recorded at fair value. Servicing assets are amortized in proportion to, and over the period of, estimated net servicing income. The fair value of servicing assets is determined based on the present value of estimated net future cash flows related to contractually-specified servicing fees. The primary determinants of the fair value of mortgage servicing assets are prepayment speeds and discount rates. Evaluation of impairment is performed on a quarterly basis using discounted cash flow analysis in combination with mortgage dealer consensus prepayment forecasts. Variations in either or a combination of these factors could materially affect the estimated values of mortgage servicing assets. In conjunction with the valuation process, each class of servicing assets is stratified to evaluate and measure impairment, which is measured as the excess of cost over fair value. Determination of each stratum is based on one or more predominant risk characteristics of the underlying financial assets, including loan type, maturity and interest rates. Impairment, if it occurs, is recognized through a valuation allowance for each stratum.

***Securities Sold Under Repurchase Agreements ("Repurchase Agreements")*** The Company sells securities under repurchase agreements. These transactions are accounted for as collateralized financing transactions and recorded at the amounts at which the securities were sold. The Company may have to provide additional collateral to the counterparty, as necessary.

***Long-Term Debt*** Long-term debt consists of both junior subordinated debt and subordinated debt. The Company has established nine statutory business trusts whereby the Company is the owner of all the beneficial interests represented by the common securities of the Trusts, and third parties hold the fixed and variable rate capital securities of the Trusts. The purpose of issuing the capital securities was to provide the Company with a cost-effective means of obtaining Tier I capital for regulatory reporting purposes.

The Trusts are not consolidated by the Company. Two of the nine trusts were dissolved during 2011. Junior subordinated debt represents liabilities of the Company to the Trusts and is included in long-term debt on the accompanying consolidated balance sheets.

***Federal Funds Purchased*** The Company utilizes federal funds purchased as part of its short-term financing strategy. Federal funds purchased are generally overnight borrowings and mature within one business day to six months from the transaction date.

***Income Taxes*** Deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year-end, based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income.

The Company examines its financial statements, its income tax provision, and its federal and state income tax returns and analyzes its tax positions, including permanent and temporary differences, as well as the major components of income and expense to determine whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. In the event a tax position is not more likely than not to be sustained by the tax authorities, a reserve is established by management. The Company recognizes interest and penalties related to tax positions as part of its provision for income taxes.

***Stock-Based Compensation*** The Company issues stock-based compensation to certain employees, officers, and directors and accounts for stock options using the fair value method, which generally results in compensation expense recognition. Prior to December 31, 2005, the Company accounted for its fixed stock options using the intrinsic-value method, as prescribed in Accounting Principles Board ("APB") Opinion No. 25. Accordingly, no stock option expense was recorded in periods prior to December 31, 2005.

In adopting the fair value method discussed above, the Company elected to follow the modified prospective method, which required application of the new standard to new awards and to awards modified, repurchased or cancelled after the required effective date. Accordingly, prior period amounts have not been restated. Additionally, compensation costs for the portion of awards for which the requisite service has not been rendered that are outstanding as of January 1, 2006 are being recognized as the requisite services are rendered on or after January 1, 2006. The compensation cost of that portion of awards is based on the grant-date fair value of those awards as calculated for pro forma disclosures under the original SFAS No. 123.

***Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*** Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company; (2) the transferee has the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets; and (3) the Company does not maintain effective control over the transferred assets through either (a) an agreement that entitles and obligates the Company to repurchase or redeem them before their maturity or (b) an agreement that provides the Company with both the unilateral ability to cause the holder to return specific assets and a more than trivial benefit attributable to that ability. The difference between the net proceeds received and the carrying amount of the financial assets being sold is recognized as a gain or loss on sale.

***Earnings Per Share ("EPS")*** Basic EPS excludes dilution and is computed by dividing income or loss available to common stockholders by the weighted-average number of shares outstanding during the period. Diluted EPS is calculated on the basis of the weighted average number of shares outstanding during the period plus restricted stock and shares issuable upon the assumed exercise of outstanding convertible preferred stock, common stock options and warrants, unless they have an antidilutive effect.

***Comprehensive Income*** The term "comprehensive income" describes the total of all components of comprehensive income, including net income and other comprehensive income. "Other comprehensive income" refers to revenues, expenses, and gains and losses that are included in comprehensive income but are excluded from net income because they have been recorded directly in equity under the provisions of other Financial Accounting Standards Board statements. The Company presents the comprehensive income disclosure as a part of the statements of changes in stockholders' equity by identifying each element of comprehensive income, including net income.

***Derivative Financial Instruments*** As part of its asset and liability management strategy, the Company uses derivative financial instruments to mitigate exposure to interest rate and foreign currency risks. All derivative instruments, including certain derivative instruments embedded in other contracts, are recognized on the condensed consolidated balance sheet at fair value with the change in fair value reported in earnings. When master netting agreements exist, the Company nets counterparty positions with any cash collateral received or delivered.

The Company's interest rate swaps on certain certificates of deposit qualify for hedge accounting treatment under ASC 815, *Derivatives and Hedging*. The Company documents its hedge relationships, including identification of the hedging instruments and the hedged items, as well as its risk management objectives and strategies for undertaking the hedge transaction at the time the derivative contract is executed. This includes designating the derivative contract as a "fair value hedge" which is a hedge of a recognized asset or liability. All derivatives designated as fair value hedges are linked to specific hedged items or to groups of specific assets and liabilities on the balance sheet. Both at inception and quarterly thereafter, the Company assesses whether the derivatives used in hedging transactions are highly effective (as defined in the guidance) in offsetting changes in the fair value of the hedged item. Retroactive effectiveness is also assessed as well as the continued expectation that the hedge will remain effective prospectively. Any ineffective portion of the changes of fair value hedges is recognized immediately in interest expense in the condensed consolidated statements of income.

The Company discontinues hedge accounting prospectively when (i) a derivative is no longer highly effective in offsetting changes in the fair value, (ii) a derivative expires or is sold, terminated, or exercised, or (iii) the Company determines that designation of a derivative as a hedge is no longer appropriate. If a fair value hedge derivative instrument is terminated or the hedge designation removed, the previous adjustments to the carrying amount of the hedged liability would be subsequently accounted for in the same manner as other components of the carrying amount of that liability. For interest-bearing liabilities, such adjustments would be amortized into earnings over the remaining life of the respective liability.

***Reclassifications*** Certain items in the consolidated balance sheet and the consolidated statements of income for the years ended December 31, 2010 and 2009 were reclassified to conform to the 2011 and 2010 presentation, respectively. These reclassifications did not affect previously reported net income.

***RECENT ACCOUNTING STANDARDS***

In January 2010, the FASB issued Accounting Standards Update ("ASU") 2010-06, *Improving Disclosures About Fair Value Measurements*. ASU 2010-06 requires separate disclosure of the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and reasons for the transfers and separate presentation of information about purchases, sales, issuances, and settlements in the reconciliation for Level 3 fair value measurements. Additionally, ASU 2010-06 clarifies existing disclosures regarding level of disaggregation and inputs and valuation techniques. The new disclosures and clarifications of existing disclosures under ASU 2010-06 are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements which are effective for fiscal years ending after December 15, 2010 and for interim periods within those fiscal years. The adoption of the disclosure requirements did not have a material effect on the Company's condensed consolidated financial statements.

In December 2010, the FASB issued ASU 2010-28, *Intangibles Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts*, which modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should also consider whether there are any adverse qualitative factors indicating that an impairment may exist. The amendments in ASU 2010-28 are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. Upon adoption of the amendments, any resulting goodwill impairment should be recorded as a cumulative-effect adjustment to beginning retained earnings in the period of adoption. Any goodwill impairments occurring after the initial adoption of the amendments should be included in earnings. The adoption of this guidance did not have a material effect on the Company's condensed consolidated financial statements.

In December 2010, the FASB issued ASU 2010-29, *Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations*, which specifies that if a public entity presents comparative financials, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. ASU 2010-29 also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments in ASU 2010-29 are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. The adoption of the disclosure requirements did not have a material effect on the Company's condensed consolidated financial statements.

In April 2011, the FASB issued ASU 2011-02, *Receivables (Topic 310) A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*. ASU 2011-02 clarifies the guidance on the two conditions that must exist in evaluating whether a restructuring constitutes a troubled debt restructuring: that the restructuring constitutes a concession and that the debtor is experiencing financial difficulties. In addition, ASU 2011-02 clarifies that a creditor is precluded from using the effective interest rate test in the debtor's guidance on restructuring of payables (paragraph 470-60-55-10) when evaluating whether a restructuring constitutes a troubled debt restructuring. The amendments in ASU 2011-02 are effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. Additionally, ASU 2011-02 finalizes the effective date for the disclosures required by paragraphs 310-10-50-33 through 50-34, which were deferred by ASU 2011-01, for interim and annual periods beginning on or after June 15, 2011. The adoption of this guidance did not have a material effect on the Company's condensed consolidated financial statements.

Table of Contents

In April 2011, the FASB issued ASU 2011-03, *Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements*. ASU 2011-03 removes the transferor's ability criterion from the consideration of effective control for repos and other agreements that both entitle and obligate the transferor to repurchase or redeem financial assets before their maturity. The amendments in ASU 2011-03 remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. The FASB indicates that eliminating the transferor's ability criterion and related implementation guidance from an entity's assessment of effective control should improve the accounting for repos and other similar transactions. The amendments in ASU 2011-03 are effective for the first interim or annual period beginning on or after December 15, 2011 and are to be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. The Company does not expect the adoption of this guidance to have a material effect on its condensed consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* ASU 2011-04 addresses convergence between GAAP and International Financial Reporting Standards ("IFRS") requirements for measurement of and disclosures about fair value. The amendments are not expected to have a significant impact on companies applying GAAP. Key provisions of the amendment include: a prohibition on grouping financial instruments for purposes of determining fair value, except when an entity manages market and credit risks on the basis of the entity's net exposure to the group; an extension of the prohibition against the use of a blockage factor to all fair value measurements (that prohibition currently applies only to financial instruments with quoted prices in active markets); and a requirement that for recurring Level 3 fair value measurements, entities disclose quantitative information about unobservable inputs, a description of the valuation process used and qualitative details about the sensitivity of the measurements. In addition, for items not carried at fair value but for which fair value is disclosed, entities will be required to disclose the level within the fair value hierarchy that applies to the fair value measurement disclosed. The amendments in ASU 2011-04 are effective during interim and annual periods beginning after December 15, 2011. Early adoption is not permitted. The Company does not expect the adoption of this guidance to have a material effect on its condensed consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income.* ASU 2011-05 will require companies to present the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements. It eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The standard does not change the items which must be reported in other comprehensive income, how such items are measured, or when they must be reclassified to net income. The FASB amended ASU 2011-05 in December 2011, with the issuance of ASU 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05.* ASU 2011-12 defers only changes in ASU 2011-05 that relate to the presentation of reclassification adjustments. Both standards are effective for interim and annual periods beginning after December 15, 2011. The Company does not expect the adoption of either guidance to have a material effect on its condensed consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08, *Intangibles Goodwill and Other (Topic 350): Testing Goodwill for Impairment*. ASU 2011-08 gives both public and nonpublic companies the option to qualitatively determine whether they can bypass the two-step goodwill impairment test under ASC 350-20, *Intangibles Goodwill and Other: Goodwill*. Under ASU 2011-08, if a company chooses to perform a qualitative assessment and determines that it is more likely than not (a more than 50 percent likelihood) that the fair value of a reporting unit is less than its carrying amount, it would then perform Step 1 of the annual goodwill impairment test in ASC 350-20 and, if necessary, proceed to Step 2. Otherwise, no further evaluation would be necessary. The amended guidance is effective for interim and annual periods beginning after December 15, 2011. Early adoption is permitted. The Company does not expect the adoption of this guidance to have a material effect on its condensed consolidated financial statements.

In December 2011, the FASB issued ASU 2011-11*, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities.* ASU 2011-11 affects all entities that have financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement. The requirements amend the disclosure requirements on offsetting in Section 210-20-50. This information is intended to enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments in the scope of this ASU. The amended guidance is effective for interim and annual periods beginning after January 1, 2013 and should be applied retrospectively to all periods presented. The Company does not expect the adoption of the disclosure requirements to have a material effect on its condensed consolidated financial statements.

**2. BUSINESS COMBINATIONS**

*Washington First International Bank*

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

The net gain represents the excess of the estimated fair value of the assets acquired over the estimated fair value of the liabilities assumed and is influenced significantly by the FDIC-assisted transaction process. Under the FDIC-assisted transaction process, only certain assets and liabilities are transferred to the acquirer and, depending on the nature and amount of the acquirer's bid, the FDIC may be required to make a cash payment to the acquirer. The Bank received a cash payment from the FDIC for $51.7 million. In the WFIB acquisition, the fair value of the assets acquired was $492.6 million and the book value of net assets transferred to the Bank was $486.3 million. The pre-tax gain of $19.5 million or the after-tax gain of $11.3 million recognized by the Company is considered a bargain purchase transaction under ASC 805 since the total acquisition-date fair value of the identifiable net assets acquired exceeded the fair value of the consideration transferred. The gain was recognized as noninterest income in the Company's consolidated statements of income.

During 2010, post acquisition date, the Company recorded an additional $1.6 million purchase price adjustment related to investment securities obtained in the acquisition of WFIB with a corresponding decrease to the gain on acquisition. The adjustment is included in noninterest income in the consolidated statements of income. Under ASC 805, the Company is allowed to recognize additional assets and liabilities related to the acquisition of WFIB if new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have resulted in the recognition of those assets and those liabilities as of that date. The measurement period ends as soon as the Company receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

*United Commercial Bank*

On November 6, 2009 the Bank acquired certain assets and assumed certain liabilities of United Commercial Bank ("UCB") from the FDIC in an FDIC-assisted transaction. As part of the Purchase and Assumption Agreement, the Bank and the FDIC entered into a shared-loss agreement, whereby the FDIC will reimburse a substantial portion of any future losses on loans (and related unfunded loan commitments), OREO and accrued interest on loans for up to 90 days. Under the terms of the shared-loss agreement, the FDIC will absorb 80% of losses and share in 80% of loss recoveries on the first $2.05 billion and absorb 95% of losses and share in 95% of loss recoveries exceeding $2.05 billion. The shared-loss agreement for commercial and single family residential mortgage loans is in effect for 5 years and 10 years, respectively, from the November 6, 2009 acquisition date and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from the acquisition date.

In the UCB acquisition, the fair value of assets acquired was $9.86 billion. The Company recorded a pre-tax bargain purchase gain of $471.0 million in noninterest income in the Company's 2009 consolidated statements of income. During 2010, the Company recorded an additional net pre-tax gain of $5.0 million related to the fair value of investments obtained in the acquisition of UCB. The adjustment is included in noninterest income in the 2010 consolidated statements of income.

## 3. FAIR VALUE

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

Level 1 Quoted prices for identical instruments that are highly liquid, observable and actively traded in over-the-counter markets. Level 1 financial instruments typically include U.S. Treasury securities.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable and can be corroborated by market data. Level 2 financial instruments typically include U.S. Government debt and agency mortgage-backed securities, corporate debt securities, municipal securities, single issue trust preferred securities, equity swap agreements, foreign exchange options, interest rate swaps and OREO.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include

Table of Contents

financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category typically includes mortgage servicing assets, impaired loans, private-label mortgage-backed securities, pooled trust preferred securities and derivatives payable.

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

Table of Contents

In determining the appropriate hierarchy levels, the Company performs a detailed analysis of assets and liabilities that are subject to fair value disclosure. The following tables present both financial and nonfinancial assets and liabilities that are measured at fair value on a recurring and nonrecurring basis. These assets and liabilities are reported on the consolidated balance sheets at their fair values as of December 31, 2011 and December 31, 2010. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to their fair value measurement. There were no transfers in an out of Levels 1 and 2 during 2011. There were also no transfers in and out of Level 1 and 3 or Levels 2 and 3.

| | Assets (Liabilities) Measured at Fair Value on a Recurring Basis as of December 31, 2011 | | | |
|---|---|---|---|---|
| | **Fair Value Measurements December 31, 2011** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| | *(In thousands)* | | | |
| Investment securities available-for-sale: | | | | |
| U.S. Treasury securities | $ 20,725 | $ 20,725 | $ | $ |
| U.S. Government agency and U.S. Government sponsored enterprise debt securities | 576,578 | | 576,578 | |
| U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities: | | | | |
| Commercial mortgage-backed securities | 49,315 | | 49,315 | |
| Residential mortgage-backed securities | 993,770 | | 993,770 | |
| Municipal securities | 79,946 | | 79,946 | |
| Other residential mortgage-backed securities: | | | | |
| Investment grade | | | | |