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

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

FORM 10-Q

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

For the quarterly period ended June 30, 2010

or

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

For the transition period from ________ to ________.

Commission file number 000-24939

EAST WEST BANCORP, INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 95-4703316 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

135 N. Los Robles Ave, 7th Floor, Pasadena, California 91101
(Address of principal executive offices) (Zip Code)

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

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

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

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

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

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

Number of shares outstanding of the issuer's common stock on the latest practicable date: 147,977,287 shares of common stock as of July 31, 2010.

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Forward-Looking Statements

Certain matters discussed in this Quarterly Report may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “1933 Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and as such, may involve risks and uncertainties. These forward-looking statements relate to, among other things, expectations of the environment in which the Company operates and projections of future performance including future earnings and financial condition. The Company’s actual results, performance, or achievements may differ significantly from the results, performance, or achievements expected or implied in such forward-looking statements. Such risk and uncertainties and other factors include, but are not limited to, adverse developments or conditions related to or arising from:

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

- impact of reputational risk created by these developments on such matters as business generation and retention, funding and liquidity;
- changes in our ability to receive dividends from our subsidiaries; and
- political developments, wars or other hostilities may disrupt or increase volatility in securities or otherwise affect economic conditions.

For a more detailed discussion of some of the factors that might cause such differences, see the Company's 2009 Form 10-K under the heading "ITEM 1A. RISK FACTORS" and the information set forth under "RISK FACTORS" in this Form 10-Q. The Company does not undertake, and specifically disclaims any obligation to update any forward-looking statements to reflect the occurrence of events or circumstances after the date of such statements except as required by law.

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

| | June 30, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| ASSETS | | | | |
| Cash and cash equivalents | $ | 1,185,944 | $ | 835,141 |
| Short-term investments | | 447,168 | | 510,788 |
| Securities purchased under resale agreements | | 230,000 | | 227,444 |
| Investment securities available for sale, at fair value (with amortized cost of $2,073,239 at June 30, 2010 and $2,563,043 at December 31, 2009) | | 2,077,011 | | 2,564,081 |
| Loans held for sale, at fair value | | 159,158 | | 28,014 |
| | | | | |
| Loans receivable, excluding covered loans (net of allowance for loan losses of $249,462 at June 30, 2010 and $238,833 at December 31, 2009) | | 8,018,808 | | 8,218,671 |
| Covered loans | | 5,275,492 | | 5,598,155 |
| Total loans receivable, net | | 13,294,300 | | 13,816,826 |
| | | | | |
| FDIC indemnification asset | | 947,011 | | 1,091,814 |
| | | | | |
| Other real estate owned, net | | 16,562 | | 13,832 |
| Other real estate owned covered, net | | 113,999 | | 44,273 |
| Total other real estate owned | | 130,561 | | 58,105 |
| | | | | |
| Accrued interest receivable | | 79,515 | | 82,370 |
| Due from customer acceptances | | 44,320 | | 40,550 |
| Investment in affordable housing partnerships | | 120,743 | | 84,833 |
| Premises and equipment, net | | 134,158 | | 59,099 |
| Premiums on deposits acquired, net | | 86,106 | | 89,735 |
| Goodwill | | 337,438 | | 337,438 |
| Other assets | | 693,888 | | 732,974 |
| TOTAL | $ | 19,967,321 | $ | 20,559,212 |
| | | | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | |
| Customer deposit accounts: | | | | |
| Noninterest-bearing | $ | 2,396,087 | $ | 2,291,259 |
| Interest-bearing | | 12,522,607 | | 12,696,354 |
| Total deposits | | 14,918,694 | | 14,987,613 |
| Federal Home Loan Bank advances | | 1,022,011 | | 1,805,387 |
| Securities sold under repurchase agreements | | 1,051,192 | | 1,026,870 |
| Notes payable and other borrowings | | 53,607 | | 74,406 |
| Bank acceptances outstanding | | 44,320 | | 40,550 |
| Long-term debt | | 235,570 | | 235,570 |
| Accrued interest payable, accrued expenses and other liabilities | | 302,963 | | 104,157 |

| | | | | |
|---|---|---|---|---|
| Total liabilities | | 17,628,357 | | 18,274,553 |
| | | | | |
| COMMITMENTS AND CONTINGENCIES (Note 10) | | | | |
| | | | | |
| STOCKHOLDERS' EQUITY | | | | |
| Preferred stock, $0.001 par value, 5,000,000 shares authorized; Series A, non-cumulative convertible, 200,000 shares issued and 85,741 shares outstanding in 2010 and 2009; Series B, cumulative, 306,546 shares issued and outstanding in 2010 and 2009; Series C, cumulative convertible, 335,047 issued and outstanding in 2009 | | 369,695 | | 693,803 |
| Common stock, $0.001 par value, 200,000,000 shares authorized; 154,954,876 and 116,754,403 shares issued in 2010 and 2009, respectively; 147,938,847 and 109,962,965 shares outstanding in 2010 and 2009, respectively | | 155 | | 117 |
| Additional paid in capital | | 1,424,213 | | 1,091,047 |
| Retained earnings | | 650,617 | | 604,223 |
| Treasury stock, at cost - 7,016,029 shares in 2010 and 6,791,438 shares in 2009 | | (108,018) | | (105,130) |
| Accumulated other comprehensive income, net of tax | | 2,302 | | 599 |
| Total stockholders' equity | | 2,338,964 | | 2,284,659 |
| TOTAL | $ | 19,967,321 | $ | 20,559,212 |

See accompanying notes to condensed consolidated financial statements.

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EAST WEST BANCORP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

| | Three Months Ended June 30, 2010 | Three Months Ended June 30, 2009 | Six Months Ended June 30, 2010 | Six Months Ended June 30, 2009 |
|---|---|---|---|---|
| INTEREST AND DIVIDEND INCOME | | | | |
| Loans receivable, including fees | $ 233,783 | $ 111,669 | $ 521,727 | $ 222,485 |
| Investment securities | 14,741 | 30,318 | 34,917 | 59,693 |
| Securities purchased under resale agreements | 2,630 | 1,292 | 8,893 | 2,542 |
| Short-term investments | 1,502 | 2,509 | 5,043 | 5,485 |
| Investment in Federal Reserve Bank stock | 762 | 545 | 1,419 | 1,051 |
| Investment in Federal Home Loan Bank stock | 115 | - | 237 | - |
| Total interest and dividend income | 253,533 | 146,333 | 572,236 | 291,256 |
| | | | | |
| INTEREST EXPENSE | | | | |
| Customer deposit accounts | 29,132 | 30,890 | 62,580 | 67,963 |
| Securities sold under repurchase agreements | 12,045 | 12,004 | 24,586 | 23,876 |
| Federal Home Loan Bank advances | 6,175 | 13,142 | 15,180 | 27,019 |
| Long-term debt | 1,591 | 2,034 | 3,138 | 4,451 |
| Other borrowings | 967 | 3 | 1,405 | 6 |
| Total interest expense | 49,910 | 58,073 | 106,889 | 123,315 |
| | | | | |
| Net interest income before provision for loan losses | 203,623 | 88,260 | 465,347 | 167,941 |
| Provision for loan losses | 55,256 | 151,422 | 131,677 | 229,422 |
| Net interest income after provision for loan losses | 148,367 | (63,162 ) | 333,670 | (61,481 ) |
| | | | | |
| NONINTEREST INCOME (LOSS) | | | | |
| Decrease in FDIC indemnification asset and receivable | (9,424 ) | - | (52,996 ) | - |
| | | | | |
| Impairment loss on investment securities | (12,303 ) | (100,753 ) | (17,102 ) | (100,953 ) |
| Less: non-credit related impairment loss recorded in other comprehensive income | 7,661 | 63,306 | 7,661 | 63,306 |
| Net impairment loss on investment securities recognized in earnings | (4,642 ) | (37,447 ) | (9,441 ) | (37,647 ) |
| | | | | |
| Net gain on sale of investment securities | 5,847 | 1,680 | 21,958 | 5,201 |

| | | | | |
|---|---|---|---|---|
| Branch fees | 8,219 | 4,991 | 16,977 | 9,784 |
| Gain on acquisition | 19,476 | - | 27,571 | - |
| Letters of credit fees and commissions | 2,865 | 1,930 | 5,605 | 3,784 |
| Ancillary loan fees | 2,369 | 1,356 | 4,058 | 3,585 |
| Income from life insurance policies | 1,101 | 1,096 | 2,206 | 2,179 |
| Net gain on sale of loans | 8,073 | 3 | 8,073 | 11 |
| Other operating income | 1,801 | 192 | 3,223 | 698 |
| Total noninterest income (loss) | 35,685 | (26,199) | 27,234 | (12,405) |
| | | | | |
| NONINTEREST EXPENSE | | | | |
| Compensation and employee benefits | 41,579 | 16,509 | 92,358 | 33,617 |
| Other real estate owned expense | 20,983 | 8,682 | 38,995 | 15,713 |
| Occupancy and equipment expense | 13,115 | 6,297 | 25,059 | 13,688 |
| Deposit insurance premiums and regulatory assessments | 4,528 | 9,568 | 16,109 | 12,893 |
| Prepayment penalty for FHLB advances | 3,900 | - | 13,832 | - |
| Amortization of premiums on deposits acquired | 3,310 | 1,092 | 6,694 | 2,217 |
| Amortization of investments in affordable housing partnerships | 2,638 | 1,652 | 5,675 | 3,412 |
| Loan related expenses | 5,254 | 1,642 | 8,251 | 3,077 |
| Legal expense | 6,183 | 1,755 | 9,090 | 3,533 |
| Data processing | 3,046 | 1,141 | 5,528 | 2,283 |
| Consulting expense | 1,919 | 672 | 4,060 | 1,120 |
| Deposit-related expenses | 1,133 | 1,014 | 2,142 | 1,915 |
| Other operating expenses | 17,730 | 7,888 | 36,435 | 15,850 |
| Total noninterest expense | 125,318 | 57,912 | 264,228 | 109,318 |
| | | | | |
| INCOME (LOSS) BEFORE PROVISION (BENEFIT) FOR INCOME TAXES | 58,734 | (147,273) | 96,676 | (183,204) |
| PROVISION (BENEFIT) FOR INCOME TAXES | 22,386 | (60,548) | 35,412 | (74,013) |
| NET INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS | 36,348 | (86,725) | 61,264 | (109,191) |
| | | | | |
| Extraordinary item - impact of desecuritization, net of tax | - | (5,366) | - | (5,366) |
| NET INCOME (LOSS) AFTER EXTRAORDINARY ITEMS | 36,348 | (92,091) | 61,264 | (114,557) |
| PREFERRED STOCK DIVIDENDS AND AMORTIZATION OF PREFERRED STOCK DISCOUNT | 6,147 | 23,623 | 12,285 | 32,366 |
| NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS | $ 30,201 | $ (115,714) | $ 48,979 | $ (146,923) |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| EARNINGS (LOSS) PER SHARE AVAILABLE TO COMMON STOCKHOLDERS | | | | | | | | | | |
| BASIC | $ | 0.21 | $ | (1.83 | ) | $ | 0.40 | $ | (2.33 | ) |
| DILUTED | $ | 0.21 | $ | (1.83 | ) | $ | 0.34 | $ | (2.33 | ) |
| DIVIDENDS DECLARED PER COMMON SHARE | $ | 0.01 | $ | 0.01 | | $ | 0.02 | $ | 0.03 | |
| | | | | | | | | | | |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING | | | | | | | | | | |
| BASIC | | 146,372 | | 63,105 | | | 123,445 | | 63,052 | |
| DILUTED | | 147,131 | | 63,105 | | | 142,143 | | 63,052 | |

See accompanying notes to condensed consolidated financial statements.

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

| | Preferred Stock | Additional Paid In Capital Preferred Stock | Common Stock | Additional Paid In Capital | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Loss, Net of Tax | Comprehensive Income (Loss) | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|---|---|
| BALANCE, DECEMBER 31, 2008 | $- | $472,311 | $70 | $695,521 | $572,172 | $(102,817) | $(86,491) | | $1,550,766 |
| Cumulative effect adjustment for reclassification of the previously recognized noncredit-related impairment loss on investment securities | | | | | 8,110 | | (8,110) | | - |
| BALANCE, JANUARY 1, 2009 | - | 472,311 | 70 | 695,521 | 580,282 | (102,817) | (94,601) | | 1,550,766 |
| Comprehensive loss | | | | | | | | | |
| Net loss after extraordinary item | | | | | (114,557) | | | $(114,557) | (114,557) |
| Net unrealized gain/(loss) on investment securities available-for-sale | | | | | | | 60,915 | 60,915 | 60,915 |
| Net unrealized loss as a result of desecuritization | | | | | | | 30,551 | 30,551 | 30,551 |
| Noncredit-related impairment loss on investment securities recorded in the current year | | | | | | | (36,717) | (36,717) | (36,717) |
| | | | | | | | | $(59,808) | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Total comprehensive loss | | | | | | | | | |
| Stock compensation costs | | | | 2,908 | | | | | 2,908 |
| Tax benefit from stock plans | | | | (404) | | | | | (404) |
| Preferred stock issuance cost | | (44) | | | | | | | (44) |
| Issuance of 385,722 shares pursuant to various stock plans and agreements | | | 1 | 389 | | | | | 390 |
| Cancellation of 45,268 shares due to forfeitures of issued restricted stock | | | | 1,087 | | (1,087) | | | - |
| Purchase of 8,978 shares of treasury stock due to the vesting of restricted stock | | | | | | (35) | | | (35) |
| Amortization of Series B preferred stock discount | | 2,158 | | | (2,158) | | | | - |
| Preferred stock dividends | | | | | (15,435) | | | | (15,435) |
| Common stock dividends | | | | | (1,570) | | | | (1,570) |
| Inducement of preferred stock conversion | | | | 14,773 | (14,773) | | | | - |
| BALANCE, JUNE 30, 2009 | $- | $474,425 | $71 | $714,274 | $431,789 | $(103,939) | $(39,852) | | $1,476,768 |
| | | | | | | | | | |
| BALANCE, JANUARY 1, 2010 | $- | $693,803 | $117 | $1,091,047 | $604,223 | $(105,130) | $599 | | $2,284,659 |
| Comprehensive income | | | | | | | | | |
| Net income | | | | | 61,264 | | | $61,264 | 61,264 |
| Net unrealized gain on investment securities available-for-sale | | | | | | | 6,147 | 6,147 | 6,147 |
| | | | | | | | (4,444) | (4,444) | (4,444) |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Noncredit-related impairment loss on investment securities recorded in the current year | | | | | | | | | |
| Total comprehensive income | | | | | | | | $62,967 | |
| Stock compensation costs | | | | 3,876 | | | | | 3,876 |
| Tax benefit from stock plans | | | | (216 ) | | | | | (216 ) |
| Issuance of 1,096,739 shares pursuant to various stock plans and agreements | | | 1 | 1,800 | | | | | 1,801 |
| Conversion of 335,047 shares of Series C Preferred Stock into 37,103,734 shares of common stock | | (325,299 ) | 37 | 325,262 | | | | | - |
| Cancellation of 200,806 shares due to forfeitures of issued restricted stock | | | | 2,444 | | (2,444 ) | | | - |
| Purchase of 23,785 shares of treasury stock due to the vesting of restricted stock | | | | | | (444 ) | | | (444 ) |
| Amortization of Series B preferred stock discount | | 1,191 | | | (1,191 ) | | | | - |
| Preferred stock dividends | | | | | (11,094 ) | | | | (11,094 ) |
| Common stock dividends | | | | | (2,585 ) | | | | (2,585 ) |
| BALANCE, JUNE 30, 2010 | $- | $369,695 | $155 | $1,424,213 | $650,617 | $(108,018 ) | $2,302 | | $2,338,964 |

| | Six Months Ended June 30, | |
|---|---|---|
| | 2010 | 2009 |

| | (In thousands) | |
|---|---|---|
| Disclosure of reclassification amounts: | | |
| Unrealized holding gain on securities arising during the period, net of tax expense of $(9,439) in 2010 and $(52,607) in 2009 | $13,034 | $72,647 |
| Less: Reclassification adjustment for gain included in net income (loss), net of tax expense of $8,206 in 2010 and $(13,628) in 2009 | (11,331 ) | 18,819 |
| Net unrealized gain on securities, net of tax expense of $(1,233) in 2010 and $(66,235) in 2009 | $1,703 | $91,466 |

See accompanying notes to condensed consolidated financial statements.

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

| | Six Months Ended June 30, 2010 | Six Months Ended June 30, 2009 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income (loss) | $ 61,264 | $ (114,557) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 33,563 | 11,572 |
| Accretion of discount and premium | (140,678) | - |
| Decrease in FDIC indemnification asset and receivable | 59,239 | - |
| Gain on acquisition | (27,571) | - |
| Impairment writedown on investment securities available-for-sale | 9,441 | 37,647 |
| Stock compensation costs | 3,876 | 2,908 |
| Deferred tax benefit | 28,373 | (11,856) |
| Provision for loan losses | 131,677 | 238,684 |
| Impairment on other real estate owned | 28,840 | 15,938 |
| Impairment loss on other equity investment | - | 581 |
| Net gain on sales of investment securities, loans and other assets | (28,814) | 616 |
| Originations of loans held for sale | (17,717) | (25,785) |
| Proceeds from sale of loans held for sale | 260,707 | 25,846 |
| FHLB advance prepayment penalty | 13,832 | - |
| Tax provision from stock plans | 216 | 404 |
| Net change in accrued interest receivable and other assets | 180,161 | (6,507) |
| Net change in accrued expenses and other liabilities | 152,235 | (13,747) |
| Total adjustments | 687,380 | 276,301 |
| Net cash provided by operating activities | 748,644 | 161,744 |
| | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of WFIB assets | 67,186 | - |
| Net decrease in loans | 656,906 | 180,368 |
| Net decrease (increase) in short-term investments | 63,620 | (376,097) |
| Purchases of: | | |
| Securities purchased under resale agreements | (450,000) | (25,000) |
| Investment securities held-to-maturity | - | (672,336) |
| Investment securities available-for-sale | (1,895,119) | (1,021,779) |
| Loans receivable | (370,339) | (91,238) |
| Federal Reserve Bank stock | (10,500) | (9,196) |
| Investments in affordable housing partnerships | (539) | (19) |
| Premises and equipment | (82,353) | (360) |
| Proceeds from sale of: | | |
| Investment securities | 863,565 | 237,379 |
| Securities purchased under resale agreements | 450,000 | - |
| Loans receivable | 48,265 | 38,768 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Other real estate owned | | 46,142 | | | 36,961 | |
| Premises and equipment | | 44 | | | - | |
| Maturity of short term investments | | - | | | 50,245 | |
| Repayments, maturity and redemption of investment securities available-for-sale | | 1,573,368 | | | 875,483 | |
| Dividends/redemption of Federal Home Loan Bank stock | | 6,770 | | | - | |
| Net cash provided by (used in) investing activities | | 967,016 | | | (776,821 | ) |
| | | | | | | |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | | |
| Net (payment for) proceeds from: | | | | | | |
| Deposits | | (464,829 | ) | | 516,859 | |
| Short-term borrowings | | (14,643 | ) | | (6,350 | ) |
| Proceeds from: | | | | | | |
| Issuance of short-term borrowings | | 22,385 | | | - | |
| Issuance of long-term borrowings | | 350,000 | | | - | |
| Issuance of common stock pursuant to various stock plans and agreements | | 1,801 | | | 390 | |
| Payment for: | | | | | | |
| Repayment of long-term borrowings | | (1,215,812 | ) | | (179,997 | ) |
| Repayment of notes payable and other borrowings | | (29,420 | ) | | (4,928 | ) |
| Repurchase of treasury shares | | (444 | ) | | (35 | ) |
| Issuance and conversion costs of preferred stock & common stock | | - | | | (44 | ) |
| Cash dividends on preferred stock | | (11,094 | ) | | (14,583 | ) |
| Cash dividends on common stock | | (2,585 | ) | | (1,570 | ) |
| Tax provision from stock plans | | (216 | ) | | (404 | ) |
| Net cash (used in) provided by financing activities | | (1,364,857 | ) | | 309,338 | |
| | | | | | | |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | 350,803 | | | (305,739 | ) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | | 835,141 | | | 878,853 | |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $ | 1,185,944 | | $ | 573,114 | |
| | | | | | | |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | | | | | |
| Cash paid during the period for: | | | | | | |
| Interest | $ | 109,749 | | $ | 131,380 | |
| Income tax (refunds) payments | | 18,828 | | | (13,133 | ) |
| Noncash investing and financing activities: | | | | | | |
| Transfers to real estate owned/affordable housing partnership | | 132,102 | | | 78,872 | |
| Conversion of preferred stock to common stock | | 325,299 | | | - | |
| Desecuritization of loans receivable | | - | | | 635,614 | |
| Loans to facilitate sales of real estate owned | | 1,167 | | | 27,982 | |
| Loans transferred to loans held for sale | | 381,433 | | | - | |

See accompanying notes to condensed consolidated financial statements.

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

## 1. BASIS OF PRESENTATION

The condensed consolidated financial statements include the accounts of East West Bancorp, Inc. (referred to herein on an unconsolidated basis as "East West" and on a consolidated basis as the "Company") and its wholly-owned subsidiaries, East West Bank and subsidiaries (the "Bank") and East West Insurance Services, Inc. Intercompany transactions and accounts have been eliminated in consolidation. East West also has nine wholly-owned subsidiaries that are statutory business trusts (the "Trusts"). In accordance with Financial Accounting Standards Board Accounting Standards Codification ("ASC") 810, (previously FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities, and Statement of Financial Accounting Standards No. 167, Amendments to FASB Interpretation No. 46(R)), the Trusts are not consolidated into the accounts of East West Bancorp, Inc.

The interim condensed consolidated financial statements, presented in accordance with accounting principles generally accepted in the United States of America ("GAAP"), are unaudited and reflect all adjustments which, in the opinion of management, are necessary for a fair statement of financial condition and results of operations for the interim periods. All adjustments are of a normal and recurring nature. Results for the three months and six months ended June 30, 2010 are not necessarily indicative of results that may be expected for any other interim period or for the year as a whole. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted. Events subsequent to the condensed consolidated balance sheet date have been evaluated through the date the financial statements are issued for inclusion in the accompanying financial statements. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

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

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Recent Accounting Standards

In June 2009, the FASB issued ASC 860 (previously SFAS No. 166, Accounting for Transfers of Financial Assets, which amends Statement 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities), which requires more information about transfers of financial assets, including securitization transactions, and where companies have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets, and requires additional disclosures. It was effective for the Company on January 1, 2010. The adoption of this guidance did not have a material impact to the Company's condensed consolidated financial statements.

In June 2009, the FASB issued ASC 810 (previously SFAS No. 167, Amendments to FASB Interpretation No. 46(R)), which is a revision to FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities, and changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. It was effective for the Company on January 1, 2010. The adoption of this guidance does not have a material effect on its financial condition, results of operations, or cash flows.

In January 2010, the FASB issued 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. Those disclosures are effective for fiscal years ending after December 15, 2010 and for interim periods within those fiscal years. The Company adopted the disclosure requirements of significant transfers in and out of Level 1 and Level 2 fair value measurements (see Note 3). The Company does not expect the adoption of the disclosure requirements to have a material effect on its financial condition, results of operations, or cash flows.

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

In July 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2010-20, Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivable and Allowance for Credit Losses, which amends FASB Accounting Standards Codification™ ("ASC") Topic 310, Receivables. ASU 2010-10 is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. Companies will be required to provide more information about the credit quality of their financing receivables in the disclosures to financial statements, such as aging information and credit quality indicators. Both new and existing disclosures must be disaggregated by portfolio segment or class. The disaggregation of information is based on how a company develops its allowance for credit losses and how it manages its credit exposure. The disclosures as of the end of a reporting period will be effective for interim and annual reporting periods ending on or after December 15, 2010. The Company does not expect the adoption of the disclosure requirements to have a material effect on its financial condition, results of operations or cash flows.

## 3. FAIR VALUE

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

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

- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable and can be corroborated by market data. Level 2 financial instruments typically include U.S. Government debt and agency mortgage-backed securities, municipal securities, U.S. Government sponsored enterprise preferred stock securities, single issue trust preferred securities, equity swap agreements and other real estate owned ("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 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 and foreign exchange options at fair value on a recurring basis. Certain other assets such as mortgage servicing assets, impaired loans, other real estate owned, goodwill, premiums on acquired deposits and private equity investments are recorded at fair value on a nonrecurring basis. Nonrecurring fair value measurements typically involve assets that are periodically evaluated for impairment and for which any impairment is recorded in the period in which the remeasurement is performed.

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

| | Assets (Liabilities) Measured at Fair Value on a Recurring Basis as of June 30, 2010 | | | |
|---|---|---|---|---|
| | Fair Value Measurements June 30, 2010 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| | (In thousands) | | | |
| Investment securities available-for-sale | | | | |
| U.S. Treasury securities | $55,867 | $55,867 | $ - | $ - |
| U.S. Government agency and U.S. Government sponsored enterprise debt securities | 908,483 | - | 908,483 | - |
| U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities: | | | | |
| Commercial mortgage-backed securities | 25,639 | - | 25,639 | - |
| Residential mortgage-backed securities | 393,143 | - | 393,143 | - |
| Municipal securities | 5,511 | - | 5,511 | - |
| Other residential mortgage-backed securities, non-investment grade | 12,506 | - | - | 12,506 |
| Corporate debt securities: | | | | |
| Investment grade | 637,028 | - | 637,028 | - |
| Non-investment grade | 29,857 | - | 27,013 | 2,844 |
| Debt issued by foreign governments | 7,714 | - | 7,714 | - |
| Other securities | 1,263 | - | 1,263 | - |
| Total investment securities available-for-sale | $2,077,011 | $55,867 | $2,005,794 | $ 15,350 |
| | | | | |
| Equity swap agreements | $1,832 | $- | $1,832 | $ - |
| Derivatives payable | (1,888) | - | - | (1,888) |
| Foreign exchange options | 2,417 | - | 2,417 | - |

| | Fair Value Measurements December 31, 2009 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| | Assets (Liabilities) Measured at Fair Value on a Recurring Basis as of December 31, 2009 | | | |
| | (In thousands) | | | |
| Investment securities available-for-sale | | | | |
| U.S. Treasury securities | $303,472 | $303,472 | $ - | $ - |
| U.S. Government agency and U.S. Government sponsored enterprise debt securities | 832,025 | - | 832,025 | - |
| U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities: | | | | |
| Commercial mortgage-backed securities | 26,355 | - | 26,355 | - |
| Residential mortgage-backed securities | 724,348 | - | 724,348 | - |
| Municipal securities | 60,193 | - | 60,193 | - |
| Other residential mortgage-backed securities: | | | | |
| Investment grade | 95,517 | - | 95,517 | - |
| Non-investment grade | 41,610 | - | 28,872 | 12,738 |
| Corporate debt securities: | | | | |
| Investment grade | 460,895 | - | 459,917 | 978 |
| Non-investment grade | 8,861 | - | 6,906 | 1,955 |
| U.S. Government sponsored enterprise equity securities | 1,782 | - | 1,782 | - |
| Other securities | 9,023 | 9,023 | - | - |
| Total investment securities available-for-sale | $2,564,081 | $312,495 | $ 2,235,915 | $ 15,671 |
| | | | | |
| Equity swap agreements | $14,177 | $- | $ 14,177 | $ - |
| Derivatives payable | (14,185) | - | - | (14,185) |

| | Assets Measured at Fair Value on a Non-Recurring Basis for the Three Months Ended June 30, 2010 | | | | |
|---|---|---|---|---|---|
| | Fair Value Measurements June 30, 2010 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Gains (Losses) |
| | | | (In thousands) | | |
| Mortgage servicing assets (single, multi family, and commercial) | $18,233 | $- | $ - | $ 18,233 | $(30 ) |
| Non-covered impaired loans: | | | | | |
| Residential single family | 6,494 | - | - | 6,494 | (917 ) |
| Residential multifamily | 5,398 | - | - | 5,398 | (3,797 ) |
| Commercial and industrial real estate, land | 24,899 | - | - | 24,899 | (5,983 ) |
| Construction | 33,378 | - | - | 33,378 | (9,444 ) |
| Commercial business | 3,698 | - | - | 3,698 | (3,158 ) |
| Other consumer | - | - | - | - | (350 ) |
| Total non-covered impaired loans | $73,867 | $- | $ - | $ 73,867 | $(23,649 ) |
| Non-covered OREO | $6,206 | $- | $ - | $ 6,206 | $(666 ) |

| | Assets Measured at Fair Value on a Non-Recurring Basis for the Three Months Ended June 30, 2009 | | | | |
|---|---|---|---|---|---|
| | Fair Value Measurements June 30, 2009 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Gains (Losses) |
| | | | (In thousands) | | |
| Mortgage servicing assets (single, multi family, and commercial) | $9,466 | $- | $ - | $ 9,466 | $(86 ) |
| Non-covered impaired loans: | | | | | |
| Residential single family | 4,713 | - | - | 4,723 | (1,557 ) |
| Residential multifamily | 14,078 | - | - | 14,105 | (5,984 ) |
| Commercial and industrial real estate, land | 22,337 | - | - | 19,523 | (3,801 ) |

| | | | | | |
|---|---|---|---|---|---|
| Construction | 18,204 | - | - | 12,778 | (4,134 ) |
| Commercial business | 29,192 | - | - | 38,653 | (82 ) |
| Other consumer | 409 | - | - | 409 | (210 ) |
| Total non-covered impaired loans | $88,933 | $- | $ - | $ 90,191 | $(15,768 ) |
| | | | | | |
| Non-covered OREO | $15,986 | $- | $ - | $ 15,986 | $(4,182 ) |

| | Assets Measured at Fair Value on a Non-Recurring Basis for the Six Months Ended June 30, 2010 | | | | |
|---|---|---|---|---|---|
| | Fair Value Measurements June 30, 2010 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Gains (Losses) |
| | | | (In thousands) | | |
| Mortgage servicing assets (single, multi family, and commercial) | $18,233 | $- | $ - | $ 18,233 | $(64) |
| Non-covered impaired loans: | | | | | |
| Residential single family | 9,229 | - | - | 9,229 | (1,783) |
| Residential multifamily | 6,393 | - | - | 6,393 | (4,086) |
| Commercial and industrial real estate, land | 39,745 | - | - | 39,745 | (16,249) |
| Construction | 34,139 | - | - | 34,139 | (11,365) |
| Commercial business | 8,097 | - | - | 8,097 | (6,549) |
| Other consumer | - | - | - | - | (432) |
| Total non-covered impaired loans | $97,603 | $- | $ - | $ 97,603 | $(40,464) |
| Non-covered OREO | $6,746 | $- | $ - | $ 6,746 | $(2,913) |

| | Assets Measured at Fair Value on a Non-Recurring Basis for the Six Months Ended June 30, 2009 | | | | |
|---|---|---|---|---|---|
| | Fair Value Measurements June 30, 2009 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Gains (Losses) |
| | | | (In thousands) | | |
| Mortgage servicing assets (single, multi family, and commercial) | $9,466 | $- | $ - | $ 9,466 | $680 |
| Non-covered impaired loans: | | | | | |
| Residential single family | 11,770 | - | - | 11,911 | (5,070) |
| Residential multifamily | 18,071 | - | - | 17,686 | (7,263) |
| Commercial and industrial real estate, land | 26,526 | - | - | 24,392 | (6,938) |

| | | | | | |
|---|---|---|---|---|---|
| Construction | 56,806 | - | - | 51,775 | (24,085 ) |
| Commercial business | 26,242 | - | - | 28,606 | (11,788 ) |
| Other consumer | 89 | - | - | 89 | (89 ) |
| Total non-covered impaired loans | $139,504 | $- | $ - | $ 134,459 | $(55,233 ) |
| | | | | | |
| Non-covered OREO | $16,359 | $- | $ - | $ 16,359 | $(6,920 ) |

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

| | Total | Investment Securities Available-for-Sale: Other Residential Mortgage-Backed Securities, Non-Investment Grade | Corporate Debt Securities: Investment Grade | Corporate Debt Securities: Non-Investment Grade | Derivatives Payable |
|---|---|---|---|---|---|
| | (In thousands) | | | | |
| Beginning balance, April 1, 2010 | $ 15,740 | $ 12,203 | $ 1,440 | $ 2,097 | $ (5,955 ) |
| Total gains or (losses): (1) | | | | | |
| Included in earnings | (1,977 ) | 435 | 2 | (2,414 ) | (163 ) |
| Included in other comprehensive loss (unrealized) (2) | 1,806 | 298 | (157 ) | 1,665 | - |
| Purchases, issuances, sales, settlements (3) | (219 ) | (430 ) | (3 ) | 214 | 4,230 |
| Transfer from investment grade to non-investment grade | - | - | (1,282 ) | 1,282 | - |
| Transfers in and/or out of Level 3 (4) | - | - | - | - | - |
| Ending balance, June 30, 2010 | $ 15,350 | $ 12,506 | $ - | $ 2,844 | $ (1,888 ) |
| Changes in unrealized losses included in earnings relating to assets and liabilities still held at June 30, 2010 | $ (2,421 ) | $ - | $ - | $ (2,421 ) | $ 163 |

| | Total | Investment Securities Available-for-Sale: Other Residential Mortgage-Backed Securities: Investment Grade | Other Residential Mortgage-Backed Securities: Non-Investment Grade | Corporate Debt Securities: Investment Grade | Corporate Debt Securities: Non-Investment Grade | Residual Securities | Derivatives Payable |
|---|---|---|---|---|---|---|---|
| | (In thousands) | | | | | | |
| Beginning balance, April 1, 2009 | $ 635,009 | $ 546,520 | $ 11,325 | $ 1,306 | $ 21,930 | $ 53,928 | $ (11,509 ) |
| Total gains or (losses): (1) | | | | | | | |
| Included in earnings | (33,858 ) | 2,461 | 191 | 3 | (37,442 ) | 929 | (1,814 ) |
| | 70,331 | 71,216 | 1,350 | (54 ) | 28,717 | (30,898 ) | - |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Included in other comprehensive loss (unrealized) (2) | | | | | | | |
| Purchases, issuances, sales, settlements (3) | (639,022) | (602,585) | (13,850) | (10) | 1,382 | (23,959) | - |
| Transfer from investment grade to non-investment grade | - | (17,612) | 17,612 | - | - | - | - |
| Transfers in and/or out of Level 3 (4) | - | - | - | - | - | - | - |
| Ending balance, June 30, 2009 | $ 32,460 | $ - | $ 16,628 | $ 1,245 | $ 14,587 | $ - | $ (13,323) |
| | | | | | | | |
| Changes in unrealized losses included in earnings relating to assets and liabilities still held at June 30, 2009 | $ (37,447) | $ - | $ - | $ - | $ (37,447) | $ - | $ 1,814 |

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

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

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

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

| | Investment Securities Available-for-Sale | | | | |
|---|---|---|---|---|---|
| | | Other Residential Mortgage-Backed Securities, | Corporate Debt Securities | | |
| | Total | Non-Investment Grade | Investment Grade | Non-Investment Grade | Derivatives Payable |
| | (In thousands) | | | | |
| Beginning balance, January 1, 2010 | $ 15,671 | $ 12,738 | $ 978 | $ 1,955 | $ (14,185 ) |
| Total gains or (losses): (1) | | | | | |
| Included in earnings | (6,727 ) | 435 | 5 | (7,167 ) | (166 ) |
| Included in other comprehensive loss (unrealized) (2) | 6,541 | (237 ) | 308 | 6,470 | - |
| Purchases, issuances, sales, settlements (3) | (135 ) | (430 ) | (9 ) | 304 | 12,463 |
| Transfer from investment grade to non-investment grade | - | - | (1,282 ) | 1,282 | - |
| Transfers in and/or out of Level 3 (4) | - | - | - | - | - |
| Ending balance, June 30, 2010 | $ 15,350 | $ 12,506 | $ - | $ 2,844 | $ (1,888 ) |
| Changes in unrealized losses included in earnings relating to assets and liabilities still held at June 30, 2010 | $ (7,220 ) | $ - | $ - | $ (7,220 ) | $ 166 |

| | Investment Securities Available-for-Sale | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Other Residential Mortgage-Backed Securities | | Corporate Debt Securities | | | |
| | Total | Investment Grade | Non-Investment Grade | Investment Grade | Non-Investment Grade | Residual Securities | Derivatives Payable |
| | (In thousands) | | | | | | |
| Beginning balance, January 1, 2009 | $ 624,351 | $ 527,109 | $ 10,216 | $ 1,294 | $ 35,670 | $ 50,062 | $ (14,142 ) |
| Total gains or (losses): (1) | | | | | | | |