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

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

FORM 10-K

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

For the fiscal year ended December 31, 2018

Commission file number 000-24939

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

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No ¨

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

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

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

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

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

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

DOCUMENT INCORPORATED BY REFERENCE

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

EAST WEST BANCORP, INC.
2018 ANNUAL REPORT ON FORM 10-K
TABLE OF CONTENTS

PART I

Forward-Looking Statements

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

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

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

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

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

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

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

ITEM 1. BUSINESS
Organization

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

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

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

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

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

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

Banking Services

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

Operating Segments

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

Market Area and Competition

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

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

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

Supervision and Regulation

General

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

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

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

East West

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

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

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

The Bank and its Subsidiaries

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

Regulation of Subsidiaries/Branches

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

Economic Growth, Regulatory Relief, and Consumer Protection Act

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

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

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

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

Capital Requirements

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

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

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

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

As of December 31, 2018, the Company's and the Bank's capital ratios exceeded the minimum capital adequacy guideline percentage requirements of the federal banking agencies for "well capitalized" institutions under the Basel III capital rules on a fully phased-in basis. For additional discussion and disclosure see Item 7. MD&A — Regulatory Capital and Ratios and Note 19 — Regulatory Requirements and Matters to the Consolidated Financial Statements.

Recent Regulatory Capital-Related Developments

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

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

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

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

Prompt Corrective Action

The FDIA, as amended, requires federal banking agencies to take PCA with respect to depository institutions that do not meet minimum capital requirements. The FDIA includes the following five capital tiers: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." A depository institution's capital tier will depend upon how its capital levels compare with various relevant capital measures and certain other factors, as established by regulation. The Basel III Capital Rules revised the PCA requirements effective January 1, 2015. Under the revised PCA provisions of the FDIA, an insured depository institution generally is classified in the following categories based on the capital measures indicated:

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

An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios, if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. A bank’s capital category is determined solely for the purpose of applying PCA regulations and the capital category may not constitute an accurate representation of the bank’s overall financial condition or prospects for other purposes.

The FDIA generally prohibits a depository institution from making any capital distributions (including payment of any dividend) or paying any management fee to its parent holding company, if the depository institution would thereafter be “undercapitalized.” “Undercapitalized” institutions are subject to growth limitations and are required to submit capital restoration plans. If a depository institution fails to submit an acceptable plan, it is treated as if it is “significantly undercapitalized.” “Significantly undercapitalized” depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become “adequately capitalized,” requirements to reduce total assets, cessation of receipt of deposits from correspondent banks, and/or restrictions on interest rates paid on deposits. “Critically undercapitalized” institutions are subject to the appointment of a receiver or conservator. The FDIA also permits only well-capitalized insured depository institutions to accept brokered deposits, but an adequately capitalized institution may apply to the FDIC for a waiver of this restriction.

Consumer Financial Protection Bureau Supervision

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

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

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

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

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

Dividends and Other Transfers of Funds

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

Transactions with Affiliates and Insiders

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

Community Reinvestment Act

Under the terms of the CRA as implemented by Federal Reserve regulations, an insured depository institution has a continuing and affirmative obligation to help serve the credit needs of its communities, including the extension of credit to low to moderate-income neighborhoods. The Federal Reserve periodically evaluates the CRA performance of state member banks and takes this performance into account when reviewing applications to expand branches, relocate, add subsidiaries and affiliates, expand into new financial activities and merge with or purchase other financial institutions. Unsatisfactory CRA performance may result in the denial of such applications.

FDIC Deposit Insurance Assessments

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

Anti-Money Laundering and Office of Foreign Assets Control Regulation

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

Future Legislation and Regulation

From time to time, legislators, presidential administrations and regulators may enact rules, laws, and policies to regulate the financial services industry and public companies. Further legislative changes and additional regulations may change the Company’s operating environment in substantial and unpredictable ways. Such legislation and regulations could increase the cost of conducting business, impede the efficiency of the internal business processes, and restrict or expand the activities in which the Company may engage. The Company cannot predict whether future legislative proposals will be enacted and, if enacted, the impact they would have on the business strategy, results of operations or financial condition of the Company.

Employees

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

Available Information

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

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

ITEM 1A. RISK FACTORS

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

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

Market Risks

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

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

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

A portion of the Company’s loan portfolio is secured by real estate and thus the Company has a higher degree of risk from a downturn in real estate markets. As discussed in the risk factor above entitled “Unfavorable general economic, political or industry conditions may adversely affect our operating results,” a decline in real estate markets could impact the Company’s business and financial condition because many of the Company’s loans are secured by real estate. Real estate values and real estate markets are generally affected by changes in general economic conditions, fluctuations in interest rates and the availability of loans to potential purchasers, changes in tax laws and other governmental statutes, regulations and policies, and natural disasters, such as earthquakes and wildfires, which are particular to California. A significant portion of the Company’s real estate collateral is located in California. If real estate values decline, the value of real estate collateral securing the Company’s loans could be significantly reduced. The Company’s ability to recover on defaulted loans by foreclosing and selling the real estate collateral would then be diminished and the Company would be more likely to suffer losses on defaulted loans. Furthermore, commercial real estate (“CRE”) and multifamily loans typically involve large balances to single borrowers or groups of related borrowers. Since payments on these loans are often dependent on the successful operation or management of the properties, as well as the business and financial condition of the borrower, repayment of such loans may be subject to adverse conditions in the real estate market, adverse economic conditions, or changes in applicable government regulations. Borrowers’ inability to repay such loans may have an adverse effect on the Company’s businesses, results of operations and financial condition.

The Company’s businesses are subject to interest rate risk and variations in interest rates may have a material adverse effect on the Company’s financial performance. Our financial results depend substantially on net interest income, which is the difference between the interest income we earn on interest-earning assets and the interest expense we pay on interest-bearing liabilities. Interest-earning assets primarily include loans extended, securities held in our investment portfolio and excess cash held to manage short-term liquidity. We fund our assets using deposits and borrowings. While we offer interest-bearing deposit products, a portion of our deposit balances are from noninterest-bearing products. Overall, the interest rates we receive on our interest-earning assets and pay on our interest-bearing liabilities could be affected by a variety of factors, including market interest rate changes, competition, regulatory requirements and a change in our product mix. Changes in key variable market interest rates such as the Federal Funds, National Prime, LIBOR or Treasury rates generally impact our interest rate spread. Because of the differences in maturities and repricing characteristics of the Company’s interest-earning assets and interest-bearing liabilities, changes in interest rates do not produce equivalent changes in interest income earned on interest-earning assets and interest paid on interest-bearing liabilities. Increases in interest rates may result in a change in the mix of noninterest and interest-bearing deposit accounts. Rising interest rates may cause our funding costs to increase at a faster pace than the yield we earn on our assets, ultimately causing our net interest margin to decrease. Higher interest rates may also result in lower mortgage production income and increased charge-offs in certain segments of the loan portfolio, such as CRE and home equity. In contrast, declining interest rates would increase the Bank’s lending capacity, decrease funding cost, increase prepayments of loans and mortgage related securities, as borrowers refinance to reduce borrowing costs. Accordingly, changes in levels of interest rates could materially and adversely affect our net interest income, net interest margin, cost of deposits, loan origination volume, average loan portfolio balance, asset quality, liquidity and overall profitability.

Reforms to and uncertainty regarding LIBOR may adversely affect our business. On July 27, 2017, the United Kingdom’s Financial Conduct Authority (“FCA”), which regulates LIBOR, announced that it will no longer persuade or compel banks to submit rates for the calculation of LIBOR after 2021. While Intercontinental Exchange Inc., the company that administers LIBOR plans to continue publishing LIBOR, liquidity in the interbank markets that those LIBOR estimates are based upon has been declining. Accordingly, there is considerable uncertainty regarding the publication of such rates beyond 2021. In April 2018, the Federal Reserve Bank of New York in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, announced the replacement of U.S. LIBOR with a new index calculated by short-term repurchase agreements, backed by U.S. Treasury securities called the SOFR. The first publication of SOFR was released in April 2018. Whether or not SOFR attains market traction as a LIBOR replacement tool remains in question and the future of LIBOR at this time is uncertain. The uncertainty as to the nature and effect of such reforms and actions and the political discontinuance of LIBOR may adversely affect the value of and return on our financial assets and liabilities that are based on or are linked to LIBOR, our results of operations or financial condition. In addition, these reforms may also require extensive changes to the contracts that govern these LIBOR based products, as well as our systems and processes.

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

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

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

Capital and Liquidity Risks

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

The Company's dependence on dividends from the Bank could affect the Company's liquidity and ability to pay dividends. East West is dependent on the Bank for dividends, distributions and other payments. Our principal source of cash flows, including cash flows to pay dividends to our stockholders and principal and interest on our outstanding debt, is dividend income from the Bank. The ability of the Bank to pay dividends to East West is limited by federal and California law. Subject to the Bank meeting or exceeding regulatory capital requirements, regulatory approval is required if the total of all dividends declared by the Bank in any calendar year would exceed the sum of the Bank’s net income for that year and its retained earnings for the preceding two years. Federal law also prohibits the Bank from paying dividends that would be greater than its undivided profits. In addition, Federal Reserve guidance sets forth the supervisory expectation that bank holding companies will inform and consult with the Federal Reserve in advance of issuing a dividend that exceeds earnings for the quarter and should not pay dividends in a rolling four quarter period in an amount that exceeds net income for the period.

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

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

Credit Risks

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

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

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

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

Operational Risks

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

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

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

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

The actions and soundness of other financial institutions could affect the Company. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. The Company executes transactions with various counterparties in the financial industry, including brokers and dealers, commercial banks and investment banks. Defaults by financial services institutions and uncertainty in the financial services industry in general could lead to market-wide liquidity problems and may expose the Company to credit risk in the event of default of its counterparties or clients. Further, the Company's credit risk may increase when the underlying collateral held cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due to the Company. Any such losses could materially and adversely affect the Company's businesses, results of operations and financial condition.

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

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

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

The Company has engaged in and may continue to engage in further expansion through acquisitions, which could negatively affect the Company's businesses and earnings. There are risks associated with expanding through acquisitions. These risks include, among others, incorrectly assessing the asset quality of a bank acquired in a particular transaction, encountering greater than anticipated costs in integrating acquired businesses, facing resistance from customers or employees, and being unable to profitably deploy assets acquired in the transaction. Additional country or region-specific risks are associated with transactions outside the U.S., including in Greater China. To the extent the Company issues capital stock in connection with additional transactions, these transactions and related stock issuances may have a dilutive effect on earnings per share ("EPS") and share ownership.

Regulatory, Compliance and Legal Risks

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

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

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

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

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

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

Accounting and Tax Risks

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

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

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

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

Other Risks

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

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

The price of the Company’s common stock may be volatile or may decline. The trading price of the Company’s common stock may fluctuate as a result of a number of factors, many of which are outside the Company’s control. These broad market fluctuations could adversely affect the market price of the Company’s common stock. Among the factors that could affect the Company’s stock price are:

- actual or anticipated quarterly fluctuations in the Company’s results of operations and financial condition;
- changes in revenue or earnings estimates or publication of research reports and recommendations by financial analysts;
- failure to meet analysts’ revenue or earnings estimates;
- speculation in the press or investment community;
- strategic actions by the Company or its competitors, such as acquisitions or restructurings;
- actions by institutional stockholders;
- addition or departure of key personnel;
- fluctuations in the stock price and operating results of the Company’s competitors;
- general market conditions and, in particular, developments related to market conditions for the financial services industry;
- proposed or adopted regulatory changes or developments;
- cyclical fluctuations;
- trading volume of the Company’s common stock; and
- anticipated or pending investigations, proceedings or litigation that involve or affect the Company.

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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

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

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

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Market Information, Holders of Common Stock and Dividends

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

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

Securities Authorized for Issuance under Equity Compensation Plans

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

Five-Year Stock Performance

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

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

Repurchases of Equity Securities by the Issuer and Affiliated Purchasers

On July 17, 2013, the Company's Board of Directors authorized a stock repurchase program to buy back up to $100.0 million of the Company's common stock. The Company did not repurchase any shares under this program thereafter, including during 2018 and 2017. Although this program has no stated expiration date, the Company does not intend to repurchase any stock pursuant to this program absent further action of the Company's Board of Directors.

ITEM 6. SELECTED FINANCIAL DATA

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

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

Overview

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

Company Overview

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

Corporate Strategy

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

Five-Year Summary of Selected Financial Data

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

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

N/A — Not applicable.

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

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

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

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

2018 Financial Highlights

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

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

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

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

(1) Excludes
$605.1

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

Results of Operations

Net Interest Income

The Company’s primary source of revenue is net interest income, which is the difference between interest income earned on interest-earning assets less interest expense paid on interest-bearing liabilities. Net interest margin is the ratio of net interest income to average interest-earning assets. Net interest income and net interest margin are impacted by several factors, including changes in average balances and composition of interest-earning assets and funding sources, market interest rate fluctuations and slope of the yield curve, repricing characteristics and maturity of interest-earning assets and interest-bearing liabilities, volume of noninterest-bearing sources of funds and asset quality.

Net interest income for 2018 was $1.39 billion, an increase of $201.4 million or 17%, compared to $1.19 billion in 2017. The increase in net interest income for 2018 was primarily due to the expansion of loan yields and loan growth, partially offset by a higher cost of funds. Net interest income for 2017 was $1.19 billion, an increase of $152.4 million or 15%, compared to $1.03 billion in 2016. The increase in net interest income for 2017 was primarily due to strong loan growth and higher yields from interest-earning assets, partially offset by a higher cost of funds.

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

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

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

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

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

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

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

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

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

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

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

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

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

Noninterest Income

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

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

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

NM — Not Meaningful

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

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

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

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

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

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

Noninterest Expense

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

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

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

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

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

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

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

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

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

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

Income Taxes

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

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

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

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

Operating Segment Results

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

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

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

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

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

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

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

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

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

Year Ended December 31, 2018

($ in thousands)

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

41

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

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

Consumer and Business Banking

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

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

Commercial Banking

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

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

Other

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

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

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

Balance Sheet Analysis

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

Selected Consolidated Balance Sheet Data

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

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

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

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

Investment Securities

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

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

Available-for-Sale Investment Securities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Total Loan Portfolio

Loan Portfolio

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

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

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

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

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

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

Commercial

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

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

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

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

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

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

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

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

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

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

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

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

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

Consumer

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

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

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

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

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

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

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

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

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

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

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

Purchased Credit-Impaired Loans

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

Loans Held-for-Sale

At the time of commitment to originate or purchase a loan, the loan is determined to be held-for-investment if it is the Company’s intent to hold the loan to maturity or for the “foreseeable future,” subject to periodic reviews under the Company’s evaluation processes, including asset/liability and credit risk management. When the Company subsequently changes its intent to hold certain loans, the loans are transferred from held-for-investment to held-for-sale at the lower of cost or fair value. As of December 31, 2018, loans held-for-sale of $275 thousand consisted of single-family residential loans. In comparison, as of December 31, 2017, loans held-for-sale of $78.2 million consisted primarily of loans related to the then pending sale of DCB branches of $78.1 million included in Branch assets held-for-sale on the Consolidated Balance Sheet. The sale was completed in March 2018. For additional information on the sale of DCB branches, see Note 2 — Dispositions and Held-for-Sale to the Consolidated Financial Statements. As of December 31, 2016, loans held-for-sale of $23.1 million were primarily comprised of student loans.

Loan Purchases, Transfers and Sales

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

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

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

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

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

Non-PCI Nonperforming Assets

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

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

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

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

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

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

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

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

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

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

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

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

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

55

Allowance for Credit Losses

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

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

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

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

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

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

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

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

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

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

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

Deposits

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

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

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

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

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

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

Borrowings

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

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

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

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

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

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

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

Long-Term Debt

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

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

In 2013, the Company entered into a $100.0 million three-year term loan agreement. The terms of the agreement were modified in 2015 to extend the term loan maturity from July 1, 2016 to December 31, 2018, where principal repayments of $5.0 million were due quarterly. The term loan bears interest at the rate of the three-month LIBOR plus 150 basis points. The weighted-average interest rate was 3.60% and 2.70% during 2018 and 2017, respectively. As of December 31, 2018, the Company has made all scheduled principal repayments on the term loan leaving the Company with no outstanding balance. The outstanding balance of the term loan was $25.0 million as of December 31, 2017. For additional details of the junior subordinated debt and the term loan, see Note 11 — Federal Home Loan Bank Advances and Long-Term Debt to the Consolidated Financial Statements.

Foreign Outstandings

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

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

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

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

(3) Primarily comprised of C&I loans.

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

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

Capital

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

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

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

Regulatory Capital and Ratios

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

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

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

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

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

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

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

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

Regulatory Matters

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

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

Other Matters

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

Off-Balance Sheet Arrangements and Contractual Obligations

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

Off-Balance Sheet Arrangements

Commitments to extend credit

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

Guarantees

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

Contractual Obligations

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

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

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

Asset Liability and Market Risk Management

Liquidity

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

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

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

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

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

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

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

Consolidated Cash Flows Analysis

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

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

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

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

Financing activities — Net cash provided by financing activities of $3.80 billion, $2.07 billion and $1.68 billion in 2018, 2017 and 2016, respectively, were primarily reflective of $3.90 billion, $2.27 billion and $2.45 billion net increases in deposits during 2018, 2017 and 2016, respectively. The Company paid cash dividends of $126.0 million, $116.8 million and $115.8 million during 2018, 2017 and 2016, respectively. The net cash provided during 2016 was also partially offset by $700.0 million in repayment of FHLB advances.

Interest Rate Risk Management

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

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

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

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

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

Twelve-Month Net Interest Income Simulation

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

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

Change in Interest Rates (Basis Points)	Net Interest Income Volatility (1) December 31, 2018	2017
+200	16.6 %	18.9 %
+100	8.4 %	10.7 %
-100	(8.3)%	(7.4)%
-200	(16.7)%	(12.6)%

(1) The percentage change represents net interest income over 12 months in a stable interest rate environment versus net interest income in the various rate scenarios.

The Company's estimated twelve-month net interest income sensitivity as of December 31, 2018 was lower compared to December 31, 2017 for both the upward 100 and 200 basis point rate scenarios. Simulated increases in interest income are offset by an increase in the rate of repricing for the Company's deposit portfolio. In both simulated downward interest rate scenarios, sensitivity increased overall mainly due to the impact of the recent interest rate increases. As interest rates rise further away from all time historical lows, there is more room for the Company's simulated interest income to decline in a downward interest rate scenario, relative to previous simulations.

The Company's net interest income profile as of December 31, 2018 reflects an asset sensitive position. Net interest income would be expected to increase if interest rates rise and to decrease if interest rates decline. The Company is naturally asset sensitive due to its large portfolio of variable rate loans that are funded in large part by low cost non-maturity deposits. The Company's interest income is vulnerable to changes in short-term interest rates. The Company's variable rate loan portfolio is generally comprised of Prime and LIBOR indexed products and as such, is vulnerable to changes in those rate indexes. The Company's deposit portfolio is primarily funded by low cost non-maturity deposits. Though the interest rates for these deposit products are not directly subject to changes in short-term interest rates, they are, nevertheless, sensitive to changes in product mix as customers shift their balances to higher interest rate products.

The federal funds target rate was between 2.25% and 2.50% as of December 31, 2018, and between 1.25% and 1.50% as of December 31, 2017. Consistent with their dual mandate, the Federal Open Market Committee has so far been increasing the federal funds target rate in a steady pace of 25 basis points per quarter. While an instantaneous and sustained non-parallel shift in market interest rates was used in the simulation model described in the preceding paragraphs, the Company believes that any shift in interest rates would likely be more gradual and would therefore have a more modest impact. The rate ramp table below shows the net income volatility under a gradual non-parallel shift upward and downward of the yield curve in even quarterly increments over the first twelve months, followed by rates held constant thereafter:

Change in Interest Rates (Basis Points)	Net Interest Income Volatility [1] December 31, 2018
+200 Rate Ramp	6.3 %
+100 Rate Ramp	3.0 %
-100 Rate Ramp	(3.0)%
-200 Rate Ramp	(6.3)%

(1) The percentage change represents net interest income under a gradual non-parallel shift in even quarterly increments over 12 months.

68

The Company believes that the rate ramp table, shown above, and when evaluated together with the results of the rate shock simulation, presents a better indication of the potential impact to the Company's twelve-month net interest income in a rising and falling rate scenario.

Economic Value of Equity at Risk

Economic value of equity ("EVE") is a cash flow calculation that takes the present value of all asset cash flows and subtracts the present value of all liability cash flows. This calculation is used for asset/liability management to measure changes in the economic value of the bank. The fair market values of a bank's assets and liabilities are directly linked to interest rates. In some ways the economic value approach provides a broader scope than the net income volatility approach since it captures all anticipated cash flows.

EVE simulation reflects the effect of interest rate shifts on the value of the Company and is used to assess the degree of interest rate risk exposure. In contrast to the earnings perspective, the economic perspective identifies risk arising from repricing or maturity gaps for the life of the balance sheet. Changes in economic value indicate anticipated changes in the value of the bank's future cash flows. Thus, the economic perspective can provide a leading indicator of the bank's future earnings and capital values. The economic valuation method also reflects those sensitivities across the full maturity spectrum of the bank's assets and liabilities.

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

Change in Interest Rates (Basis Points)	EVE Volatility [(1)] December 31, 2018	2017
+200	6.3 %	7.1 %
+100	1.2 %	3.2 %
-100	(3.1)%	(3.5)%
-200	(11.9)%	(8.8)%

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

The Company's EVE sensitivity for both of the upward interest rate scenarios as of December 31, 2018 decreased from December 31, 2017. In the simulated upward 100 and 200 basis point interest rate scenarios, EVE sensitivity was 1.2% and 6.3% as of December 31, 2018, respectively, compared to 3.2% and 7.1% as of December 31, 2017, respectively. These decreases were primarily due to changes in the balance sheet portfolio mix. In the downward 100 and 200 basis point interest rate scenarios, the Company's EVE sensitivity decreased for the downward 100 basis point interest rate scenario but increased for the downward 200 basis point interest rate scenario as of December 31, 2018, compared to December 31, 2017. In the simulated downward 100 and 200 basis point interest rate scenarios, EVE sensitivity was (3.1)% and (11.9)% as of December 31, 2018, respectively, compared to (3.5)% and (8.8)% as of December 31, 2017, respectively. The Company regularly reviews and updates its assumptions with regards to the timing and magnitude of changes in interest rates, and the shape and evolution of the yield curve to more accurately reflect expected customer behavior.

The Company's EVE profile as of December 31, 2018 reflects an asset sensitive EVE position. The Company is naturally asset sensitive due to its large portfolio of rate-sensitive loans that are funded in large part by stable core deposits. Given the uncertainty of the magnitude, timing and direction of future interest rate movements, and the shape of the yield curve, actual results may vary from those predicted by the Company’s model.

Derivatives

It is the Company’s policy not to speculate on the future direction of interest rates, foreign currency exchange rates and commodity prices. However, the Company will, from time to time, enter into derivative transactions in order to reduce its exposure to market risks, primarily interest rate risk and foreign currency risk. The Company believes that these derivative transactions, when properly structured and managed, may provide a hedge against inherent risk in certain assets and liabilities and against risk in specific transactions. Hedging transactions may be implemented using a variety of derivative instruments such as swaps, caps, floors, forwards and options. Prior to entering into any hedging activities, the Company analyzes the costs and benefits of the hedge in comparison to alternative strategies. In addition, the Company enters into derivative transactions in order to assist customers with their risk management objectives, primarily to manage exposures to fluctuations in interest rates, foreign currencies and commodity prices. To economically hedge against the derivative contracts entered into with the Company’s customers, the Company enters into mirrored derivative contracts with third-party financial institutions. The exposures from derivative transactions are collateralized by cash and eligible securities based on limits as set forth in the respective agreements entered between the Company and the financial institutions.

The Company is subject to credit risk associated with the counterparties to the derivative contracts. This counterparty credit risk is a multidimensional form of risk, affected by both the exposure to a counterparty and the credit quality of the counterparty, both of which are sensitive to market-induced changes. The Company’s Credit Risk Management Committee provides oversight of credit risks and the Company has guidelines in place to manage counterparty concentration, tenor limits and collateral. The Company manages the credit risk of its derivative positions by diversifying its positions among various counterparties, by entering into legally enforceable master netting arrangements and requiring collateral arrangements, where possible. The Company may also transfer counterparty credit risk related to interest rate swaps to institutional third parties through the use of credit risk participation agreements (“RPA”). Certain derivative contracts are required to be centrally cleared through clearinghouses to further mitigate counterparty credit risk. The Company incorporates credit value adjustments and other market standard methodologies to appropriately reflect both its own nonperformance risk and the respective counterparty’s nonperformance risk in the fair value measurements of its derivatives.

Fair Value Hedges — As of December 31, 2018, the Company had two cancellable interest rate swap contracts with original terms of 20 years. The objective of these interest rate swaps, which were designated as fair value hedges, was to obtain low-cost floating rate funding on certain brokered certificates of deposit. These swap contracts involve the exchange of variable rate payments over the life of the agreements without the exchange of the underlying notional amounts. The changes in fair value of these brokered certificates of deposit are expected to be effectively offset by the changes in fair value of the swaps throughout the terms of these contracts.

Net Investment Hedges — ASC 830-20, Foreign Currency Matters — Foreign Currency Transactions and ASC 815, Derivatives and Hedging, allow hedging of the foreign currency risk of a net investment in a foreign operation. During 2018, the Company entered into foreign currency swap contracts to hedge its investment in East West Bank (China) Limited, a non-USD functional currency subsidiary of the Company in China. The hedging instruments, designated as net investment hedges, involve hedging the risk of changes in the USD equivalent value of a designated monetary amount of the Company’s net investment in East West Bank (China) Limited, against the risk of adverse changes in the foreign currency exchange rate of the RMB. As of December 31, 2018, the outstanding foreign currency swaps effectively hedged approximately half of the RMB exposure in East West Bank (China) Limited. The fluctuation in foreign currency translation of the hedged exposure is expected to be offset by changes in fair value of the swaps.

Interest Rate Contracts — The Company offers various interest rate derivative contracts to its customers. When derivative transactions are executed with its customers, the derivative contracts are offset by paired trades with third-party financial institutions including with central counterparties (“CCP”). Certain derivative contracts entered with

CCPs are settled-to-market daily to the extent the CCP's rulebooks legally characterize the variation margin as settlement. Derivative contracts allow borrowers to lock in attractive intermediate and long-term fixed rate financing while not increasing the interest rate risk to the Company. These transactions are not linked to specific Company assets or liabilities on the Consolidated Balance Sheet or to forecasted transactions in a hedging relationship and, therefore, are economic hedges. The contracts are marked to market at each reporting period. The changes in fair values of the derivative contracts traded with third-party financial institutions are expected to be largely comparable to the changes in fair values of the derivative transactions executed with customers throughout the terms of these contracts, except for the credit valuation adjustment component. The Company records credit valuation adjustments on derivatives to properly reflect the variances of credit worthiness between the Company and the counterparties, considering the effects of enforceable master netting agreements and collateral arrangements.

Foreign Exchange Contracts — The Company enters into foreign exchange contracts with its customers, consisting of forward, spot, swap and option contracts to accommodate the business needs of its customers. For a portion of the foreign exchange contracts entered into with its customers, the Company entered into offsetting foreign exchange contracts with third-party financial institutions to manage its exposure. The changes in fair values of the foreign exchange contracts traded with third-party financial institutions are expected to be largely comparable to the changes in fair values of the foreign exchange transactions executed with customers throughout the terms of these contracts. The Company also utilizes foreign exchange contracts that are not designated as hedging instruments to mitigate the economic effect of fluctuations in certain foreign currency on-balance sheet assets and liabilities, primarily foreign currency denominated deposits offered to its customers. The Company's policies permit taking proprietary currency positions within approved limits, in compliance with the proprietary trading exemption provided under Section 619 of the Dodd-Frank Act. The Company does not speculate in the foreign exchange markets, and actively manages its foreign exchange exposures within prescribed risk limits and defined controls.

Credit Contracts — The Company may periodically enter into RPAs to manage the credit exposure on interest rate contracts associated with its syndicated loans. The Company may enter into protection sold or protection purchased RPAs with institutional counterparties. Under the RPA, the Company will receive or make a payment if a borrower defaults on the related interest rate contract. The Company manages its credit risk on the RPAs by monitoring the credit worthiness of the borrowers, which is based on the normal credit review process.

Equity Contracts — The Company obtained warrants to purchase preferred and common stock of technology and life sciences companies, as part of the loan origination process. The warrants included on the Consolidated Financial Statements were from public and private companies.

Commodity Contracts — Starting in 2018, the Company entered into energy commodity contracts with its customers to allow them to hedge against the risk of fluctuation in energy commodity prices. To economically hedge against the risk of fluctuation in commodity prices in the products offered to its customers, the Company enters into offsetting commodity contracts with third-party financial institutions including with CCP. Certain derivative contracts entered with CCPs are settled-to-market daily to the extent the CCP's rulebooks legally characterize the variation margin as settlement. The changes in fair values of the energy commodity contracts traded with third-party financial institutions are expected to be largely comparable to the changes in fair values of the energy commodity transactions executed with customers throughout the terms of these contracts. The Company did not have any commodity contracts in 2017.

Additional information on the Company's derivatives is presented in Note 1 — Summary of Significant Accounting Policies, Note 3 — Fair Value Measurement and Fair Value of Financial Instruments and Note 6 — Derivatives to the Consolidated Financial Statements.

Impact of Inflation

The consolidated financial statements and related financial data presented in this report have been prepared according to U.S. GAAP, which require the measurement of financial and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time due to inflation. The primary impact of inflation on our operations is reflected in increased operating costs and the effect that general inflation may have on both short-term and long-term interest rates. Since almost all the assets and liabilities of a financial institution are monetary in nature, interest rates generally have a more significant impact on a financial institution's performance than do general levels of inflation. Although inflation expectations do affect interest rates, interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

Critical Accounting Policies and Estimates

Significant accounting policies, which are described in Note 1 — Summary of Significant Accounting Policies to the Consolidated Financial Statements, are fundamental to understanding the Company's results of operations and financial condition. Some accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. In addition, some accounting policies require significant judgment in applying complex accounting principles to individual transactions to determine the most appropriate treatment. The Company has procedures and processes in place to facilitate making these judgments.

Certain accounting policies are considered to have a critical effect on the Company's Consolidated Financial Statements in the Company's judgment. Critical accounting policies are defined as those that require the most complex or subjective judgments and are reflective of significant uncertainties, and whose actual results could differ from the Company's estimates. Future changes in the key variables could change future valuations and impact the results of operations. The following is a discussion of the critical accounting policies including significant estimates. In each area, the Company has identified the most important variables in the estimation process. The Company has used the best information available to make the estimations necessary for the related assets and liabilities.

Fair Value of Financial Instruments

In determining the fair value of financial instruments, the Company uses market prices of the same or similar instruments whenever such prices are available. The Company does not use prices involving distressed sellers in determining fair value. Changes in the market conditions such as reduced liquidity in the capital markets or changes in secondary market activities, may increase variability or reduce the availability of market price used to determine fair value. If observable market prices are unavailable or impracticable to obtain, then fair value is estimated using modeling techniques such as discounted cash flows analysis. These modeling techniques incorporate management's 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. The use of methodologies or assumptions different than those used by the Company could result in different estimates of fair value of financial instruments.

Significant judgment is also required to determine the fair value hierarchy for certain financial instruments. When fair values are based on valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement, the financial assets and liabilities are classified as Level 3 under the fair value hierarchy. Total recurring Level 3 assets were $673 thousand and $679 thousand as of December 31, 2018 and 2017, respectively, and there were no recurring Level 3 liabilities as of December 31, 2018 and 2017. For a complete discussion on the Company's fair value hierarchy of financial instruments, fair value measurement techniques and assumptions, and the impact on the Consolidated Financial Statements, see Note 3 — Fair Value Measurement and Fair Value of Financial Instruments to the Consolidated Financial Statements.

Allowance for Credit Losses

The allowance for credit losses consists of the allowance for loan losses and the allowance for unfunded credit reserves. Allowance for credit losses is calculated with the objective of maintaining a reserve sufficient to absorb losses inherent in our credit portfolio. Management's determination of the appropriateness of the allowance is based on periodic evaluation of the loan portfolio, lending-related commitments and other relevant factors. This evaluation is inherently subjective as it requires numerous estimates as further discussed below. The allowance for loan losses consists of general and specific reserves. Non-impaired loans are evaluated as part of the general reserve while impaired loans are subject to specific reserve. In determining the allowance for credit losses, the Company individually evaluates impaired loans, applies loss rates to non-impaired loans and unfunded lending commitments, SBLCs and recourse obligations for loans sold. General reserves are calculated by utilizing both qualitative and quantitative factors.

The Company's methodology to determine the overall appropriateness of the allowance for credit losses is based on a classified asset migration model (the "Model") with quantitative factors and qualitative considerations. The Model examines pools of loans having similar characteristics and analyzes their loss rates over a historical period. The Company assigns loss rates 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 entirely indicative of the actual or inherent loss potential within its current loan portfolio. Additionally, the Company utilizes qualitative and environmental factors as adjusting mechanisms to supplement the historical results of the Model. Qualitative and environmental factors are reflected as percentage adjustments and are added to the historical loss rates derived from the Model to determine the appropriate allowance for each loan pool. The evaluation is inherently subjective, as it requires numerous estimates and judgments that are susceptible to revision as more information becomes available. To the extent actual results differ from estimates or management's judgment, the allowance for credit losses may be greater or less than future charge-offs.

Quantitative factors include the Company's historical loss experience, delinquency and net charge-off trends, collateral values, changes in nonperforming loans, probability of commitment usage, 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, geographic concentrations, credit risk factors for loans outstanding to the customers, and the terms and expiration dates of the unfunded credit facilities.

The specific reserve is measured by the difference between the recorded value of impaired loans and their impaired value. Impaired loans are measured based on the present value of expected future cash flows discounted at a designated discount rate or, as appropriate, at the loan's observable market price or the fair value of the collateral, if the loan is collateral dependent, less cost to sell.

As the Company adds new products, increases the complexity of the loan portfolio and expands the geographic coverage, the Company expects to continue to enhance the 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 credit loss calculation. The Company believes that the methodologies currently employed continue to be appropriate given the Company's size and level of complexity. For additional information on allowance for credit losses, see Note 7 — Loans Receivable and Allowance for Credit Losses to the Consolidated Financial Statements.

Goodwill Impairment

Under ASC 350, Intangibles — Goodwill and Other, goodwill is required to be allocated to reporting units and tested for impairment at least annually. The Company tests goodwill for impairment annually or more frequently if events or circumstances, such as adverse changes in the business, indicate that there may be justification for conducting an interim test. Impairment testing is performed at the reporting unit level (which is the same level as the Company's major operating segments identified in Note 20 — Business Segments to the Consolidated Financial Statements). Accounting guidance permits an entity to first perform a qualitative assessment to determine whether it is necessary to perform the two-step goodwill impairment test. The Company did not elect to perform this qualitative assessment in the 2018 annual goodwill impairment testing. For the two-step goodwill impairment test, the first step is to identify potential impairment by determining the fair value of each reporting unit and comparing such fair value to its corresponding carrying value. In order to determine the fair value of the reporting units, a combined income approach and market approach is used (additional information on process and methodology used to conduct goodwill impairment testing is described in Note 9 — Goodwill and Other Intangible Assets to the Consolidated Financial Statements). If the fair value is less than the carrying value, then the second step of the test is needed to measure the amount of goodwill impairment, if any, by comparing the implied fair value of the reporting unit goodwill with the carrying value of that goodwill. The implied fair value of goodwill is determined as if the reporting unit were being acquired in a business combination. If the carrying value of reporting unit goodwill exceeds the implied fair value of that goodwill, then the Company would recognize an impairment loss in an amount equal to that excess, which would be recorded as a charge to noninterest expense. The loss recognized cannot exceed the carrying amount of goodwill.

Significant judgment was applied and assumptions were made when estimating the fair value of the reporting units. Estimates of fair value are dependent upon various factors including estimates of the profitability of the Company's reporting units, long term growth rates and the estimated market cost of equity. Imprecision in estimating these factors can affect the estimated fair value of the reporting units. Certain events or circumstances could have a negative effect on the estimated fair value of the reporting units, including declines in business performance, increases in credit losses, as well as deterioration in economic or market conditions and adverse regulatory or legislative changes, which could result in a material impairment charge to earnings in a future period.

In the fourth quarter of 2018, the Company performed its annual goodwill impairment test on all reporting units, and no goodwill impairment was recognized as a result of the test. For additional information on goodwill, see Note 9 — Goodwill and Other Intangible Assets to the Consolidated Financial Statements.

Income Taxes

The Company is subject to income tax laws of the various tax jurisdictions in which it conducts business, including the U.S., its states and the municipalities, and the tax jurisdictions in Hong Kong and China. The Company estimates income tax expense based on amounts expected to be owed to these various tax jurisdictions. The estimated income tax expense or benefit is reported on the Consolidated Statement of Income.

Accrued taxes represent the net estimated amount due to or to be received from various tax jurisdictions and are reported in Accrued expenses and other liabilities or Other assets on the Consolidated Balance Sheets. In estimating accrued taxes, the Company assesses the appropriate tax treatment of transactions and filing positions after considering statutes, regulations, judicial precedent, and other pertinent information. The income tax laws are complex and subject to different interpretations by the Company and the relevant government taxing authorities. Significant judgment is required in determining the tax accruals and in evaluating the tax positions, including evaluating uncertain tax positions. Changes in the estimate of accrued taxes occur periodically due to changes in tax rates, interpretations of tax laws, the status of examinations by the tax authorities, and newly enacted statutory, judicial, and regulatory guidance that could impact the relative merits and risks of tax positions. These changes, when they occur, impact tax expense and can materially affect the operating results. The Company reviews its tax positions on a quarterly basis and makes adjustments to accrued taxes as new information becomes available. The Tax Act, which was enacted on December 22, 2017, had a substantial impact on the Company’s income tax expense for 2018 and 2017.

Deferred tax assets represent amounts available to reduce income taxes payable in future years. Such assets arise due to temporary differences between the financial accounting basis and the income tax basis of assets and liabilities, as well as from NOL and tax credit carryforwards. The Company regularly evaluates the realizability of deferred tax assets. The available evidence used in connection with the evaluations includes taxable income, potential tax-planning strategies, and projected future reversals of deferred tax items.

A valuation allowance is established for deferred tax assets if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. It reduces the deferred tax assets to the amount that is more likely than not to be realized. The Company 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 NOLs. Accordingly, a valuation allowance has been recorded for these amounts.

The Company reports a liability for unrecognized tax benefits resulting from uncertain tax positions taken, or expected to be taken, in an income tax return. Uncertain tax positions that meet the more-likely-than-not recognition threshold are measured to determine the amount of benefit to recognize. An uncertain tax position is measured at the largest amount of benefit that management believes has a greater than 50% likelihood of realization upon settlement. Tax benefits not meeting our realization criteria represent unrecognized tax benefits. The Company establishes a liability for potential taxes, interest and penalties related to uncertain tax positions based on facts and circumstances, including the interpretation of existing law, new judicial or regulatory guidance, and the status of tax audits. The Company believes that adequate provisions have been recorded for all income tax uncertainties consistent with ASC 740, Income Taxes as of December 31, 2018. See Note 13 — Income Taxes to the Consolidated Financial Statements for additional information on income taxes.

Recently Issued Accounting Standards

For detailed discussion and disclosure on new accounting pronouncements adopted and recent accounting standards, see Note 1 — Summary of Significant Accounting Policies to the Consolidated Financial Statements.

Supplemental Information — Explanation of GAAP and Non-GAAP Financial Measures

To supplement the Company’s Consolidated Financial Statements presented in accordance with GAAP, the Company uses certain non-GAAP measures of financial performance. Non-GAAP financial measures are not in accordance with, or an alternative to, GAAP. Generally, a non-GAAP financial measure is a numerical measure of a company’s performance that either excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP. A non-GAAP financial measure may also be a financial metric that is not required by GAAP or other applicable requirement.

The Company believes these non-GAAP financial measures, when taken together with the corresponding GAAP financial measures, provide meaningful supplemental information regarding its performance. During the first quarter of 2017, the Company consummated a sale and leaseback transaction on a commercial property and recognized a pre-tax gain on sale of $71.7 million. During the third quarter of 2017, the Company sold its EWIS insurance brokerage business and recognized a pre-tax gain on sale of $3.8 million. During the fourth quarter of 2017, the Tax Act was passed into law, which resulted in an additional income tax expense of $41.7 million. During the first quarter of 2018, the Company sold its eight DCB branches and recognized a pre-tax gain on sale of $31.5 million. Management believes that excluding the nonrecurring impact of the Tax Act and after-tax gains on sales of the commercial property, the EWIS insurance brokerage business and the Bank's DCB branches from net income, diluted EPS, and returns on average assets and average equity, will make it easier to analyze the results by presenting them on a more comparable basis. However, note that these non-GAAP financial measures should be considered in addition to, not as a substitute for or preferable to, financial measures prepared in accordance with GAAP.

The following table presents a reconciliation of GAAP to non-GAAP financial measures in 2018, 2017 and 2016:

($ and shares in thousands, except per share data)		Year Ended December 31, 2018	2017	2016
Net income	(a)	$703,701	$505,624	$431,677
Add: Impact of the Tax Act		—	41,689	—
Less: Gain on sale of the commercial property		—	(71,654)	—
Gain on sale of business		(31,470)	(3,807)	—
Add: Tax effect of adjustments (1)		9,303	31,729	—
Non-GAAP net income	(b)	$681,534	$503,581	$431,677
Diluted weighted-average number of shares outstanding		146,169	145,913	145,172
Diluted EPS		$4.81	$3.47	$2.97
Diluted EPS impact of the Tax Cuts and Jobs Act		—	0.29	—
Diluted EPS impact of gain on sale of the commercial property, net of tax		—	(0.28)	—
Diluted EPS impact of gain on sale of business, net of tax		(0.15)	(0.02)	—
Non-GAAP diluted EPS		$4.66	$3.46	$2.97
Average total assets	(c)	$38,542,569	$35,787,613	$33,169,373
Average stockholders' equity	(d)	$4,130,822	$3,687,213	$3,305,929
Return on average assets	(a)/(c)	1.83%	1.41%	1.30%
Non-GAAP return on average assets	(b)/(c)	1.77%	1.41%	1.30%
Return on average equity	(a)/(d)	17.04%	13.71%	13.06%
Non-GAAP return on average equity	(b)/(d)	16.50%	13.66%	13.06%

(1) Statutory rates of 29.56% and 42.05% were applied for 2018 and 2017, respectively.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For quantitative and qualitative disclosures regarding market risk in the Company's portfolio, see Item 7. MD&A — Asset Liability and Market Risk Management and Note 6 — Derivatives to the Consolidated Financial Statements.

EAST WEST BANCORP, INC.
ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
TABLE OF CONTENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Consolidated Financial Statements
We have audited the accompanying consolidated balance sheet of East West Bancorp, Inc. and subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2018, 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) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 27, 2019 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.
Basis for Opinion
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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.
We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2009.

Los Angeles, California
February 27, 2019

EAST WEST BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
($ in thousands, except shares)

	December 31, 2018	2017
ASSETS		
Cash and due from banks	$516,291	$457,181
Interest-bearing cash with banks	2,485,086	1,717,411
Cash and cash equivalents	3,001,377	2,174,592
Interest-bearing deposits with banks	371,000	398,422
Securities purchased under resale agreements (“resale agreements”)	1,035,000	1,050,000
Securities:		
Available-for-sale investment securities, at fair value (includes assets pledged as collateral of $435,833 in 2018 and $534,327 in 2017)	2,741,847	3,016,752
Restricted equity securities, at cost	74,069	73,521
Loans held-for-sale	275	85
Loans held-for-investment (net of allowance for loan losses of $311,322 in 2018 and $287,128 in 2017; includes assets pledged as collateral of $20,590,035 in 2018 and $18,880,598 in 2017)	32,073,867	28,688,590
Investments in qualified affordable housing partnerships, net	184,873	162,824
Investments in tax credit and other investments, net	231,635	224,551
Premises and equipment (net of accumulated depreciation of $118,547 in 2018 and $111,898 in 2017)	119,180	121,209
Goodwill	465,547	469,433
Branch assets held-for-sale	—	91,318
Other assets	743,686	650,266
TOTAL	$41,042,356	$37,121,563
LIABILITIES		
Deposits:		
Noninterest-bearing	$11,377,009	$10,887,306
Interest-bearing	24,062,619	20,727,757
Total deposits	35,439,628	31,615,063
Branch liability held-for-sale	—	605,111
Short-term borrowings	57,638	—
Federal Home Loan Bank (“FHLB”) advances	326,172	323,891
Securities sold under repurchase agreements (“repurchase agreements”)	50,000	50,000
Long-term debt	146,835	171,577
Accrued expenses and other liabilities	598,109	513,970
Total liabilities	36,618,382	33,279,612
COMMITMENTS AND CONTINGENCIES (Note 14)		
STOCKHOLDERS’ EQUITY		
Common stock, $0.001 par value, 200,000,000 shares authorized; 165,867,587 and 165,214,770 shares issued in 2018 and 2017, respectively	166	165
Additional paid-in capital	1,789,811	1,755,330
Retained earnings	3,160,132	2,576,302
Treasury stock, at cost — 20,906,224 shares in 2018 and 20,671,710 shares in 2017	(467,961)	(452,327)
Accumulated other comprehensive loss (“AOCI”), net of tax	(58,174)	(37,519)
Total stockholders’ equity	4,423,974	3,841,951

TOTAL	$41,042,356	$37,121,563

See accompanying Notes to Consolidated Financial Statements.

EAST WEST BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
($ and shares in thousands, except per share data)

	Year Ended December 31,		
	2018	2017	2016
INTEREST AND DIVIDEND INCOME			
Loans receivable, including fees	$1,503,514	$1,198,440	$1,035,377
Investment securities	60,911	58,670	53,399
Resale agreements	29,328	32,095	30,547
Restricted equity securities	3,146	2,524	3,427
Interest-bearing cash and deposits with banks	54,804	33,390	14,731
Total interest and dividend income	1,651,703	1,325,119	1,137,481
INTEREST EXPENSE			
Deposits	234,752	116,391	84,224
Federal funds purchased and other short-term borrowings	1,398	1,003	713
FHLB advances	10,447	7,751	5,585
Repurchase agreements	12,110	9,476	9,304
Long-term debt	6,488	5,429	5,017
Total interest expense	265,195	140,050	104,843
Net interest income before provision for credit losses	1,386,508	1,185,069	1,032,638
Provision for credit losses	64,255	46,266	27,479
Net interest income after provision for credit losses	1,322,253	1,138,803	1,005,159
NONINTEREST INCOME			
Branch fees	39,859	40,925	39,654
Letters of credit fees and foreign exchange income	56,282	44,344	47,284
Ancillary loan fees and other income	24,052	23,333	19,352
Wealth management fees	13,785	13,974	12,600
Derivative fees and other income	18,980	17,671	16,781
Net gains on sales of loans	6,590	8,870	6,085
Net gains on sales of available-for-sale investment securities	2,535	8,037	10,362
Net gains on sales of fixed assets	6,683	77,388	3,178
Net gain on sale of business	31,470	3,807	—
Other fees and operating income	10,673	19,399	26,982
Total noninterest income	210,909	257,748	182,278
NONINTEREST EXPENSE			
Compensation and employee benefits	379,622	335,291	300,115
Occupancy and equipment expense	68,896	64,921	61,453
Deposit insurance premiums and regulatory assessments	21,211	23,735	23,279
Legal expense	8,781	11,444	2,841
Data processing	13,177	12,093	11,683
Consulting expense	11,579	14,922	22,742
Deposit related expense	11,244	9,938	10,394
Computer software expense	22,286	18,183	12,914
Other operating expense	88,042	82,974	86,382
Amortization of tax credit and other investments	89,628	87,950	83,446
Total noninterest expense	714,466	661,451	615,249
INCOME BEFORE INCOME TAXES	818,696	735,100	572,188
INCOME TAX EXPENSE	114,995	229,476	140,511

NET INCOME	$703,701	$505,624	$431,677
EARNINGS PER SHARE ("EPS")			
BASIC	$4.86	$3.50	$3.00
DILUTED	$4.81	$3.47	$2.97
WEIGHTED-AVERAGE NUMBER OF SHARES OUTSTANDING			
BASIC	144,862	144,444	144,087
DILUTED	146,169	145,913	145,172

See accompanying Notes to Consolidated Financial Statements.

EAST WEST BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
($ in thousands)

	Year Ended December 31,		
	2018	2017	2016
Net income	$703,701	$505,624	$431,677
Other comprehensive (loss) income, net of tax:			
Net changes in unrealized losses on available-for-sale investment securities	(8,652)	(2,126)	(22,628)
Foreign currency translation adjustments	(5,732)	12,753	(10,577)
Other comprehensive (loss) income	(14,384)	10,627	(33,205)
COMPREHENSIVE INCOME	$689,317	$516,251	$398,472

See accompanying Notes to Consolidated Financial Statements.

EAST WEST BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
($ in thousands, except shares)

	Common Stock and Additional Paid-in Capital		Retained Earnings	Treasury Stock	AOCI, Net of Tax	Total Stockholders' Equity
	Shares	Amount				
BALANCE, DECEMBER 31, 2015	143,909,233	$1,701,459	$1,872,594	$(436,162)	$(14,941)	$3,122,950
Net income	—	—	431,677	—	—	431,677
Other comprehensive loss	—	—	—	—	(33,205)	(33,205)
Net activity of common stock pursuant to various stock compensation plans and agreements	258,218	26,139	—	(3,225)	—	22,914
Cash dividends on common stock ($0.80 per share)	—	—	(116,595)	—	—	(116,595)
BALANCE, DECEMBER 31, 2016	144,167,451	$1,727,598	$2,187,676	$(439,387)	$(48,146)	$3,427,741
Net income	—	—	505,624	—	—	505,624
Other comprehensive income	—	—	—	—	10,627	10,627
Net activity of common stock pursuant to various stock compensation plans and agreements	375,609	27,897	—	(12,940)	—	14,957
Cash dividends on common stock ($0.80 per share)	—	—	(116,998)	—	—	(116,998)
BALANCE, DECEMBER 31, 2017	144,543,060	$1,755,495	$2,576,302	$(452,327)	$(37,519)	$3,841,951
Cumulative effect of change in accounting principle related to marketable equity securities (1)	—	—	(545)	—	385	(160)
Reclassification of tax effects in AOCI resulting from the new federal corporate income tax rate (2)	—	—	6,656	—	(6,656)	—
Net income	—	—	703,701	—	—	703,701
Other comprehensive loss	—	—	—	—	(14,384)	(14,384)
Net activity of common stock pursuant to various stock compensation plans and agreements	418,303	34,482	—	(15,634)	—	18,848
Cash dividends on common stock ($0.86 per share)	—	—	(125,982)	—	—	(125,982)
BALANCE, DECEMBER 31, 2018	144,961,363	$1,789,977	$3,160,132	$(467,961)	$(58,174)	$4,423,974

(1) Represents the impact of the adoption of Accounting Standards Update ("ASU") 2016-01, Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities in the first quarter of 2018. Refer to Note 1 — Summary of Significant Accounting Policies to the Consolidated Financial Statements for additional information.

(2) Represents amounts reclassified from AOCI to retained earnings due to the early adoption of ASU 2018-02, Income Statement — Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income in the first quarter of 2018. Refer to Note 1 — Summary of Significant Accounting Policies to the Consolidated Financial Statements for additional information.

See accompanying Notes to Consolidated Financial Statements.

EAST WEST BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
($ in thousands)

	Year Ended December 31,		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$703,701	$505,624	$431,677
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	139,499	149,822	137,578
Accretion of discount and amortization of premiums, net	(20,572)	(7,260)	(26,024)
Stock compensation costs	30,937	24,657	22,102
Deferred income tax (benefit) expense	(16,470)	33,856	26,966
Provision for credit losses	64,255	46,266	27,479
Net gains on sales of loans	(6,590)	(8,870)	(6,085)
Net gains on sales of available-for-sale investment securities	(2,535)	(8,037)	(10,362)
Net gains on sales of fixed assets	(6,683)	(77,388)	(3,178)
Net gain on sale of business	(31,470)	(3,807)	—
Loans held-for-sale:			
Originations and purchases	(20,176)	(20,521)	(18,804)
Proceeds from sales and paydowns/payoffs of loans originally classified as held-for-sale	20,068	21,363	23,749
Proceeds from distributions received from equity method investees	3,761	3,582	4,690
Net change in accrued interest receivable and other assets	(60,791)	45,354	23,205
Net change in accrued expenses and other liabilities	88,070	(1,965)	15,354
Other net operating activities	(1,832)	599	1,836
Total adjustments	179,471	197,651	218,506
Net cash provided by operating activities	883,172	703,275	650,183
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (increase) decrease in:			
Investments in qualified affordable housing partnerships, tax credit and other investments	(132,605)	(173,630)	(100,514)
Interest-bearing deposits with banks	4,212	(63,096)	(38,249)
Resale agreements:			
Proceeds from paydowns and maturities	175,000	1,250,000	1,500,000
Purchases	(160,000)	(600,000)	(1,550,000)
Available-for-sale investment securities:			
Proceeds from sales	364,270	832,844	1,275,645
Proceeds from repayments, maturities and redemptions	742,132	413,593	1,503,127
Purchases	(888,673)	(828,604)	(2,396,199)
Loans held-for-investment:			
Proceeds from sales of loans originally classified as held-for-investment	483,948	566,688	661,025
Purchases	(597,112)	(534,816)	(1,142,054)
Other changes in loans held-for-investment, net	(3,313,382)	(3,514,786)	(1,549,736)
Premises and equipment:			
Proceeds from sales	1,638	119,749	8,163
Purchases	(13,787)	(13,754)	(12,181)
Sales of businesses, net of cash transferred:			

Proceeds	—	3,633	—
Payments	(503,687)	—	—
Proceeds from sales of other real estate owned (“OREO”)	4,484	6,999	7,408
Proceeds from distributions received from equity method investees	5,185	8,387	7,964
Other net investing activities	(4,035)	19,969	25,515
Net cash used in investing activities	(3,832,412)	(2,506,824)	(1,800,086)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in deposits	3,903,192	2,272,500	2,452,870
Net increase (decrease) in short-term borrowings	61,392	(61,560)	62,506
Repayment of FHLB advances	—	—	(700,000)
Repayment of long-term debt	(25,000)	(15,000)	(20,000)
Common stock:			
Proceeds from issuance pursuant to various stock compensation plans and agreements	2,846	2,280	2,081
Stocks tendered for payment of withholding taxes	(15,634)	(12,940)	(3,225)
Cash dividends paid	(125,988)	(116,820)	(115,828)
Other net financing activities	—	—	1,055
Net cash provided by financing activities	3,800,808	2,068,460	1,679,459
Effect of exchange rate changes on cash and cash equivalents	(24,783)	31,178	(11,940)
NET INCREASE IN CASH AND CASH EQUIVALENTS	826,785	296,089	517,616
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,174,592	1,878,503	1,360,887
CASH AND CASH EQUIVALENTS, END OF YEAR	$3,001,377	$2,174,592	$1,878,503

See accompanying Notes to Consolidated Financial Statements.

EAST WEST BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
($ in thousands)
(Continue)

	Year Ended December 31,		
	2018	2017	2016
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	$253,026	$138,766	$104,251
Income taxes, net	$85,872	$98,126	$39,478
Noncash investing and financing activities:			
Loans transferred from held-for-investment to held-for-sale (1)	$481,593	$613,088	$819,100
Loans transferred from held-for-sale to held-for-investment	$2,306	$—	$4,943
Deposits transferred to branch liability held-for-sale	$—	$605,111	$—
Investment security transferred from held-to-maturity to available-for-sale	$—	$115,615	$—
Held-to-maturity investment security retained from securitization of loans	$—	$—	$160,135
Premises and equipment transferred to branch assets held-for-sale	$—	$8,043	$—
Loans transferred to OREO	$1,206	$777	$8,083

(1) December 31, 2017 amount includes loans transferred from held-for-investment to branch assets held-for-sale.

See accompanying Notes to Consolidated Financial Statements.

EAST WEST BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Summary of Significant Accounting Policies

East West Bancorp, Inc. (referred to herein on an unconsolidated basis as “East West” and on a consolidated basis as the “Company”) is a registered bank holding company that offers a full range of banking services to individuals and 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. As of December 31, 2018, the Company operates in more than 130 locations in the United States (“U.S.”) and Greater China. In the U.S., the Bank’s corporate headquarters and main administrative offices are located in California, and its branches are located in California, Texas, New York, Washington, Georgia, Massachusetts and Nevada. In Greater China, East West’s presence includes full service branches in Hong Kong, Shanghai, Shantou and Shenzhen, and representative offices in Beijing, Chongqing, Guangzhou, Taipei and Xiamen.

Significant Accounting Policies

Basis of Presentation — The accounting and reporting policies of the Company conform with the United States Generally Accepted Accounting Principles (“GAAP”), applicable guidelines prescribed by regulatory authorities and general practices in the banking industry. The preparation of the Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the Consolidated Financial Statements, income and expenses during the reporting period, and the related disclosures. Actual results could differ materially from those estimates. Certain items on the Consolidated Financial Statements and notes for the prior years have been reclassified to conform to the 2018 presentation.

Principles of Consolidation — The Consolidated Financial Statements include the accounts of East West and its subsidiaries. Intercompany transactions and accounts have been eliminated in consolidation. East West also has six wholly-owned subsidiaries that are statutory business trusts (the “Trusts”). In accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 810, Consolidation, the Trusts are not included on the Consolidated Financial Statements.

Cash and Cash Equivalents — Cash and cash equivalents include cash on hand, cash items in transit, cash due from the Federal Reserve Bank and other financial institutions, and federal funds sold with original maturities up to three months.

Interest-bearing Deposits with Banks — Interest-bearing deposits with banks include cash placed with other banks with original maturities greater than three months and less than one year.

Resale Agreements and Repurchase Agreements — Resale agreements are recorded based on the values at which the securities are acquired. The market values of the underlying securities collateralizing the related receivable of the resale agreements, including accrued interest, are monitored. Additional collateral may be requested by the Company from counterparties or excess collateral may be returned by the Company to counterparties when appropriate. Repurchase agreements are accounted for as collateralized financing transactions and recorded at the values at which the securities are sold. The Company may have to provide additional collateral to counterparties, or counterparties may return excess collateral to the Company, for the repurchase agreements when appropriate. The Company has elected to offset resale and repurchase transactions with the same counterparty on the Consolidated Balance Sheet when it has a legally enforceable master netting agreement and when the transactions are eligible for netting under ASC 210-20-45-11, Balance Sheet Offsetting: Repurchase and Reverse Repurchase Agreements.

Securities — The Company’s securities include various debt securities, marketable equity securities and restricted equity securities. Debt securities are recorded on the Consolidated Balance Sheet as of their trade dates. The Company classifies its debt securities as trading securities, available-for-sale or held-to-maturity investment securities based on management’s intention on the date of the purchase. Debt securities purchased for liquidity and investment purpose, as part of asset-liability management and other strategic activities, are reported at fair value as available-for-sale investment securities with net unrealized gains and losses net-of-tax included in AOCI. The specific identification method is used in computing realized gains and losses on available-for-sale investment securities that are sold.

Prior to the adoption of ASU 2016-01 on January 1, 2018, Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, marketable equity securities were classified as available-for-sale investment securities based on management's intention on the date of the purchase. Upon the adoption of ASU 2016-01 on January 1, 2018, marketable equity securities are recorded in Investments in tax credit and other investments, net, on the Consolidated Balance Sheet at fair value with unrealized gains and losses recorded in earnings. Equity securities without readily determinable fair values are accounted for using the measurement alternative, under which the carrying value of these equity securities is measured at cost less impairment (if any), plus or minus observable price changes from an identical or similar investment of the same issuer.

For each reporting period, debt securities classified as either available-for-sale or held-to-maturity investment securities that are in an unrealized loss position are analyzed as part of the Company's ongoing assessment of other-than-temporary impairment ("OTTI"). In determining whether an impairment is OTTI, the Company considers the severity and duration of the decline in fair value, the length of time expected for recovery, the financial condition of the issuer, changes in the debt securities' ratings and other qualitative factors, as well as whether the Company either plans to sell the debt security or it is more likely than not that it will be required to sell the debt security before recovery of the amortized cost. When the Company does not intend to sell the impaired debt security and it is not more likely than not that the Company will be required to sell the impaired debt security prior to recovery of the amortized cost basis, the credit component of an OTTI of the impaired debt security is recognized as OTTI loss on the Consolidated Statement of Income and the non-credit component is recognized in other comprehensive income. This applies for both available-for-sale and held-to-maturity investment securities. If the Company intends to sell the impaired debt security or it is more likely than not that the Company will be required to sell the impaired debt security prior to recovery of the amortized cost basis, the full amount of the impairment loss (equal to the difference between the debt security's amortized cost basis and its fair value at the balance sheet date) is recognized as OTTI loss on the Consolidated Statement of Income. For marketable equity securities recorded at fair value through net income included in Investments in tax credit and other investments, net, on the Consolidated Balance Sheet, the Company is not required to assess whether those securities are impaired. However, for equity securities without readily determinable fair values, the Company makes a qualitative assessment of whether the investment is impaired at each reporting date. If such qualitative assessment indicates that the investment is impaired, the Company estimates the investment's fair value in accordance with the principles of ASC 820, Fair Value Measurements. If the fair value is less than the investment's carrying value, the Company recognizes an impairment loss on the Consolidated Statement of Income equal to the difference between the carrying value and fair value.

Restricted equity securities include Federal Reserve Bank and FHLB stock. The Federal Reserve Bank stock is required by law to be held as a condition of membership in the Federal Reserve System. The FHLB stock is required to obtain advances from the FHLB. They are carried at cost as they do not have a readily determinable fair value. Restricted equity securities are not within the scope of ASU 2016-01.

Loans Held-for-Sale — Loans held-for-sale are carried at lower of cost or fair value. At the time of commitment to originate or purchase a loan, the loan is determined to be held-for-investment if it is the Company's intent to hold the loan to maturity or for the "foreseeable future," subject to periodic review under the Company's evaluation processes, including asset/liability and credit risk management. When the Company subsequently changes its intent to hold certain loans, the loans are transferred from held-for-investment to held-for-sale at the lower of cost or fair value. Any write-down in the carrying amount of the loan at the date of transfer is recorded as a charge-off. Loan origination fees on loans held-for-sale, net of certain costs in processing and closing the loans, are deferred until the time of sale and are included in the periodic determination of the lower of cost or fair value adjustments and/or the gain or loss recognized at the time of sale. If the loan or a portion of the loan cannot be sold, it is subsequently transferred back to the loans held-for-investment portfolio from the loans held-for-sale portfolio at the lower of cost or fair value on the transfer date. A valuation allowance is established if the fair value of such loans is lower than their cost, with a corresponding charge to noninterest income.

85

Loans Held-for-Investment — 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 of deferred loan fees or costs on originated loans, unearned fees, unamortized premiums or unaccreted 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 or straight-line method. Discounts/premiums on purchased loans are accreted/amortized to interest income using the effective interest method or straight-line method over the remaining period to contractual maturity. Interest on loans is calculated using the simple-interest method on daily balances of the principal amounts outstanding. Generally, loans are placed on nonaccrual status when they become 90 days past due. Loans are considered past due when contractually required principal or interest payments have not been made on the due dates. Loans are also placed on nonaccrual status 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. Once a loan is placed on nonaccrual status, interest accrual is discontinued and all unpaid accrued interest is reversed against interest income. Interest payments received on nonaccrual loans are reflected as a reduction of principal and not as interest income. A loan 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.

Troubled Debt Restructurings — A loan is classified as a troubled debt restructuring ("TDR") when the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that the Company would not otherwise consider. 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 with a stated interest rate lower than the current market rate or note splits referred to as A/B note restructurings. Loans with contractual terms that have been modified as a TDR and are current at the time of restructuring may remain on accrual status if there is demonstrated performance prior to the restructuring and payment in full under the restructured terms is expected. Otherwise, the loans are placed on nonaccrual status and are reported as nonperforming, until the borrower demonstrates a sustained period of performance, generally six months, and the ability to repay the loan according to the contractual terms. If accruing TDRs cease to perform in accordance with their modified contractual terms, they are placed on nonaccrual status and reported as nonperforming TDRs. TDRs are included in the impaired loan quarterly valuation allowance process. Refer to Impaired Loans below for a complete discussion.

Impaired Loans — The Company's loans are grouped into heterogeneous and homogeneous categories. Impaired loans are identified and evaluated for impairment on an individual basis. The Company's impaired loans include predominantly non-purchased credit-impaired ("PCI") loans held-for-investment on nonaccrual status and any non-PCI loans modified as a TDR, designated either as performing or nonperforming. A loan is considered impaired when, based on current information and events, it is probable that the Company will not be able to collect all scheduled payments of principal or interest due in accordance with the original 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 and 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. Impaired loans are measured based on the present value of expected future cash flows discounted at a designated discount rate or, as appropriate, at the loan's observable market price or the fair value of the collateral, if the loan is collateral dependent, less cost to sell. When the value of an impaired loan is less than the recorded investment and the loan is classified as nonperforming and uncollectible, the deficiency is charged off against the allowance for loan losses. If the loan is a performing TDR, the deficiency is included in the specific reserves of the allowance for loan losses, as appropriate. Payments received on impaired loans classified as nonperforming are not recognized in interest income, but are applied as a reduction to the principal outstanding.

Allowance for Credit Losses — The allowance for credit losses consists of the allowance for loan losses and the allowance for unfunded credit reserves. Unfunded credit reserves include reserves provided for unfunded lending commitments, standby letters of credit (“SBLCs”) and recourse obligations for loans sold. The allowance for loan losses is established as management’s estimate of probable losses inherent in the Company’s lending activities. The allowance for loan losses is increased by the provision for loan losses and decreased by net charge-offs when management believes the uncollectability of a loan is probable. Subsequent recoveries, if any, are credited to the allowance. The allowance for loan losses is evaluated quarterly by management based on periodic review of the collectibility of the loans.

The allowance for loan losses on non-PCI loans consists of specific reserves and general reserves. The Company's non-PCI loans fall into heterogeneous and homogeneous categories. Impaired loans are subject to specific reserves. Non-impaired loans are evaluated as part of the general reserve. General reserves are calculated by utilizing both quantitative and qualitative factors. There are different qualitative risks for the loans in each portfolio segment. Predominant risk characteristics of the commercial real estate ("CRE"), multifamily, single-family residential loans and home equity lines of credit ("HELOC") loans consider the collateral and geographic locations of the properties collateralizing the loans. Predominant risk characteristics of the commercial and industrial ("C&I") loans include the cash flows, debt service and collateral of the borrowers and guarantors, as well as the economic and market conditions.

The Company also maintains an allowance for loan losses on PCI loans when there is deterioration in credit quality subsequent to acquisition. Based on the Company's estimates of cash flows expected to be collected, the Company establishes an allowance for the PCI loans, with a charge to Provision for credit losses on the Consolidated Statement of Income.

When a loan is determined uncollectible, it is the Company's policy to promptly charge off the difference between the recorded investment balance of the loan and the fair value of the collateral or the discounted value of expected cash flows. Recoveries are recorded when payment is received on loans that were previously charged off through the allowance for loan losses. Allocation of a portion of the allowance to one segment of the loan portfolio does not preclude its availability to absorb losses in other segments.

The allowance for unfunded credit reserves is maintained at a level believed by management to be sufficient to absorb estimated probable losses related to unfunded credit facilities. The determination of the adequacy of the allowance is based on periodic evaluations of the unfunded credit facilities, including an assessment of the probability of commitment usage, credit risk factors for loans outstanding, and the terms and expiration dates of the unfunded credit facilities. The allowance for loan losses is reported separately on the Consolidated Balance Sheet, whereas the allowance for unfunded credit reserves is included in Accrued expenses and other liabilities on the Consolidated Balance Sheet. The Provision for credit losses is reported on the Consolidated Statement of Income.

Purchased Credit-Impaired Loans — Acquired loans are recorded at fair value as of acquisition date in accordance with ASC 805, Business Combinations. A purchased loan is deemed to be credit impaired when there is evidence of credit deterioration since its origination and it is probable at the acquisition date that the Company would be unable to collect all contractually required payments and is accounted for under ASC 310-30, Receivables — Loans and Debt Securities Acquired with Deteriorated Credit Quality. Under 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.

The amount of expected cash flows over the initial investment in the loan represents the "accretable yield," which is recognized as interest income on a level yield basis over the life of the loan. The excess of total contractual cash flows over the cash flows expected to be received at origination is deemed the "nonaccretable difference." In estimating the nonaccretable difference, the Company (a) calculates the contractual amount and timing of undiscounted principal and interest payments (the "undiscounted contractual cash flows") and (b) estimates the amount and timing of undiscounted expected principal and interest payments (the "undiscounted expected cash flows"). The cash flows expected over the life of the pools are estimated by an internal cash flows 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 such as cumulative loss rates, loss curves and prepayment speeds are utilized to calculate the expected cash flows. Subsequent to the acquisition date, based on the quarterly evaluations of remaining cash flows from principal and interest payments expected to be collected, any increases in expected cash flows over the expected cash flows at purchase date in excess of fair value that are significant and probable are adjusted through the accretable yield on a prospective basis. Any subsequent decreases in expected cash flows over the expected cash flows at purchase date that are probable are recognized by a charge to the provision 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.

Investments in Qualified Affordable Housing Partnerships, Tax Credit and Other Investments, Net — The Company records the investments in qualified affordable housing partnerships, net, using the proportional amortization method. Under the proportional amortization method, the Company amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received, and recognizes the amortization in Income tax expenses on the Consolidated Statement of Income.

The Company records investments in tax credit and other investments using either the equity method or cost method of accounting. The tax credits are recognized on the Consolidated Financial Statements to the extent they are utilized on the Company's income tax returns in the year the credit arises under the flow-through method of accounting. The investments are reviewed for impairment on an annual basis or on an interim basis, if an event occurs that would trigger potential impairment.

As discussed under the “Securities” paragraph in the same Note, following the adoption of ASU 2016-01 on January 1, 2018, equity securities with readily determinable fair values were included in Investments in tax credit and other investments, net, on the Consolidated Balance Sheet. These equity securities are Community Reinvestment Act (“CRA”) investments and are measured at fair value with unrealized gains and losses recorded in earnings.

Premises and Equipment, Net — 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 estimated useful lives for the principal classes of assets are as follows:

Premises and Equipment	Useful Lives
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 changes in circumstances indicate that the carrying amounts of these assets may not be recoverable. An asset is considered impaired when the fair value, which is the expected undiscounted cash flows over the remaining useful life, is less than the net book value. The excess of the net book value over its fair value is charged as impairment loss to noninterest expense.

Goodwill and Other Intangible Assets — Goodwill represents the excess of the purchase price over the fair value of net assets acquired in an acquisition. Goodwill is not amortized, but is tested for impairment on an annual basis or more frequently as events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. Other intangible assets are primarily comprised of core deposit intangibles. Core deposit intangibles, which represent the intangible value of depositor relationships resulting from deposit liabilities assumed in various acquisitions, are amortized over the projected useful lives of the deposits, which is typically 8 to 15 years. Core deposit intangibles are tested for impairment on an annual basis, or more frequently as events occur or current circumstances and conditions warrant. Impairment on goodwill and core deposit intangibles is recognized by writing down the asset as a charge to noninterest expense to the extent that the carrying value exceeds the estimated fair value.

Derivatives — 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, and to assist customers with their risk management objectives. Derivatives utilized by the Company include primarily swaps, forwards and option contracts. Derivative instruments are included in Other assets or Accrued expense and other liabilities on the Consolidated Balance Sheet at fair value. The related cash flows are recognized on the Cash flows from operating activities section on the Consolidated Statement of Cash Flows. The Company uses its accounting hedges based on the exposure being hedged as either fair value hedges or hedges of the net investments in certain foreign operations. Changes in fair value of derivatives designated as fair value hedges are reported in Interest expense on the Consolidated Statement of Income. Changes in fair value of derivatives designated as hedges of the net investments in foreign operations are recorded as a component of AOCI. Prior to the adoption of ASU 2017-12 on January 1, 2018, changes in fair value of derivatives designated as hedges of the net investments in foreign operations, to the extent effective, are recorded as a component of AOCI and the changes in fair value attributable to the ineffective portion of the hedging instrument is recognized immediately in Noninterest income on the Consolidated Statement of Income. For all other derivatives, changes in fair value are recognized on the Consolidated Statement of Income.

All derivatives designated as fair value hedges and hedges of the net investments in certain foreign operations are linked to specific hedged items or to groups of specific assets and liabilities on the Consolidated Balance Sheet. To qualify as an accounting hedge under the hedge accounting rules (versus an economic hedge where hedge accounting is not sought), a derivative must be highly effective in offsetting the risk designated as being hedged. The Company formally documents its hedging relationships at inception, 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. Subsequent to inception, on a quarterly basis, the Company assesses whether the derivatives used in hedging transactions are highly effective in offsetting changes in the fair value of the hedged items. Retroactive effectiveness is also assessed, as well as the continued expectation that the hedge will remain effective prospectively.

The Company discontinues hedge accounting prospectively when (i) a derivative is no longer highly effective in offsetting changes in 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 is discontinued, the derivative will continue to be recorded on the Consolidated Balance Sheet at fair value with changes in fair value recognized on the Consolidated Statement of Income. When the hedged net investment is either sold or substantially liquidated, changes in the fair value of the derivatives are reclassified out of AOCI into Letter of credit fees and foreign exchange income on the Consolidated Statement of Income.

The Company also offers various interest rate, foreign currency, and energy commodity derivative products to customers, and enters into derivative transactions in due course. These transactions are not linked to specific assets or liabilities on the Consolidated Balance Sheet or to forecasted transactions in a hedging relationship and, therefore, do not qualify for hedge accounting. The contracts are recorded at fair value with changes in fair value recorded on the Consolidated Statement of Income.

The Company holds a portfolio of warrants to purchase equity securities from both public and private companies that were obtained as part of the loan origination process. The warrants are accounted for as derivatives and recorded at fair value included in Other assets on the Consolidated Balance Sheet with changes in fair value recorded on the Consolidated Statement of Income.

The Company is exposed to counterparty credit risk, which is the risk that counterparties to the derivative contracts do not perform as expected. If a counterparty fails to perform, our counterparty credit risk is equal to the amount reported as a derivative asset on our balance sheet. The Company uses master netting arrangements to mitigate counterparty credit risk in derivative transactions. To the extent the derivatives are subject to master netting arrangements, the Company takes into account the impact of master netting arrangements that allow the Company to settle all derivative contracts executed with the same counterparty on a net basis, and to offset the net derivative position with the related cash collateral and securities. In the fourth quarter of 2018, the Company elected to offset derivative transactions with the same counterparty on the Consolidated Balance Sheet when a derivative transaction has a legally enforceable master netting arrangement and when it is eligible for netting under ASC 210-20-45-1, Balance Sheet Offsetting: Netting Derivative Positions on Balance Sheet. Derivative balances and related cash collateral are presented net on the Consolidated Balance Sheet. Refer to Change in Accounting Policy section within this note for additional discussion. In addition, the Company applied the Settlement to Market treatment for the cash collateralizing our interest rate and commodity contracts with certain centrally cleared counterparties. As a result, derivative balances with these counterparties are considered settled by the collateral.

Fair Value — Fair value is defined as the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date and, in many cases, requires management to make a number of significant judgments. Based on the observable inputs used in the valuation techniques, the Company classifies its assets and liabilities measured and disclosed at fair value in accordance with a three-level hierarchy (i.e., Level 1, Level 2 and Level 3) established under ASC 820, Fair Value Measurements. The Company records certain financial instruments, such as available-for-sale investment securities, and derivative assets and liabilities, at fair value on a recurring basis. Certain financial instruments, such as impaired loans and loans held-for-sale, are not carried at fair value each period but may require nonrecurring fair value adjustments due to lower-of-cost-or-market accounting or write-downs of individual assets. For additional information on the fair value, see Note 3 — Fair Value Measurement and Fair Value of Financial Instruments to the Consolidated Financial Statements.

Stock-Based Compensation — The Company issues stock-based awards to certain employees, officers and directors, and accounts for the related costs in accordance with the provisions of ASC 505, Equity and ASC 718, Compensation — Stock Compensation. Stock-based compensation cost is measured at the grant date based on the fair value of the awards and expensed over the employee's requisite service period.

The Company grants restricted stock units ("RSUs"), which include service conditions for vesting. Additionally, some of the Company's RSUs contain performance goals and market conditions that are required to be met in order for the awards to vest. RSUs vest ratably over three years or cliff vest after three or five years of continued employment from the date of the 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. Effective January 1, 2017, the Company prospectively adopted ASU 2016-09, Compensation — Stock Compensation (Topic 718): Improvement to Employee Share-Based Payment Accounting. As a result of its adoption, all excess tax benefits and deficiencies on share-based payment awards are recognized within Income tax expense on the Consolidated Statement of Income. Before 2017, the tax benefits were recorded as increases to Additional paid-in capital on the Consolidated Balance Sheet.

For time-based RSUs, the grant-date fair value is measured at the fair value of the Company’s common stock as if the RSUs are vested and issued on the date of grant. For performance-based RSUs, the grant-date fair value considers both performance and market conditions. As stock-based compensation expense is estimated based on awards ultimately expected to vest, it is reduced by the expense related to awards expected to be forfeited. Forfeitures are estimated at the time of grant and are reviewed quarterly for reasonableness. If the estimated forfeitures are revised, a cumulative effect of changes in estimated forfeitures for current and prior periods is recognized in compensation expense in the period of change. For performance-based RSUs, the compensation expense fluctuates based on the estimated outcome of meeting the performance conditions. The Company evaluates the probable outcome of the performance conditions quarterly and makes cumulative adjustments for current and prior periods in compensation expense in the period of change. Market conditions subsequent to the grant date have no impact on the amount of compensation expense the Company will recognize over the life of the award. Refer to Note 15 - Stock Compensation Plans to the Consolidated Financial Statements for additional information.

Income Taxes — The Company files consolidated federal income tax returns, foreign tax returns, and various combined and separate company state tax returns. The calculation of the Company's income tax provision and related tax accruals requires the use of estimates and judgments. Accrued income tax liabilities (assets) represent the estimated amounts due to (received from) the various taxing jurisdictions where the Company has established a business presence. Under the balance sheet method, deferred tax assets and liabilities are recognized for the expected future tax consequences of existing temporary differences between the financial reporting and tax reporting basis of assets and liabilities using enacted tax laws and rates and tax carryforwards. To the extent a deferred tax asset is no longer expected more likely than not to be realized, a valuation allowance is established. See Note 13 — Income Taxes to the Consolidated Financial Statements for a discussion of management’s assessment of evidence considered by the Company in establishing a valuation allowance.

The Company reports a liability for unrecognized tax benefits resulting from uncertain tax positions taken, or expected to be taken, in an income tax return. Uncertain tax positions that meet the more-likely-than-not recognition threshold are measured to determine the amount of benefit to recognize. An uncertain tax position is measured at the largest amount of benefit that management believes has a greater than 50% likelihood of realization upon settlement. Tax benefits not meeting our realization criteria represent unrecognized tax benefits. The Company establishes a liability for potential taxes, interest and penalties related to uncertain tax positions based on facts and circumstances, including the interpretation of existing law, new judicial or regulatory guidance, and the status of tax audits.

Earnings Per Share — Basic EPS is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding during each period. Diluted EPS is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding during each period, plus any incremental dilutive common share equivalents calculated for warrants and RSUs outstanding using the treasury stock method.

Foreign Currency Translation — During the third quarter of 2015, the Company’s foreign subsidiary in China, East West Bank (China) Limited, changed its functional currency from U.S. dollar (“USD”) to Chinese Renminbi (“RMB”). As a result, assets and liabilities of this foreign subsidiary were translated, for consolidation purpose, from its functional currency into USD using period-end spot foreign exchange rates. Revenues and expenses of this foreign subsidiary were translated, for consolidation purpose, from its functional currency into USD at the transaction date foreign exchange rates. The effects of those translation adjustments are reported in the Foreign currency translation adjustments account within Other comprehensive (loss) income on the Consolidated Statement of Comprehensive Income, net of any related hedged effects. For transactions that are denominated in a currency other than the functional currency, including transactions denominated in the local currencies of foreign operations that use the USD as their functional currency, the effects of changes in exchange rates are primarily reported on the Consolidated Statement of Income.

Change in Accounting Method — The Company enters into International Swaps and Derivatives Association, Inc. (“ISDA”) master netting agreements or similar agreements with a portion of the Company’s derivative counterparties. Where legally enforceable, these master netting agreements give the Company, in the event of default by the counterparty, the right to liquidate securities and offset cash with the same counterparty. Under ASC 815-10-45-5, payables and receivables in respect of cash collateral received from or paid to a given counterparty can be offset against derivative fair values under a master netting arrangement or similar agreement. GAAP does not permit similar offsetting for security collateral. Prior to the fourth quarter of 2018, the Company elected to account for all derivatives’ fair values on a gross basis on its Consolidated Balance Sheets. In the fourth quarter of 2018, the Company elected to offset derivative assets and liabilities and cash collateral with the same counterparty where it has a legally enforceable master netting agreement or similar agreement in place. The Company believes that this change is a preferable method of accounting as it provides a better reflection of the assets and liabilities on the face of the Consolidated Financial Statements. Adoption of this change is voluntary and has been adopted retrospectively with all prior periods presented herein being restated. A reduction of $28.7 million was reflected in Other assets and Accrued expenses and other liabilities each as of December 31, 2017 on the Consolidated Balance Sheet.

New Accounting Pronouncements Adopted in 2018

Standard	Required Date of Adoption	Description	Effects on Financial Statements
Standards Adopted in 2018			
ASU 2014-09, Revenue from Contracts with Customers (Topic 606) and subsequent related ASUs	January 1, 2018 Early adoption is permitted on January 1, 2017.	These ASUs supersede the revenue recognition guidance in ASC Topic 605, Revenue Recognition, and most industry-specific guidance. The core principle of these ASUs is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires new quantitative and qualitative disclosures including the disaggregation of revenues and descriptions of performance obligations.	The Company adopted this guidance as of January 1, 2018 using the modified retrospective method. There was no cumulative effect adjustment to retained earnings as a result of this adoption. The scope of this new guidance explicitly excludes net interest income, as well as other revenues from financial instruments including loans, leases, securities and derivatives. Since the Company’s revenue is comprised of net interest income and noninterest income, the majority of the Company’s revenues are not affected. In addition, the new guidance does not materially impact the timing or measurement of the Company’s revenue recognition as it is consistent with the Company’s previously existing accounting for contracts within the scope of the new standard. The Company has provided a disaggregation of the significant categories of revenues within the scope of this guidance and expanded the qualitative disclosures of the Company’s noninterest income. See Note 12 — Revenue from Contracts with Customers to the Consolidated Financial Statements for additional information.

Standard	Required Date of Adoption	Description	Effects on Financial Statements
Standards Adopted in 2018 (continued)			
ASU 2016-01, Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities	January 1, 2018 Early adoption is not permitted, except for certain provisions discussed in the “Description” column.	The guidance amends ASC Topic 825, Financial Instruments—Overall, and requires investments in marketable equity securities, except for those accounted for under the equity method of accounting or consolidated, to be accounted for at fair value through net income. The guidance also provides a measurement alternative for equity securities without readily determinable fair values to be measured at cost less impairment (if any), plus or minus observable price changes from an identical or similar investment of the same issuer. Such price changes (if any) are reflected in earnings beginning in the period of adoption. The guidance also requires fair value changes arising from changes in instrument-specific credit risk for financial liabilities that are measured under the fair value option to be recognized in other comprehensive income in which early adoption is permitted for this requirement, and the use of exit price to measure the fair value of financial instruments for disclosure purposes. In addition, the guidance eliminates the requirement to disclose methods and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost on the Consolidated Balance Sheet.	On January 1, 2018, with the exception of the amendments related to equity investments without readily determinable fair values and the use of exit price to measure the fair value of financial instruments for disclosure purposes that were adopted prospectively, the Company adopted all other amendments of the standard on a modified retrospective basis. As of the date of adoption, the Company reclassified approximately $31.9 million of marketable equity securities that were previously classified as Available-for-sale investment securities, at fair value to Investments in tax credits and other investments, net. In addition, the Company recorded a cumulative-effect adjustment that reduced retained earnings by $545 thousand and increased AOCI by $385 thousand as of January 1, 2018. The Company elected the measurement alternative for its privately held cost method investments, which was not a material amount. The Company’s investments in the Federal Reserve Bank of San Francisco ("FRB") and FHLB stock are not subject to this guidance and continue to be accounted for at cost. Furthermore, for purposes of disclosing the fair value of financial instruments carried at amortized cost, the Company has updated its valuation methods as necessary to conform to an exit price concept as required by the guidance as of January 1, 2018. The remaining provisions and disclosure requirements of this ASU did not have a material impact on the Company’s Consolidated Financial Statements or related disclosures.
ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and	January 1, 2018 Early adoption is permitted	This ASU amends ASC Topic 230, Statement of Cash Flows, and provides guidance on eight specific issues related to classification on the Consolidated Statement of Cash Flows. The specific issues cover cash payments for debt prepayment or debt extinguishment costs; cash outflows for settlement of	The Company adopted this guidance on a retrospective basis on January 1, 2018. The adoption of this guidance did not have a material impact on the Company’s Consolidated Financial Statements.

Cash Payments	zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowings; contingent consideration payments that are not made soon after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investees; and beneficial interests received in securitization transactions. The guidance also clarifies that in instances of cash flows with multiple aspects that cannot be separately identified, the classification should be based on the activity that is likely to be the predominant source or use of the cash flows.

Standard	Required Date of Adoption	Description	Effects on Financial Statements
Standards Adopted in 2018 (continued)			
ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash	January 1, 2018 Early adoption is permitted.	This ASU amends ASC Topic 230, Statement of Cash Flows, and requires those amounts that are deemed to be restricted cash and restricted cash equivalents to be included in cash and cash equivalents balances on the Consolidated Statement of Cash Flows. In addition, the Company is required to explain the changes in the combined total of restricted and unrestricted balances on the Consolidated Statement of Cash Flows. The nature of any restrictions are required to be disclosed in the footnotes to the Consolidated Financial Statements.	The Company adopted this guidance on a retrospective basis on January 1, 2018. The adoption of this guidance did not have an impact on the Company's Consolidated Financial Statements.
ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business	January 1, 2018 Early adoption is permitted.	This ASU amends ASC Topic 805, Business Combinations, and narrows the definition of a business by adding an initial screen to determine if substantially all of the fair value of the gross assets acquired is concentrated in a single asset or group of similar assets (a "set"). If the screen is met, the set is not a business. This ASU also specifies the minimum inputs and processes required for a set to be considered a business, and it removes the requirement to evaluate a market participant's ability to replace missing elements when all of the inputs or processes that the seller used in operating a business were not obtained.	The Company adopted this guidance prospectively on January 1, 2018. The adoption of this guidance did not have an impact on the Company's Consolidated Financial Statements.
ASU 2017-08, Receivables — Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities	January 1, 2019 Early adoption is permitted.	This ASU amends ASC Subtopic 310-20, Receivables — Nonrefundable Fees and Other Costs, by shortening the amortization period for certain purchased callable debt securities held at a premium to the earliest call date. The guidance does not require any accounting changes for debt securities held at a discount. The discount continues to be amortized as an adjustment of yield over the contractual life (to maturity) of the instrument. The guidance should be applied using a modified retrospective transition	The Company early adopted this guidance on January 1, 2018. The adoption of this guidance did not have an impact on the Company's Consolidated Financial Statements since the accounting on the Company's purchased callable debt securities have been consistent with the requirements of ASU 2017-08.

		method, with the cumulative-effect adjustment recognized to retained earnings as of the beginning of the period of adoption.	
ASU 2017-09, Compensation — Stock Compensation (Topic 718): Scope of Modification Accounting	January 1, 2018 Early adoption is permitted.	This ASU amends ASC Topic 718, Compensation — Stock Compensation, and provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions and classification of the awards are the same immediately before and after the modification.	The Company adopted the guidance prospectively on January 1, 2018. The adoption of this guidance did not have an impact on the Company's Consolidated Financial Statements.
ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities	January 1, 2019 Early adoption is permitted.	This ASU amends ASC Topic 815, Derivatives and Hedging, to simplify the application of hedge accounting and to better align the Company's financial reporting of its hedging relationship with its risk management activities. Certain key changes include: eliminating the requirement to separately measure and report hedge ineffectiveness for cash flow and net investment hedges; expands and refines hedge accounting for both nonfinancial and financial risk components, and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item on the Consolidated Financial Statements. In addition, incremental disclosure requirements are required.	The Company early adopted this guidance on January 1, 2018. The adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.
ASU 2018-02, Income Statement — Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income	January 1, 2019 Early adoption is permitted	This ASU amends ASC Topic 220, Income Statement — Reporting Comprehensive Income. On December 22, 2017, the Tax Cuts and Jobs Act (the "Tax Act") was signed into law. Under current GAAP, deferred tax assets and liabilities are to be adjusted for the effect of a change in tax laws or rates in net income of the reporting period that includes the enactment date. This accounting treatment resulted in the tax effect of items within AOCI not reflecting the appropriate tax rate. This guidance permits companies to reclassify the stranded tax effects resulting from the Tax Act from AOCI to retained earnings.	The Company early adopted this guidance retrospectively on January 1, 2018. The Company has identified the unrealized losses for available-for-sale securities to be the only item in AOCI with stranded tax effects, and made a policy election to reclassify the related stranded tax effects using the "investment-by-investment" approach. The adoption of this guidance resulted in a cumulative-effect adjustment as of January 1, 2018 that increased retained earnings by $6.7 million and reduced AOCI by the same amount.

93

Standard	Required Date of Adoption	Description	Effects on Financial Statements
Standards Adopted in 2018 (continued)			
ASU 2018-13, Fair Value Measurement (Topic 820): Disclosures Framework — Changes to the Disclosure Requirements for Fair Value Measurement	January 1, 2020 Early adoption is permitted. An entity is permitted to early adopt any removed or modified disclosures and delay adoption of the additional disclosures until their effective dates.	This ASU amends ASC Topic 820, Fair Value Measurements to add new fair value measurement disclosure requirements, as well as to modify and remove certain disclosure requirements. The new disclosure requirements include disclosing 1) the changes in unrealized gains or losses recorded in other comprehensive income for recurring Level 3 fair value measurements; and 2) the range and weighted-average used to develop significant unobservable inputs in determining the fair value of Level 3 assets and liabilities, and how the weighted-average unobservable inputs were calculated. This ASU removes the requirement to disclose 1) the amount and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy; 2) policy for the timing of transfers between levels of the fair value hierarchy; and 3) valuation processes for level 3 fair value measurements. The new disclosure requirements should be adopted prospectively, while all other amendments should be applied retrospectively.	The Company early adopted this guidance as of December 31, 2018 for all applicable provisions. The adoption of this ASU did not have a material impact on the Company's Consolidated Financial Statements. See Note 3 — Fair Value Measurements and Fair Value of Financial Instruments to the Consolidated Financial Statements for the Company's fair value disclosures.

Recent Accounting Pronouncements

Standard	Required Date of Adoption	Description	Effects on Financial Statements
Standards Not Yet Adopted			
ASU 2016-02, Leases (Topic 842) and subsequent related ASUs	January 1, 2019 Early adoption is permitted	The ASU creates ASC Topic 842, Leases, which supersedes ASC Topic 840, Leases. This ASU requires lessees to recognize right-of-use assets and related lease liabilities for all leases with lease terms of more than 12 months on the Consolidated Balance Sheet, and provide quantitative and qualitative disclosures regarding key information about the leasing arrangements. For short-term leases with a term of 12 months or less, lessees can make a policy election not to recognize lease assets and lease liabilities. Lessor accounting is largely unchanged. In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842): Targeted Improvements, which provides companies the option to continue to apply the legacy guidance in ASC 840, Leases, including its disclosure requirements, in the comparative periods presented	The Company expects to adopt ASU 2016-02 on January 1, 2019 using the optional transition method with a cumulative-effect adjustment to retained earnings without restating prior period financial statements for comparable amounts. The Company has completed its implementation efforts as of December 31, 2018. Based on current estimates, the Company expects to recognize right-of-use lease assets of approximately $114.6 million and lease liabilities of approximately $120.4 million at the date of adoption, based on the present value of the expected remaining lease payments. At adoption, the Company expects to have a cumulative effect adjustment of

in the year they adopt ASU 2016-02. Companies that elect this transition option recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption rather than in the earliest period presented. In December 2018, the FASB issued ASU 2018-20, Leases (Topic 842) Narrow-Scope Improvements for Lessors, which include amendments related to 1) sale taxes and other similar taxes collected from lessees; 2) lessor costs paid directly by a lessee; and 3) the recognition of variable payments for contracts with lease and nonlease components.

approximately $14.7 million to increase retained earnings related to deferred gains on sale and leaseback transactions. The Company does not expect material changes to the recognition of operating lease expense on its Consolidated Statement of Income. The Company does not expect the adoption of ASU 2018-20 to have a material impact on the Company's Consolidated Financial Statements.

Standard	Required Date of Adoption	Description	Effects on Financial Statements
Standards Not Yet Adopted (continued)			
ASU 2018-09, Codification Improvements	Amendments that do not require transition guidance: effective immediately upon issuance in July, 2018. Amendments that require transition guidance: January 1, 2019	This ASU makes improvements to various Codification Topics. Some of the improvements include: 1) clarifying that the excess tax benefits for share-based compensation awards should be recognized in the period in which the amount of the deduction is determined; 2) one of the criteria "the intent to set off" under ASC 210-20-45-1 is not required to offset derivative assets and liabilities for certain amounts arising from derivative instruments recognized at fair value and executed with the same counterparty under a master netting agreement; and 3) clarifying the measurement of certain financial instruments.	For the amendments that are effective immediately upon issuance of this guidance, there is no material impact on the Company's Consolidated Financial Statements. For amendments that are effective on January 1, 2019, the Company does not expect the adoption of this guidance to have a material impact on the Company's Consolidated Financial Statements.
ASU 2018-16, Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate ("SOFR") Overnight Index Swap ("OIS") Rate as a Benchmark Interest Rate for Hedge Accounting Purposes	January 1, 2019. Early adoption (including adoption in an interim period) is permitted for entities that already adopted ASU 2017-12.	This ASU amends ASC Topic 815, Derivatives and Hedging, by adding the OIS rate based on SOFR to the list of U.S. benchmark interest rates that are eligible to be hedged to facilitate the London Interbank Offered Rate ("LIBOR") to SOFR transition. The guidance should be applied prospectively for qualifying new or redesignated hedging relationships entered into on or after the date of adoption.	Given that the Company has early adopted ASU 2017-12, ASU 2018-16 will be adopted on January 1, 2019. The Company does not expect the adoption of this guidance to have a material impact on the Company's Consolidated Financial Statements.
ASU 2016-13, Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	January 1, 2020. Early adoption is permitted on January 1, 2019.	The ASU introduces a new current expected credit loss ("CECL") impairment model that applies to most financial assets measured at amortized cost and certain other instruments, including trade and other receivables, loan receivables, available-for-sale and held-to-maturity debt securities, net investments in leases and off-balance sheet credit exposures. The CECL model utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses at the time the financial asset is originated or acquired. The expected credit losses are adjusted in each period for changes in expected lifetime credit	While the Company is still evaluating the impact on its Consolidated Financial Statements, the Company expects that this ASU may result in an increase in the allowance for credit losses due to the following factors: 1) the allowance for credit losses provides for expected credit losses over the remaining expected life of the loan portfolio, and will consider expected future changes in macroeconomic conditions; 2) the nonaccretable difference on the PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the PCI loans; and 3) an allowance may be established for

losses. This ASU also expands the disclosure requirements regarding an entity’s assumptions, models and methods for estimating the allowance for loan and lease losses, and requires disclosure of the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination (i.e., by vintage year). The guidance should be applied using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption.

estimated credit losses on available-for-sale debt securities. The Company’s implementation efforts include, but are not limited to, identifying key interpretive issues, assessing its processes, identifying the system requirements against the new guidance to determine what modifications may be required. The Company has evaluated portfolio segments and model methodologies including macroeconomic factors and is initiating evaluation of qualitative factors. The Company expects to adopt this ASU on January 1, 2020.

Standard	Required Date of Adoption	Description	Effects on Financial Statements
Standards Not Yet Adopted (continued)			
ASU 2017-04, Intangibles — Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment	January 1, 2020 Early adoption is permitted for interim or annual goodwill impairment tests with measurement dates after January 1, 2017.	The ASU simplifies the accounting for goodwill impairment. Under this guidance, an entity will no longer perform a hypothetical purchase price allocation to measure goodwill impairment. Instead, an impairment loss will be recognized when the carrying amount of a reporting unit exceeds its fair value. The guidance also eliminates the requirement to perform a qualitative assessment for any reporting units with a zero or negative carrying amount. This guidance should be applied prospectively.	The Company does not expect the adoption of this guidance to have a material impact on the Company's Consolidated Financial Statements. The Company expects to adopt this ASU on January 1, 2020.
ASU 2018-15, Intangibles — Goodwill and Other — Internal-Use Software (Subtopic 350-40) Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract	January 1, 2020 Early adoption is permitted.	The ASU amends ASC Topic 350-40 to align the accounting for costs incurred in a cloud computing arrangement with the guidance on developing internal use software. Specifically, if a cloud computing arrangement is deemed to be a service contract, certain implementation costs are eligible for capitalization. The new guidance prescribes the balance sheet and income statement presentation and cash flow classification for the capitalized costs and related amortization expense. The amendments in this ASU should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption.	The Company does not expect the adoption of this guidance to have a material impact on the Company's Consolidated Financial Statements. The Company expects to adopt this ASU on January 1, 2020.

Note 2 — Dispositions and Held-for-Sale

In the first quarter of 2017, the Company completed the sale and leaseback of a commercial property in San Francisco, California for cash consideration of $120.6 million and entered into a leaseback with the buyer for part of the property, consisting of a retail branch and office facilities. The net book value of the property was $31.6 million at the time of the sale, resulting in a pre-tax gain of $85.4 million after considering $3.6 million in selling costs. As the leaseback is an operating lease, $71.7 million of the gain was recognized on the closing date, and $13.7 million was deferred and will be recognized over the term of the lease agreement.

In the third quarter of 2017, the Company sold the insurance brokerage business of its subsidiary, East West Insurance Services, Inc. ("EWIS"), for $4.3 million, and recorded a pre-tax gain of $3.8 million. EWIS remains a subsidiary of East West and continues to maintain its insurance broker license.

The Company reports a business as held-for-sale when management has approved or received approval to sell the business and is committed to a formal plan, the business is available for immediate sale, the business is being actively marketed, the sale is anticipated to occur during the next 12 months and certain other specific criteria are met. A business classified as held-for-sale is recorded at the lower of its carrying amount or estimated fair value less costs to sell. If the carrying amount of the business exceeds its estimated fair value, a loss is recognized. Depreciation and amortization expense is not recorded with respect to the assets of a business after it is classified as held-for-sale.

On November 11, 2017, the Bank entered into a Purchase and Assumption Agreement to sell all of its eight Desert Community Bank ("DCB") branches located in the High Desert area of Southern California to Flagstar Bank, a wholly-owned subsidiary of Flagstar Bancorp, Inc. The Company determined that this transaction met the criteria for held-for-sale as of December 31, 2017. Branch assets held-for-sale as of December 31, 2017 were largely comprised of $78.1 million in loans held-for-sale and $8.0 million in premises and equipment, net. Branch liability held-for-sale as of December 31, 2017 was comprised of $605.1 million in deposits.

The sale of the Bank's eight DCB branches was completed on March 17, 2018. The assets and liability of the DCB branches that were sold in this transaction primarily consisted of $613.7 million of deposits, $59.1 million of loans, $9.0 million of cash and cash equivalents and $7.9 million of premises and equipment. The transaction resulted in a net cash payment of $499.9 million by the Company to Flagstar Bank. After transaction costs, the sale resulted in a pre-tax gain of $31.5 million during the year ended December 31, 2018, which was reported as Net gain on sale of business on the Consolidated Statement of Income.

Note 3 — Fair Value Measurement and Fair Value of Financial Instruments

Fair Value Determination

Fair value is defined as the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining the fair value of financial instruments, 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 an asset or a liability. These inputs can be readily observable, market corroborated or generally unobservable. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy noted below is based on the quality and reliability of the information used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices available in active markets and the lowest priority to data lacking transparency. The fair value of the Company's assets and liabilities is classified and disclosed in one of the following three categories:

- Level 1 — Valuation is based on quoted prices for identical instruments traded in active markets.
- Level 2 — Valuation is based on quoted prices for similar instruments traded in active markets; quoted prices for identical or similar instruments traded in markets that are not active; and model-derived valuations whose inputs are observable and can be corroborated by market data.
- Level 3 — Valuation is based on significant unobservable inputs for determining the fair value of assets or liabilities. These significant unobservable inputs reflect assumptions that market participants may use in pricing the assets or liabilities.

The classification of assets and liabilities within the hierarchy is based on whether inputs to the valuation methodology used are observable or unobservable, and the significance of those inputs in the fair value measurement. The Company's assets and liabilities are classified in their entirety based on the lowest level of input that is significant to their fair value measurements.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following section describes the valuation methodologies used by the Company to measure financial assets and liabilities on a recurring basis, as well as the general classification of these instruments pursuant to the fair value hierarchy.

Available-for-Sale Investment Securities — When available, the Company uses quoted market prices to determine the fair value of available-for-sale investment securities, which are classified as Level 1. Level 1 available-for-sale investment securities are primarily comprised of U.S. Treasury securities. The fair value of other available-for-sale investment securities is generally determined by independent external pricing service providers who have experience in valuing these securities or by the average quoted market prices obtained from independent external brokers. The valuations provided by the third-party pricing service providers are based on observable market inputs, which include benchmark yields, reported trades, issuer spreads, benchmark securities, bids, offers, prepayment expectation and reference data obtained from market research publications. Inputs used by the third-party pricing service in valuing collateralized mortgage obligations and other securitization structures also include new issue data, monthly payment information, whole loan collateral performance, tranche evaluation, and "To Be Announced" prices. In valuations of securities issued by state and political subdivisions, inputs used by the third-party pricing service providers also include material event notices.

On a monthly basis, the Company validates the pricing provided by the third-party pricing service to ensure the fair value determination is consistent with the applicable accounting guidance and that the assets are properly classified in the fair value hierarchy. To perform this validation, the Company evaluates the fair values of securities by comparing the fair values provided by the third-party pricing service to prices from other available independent sources for the same securities. When variances in prices are identified, the Company further compares inputs used by different sources to ascertain the reliability of these sources. On a quarterly basis, the Company reviews documentation received from the third-party pricing service regarding the valuation inputs and methodology used for each category of securities.

The third-party pricing service providers may not provide pricing for all securities. Under such circumstances, the Company requests market quotes from various independent external brokers and utilizes the average market quotes. These are viewed as observable inputs in the current marketplace and are classified as Level 2. The Company periodically communicates with the independent external brokers to validate their pricing methodology. Information such as source of pricing, pricing assumptions, data inputs and valuation technique are requested and reviewed.

Equity Securities — Equity securities were comprised of mutual funds as of both December 31, 2018 and 2017. The Company uses Net Asset Value ("NAV") information to determine the fair value of these equity securities. When NAV is available periodically and the equity securities can be put back to the transfer agents at the publicly available NAV, the fair value of the equity securities is classified as Level 1. When NAV is available periodically but the equity securities may not be readily marketable at its periodic NAV in the secondary market, the fair value of these equity securities is classified as Level 2.

Interest Rate Contracts — The Company enters into interest rate swap and option contracts with its borrowers to lock in attractive intermediate and long-term interest rates, resulting in the customer obtaining a synthetic fixed rate loan. To economically hedge against the interest rate risks in the products offered to its customers, the Company enters into mirrored offsetting interest rate contracts with third-party financial institutions. The Company also enters into interest rate swap contracts with institutional counterparties to hedge against certificates of deposit issued. This product allows the Company to lock in attractive floating rate funding. The fair value of the interest rate swaps is determined using the market standard methodology of netting the discounted future fixed cash payments (or receipts) and the discounted expected variable cash receipts (or payments). The fair value of the interest rate options, which consist of floors and caps, is determined using the market standard methodology of discounting the future expected cash receipts that would occur if variable interest rates fall below (rise above) the strike rate of the floors (caps). In addition, to comply with the provisions of ASC 820, Fair Value Measurement, the Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements of its derivatives. The credit valuation adjustments associated with the Company's derivatives utilize model-derived credit spreads, which are Level 3 inputs. As of December 31, 2018 and 2017, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of these interest rate contracts and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivative portfolios. As a result, the Company classifies these derivative instruments as Level 2 due to the observable nature of the significant inputs utilized.

Foreign Exchange Contracts — The Company enters into foreign exchange contracts to accommodate the business needs of its customers. For a majority of the foreign exchange contracts entered into with its customers, the Company entered into offsetting foreign exchange contracts with third-party financial institutions to manage its exposure. The Company also utilizes foreign exchange contracts that are not designated as hedging instruments to mitigate the economic effect of fluctuations in certain foreign currency on-balance sheet assets and liabilities, primarily foreign currency denominated deposits that it offers to its customers. The fair value is determined at each reporting period based on changes in the foreign exchange rates. These are over-the-counter contracts where quoted market prices are not readily available. Valuation is measured using conventional valuation methodologies with observable market data. Due to the short-term nature of the majority of these contracts, the counterparties' credit risks are considered nominal and result in no adjustments to the valuation of the foreign exchange contracts. Due to the observable nature of the inputs used in deriving the fair value of these contracts, the valuation of foreign exchange contracts are classified as Level 2. During the year ended December 31, 2018, the Company entered into foreign currency swap contracts to hedge its net investment in its China subsidiary, East West Bank (China) Limited, a non-USD functional currency subsidiary in China. These foreign currency swap contracts were designated as net investment hedges. As of December 31, 2017, foreign exchange forward contracts were used to economically hedge the Company's net investment in East West Bank (China) Limited. The fair value of foreign currency contracts is valued by comparing the contracted foreign exchange rate to the current market foreign exchange rate. Key inputs of the current market exchange rate include spot rates and forward rates of the contractual currencies. Foreign exchange forward curves are used to determine which forward rate pertains to a specific maturity. Due to the observable nature of the inputs used in deriving the estimated fair value, these instruments are classified as Level 2.

Credit Contracts — The Company may periodically enter into credit risk participation agreement ("RPA") contracts to manage the credit exposure on interest rate contracts associated with syndicated loans. The Company may enter into protection sold or protection purchased RPAs with institutional counterparties. The fair value of RPAs is calculated by determining the total expected asset or liability exposure of the derivatives to the borrowers and applying the borrowers' credit spread to that exposure. Total expected exposure incorporates both the current and potential future exposure of the derivatives, derived from using observable inputs, such as yield curves and volatilities. The majority of the inputs used to value the RPAs are observable. Accordingly, RPAs fall within Level 2.

Equity Contracts — The Company obtained equity warrants to purchase preferred and common stock of technology and life sciences companies, as part of the loan origination process. As of December 31, 2018 and 2017, the warrants included on the Consolidated Financial Statements were from both public and private companies. The Company valued these warrants based on the Black-Scholes option pricing model. For equity warrants from public companies, the model uses the underlying stock price, stated strike price, warrant expiration date, risk-free interest rate based on a duration-matched U.S. Treasury rate and market-observable company-specific option volatility as inputs to value the warrants. Due to the observable nature of the inputs used in deriving the estimated fair value, warrants from public companies are classified as Level 2. For warrants from private companies, the model uses inputs such as the offering price observed in the most recent round of funding, stated strike price, warrant expiration date, risk-free interest rate based on duration-matched U.S. Treasury rate and option volatility. The Company applies proxy volatilities based on the industry sectors of the private companies. The model values are then adjusted for a general lack of liquidity due to the private nature of the underlying companies. Due to the unobservable nature of the option volatility and liquidity discount assumptions used in deriving the estimated fair value, warrants from private companies are classified as Level 3. Since both option volatility and liquidity discount assumptions are subject to management judgment, measurement uncertainty is inherent in the valuation of private companies' equity warrants. Given that the Company holds long positions in all equity warrants, an increase in volatility assumption would generally result in an increase in fair value measurement. A higher liquidity discount would result in a decrease in fair value measurement. On a quarterly basis, the changes in the fair value of warrants from private companies are reviewed for reasonableness, and a measurement uncertainty analysis on the option volatility and liquidity discount assumptions is performed.

Commodity Contracts — In 2018, the Company entered into energy commodity contracts in the form of swaps and options with its commercial loan customers to allow them to hedge against the risk of fluctuation in energy commodity prices. The fair value of the commodity option contracts is determined using the Black's model and assumptions that include expectations of future commodity price and volatility. The future commodity contract price is derived from observable inputs such as the market price of the commodity. Commodity swaps are structured as an exchange of fixed cash flows for floating cash flows. The fixed cash flows are predetermined based on the known volumes and fixed price as specified in the swap agreement. The floating cash flows are correlated with the change of forward commodity prices, which is derived from market corroborated futures settlement prices. The fair value of the commodity swaps is determined using the market standard methodology of netting the discounted future fixed cash payments (or receipts) and the discounted expected variable cash receipts (or payments) based on the market prices of the commodity. As a result, the Company classifies these derivative instruments as Level 2 due to the observable nature of the significant inputs utilized.

The following tables present financial assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2018 and 2017:

($ in thousands)	Assets and Liabilities Measured at Fair Value on a Recurring Basis as of December 31, 2018			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Available-for-sale investment securities:				
U.S. Treasury securities	$ 564,815	$ —	$ —	$ 564,815
U.S. government agency and U.S. government sponsored enterprise debt securities	—	217,173	—	217,173
U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	—	408,603	—	408,603
Residential mortgage-backed securities	—	946,693	—	946,693
Municipal securities	—	82,020	—	82,020
Non-agency mortgage-backed securities:				
Commercial mortgage-backed securities				
Investment grade	—	26,052	—	26,052
Residential mortgage-backed securities				
Investment grade	—	9,931	—	9,931
Corporate debt securities:				
Investment grade	—	10,869	—	10,869
Foreign bonds:				
Investment grade	—	463,048	—	463,048
Asset-backed securities:				
Investment grade	—	12,643	—	12,643
Total available-for-sale investment securities	$ 564,815	$ 2,177,032	$ —	$ 2,741,847
Investments in tax credit and other investments:				
Equity securities with readily determinable fair value [1]	$ 20,678	$ 10,531	$ —	$ 31,209
Total investments in tax credit and other investments	$ 20,678	$ 10,531	$ —	$ 31,209

(1) Equity securities with readily determinable fair value were comprised of mutual funds as of December 31, 2018.

($ in thousands)	Assets and Liabilities Measured at Fair Value on a Recurring Basis as of December 31, 2018 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Derivative assets:				
Interest rate contracts	$ —	$ 69,818	$ —	$ 69,818
Foreign exchange contracts	—	21,624	—	21,624
Credit contracts	—	1	—	1
Equity contracts	—	1,278	673	1,951
Commodity contracts	—	14,422	—	14,422
Gross derivative assets	$ —	$ 107,143	$ 673	$ 107,816
Netting adjustments [2]	$ —	$ (45,146)	$ —	$ (45,146)
Net derivative assets	$ —	$ 61,997	$ 673	$ 62,670
Derivative liabilities:				
Interest rate contracts	$ —	$ 75,133	$ —	$ 75,133
Foreign exchange contracts	—	19,940	—	19,940
Credit contracts	—	164	—	164
Commodity contracts	—	23,068	—	23,068
Gross derivative liabilities	$ —	$ 118,305	$ —	$ 118,305
Netting adjustments [2]	$ —	$ (38,402)	$ —	$ (38,402)
Net derivative liabilities	$ —	$ 79,903	$ —	$ 79,903

(2) Represents balance sheet netting of derivative assets and liabilities and related cash collateral under master netting agreements or similar agreements. See Note 6 — Derivatives to the Consolidated Financial Statements for additional information.

($ in thousands)	Assets and Liabilities Measured at Fair Value on a Recurring Basis as of December 31, 2017			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Available-for-sale investment securities:				
U.S. Treasury securities	$ 640,280	$ —	$ —	$ 640,280
U.S. government agency and U.S. government sponsored enterprise debt securities	—	203,392	—	203,392
U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	—	318,957	—	318,957
Residential mortgage-backed securities	—	1,190,271	—	1,190,271
Municipal securities	—	99,982	—	99,982
Non-agency mortgage-backed securities:				
Residential mortgage-backed securities				
Investment grade	—	9,117	—	9,117
Corporate debt securities:				
Investment grade	—	37,003	—	37,003
Foreign bonds:				
Investment grade	—	486,408	—	486,408
Other securities	20,735	10,607	—	31,342
Total available-for-sale investment securities	$ 661,015	$ 2,355,737	$ —	$ 3,016,752
Derivative assets:				
Interest rate contracts	$ —	$ 59,564	$ —	$ 59,564
Foreign exchange contracts	—	5,840	—	5,840
Credit contracts	—	1	—	1
Equity contracts	—	993	679	1,672
Gross derivative assets	$ —	$ 66,398	$ 679	$ 67,077
Netting adjustments [1]	$ —	$ (28,686)	$ —	$ (28,686)
Net derivative assets	$ —	$ 37,712	$ 679	$ 38,391
Derivative liabilities:				
Interest rate contracts	$ —	$ 65,660	$ —	$ 65,660
Foreign exchange contracts	—	10,170	—	10,170
Credit contracts	—	8	—	8
Gross derivative liabilities	$ —	$ 75,838	$ —	$ 75,838
Netting adjustments [1]	$ —	$ (31,342)	$ —	$ (31,342)
Net derivative liabilities	$ —	$ 44,496	$ —	$ 44,496

(1) Represents balance sheet netting of derivative assets and liabilities and related cash collateral under master netting agreements or similar agreements. See Note 6 — Derivatives to the Consolidated Financial Statements for additional information.

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. There were no assets or liabilities measured using significant unobservable inputs (Level 3) on a recurring basis as of and during the year ended December 31, 2016. As of December 31, 2018 and 2017, the only assets measured on a recurring basis that were classified as Level 3 were equity warrants issued by private companies. The following table presents a reconciliation of the beginning and ending balances of these warrants for the years ended December 31, 2018 and 2017:

($ in thousands)	Year Ended December 31,		
	2018	2017	
	Equity Warrants	Other Securities	Equity Warrants
Beginning balance	$ 679	$ —	$ —
Transfer of investment security from held-to-maturity to available-for-sale	—	115,615	—
Total gains included in earnings [(1)]	162	1,156	—
Issuances, sales and settlements:			
Issuances	65	—	679
Sales	—	(116,771)	—
Settlements	(233)	—	—
Ending balance	$ 673	$ —	$ 679

(1) Includes unrealized gains of $225 thousand for the year ended December 31, 2018. There were no unrealized gains (losses) for the year ended December 31, 2017. Net realized/unrealized gains of equity warrants are included in Ancillary loan fees and other income on the Consolidated Statement of Income. Net realized gains of other securities are included in Net gains on sales of available-for-sale investment securities on the Consolidated Statement of Income.

The following table presents quantitative information about the significant unobservable inputs used in the valuation of assets measured on a recurring basis classified as Level 3 as of December 31, 2018. The significant unobservable inputs presented in the table below are those that the Company considers significant to the fair value of the Level 3 assets. The Company considers unobservable inputs to be significant if, by their exclusion, the fair value of the Level 3 assets would be impacted by a predetermined percentage change.

($ in thousands)	Fair Value Measurements (Level 3)	Valuation Technique	Unobservable Inputs	Range of Inputs	Weighted-Average [(1)]
Derivative assets:					
Equity warrants	$ 673	Black-Scholes option pricing model	Volatility	49% — 52%	51%
			Liquidity discount	47%	47%

(1) Weighted-average is calculated based on fair value of equity warrants as of December 31, 2018.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

From time to time, the Company may be required to measure certain assets at fair value on a nonrecurring basis in accordance with GAAP. The adjustments to fair value generally require the assets to be recorded at the lower of cost or fair value, or assessed for impairment.

Assets measured at fair value on a nonrecurring basis include certain non-PCI loans that are impaired, OREO and loans held-for-sale. These fair value adjustments result from impairment on certain non-PCI loans, application of fair value less costs to sell on OREO, or application of lower of cost or fair value on loans held-for-sale.

Non-PCI Impaired Loans — The Company typically adjusts the carrying amount of impaired loans when there is evidence of probable loss and when the expected fair value of the loan is less than its carrying amount. Impaired loans with specific reserves are classified as Level 3 assets. The following two methods are used to derive the fair value of impaired loans:

- Discounted cash flows valuation techniques generally consist of developing an expected stream of cash flows over the life of the loans and then valuing the loans at the present value by discounting the expected cash flows at a designated discount rate.

103

- A specific reserve is established for an impaired loan based on the fair value of the underlying collateral, which may take the form of real estate, inventory, equipment, contracts or guarantees. The fair value of the underlying collateral is generally based on third-party appraisals, or an internal evaluation if a third-party appraisal is not required by regulations, which utilize one or more valuation techniques such as income, market and/or cost approaches.

Other Real Estate Owned — The Company’s OREO represents properties acquired through foreclosure, or through full or partial satisfaction of loans held-for-investment. These OREO properties are recorded at estimated fair value less the costs to sell at the time of foreclosure or at the lower of cost or estimated fair value less the costs to sell subsequent to acquisition. On a monthly basis, the current fair market value of each OREO property is reviewed to ensure that the current carrying value is appropriate. OREO properties are classified as Level 3.

The following tables present the carrying amounts of assets included on the Consolidated Balance Sheet that had fair value changes measured on a nonrecurring basis as of December 31, 2018 and 2017:

	Assets Measured at Fair Value on a Nonrecurring Basis as of December 31, 2018			
($ in thousands)	Fair Value Measurements	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Non-PCI impaired loans:				
Commercial:				
C&I	$ 26,873	$ —	$ —	$ 26,873
CRE	3,434	—	—	3,434
Consumer:				
Single-family residential	2,551	—	—	2,551
Total non-PCI impaired loans	$ 32,858	$ —	$ —	$ 32,858

	Assets Measured at Fair Value on a Nonrecurring Basis as of December 31, 2017			
($ in thousands)	Fair Value Measurements	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Non-PCI impaired loans:				
Commercial:				
C&I	$ 31,404	$ —	$ —	$ 31,404
CRE	2,667	—	—	2,667
Construction and land	3,973	—	—	3,973
Consumer:				
Single-family residential	144	—	—	144
Total non-PCI impaired loans	$ 38,188	$ —	$ —	$ 38,188
OREO	$ 9	$ —	$ —	$ 9

The following table presents the total change in value of assets for which a fair value adjustment has been included on the Consolidated Statement of Income for the years ended December 31, 2018, 2017 and 2016:

($ in thousands)	Year Ended December 31, 2018	2017	2016
Non-PCI impaired loans:			
Commercial:			
C&I	$(9,341)	$(19,703)	$(27,106)
CRE	270	(272)	1,084
Construction and land	—	(147)	—
Consumer:			
Single-family residential	15	(11)	(224)
HELOCs	—	—	34
Other consumer	—	(2,491)	—
Total non-PCI impaired loans nonrecurring fair value losses	$(9,056)	$(22,624)	$(26,212)
OREO nonrecurring fair value losses	$—	$(1)	$(23)
Loans held-for-sale lower of cost or fair value adjustments	$—	$—	$(5,565)

The following table presents the quantitative information about the significant unobservable inputs used in the valuation of assets measured on a nonrecurring basis classified as Level 3 as of December 31, 2018 and 2017:

($ in thousands)	Fair Value Measurements (Level 3)	Valuation Technique(s)	Unobservable Input(s)	Range of Input(s)	Weighted-Average [(1)]
December 31, 2018					
Non-PCI impaired loans	$ 16,921	Discounted cash flows	Discount	4% — 7%	6 %
	$ 1,687	Fair value of property	Selling cost	8%	8 %
	$ 2,751	Fair value of collateral	Discount	15% — 50%	21 %
	$ 11,499	Fair value of collateral	Contract value	NM	NM
December 31, 2017					
Non-PCI impaired loans	$ 22,802	Discounted cash flows	Discount	4% — 10%	6 %
	$ 9,773	Fair value of property	Selling cost	8%	8 %
	$ 3,207	Fair value of collateral	Discount	20% — 32%	29 %
	$ 2,406	Fair value of collateral	Contract value	NM	NM
OREO	$ 9	Fair value of property	Selling cost	8%	8 %

NM — Not meaningful.
(1) Weighted-average is based on the relative fair value of the respective assets as of December 31, 2018 and 2017.

Disclosures about Fair Value of Financial Instruments

The following tables present the fair value estimates for financial instruments as of December 31, 2018 and 2017, excluding financial instruments recorded at fair value on a recurring basis as they are included in the tables presented elsewhere in this Note. The carrying amounts in the following tables are recorded on the Consolidated Balance Sheet under the indicated captions, except for accrued interest receivable and mortgage servicing rights that are included in Other assets, and accrued interest payable that is included in Accrued expenses and other liabilities. These financial assets and liabilities are measured at amortized cost basis on the Company's Consolidated Balance Sheet. During the first quarter of 2018, the Company adopted ASU 2016-01 and has updated its valuation methods as necessary to conform to an "exit price" concept as required by ASU 2016-01.

($ in thousands)	December 31, 2018 Carrying Amount	Level 1	Level 2	Level 3	Estimated Fair Value
Financial assets:					
Cash and cash equivalents	$3,001,377	$3,001,377	$—	$—	$3,001,377
Interest-bearing deposits with banks	$371,000	$—	$371,000	$—	$371,000
Resale agreements (1)	$1,035,000	$—	$1,016,724	$—	$1,016,724
Restricted equity securities, at cost	$74,069	$—	$74,069	$—	$74,069
Loans held-for-sale	$275	$—	$275	$—	$275
Loans held-for-investment, net	$32,073,867	$—	$—	$32,273,157	$32,273,157
Mortgage servicing rights	$7,836	$—	$—	$11,427	$11,427
Accrued interest receivable	$146,262	$—	$146,262	$—	$146,262
Financial liabilities:					
Demand, checking, savings and money market deposits	$26,370,562	$—	$26,370,562	$—	$26,370,562
Time deposits	$9,069,066	$—	$9,084,597	$—	$9,084,597
Short-term borrowings	$57,638	$—	$57,638	$—	$57,638
FHLB advances	$326,172	$—	$334,793	$—	$334,793
Repurchase agreements (1)	$50,000	$—	$87,668	$—	$87,668
Long-term debt	$146,835	$—	$152,556	$—	$152,556
Accrued interest payable	$22,893	$—	$22,893	$—	$22,893

(1) Resale and repurchase agreements are reported net pursuant to ASC 210-20-45-11, Balance Sheet Offsetting: Repurchase and Reverse Repurchase Agreements. As of December 31, 2018, $400.0 million out of $450.0 million of repurchase agreements were eligible for netting against resale agreements.

($ in thousands)	December 31, 2017 Carrying Amount	Level 1	Level 2	Level 3	Estimated Fair Value
Financial assets:					
Cash and cash equivalents	$2,174,592	$2,174,592	$—	$—	$2,174,592
Interest-bearing deposits with banks	$398,422	$—	$398,422	$—	$398,422
Resale agreements (1)	$1,050,000	$—	$1,035,158	$—	$1,035,158
Restricted equity securities, at cost	$73,521	$—	$73,521	$—	$73,521
Loans held-for-sale	$85	$—	$85	$—	$85
Loans held-for-investment, net	$28,688,590	$—	$—	$28,956,349	$28,956,349
Branch assets held-for-sale	$91,318	$5,143	$10,970	$78,132	$94,245
Mortgage servicing rights	$7,771	$—	$—	$11,324	$11,324
Accrued interest receivable	$121,719	$—	$121,719	$—	$121,719
Financial liabilities:					
Demand, checking, savings and money market deposits	$25,974,314	$—	$25,974,314	$—	$25,974,314
Time deposits	$5,640,749	$—	$5,626,855	$—	$5,626,855
Branch liability held-for-sale	$605,111	$—	$—	$643,937	$643,937
FHLB advances	$323,891	$—	$335,901	$—	$335,901
Repurchase agreements (1)	$50,000	$—	$104,830	$—	$104,830
Long-term debt	$171,577	$—	$171,673	$—	$171,673
Accrued interest payable	$10,724	$—	$10,724	$—	$10,724

(1) Resale and repurchase agreements are reported net pursuant to ASC 210-20-45-11, Balance Sheet Offsetting: Repurchase and Reverse Repurchase Agreements. As of December 31, 2017, $400.0 million out of $450.0 million of repurchase agreements were eligible for netting against resale agreements.

Note 4 — Securities Purchased under Resale Agreements and Sold under Repurchase Agreements

Resale Agreements

Resale agreements are recorded as receivables for the cash paid based on the values at which the securities are acquired. The market values of the underlying securities collateralizing the related receivables of the resale agreements, including accrued interest, are monitored. Additional collateral may be requested by the Company from the counterparties or excess collateral may be returned by the Company to the counterparties when deemed appropriate. Gross resale agreements were $1.44 billion and $1.45 billion as of December 31, 2018 and 2017, respectively. The weighted-average yields were 2.63%, 2.19% and 1.78% for the years ended December 31, 2018, 2017 and 2016, respectively.

Repurchase Agreements

Long-term repurchase agreements are accounted for as collateralized financing transactions and recorded as liabilities based on the values at which the securities are sold. As of December 31, 2018, the collateral for the repurchase agreements was comprised of U.S. Treasury securities, and U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities. The Company may have to provide additional collateral to the counterparties, or the counterparties may return excess collateral to the Company, for the repurchase agreements when necessary. Gross repurchase agreements were $450.0 million as of both December 31, 2018 and 2017. The weighted-average interest rates were 4.46%, 3.48% and 2.97% for the years ended December 31, 2018, 2017 and 2016, respectively.

107

The following table presents the repurchase agreements that will mature in the five years succeeding December 31, 2018 and thereafter:

($ in thousands)	Repurchase Agreements
2019	$ —
2020	—
2021	—
2022	150,000
2023	300,000
Thereafter	—
Total	$ 450,000

Balance Sheet Offsetting

The Company's resale and repurchase agreements are transacted under legally enforceable master repurchase agreements that provide the Company, in the event of default by the counterparty, the right to liquidate securities held and to offset receivables and payables with the same counterparty. The Company nets resale and repurchase transactions with the same counterparty on the Consolidated Balance Sheet when it has a legally enforceable master netting agreement and the transactions are eligible for netting under ASC 210-20-45-11, Balance Sheet Offsetting: Repurchase and Reverse Repurchase Agreements. Collateral received includes securities that are not recognized on the Consolidated Balance Sheet. Collateral pledged consists of securities that are not netted on the Consolidated Balance Sheet against the related collateralized liability. Collateral received or pledged in resale and repurchase agreements with other financial institutions may also be sold or re-pledged by the secured party, but is usually delivered to and held by the third-party trustees. The collateral amounts received/pledged are limited for presentation purposes to the related recognized asset/liability balance for each counterparty, and accordingly, do not include excess collateral received/pledged.

The following tables present the resale and repurchase agreements included on the Consolidated Balance Sheet as of December 31, 2018 and 2017:

($ in thousands)	December 31, 2018					
				Gross Amounts Not Offset on the Consolidated Balance Sheet		
Assets	Gross Amounts of Recognized Assets	Gross Amounts Offset on the Consolidated Balance Sheet	Net Amounts of Assets Presented on the Consolidated Balance Sheet	Financial Instruments	Collateral Received	Net Amount
Resale agreements	$ 1,435,000	$ (400,000)	$ 1,035,000	$ —	$ (1,025,066) (1)	$ 9,934

				Gross Amounts Not Offset on the Consolidated Balance Sheet		
Liabilities	Gross Amounts of Recognized Liabilities	Gross Amounts Offset on the Consolidated Balance Sheet	Net Amounts of Liabilities Presented on the Consolidated	Financial Instruments	Collateral Pledged	Net Amount

			Balance Sheet				
Repurchase agreements	$ 450,000	$ (400,000)	$ 50,000	$ —	$ (50,000) (2)	$ —

($ in thousands)	December 31, 2017					
Assets	Gross Amounts of Recognized Assets	Gross Amounts Offset on the Consolidated Balance Sheet	Net Amounts of Assets Presented on the Consolidated Balance Sheet	Gross Amounts Not Offset on the Consolidated Balance Sheet		Net Amount
				Financial Instruments	Collateral Received	
Resale agreements	$ 1,450,000	$ (400,000)	$ 1,050,000	$ —	$ (1,045,696) (1)	$ 4,304

Liabilities	Gross Amounts of Recognized Liabilities	Gross Amounts Offset on the Consolidated Balance Sheet	Net Amounts of Liabilities Presented on the Consolidated Balance Sheet	Gross Amounts Not Offset on the Consolidated Balance Sheet		Net Amount
				Financial Instruments	Collateral Pledged	
Repurchase agreements	$ 450,000	$ (400,000)	$ 50,000	$ —	$ (50,000) (2)	$ —

(1) Represents the fair value of securities the Company has received under resale agreements, limited for table presentation purposes to the amount of the recognized asset due from each counterparty.
(2) Represents the fair value of securities the Company has pledged under resale agreements, limited for table presentation purposes to the amount of the recognized asset due from each counterparty.

In addition to the amounts included in the tables above, the Company also has balance sheet netting related to derivatives. Refer to Note 6 — Derivatives to the Consolidated Financial Statements for additional information.

Note 5 — Securities

The following tables present the amortized cost, gross unrealized gains and losses, and fair value by major categories of available-for-sale investment securities as of December 31, 2018 and 2017:

	December 31, 2018			
($ in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale investment securities:				
U.S. Treasury securities	$577,561	$ 153	$(12,899)	$564,815
U.S. government agency and U.S. government sponsored enterprise debt securities	219,485	382	(2,694)	217,173
U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	420,486	811	(12,694)	408,603
Residential mortgage-backed securities	957,219	4,026	(14,552)	946,693
Municipal securities	82,965	87	(1,032)	82,020
Non-agency mortgage-backed securities:				
Commercial mortgage-backed securities				
Investment grade [(1)]	25,826	226	—	26,052