EAST WEST BANCORP INC
Form 10-Q
November 04, 2016

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

FORM 10-Q

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

For the quarterly period ended September 30, 2016

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer x  Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

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

Number of shares outstanding of the issuer’s common stock on the latest practicable date: 144,164,156 shares as of October 31, 2016.

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Forward-Looking Statements

Certain matters discussed in this Quarterly Report on Form 10-Q ("Form 10-Q") contain or incorporate statements that East West Bancorp, Inc. (referred to herein on an unconsolidated basis as "East West" and on a consolidated basis as the "Company" or "EWBC") believes are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Rule 175 promulgated thereunder, and Section 21E of the Securities Exchange Act of 1934, as amended, and Rule 3b-6 promulgated thereunder. These statements relate to 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," may include other similar words or phrases, such as "believes," "plans," "trend," "objective," "continues," "remains," or simila expressions, or future or conditional verbs, such as "will," "would," "should," "could," "may," "might," "can," or similar verbs 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;
- changes in the commercial and consumer real estate markets;
- changes in the Company's costs of operation, compliance and expansion;
- changes in the U.S. economy, including inflation, employment levels, rate of growth and general business conditions;
- changes in government interest rate policies;
- 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, the Federal Deposit Insurance Corporation ("FDIC"), the U.S. Securities and Exchange Commission ("SEC"), the Consumer Financial Protection Bureau and the California Department of Business Oversight — Division of Financial Institutions;
- changes in the economy of and monetary policy in the People's Republic of China;
- changes in income tax laws and regulations;
- 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 the equity and debt securities markets;
- future credit quality and performance, including the Company's expectations regarding future credit losses and allowance levels;
- fluctuations of the Company's stock price;
- fluctuations in foreign currency exchange rates;
- success and timing of the Company's business strategies;
- ability of the Company to adopt and successfully integrate new technologies into its business in a strategic manner;
- impact of reputational risk from negative publicity, fines and penalties and other negative consequences from regulatory violations and legal actions;
- impact of potential federal tax increases and spending cuts;
- impact of adverse judgments or settlements in litigation;
- impact of regulatory enforcement actions;
- changes in the Company's ability to receive dividends from its subsidiaries;
- impact of political developments, wars or other hostilities that may disrupt or increase volatility in securities or otherwise affect economic conditions;
- impact of natural or man-made disasters or calamities or conflicts;
- continuing consolidation in the financial services industry;

- the Company’s capital requirements and its ability to generate capital internally or raise capital on favorable terms;
- impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act on the Company’s business, business practices and cost of operations;
- impact of adverse changes to the Company’s credit ratings from the major credit rating agencies;
- 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;
- the effect of the current low interest rate environment or changes in interest rates on the Company’s net interest income and net interest margin;
- the effect of changes in the level of checking or savings account deposits on the Company’s funding costs and net interest margin; and
- 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 increased funding costs, reduced 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.

For a more detailed discussion of some of the factors that might cause such differences, see the Company’s annual report on Form 10-K for the year ended December 31, 2015, filed with the SEC on February 26, 2016 (the “Company’s 2015 Form 10-K”), under the heading “ITEM 1A. RISK FACTORS” and the information set forth under “ITEM 1A. RISK FACTORS” in this Form 10-Q. The Company does not undertake, and specifically disclaims any obligation to update any forward-looking statements to reflect the occurrence of events or circumstances after the date of such statements except as required by law.

PART I — FINANCIAL INFORMATION

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

| | September 30, 2016 (Unaudited) | December 31, 2015 |
|---|---|---|
| ASSETS | | |
| Cash and cash equivalents | $1,666,832 | $1,360,887 |
| Short-term investments | 307,473 | 299,916 |
| Securities purchased under resale agreements (“resale agreements”) | 1,500,000 | 1,600,000 |
| Available-for-sale investment securities, at fair value | 3,236,624 | 3,773,226 |
| Held-to-maturity investment security, at cost (fair value of $154,296 in 2016) | 154,461 | — |
| Loans held-for-sale | 47,719 | 31,958 |
| Loans held-for-investment (net of allowance for loan losses of $255,812 in 2016 and $264,959 in 2015) | 24,476,150 | 23,378,789 |
| Investment in Federal Home Loan Bank (“FHLB”) stock, at cost | 17,250 | 28,770 |
| Investment in Federal Reserve Bank stock, at cost | 55,355 | 54,932 |
| Investments in qualified affordable housing partnerships, net | 173,045 | 193,978 |
| Premises and equipment (net of accumulated depreciation of $110,668 in 2016 and $100,060 in 2015) | 162,482 | 166,993 |
| Goodwill | 469,433 | 469,433 |
| Other assets | 988,451 | 992,040 |
| TOTAL | $33,255,275 | $32,350,922 |
| LIABILITIES | | |
| Customer deposits: | | |
| Noninterest-bearing | $9,524,021 | $8,656,805 |
| Interest-bearing | 19,068,420 | 18,819,176 |
| Total deposits | 28,592,441 | 27,475,981 |
| Short-term borrowings | 36,992 | — |
| FHLB advances | 321,084 | 1,019,424 |
| Securities sold under repurchase agreements (“repurchase agreements”) | 200,000 | — |
| Long-term debt | 191,265 | 206,084 |
| Accrued expenses and other liabilities | 535,439 | 526,483 |
| Total liabilities | 29,877,221 | 29,227,972 |
| COMMITMENTS AND CONTINGENCIES (Note 10) | | |
| STOCKHOLDERS’ EQUITY | | |
| Common stock, $0.001 par value, 200,000,000 shares authorized; 164,567,479 and 164,246,517 shares issued in 2016 and 2015, respectively. | 164 | 164 |
| Additional paid-in capital | 1,718,249 | 1,701,295 |
| Retained earnings | 2,106,121 | 1,872,594 |
| Treasury stock at cost — 20,434,175 shares in 2016 and 20,337,284 shares in 2015. | (439,306) | (436,162) |
| Accumulated other comprehensive loss (“AOCI”), net of tax | (7,174) | (14,941) |
| Total stockholders’ equity | 3,378,054 | 3,122,950 |
| TOTAL | $33,255,275 | $32,350,922 |

See accompanying Notes to Consolidated Financial Statements.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| INTEREST AND DIVIDEND INCOME | | | | |
| Loans receivable, including fees | $255,316 | $244,372 | $763,189 | $719,987 |
| Investment securities | 13,388 | 10,279 | 37,433 | 29,947 |
| Resale agreements | 7,834 | 4,411 | 22,479 | 13,940 |
| Investment in FHLB and Federal Reserve Bank stock | 611 | 1,380 | 2,008 | 4,922 |
| Due from banks and short-term investments | 3,168 | 4,190 | 10,245 | 14,542 |
| Total interest and dividend income | 280,317 | 264,632 | 835,354 | 783,338 |
| INTEREST EXPENSE | | | | |
| Customer deposits | 21,049 | 18,519 | 60,708 | 53,677 |
| Short-term borrowings | 212 | 35 | 390 | 53 |
| FHLB advances | 1,361 | 1,074 | 4,153 | 3,156 |
| Repurchase agreements | 2,319 | 3,555 | 6,441 | 19,494 |
| Long-term debt | 1,228 | 1,160 | 3,726 | 3,460 |
| Total interest expense | 26,169 | 24,343 | 75,418 | 79,840 |
| Net interest income before provision for credit losses | 254,148 | 240,289 | 759,936 | 703,498 |
| Provision for credit losses | 9,525 | 7,736 | 17,018 | 16,217 |
| Net interest income after provision for credit losses | 244,623 | 232,553 | 742,918 | 687,281 |
| NONINTEREST INCOME | | | | |
| Branch fees | 10,408 | 9,982 | 30,983 | 29,157 |
| Letters of credit fees and foreign exchange income | 10,908 | 7,468 | 31,404 | 24,999 |
| Ancillary loan fees | 6,135 | 4,839 | 13,997 | 10,307 |
| Wealth management fees | 4,033 | 4,374 | 9,862 | 14,310 |
| Derivative commission income | 5,375 | 4,274 | 12,005 | 12,037 |
| Net gains on sales of loans | 2,158 | 4,888 | 6,967 | 19,719 |
| Net gains on sales of available-for-sale investment securities | 1,790 | 17,036 | 8,468 | 26,994 |
| Changes in FDIC indemnification asset and receivable/payable | — | (3,883) | — | (18,973) |
| Other fees and operating income | 8,534 | 5,203 | 20,432 | 20,350 |
| Total noninterest income | 49,341 | 54,181 | 134,118 | 138,900 |
| NONINTEREST EXPENSE | | | | |
| Compensation and employee benefits | 75,042 | 66,185 | 220,166 | 193,298 |
| Occupancy and equipment expense | 15,456 | 15,362 | 45,619 | 45,990 |
| Amortization of tax credit and other investments | 32,618 | 12,269 | 60,779 | 21,565 |
| Amortization of premiums on deposits acquired | 2,023 | 2,310 | 6,177 | 7,038 |
| Deposit insurance premiums and regulatory assessments | 6,450 | 4,726 | 17,341 | 13,723 |
| Other real estate owned (“OREO”) (income) expense | (67) | (1,374) | 1,484 | (7,481) |
| Legal expense | 5,361 | 2,099 | 12,714 | 13,103 |
| Data processing | 2,729 | 2,602 | 8,712 | 7,596 |
| Consulting expense | 4,594 | 4,983 | 19,027 | 9,596 |
| Deposit related expenses | 3,082 | 2,538 | 7,675 | 7,402 |
| Computer software expense | 3,331 | 2,355 | 9,267 | 6,404 |
| Repurchase agreements’ extinguishment costs | — | 15,193 | — | 21,818 |

| | | | | |
|---|---|---|---|---|
| Other operating expense | 19,881 | 18,497 | 57,024 | 55,893 |
| Total noninterest expense | 170,500 | 147,745 | 465,985 | 395,945 |
| INCOME BEFORE INCOME TAXES | 123,464 | 138,989 | 411,051 | 430,236 |
| INCOME TAX EXPENSE | 13,321 | 44,892 | 90,108 | 137,364 |
| NET INCOME | $110,143 | $94,097 | $320,943 | $292,872 |
| EARNINGS PER SHARE (“EPS”) | | | | |
| BASIC | $0.76 | $0.65 | $2.23 | $2.04 |
| DILUTED | $0.76 | $0.65 | $2.21 | $2.03 |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING | | | | |
| BASIC | 144,122 | 143,861 | 144,061 | 143,788 |
| DILUTED | 145,238 | 144,590 | 145,086 | 144,468 |
| DIVIDENDS DECLARED PER COMMON SHARE | $0.20 | $0.20 | $0.60 | $0.60 |

See accompanying Notes to Consolidated Financial Statements.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Net income | $110,143 | $94,097 | $320,943 | $292,872 |
| Other comprehensive (loss) income, net of tax: | | | | |
| Net change in unrealized (losses) gains on available-for-sale investment securities | (4,907) | 3,246 | 12,993 | 4,439 |
| Foreign currency translation adjustments | (555) | (6,846) | (5,226) | (6,846) |
| Other comprehensive (loss) income | (5,462) | (3,600) | 7,767 | (2,407) |
| COMPREHENSIVE INCOME | $104,681 | $90,497 | $328,710 | $290,465 |

See accompanying Notes to Consolidated Financial Statements.

EAST WEST BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
($ in thousands, except share data)
(Unaudited)

| | Common Stock and Additional Paid-in Capital | | Retained Earnings | Treasury Stock | AOCI, net of tax | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| | Shares | Amount | | | | |
| BALANCE, JANUARY 1, 2015 | 143,582,229 | $1,677,931 | $1,604,141 | $(430,198) | $4,237 | $2,856,111 |
| Net income | — | — | 292,872 | — | — | 292,872 |
| Other comprehensive loss | — | — | — | — | (2,407) | (2,407) |
| Stock compensation costs | — | 11,702 | — | — | — | 11,702 |
| Tax benefit from stock compensation plans, net | — | 3,227 | — | — | — | 3,227 |
| Net activity of common stock pursuant to various stock compensation plans and agreements | 287,725 | 2,569 | — | (5,859) | — | (3,290) |
| Common stock dividends | — | — | (87,100) | — | — | (87,100) |
| BALANCE, SEPTEMBER 30, 2015 | 143,869,954 | $1,695,429 | $1,809,913 | $(436,057) | $1,830 | $3,071,115 |
| BALANCE, JANUARY 1, 2016 | 143,909,233 | $1,701,459 | $1,872,594 | $(436,162) | $(14,941) | $3,122,950 |
| Net income | — | — | 320,943 | — | — | 320,943 |
| Other comprehensive income | — | — | — | — | 7,767 | 7,767 |
| Stock compensation costs | — | 13,973 | — | — | — | 13,973 |
| Tax benefit from stock compensation plans, net | — | 1,019 | — | — | — | 1,019 |
| Net activity of common stock pursuant to various stock compensation plans and agreements | 224,071 | 1,962 | — | (3,144) | — | (1,182) |
| Common stock dividends | — | — | (87,416) | — | — | (87,416) |
| BALANCE, SEPTEMBER 30, 2016 | 144,133,304 | $1,718,413 | $2,106,121 | $(439,306) | $(7,174) | $3,378,054 |

See accompanying Notes to Consolidated Financial Statements.

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

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2016 | 2015 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | $320,943 | $292,872 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 98,561 | 52,810 |
| Accretion of discount and amortization of premiums, net | (37,881) | (47,890) |
| Changes in FDIC indemnification asset and receivable/payable | — | 18,973 |
| Stock compensation costs | 13,973 | 11,702 |
| Deferred tax expenses | 3,730 | 118,079 |
| Tax benefit from stock compensation plans, net | (1,019) | (3,227) |
| Provision for credit losses | 17,018 | 16,217 |
| Net gains on sales of loans | (6,967) | (19,719) |
| Net gains on sales of available-for-sale investment securities | (8,468) | (26,994) |
| Net gains on sales of premises and equipment and OREO | (3,300) | (13,350) |
| Originations and purchases of loans held-for-sale | (10,901) | (623) |
| Proceeds from sales and paydowns/payoffs in loans held-for-sale | 15,065 | 2,232 |
| Repurchase agreements' extinguishment costs | — | 21,818 |
| Net payments to FDIC shared-loss agreements | — | (12,038) |
| Net change in accrued interest receivable and other assets | (1,570) | (28,957) |
| Net change in accrued expenses and other liabilities | 19,217 | 39,157 |
| Other net operating activities | (797) | 525 |
| Total adjustments | 96,661 | 128,715 |
| Net cash provided by operating activities | 417,604 | 421,587 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Net (increase) decrease in: | | |
| Loans held-for-investment | (317,142) | (1,873,612) |
| Short-term investments | (13,469) | 75,940 |
| Investments in qualified affordable housing partnerships, tax credit and other investments | (57,742) | (48,204) |
| Purchases of: | | |
| Resale agreements | (1,150,000) | (1,645,000) |
| Available-for-sale investment securities | (1,330,724) | (2,190,503) |
| Loans held-for-investment (including loan participations) | (1,497,218) | (572,558) |
| Proceeds from sales of: | | |
| Available-for-sale investment securities | 1,008,256 | 1,328,487 |
| Loans held-for-investment (including loan participations) | 545,256 | 1,271,128 |
| OREO | 3,271 | 33,921 |
| Paydowns and maturities of resale agreements | 1,450,000 | 1,370,000 |
| Repayments, maturities and redemptions of available-for-sale investment securities | 870,965 | 558,669 |
| Other net investing activities | 15,278 | 14,736 |
| Net cash used in investing activities | (473,269) | (1,676,996) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net increase in: | | |

| | | |
|---|---|---|
| Deposits | 1,130,022 | 2,765,985 |
| Short-term borrowings | 37,699 | 3,271 |
| Proceeds from: | | |
| Issuance of common stock pursuant to various stock compensation plans and agreements | 1,962 | 1,769 |
| Payments for: | | |
| Repayment of FHLB advances | (700,000) | — |
| Repayment of long-term debt | (15,000) | (15,000) |
| Extinguishment of repurchase agreements | — | (566,818) |
| Repurchase of vested shares due to employee tax liability | (3,144) | (5,859) |
| Cash dividends | (86,984) | (86,850) |
| Tax benefit from stock compensation plans, net | 1,019 | 3,227 |
| Net cash provided by financing activities | 365,574 | 2,099,725 |
| Effect of exchange rate changes on cash and cash equivalents | (3,964) | (8,498) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 305,945 | 835,818 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 1,360,887 | 1,039,885 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $1,666,832 | $1,875,703 |

See accompanying Notes to Consolidated Financial Statements.

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

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2016 | 2015 |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| Cash paid (received) during the period for: | | |
| Interest | $76,750 | $81,739 |
| Income tax payments/(refunds), net | $20,652 | $(20,367 ) |
| Noncash investing and financing activities: | | |
| Loans held-for-investment transferred to loans held-for-sale, net | $720,670 | $1,556,456 |
| Transfers to OREO | $6,086 | $8,059 |
| Loans to facilitate sale of OREO | $— | $1,750 |
| Held-to-maturity investment security retained from securitization of loans | $160,135 | $— |
| Dividends payable | $432 | $250 |

See accompanying Notes to Consolidated Financial Statements.

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

## NOTE 1 — BASIS OF PRESENTATION

The unaudited interim Consolidated Financial Statements in this Form 10-Q include the accounts of East West and its subsidiaries, East West Bank and subsidiaries (referred to herein as “East West Bank” or the “Bank”) and East West Insurance Services, Inc. Intercompany transactions and balances have been eliminated in consolidation. As of September 30, 2016, East West has six wholly-owned subsidiaries that are statutory business trusts (the “Trusts”). In accordance with FASB Accounting Standards Codification (“ASC”) Topic 810, the Trusts are not consolidated into the Company.

The unaudited interim Consolidated Financial Statements presented in accordance with United States Generally Accepted Accounting Principles (“U.S. GAAP”), applicable guidelines prescribed by regulatory authorities, and general practices within the banking industry, reflect all adjustments that, in the opinion of management, are necessary for fair statement of the interim period financial statements. Certain prior year balances and notes have been reclassified to conform to current period presentation.

The current period’s results of operations are not necessarily indicative of results that may be expected for any other interim period or for the year as a whole. Events subsequent to the Consolidated Balance Sheet date have been evaluated through the date the financial statements are issued for inclusion in the accompanying financial statements. The unaudited Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and notes thereto, included in the Company’s 2015 Form 10-K.

## NOTE 2 — CURRENT ACCOUNTING DEVELOPMENTS

### NEW ACCOUNTING PRONOUNCEMENTS ADOPTED

In February 2015, the FASB issued Accounting Standards Update (“ASU”) 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis that changes the analysis a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The amended guidance 1) modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities (“VIEs”) or voting interest entities; 2) eliminates the presumption that a general partner should consolidate a limited partnership; 3) affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and 4) provides a scope exception from consolidation guidance for reporting entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a7 of the Investment Company Act of 1940 for registered money market funds. The Company adopted this amended guidance in the first quarter of 2016 and the adoption of this guidance did not have a material impact on the Company’s Consolidated Financial Statements.

In April 2015, the FASB issued ASU 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs.  ASU 2015-03 simplifies the presentation of debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of debt liability, consistent with debt discounts. The Company adopted this guidance retrospectively in the first quarter of 2016. The adoption of this guidance did not have a material impact on the Company’s Consolidated Financial Statements.

In April 2015, the FASB issued ASU 2015-05, Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. ASU 2015-05 amends ASC 350-40 and requires the Company to determine whether a cloud computing arrangement contains a software license. If the arrangement contains a software license, the Company should account for the fees related to the software license element consistent with how the acquisitions of other software licenses are accounted for under ASC 350-40. If the arrangement does not contain a software license, the Company should account for the arrangement as a service contract. The Company adopted this guidance prospectively to all arrangements entered into or materially modified in the first quarter of 2016. The adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.

RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The new guidance replaces existing revenue recognition guidance for contracts to provide goods or services to customers. ASU 2014-09 clarifies the principles for recognizing revenue and replaces nearly all existing revenue recognition guidance in U.S. GAAP. Quantitative and qualitative disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers are also required. ASU 2014-09 as amended by ASU 2015-14, ASU 2016-08, ASU 2016-10 and ASU 2016-12, is effective for interim and annual periods beginning after December 15, 2017 and is applied on either a modified retrospective or full retrospective basis. Early adoption is permitted for interim and annual periods beginning after December 15, 2016. The Company's preliminary analysis suggests that the adoption of this accounting guidance is not expected to have a material impact on the Company's Consolidated Financial Statements. However, there are many aspects of the new accounting guidance that are still being interpreted and the FASB has recently issued updates to certain aspects of the guidance. The results of our materiality analysis may change based on the conclusion reached as to the application of the new guidance.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 requires equity investments, except those accounted for under the equity method of accounting or consolidated, to be measured at fair value with changes recognized in net income. If there is no readily determinable fair value, the guidance allows entities the ability to measure investments at cost less impairment, whereby impairment is based on a qualitative assessment. The guidance eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost and changes the presentation of financial assets and financial liabilities on the Consolidated Balance Sheet or in the footnotes. If an entity has elected the fair value option to measure liabilities, the new accounting guidance requires the portion of the change in the fair value of a liability resulting from credit risk to be presented in other comprehensive income. The Company has not elected to measure any of its liabilities at fair value. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is not permitted except for certain specific changes under the fair value option guidance. To adopt the amendments, the Company is required to make a cumulative-effect adjustment to the consolidated balance sheet as of the beginning of the fiscal year in which the guidance is effective. However, the amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the adoption date. The Company is currently evaluating the impact on its Consolidated Financial Statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which is intended to increase transparency and comparability in the accounting for lease transactions. ASU 2016-02 requires lessees to recognize all leases longer than twelve months on the Consolidated Balance Sheet as lease assets and lease liabilities and quantitative and qualitative disclosures regarding key information about leasing arrangements. Lessor accounting is largely unchanged. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years with an option to early adopt. The Company is currently evaluating the impact on its Consolidated Financial Statements.

In March 2016, the FASB issued ASU 2016-05, Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships, to clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument in an existing hedging relationship would not be considered a termination of the derivative instrument or a change in a critical term of the hedging relationship provided that all other hedge accounting criteria in ASC 815 continue to be met. This clarification applies to both cash flow and fair value hedging relationships. ASU 2016-05 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years with an option to early adopt. The Company has an option to adopt the amendments of this ASU either on a prospective basis or modified retrospective basis. The Company does

not expect the adoption of this guidance to have a material impact on its Consolidated Financial Statements.

In March 2016, the FASB issued ASU 2016-06, Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments that requires an entity to use a four step decision model when assessing contingent call (put) options that can accelerate the payment of principal on debt instruments to determine whether they are clearly and closely related to their debt hosts. ASU 2016-06 will be effective for interim and annual reporting periods beginning after December 15, 2016 and must be implemented using a modified retrospective basis. Early adoption is permitted. The Company does not expect the adoption of this guidance to have a material impact on its Consolidated Financial Statements.

In March 2016, the FASB issued ASU 2016-07, Investments—Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting, to eliminate the requirement for an investor to retroactively apply the equity method when its increase in ownership interest (or degree of influence) in an investee triggers equity method accounting. The amendments in ASU 2016-07 also require that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in AOCI at the date the investment becomes qualified for use of the equity method. ASU 2016-07 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years and should be applied prospectively. Early adoption is not permitted. The Company is currently evaluating the impact on its Consolidated Financial Statements.

In March 2016, the FASB issued ASU 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, to simplify several aspects of the accounting for share-based payment transactions, including the accounting for income taxes, forfeitures, statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact on its Consolidated Financial Statements.

In June 2016, the FASB issued ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments to introduce a new approach based on expected losses to estimate credit losses on certain types of financial instruments, which modifies the impairment model for available-for-sale debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. The new “expected credit loss” impairment model will apply to most financial assets measured at amortized cost and certain other instruments, including trade and other receivables, loans, held-to-maturity debt securities, net investments in leases and off-balance-sheet credit exposures. ASU 2016-13 also expands the disclosure requirements regarding an entity’s assumptions, models and methods for estimating the allowance for loans 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). ASU 2016-13 is effective for the fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Earlier adoption is permitted as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact on its Consolidated Financial Statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flow (Topic 230): Classification of Certain Cash Receipts and Cash Payments, to provide guidance on the classification of certain cash receipts and payments in the consolidated statement of cash flows in order to reduce diversity in practice. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The Company does not expect the adoption of this guidance to have a material impact on its Consolidated Financial Statements.

## NOTE 3 — FAIR VALUE MEASUREMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

In determining fair value, the Company uses various methods including market and income approaches. Based on these approaches, the Company utilizes certain assumptions that market participants would use in pricing the asset or liability. These inputs can be readily observable, market corroborated, or generally unobservable. 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 in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable and can be corroborated by market data.
- Level 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.

In determining the appropriate hierarchy levels, the Company performs an analysis of the assets and liabilities that are subject to fair value disclosure. 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.

The following tables present financial assets and liabilities that are measured at fair value on a recurring basis as of September 30, 2016 and December 31, 2015:

| ($ in thousands) | Assets (Liabilities) Measured at Fair Value on a Recurring Basis as of September 30, 2016 | | | |
|---|---|---|---|---|
| | Fair Value Measurements | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Available-for-sale investment securities: | | | | |
| U.S. Treasury securities | $ 456,448 | $ 456,448 | $ — | $ — |
| U.S. government agency and U.S. government sponsored enterprise debt securities | 383,331 | — | 383,331 | — |
| U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities: | | | | |
| Commercial mortgage-backed securities | 326,818 | — | 326,818 | — |
| Residential mortgage-backed securities | 1,194,838 | — | 1,194,838 | — |
| Municipal securities | 152,293 | — | 152,293 | — |
| Non-agency residential mortgage-backed securities: | | | | |
| Investment grade | 52,957 | — | 52,957 | — |
| Corporate debt securities: | | | | |
| Investment grade | 281,987 | — | 281,987 | — |
| Non-investment grade | 8,778 | — | 8,778 | — |
| Foreign bonds: | | | | |
| Investment grade | 337,434 | — | 337,434 | — |
| Other securities | 41,740 | 31,939 | 9,801 | — |
| Total available-for-sale investment securities | $ 3,236,624 | $ 488,387 | $ 2,748,237 | $ — |
| Derivative assets: | | | | |
| Interest rate swaps and options | $ 144,293 | $ — | $ 144,293 | $ — |
| Foreign exchange contracts | $ 6,065 | $ — | $ 6,065 | $ — |
| Derivative liabilities: | | | | |
| Interest rate swaps on certificates of deposit | $ (2,137 ) | $ — | $ (2,137 ) | $ — |
| Foreign currency forward contracts | $ (78 ) | $ — | $ (78 ) | $ — |
| Interest rate swaps and options | $ (146,623 ) | $ — | $ (146,623 ) | $ — |
| Foreign exchange contracts | $ (3,334 ) | $ — | $ (3,334 ) | $ — |
| Credit risk participation agreements (“RPAs”) | $ (8 ) | $ — | $ (8 ) | $ — |

| ($ in thousands) | Assets (Liabilities) Measured at Fair Value on a Recurring Basis as of December 31, 2015 | | | |
|---|---|---|---|---|
| | Fair Value Measurements | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Available-for-sale investment securities: | | | | |
| U.S. Treasury securities | $ 998,515 | $ 998,515 | $ — | $ — |
| U.S. government agency and U.S. government sponsored enterprise debt securities | 768,849 | — | 768,849 | — |
| U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities: | | | | |
| Commercial mortgage-backed securities | 351,662 | — | 351,662 | — |
| Residential mortgage-backed securities | 997,396 | — | 997,396 | — |
| Municipal securities | 175,649 | — | 175,649 | — |
| Non-agency residential mortgage-backed securities: | | | | |
| Investment grade | 62,393 | — | 62,393 | — |
| Corporate debt securities: | | | | |
| Investment grade | 279,432 | — | 279,432 | — |
| Non-investment grade | 9,642 | — | 9,642 | — |
| Foreign bonds: | | | | |
| Investment grade | 89,795 | 4,514 | 85,281 | — |
| Other securities | 39,893 | 31,121 | 8,772 | — |
| Total available-for-sale investment securities | $ 3,773,226 | $ 1,034,150 | $ 2,739,076 | $ — |
| | | | | |
| Derivative assets: | | | | |
| Foreign currency forward contracts | $ 2,365 | $ — | $ 2,365 | $ — |
| Interest rate swaps and options | $ 67,215 | $ — | $ 67,215 | $ — |
| Foreign exchange contracts | $ 10,254 | $ — | $ 10,254 | $ — |
| | | | | |
| Derivative liabilities: | | | | |
| Interest rate swaps on certificates of deposit | $ (5,213) | $ — | $ (5,213) | $ — |
| Interest rate swaps and options | $ (67,325) | $ — | $ (67,325) | $ — |
| Foreign exchange contracts | $ (9,350) | $ — | $ (9,350) | $ — |
| RPAs | $ (4) | $ — | $ (4) | $ — |

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 for the three and nine months ended September 30, 2016. The following table presents a reconciliation of the beginning and ending balances for major asset and liability categories measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2015:

| ($ in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | | 2015 | |
| | Corporate Debt Securities: Non-Investment Grade | Embedded Derivative Liabilities | Corporate Debt Securities: Non-Investment Grade | Embedded Derivative Liabilities |
| Beginning balance | $ — | $ — | $ 6,528 | $ (3,392) |
| Total gains (losses) for the period: | | | | |
| Included in earnings [1] | — | — | 960 | (20) |
| Included in other comprehensive income [2] | — | — | 922 | — |
| Sales and settlements: | | | | |
| Sales | — | — | (7,219) | — |
| Settlements | — | — | (98) | 3,412 |
| Transfers in and/or out of Level 3 | — | — | (1,093) | — |
| Ending balance | $ — | $ — | $ — | $ — |
| Changes in unrealized losses included in earnings relating to assets and liabilities held for the period | $ — | $ — | $ — | $ — |

(1) Net gains or losses (realized and unrealized) of corporate debt securities and embedded derivative liabilities are included in Net gains on sales of available-for-sale investment securities and Other operating expense, respectively, on the Consolidated Statements of Income.

(2) Unrealized gains or losses on available-for-sale investment securities are reported in Other comprehensive income, net of tax, on the Consolidated Statements of Comprehensive Income.

Transfers into or out of fair value hierarchy classifications are made if the significant inputs used in the financial models measuring the fair values of the assets and liabilities become unobservable or observable in the current marketplace. The Company’s policy, with respect to transfers between levels of the fair value hierarchy, is to recognize transfers into and out of each level as of the end of the reporting period. There were no transfers of assets measured on a recurring basis in and out of Level 1, Level 2, or Level 3 for the three and nine months ended September 30, 2016, and three months ended September 30, 2015. During the nine months ended September 30, 2015, the Company transferred $1.1 million of pooled trust preferred securities measured on a recurring basis out of Level 3 into Level 2 due to increased market liquidity and price observability.

Assets measured at fair value on a nonrecurring basis include certain non-purchased credit impaired (“non-PCI”) loans that were impaired, OREO and loans held-for-sale.  These fair value adjustments result from impairments recognized during the period on certain non-PCI impaired loans, application of fair value less cost to sell on OREO and application of lower of cost or market (“LOCOM”) valuation on loans held-for-sale.

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The following tables present the carrying amounts of assets included in the Consolidated Balance Sheets that had fair value changes during the year-to-date period measured on a nonrecurring basis:

| | Assets Measured at Fair Value on a Nonrecurring Basis as of September 30, 2016 | | | |
|---|---|---|---|---|
| ($ 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 real estate ("CRE") | $ 20,904 | $ — | $ — | $ 20,904 |
| Commercial and industrial ("C&I") | 58,854 | — | — | 58,854 |
| Residential | 2,305 | — | — | 2,305 |
| Consumer | 594 | — | — | 594 |
| Total non-PCI impaired loans | $ 82,657 | $ — | $ — | $ 82,657 |
| OREO | $ 2,760 | $ — | $ — | $ 2,760 |
| Loans held-for-sale | $ 26,931 | $ — | $ 26,931 | $ — |

| | Assets Measured at Fair Value on a Nonrecurring Basis as of December 31, 2015 | | | |
|---|---|---|---|---|
| ($ 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: | | | | |
| CRE | $ 17,252 | $ — | $ — | $ 17,252 |
| C&I | 35,558 | — | — | 35,558 |
| Residential | 16,472 | — | — | 16,472 |
| Consumer | 1,180 | — | — | 1,180 |
| Total non-PCI impaired loans | $ 70,462 | $ — | $ — | $ 70,462 |
| OREO | $ 4,929 | $ — | $ — | $ 4,929 |
| Loans held-for-sale | $ 29,238 | $ — | $ 29,238 | $ — |

The following table presents fair value adjustments of assets measured on a nonrecurring basis recognized during the three and nine months ended and which were included in the Consolidated Balance Sheets as of September 30, 2016 and 2015:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| ($ in thousands) | 2016 | 2015 | 2016 | 2015 |
| Non-PCI impaired loans: | | | | |
| CRE | $(282) | $101 | $1,741 | $(845) |
| C&I | 77 | (707) | (5,497) | (9,806) |
| Residential | (14) | (314) | (14) | (565) |

| | | | | |
|---|---|---|---|---|
| Consumer | — | (59 ) | 17 | (59 ) |
| Total non-PCI impaired loans | $(219) | $(979 ) | $(3,753) | $(11,275) |
| OREO | $(41 ) | $(1,556) | $(994 ) | $(1,739 ) |
| Loans held-for-sale | $— | $— | $(2,351) | $(517 ) |

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The following table presents quantitative information about significant unobservable inputs used in the valuation of assets measured on a nonrecurring basis classified as Level 3 as of September 30, 2016 and December 31, 2015:

| ($ in thousands) | Fair Value Measurements (Level 3) | Valuation Technique(s) | Unobservable Input(s) | Range of Inputs | Weighted Average |
|---|---|---|---|---|---|
| September 30, 2016 | | | | | |
| Non-PCI impaired loans | $ 55,097 | Discounted cash flow | Discount rate | 0% — 45% | 4% |
| | $ 27,560 | Market comparables | Discount rate (1) | 0% — 100% | 2% |
| OREO | $ 2,760 | Appraisal | Selling cost | 8% | 8% |
| December 31, 2015 | | | | | |
| Non-PCI impaired loans | $ 27,522 | Discounted cash flow | Discount rate | 0% — 87% | 30% |
| | $ 42,940 | Market comparables | Discount rate (1) | 0% — 100% | 17% |
| OREO | $ 4,929 | Appraisal | Selling cost | 8% | 8% |

(1) Discount rate is adjusted for factors such as liquidation cost of collateral and selling cost.

The following tables present the carrying and fair values per the fair value hierarchy of certain financial instruments, excluding those measured at fair value on a recurring basis, as of September 30, 2016 and December 31, 2015:

| ($ in thousands) | September 30, 2016 Carrying Amount | Level 1 | Level 2 | Level 3 | Estimated Fair Value |
|---|---|---|---|---|---|
| Financial assets: | | | | | |
| Cash and cash equivalents | $1,666,832 | $1,666,832 | $— | $— | $1,666,832 |
| Short-term investments | $307,473 | $— | $307,473 | $— | $307,473 |
| Resale agreements (1) | $1,500,000 | $— | $1,496,965 | $— | $1,496,965 |
| Held-to-maturity investment security | $154,461 | $— | $— | $154,296 | $154,296 |
| Loans held-for-sale | $47,719 | $— | $47,719 | $— | $47,719 |
| Loans held-for-investment, net | $24,476,150 | $— | $— | $24,349,603 | $24,349,603 |
| Investment in FHLB stock | $17,250 | $— | $17,250 | $— | $17,250 |
| Investment in Federal Reserve Bank stock | $55,355 | $— | $55,355 | $— | $55,355 |
| Accrued interest receivable | $88,343 | $— | $88,343 | $— | $88,343 |
| Financial liabilities: | | | | | |
| Customer deposits: | | | | | |
| Demand, interest checking, savings and money market deposits | $22,994,054 | $— | $22,994,054 | $— | $22,994,054 |
| Time deposits | $5,598,387 | $— | $5,603,591 | $— | $5,603,591 |
| Short-term borrowings | $36,992 | $— | $36,992 | $— | $36,992 |
| FHLB advances | $321,084 | $— | $333,437 | $— | $333,437 |
| Repurchase agreements (1) | $200,000 | $— | $263,948 | $— | $263,948 |
| Long-term debt | $191,265 | $— | $195,801 | $— | $195,801 |
| Accrued interest payable | $7,516 | $— | $7,516 | $— | $7,516 |

(1) Resale and repurchase agreements are reported net pursuant to ASC 210-20-45, Balance Sheet Offsetting. As of September 30, 2016, $250.0 million out of $450.0 million of repurchase agreements was eligible for netting against resale agreements.

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| ($ in thousands) | December 31, 2015 Carrying Amount | Level 1 | Level 2 | Level 3 | Estimated Fair Value |
|---|---|---|---|---|---|
| Financial assets: | | | | | |
| Cash and cash equivalents | $1,360,887 | $1,360,887 | $— | $— | $1,360,887 |
| Short-term investments | $299,916 | $— | $299,916 | $— | $299,916 |
| Resale agreements [(1)] | $1,600,000 | $— | $1,533,961 | $— | $1,533,961 |
| Loans held-for-sale | $31,958 | $— | $31,958 | $— | $31,958 |
| Loans held-for-investment, net | $23,378,789 | $— | $— | $23,000,817 | $23,000,817 |
| Investment in FHLB stock | $28,770 | $— | $28,770 | $— | $28,770 |
| Investment in Federal Reserve Bank stock | $54,932 | $— | $54,932 | $— | $54,932 |
| Accrued interest receivable | $89,243 | $— | $89,243 | $— | $89,243 |
| Financial liabilities: | | | | | |
| Customer deposits: | | | | | |
| Demand, interest checking, savings and money market deposits | $20,859,086 | $— | $20,859,086 | $— | $20,859,086 |
| Time deposits | $6,616,895 | $— | $6,606,942 | $— | $6,606,942 |
| FHLB advances | $1,019,424 | $— | $1,032,000 | $— | $1,032,000 |
| Long-term debt | $206,084 | $— | $186,593 | $— | $186,593 |
| Accrued interest payable | $8,848 | $— | $8,848 | $— | $8,848 |

(1) Resale and repurchase agreements are reported net pursuant to ASC 210-20-45, Balance Sheet Offsetting. As of December 31, 2015, the carrying amount of $450.0 million of repurchase agreements was eligible for netting against resale agreements, resulting in no repurchase agreements' balances reported.

The following is a description of the valuation methodologies and significant assumptions used to measure financial assets and liabilities at fair value and to estimate fair value for certain financial instruments not recorded at fair value. The description also includes the level of the fair value hierarchy in which the assets or liabilities are classified.

Cash and Cash Equivalents — The carrying amount approximates fair value due to the short-term nature of these instruments. As such, the estimated fair value is classified as Level 1.

Short-Term Investments — The fair value of short-term investments generally approximates their book value due to their short maturities. In addition, due to the observable nature of the inputs used in deriving the estimated fair value, these instruments are classified as Level 2.

Resale Agreements — The fair value of resale agreements is estimated by discounting the cash flows based on expected maturities or repricing dates utilizing estimated market discount rates. In addition, due to the observable nature of the inputs used in deriving the estimated fair value, these instruments are classified as Level 2.

Held-to-Maturity Investment Security — The fair value of the held-to-maturity investment security is determined by the discount cash flow approach. The discount rate is derived from conditional prepayment rate, constant default rate, loss severity and discount margin. Due to the significant unobservable inputs, the held-to-maturity investment security is classified as Level 3.

Available-for-Sale Investment Securities — When available, the Company uses quoted market prices to determine the fair value of available-for-sale investment securities; such items are classified as Level 1. Level 1 available-for-sale investment securities mainly include U.S. Treasury securities. The fair values of other available-for-sale investment

securities are 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. In obtaining such valuation information from third parties, the Company has reviewed the methodologies used to develop the resulting fair values. The available-for-sale investment securities valued using such methods are classified as Level 2.

Loans Held-for-Sale — The Company's loans held-for-sale are carried at the LOCOM. These loans are mainly comprised of student loans. The fair value of loans held-for-sale is derived from current market prices and comparative current sales. As such, the Company records any fair value adjustments on a nonrecurring basis. Loans held-for-sale are classified as Level 2.



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Non-PCI Impaired Loans — The Company evaluates non-PCI impaired loans on a nonrecurring basis. The fair value of non-PCI impaired loans is measured using the market comparables or discounted cash flow techniques. For CRE loans and C&I loans, the fair value is based on each loan's observable market price or the fair value of the collateral less cost to sell, if the loan is collateral dependent. The fair value of collateral is based on third party appraisals or evaluations which are reviewed by the Company's appraisal department. All appraisals include an "as is" market value without conditions as of the effective date of the appraisal. Updated appraisals and evaluations are generally obtained within the last 12 months. For certain impaired loans, the Company utilizes the discounted cash flow approach and applies a discount rate derived from historical data. The significant unobservable inputs used in the fair value measurement of non-PCI impaired loans are discount rates applied based on the liquidation cost of collateral and selling cost. On a quarterly basis, all nonperforming assets are reviewed to assess whether the current carrying value is supported by the collateral or cash flow and to ensure that the current carrying value is appropriate. Non-PCI impaired loans are classified as Level 3.

Loans Held-for-Investment, net — The fair value of loans held-for-investment is determined based on a discounted cash flow approach considered for an exit price value. The discount rate is derived from the associated yield curve plus spreads that reflect the rates in the market for loans with similar financial characteristics. No adjustments have been made for changes in credit within any of the loan portfolios. It is management's opinion that the allowance for loan losses pertaining to performing and nonperforming loans results in a fair value valuation of credit for such loans. Due to the unobservable nature of the inputs used in deriving the estimated fair value, these instruments are classified as Level 3.

OREO — The Company's OREO represents properties acquired through foreclosure or through full or partial satisfaction of loans held-for-investment, which are recorded at estimated fair value less the cost to sell at the time of foreclosure and at the lower of cost or estimated fair value less the cost to sell subsequent to acquisition. The fair values of OREO properties are based on third party appraisals, broker price opinions or accepted written offers. Please refer to the Non-PCI Impaired Loans section above for a detailed discussion on the Company's policies and procedures related to appraisals and evaluations. On a monthly basis, the current fair market value of each OREO property is reviewed to ensure that the current carrying value is appropriate. The Company uses the market comparable valuation technique to measure the fair value of OREO properties. The significant unobservable input used is the selling cost. OREO properties are classified as Level 3.

Investment in FHLB Stock and Federal Reserve Bank Stock — The carrying amounts of the Company's investments in FHLB Stock and Federal Reserve Bank Stock approximate fair value. The valuation of these investments is classified as Level 2. Ownership of these securities is restricted to member banks and the securities do not have a readily determinable fair value. Purchases and sales of these securities are at par value.

Accrued Interest Receivable — The carrying amount approximates fair value due to the short-term nature of these instruments. Due to the observable nature of the inputs used in deriving the estimated fair value, these instruments are classified as Level 2.

Interest Rate Swaps and Options — The Company enters into interest rate swap and option contracts with institutional counterparties to hedge against interest rate swap and option products offered to bank customers. These products allow borrowers to lock in attractive intermediate and long-term interest rates by entering into an interest rate swap or option contract with the Company, resulting in the customer obtaining a synthetic fixed rate loan. 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 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 variable cash receipts (or payments) are based on the expectation of future interest rates (forward curves) derived from observed market interest rate curves. The fair

value of interest rate options is determined using the market standard methodology of discounting the future expected cash receipts that would occur if variable interest rates fell below (rise above) the strike rate of the floors (caps). The variable interest rates used in the calculation of projected receipts on the floor (cap) are based on an expectation of future interest rates derived from observable market interest rate curves and volatilities. In addition, to comply with the provisions of ASC 820, 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 Level 3 inputs, model-derived credit spreads. As of September 30, 2016, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of these interest rate contracts' positions 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 valuations in Level 2 of the fair value hierarchy due to the observable nature of the significant inputs utilized.

Foreign Exchange Contracts — The Company enters into short-term foreign exchange contracts to purchase/sell foreign currencies at set rates in the future. These contracts economically hedge against foreign exchange rate fluctuations. The Company also enters into contracts with institutional counterparties to hedge against foreign exchange products offered to bank customers. These products allow customers to hedge the foreign exchange risk of their deposits and loans denominated in foreign currencies. The Company assumes minimal foreign exchange rate risk because the contracts with the customer and the institutional party mirror each other. The fair value is determined at each reporting period based on changes in the foreign exchange rate. 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. Valuation depends on the type of derivative and the nature of the underlying rate and contractual terms including period of maturity, price and index upon which the derivative's value is based. Key inputs include foreign exchange rates (spot and/or forward rates), volatility of currencies, and the correlation of such inputs. The counterparties' credit risks are considered nominal and resulted 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 contracts is classified as Level 2.

Customer Deposits — The fair value of deposits with no stated maturity, such as demand deposits, interest checking, savings, and money market deposits, approximates the carrying amount as the amounts are payable on demand at the measurement date. Due to the observable nature of the inputs used in deriving the estimated fair value, these instruments are classified as Level 2. For time deposits, the fair value is based on the discounted value of contractual cash flows using current market rates for instruments with similar maturities. Due to the observable nature of the inputs used in deriving the estimated fair value, time deposits are classified as Level 2.

FHLB Advances — The fair value of FHLB advances is estimated based on the discounted value of contractual cash flows, using rates currently offered by the FHLB of San Francisco for advances with similar remaining maturities at each reporting date. Due to the observable nature of the inputs used in deriving the estimated fair value, these instruments are classified as Level 2.

Repurchase Agreements — The fair value of the repurchase agreements is calculated by discounting future cash flows based on expected maturities or repricing dates, utilizing estimated market discount rates and taking into consideration the call features of each instrument. Due to the observable nature of the inputs used in deriving the estimated fair value, these instruments are classified as Level 2.

Accrued Interest Payable — The carrying amount approximates fair value due to the short-term nature of these instruments. Due to the observable nature of the inputs used in deriving the estimated fair value, these instruments are classified as Level 2.

Long-Term Debt — The fair value of long-term debt is estimated by discounting the cash flows through maturity based on current market rates the Company would pay for new issuances. Due to the observable nature of the inputs used in deriving the estimated fair value, long-term debt is classified as Level 2.

Foreign currency forward contracts — The Company enters into foreign currency forward contracts to hedge its net investment in East West Bank (China) Limited, a non-U.S. Dollar ("USD") functional currency subsidiary in China. The fair value of foreign currency forward contracts is valued by comparing the contracted foreign exchange rate to the current market exchange rate. Inputs include spot rates, forward rates, and the interest rate curve of the domestic and foreign currency. Interest rate 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.

RPAs — The Company enters into RPAs, under which the Company assumes its pro-rata share of the credit exposure associated with the borrower's performance related to interest rate derivative contracts. The fair value of RPAs is calculated by determining the total expected 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 credit spreads of the borrowers used in the calculation are estimated by the Company based on current market conditions, including consideration of current borrowing spreads for similar customers and transactions, review of existing collateralization or other credit enhancements, and changes in credit sector and entity-specific credit information. The Company has determined that the majority of the inputs used to value RPAs fall within Level 2 of the fair value hierarchy.

The fair value estimates presented herein are based on pertinent information available to management as of each reporting date. Although the Company is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and therefore, current estimates of fair value may differ significantly from the amounts presented herein.

## NOTE 4 — SECURITIES PURCHASED UNDER RESALE AGREEMENTS AND SOLD UNDER REPURCHASE AGREEMENTS

Resale Agreements

Resale agreements are recorded at the balances at which the securities were 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 the counterparty when deemed appropriate. Gross resale agreements were $1.75 billion and $2.05 billion as of September 30, 2016 and December 31, 2015, respectively. The weighted average interest rates were 1.70% and 1.61% as of September 30, 2016 and December 31, 2015, respectively.

Repurchase Agreements

Long-term repurchase agreements are accounted for as collateralized financing transactions and recorded at the balances at which the securities were sold. The collateral for the repurchase agreements are comprised of U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities, U.S. Treasury securities, and U.S. government agency and U.S. government sponsored enterprise debt securities. The Company may have to provide additional collateral for the repurchase agreements, as necessary. Gross repurchase agreements were $450.0 million as of both September 30, 2016 and December 31, 2015, respectively. The weighted average interest rates were 3.00% and 2.60% as of September 30, 2016 and December 31, 2015, respectively.

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 Sheets when it has a legally enforceable master netting agreement and the transactions are eligible for netting under ASC 210-20-45. Collateral accepted includes securities that are not recognized on the Consolidated Balance Sheets. Collateral pledged consists of securities that are not netted on the Consolidated Balance Sheets against the related collateralized liability. Collateral accepted 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/posted 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 resale and repurchase agreements included on the Consolidated Balance Sheets as of September 30, 2016 and December 31, 2015:

| ($ in thousands) | As of September 30, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Gross Amounts Not Offset on the Consolidated Balance Sheets | | |
| Assets | Gross Amounts of Recognized Assets | Gross Amounts Offset on the Consolidated Balance Sheets | Net Amounts of Assets Presented on the Consolidated Balance Sheets | Financial Instruments | Collateral Received | Net Amount |
| Resale agreements | $ 1,750,000 | $ (250,000 ) | $ 1,500,000 | $ — | $ (1,499,719 ) (1) | $ 281 |

| | | | | Gross Amounts Not Offset on the Consolidated Balance Sheets | | |
|---|---|---|---|---|---|---|
| Liabilities | Gross Amounts of Recognized Liabilities | Gross Amounts Offset on the Consolidated Balance Sheets | Net Amounts of Liabilities Presented on the Consolidated Balance Sheets | Financial Instruments | Collateral Posted | Net Amount |
| Repurchase agreements | $ 450,000 | $ (250,000 ) | $ 200,000 | $ — | $ (200,000 ) (2) | $ — |

| ($ in thousands) | As of December 31, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Gross Amounts Not Offset on the Consolidated Balance Sheets | | |
| Assets | Gross Amounts of Recognized Assets | Gross Amounts Offset on the Consolidated Balance Sheets | Net Amounts of Assets Presented on the Consolidated Balance Sheets | Financial Instruments | Collateral Received | Net Amount |
| Resale agreements | $ 2,050,000 | $ (450,000 ) | $ 1,600,000 | $ — | $ (1,593,503 ) (1) | $ 6,497 |

| | | | | Gross Amounts Not Offset on the Consolidated Balance Sheets | | |
|---|---|---|---|---|---|---|
| Liabilities | Gross Amounts of Recognized Liabilities | Gross Amounts Offset on the Consolidated Balance Sheets | Net Amounts of Liabilities Presented on the Consolidated Balance Sheets | Financial Instruments | Collateral Posted | Net Amount |
| Repurchase agreements | $ 450,000 | $ (450,000 ) | $ — | $ — | $ — (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 repurchase agreements, limited for table presentation purposes to the amount of the recognized liability owed to 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 — INVESTMENT SECURITIES

The following table presents the amortized cost, gross unrealized gains and losses and fair value by major categories of available-for-sale investment securities, which are carried at fair value, and a held-to-maturity investment security, which is carried at amortized cost:

| ($ in thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| As of September 30, 2016 | | | | |
| Available-for-sale investment securities: | | | | |
| U.S. Treasury securities | $455,019 | $ 1,440 | $(11 ) | $456,448 |
| U.S. government agency and U.S. government sponsored enterprise debt securities | 381,986 | 1,386 | (41 ) | 383,331 |
| U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities: | | | | |
| Commercial mortgage-backed securities | 325,486 | 2,791 | (1,459 ) | 326,818 |
| Residential mortgage-backed securities | 1,188,753 | 8,538 | (2,453 ) | 1,194,838 |
| Municipal securities | 149,008 | 3,423 | (138 ) | 152,293 |
| Non-agency residential mortgage-backed securities: | | | | |
| Investment grade (1) | 51,396 | 1,578 | (17 ) | 52,957 |
| Corporate debt securities: | | | | |
| Investment grade (1) | 282,106 | 533 | (652 ) | 281,987 |
| Non-investment grade (1) | 10,191 | — | (1,413 ) | 8,778 |
| Foreign bonds: | | | | |
| Investment grade (1) (2) | 340,474 | 419 | (3,459 ) | 337,434 |
| Other securities | 40,388 | 1,355 | (3 ) | 41,740 |
| Total available-for-sale investment securities | 3,224,807 | 21,463 | (9,646 ) | 3,236,624 |
| Held-to-maturity investment security: | | | | |
| Non-agency commercial mortgage-backed security | 154,461 | — | (165 ) | 154,296 |
| Total investment securities | $3,379,268 | $ 21,463 | $(9,811 ) | $3,390,920 |
| | | | | |
| As of December 31, 2015 | | | | |
| Available-for-sale investment securities: | | | | |
| U.S. Treasury securities | $1,002,874 | $ 33 | $(4,392 ) | $998,515 |
| U.S. government agency and U.S. government sponsored enterprise debt securities | 771,288 | 555 | (2,994 ) | 768,849 |
| U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities: | | | | |
| Commercial mortgage-backed securities | 354,418 | 268 | (3,024 ) | 351,662 |
| Residential mortgage-backed securities | 996,255 | 7,542 | (6,401 ) | 997,396 |
| Municipal securities | 173,785 | 2,657 | (793 ) | 175,649 |
| Non-agency residential mortgage-backed securities: | | | | |
| Investment grade (1) | 62,133 | 433 | (173 ) | 62,393 |
| Corporate debt securities: | | | | |
| Investment grade (1) | 280,850 | 129 | (1,547 ) | 279,432 |
| Non-investment grade (1) | 11,491 | — | (1,849 ) | 9,642 |
| Foreign bonds: | | | | |
| Investment grade (1) (2) | 90,586 | 3 | (794 ) | 89,795 |

| | | | | |
|---|---|---|---|---|
| Other securities | 40,149 | 124 | (380 ) | 39,893 |
| Total available-for-sale investment securities | $3,783,829 | $ 11,744 | $(22,347 ) | $3,773,226 |

(1) Available-for-sale investment securities rated BBB- or higher by S&P or Baa3 or higher by Moody's are considered investment grade. Conversely, available-for-sale investment securities rated lower than BBB- by S&P or lower than Baa3 by Moody's are considered non-investment grade. Classifications are based on the lower of the credit ratings by S&P or Moody's.

(2) Fair values of foreign bonds include $296.8 million and $49.7 million of multilateral development bank bonds as of September 30, 2016 and December 31, 2015, respectively.

Unrealized Losses

The following table presents the Company’s investment portfolio’s gross unrealized losses and related fair values, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

| ($ in thousands) | Less Than 12 Months | | 12 Months or More | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| As of September 30, 2016 | | | | | | |
| Available-for-sale investment securities: | | | | | | |
| U.S. Treasury securities | $30,375 | $(11) | $— | $— | $30,375 | $(11) |
| U.S. government agency and U.S. government sponsored enterprise debt securities | 35,019 | (41) | — | — | 35,019 | (41) |
| U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities: | | | | | | |
| Commercial mortgage-backed securities | 61,708 | (716) | 59,680 | (743) | 121,388 | (1,459) |
| Residential mortgage-backed securities | 304,826 | (1,658) | 70,557 | (795) | 375,383 | (2,453) |
| Municipal securities | 5,334 | (111) | 2,870 | (27) | 8,204 | (138) |
| Non-agency residential mortgage-backed securities: | | | | | | |
| Investment grade | 7,027 | (17) | — | — | 7,027 | (17) |
| Corporate debt securities: | | | | | | |
| Investment grade | 49,377 | (178) | 81,935 | (474) | 131,312 | (652) |
| Non-investment grade | — | — | 8,778 | (1,413) | 8,778 | (1,413) |
| Foreign bonds: | | | | | | |
| Investment grade | 276,313 | (3,109) | 9,650 | (350) | 285,963 | (3,459) |
| Other securities | 2,690 | (3) | — | — | 2,690 | (3) |
| Total available-for-sale investment securities | 772,669 | (5,844) | 233,470 | (3,802) | 1,006,139 | (9,646) |
| Held-to-maturity investment security: | | | | | | |
| Non-agency commercial mortgage-backed security | 154,296 | (165) | — | — | 154,296 | (165) |
| Total investment securities | $926,965 | $(6,009) | $233,470 | $(3,802) | $1,160,435 | $(9,811) |
| | | | | | | |
| As of December 31, 2015 | | | | | | |
| Available-for-sale investment securities: | | | | | | |
| U.S. Treasury securities | $907,400 | $(4,250) | $20,282 | $(142) | $927,682 | $(4,392) |
| U.S. government agency and U.S. government sponsored enterprise debt securities | 541,385 | (2,994) | — | — | 541,385 | (2,994) |
| U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities: | | | | | | |
| Commercial mortgage-backed securities | 252,340 | (2,562) | 20,793 | (462) | 273,133 | (3,024) |
| Residential mortgage-backed securities | 535,842 | (4,530) | 58,315 | (1,871) | 594,157 | (6,401) |
| Municipal securities | 48,495 | (437) | 14,739 | (356) | 63,234 | (793) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Non-agency residential mortgage-backed securities: | | | | | | |
| Investment grade | 5,123 | (1 ) | 6,242 | (172 ) | 11,365 | (173 ) |
| Corporate debt securities: | | | | | | |
| Investment grade | 149,358 | (683 ) | 80,276 | (864 ) | 229,634 | (1,547 ) |
| Non-investment grade | — | — | 9,642 | (1,849 ) | 9,642 | (1,849 ) |
| Foreign bonds: | | | | | | |
| Investment grade | 74,101 | (506 ) | 9,713 | (288 ) | 83,814 | (794 ) |
| Other securities | 13,475 | (112 ) | 8,731 | (268 ) | 22,206 | (380 ) |
| Total available-for-sale investment securities | $2,527,519 | $(16,075 ) | $228,733 | $(6,272 ) | $2,756,252 | $(22,347 ) |

For each reporting period, the Company examines all individual securities that are in an unrealized loss position for OTTI. For discussion of the factors and criteria the Company uses in analyzing securities for OTTI, please see Note 1 — Summary of Significant Accounting Policies to the Consolidated Financial Statements of the Company's 2015 Form 10-K.

The unrealized losses were primarily attributed to the yield curve movement, in addition to widened liquidity spread and credit spread. The issuers of these securities have not, to the Company's knowledge, established any cause for default on these securities. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated.

The Company believes the gross unrealized losses detailed in the previous tables are temporary and are not due to reasons of credit quality. As a result, the Company expects to recover the entire amortized cost basis of these securities. Accordingly, no impairment loss has been recorded in the Company's Consolidated Statements of Income for the three and nine months ended September 30, 2016 and 2015.

During the first quarter of 2016, the Company obtained a non-agency mortgage-backed investment security, through the securitization of multifamily real estate loans, which was classified as held-to-maturity and is measured at amortized cost. The Company has the intent and ability to hold the security to maturity. For detailed discussion, please see to Note 7 — Loans Receivable And Allowance For Credit Losses to the Consolidated Financial Statements.

OTTI

The following table presents a rollforward of the amounts related to the OTTI credit losses recognized in earnings for the three and nine months ended September 30, 2016 and 2015:

| ($ in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Beginning balance | $— | $106,688 | $— | $112,338 |
| Addition of OTTI previously not recognized | — | — | — | — |
| Additional increase to the amount related to the credit loss for which an OTTI was previously recognized | — | — | — | — |
| Reduction for securities sold | — | (74,765) | — | (80,415) |
| Ending balance | $— | $31,923 | $— | $31,923 |

For the three months ended September 30, 2015, the Company realized a gain of $10.9 million from the sale of non-investment grade corporate debt securities with previously recognized OTTI credit losses of $74.8 million. For the nine months ended September 30, 2015, the Company realized a gain of $11.9 million from the sale of non-investment grade corporate debt securities with previously recognized OTTI credit losses of $80.4 million.

Realized Gains and Losses

The following table presents the proceeds, gross realized gains and losses related to the sales of available-for-sale investment securities for the three and nine months ended September 30, 2016 and 2015:

| ($ in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Proceeds from sales | $143,513 | $855,425 | $1,008,256 | $1,328,487 |
| Gross realized gains | $1,790 | $17,036 | $8,593 | $26,994 |
| Gross realized losses | $— | $— | $125 | $— |
| Related tax expense | $752 | $7,155 | $3,560 | $11,337 |

Scheduled Maturities of Investment Securities

The following table presents the scheduled maturities of available-for-sale investment securities as of September 30, 2016:

| ($ in thousands) | Amortized Cost | Estimated Fair Value |
|---|---|---|
| Due within one year | $664,482 | $661,989 |
| Due after one year through five years | 587,483 | 592,032 |
| Due after five years through ten years | 362,297 | 363,709 |
| Due after ten years | 1,610,545 | 1,618,894 |
| Total available-for-sale investment securities | $3,224,807 | $3,236,624 |

The following table presents the scheduled maturity of the held-to-maturity investment security as of September 30, 2016:

| ($ in thousands) | Amortized Cost | Estimated Fair Value |
|---|---|---|
| Due after ten years | $ 154,461 | $ 154,296 |

Actual maturities of mortgage-backed securities can differ from contractual maturities because borrowers have the right to prepay obligations. In addition, such factors as prepayments and interest rates may affect the yields on the carrying values of mortgage-backed securities.

Available-for-sale investment securities with fair values of $955.7 million and $873.0 million as of September 30, 2016 and December 31, 2015, respectively, were pledged to secure public deposits, repurchase agreements, the Federal Reserve Bank’s discount window, and for other purposes required or permitted by law.

NOTE 6 — DERIVATIVES

The Company uses derivatives to manage exposure to market risk, including interest rate risk and foreign currency risk and to assist customers with their risk management objectives. The Company’s goal is to manage interest rate sensitivity and volatility so that movements in interest rates are not significant to earnings or capital. The Company also uses foreign exchange contracts to manage the foreign exchange risk associated with certain foreign currency-denominated assets and liabilities, as well as the Company’s investment in East West Bank (China) Limited, a non-USD functional currency subsidiary in China. The Company recognizes all derivatives on the Consolidated Balance Sheets at fair value. While the Company designates certain derivatives as hedging instruments in a qualifying hedge accounting relationship, other derivatives consist of economic hedges. For additional information on the Company’s derivatives and hedging activities, please see Note 1 — Summary of Significant Accounting Policies to the Consolidated Financial Statements of the Company’s 2015 Form 10-K.

The following table presents the total notional and fair values of the Company's derivatives as of September 30, 2016 and December 31, 2015:

| ($ in thousands) | September 30, 2016 | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| | Notional Amount | Fair Value Derivative Assets [1] | Derivative Liabilities [1] | Notional Amount | Fair Value Derivative Assets [1] | Derivative Liabilities [1] |
| Derivatives designated as hedging instruments: | | | | | | |
| Interest rate swaps on certificates of deposit | $48,365 | $— | $ 2,137 | $112,913 | $— | $ 5,213 |
| Foreign currency forward contracts | 83,026 | — | 78 | 86,590 | 2,365 | — |
| Total derivatives designated as hedging instruments | $131,391 | $— | $ 2,215 | $199,503 | $2,365 | $ 5,213 |
| Derivatives not designated as hedging instruments: | | | | | | |
| Interest rate swaps and options | $7,450,492 | $144,293 | $ 146,623 | $6,494,900 | $67,215 | $ 67,325 |
| Foreign exchange contracts | 605,439 | 6,065 | 3,334 | 652,993 | 10,254 | 9,350 |
| RPAs | 66,845 | — | 8 | 43,033 | — | 4 |
| Total derivatives not designated as hedging instruments | $8,122,776 | $150,358 | $ 149,965 | $7,190,926 | $77,469 | $ 76,679 |

(1) Derivative assets are included in Other assets on the Consolidated Balance Sheets. Derivative liabilities are included in Accrued expenses and other liabilities and Interest-bearing deposits on the Consolidated Balance Sheets.

Derivatives Designated as Hedging Instruments

Interest Rate Swaps on Certificates of Deposit — The Company is exposed to changes in the fair value of certain fixed rate certificates of deposit due to changes in the benchmark interest rate, London Interbank Offered Rate. Interest rate swaps designated as fair value hedges involve the receipt of fixed rate amounts from a counterparty in exchange for the Company making variable rate payments over the life of the agreements without the exchange of the underlying notional amount.

The total notional amounts of the interest rate swaps on certificates of deposit were $48.4 million and $112.9 million, as of September 30, 2016 and December 31, 2015, respectively. The fair value liabilities of the interest rate swaps were $2.1 million and $5.2 million as of September 30, 2016 and December 31, 2015, respectively. This decrease was primarily due to $63.7 million notional amounts of interest rate swaps on certificates of deposit that were called during the nine months ended September 30, 2016.

The following table presents the net gains (losses) recognized on the Consolidated Statements of Income related to the derivatives designated as fair value hedges for the three and nine months ended September 30, 2016 and 2015:

| ($ in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| (Losses) gains recorded in interest expense: | | | | |
| Recognized on interest rate swaps | $(1,327) | $4,616 | $3,044 | $5,336 |
| Recognized on certificates of deposit | 674 | (4,247 ) | (2,688 ) | (4,647 ) |

| | | | | |
|---|---|---|---|---|
| Net amount recognized on fair value hedges (ineffective portion) | $(653 ) | $369 | $356 | $689 |

Net Investment Hedges — Consistent with ASC 830-20, Foreign Currency Matters — Foreign Currency Transactions, ASC 815 allows hedging of the foreign currency risk of a net investment in a foreign operation. During the fourth quarter of 2015, the Company entered into foreign currency forward contracts to hedge its investment in East West Bank (China) Limited, a non-USD functional currency subsidiary 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 China, against the risk of adverse changes in the foreign currency exchange rate. During the three months ended September 30, 2016, the Company designated new foreign currency forward contracts as new hedge relationships. The Company expects that the hedging instrument will be highly effective in offsetting the changes in the value of the hedged net investment attributable to the hedged risk. The Company recorded the changes in the carrying amount of its China subsidiary in the Foreign currency translation adjustment account within AOCI. Simultaneously, the effective portion of the hedge of this exposure was also recorded in the Foreign Currency Translation Adjustment account and the ineffective portion, if any, was recorded in current earnings.

As of September 30, 2016, the notional amounts and fair values of the foreign currency forward contracts were $83.0 million and a $78 thousand liability, respectively. The following table presents the gains recorded in the Foreign currency translation adjustment account within AOCI related to the effective portion of the net investment hedges and the ineffectiveness recorded on the Consolidated Statements of Income for the three and nine months ended September 30, 2016 and 2015:

| ($ in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Gains recognized in AOCI on net investment hedges (effective portion) | $ 69 | $ — | $ 296 | $ — |
| Losses recognized in Foreign exchange income (ineffective portion) | $ (236 ) | $ — | $ (667 ) | $ — |

Derivatives Not Designated as Hedging Instruments

Interest Rate Swaps and Options — The Company enters into interest rate derivatives including interest rate swaps and options with its customers to allow them to hedge against the risk of rising interest rates on their variable rate loans. To economically hedge against the interest rate risks in the products offered to its customers, the Company enters into mirrored interest rate contracts with institutional counterparties. As of September 30, 2016, the total notional amounts of interest rate swaps and options, including mirrored transactions with institutional counterparties and the Company's customers totaled $3.73 billion for derivatives that were in an asset valuation position and $3.73 billion for derivatives that were in a liability valuation position. As of December 31, 2015, the total notional amounts of interest rate swaps and options, including mirrored transactions with institutional counterparties and the Company's customers totaled $3.25 billion for derivatives that were in an asset valuation position and $3.25 billion for derivatives that were in a liability valuation position. The fair values of interest rate swap and option contracts with institutional counterparties and the Company's customers amounted to a $144.3 million asset and a $146.6 million liability as of September 30, 2016. The fair values of interest rate swap and option contracts with institutional counterparties and the Company's customers amounted to a $67.2 million asset and a $67.3 million liability as of December 31, 2015.

Foreign Exchange Contracts — The Company enters into foreign exchange contracts on a regular basis to economically hedge against foreign exchange rate fluctuations. A majority of these contracts have original maturities of one year or less. As of September 30, 2016 and December 31, 2015, the notional amounts of the short-term foreign exchange contracts were $605.4 million and $653.0 million, respectively. The fair values of the short-term foreign exchange

contracts recorded were a $6.1 million asset and a $3.3 million liability as of September 30, 2016. The fair values of the short-term foreign exchange contracts recorded were a $10.3 million asset and a $9.4 million liability as of December 31, 2015.

RPAs — The Company has entered into RPAs under which the Company assumed its pro-rata share of the credit exposure associated with the borrower's performance related to interest rate derivative contracts. The Company may or may not be a party to the interest rate derivative contract and enters into such RPAs in instances where the Company is a party to the related loan participation agreement with the borrower. The Company will make/receive payments under the RPAs if the borrower defaults on its obligation to perform under the interest rate derivative 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. The notional amount of the RPAs reflects the Company's pro-rata share of the derivative instrument. As of September 30, 2016, the notional amount and the fair values of RPAs purchased were approximately a $43.0 million and an $8 thousand liability, respectively. As of September 30, 2016, the notional amount of the RPAs sold was approximately $23.9 million and the fair value of the derivative asset was insignificant. As of December 31, 2015, the notional amount and the fair values of RPAs purchased were approximately $33.7 million and a $4 thousand liability, respectively. As of December 31, 2015, the notional amount of the RPA sold was approximately $9.3 million and the fair value of the derivative asset was insignificant. Assuming all underlying borrowers referenced in the interest rate derivative contracts defaulted as of September 30, 2016 and December 31, 2015, the exposures from the RPAs purchased would be $278 thousand and $257 thousand, respectively. As of September 30, 2016 and December 31, 2015, the weighted average remaining maturities of the outstanding RPAs were 3.7 years and 3.2 years, respectively.

Foreign Exchange Options — During 2010, the Company entered into foreign exchange option contracts with major brokerage firms to economically hedge against foreign exchange fluctuations in certain certificates of deposit available to its customers. These certificates of deposit had a term of five years and paid interest based on the performance of the Chinese Renminbi relative to the USD. Under ASC 815, a certificate of deposit that pays interest based on changes in foreign exchange rates is a hybrid instrument with an embedded derivative that must be accounted for separately from the host contract (i.e., the certificate of deposit). In accordance with ASC 815, both the embedded derivative instruments and the freestanding foreign exchange option contracts are recorded at fair value. These instruments expired in the second quarter of 2015.

The following table presents the net gains (losses) recognized on the Company's Consolidated Statements of Income related to derivatives not designated as hedging instruments for the three and nine months ended September 30, 2016 and 2015:

| ($ in thousands) | Location in Consolidated Statements of Income | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|---|
| | | 2016 | 2015 | 2016 | 2015 |
| Derivatives not designated as hedging instruments: | | | | | |
| Interest rate swaps and options | Other fees and operating income | $411 | $(864) | $(2,219) | $(243) |
| Foreign exchange contracts | Foreign exchange income | 3,787 | (3,764) | 10,982 | (1,548) |
| RPAs | Other fees and operating income | 4 | — | (8) | — |
| Foreign exchange options | Foreign exchange income | — | — | — | 236 |
| Embedded derivative liabilities | Other operating expense | — | — | — | (136) |
| Net gains (losses) | | $4,202 | $(4,628) | $8,755 | $(1,691) |

Credit-Risk-Related Contingent Features — Certain over-the-counter derivative contracts of the Company contain early termination provisions that may require the Company to settle any outstanding balances upon the occurrence of a

specified credit-risk-related event. These events, which are defined by the existing derivative contracts, primarily relate to a downgrade in the credit rating of East West Bank to below investment grade. In the event that East West Bank's credit rating is downgraded to below investment grade, no additional collateral would be required to be posted as of September 30, 2016 and December 31, 2015, since the liabilities related to such contracts were already fully collateralized.

Offsetting of Derivatives

The Company has entered into agreements with counterparty financial institutions, which include master netting agreements. However, the Company has elected to account for all derivatives with counterparty institutions on a gross basis. The following tables present gross derivatives on the Consolidated Balance Sheets and the respective collateral received or pledged in the form of other financial instruments, which are generally marketable securities and/or cash. The collateral amounts in these tables are limited to the outstanding balances of the related asset or liability (after netting is applied); thus instances of overcollateralization are not shown:

($ in thousands) As of September 30, 2016

| Assets | Gross Amounts of Recognized Assets | Gross Amounts Offset on the Consolidated Balance Sheets | Net Amounts of Assets Presented on the Consolidated Balance Sheets | Gross Amounts Not Offset on the Consolidated Balance Sheets | | |
|---|---|---|---|---|---|---|
| | | | | Financial Instruments | Collateral Received | Net Amount |
| Derivatives | $3,811 | $ — | $ 3,811 | $(2,560)(1) | $(1,155)(2) | $ 96 |

| Liabilities | Gross Amounts of Recognized Liabilities | Gross Amounts Offset on the Consolidated Balance Sheets | Net Amounts of Liabilities Presented on the Consolidated Balance Sheets | Gross Amounts Not Offset on the Consolidated Balance Sheets | | |
|---|---|---|---|---|---|---|
| | | | | Financial Instruments | Collateral Posted | Net Amount |
| Derivatives | $151,442 | $ — | $ 151,442 | $(2,560)(1) | $(148,102)(3) | $ 780 |

($ in thousands) As of December 31, 2015

| Assets | Gross Amounts of Recognized Assets | Gross Amounts Offset on the Consolidated Balance Sheets | Net Amounts of Assets Presented on the Consolidated Balance Sheets | Gross Amounts Not Offset on the Consolidated Balance Sheets | | |
|---|---|---|---|---|---|---|
| | | | | Financial Instruments | Collateral Received | Net Amount |
| Derivatives | $8,733 | $ — | $ 8,733 | $(5,293)(1) | $(3,068)(2) | $ 372 |

| Liabilities | Gross Amounts of Recognized Liabilities | Gross Amounts Offset on the Consolidated Balance Sheets | Net Amounts of Liabilities Presented on the Consolidated Balance | Gross Amounts Not Offset on the Consolidated Balance Sheets | | |
|---|---|---|---|---|---|---|
| | | | | Financial Instruments | Collateral Posted | Net Amount |

| | | Sheets | | | | |
|---|---|---|---|---|---|---|
| Derivatives | $78,779 | $ — | $ 78,779 | $(5,293)[(1)] | $(73,109)[(3)] | $ 377 |

(1) Represents the netting of derivative receivable and payable balances for the same counterparty under enforceable master netting arrangements if the Company has elected to net.

(2) Represents $1.2 million and $3.1 million of cash collateral received against derivative assets with the same counterparty that are subject to enforceable master netting arrangements as of September 30, 2016 and December 31, 2015, respectively.

(3) Represents cash and securities pledged against derivative liabilities with the same counterparty that are subject to enforceable master netting arrangements. Includes approximately $51.1 million and $21.1 million of cash collateral posted as of September 30, 2016 and December 31, 2015, respectively.

In addition to the amounts included in the table above, the Company also has balance sheet netting related to resale and repurchase agreements, please refer to Note 4 — Securities Purchased Under Resale Agreements And Sold Under Repurchase Agreements to the Consolidated Financial Statements. Please refer to Note 3 — Fair Value Measurement And Fair Value Of Financial Instruments to the Consolidated Financial Statements for fair value measurement disclosures on derivatives.

NOTE 7 — LOANS RECEIVABLE AND ALLOWANCE FOR CREDIT LOSSES

The Company’s held-for-investment loan portfolio includes originated and purchased loans. Originated and purchased loans with no evidence of credit deterioration at their acquisition date are referred to collectively as non-PCI loans. Purchased credit impaired (“PCI”) loans are loans acquired with evidence of credit deterioration since their origination and it is probable at the acquisition date that the Company would be unable to collect all contractually required payments. PCI loans are accounted for under ASC Subtopic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. The Company has elected to account for PCI loans on a pool level basis in accordance with ASC 310-30 at the time of acquisition.

The following table presents the composition of the Company’s non-PCI and PCI loans as of September 30, 2016 and December 31, 2015:

| ($ in thousands) | September 30, 2016 | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| | Non-PCI Loans | PCI Loans (1) | Total (1) | Non-PCI Loans | PCI Loans (1) | Total (1) |
| CRE: | | | | | | |
| Income producing | $7,387,777 | $392,998 | $7,780,775 | $6,937,199 | $541,275 | $7,478,474 |
| Construction | 600,803 | — | 600,803 | 436,776 | 1,895 | 438,671 |
| Land | 130,989 | 2,512 | 133,501 | 187,409 | 6,195 | 193,604 |
| Total CRE | 8,119,569 | 395,510 | 8,515,079 | 7,561,384 | 549,365 | 8,110,749 |
| C&I: | | | | | | |
| Commercial business | 8,640,569 | 42,873 | 8,683,442 | 8,155,991 | 57,906 | 8,213,897 |
| Trade finance | 674,591 | 12 | 674,603 | 787,800 | 1,310 | 789,110 |
| Total C&I | 9,315,160 | 42,885 | 9,358,045 | 8,943,791 | 59,216 | 9,003,007 |
| Residential: | | | | | | |
| Single-family | 3,201,245 | 150,622 | 3,351,867 | 2,877,286 | 189,633 | 3,066,919 |
| Multifamily | 1,311,858 | 108,268 | 1,420,126 | 1,374,718 | 148,277 | 1,522,995 |
| Total residential | 4,513,103 | 258,890 | 4,771,993 | 4,252,004 | 337,910 | 4,589,914 |
| Consumer | 2,059,178 | 20,296 | 2,079,474 | 1,931,828 | 24,263 | 1,956,091 |
| Total loans | $24,007,010 | $717,581 | $24,724,591 | $22,689,007 | $970,754 | $23,659,761 |
| Unearned fees, premiums, and discounts, net | 7,371 | — | 7,371 | (16,013) | — | (16,013) |
| Allowance for loan losses | (255,656) | (156) | (255,812) | (264,600) | (359) | (264,959) |
| Loans, net | $23,758,725 | $717,425 | $24,476,150 | $22,408,394 | $970,395 | $23,378,789 |

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

The Company’s CRE segment provides financing for income producing properties, construction properties and land. Commercial business and trade finance in the C&I segment provide financing to small and middle market businesses in a wide spectrum of industries. This includes loans for working capital, accounts receivable and inventory lines of credit, Small Business Administration loans, lease financing and financing to international trade companies with trade financial services and products, including letters of credit, revolving lines of credit, import loans, bankers’ acceptances, working capital lines of credit, domestic purchase financing and pre-export financing.

The Company’s adjustable rate mortgage (“ARM”) single-family residential loans are primarily comprised of first mortgage loans secured by one-to-four unit residential properties. The Company’s ARM single-family residential loan

programs generally have a one- to five-year initial fixed period. The Company’s multifamily residential loan programs include variable rate loans that have a six-month floating ARM, or a three- to seven-year initial fixed period. As of September 30, 2016 and December 31, 2015, consumer loans were comprised primarily of home equity lines of credit.

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 which may come from these products. The Company conducts a variety of quality control procedures and periodic audits, including review of criteria for lending and legal requirements, to ensure it is in compliance with its origination standards.

As of September 30, 2016 and December 31, 2015, loans totaling $15.62 billion and $15.91 billion, respectively, were pledged to secure borrowings and to provide additional borrowing capacity from the FHLB and the Federal Reserve Bank.

Credit Quality Indicators

All loans are subject to the Company's internal and external credit review and monitoring. Loans are risk rated based on an analysis of the current state of the borrower's credit quality. The analysis of credit quality includes a review of all repayment sources, the borrower's current payment performance/delinquency, current financial and liquidity status and all other relevant information. For single-family residential loans, payment performance/delinquency is the driving indicator for the risk ratings. Risk ratings are the overall credit quality indicator for the Company and the credit quality indicator utilized for estimating the appropriate allowance for loan losses. The Company utilizes a risk rating system, which can be classified within the following categories: Pass, Watch, Special Mention, Substandard, Doubtful and Loss. The risk ratings reflect the relative strength of the repayment sources.

Pass and Watch loans are generally considered to have sufficient sources of repayment in order to repay the loan in full in accordance with all terms and conditions. These borrowers may have some credit risks that require monitoring, but full repayments are expected. Special Mention loans are considered to have potential weaknesses that warrant closer attention by management. Special Mention is considered a transitory grade. If potential weaknesses are resolved, the loan is upgraded to a Pass or Watch grade. If negative trends in the borrower's financial status or other information indicates that the repayment sources may become inadequate, the loan is downgraded to a Substandard grade. Substandard loans are considered to have well-defined weaknesses that jeopardize the full and timely repayment of the loan. Substandard loans have a distinct possibility of loss, if the deficiencies are not corrected. Additionally, when management has assessed a potential for loss but a distinct possibility of loss is not recognizable, the loan is still classified as Substandard. Doubtful loans have insufficient sources of repayment and a high probability of loss. Loss loans are considered to be uncollectible and of such little value that they are no longer considered bankable assets. These internal risk ratings are reviewed routinely and adjusted based on changes in the borrowers' financial status and collectability.

The following tables present the credit risk rating for non-PCI loans by portfolio segment as of September 30, 2016 and December 31, 2015:

| | September 30, 2016 | | | | |
|---|---|---|---|---|---|
| ($ in thousands) | Pass/Watch | Special Mention | Substandard | Doubtful | Total Non-PCI Loans |
| CRE: | | | | | |
| Income producing | $7,175,508 | $28,052 | $ 184,217 | $— | $7,387,777 |
| Construction | 595,106 | 5,697 | — | — | 600,803 |
| Land | 117,194 | — | 13,785 | 10 | 130,989 |
| C&I: | | | | | |
| Commercial business | 8,263,325 | 132,512 | 228,368 | 16,364 | 8,640,569 |
| Trade finance | 640,016 | 18,524 | 14,115 | 1,936 | 674,591 |
| Residential: | | | | | |
| Single-family | 3,176,832 | 7,161 | 17,252 | — | 3,201,245 |
| Multifamily | 1,264,586 | — | 47,272 | — | 1,311,858 |
| Consumer | 2,048,988 | 3,879 | 6,311 | — | 2,059,178 |
| Total | $23,281,555 | $195,825 | $ 511,320 | $18,310 | $24,007,010 |

| | December 31, 2015 | | | | |
|---|---|---|---|---|---|
| ($ in thousands) | Pass/Watch | Special Mention | Substandard | Doubtful | Total Non-PCI Loans |
| CRE: | | | | | |
| Income producing | $6,672,951 | $59,309 | $ 204,939 | $— | $6,937,199 |
| Construction | 435,112 | 1,194 | 470 | — | 436,776 |
| Land | 172,189 | — | 15,220 | — | 187,409 |
| C&I: | | | | | |
| Commercial business | 7,794,735 | 201,280 | 135,449 | 24,527 | 8,155,991 |
| Trade finance | 750,144 | 13,812 | 23,844 | — | 787,800 |
| Residential: | | | | | |
| Single-family | 2,841,722 | 8,134 | 27,430 | — | 2,877,286 |
| Multifamily | 1,317,550 | 2,918 | 54,250 | — | 1,374,718 |
| Consumer | 1,926,418 | 883 | 4,527 | — | 1,931,828 |
| Total | $21,910,821 | $287,530 | $ 466,129 | $24,527 | $22,689,007 |

The following tables present the credit risk rating for PCI loans by portfolio segment as of September 30, 2016 and December 31, 2015:

| | September 30, 2016 | | | |
|---|---|---|---|---|
| ($ in thousands) | Pass/Watch | Special Mention | Substandard | Total PCI Loans |
| CRE: | | | | |
| Income producing | $333,342 | $3,474 | $56,182 | $392,998 |
| Construction | — | — | — | — |
| Land | 2,134 | — | 378 | 2,512 |
| C&I: | | | | |
| Commercial business | 34,023 | 4,590 | 4,260 | 42,873 |
| Trade finance | 12 | — | — | 12 |
| Residential: | | | | |
| Single-family | 147,768 | 1,216 | 1,638 | 150,622 |
| Multifamily | 93,379 | — | 14,889 | 108,268 |
| Consumer | 18,795 | 317 | 1,184 | 20,296 |
| Total [(1)] | $629,453 | $9,597 | $78,531 | $717,581 |

| | December 31, 2015 | | | |
|---|---|---|---|---|
| ($ in thousands) | Pass/Watch | Special Mention | Substandard | Total PCI Loans |
| CRE: | | | | |
| Income producing | $440,100 | $4,987 | $96,188 | $541,275 |
| Construction | — | — | 1,895 | 1,895 |
| Land | 4,285 | — | 1,910 | 6,195 |
| C&I: | | | | |
| Commercial business | 52,212 | 819 | 4,875 | 57,906 |
| Trade finance | 1,310 | — | — | 1,310 |
| Residential: | | | | |
| Single-family | 184,092 | 1,293 | 4,248 | 189,633 |
| Multifamily | 130,770 | — | 17,507 | 148,277 |
| Consumer | 23,121 | 452 | 690 | 24,263 |
| Total [(1)] | $835,890 | $7,551 | $127,313 | $970,754 |

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

Nonaccrual and Past Due Loans

Non-PCI loans that are 90 or more days past due are generally placed on nonaccrual status. Additionally, non-PCI loans that are not 90 or more days past due but have identified deficiencies, such as when the full collection of principal or interest becomes uncertain, are also placed on nonaccrual status. The following tables present the aging analysis on non-PCI loans as of September 30, 2016 and December 31, 2015:

| | September 30, 2016 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| ($ in thousands) | Accruing Loans 30-59 Days Past Due | Accruing Loans 60-89 Days Past Due | Total Accruing Past Due Loans | Nonaccrual Loans Less Than 90 Days Past Due | Nonaccrual Loans 90 or More Days Past Due | Total Nonaccrual Loans | Current Accruing Loans | Total Non-PCI Loans |
| CRE: | | | | | | | | |
| Income producing | $99 | $ 930 | $ 1,029 | $ 16,164 | $ 12,920 | $ 29,084 | $7,357,664 | $7,387,777 |
| Construction | — | — | — | — | — | — | 600,803 | 600,803 |
| Land | — | — | — | 5,706 | 10 | 5,716 | 125,273 | 130,989 |
| C&I: | | | | | | | | |
| Commercial business | 12,667 | 3,871 | 16,538 | 44,514 | 17,783 | 62,297 | 8,561,734 | 8,640,569 |
| Trade finance | — | — | — | — | 1,936 | 1,936 | 672,655 | 674,591 |
| Residential: | | | | | | | | |
| Single-family | 7,116 | 1,557 | 8,673 | 2,302 | 3,483 | 5,785 | 3,186,787 | 3,201,245 |
| Multifamily | 4,642 | 382 | 5,024 | 6,743 | 6,804 | 13,547 | 1,293,287 | 1,311,858 |
| Consumer | 1,408 | 1,086 | 2,494 | 121 | 3,390 | 3,511 | 2,053,173 | 2,059,178 |
| Total | $25,932 | $ 7,826 | $33,758 | $ 75,550 | $ 46,326 | $ 121,876 | $23,851,376 | $24,007,010 |

| | December 31, 2015 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| ($ in thousands) | Accruing Loans 30-59 Days Past Due | Accruing Loans 60-89 Days Past Due | Total Accruing Past Due Loans | Nonaccrual Loans Less Than 90 Days Past Due | Nonaccrual Loans 90 or More Days Past Due | Total Nonaccrual Loans | Current Accruing Loans | Total Non-PCI Loans |
| CRE: | | | | | | | | |
| Income producing | $3,465 | $ 25,256 | $28,721 | $ 11,359 | $ 17,870 | $ 29,229 | $6,879,249 | $6,937,199 |
| Construction | — | — | — | 14 | — | 14 | 436,762 | 436,776 |
| Land | 1,124 | — | 1,124 | 277 | 406 | 683 | 185,602 | 187,409 |
| C&I: | | | | | | | | |
| Commercial business | 1,992 | 1,185 | 3,177 | 50,726 | 14,009 | 64,735 | 8,088,079 | 8,155,991 |
| Trade finance | — | — | — | — | — | — | 787,800 | 787,800 |
| Residential: | | | | | | | | |
| Single-family | 7,657 | 2,927 | 10,584 | 92 | 8,634 | 8,726 | 2,857,976 | 2,877,286 |
| Multifamily | 6,320 | 981 | 7,301 | 6,486 | 9,758 | 16,244 | 1,351,173 | 1,374,718 |
| Consumer | 2,078 | 209 | 2,287 | 233 | 1,505 | 1,738 | 1,927,803 | 1,931,828 |
| Total | $22,636 | $ 30,558 | $53,194 | $ 69,187 | $ 52,182 | $ 121,369 | $22,514,444 | $22,689,007 |

For information on the policy for recording payments received and resuming accrual of interest on non-PCI loans that are placed on nonaccrual status, please see Note 1 — Summary of Significant Accounting Policies to the Consolidated

Financial Statements of the Company's 2015 Form 10-K.

PCI loans are excluded from the above aging analysis tables as the Company has elected to account for these loans on a pool level basis in accordance with ASC 310-30 at the time of acquisition. Please refer to the discussion on PCI loans within this note for additional details on interest income recognition. As of September 30, 2016 and December 31, 2015, PCI loans on nonaccrual status totaled $17.6 million and $37.7 million, respectively.

Loans in Process of Foreclosure

As of September 30, 2016 and December 31, 2015, the Company had $8.8 million and $18.0 million, respectively, of recorded investment in consumer mortgage loans secured by residential real estate properties, for which formal foreclosure proceedings were in process according to local requirements of the applicable jurisdictions, which were not included in OREO. Foreclosed residential real estate properties with a carrying amount of $1.7 million were included in total net OREO of $8.6 million as of September 30, 2016. In comparison, foreclosed residential real estate properties with a carrying amount of $912 thousand were included in total net OREO of $7.0 million as of December 31, 2015.

Troubled Debt Restructurings (“TDRs”)

Potential TDRs are individually evaluated and the type of restructuring is selected based on the loan type and the circumstances of the borrower’s financial difficulty in order to maximize the Company’s recovery. A TDR is a modification of the terms of a loan when the Company, for economic or legal reasons related to the borrower’s financial difficulties, grants a concession to the borrower, it would not otherwise consider.

The following tables present the additions to non-PCI TDRs for the three and nine months ended September 30, 2016 and 2015:

| | Loans Modified as TDRs During the Three Months Ended September 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | | | | 2015 | | | |
| ($ in thousands) | Number of Loans | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment (1) | Financial Impact (2) | Number of Loans | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment (1) | Financial Impact (2) |
| CRE: | | | | | | | | |
| Income producing | — | $ — | $ — | $ — | 1 | $ 451 | $ 403 | $ — |
| Land | — | $ — | $ — | $ — | 1 | $ 2,056 | $ 788 | $ — |
| C&I: | | | | | | | | |
| Commercial business | 3 | $ 493 | $ 459 | $ 93 | 3 | $ 4,596 | $ 4,423 | $ 1,229 |

| | Loans Modified as TDRs During the Nine Months Ended September 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | | | | 2015 | | | |
| ($ in thousands) | Number of Loans | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment (1) | Financial Impact (2) | Number of Loans | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment (1) | Financial Impact (2) |
| CRE: | | | | | | | | |
| Income producing | 3 | $ 15,899 | $ 15,722 | $ 43 | 2 | $ 1,279 | $ 1,209 | $ — |
| Land | 1 | $ 5,522 | $ 5,226 | $ — | 2 | $ 2,227 | $ 881 | $ 102 |
| C&I: | | | | | | | | |
| Commercial business | 8 | $ 22,182 | $ 9,088 | $ 2,711 | 16 | $ 42,686 | $ 35,365 | $ 6,726 |
| Trade finance | 2 | $ 7,901 | $ 3,025 | $ — | — | $ — | $ — | $ — |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Residential: | | | | | | | | |
| Single-family | 2 | $ 1,071 | $ 1,058 | $ — | 1 | $ 281 | $ 279 | $ 2 |
| Consumer: | 1 | $ 344 | $ 335 | $ 1 | — | $ — | $ — | $ — |

(1) Includes subsequent payments after modification and reflects the balance as of September 30, 2016 and 2015.
(2) The financial impact includes charge-offs and specific reserves recorded at the modification date.

The following tables present the non-PCI TDR modifications for the three and nine months ended September 30, 2016 and 2015 by modification type:

| ($ in thousands) | Modification Type | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 | | | | | 2015 | | | | |
| | Principal [(1)] | Interest Rate Reduction | Interest Deferments | Other | Total | Principal [(1)] | Principal and Interest [(2)] | Interest Deferments | Other | Total |
| Three Months Ended September 30, | | | | | | | | | | |
| CRE | $— | $ — | $ — | $ — | $— | $— | $ 788 | $ — | $403 | $1,191 |
| C&I | 427 | — | 32 | — | 459 | 4,423 | — | — | — | 4,423 |
| Total | $427 | $ — | $ 32 | $ — | $459 | $4,423 | $ 788 | $ — | $403 | $5,614 |

| ($ in thousands) | Modification Type | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 | | | | | 2015 | | | | |
| | Principal [(1)] | Interest Rate Reduction | Interest Deferments | Other | Total | Principal [(1)] | Principal and Interest [(2)] | Interest Deferments | Other | Total |
| Nine Months Ended September 30, | | | | | | | | | | |
| CRE | $19,800 | $ — | $ — | $1,148 | $20,948 | $— | $1,593 | $ — | $497 | $2,090 |
| C&I | 10,193 | 1,288 | 32 | 600 | 12,113 | 17,241 | 18,124 | — | — | 35,365 |
| Residential | 267 | 791 | — | — | 1,058 | 279 | — | — | — | 279 |
| Consumer | 335 | — | — | — | 335 | — | — | — | — | — |
| Total | $30,595 | $ 2,079 | $ 32 | $1,748 | $34,454 | $17,520 | $19,717 | $ — | $497 | $37,734 |

(1) Principal modification includes forbearance payments, term extensions and principal deferments that modify the terms of the loan from principal and interest payments to interest payments only.
(2) Principal and interest modification includes principal and interest deferments or reductions.

Subsequent to restructuring, a TDR that becomes delinquent, generally beyond 90 days, is considered to have defaulted. The following table presents information for loans modified as TDRs within the previous 12 months that have subsequently defaulted during the three and nine months ended September 30, 2016 and 2015, and are still in default at period end:

| ($ in thousands) | Loans Modified as TDRs that Subsequently Defaulted During the Three Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| | Number of Loans | Recorded Investment | Number of Loans | Recorded Investment |
| CRE: | | | | |
| Income producing | 1 | $ 995 | 1 | $ 2,088 |

| ($ in thousands) | Loans Modified as TDRs that Subsequently Defaulted During the Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| | Number of Loans | Recorded Investment | Number of Loans | Recorded Investment |
| CRE: | | | | |
| Income producing | 1 | $ 995 | 1 | $ 2,088 |
| C&I: | | | | |
| Commercial business | 2 | $ 113 | — | $ — |

The amount of additional funds committed to lend to borrowers whose terms have been modified was $2.9 million as of September 30, 2016. In comparison, the amount of additional funds committed to lend to borrowers whose terms have been modified was immaterial as of December 31, 2015.

Impaired Loans

The Company’s loans are grouped into heterogeneous and homogeneous (mostly consumer loans) categories. Classified loans in the heterogeneous category are identified and evaluated for impairment on an individual basis. 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. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan’s effective interest rate or, as expedient, at the loan’s observable market price or the fair value of the collateral, if the loan is collateral dependent, less costs to sell. 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. Impaired loans exclude the homogeneous consumer loan portfolio, which is evaluated collectively for impairment. The Company’s impaired loans include predominantly non-PCI loans held-for-investment on nonaccrual status and any non-PCI loans modified in a TDR, which may be on accrual or nonaccrual status.

The following tables present information on impaired non-PCI loans as of September 30, 2016 and December 31, 2015:

| | September 30, 2016 | | | | |
|---|---|---|---|---|---|
| ($ in thousands) | Unpaid Principal Balance | Recorded Investment With No Allowance | Recorded Investment With Allowance | Total Recorded Investment | Related Allowance |
| CRE: | | | | | |
| Income producing | $59,227 | $ 31,493 | $ 19,703 | $51,196 | $ 507 |
| Construction | — | — | — | — | — |
| Land | 6,886 | 5,226 | 1,081 | 6,307 | 72 |
| C&I: | | | | | |
| Commercial business | 109,416 | 28,316 | 53,453 | 81,769 | 3,798 |
| Trade finance | 6,080 | 4,361 | 655 | 5,016 | 3 |
| Residential: | | | | | |
| Single-family | 14,825 | 1,842 | 11,439 | 13,281 | 310 |
| Multifamily | 22,894 | 15,649 | 5,208 | 20,857 | 217 |
| Consumer | 1,556 | — | 1,556 | 1,556 | 43 |
| Total | $220,884 | $ 86,887 | $ 93,095 | $ 179,982 | $ 4,950 |

| | December 31, 2015 | | | | |
|---|---|---|---|---|---|
| ($ in thousands) | Unpaid Principal Balance | Recorded Investment With No Allowance | Recorded Investment With Allowance | Total Recorded Investment | Related Allowance |
| CRE: | | | | | |
| Income producing | $47,043 | $ 24,347 | $ 15,720 | $40,067 | $ 3,148 |
| Construction | 66 | — | 14 | 14 | 1 |
| Land | 1,537 | 632 | 683 | 1,315 | 118 |

| | | | | | |
|---|---|---|---|---|---|
| C&I: | | | | | |
| Commercial business | 81,720 | 31,045 | 40,111 | 71,156 | 15,993 |
| Trade finance | 10,675 | — | 10,675 | 10,675 | 95 |
| Residential: | | | | | |
| Single-family | 16,486 | 4,401 | 10,611 | 15,012 | 584 |
| Multifamily | 25,634 | 16,944 | 6,783 | 23,727 | 339 |
| Consumer | 1,240 | — | 1,240 | 1,240 | 60 |
| Total | $ 184,401 | $ 77,369 | $ 85,837 | $ 163,206 | $ 20,338 |

The following table presents the average recorded investment and interest income recognized on non-PCI impaired loans during the three and nine months ended September 30, 2016 and 2015:

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | | 2015 | | 2016 | | 2015 | |
| ($ in thousands) | Average Recorded Investment | Recognized Interest Income [1] | Average Recorded Investment | Recognized Interest Income [1] | Average Recorded Investment | Recognized Interest Income [1] | Average Recorded Investment | Recognized Interest Income [1] |
| CRE: | | | | | | | | |
| Income producing | $52,020 | $ 464 | $43,227 | $ 130 | $52,130 | $ 1,368 | $45,154 | $ 393 |
| Construction | — | — | 759 | — | — | — | 695 | — |
| Land | 6,562 | 9 | 3,957 | 10 | 6,721 | 26 | 4,796 | 30 |
| C&I: | | | | | | | | |
| Commercial business | 91,015 | 258 | 75,655 | 161 | 92,531 | 648 | 75,951 | 489 |
| Trade finance | 9,004 | 33 | 11,285 | 50 | 10,028 | 166 | 11,584 | 185 |
| Residential: | | | | | | | | |
| Single-family | 13,410 | 72 | 18,192 | 68 | 13,489 | 220 | 18,338 | 205 |
| Multifamily | 20,594 | 77 | 24,338 | 178 | 20,654 | 231 | 24,546 | 530 |
| Consumer | 1,567 | 16 | 1,248 | 12 | 1,572 | 48 | 1,253 | 35 |
| Total impaired non-PCI loans | $194,172 | $ 929 | $178,661 | $ 609 | $197,125 | $ 2,707 | $182,317 | $ 1,867 |

(1) Includes interest recognized on accruing non-PCI TDRs. Interest payments received on nonaccrual non-PCI loans are reflected as a reduction to principal and not as interest income.

Allowance for Credit Losses

The following tables present a summary of activities in the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2016 and 2015:

| ($ in thousands) | Three Months Ended September 30, 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Non-PCI Loans | | | | | PCI Loans | Total |
| | CRE | C&I | Residential | Consumer | Total | | |
| Beginning balance | $78,102 | $148,427 | $31,561 | $8,421 | $266,511 | $257 | $266,768 |
| (Reversal of) provision for loan losses | (6,598) | 18,548 | 309 | (644) | 11,615 | (101) | 11,514 |
| Charge-offs | (309) | (23,696) | (29) | (13) | (24,047) | — | (24,047) |
| Recoveries | 634 | 165 | 654 | 124 | 1,577 | — | 1,577 |
| Net recoveries (charge-offs) | 325 | (23,531) | 625 | 111 | (22,470) | — | (22,470) |
| Ending balance | $71,829 | $143,444 | $32,495 | $7,888 | $255,656 | $156 | $255,812 |

| ($ in thousands) | Three Months Ended September 30, 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Non-PCI Loans | | | | | PCI Loans | Total |
| | CRE | C&I | Residential | Consumer | Total | | |
| Beginning balance | $75,496 | $133,962 | $40,668 | $10,491 | $260,617 | $612 | $261,229 |
| Provision for (reversal of) loan losses | 2,333 | 11,221 | (4,979) | (70) | 8,505 | (71) | 8,434 |
| Charge-offs | (135) | (7,187) | (35) | (123) | (7,480) | — | (7,480) |
| Recoveries | 83 | 933 | 1,158 | 73 | 2,247 | — | 2,247 |
| Net (charge-offs) recoveries | (52) | (6,254) | 1,123 | (50) | (5,233) | — | (5,233) |
| Ending balance | $77,777 | $138,929 | $36,812 | $10,371 | $263,889 | $541 | $264,430 |

| ($ in thousands) | Nine Months Ended September 30, 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Non-PCI Loans | | | | | PCI Loans | Total |
| | CRE | C&I | Residential | Consumer | Total | | |
| Beginning balance | $81,191 | $134,597 | $39,292 | $9,520 | $264,600 | $359 | $264,959 |
| (Reversal of) provision for loan losses | (9,731) | 38,549 | (7,679) | (1,887) | 19,252 | (203) | 19,049 |
| Charge-offs | (504) | (31,770) | (166) | (17) | (32,457) | — | (32,457) |
| Recoveries | 873 | 2,068 | 1,048 | 272 | 4,261 | — | 4,261 |
| Net recoveries (charge-offs) | 369 | (29,702) | 882 | 255 | (28,196) | — | (28,196) |
| Ending balance | $71,829 | $143,444 | $32,495 | $7,888 | $255,656 | $156 | $255,812 |

| ($ in thousands) | Nine Months Ended September 30, 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Non-PCI Loans | | | | | PCI Loans | Total |
| | CRE | C&I | Residential | Consumer | Total | | |
| Beginning balance | $72,263 | $134,598 | $43,856 | $10,248 | $260,965 | $714 | $261,679 |
| Provision for (reversal of) loan losses | 5,739 | 13,883 | (9,868) | 305 | 10,059 | (173) | 9,886 |
| Charge-offs | (1,486) | (16,619) | (782) | (586) | (19,473) | — | (19,473) |
| Recoveries | 1,261 | 7,067 | 3,606 | 404 | 12,338 | — | 12,338 |
| Net (charge-offs) recoveries | (225) | (9,552) | 2,824 | (182) | (7,135) | — | (7,135) |
| Ending balance | $77,777 | $138,929 | $36,812 | $10,371 | $263,889 | $541 | $264,430 |

For further information on accounting policies and the methodology used to estimate the allowance for credit losses and loan charge-offs, please see Note 1 — Summary of Significant Accounting Policies to the Consolidated Financial Statements of the Company's 2015 Form 10-K.

The following table presents a summary of activities in the allowance for unfunded credit reserves during the three and nine months ended September 30, 2016 and 2015:

| ($ in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Beginning balance | $20,318 | $19,741 | $20,360 | $12,712 |
| (Reversal of) provision for unfunded credit reserves | (1,989 ) | (698 ) | (2,031 ) | 6,331 |
| Ending balance | $18,329 | $19,043 | $18,329 | $19,043 |

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 allowance for unfunded credit reserves is included in Accrued expense and other liabilities on the Consolidated Balance Sheets. Please refer to Note 10 — Commitments And Contingencies to the Consolidated Financial Statements for additional information related to unfunded credit reserves.

The following tables present the Company's allowance for loan losses and recorded investments by portfolio segment and impairment methodology as of September 30, 2016 and December 31, 2015:

| | September 30, 2016 | | | | |
|---|---|---|---|---|---|
| ($ in thousands) | CRE | C&I | Residential | Consumer | Total |
| Allowance for loan losses | | | | | |
| Individually evaluated for impairment | $579 | $3,801 | $527 | $43 | $4,950 |
| Collectively evaluated for impairment | 71,250 | 139,643 | 31,968 | 7,845 | 250,706 |
| Acquired with deteriorated credit quality | 148 | 3 | 5 | — | 156 |
| Ending balance | $71,977 | $143,447 | $32,500 | $7,888 | $255,812 |
| Recorded investment in loans | | | | | |
| Individually evaluated for impairment | $57,503 | $86,785 | $34,138 | $1,556 | $179,982 |
| Collectively evaluated for impairment | 8,062,066 | 9,228,375 | 4,478,965 | 2,057,622 | 23,827,028 |
| Acquired with deteriorated credit quality [(1)] | 395,510 | 42,885 | 258,890 | 20,296 | 717,581 |
| Ending balance [(1)] | $8,515,079 | $9,358,045 | $4,771,993 | $2,079,474 | $24,724,591 |

| | December 31, 2015 | | | | |
|---|---|---|---|---|---|
| ($ in thousands) | CRE | C&I | Residential | Consumer | Total |
| Allowance for loan losses | | | | | |
| Individually evaluated for impairment | $3,267 | $16,088 | $923 | $60 | $20,338 |
| Collectively evaluated for impairment | 77,924 | 118,509 | 38,369 | 9,460 | 244,262 |
| Acquired with deteriorated credit quality | 347 | 9 | 3 | — | 359 |
| Ending balance | $81,538 | $134,606 | $39,295 | $9,520 | $264,959 |
| Recorded investment in loans | | | | | |
| Individually evaluated for impairment | $41,396 | $81,831 | $38,739 | $1,240 | $163,206 |
| Collectively evaluated for impairment | 7,519,988 | 8,861,960 | 4,213,265 | 1,930,588 | 22,525,801 |
| Acquired with deteriorated credit quality [(1)] | 549,365 | 59,216 | 337,910 | 24,263 | 970,754 |
| Ending balance [(1)] | $8,110,749 | $9,003,007 | $4,589,914 | $1,956,091 | $23,659,761 |

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

PCI Loans

At the date of acquisition, PCI loans are pooled and accounted for at fair value, which represents the discounted value of the expected cash flows of the loan portfolio. 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 as the “nonaccretable difference.”

The following table presents the changes in accretable yield for PCI loans for the three and nine months ended September 30, 2016 and 2015:

| ($ in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Beginning balance | $166,777 | $271,862 | $214,907 | $311,688 |
| Accretion | (14,827 ) | (30,608 ) | (53,510 ) | (84,537 ) |
| Changes in expected cash flows | 311 | 1,518 | (9,136 ) | 15,621 |
| Ending balance | $152,261 | $242,772 | $152,261 | $242,772 |

Loans Held-for-Sale

Loans held-for-sale are carried at the LOCOM. When a determination is made at the time of commitment to originate or purchase loans as held-for-investment, it is the Company’s intent to hold these loans to maturity or for the “foreseeable future,” subject to periodic review under the Company’s management evaluation processes, including asset/liability management. When the Company subsequently changes its intent to hold certain loans, the loans are transferred from the loans held-for-investment portfolio to the loans held-for-sale portfolio at LOCOM.

Loans held-for-sale amounted to $47.7 million as of September 30, 2016, and were comprised primarily of consumer and multifamily residential loans. In comparison, loans held-for-sale, which were comprised of consumer loans, amounted to $32.0 million as of December 31, 2015. Transfers of loans held-for-investment to loans held-for-sale were $144.9 million and $720.7 million, respectively, for the three and nine months ended September 30, 2016. These loan transfers were comprised primarily of C&I, multifamily residential and CRE loans. In comparison, loans held-for-investment transferred to loans held-for-sale of $400.3 million and $1.56 billion, respectively, for the three and nine months ended September 30, 2015, were comprised primarily of single-family residential and C&I loans. For the three months ended September 30, 2016, no write-downs to the allowance for loan losses were recorded that related to loans transferred from loans held-for-investment to loans held-for-sale. For the nine months ended September 30, 2016, the Company recorded $1.9 million in write-downs to the allowance for loan losses related to loans transferred from loans held-for-investment to loans held-for-sale. In comparison, the Company recorded $968 thousand and $3.1 million in write-downs to the allowance for loan losses related to loans transferred from loans held-for-investment to loans held-for-sale for the three and nine months ended September 30, 2015, respectively.

During the three months ended September 30, 2016 and 2015, the Company sold $107.3 million and $181.9 million, respectively, in originated loans resulting in net gains of $2.2 million and $5.1 million, respectively. During the nine months ended September 30, 2016, the Company sold or securitized $529.5 million in originated loans, resulting in net gains of $9.3 million. During the nine months ended September 30, 2016, the Company recorded $1.1 million in net gains and $641 thousand in mortgage servicing rights, and retained $160.1 million of the senior tranche of the resulting securities from the securitization of $201.7 million of multifamily residential loans. Originated loans sold or

securitized during the nine months ended September 30, 2016 were primarily comprised of multifamily residential, C&I and CRE loans. In comparison, during the nine months ended September 30, 2015, the Company sold $741.0 million in originated loans, which were comprised primarily of single-family residential and C&I loans, resulting in net gains of $19.4 million.

From time to time, the Company purchases loans (including participation loans) and sells loans in the secondary market. During the three and nine months ended September 30, 2016, the Company purchased approximately $456.9 million and $1.50 billion of loans, respectively, compared to $207.0 million and $572.5 million, respectively, for the same periods last year. The Company sold $45.8 million and $179.4 million of loans in the secondary market, respectively, during the three and nine months ended September 30, 2016. Such purchased loans were transferred from loans held-for-investment to loans held-for-sale and a write-down to allowance was recorded, as appropriate. No gains or losses on loans sold in the secondary market were recorded for the three months ended September 30, 2016. For the nine months ended September 30, 2016, the Company recorded $69 thousand in gains on loans sold in the secondary market. In comparison, the Company sold $64.0 million and $510.1 million of loans in the secondary market, respectively, during the three and nine months ended September 30, 2015. No gains or losses on loans sold in the secondary market were recorded for the three months ended September 30, 2015. For the nine months ended September 30, 2015, the Company recorded net gains of $1.0 million on loans sold in the secondary market.

No LOCOM adjustments related to the loans held-for-sale portfolio were recorded for the three months ended September 30, 2016, compared to $211 thousand recorded for the three months ended September 30, 2015. For the nine months ended September 30, 2016 and 2015, the Company recorded $2.4 million and $728 thousand, respectively, in LOCOM adjustments related to the loans held-for-sale portfolio. LOCOM adjustments are recorded in Net gains on sales of loans on the Consolidated Statements of Income.

## NOTE 8 — INVESTMENTS IN QUALIFIED AFFORDABLE HOUSING PARTNERSHIPS, TAX CREDIT AND OTHER INVESTMENTS, NET

The Community Reinvestment Act (“CRA”) encourages banks to meet the credit needs of their communities for housing and other purposes, particularly in neighborhoods with low or moderate income. The Company invests in certain affordable housing limited partnerships that qualify for CRA credits. Such limited partnerships are formed to develop and operate apartment complexes designed as high-quality affordable housing for lower income tenants throughout the United States. Each of the partnerships must meet the regulatory requirements for affordable housing for a minimum 15-year compliance period to fully utilize the tax credits. In addition to affordable housing limited partnerships, the Company invests in new market tax credit projects that qualify for CRA credits and eligible projects that qualify for renewable energy and historic tax credits. Investments in renewable energy tax credits help promote the development of renewable energy sources, while the investments in historic tax credits promote the rehabilitation of historic buildings and economic revitalization of the surrounding areas.

### Investments in Qualified Affordable Housing Partnerships, Net

The Company records its 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 on the Consolidated Statements of Income as a component of income tax expense. The following table presents the balances of the Company’s investments in qualified affordable housing partnerships, net and related unfunded commitments as of the periods indicated:

| ($ in thousands) | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Investments in qualified affordable housing partnerships, net | $ 173,045 | $ 193,978 |
| Accrued expenses and other liabilities — Unfunded commitments | $ 41,267 | $ 61,525 |

The following table presents additional information related to the Company’s investments in qualified affordable housing partnerships, net for the periods indicated:

| ($ in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Tax credits and other tax benefits recognized | $8,591 | $9,237 | $26,561 | $26,617 |
| Amortization expense included in income tax expense | $6,612 | $6,348 | $20,923 | $18,744 |

Investments in Tax Credit and Other Investments, Net

Investments in tax credit and other investments, net were $169.9 million and $187.2 million as of September 30, 2016 and December 31, 2015, respectively, and were included in Other assets on the Consolidated Balance Sheets. The Company is not the primary beneficiary in these partnerships and, therefore, is not required to consolidate its investments in tax credit and other investments on the Consolidated Financial Statements. Depending on the ownership percentage and the influence the Company has on the limited partnership, the Company applies either the equity method or cost method of accounting.

Total unfunded commitments for these investments were $119.2 million and $113.2 million as of September 30, 2016 and December 31, 2015, respectively, and were included in Accrued expenses and other liabilities on the Consolidated Balance Sheets. Amortization of tax credit and other investments were $32.6 million and $12.3 million for the three months ended September 30, 2016 and 2015, respectively. Amortization of tax credit and other investments were $60.8 million and $21.6 million for the nine months ended September 30, 2016 and 2015, respectively.

NOTE 9 — GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

Total goodwill of $469.4 million remained unchanged as of September 30, 2016 compared to December 31, 2015. Goodwill is tested for impairment on an annual basis as of December 31st, 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 amount. The Company's three operating segments, Retail Banking, Commercial Banking, and Other, are equivalent to the Company's reporting units. For complete discussion and disclosure, please refer to Note 14 — Business Segments to the Consolidated Financial Statements.

Impairment Analysis

The Company performed its annual impairment analysis as of December 31, 2015 and concluded that there was no goodwill impairment as the fair values of all reporting units exceeded the carrying amounts of goodwill. There were no triggering events during the nine months ended September 30, 2016 and therefore, no additional goodwill impairment analysis was performed. No assurance can be given that goodwill will not be written down in future periods. Please refer to Note 10 - Goodwill and Other Intangible Assets to the Consolidated Financial Statements of the Company's 2015 Form 10-K for additional details related to the Company's annual goodwill impairment analysis.

Premiums on Acquired Deposits

Premiums on acquired deposits represent the intangible value of depositor relationships resulting from deposit liabilities assumed in various acquisitions. These intangibles are tested for impairment on an annual basis, or more frequently as events occur, or as current circumstances and conditions warrant. There were no impairment write-downs on deposit premiums for the nine months ended September 30, 2016 and 2015.

The following table presents the gross carrying value of intangible assets and accumulated amortization as of September 30, 2016 and December 31, 2015:

| ($ in thousands) | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Gross balance | $ 108,814 | $ 108,814 |

| | | |
|---|---|---|
| Accumulated amortization | 78,916 | 72,739 |
| Net carrying balance | $ 29,898 | $ 36,075 |

Amortization Expense

The Company amortizes premiums on acquired deposits based on the projected useful lives of the related deposits. The amortization expense related to the intangible assets was $2.0 million and $2.3 million for the three months ended September 30, 2016 and 2015, respectively, and $6.2 million and $7.0 million for the nine months ended September 30, 2016 and 2015, respectively.

The following table presents the estimated future amortization expense of premiums on acquired deposits:

| Year Ended December 31, ($ in thousands) | Amount |
|---|---|
| Remainder of 2016 | $1,909 |
| 2017 | 6,935 |
| 2018 | 5,883 |
| 2019 | 4,864 |
| 2020 | 3,846 |
| Thereafter | 6,461 |
| Total | $29,898 |

NOTE 10 — COMMITMENTS AND CONTINGENCIES

Credit Extensions — In the normal course of business, the Company has various outstanding commitments to extend credit that are not reflected in the accompanying Consolidated Financial Statements. While the Company does not anticipate losses as a result of these transactions, commitments to extend credit are included in determining the appropriate level of the allowance for unfunded commitments and unissued commercial letters of credit and standby letters of credit (“SBLCs”). For further information about these commitments, including their terms, see Note 14 — Commitments, Contingencies and Related Party Transactions Policies to the Consolidated Financial Statements of the Company’s 2015 Form 10-K. The following table presents the Company’s credit-related commitments as of the periods indicated:

| ($ in thousands) | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Loan commitments | $4,688,223 | $3,370,271 |
| Commercial letters of credit and SBLCs | $1,527,366 | $1,293,547 |

Loan commitments are agreements to lend to a customer provided there is no violation of any condition established in the agreement. Commitments generally have fixed expiration dates or other termination clauses and may require maintenance of compensatory balances. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future funding requirements.

Commercial letters of credit are issued to facilitate domestic and foreign trade transactions while SBLCs generally are contingent upon the failure of the customers to perform according to the terms of the underlying contract with the third party. As a result, the total contractual amounts do not necessarily represent future funding requirements. The Company’s historical experience is that SBLCs typically expire without being funded. Additionally, in many cases, the Company holds collateral in various forms against these SBLCs. As a part of its risk management activities, the Company monitors the creditworthiness of customers in conjunction with its SBLC exposure. Customers are obligated to reimburse the Company for any payment made on the customers’ behalf. If customers fail to pay, the Company would, as applicable, liquidate the collateral and/or offset accounts. Total letters of credit of $1.53 billion consisted of commercial letters of credit of $45.1 million and SBLCs of $1.48 billion as of September 30, 2016.

The Company uses the same credit underwriting criteria in extending loans, commitments, and conditional obligations to customers. Each customer’s creditworthiness is evaluated on a case-by-case basis. Collateral may be obtained based on management’s assessment of the customer’s credit. Collateral may include accounts receivable, inventory, property,

plant and equipment, and income-producing commercial property.

Estimated exposure to loss from these commitments is included in the allowance for unfunded credit reserves and amounted to $17.9 million as of September 30, 2016 and $19.8 million as of December 31, 2015. These amounts are included in Accrued expenses and other liabilities on the Consolidated Balance Sheets.

Guarantees — The Company has sold or securitized loans with recourse in the ordinary course of business. The recourse component in the loans sold or securitized with recourse is considered a guarantee. As the guarantor, the Company is obligated to make payments when the loans default. As of September 30, 2016 and December 31, 2015, the unpaid principal balance of total loans sold or securitized with recourse amounted to $159.5 million and $191.3 million, respectively. The maximum potential future payments of loans subject to full recourse, which generally represents the unpaid principal balance of total loans sold or securitized with recourse, were $25.5 million and $29.8 million as of September 30, 2016 and December 31, 2015, respectively. The maximum potential future payments of loans subject to limited recourse were $4.9 million and $5.9 million as of September 30, 2016 and December 31, 2015, respectively. The recourse provision on multifamily loans varies by loan sale and is limited to 4% of the top loss on the underlying loans. The Company's recourse reserve related to these guarantees is included in the allowance for unfunded credit reserves and totaled $466 thousand and $630 thousand as of September 30, 2016 and December 31, 2015, respectively. The allowance for unfunded credit reserves is included in Accrued expenses and other liabilities on the Consolidated Balance Sheets. The Company continues to experience minimal losses from the single-family and multifamily residential loan portfolios sold or securitized with recourse.

Litigation — The Company is a party to various legal actions arising in the normal course of business. In accordance with ASC 450, Contingencies, the Company accrues reserves for currently outstanding lawsuits, claims, and proceedings when a loss contingency is probable and can be reasonably estimated. The outcome of such legal actions is inherently difficult to predict and it is possible that one or more of the currently pending, threatened legal or regulatory matters could have a material adverse effect on the Company's liquidity, consolidated financial position, and/or results of operations. Based on the information currently available, advice of counsel and established reserves, the Company believes that the eventual outcome of pending legal matters will not individually or in the aggregate have a material adverse effect on the Company's consolidated financial statements. On September 8, 2014, a jury in the case titled "F&F, LLC and 618 Investment, Inc. v. East West Bank," Superior Court of the State of California for the County of Los Angeles, Case No. BC462714, delivered a verdict in favor of plaintiff F&F, LLC. The case is being appealed. The litigation accrual was $38.1 million and $35.4 million as of September 30, 2016 and December 31, 2015, respectively.

Other Commitments — The Company has commitments to invest in qualified affordable housing partnerships and other tax credit investments qualifying for historic rehabilitation tax credits or other types of tax credits. These commitments are payable on demand. As of September 30, 2016 and December 31, 2015, these commitments were $160.5 million and $174.7 million, respectively. These commitments are included in Accrued expenses and other liabilities on the Consolidated Balance Sheets.

## NOTE 11 — STOCK COMPENSATION PLANS

Pursuant to the Company's 2016 Stock Incentive Plan, as amended, the Company may issue stock options, restricted stock awards ("RSAs") and restricted stock units ("RSUs") to employees. The Company did not issue any stock options or RSAs during the nine months ended September 30, 2016 and 2015. All RSAs have vested during 2015.

RSUs are granted under the Company's long-term incentive plan at no cost to the recipient. RSUs vest ratably over three years or cliff vest after three or five years of continued employment from the date of the grant. RSUs entitle the recipient to receive cash dividends equivalent to any dividends paid on the underlying common stock. The RSU dividends are accrued during the vesting period and are paid at the time of vesting. While a portion of the RSUs are time-vesting awards, others vest subject to the attainment of specified performance goals. All RSUs are subject to forfeiture until vested.

The following table presents the total stock compensation expense and the related net tax benefit associated with the Company's various employee share-based compensation plans for the three and nine months ended September 30, 2016 and 2015:

| ($ in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Stock compensation costs | $4,763 | $4,050 | $13,973 | $11,702 |
| Net tax benefit recognized in equity for stock compensation plans | $14 | $31 | $1,019 | $3,227 |

The following table presents a summary of the activity for the Company's time-based and performance-based RSUs for the nine months ended September 30, 2016 based on the target amount of awards:

| | Nine Months Ended September 30, 2016 | | | |
|---|---|---|---|---|
| | Time-Based RSUs | | Performance-Based RSUs | |
| | Shares | Weighted Average Grant-Date Fair Value | Shares | Weighted Average Grant-Date Fair Value |
| Outstanding at beginning of period | 933,312 | $ 36.83 | 389,358 | $ 34.21 |
| Granted | 496,580 | 31.47 | 159,407 | 29.18 |
| Vested | (119,867 ) | 25.34 | (138,019 ) | 25.25 |
| Forfeited | (96,320 ) | 35.65 | — | — |
| Outstanding at end of period | 1,213,705 | $ 35.86 | 410,746 | $ 35.27 |

Compensation cost for the time-based awards is based on the quoted market price of the Company's stock at the grant date. Performance-based awards granted that include discretionary performance-based vesting conditions are subject to variable accounting. As of September 30, 2016, total unrecognized compensation cost related to time-based and performance-based RSUs amounted to $27.1 million and $9.5 million, respectively. This cost is expected to be recognized over a weighted average period of 1.82 years and 1.68 years, respectively.

NOTE 12 — STOCKHOLDERS' EQUITY AND EARNINGS PER SHARE

Warrant —The Company acquired MetroCorp Bancshares, Inc., ("MetroCorp") on January 17, 2014. Prior to the acquisition, MetroCorp had an outstanding warrant to purchase 771,429 shares of its common stock. Upon the acquisition, the rights of the warrant holder were converted into the right to acquire 230,282 shares of East West's common stock until January 16, 2019. The warrant has not been exercised as of September 30, 2016.

EPS — 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 common share equivalents calculated for stock options, warrants and RSUs outstanding using the treasury stock method. The Company has issued RSAs, which are unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents. These RSAs are considered participating securities. Accordingly, the Company applied the two-class method in the computation of basic and diluted EPS in periods where RSAs are outstanding. RSUs do not contain nonforfeitable rights to dividends when granted. As of September 30, 2016, there were no RSAs outstanding.

The following table presents EPS calculations for the three and nine months ended September 30, 2016 and 2015:

| ($ in thousands, except per share data, shares in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Basic | | | | |
| Net income | $110,143 | $94,097 | $320,943 | $292,872 |
| Less: Earnings allocated to participating securities | — | — | — | 3 |
| Net income allocated to common stockholders | $110,143 | $94,097 | $320,943 | $292,869 |
| Basic weighted average number of shares outstanding | 144,122 | 143,861 | 144,061 | 143,788 |
| Basic EPS | $0.76 | $0.65 | $2.23 | $2.04 |
| Diluted | | | | |
| Net income allocated to diluted common stockholders | $110,143 | $94,097 | $320,943 | $292,869 |
| Basic weighted average number of shares outstanding | 144,122 | 143,861 | 144,061 | 143,788 |
| Diluted potential common shares [(1)] | 1,116 | 729 | 1,025 | 680 |
| Diluted weighted average number of shares outstanding | 145,238 | 144,590 | 145,086 | 144,468 |
| Diluted EPS | $0.76 | $0.65 | $2.21 | $2.03 |

(1) Includes dilutive shares from RSUs and warrants for the three and nine months ended September 30, 2016 and 2015. Also includes dilutive shares from stock options for the three and nine months ended September 30, 2015.

For the three months ended September 30, 2016 and 2015, approximately 2 thousand and 23 thousand weighted average anti-dilutive shares from RSUs, respectively, were excluded from the diluted EPS computation. For the nine months ended September 30, 2016 and 2015, approximately 7 thousand and 13 thousand weighted average anti-dilutive shares from RSUs, respectively, were excluded from the diluted EPS computation.

NOTE 13 — ACCUMULATED OTHER COMPREHENSIVE INCOME

The following tables present the changes in the components of AOCI balances for the three and nine months ended September 30, 2016 and 2015:

| ($ in thousands) | Three Months Ended September 30, 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Available-for-Sale Investment Securities | Foreign Currency Translation Adjustments (1) | Total | Available-for-Sale Investment Securities | Foreign Currency Translation Adjustments (1) | Total |
| Beginning balance | $11,756 | $ (13,468) | $(1,712) | $5,430 | $ — | $5,430 |
| Net unrealized (losses) gains arising during the period | (3,869) | (555) | (4,424) | 13,127 | (6,846) | 6,281 |
| Amounts reclassified from AOCI | (1,038) | — | (1,038) | (9,881) | — | (9,881) |
| Changes, net of taxes | (4,907) | (555) | (5,462) | 3,246 | (6,846) | (3,600) |
| Ending balance | $6,849 | $ (14,023) | $(7,174) | $8,676 | $ (6,846) | $1,830 |

| ($ in thousands) | Nine Months Ended September 30, 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Available-for-Sale Investment Securities | Foreign Currency Translation Adjustments (1) | Total | Available-for-Sale Investment Securities | Foreign Currency Translation Adjustments (1) | Total |
| Beginning balance | $(6,144) | $ (8,797) | $(14,941) | $4,237 | $ — | $4,237 |
| Net unrealized gains (losses) arising during the period | 17,901 | (5,226) | 12,675 | 20,096 | (6,846) | 13,250 |
| Amounts reclassified from AOCI | (4,908) | — | (4,908) | (15,657) | — | (15,657) |
| Changes, net of taxes | 12,993 | (5,226) | 7,767 | 4,439 | (6,846) | (2,407) |
| Ending balance | $6,849 | $ (14,023) | $(7,174) | $8,676 | $ (6,846) | $1,830 |

(1) Represents foreign currency translation adjustments related to the Company’s net investment in non-U.S. operations, including related hedges. In the third quarter of 2015, there was a change in functional currency from USD to the local currency of the Company’s foreign subsidiary.

The following tables present the components of other comprehensive income (loss), reclassifications to net income and the related tax effects for the three and nine months ended September 30, 2016 and 2015:

| ($ in thousands) | Three Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | | 2015 | | |
| | Before-Tax | Tax Effect | Net-of-Tax | Before-Tax | Tax Effect | Net-of-Tax |
| Available-for-sale investment securities: | | | | | | |
| Net unrealized (losses) gains arising during the period | $(6,677) | $2,808 | $ (3,869) | $22,634 | $(9,507) | $ 13,127 |
| Net realized gains reclassified into net income [1] | (1,790) | 752 | (1,038) | (17,036) | 7,155 | (9,881) |
| Net change | (8,467) | 3,560 | (4,907) | 5,598 | (2,352) | 3,246 |
| Foreign currency translation adjustments: | | | | | | |
| Net unrealized losses arising during period | (555) | — | (555) | (6,846) | — | (6,846) |
| Net change | (555) | — | (555) | (6,846) | — | (6,846) |
| Other comprehensive loss | $(9,022) | $3,560 | $ (5,462) | $(1,248) | $(2,352) | $ (3,600) |

| ($ in thousands) | Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | | 2015 | | |
| | Before-Tax | Tax Effect | Net-of-Tax | Before-Tax | Tax Effect | Net-of-Tax |
| Available-for-sale investment securities: | | | | | | |
| Net unrealized gains arising during the period | $30,888 | $(12,987) | $ 17,901 | $34,648 | $(14,552) | $ 20,096 |
| Net realized gains reclassified into net income [1] | (8,468) | 3,560 | (4,908) | (26,994) | 11,337 | (15,657) |
| Net change | 22,420 | (9,427) | 12,993 | 7,654 | (3,215) | 4,439 |
| Foreign currency translation adjustments: | | | | | | |
| Net unrealized losses arising during period | (5,226) | — | (5,226) | (6,846) | — | (6,846) |
| Net change | (5,226) | — | (5,226) | (6,846) | — | (6,846) |
| Other comprehensive income (loss) | $17,194 | $(9,427) | $ 7,767 | $808 | $(3,215) | $ (2,407) |

(1) For the three and nine months ended September 30, 2016 and 2015, the pretax amount was reported in Net gains on sales of available-for-sale investment securities on the Consolidated Statements of Income.

NOTE 14 — BUSINESS SEGMENTS

The Company utilizes an internal reporting system to measure the performance of various operating segments within the Bank and the Company. The Company has identified three operating segments for purposes of management reporting: (1) Retail Banking; (2) Commercial Banking; and (3) Other. These three business divisions meet the criteria of an operating segment: the segment engages in business activities from which it earns revenues and incurs expenses; its operating results are regularly reviewed by the Company’s chief operating decision-maker to render decisions about resources to be allocated to the segment and assess its performance; and discrete financial information is available.

The Retail Banking segment focuses primarily on retail operations through the Bank’s branch network. The Commercial Banking segment, which includes CRE, primarily generates commercial loans through the commercial lending offices located in the Bank’s production offices. Furthermore, the Company’s Commercial Banking segment offers a wide variety of international finance and trade services and products. The remaining centralized functions,

including treasury activities 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 Company’s funds transfer pricing assumptions are intended to promote core deposit growth and to reflect the current risk profiles of various loan categories within the credit portfolio. Transfer pricing assumptions and methodologies are reviewed at least annually to ensure that the Company’s process is reflective of current market conditions. The transfer pricing process is formulated with the goal of incenting loan and deposit growth that is consistent with the Company’s overall growth objectives, as well as to provide a reasonable and consistent basis for the measurement of the Company’s business segments and product net interest margins.

The accounting policies of the segments are the same as those described in Note 1 — Summary of Significant Accounting Policies to the Consolidated Financial Statements of the Company’s 2015 Form 10-K. Operating segment results are based on the Company’s internal management reporting process, which reflects assignments and allocations of certain operating and administrative costs and the provision for credit losses. Net interest income is based on the Company’s internal funds transfer pricing system which assigns a cost of funds or a credit for funds to assets or liabilities based on their type, maturity or repricing characteristics. Noninterest income and noninterest expense, including depreciation and amortization, directly attributable to a segment are assigned to that business segment. Indirect costs, including overhead expense, are allocated to the segments based on several factors, including, but not limited to, full-time equivalent employees, loan volume and deposit volume. The provision for credit losses is allocated based on actual charge-offs for the period as well as average loan balances for each segment during the period. The Company evaluates overall performance based on profit or loss from operations before income taxes excluding nonrecurring gains and losses.

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

The following tables present the operating results and other key financial measures for the individual operating segments as of and for the three and nine months ended September 30, 2016 and 2015:

| | Three Months Ended September 30, 2016 | | | |
|---|---|---|---|---|
| ($ in thousands) | Retail Banking | Commercial Banking | Other | Total |
| Interest income | $77,186 | $180,095 | $23,036 | $280,317 |
| Charge for funds used | (24,320) | (53,262) | (3,858) | (81,440) |
| Interest spread on funds used | 52,866 | 126,833 | 19,178 | 198,877 |
| Interest expense | (14,855) | (3,699) | (7,615) | (26,169) |
| Credit on funds provided | 68,622 | 8,206 | 4,612 | 81,440 |
| Interest spread on funds provided | 53,767 | 4,507 | (3,003) | 55,271 |
| Net interest income | $106,633 | $131,340 | $16,175 | $254,148 |
| (Reversal of) provision for credit losses | $(3,709) | $13,234 | $— | $9,525 |
| Depreciation, amortization and (accretion), net | $782 | $(5,875) | $40,541 | $35,448 |
| Segment pretax profit | $32,304 | $80,393 | $10,767 | $123,464 |
| As of September 30, 2016: | | | | |
| Goodwill | $357,207 | $112,226 | $— | $469,433 |
| Segment assets | $7,606,611 | $18,549,562 | $7,099,102 | $33,255,275 |

| ($ in thousands) | Three Months Ended September 30, 2015 | | | |
|---|---|---|---|---|
| | Retail Banking | Commercial Banking | Other | Total |
| Interest income | $81,911 | $166,693 | $16,028 | $264,632 |
| Charge for funds used | (20,795) | (41,447) | (20,485) | (82,727) |
| Interest spread on funds used | 61,116 | 125,246 | (4,457) | 181,905 |
| Interest expense | (13,727) | (4,765) | (5,851) | (24,343) |
| Credit on funds provided | 68,783 | 8,849 | 5,095 | 82,727 |
| Interest spread on funds provided | 55,056 | 4,084 | (756) | 58,384 |
| Net interest income (loss) | $116,172 | $129,330 | $(5,213) | $240,289 |
| Provision for credit losses | $1,455 | $6,281 | $— | $7,736 |
| Depreciation, amortization and (accretion), net [1] | $1,827 | $(13,496) | $18,765 | $7,096 |
| Segment pretax profit (loss) | $52,325 | $96,605 | $(9,941) | $138,989 |
| As of September 30, 2015: | | | | |
| Goodwill | $357,207 | $112,226 | $— | $469,433 |
| Segment assets | $7,274,494 | $17,125,065 | $6,720,117 | $31,119,676 |

| ($ in thousands) | Nine Months Ended September 30, 2016 | | | |
|---|---|---|---|---|
| | Retail Banking | Commercial Banking | Other | Total |
| Interest income | $233,192 | $534,603 | $67,559 | $835,354 |
| Charge for funds used | (70,770) | (159,734) | (22,465) | (252,969) |
| Interest spread on funds used | 162,422 | 374,869 | 45,094 | 582,385 |
| Interest expense | (44,133) | (11,965) | (19,320) | (75,418) |
| Credit on funds provided | 210,831 | 26,655 | 15,483 | 252,969 |
| Interest spread on funds provided | 166,698 | 14,690 | (3,837) | 177,551 |
| Net interest income | $329,120 | $389,559 | $41,257 | $759,936 |
| (Reversal of) provision for credit losses | $(2,846) | $19,864 | $— | $17,018 |
| Depreciation, amortization and (accretion), net | $279 | $(25,915) | $86,316 | $60,680 |
| Segment pretax profit | $114,513 | $268,401 | $28,137 | $411,051 |
| As of September 30, 2016: | | | | |
| Goodwill | $357,207 | $112,226 | $— | $469,433 |
| Segment assets | $7,606,611 | $18,549,562 | $7,099,102 | $33,255,275 |

| ($ in thousands) | Nine Months Ended September 30, 2015 | | | |
|---|---|---|---|---|
| | Retail Banking | Commercial Banking | Other | Total |
| Interest income | $252,085 | $482,816 | $48,437 | $783,338 |
| Charge for funds used | (65,452) | (117,125) | (43,653) | (226,230) |
| Interest spread on funds used | 186,633 | 365,691 | 4,784 | 557,108 |
| Interest expense | (38,946) | (13,738) | (27,156) | (79,840) |
| Credit on funds provided | 187,401 | 24,859 | 13,970 | 226,230 |
| Interest spread on funds provided | 148,455 | 11,121 | (13,186) | 146,390 |
| Net interest income (loss) | $335,088 | $376,812 | $(8,402) | $703,498 |
| (Reversal of) provision for credit losses | $(1,268) | $17,485 | $— | $16,217 |
| Depreciation, amortization and (accretion), net [(1)] | $6,743 | $(30,027) | $40,625 | $17,341 |
| Segment pretax profit (loss) | $160,609 | $287,049 | $(17,422) | $430,236 |
| As of September 30, 2015: | | | | |
| Goodwill | $357,207 | $112,226 | $— | $469,433 |
| Segment assets | $7,274,494 | $17,125,065 | $6,720,117 | $31,119,676 |

(1) Includes amortization and accretion related to the FDIC indemnification asset/net payable to the FDIC.

NOTE 15 — SUBSEQUENT EVENTS

On October 19, 2016, the Company’s Board of Directors declared fourth quarter 2016 cash dividends of $0.20 per share for the Company’s common stock which is payable on November 15, 2016 to stockholders of record as of November 1, 2016.

## ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion provides information about the results of operations, financial condition, liquidity, and capital resources of East West Bancorp, Inc. (referred to herein on an unconsolidated basis as “East West” and on a consolidated basis as the “Company”) and its wholly-owned subsidiaries, East West Bank and subsidiaries (referred to herein as “East West Bank” or the “Bank”) and East West Insurance Services, Inc. This information is intended to facilitate the understanding and assessment of significant changes and trends related to the Company’s financial condition and the results of operations. This discussion and analysis should be read in conjunction with the Consolidated Financial Statements and the accompanying notes presented elsewhere in this report and the Company’s annual report on Form 10-K for the year ended December 31, 2015, filed with the U.S. Securities and Exchange Commission on February 26, 2016 (the “Company’s 2015 Form 10-K”).

### Overview

The Company’s vision is to serve as the financial bridge between the United States and Greater China. The Company’s primary strategy to achieve this vision is to expand the Company’s global network of contacts and resources to better meet its customers’ diverse financial needs in and between the world’s two largest markets. With over 130 locations in the United States and Greater China and a full range of cross-border products and services, the Company is well equipped to fulfill its customers’ business needs.

### Financial Highlights

The Company successfully completed another quarter with strong earnings and financial results for the three and nine months ended September 30, 2016, achieving healthy growth and an increase in revenues. It is the Company’s priority to focus on strengthening its risk management infrastructure, compliance, and the Bank Secrecy Act (“BSA”)/Anti-Money Laundering (“AML”) programs in order to meet increasing regulatory expectations. The Company continues making efforts to address BSA concerns and making the necessary investments for internal programs to ensure the Company is in compliance with BSA rules and regulations, while still providing strong return to stockholders.

Noteworthy items on the Company’s performance included:

- Net income totaled $110.1 million and $320.9 million for the three and nine months ended September 30, 2016, which reflected increases of 17% and 10%, respectively, compared to the same periods in the prior year.
- Diluted earnings per share were $0.76 and $2.21 for the three and nine months ended September 30, 2016, which reflected increases of 17% and 9%, respectively, compared to the prior year periods.
- Revenue, the sum of net interest income before provision for credit losses and noninterest income increased $9.0 million or 3% to $303.5 million for the three months ended September 30, 2016, compared to the prior year period, and $51.7 million or 6% to $894.1 million for the nine months ended September 30, 2016, compared to the prior year period.
- Noninterest expense increased $22.8 million or 15% to $170.5 million for the three months ended September 30, 2016 compared to the prior year period. For the nine months ended September 30, 2016, noninterest expense increased $70.0 million or 18% to $466.0 million compared to the prior year period.
- The Company’s effective tax rate for the three and nine months ended September 30, 2016 was 10.8% and 21.9%, respectively, compared to 32.3% and 31.9% for the same periods in the prior year. The decreases in the effective tax rate were mainly attributable to a larger benefit from tax credit investments in 2016, compared to 2015.
- Cost of funds remained at 0.36% for each of the three months ended September 30, 2016 and 2015. Cost of funds improved six basis points to 0.35% for the nine months ended September 30, 2016, compared to the prior year period.

Additionally, the Company experienced a $904.4 million or 3% growth in total assets as of September 30, 2016 compared to December 31, 2015. This was largely attributable to increases in net loans held-for-investment, cash and cash equivalents and a held-to-maturity investment security, partially offset by decreases in available-for-sale investment securities and securities purchased under resale agreements (“resale agreements”).

Gross loans held-for-investment increased $1.06 billion or 5% to $24.72 billion as of September 30, 2016, compared to $23.66 billion as of December 31, 2015, while the allowance for loan losses to loans held-for-investment ratio improved by nine basis points to 1.03% compared to 1.12% as of December 31, 2015. The overall balance sheet growth was primarily fueled by a solid deposit growth during the nine months ended September 30, 2016. Deposits increased $1.12 billion or 4% to $28.59 billion as of September 30, 2016 compared to $27.48 billion as of December 31, 2015, primarily due to a $2.13 billion or 10% increase in core deposits, partially offset by $1.02 billion or 15% decrease in time deposits to $5.60 billion as of September 30, 2016. Core deposits comprised 80% and 76% of total deposits as of September 30, 2016 and December 31, 2015, respectively.

From a capital management perspective, the Company continued to maintain a strong capital position with its Common Equity Tier 1 ("CET1") capital ratio at 10.9% as of September 30, 2016, compared to 10.5% as of December 31, 2015. The total risk-based capital ratio was 12.5% and 12.2% as of September 30, 2016 and December 31, 2015, respectively. The Tier 1 leverage capital ratio was 8.9% as of September 30, 2016, compared to 8.5% as of June 30, 2016. Book value per common share increased $1.74 or 8% from $21.70 as of December 31, 2015 to $23.44 as of September 30, 2016.

The strong balance sheet growth and increased revenues placed the Company in a better position to focus on its bridge banking strategy and target future growth opportunities. As the Company remains focused on its continued growth, the Company continues to meet its customers' financial needs. In October 2016, the Company's Board of Directors (the "Board") declared fourth quarter cash dividends for the Company's common stock. The cash dividend of $0.20 per share is payable on November 15, 2016 to stockholders of record as of November 1, 2016.

Results of Operations

Net income increased $16.0 million or 17% to $110.1 million and $28.1 million or 10% to $320.9 million for the three and nine months ended September 30, 2016, respectively, from $94.1 million and $292.9 million for the same periods in 2015. The earnings performance during 2016 reflects the Company's continued focus on prudent growth and its effort in maintaining operating expense discipline and in executing its business strategy.

Revenue, the sum of net interest income before provision for credit losses and noninterest income, was $303.5 million for the three months ended September 30, 2016, a $9.0 million or 3% increase from $294.5 million for the same period in 2015. The $9.0 million increase in revenue was primarily due to a $13.8 million increase in net interest income, partially offset a $4.8 million decrease in noninterest income. The $13.8 million increase in net interest income for the three months ended September 30, 2016 was primarily due to higher interest revenue generated from loan growth, partially offset by an increase in interest expense from an increase in customer deposits.

For the nine months ended September 30, 2016, revenue was $894.1 million, an increase of $51.7 million or 6% from $842.4 million for the same period in 2015. This increase was primarily due to a $56.4 million increase in net interest income, partially offset by a $4.8 million decrease in noninterest income. The $56.4 million increase in net interest income comparing the nine months ended September 30, 2016 to the same period in 2015 was primarily due to higher interest revenue generated from loan growth and a decrease in interest expense from securities sold under repurchase agreements ("repurchase agreements") primarily due to a decrease in repurchase agreement average balances, partially offset by an increase in interest expense on customer deposits.

Noninterest expense increased $22.8 million or 15% to $170.5 million for the three months ended September 30, 2016, and $70.0 million or 18% to $466.0 million for the nine months ended September 30, 2016, compared to the same periods in 2015. The increase for the three months ended September 30, 2016 was primarily due to an increase in amortization of tax credit and other investments, compensation and employee benefits and legal expense, partially offset by a decrease in repurchase agreements' extinguishment costs. The increase for the nine months ended

September 30, 2016 was primarily due to an increase in amortization of tax credit and other investments, compensation and employee benefits, consulting expense and other real estate owned (“OREO”) expense, partially offset by a decrease in repurchase agreements’ extinguishment costs.

The return on average assets increased 11 basis points to 1.33% for the three months ended September 30, 2016, compared to 1.22% for the same period in 2015. For the nine months ended September 30, 2016, the return on average assets of 1.31% remained unchanged compared to the same period in 2015. The return on average equity increased 85 basis points to 13.08% for the three months ended September 30, 2016, compared to 12.23% for the same period in 2015. For the nine months ended September 30, 2016 and 2015, the return on average equity of 13.12% remained unchanged.

Components of Net Income

| ($ in millions) | Three Months Ended September 30, 2016 | Three Months Ended September 30, 2015 | Nine Months Ended September 30, 2016 | Nine Months Ended September 30, 2015 |
|---|---|---|---|---|
| Net interest income | $254.1 | $240.3 | $759.9 | $703.5 |
| Provision for credit losses | (9.5) | (7.7) | (17.0) | (16.2) |
| Noninterest income | 49.3 | 54.2 | 134.1 | 138.9 |
| Noninterest expense | (170.5) | (147.7) | (466.0) | (395.9) |
| Income tax expense | (13.3) | (44.9) | (90.1) | (137.4) |
| Net income | $110.1 | $94.1 | $320.9 | $292.9 |
| Annualized return on average assets | 1.33 % | 1.22 % | 1.31 % | 1.31 % |
| Annualized return on average equity | 13.08 % | 12.23 % | 13.12 % | 13.12 % |

Net Interest Income

The Company’s primary source of revenue is net interest income, which is the difference between interest earned on loans, investment securities, resale agreements and other interest-earning assets less interest expense on customer deposits, repurchase agreements, long-term debt and other interest-bearing liabilities. Net interest margin is calculated by dividing the annualized net interest income by average interest-earning assets. Net interest income and net interest margin are affected 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 the three months ended September 30, 2016 was $254.1 million, an increase of $13.8 million or 6% compared to $240.3 million for the same period in 2015. Net interest income for the nine months ended September 30, 2016 was $759.9 million, an increase of $56.4 million or 8% compared to $703.5 million for the same period in 2015. The increase in net interest income for the nine months ended September 30, 2016 was primarily due to greater interest income resulting from the growth of the loan portfolio, resale agreements, and investment portfolio.

Net interest margin was 3.26% for the three months ended September 30, 2016, a six basis point decrease from 3.32% for the three months ended September 30, 2015. Net interest margin was 3.29% for the nine months ended September 30, 2016, a nine basis point decrease from 3.38% for the nine months ended September 30, 2015. The decrease in net interest margin for both the three and nine months ended September 30, 2016, compared to the same periods in 2015, was primarily due to the reduction in loan yields. The lower loan yields for the three and nine months ended September 30, 2016 were primarily due to the prolonged low interest rate environment and lower accretion income from the loans accounted for under Accounting Standard Codification (“ASC”) 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality (“ASC 310-30”). During the three and nine months ended September 30, 2016, total accretion income from loans accounted for under ASC 310-30 was $7.1 million and $33.8 million, respectively, compared to $18.0 million and $46.4 million for the same periods in 2015, respectively.