

EAST WEST BANCORP INC
Form 10-K
February 27, 2017

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

FORM 10-K

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

For the fiscal year ended December 31, 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

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

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

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

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

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

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 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 No

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

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

Large accelerated filer Non-accelerated filer
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

The aggregate market value of the registrant's common stock held by non-affiliates was approximately \$4,880,099,369 (based on the June 30, 2016 closing price of Common Stock of \$34.18 per share).

As of January 31, 2017, 144,167,656 shares of East West Bancorp, Inc. Common Stock were outstanding.

DOCUMENT INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement relating to its 2017 Annual Meeting of Stockholders are incorporated by reference into Part III.

EAST WEST BANCORP, INC.
 2016 ANNUAL REPORT ON FORM 10-K
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PART I

Forward-Looking Statements

Certain matters discussed in this Annual Report 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”, “we”, 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 (the “Exchange Act”), 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,” or may include other similar words or phrases, such as “believes,” “plans,” “trend,” “objective,” “continues,” “renovates,” or similar expressions, or future or conditional verbs, such as “will,” “would,” “should,” “could,” “may,” “might,” “can,” or similar verbs. You should not place undue reliance on these statements, as they are subject to risks and uncertainties, including, but not limited to, those described in the documents incorporated by reference. When considering these forward-looking statements, you should keep in mind these risks and uncertainties, as well as any cautionary statements 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 United States (“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 (“Federal Reserve”) System, the Federal Deposit Insurance Corporation (“FDIC”), the U.S. Securities and Exchange Commission (“SEC”), the Consumer Financial Protection Bureau (“CFPB”) and the California Department of Business Oversight (“DBO”) — Division of Financial Institutions;
- heightened regulatory and governmental oversight and scrutiny of the Company’s business practices, including dealings with retail customers;
- 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 (the “Dodd-Frank 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 saving 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 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 Item 1A. Risk Factors presented elsewhere in this report. The Company does not undertake, and specifically disclaims any obligation to update any forward-looking statements to reflect the occurrence of events or circumstances after the date of such statements except as required by law.

ITEM 1. BUSINESS

Organization

East West is a bank holding company incorporated in Delaware on August 26, 1998 and is registered under the Bank Holding Company Act of 1956, as amended (“BHCA”). The Company commenced business on December 30, 1998 when, pursuant to a reorganization, it acquired all of the voting stock of East West Bank (the “Bank”), which became its principal asset. In addition to the Bank, East West has seven other subsidiaries as of December 31, 2016. Six of these subsidiaries were established as statutory business trusts (the “Trusts”) for the purpose of issuing junior subordinated debt to third party investors. The remaining subsidiary, East West Insurance Services, Inc. (the “Agency”), provides business and consumer insurance services.

East West’s principal business is to serve as a holding company for the Bank and other banking or banking-related subsidiaries, which East West may establish or acquire. As a legal entity separate and distinct from its subsidiaries, East West’s principal source of funds is, and will continue to be, dividends that may be paid by its subsidiaries. East West’s other sources of funds include proceeds from the issuance of its common stock in connection with stock option and employee stock purchase plans. As of December 31, 2016, the Company had \$34.79 billion in total assets, \$25.27 billion in total loans (net of allowance), \$29.89 billion in total deposits and \$3.43 billion in stockholders’ equity. As of December 31, 2016, the Bank has three wholly owned subsidiaries. The first subsidiary, E-W Services, Inc., is a California corporation organized by the Bank in 1977 to hold properties used by the Bank in its operations. The second subsidiary, East-West Investment, Inc., primarily acts as a trustee in connection with real estate secured loans. The remaining subsidiary is East West Bank (China) Limited.

On November 6, 2009, the Bank acquired United Commercial Bank (“UCB”), a California state-chartered bank headquartered in San Francisco, California. Under the terms of the UCB Purchase and Assumption Agreement, the Bank acquired certain assets of UCB with a fair value of approximately \$9.86 billion and assumed liabilities with a fair value of approximately \$9.57 billion. On June 11, 2010, the Bank acquired certain assets and assumed certain liabilities of Washington First International Bank (“WFIB”), a Washington state-chartered bank headquartered in Seattle, Washington. Under the terms of the WFIB Purchase and Assumption Agreement, the Bank acquired certain assets of WFIB with a fair value of approximately \$492.6 million and assumed liabilities with a fair value of approximately \$481.3 million. Both of these transactions were FDIC-assisted acquisitions. On January 17, 2014, the Bank completed the acquisition of MetroCorp Bancshares, Inc., (“MetroCorp”) parent of MetroBank, N.A. and Metro United Bank. MetroCorp, headquartered in Houston, Texas, operated 19 branch locations within Texas and California under its two banks. The Bank acquired MetroCorp to further expand its market presence, primarily in Houston and Dallas, Texas and San Diego, California. Approximately \$1.70 billion of assets were acquired and \$1.41 billion of liabilities were assumed.

The Bank continues to develop its international banking capabilities with its network of branches and representative offices. The Bank’s presence includes five full-service branches in Greater China, located in Hong Kong, Shanghai, Shantou and Shenzhen. Shanghai has two branches, including one in the Shanghai Pilot Free Trade Zone. The Bank also has five representative offices in Greater China located in Beijing, Chongqing, Guangzhou, Taipei and Xiamen. In addition to facilitating traditional letters of credit and trade finance to businesses, these representative offices allow the Bank to assist existing clients and develop new business relationships. Through these branches and offices, the Bank is focused on growing its cross-border client base between the U.S. and Greater China, helping U.S. based businesses expand in Greater China and China based middle market companies pursue business opportunities in the U.S. The assets, revenues and earnings attributable to activities in the foreign locations were not material as of December 31, 2016 and 2015 and for the years ended December 31, 2016, 2015 and 2014.

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

Banking Services

As of December 31, 2016, the Bank was the fourth largest independent commercial bank headquartered in California based on total assets. The Bank is the largest bank in the U.S. that focuses on the financial service needs of individuals and businesses, which operate both in the U.S. and Greater China and has a strong focus on the Chinese American community. Through its network of banking locations in the U.S. and Greater China, the Bank provides a wide range of personal and commercial banking services to businesses, business executives, professionals, and other individuals. The Bank provides multilingual services to its customers in English, Cantonese, Mandarin, Vietnamese, Tagalog, Taiwanese and Spanish. The Bank also offers a variety of deposit products which includes the traditional range of personal and business checking and saving accounts, time deposits and individual retirement accounts, travelers checks, safe deposit boxes, and MasterCard® and Visa® merchant deposit services. The Bank's lending activities include commercial and residential real estate, construction, trade finance, and commercial business, including accounts receivable, Small Business Administration, inventory and working capital loans. In addition, the Bank is focused on providing financing to clients in need of a financial bridge to facilitate their business transactions between the U.S. and Greater China.

The Bank's three operating segments: Retail Banking, Commercial Banking and Other are based on the Bank's core strategy. The Retail Banking segment focuses primarily on retail operations through the Bank's branch network. The Commercial Banking segment primarily generates commercial and industrial ("C&I") loans and commercial real estate ("CRE") loans through domestic commercial lending offices located in California, New York, Texas, Washington, Massachusetts, Nevada and Georgia, and through foreign commercial lending offices located in China and Hong Kong. Furthermore, the Commercial Banking segment also offers a wide variety of international finance and trade services and products. The remaining centralized functions, including the Company's treasury operations and intersegment amount eliminations were aggregated and included in "Other." For complete discussion and disclosure, see the information in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") — Operating Segment Results and Note 19 — Business Segments to the Consolidated Financial Statements for additional information.

Market Area and Competition

The Bank operates in a highly competitive environment. The Company faces competition from domestic and foreign lending institutions and numerous other providers of financial services. Competition is based on a number of factors including, among others, customer service, quality and range of products and services offered, reputation, interest rates on loans and deposits, lending limits and customer convenience. Competition also varies based on the types of customers and locations served. The Company maintains a strong presence within select markets through providing cross-border expertise to customers across a number of industry specializations between the U.S and Greater China. While the Company believes it is well positioned within the highly competitive industry, the industry could become even more competitive as a result of legislative, regulatory, economic, and technological changes, as well as continued consolidation.

The Bank concentrates on marketing its services in the greater Los Angeles metropolitan area and the greater San Francisco Bay area as California continues to grow as a top trading partner with Greater China and other Pacific Rim countries. This provides the Bank with an important competitive advantage to its customers participating in the Asia Pacific marketplace. The Bank believes that its customers benefit from the Bank's understanding of the Asian markets through its physical presence in Greater China, the Bank's corporate and organizational ties throughout Asia, as well as the Bank's international banking products and services. The Bank believes that this approach, combined with the Bank's management and Board of Directors' (the "Board") extensive ties to growing Asian business opportunities and the Chinese-American communities, provide the Bank with a competitive advantage. The Bank also has its presence in Greater China to identify and build corporate relationships, which the Bank can do business in California and its other U.S. markets.

Supervision and Regulation

General

East West and the Bank are extensively regulated under both federal and state laws. Regulation and supervision by the federal and state banking agencies are intended primarily for the protection of depositors, the Deposit Insurance Fund (“DIF”) administered by the FDIC and the banking system as a whole, and not for the protection of our stockholders. As a bank holding company, East West is subject to primary inspection, supervision, regulation, and examination by the Board of Governors of the Federal Reserve under the BHCA. The Bank, as a California state-chartered bank and a member of the Federal Reserve System, is subject to primary supervision and examination by the Federal Reserve, as well as the DBO - Division of Financial Institutions. The Company is also subject to regulation by certain foreign regulatory agencies where we conduct business.

The Company is also subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Exchange Act as administered by the SEC. Our common stock is listed on the NASDAQ Global Select Market (“NASDAQ”) under the trading symbol “EWBC” and is subject to NASDAQ rules for listed companies. The Company is also subject to the accounting oversight and corporate governance of the Sarbanes-Oxley Act of 2002. Described below are material elements of selected laws and regulations applicable to East West and the Bank. The descriptions are not intended to be complete and are qualified in their entirety by reference to the full text of the statutes and regulations described. A change in applicable statutes, regulations or regulatory policy may have a material effect on the Company’s business.

East West

East West is subject to regulation and examination by the Federal Reserve under the BHCA and its authority to, among other things:

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

As a bank holding company within the meaning of the California Financial Code, East West is subject to examination by, and may be required to file reports with, the DBO.

The Bank and its Subsidiaries

East West Bank is a California state-chartered bank, a member and stockholder of the Federal Reserve and a member of the FDIC. The Bank is subject to primary inspection, periodic examination, and supervision by the CFPB, DBO, and the Federal Reserve (the Bank’s primary federal regulator). The Federal Reserve and the DBO also regulate the Bank’s foreign operations. The Bank’s foreign operations are also subject to the supervisory authorities of the host countries in which the Bank’s overseas offices reside. Specific federal and state laws and regulations that are applicable to banks regulate, among other things, the scope of their business, their investments, their reserves against deposits, the timing of the availability of deposited funds, and the nature and amount of collateral for certain loans. The regulatory structure also gives the bank regulatory agencies extensive discretion in connection with their supervisory and enforcement activities and examination policies. California law permits state chartered commercial banks to

engage in any activity permissible for national banks, unless such activity is expressly prohibited by state law. Therefore, the Bank may form subsidiaries to engage in the many so-called “closely related to banking” or “nonbanking” activities commonly conducted by national banks in operating subsidiaries, and further, pursuant to the Gramm Leach Bliley Act, the Bank may conduct certain “financial” activities in a subsidiary to the same extent permitted for a national bank, provided the Bank is and remains “well capitalized,” “well managed” and “in satisfactory” compliance with the Community Reinvestment Act (“CRA”).

Regulation of Subsidiaries/Branches

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

Dodd-Frank Act

The Dodd-Frank Act, which was enacted in July 2010, comprehensively reformed the regulation of financial institutions and their products and services. The Dodd-Frank Act also significantly revised and expanded the rulemaking, supervisory and enforcement authority of the federal bank regulatory agencies. Among other things, the Dodd-Frank Act established the CFPB to be responsible for consumer protection in the financial services industry; provided for new capital standards that eliminate the treatment of trust preferred securities as Tier I regulatory capital; required that deposit insurance assessments be calculated based on an insured depository institution's assets rather than its insured deposits; raised the minimum Designated Reserve Ratio to 1.35%; established a comprehensive regulatory regime for the derivatives activities of financial institutions; established new compensation restrictions and standards regarding the time, manner and form of compensation given to key executives and other personnel receiving incentive compensation; prohibited banking entities, after a transition period, from engaging in certain types of proprietary trading, as well as having investments in, sponsoring, and maintaining certain types of relationships with hedge funds and private equity funds (through provisions commonly referred to as the "Volcker Rule"); placed limitations on the interchange fees charged for debit card transactions; and established new minimum mortgage underwriting standards for residential mortgages.

The Dodd-Frank Act impacts many aspects of the financial industry and will impact larger and smaller financial institutions and community banks differently over time. Many of the key provisions of the Dodd-Frank Act affecting the financial industry are either in effect or are in the proposed rules or implementation stages. The Company will continue to assess our businesses and risk management and compliance practices to conform to developments in the regulatory environment.

CFPB Supervision

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

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

The statutes and regulations that the CFPB enforces mandate certain disclosure and other requirements, and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans, collecting loans, and providing other services. In addition, the Department of Justice enforces the Servicemembers Civil Relief Act, which provides protection for military servicemembers and their families including a limitation on the ability to retake collateral in the event of default and a statutory interest rate cap for certain debts. Failure to comply with these laws can subject the Bank to various penalties, including, but not limited to, enforcement actions, injunctions, fines or criminal penalties, punitive damages or restitution to consumers, and the loss of certain contractual rights. The Bank and the Company are also subject to federal and state laws prohibiting unfair or fraudulent business practices, untrue or misleading advertising and unfair competition.

Federal Home Loan Bank (“FHLB”) and Federal Reserve

The Bank is a member of the FHLB of San Francisco. As a FHLB member, the Bank is required to own a certain amount of capital stock in the FHLB. The Bank may also access the FHLB for both short-term and long-term secured borrowing sources. The Federal Reserve requires all depository institutions to maintain interest-earning reserves at specified levels against their transaction accounts. As of December 31, 2016, the Bank was in compliance with these requirements. The Bank is also a member bank of the Federal Reserve.

Dividends and Other Transfers of Funds

Dividends from the Bank constitute the principal source of income to East West. The Bank is subject to various statutory and regulatory restrictions on its ability to pay dividends. In addition, the banking agencies have the authority to prohibit or limit the Bank from paying dividends, depending upon the Bank’s financial condition, if such payment is deemed to constitute an unsafe or unsound practice. Furthermore, under the federal Prompt Corrective Action (“PCA”) regulations, the Federal Reserve or FDIC may prohibit a bank holding company from paying any dividends if the holding company’s bank subsidiary is classified as “undercapitalized.” For more information, see Capital Requirements below.

It is the Federal Reserve’s policy that bank holding companies should generally pay dividends on common stock only if the organization’s net income available to common stockholders over the past year has been sufficient to fully fund the dividends, and if the prospective rate of earnings retention appears consistent with the organization’s capital needs, asset quality and overall financial condition. It is also the Federal Reserve’s policy that bank holding companies should not maintain dividend levels that undermine the company’s ability to be a source of strength to its banking subsidiaries. The Federal Reserve requires bank holding companies to continuously review their dividend policy in light of their organizations’ financial condition and compliance with regulatory capital requirements, and has discouraged payment ratios that are at maximum allowable levels, unless both asset quality and capital are very strong.

Transactions with Affiliates

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

investment adviser, organizer and offeror, or sponsor with respect to that covered fund, regardless of whether the banking entity has an ownership interest in the fund.

Stress Testing for Banks with Assets of \$10 Billion to \$50 Billion

The Dodd-Frank Act requires stress testing of bank holding companies and banks that have more than \$10 billion but less than \$50 billion of total consolidated assets (“\$10 - \$50 billion companies”). Additional stress testing is required for banking organizations with total consolidated assets of \$50 billion or more. \$10 - \$50 billion companies, including the Company and the Bank, are required to conduct annual company-run stress tests under rules issued by the federal bank regulatory agencies. Stress tests assess the potential impact of scenarios on the consolidated earnings, balance sheet and capital of a bank holding company or bank over a designated planning horizon of nine quarters, taking into account the organization’s current condition, risks, exposures, strategies, activities and such factors as the regulators may request of a specific organization. Each banking organization’s Board and senior management are required to review and approve the policies and procedures of their stress testing processes as frequently as economic conditions or the condition of the organization may warrant, and at least annually. They are also required to consider the results of the stress test in the normal course of business, including the banking organization’s capital planning (including dividends and share buybacks), assessment of capital adequacy and maintaining capital consistent with its risks, and risk management practices. The results of the stress tests are provided to the applicable federal banking agencies. The final rule requirement for public disclosure of a summary of the stress testing results for the \$10 - \$50 billion companies has been implemented starting with the 2014 stress test, with the disclosure requirements effective in June 2015. The Bank has developed a process to comply with the stress testing requirements, which process involves senior management and the Board. The Bank submits the results of the annual company-run stress tests to the Federal Reserve and makes summaries of the results of the company-run stress tests available to the public on its website.

CRA

Under the CRA as implemented by FDIC regulations, an institution has a continuing and affirmative obligation to help serve the credit needs of its communities, including the extension of credit to low- and moderate-income neighborhoods. The CRA requires public disclosure of the Bank’s CRA rating. Should the Bank fail to serve the community adequately, potential penalties may include regulatory denials of applications to expand branches, relocate, add subsidiaries and affiliates, expand into new financial activities, and merge with or purchase other financial institutions.

FDIC Deposit Insurance Assessments

The FDIC insures the Bank’s customer deposits through the DIF of the FDIC up to \$250,000 for each depositor. The Bank is subject to deposit insurance assessments as determined by the FDIC. The Bank’s DIF assessment is calculated by multiplying its assessment rate by the assessment base, which is defined as the average consolidated total assets less the average tangible equity of the Bank. The initial base assessment rate is based on an institution’s capital level, and capital adequacy, asset quality, management, earnings, liquidity and sensitivity (“CAMELS”) ratings, certain financial measures to assess an institution’s ability to withstand asset related stress and funding related stress, and in some cases, additional discretionary adjustments by the FDIC to reflect additional risk factors. The FDIC’s DIF restoration plan is designed to ensure that the DIF reserve ratio reaches 1.35% by September 30, 2020. Insured institutions with assets of \$10 billion or more, such as the Bank, are responsible for funding the increase. With the increase of the DIF reserve ratio to 1.17% on June 30, 2016, the range of initial assessment rates has declined for all banks from five to 35 basis points on an annualized basis to three to 30 basis points on an annualized basis. In order to reach a DIF reserve ratio of 1.35%, insured depository institutions with \$10 billion or more in total assets, such as the Bank, are required to pay a quarterly surcharge equal to an annual rate of 4.5 basis points applied to the Bank’s assessment base (with certain adjustments), in addition to regular assessments. In the event that the reserve ratio does not reach 1.35% by December 31, 2018, the FDIC will impose a shortfall on large banks in the first quarter of 2019. For additional information regarding deposit insurance, see Item 1A. Risk Factors. The FDIC may terminate a depository institution’s deposit insurance upon a finding that the institution’s financial condition is unsafe or unsound or

that the institution has engaged in unsafe or unsound practices that pose a risk to the DIF or that may prejudice the interest of the bank's depositors. The termination of deposit insurance for the Bank would also result in the revocation of the Bank's charter by the DBO.

Anti-Money Laundering (“AML”) and Office of Foreign Assets Control (“OFAC”) Regulation

A major focus of governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The Bank Secrecy Act (“BSA”) and its implementing regulations and parallel requirements of the federal banking regulators require the Bank to maintain a risk-based AML program reasonably designed to prevent and detect money laundering and terrorist financing and to comply with the recordkeeping and reporting requirements of the BSA, including the requirement to report suspicious activities. There is an expectation by the Bank’s regulators that there will be an effective governance structure for the program which includes effective oversight by our Board and management. The program must include, at a minimum, a designated compliance officer, written policies, procedures and internal controls, training of appropriate personnel and independent testing of the program, and a customer identification program. The United States Department of Treasury’s Financial Crimes Enforcement Network (“FinCEN”) and the federal banking agencies continue to issue regulations and guidance with respect to the application and requirements of the BSA and their expectations for effective AML programs. Banking regulators also examine banks for compliance with regulations administered by the OFAC for economic sanctions against targeted foreign countries, nationals and others. Failure of a financial institution to maintain and implement adequate BSA/AML and OFAC programs, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution.

Capital Requirements

The federal banking agencies have risk-based capital adequacy guidelines intended to provide a measure of capital adequacy that reflects the degree of risk associated with a banking organization’s operations, both for transactions reported on the balance sheet as assets and for transactions, such as letters of credit and recourse arrangements, that are recorded as off-balance sheet items. In 2013, the Federal Reserve, FDIC, and Office of the Comptroller of the Currency issued final rules (the “Basel III Capital Rules”) establishing a new comprehensive capital framework for U.S. banking organizations. The rules implement the Basel Committee’s December 2010 framework, commonly referred to as Basel III, for strengthening international capital standards, as well as implementing certain provisions of the Dodd-Frank Act.

The Basel III Capital Rules became effective for the Company and the Bank on January 1, 2015 (subject to phase-in periods for some of their components). The Basel III Capital Rules: (i) introduce a new capital measure called Common Equity Tier I (“CET1”) and a related regulatory capital ratio of CET1 to risk-weighted assets; (ii) specify that Tier I capital consists of CET1 and “Additional Tier I capital” instruments, which are instruments treated as Tier I instruments under the prior capital rules that meet certain revised requirements; (iii) mandate that most deductions or adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expand the scope of the deductions from and adjustments to capital, as compared to existing regulations. Under the Basel III Capital Rules, for most banking organizations, the most common form of Additional Tier I capital is noncumulative perpetual preferred stock and the most common form of Tier II capital is subordinated notes and a portion of the allowance for loan and lease losses, in each case, subject to the Basel III Capital Rules’ specific requirements.

Under the Basel III Capital Rules, the following are the initial minimum capital ratios applicable to the Company and the Bank as of January 1, 2015:

- 4.5% CET1 to risk-weighted assets;
- 6.0% Tier I capital (that is, CET1 plus Additional Tier I capital) to risk-weighted assets;
- 8.0% total capital (that is, Tier I capital plus Tier II capital) to risk-weighted assets;
- and
-

4.0% Tier I leverage
ratio.

The Basel III Capital Rules also introduced “capital conservation buffer,” composed entirely of CET1, on top of these minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. The implementation of the capital conservation buffer began on January 1, 2016 at 0.625% and will be phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019). In 2016, banking organizations including the Company and the Bank were required to maintain a CET1 capital ratio of at least 5.125%, a Tier I capital ratio of at least 6.625%, and a total capital ratio of at least 8.625% to avoid limitations on capital distributions and certain discretionary incentive compensation payments. When fully phased-in on January 1, 2019, the Company and the Bank must maintain the following minimum capital ratios:

- 4.5% CET1 to risk-weighted assets, plus the capital conservation buffer, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7%;
- 6.0% Tier I capital to risk-weighted assets, plus the capital conservation buffer, effectively resulting in a minimum Tier I capital ratio of at least 8.5%;
- 8.0% total capital to risk-weighted assets, plus the capital conservation buffer, effectively resulting in a minimum total capital ratio of at least 10.5%; and
- 4.0% Tier I leverage ratio.

The Basel III Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that (i) mortgage servicing rights, (ii) deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks, and (iii) significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such items, in the aggregate, exceed 15% of CET1. Implementation of the deductions and other adjustments to CET1 began on January 1, 2015 and would be phased-in over a four-year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter). Under the Basel III Capital Rules, the effects of certain accumulated other comprehensive income or loss items are not excluded for the purposes of determining regulatory capital ratios; however, non-advanced approaches banking organizations (i.e., banking organizations with less than \$250 billion in total consolidated assets or with less than \$10 billion of on-balance sheet foreign exposures), including the Company and the Bank, may make a one-time permanent election to exclude these items. The Company and the Bank made this election in the first quarter of 2015’s call reports in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of its available-for-sale investment securities portfolio.

The Basel III Capital Rules prescribe a new standardized approach for risk weightings that expands the risk weighting categories from the previous four Basel I-derived categories (0%, 20%, 50% and 100%) to a larger and more risk-sensitive number of categories, generally ranging from 0% for U.S. Government and agency securities, to 600% for certain equity exposures, depending on the nature of the assets. The new capital rules generally result in higher risk weights for a variety of asset classes, including certain CRE mortgages. Additional aspects of the Basel III Capital Rules that are relevant to the Company and the Bank include:

- consistent with the Basel I risk-based capital rules, assigning exposures secured by single-family residential properties to either a 50% risk weight for first-lien mortgages that meet prudent underwriting standards or a 100% risk weight category for all other mortgages;
- providing for a 20% credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable (set at 0% under the Basel I risk-based capital rules);
-

assigning a 150% risk weight to all exposures that are nonaccrual or 90 days or more past due (set at 100% under the Basel I risk-based capital rules), except for those secured by single-family residential properties, which will be assigned a 100% risk weight, consistent with the Basel I risk-based capital rules;

- applying a 150% risk weight instead of a 100% risk weight for certain high volatility CRE acquisition, development and construction loans; and
- applying a 250% risk weight to the portion of mortgage servicing rights and deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks that are not deducted from CET1 capital (set at 100% under the Basel I risk-based capital rules).

As of December 31, 2016, the Company's and the Bank's capital ratios exceeded the minimum capital adequacy guideline percentage requirements of the federal banking agencies for "well capitalized" institutions under the Basel III capital rules on a fully phased-in basis. For complete discussion and disclosure see Item 7. MD&A — Regulatory Capital and Ratios and Note 18 — Regulatory Requirements and Matters to the Consolidated Financial Statements for additional information.

With respect to the Bank, the Basel III Capital Rules also revise the PCA regulations pursuant to Section 38 of the Federal Deposit Insurance Act, as discussed below under "PCA."

PCA

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

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

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

The FDIA generally prohibits a depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company, if the depository institution would thereafter be "undercapitalized." "Undercapitalized" institutions are subject to growth limitations and are required to submit capital restoration plans. If a depository institution fails to submit an acceptable plan, it is treated as if it is "significantly undercapitalized." "Significantly undercapitalized" depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become "adequately capitalized," requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. "Critically undercapitalized" institutions are subject to the appointment of a receiver or conservator.

Future Legislation and Regulation

Legislators, presidential administration and regulators may enact rules, laws, and policies to regulate the financial services industry and public companies from time to time. Further legislative changes and additional regulations may change the Company's operating environment in substantial and unpredictable ways. Such legislation and regulations could increase the cost of conducting business, impede the efficiency of the internal business processes, and restrict or expand the activities in which the Company may engage. The Company cannot predict whether future legislative proposals will be enacted and, if enacted, the effect they would have on the business strategy, results of operations or financial condition of the Company. The same uncertainty exists with respect to regulations authorized or required under the Dodd-Frank Act that have not yet been proposed or finalized. Members of the current U.S. federal government administration have indicated that the Dodd-Frank Act will be evaluated and that some of the provisions of the Dodd-Frank Act and rules promulgated thereunder, including those provisions establishing the CFPB and the rules and regulations proposed and enacted by the CFPB, may be revised, repealed, or amended. It is unclear if this evaluation of the rules and regulations will result in material changes to the current laws and rules, or those that are in process, applicable to financial institutions like us and financial services or products like ours. It also is not clear what the impact from any such changes, whether positive or negative, would be on our business or the markets and industries in which we compete and any such changes could have a material adverse impact on our business and our prospects. There can be no assurance that these or future reforms will not significantly impact our business, results of operations and financial condition.

Employees

As of December 31, 2016, the Company had 2,873 employees. None of the Company's employees are subject to any collective bargaining agreements.

Available Information

The Company's annual reports on Form 10-K, the proxy statements, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13 (a) or 15 (d) of the Exchange Act are available free of charge at www.eastwestbank.com as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to the SEC. These reports are also available free of charge on the SEC's website at <http://www.sec.gov>. Also, these reports can be found and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549, or by calling the SEC at 1-800-SEC-0330.

ITEM 1A. RISK FACTORS

In the course of conducting the Company's businesses, the Company is exposed to a variety of risks, some of which are inherent in the financial services industry and others of which are more specific to the Company's businesses. The following discussion sets forth what management currently believes could be the most significant factors, of which we are currently aware, that could affect our businesses, results of operations and financial condition. Additional factors that could affect our businesses, results of operations and financial condition are discussed in the Forward-Looking Statements. Other factors not discussed below or elsewhere in this Annual Report on Form 10-K could also adversely affect the Company's businesses, results of operations and financial condition. Therefore, the risk factors below should not be considered a complete discussion of all of the risks and uncertainties the Company may face.

Regulatory, Compliance and Legal Risks

Changes in law, regulation or oversight may adversely affect the Company's operations. EWBC is subject to extensive regulation under federal and state laws, as well as supervision and examination by the DBO, FDIC, Federal Reserve, SEC, CFPB, U.S. and State Attorneys General, and other government bodies. Congress and federal agencies have significantly increased their focus on the regulation of the financial services industry. Among other things, the Dodd-Frank Act, enacted in July 2010, instituted major changes to the banking and financial institutions regulatory regimes, many parts of which are now in effect. The Federal Reserve has adopted regulations implementing the Basel III framework on bank capital adequacy, stress testing, and market liquidity risk in the U.S. These regulations affect our lending practices, capital structure, investment practices, dividend policy and growth, among other things. Moreover, regulation of the financial services industry continues to undergo major changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies could affect EWBC in substantial and unpredictable ways. In addition, such changes could also subject us to additional costs and limit the types of financial services and products we may offer. Failure to comply with laws, regulations or policies could result in civil or criminal sanctions by state and federal agencies, the loss of FDIC insurance, the revocation of our banking charter, civil or criminal monetary penalties and/or reputational damage, which could have a material adverse impact on the Company's businesses, results of operations and financial condition. The effects of such legislation and regulatory actions on EWBC cannot be reliably determined at this time.

See Item 1. Business — Supervision and Regulation for more information about the regulations to which we are subject. Good standing with our regulators is of fundamental importance to the continuation and growth of our businesses given that banks operate in an extensively regulated environment under state and federal law. The Bank is subject to supervision and regulation by regulators, including the Federal Reserve Bank of San Francisco (the "FRB") and the DBO. Federal and state regulators, in the performance of their supervisory and enforcement duties, have significant discretion and power to initiate enforcement actions for violations of laws and regulations, and unsafe and unsound practices. The enforcement powers available to federal banking regulators include, among others, the ability to assess civil monetary penalties, to issue cease and desist or removal orders, to require written agreements, and to initiate injunctive actions.

The CFPB is in the process of reshaping the consumer financial laws through rulemaking and enforcement of such laws against unfair, deceptive and abusive acts or practices. Compliance with any such change may impact the business operations of depository institutions offering consumer financial products or services, including the Bank.

The CFPB has broad rulemaking authority to administer and carry out the provisions of the Dodd-Frank Act with respect to financial institutions that offer covered financial products and services to consumers. The CFPB has also been directed to write rules identifying practices or acts that are unfair, deceptive or abusive in connection with any transaction with a consumer for a consumer financial product or service, or the offering of a consumer financial product or service. What constitutes unfair, deceptive and abusive acts or practices is clarified each year by CFPB enforcement actions and opinions from courts and administrative proceedings. Moreover, the Bank will be examined by the CFPB for compliance with the CFPB's rules and regulations. The CFPB issued a series of final rules, which went into effect in January 2014, to implement provisions in the Dodd-Frank Act related to mortgage origination and servicing. While it is difficult to quantify the increase in our regulatory compliance burden, we do believe that costs associated with regulatory compliance, including the need to hire additional compliance personnel, may continue to increase.

We face risk of noncompliance and enforcement actions under the BSA and other AML statutes and regulations. The BSA requires banks and other financial institutions to, among other things, develop and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports as appropriate. FinCEN has delegated examination authority for compliance by banks with the BSA to the federal banking regulators, including to the Board of Governors of the Federal Reserve (the “Board of Governors”) for state licensed member banks. Under parallel authority of the bank regulators, the federal bank regulators and certain state regulators have authority to bring enforcement actions related to BSA compliance which may include compliance undertakings, written agreements, cease and desist orders, and/or civil monetary penalties. FinCEN may also impose civil monetary penalties based on BSA violations that are deemed willful. In addition, willful violations of the BSA also could result in criminal fines, penalties or forfeitures. The banking regulators also examine compliance with the rules enforced by the OFAC. Banks are under enhanced scrutiny for both BSA and OFAC compliance. Consequently, if our policies, procedures and internal controls are deemed deficient, we could face monetary penalties as well as serious reputational consequences that could materially and adversely affect our businesses, results of operations and financial condition.

The Bank is subject to supervision pursuant to a written agreement with the FRB and a memorandum of understanding with the DBO regarding BSA and AML compliance, which could result in additional actions taken against the Bank, will increase the Bank’s operating costs and could adversely affect the Bank’s results of operations.

The Bank entered into a Written Agreement, dated November 9, 2015 with the FRB (the “Written Agreement”), and a related memorandum of understanding (“MOU”) with the DBO, relating to certain deficiencies identified in the Bank’s BSA/AML compliance program, as described in further detail in Item 7. MD&A — Regulatory Matters. If additional compliance issues are identified or if the regulators conclude that the Bank has not satisfactorily complied with the Written Agreement, the DBO or the FRB could take further action with respect to the Bank, and if any such further action were taken, such action could have a material adverse effect on our businesses, results of operations and financial condition. The operating and other conditions of the Written Agreement could lead to an increased risk of being subject to additional regulatory actions by the DBO and FRB or other government agencies, as well as additional actions resulting from future regular annual soundness and compliance examinations by federal and state regulators.

We anticipate that we will need to continue to dedicate significant resources to our efforts to comply with the Written Agreement and related MOU, which are expected to increase our operational costs and adversely affect the amount of time our management has to conduct our businesses. The additional operating costs to comply with, and the restrictions under, the Written Agreement and MOU will adversely affect the Bank’s businesses, results of operations and financial condition.

We are subject to financial and reputational risk arising from lawsuits and other legal proceedings. We face significant risk from litigation and claims brought by consumers, borrowers and counterparties. This includes claims for monetary damages, penalties and fines, as well as demands for injunctive relief. The results of these lawsuits and other legal proceedings could lead to significant financial obligations for the Company, as well as restrictions or changes to how we conduct our businesses. The costs of litigation and defense may adversely impact our businesses, results of operations and financial condition. In addition, we may suffer reputational harm as a result of lawsuits and claims. Moreover, it may be difficult to predict the outcome of a lawsuit or legal proceeding, which may present additional uncertainty to our business prospects.

Increased deposit insurance costs and changes in deposit regulation may adversely affect the Company’s results of operations. The FDIC insures deposit accounts at banks and financial institutions, including the Bank. The FDIC charges the insured financial institutions premiums to maintain the DIF at a certain level. During 2008 and 2009, there were higher levels of bank failures, which dramatically increased resolution costs of the FDIC and depleted the DIF.

The FDIC collected a special assessment in 2009 to replenish the DIF and also required a prepayment of an estimated amount of future deposit insurance premiums. In accordance with the Dodd-Frank Act, the FDIC adopted new rules that redefined how deposit insurance assessments are calculated. The new rate schedule and other revisions to the assessment rules became effective April 1, 2011, and had the effect of reducing the assessment that we would otherwise pay. As the new assessment rules currently stand, we expect the rules will have a continued positive impact on our future FDIC deposit insurance assessment fees compared to the assessment rules in effect prior to the changes. However, the FDIC's rules could be subject to future changes, especially if there are additional bank or financial institution failures or the government or FDIC develop new regulatory goals with respect to the banking sector. Increases in assessment fees or required prepayments of FDIC insurance premiums may have an adverse effect on our businesses, results of operations and financial condition.

The Company's interest expense may increase following the repeal of the federal prohibition on payment of interest on demand deposits. The federal prohibition on the ability of financial institutions to pay interest on demand deposit accounts was repealed as part of the Dodd-Frank Act beginning on July 21, 2011. As a result, financial institutions could commence offering interest on demand deposits to compete for clients. We cannot predict what interest rates other banks may offer as market interest rates increase in the future. The Bank offers interest on certain demand deposits to attract additional customers or to maintain current customers. If market interest rates increase, the Company's interest expense will increase and net interest margin will decrease which could have a material adverse effect on the Company's businesses, results of operations and financial condition.

Changes in accounting standards or inaccurate estimates or assumptions in applying accounting policies could materially impact the Company's financial statements. From time to time, the FASB or the SEC may change the financial accounting and reporting standards that govern the preparation of the Company's financial statements. In addition, the FASB, SEC, banking regulators and the Company's independent registered public accounting firm may also amend or even reverse their previous interpretations or positions on how various standards should be applied. These changes may be difficult to predict and could impact how we prepare and report the Company's financial statements. In some cases, we could be required to apply a new or revised standard retroactively, resulting in the Company revising and republishing prior-period financial statements.

Capital and Liquidity Risks

As a regulated entity, we are subject to capital and liquidity requirements, and a failure to meet these standards could affect our financial condition. The Company and the Bank are subject to certain capital and liquidity guidelines, qualitative judgments by regulators about components, risk weightings and other factors. New regulatory capital and liquidity requirements may limit or otherwise restrict how we utilize our capital, including common stock dividends and stock repurchases, and may require us to increase our regulatory capital, or increase regulatory capital ratios or liquidity. Significant parts of the capital requirements applicable to the Company and the Bank under the Basel III Capital Rules adopted by the Federal Reserve are effective, although certain provisions of the rules are phased-in over a period of years, with the rules generally fully phased-in as of January 1, 2019. We are required to satisfy more stringent capital adequacy and liquidity standards than we have in the past. In addition, we may be required to increase our capital levels, even in the absence of actual adverse economic conditions or forecasts, as a result of stress testing and capital planning based on the hypothetical future adverse economic scenarios. We expect to meet the requirements of the Basel III Capital Rules, including the capital conservation buffer fully phased-in as of January 1, 2019 by the Federal Reserve. Compliance with these capital requirements, including leverage ratios, may limit operations that require intensive use of capital. This could adversely affect our ability to expand or maintain present business levels, which may adversely affect our businesses, results of operations and financial condition. Additional information on the regulatory capital requirements applicable to the Company and the Bank is set forth in Item 1. Business — Supervision and Regulation — Capital Requirements.

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

The Company is subject to liquidity risk, which could negatively affect the Company's funding levels. Market conditions or other events could negatively affect the level of or cost of funding, which in turn could affect the Company's ongoing ability to accommodate liability maturities and deposit withdrawals, meet contractual obligations, or fund asset growth and new business initiatives at a reasonable cost, in a timely manner and without adverse consequences. Although the Company has implemented strategies to maintain sufficient and diverse sources of

funding to accommodate planned, as well as unanticipated changes in assets, liabilities, and off-balance sheet commitments under various economic conditions, a substantial, unexpected or prolonged change in the level or cost of liquidity could have a material adverse effect on the Company's businesses, results of operations and financial condition. If the cost effectiveness or the availability of supply in the credit markets is reduced for a prolonged period of time, the Company's funding needs may require the Company to access funding and manage liquidity by other means. These alternatives may include generating client deposits, securitizing or selling loans, and further managing loan growth and investment opportunities. These alternative means of funding may not be available under stressed conditions.

Market Risks

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

Despite improving labor markets and declines in energy costs, an elevated level of underemployment and household debt and prolonged low interest rates pose challenges for the domestic economic performance and the financial services industry. Home sales continue to show signs of improvement but the improvement in the housing market remains modest in certain areas. Mortgage delinquency and foreclosure rates continue to decline. Any unfavorable changes in the economic and market conditions would lead to the following risks:

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

The Company's commercial and residential borrowers may not be able to make timely repayments of their loans, or the decrease in value of real estate collateral securing the payment of such loans could result in credit losses, delinquencies, foreclosures and customer bankruptcies, any of which could have a material adverse effect on the Company's operating results.

• A decrease in the demand for loans and other products and services offered by us.

• A decrease in deposit balances due to overall reductions in customers' accounts.

• The value of the available-for-sale investment securities portfolio that the Company holds may be adversely affected by defaults by debtors.

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

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

on the Company's businesses, results of operations and financial condition.

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The Company's businesses are subject to interest rate risk and variations in interest rates may negatively affect the Company's financial performance. Our financial results depend substantially on net interest income, which is the difference between the interest income we earn on interest-earning assets and the interest expense we pay on interest-bearing liabilities. Interest-earning assets primarily include loans extended, securities held in our investment portfolio and excess cash held to manage short-term liquidity. We fund our assets using deposits and borrowings. While we offer interest-bearing deposit products, a portion of our deposit balances are from noninterest-bearing products. Overall, the interest rates we receive on our interest-earning assets and pay on our interest-bearing liabilities could be affected by a variety of factors, including market interest rate changes, competition, regulatory requirements and a change in the product mix. Changes in key variable market interest rates such as the Federal Funds, National Prime, the London Interbank Offered Rate ("LIBOR") or Treasury rates generally impact our interest rate spread. In addition, changes in interest rates could also affect the average life of our loans and mortgage related securities where decreases in interest rates resulting from actions taken by the Federal Reserve has caused an increase in prepayments of loans and mortgage related securities, as borrowers refinance to reduce borrowing costs. In addition, because of the differences in the maturities and repricing characteristics of the Company's interest-earning assets and interest-bearing liabilities, changes in interest rates do not produce equivalent changes in interest income earned on interest-earning assets and interest paid on interest-bearing liabilities. Overall, interest rates have been at historically low levels for an unprecedented long period of time. Continued low interest rates, possibly compounded by a flat yield curve, may challenge the bank's interest margin.

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

There may be substantial changes to fiscal and tax policies that may adversely affect our business. The U.S. government may make substantial changes to a variety of federal policies and regulations, including fiscal and tax policies that may affect our business. This may result in a significant reform of the Internal Revenue Code, including significant changes to taxation of business entities. There is a substantial lack of clarity around the likelihood, timing and details of any possible tax reforms or other policy changes and we cannot predict the impact, if any, of these changes on our business. However, it is possible that these reforms and changes could adversely affect our business.

We face risks associated with international operations. A substantial number of our customers have economic and cultural ties to Asia and China. The Bank's presence includes five full-service branches in Greater China, located in Hong Kong, Shanghai, Shantou and Shenzhen. Shanghai has two branches, including one in the Shanghai Pilot Free Trade Zone. The Bank also has five representative offices in Greater China located in Beijing, Chongqing, Guangzhou, Taipei and Xiamen. Our efforts to expand our businesses in Asia and China carry certain risks, including risks arising from the uncertainty regarding our ability to generate revenues from foreign operations, risks associated with leveraging and conducting business on an international basis, including among others, legal, regulatory and tax requirements and restrictions, uncertainties regarding liability, trade barriers, difficulties in staffing and managing foreign operations, political and economic risks, financial risks including currency and payment risks. Further, volatility in the Shanghai and Hong Kong stock exchanges and/or a potential dramatic fall in real estate prices in China, among other things, may negatively impact asset values and the profitability and liquidity of the Company's customers who operate in this region. These risks could adversely affect the success of our international operations and could have a material adverse effect on our overall businesses, results of operations and financial condition. In

addition, we face risks that our employees and affiliates may fail to comply with applicable laws and regulations governing our international operations, including the U.S. Foreign Corrupt Practices Act, anti-corruption laws, and other foreign laws and regulations. Failure to comply with such laws and regulations could, among other things, result in enforcement actions and fines against us, as well as limitations on our conduct, any of which could have a material adverse effect on our businesses, results of operations and financial condition.

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

Credit Risks

The Company's allowance for credit losses level may not be adequate to cover actual losses. In accordance with United States Generally Accepted Accounting Principles ("U.S. GAAP"), we maintain an allowance for loan losses to provide for loan defaults and non-performance, and an allowance for unfunded credit reserves which, when combined, are referred to as the allowance for credit losses. Our allowance for loan losses is based on our evaluation of risks associated with our loans held-for-investment portfolio, including historical loss experience, expected loss calculations, delinquencies, performing status, the size and composition of the loan portfolio, economic conditions, and concentrations within the portfolio. The allowance estimation process requires subjective and complex judgments, including analysis of economic conditions and how these economic conditions might impair the ability of our borrowers to repay their loans. Current economic conditions in the U.S. and in the international markets could deteriorate, which could result in, among other things, greater than expected deterioration in credit quality of our loan portfolio or in the value of collateral securing these loans. Our allowance for loan losses may not be adequate to cover probable loan losses, and future provisions for loan losses could materially and adversely affect our results of operations and financial condition. Additionally, in order to maximize the collection of loan balances, we sometimes modify loan terms when there is a reasonable chance that an appropriate modification would allow the borrower to continue servicing the debt. If such modifications ultimately are less effective at mitigating loan losses than we expect, we may incur losses in excess of the specific amount of allowance for loan losses associated with a modified loan, and this would result in additional provision for loan losses. In addition, we establish a reserve for losses associated with our unfunded credit reserves. The level of the allowance for unfunded credit reserves is determined by following a methodology similar to that used to establish our allowance for loan losses in our loans held-for-investment portfolio. There can be no assurance that our allowance for unfunded credit reserves will be adequate to provide for the actual losses associated with our unfunded credit commitments. An increase in the allowance for unfunded credit reserves in any period may result in a charge to earnings.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. Under U.S. GAAP's current standards, credit losses are not reflected in the financial statements until it is probable that the credit loss has been incurred. Under ASU 2016-01, an entity would reflect in its financial statements its current estimate of credit losses on financial assets over the expected life of each financial asset. ASU 2016-01 may have a negative impact on our reported earnings, capital, regulatory capital ratios, as well as on regulatory limits which are based on capital, since it would accelerate the recognition of estimated credit losses.

We may be subject to increased credit risk and higher credit losses to the extent that our loans are concentrated by loan type, industry segment, borrower type, or location of the borrower or collateral. Our credit risk and credit losses can increase if our loans are concentrated in borrowers engaged in the same or similar economic conditions in those markets or elsewhere, which could result in materially higher credit losses. Deterioration in economic conditions, housing conditions, or real estate values in the markets in which we operate could result in materially higher credit losses. The Bank has a concentration of real estate loans in California. Potential deterioration in the real estate market could result in additional loan charge-offs and provision for loan losses, which could have a material adverse effect on the Company's businesses, results of operations and financial condition.

Operational Risks

A failure in or breach of our operational or security systems or infrastructure, or those of third parties, could disrupt our businesses, and adversely impact our results of operations, cash flows, liquidity and financial condition, as well as cause reputational harm. The potential for operational risk exposure exists throughout our organization and from our interactions with third parties. Our operational and security systems, infrastructure, including our computer systems, network infrastructure, data management and internal processes, as well as those of third parties, are integral to our performance. In addition, we rely on our employees and third parties in our ongoing operations, who may, as a result of human error or malfeasance or failure or breach of third-party systems or infrastructure, expose us to risk. We have taken measures to implement backup systems and safeguards to support our operations, but our ability to conduct

business may be adversely affected by any significant disruptions to us or to the third parties with whom we interact. In addition, our ability to implement backup systems and other safeguards with respect to third-party systems is more limited than with respect to our own systems. Our financial, accounting, data processing, backup or other operating or security systems and infrastructure may fail to operate properly or may become disabled or damaged as a result of a number of factors including events that are wholly or partially beyond our control which could adversely affect our ability to process these transactions or provide certain services. There could be electrical, telecommunications or other major physical infrastructure outages, natural disasters such as earthquakes, tornadoes, hurricanes and floods, disease pandemics, and events arising from local or larger scale political or social matters, including terrorist acts. We continuously update these systems to support our operations and growth, and this entails significant costs and creates risks associated with implementing new systems and integrating them with existing ones. Operational risk exposures could adversely impact our results of operations, cash flows, liquidity and financial condition, and may result in loss of confidence, significant litigation exposure and harm to our reputation.

A cyber attack, information or security breach, or a technology failure of ours or of a third party could adversely affect our ability to conduct our businesses, manage our exposure to risk or expand our businesses, result in the disclosure or misuse of confidential or proprietary information, increase our costs to maintain and update our operational and security systems and infrastructure, and adversely impact our results of operations, cash flows, liquidity and financial condition, as well as cause reputational harm. The Company offers various internet-based services to its clients, including online banking services. The secure transmission of confidential information over the internet is essential to maintain our clients' confidence in the Company's online services. In addition, our businesses are highly dependent on the security and efficacy of our infrastructure, computer and data management systems, as well as those of third parties with whom we interact. Cyber security risks for financial institutions have significantly increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties. Our businesses rely on the secure processing, transmission, storage and retrieval of confidential, proprietary and other information in our computer and data management systems and networks, and in the computer and data management systems and networks of third parties. We rely on digital technologies, computer, database and email systems, software and networks. Although the Company has developed systems and processes that are designed to prevent security breaches and periodically test the Company's security, failure to mitigate breaches of security could adversely affect the Company's ability to offer and grow the online services, result in violations of applicable privacy and other laws, costly litigation and loss of customer relationships and could have an adverse effect on the Company's businesses, results of operations and financial condition.

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

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

The actions and soundness of other financial institutions could affect the Company. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. The Company executes transactions with various counterparties in the financial industry, including brokers and dealers, commercial banks and investment

banks. Defaults by financial services institutions and uncertainty in the financial services industry in general could lead to market wide liquidity problems and may expose the Company to credit risk in the event of default of its counterparty or client. Further, the Company's credit risk may increase when the underlying collateral held cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due to the Company. Any such losses could materially and adversely affect the Company's businesses, results of operations and financial condition.

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

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

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

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

Other Risks

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

Managing reputational risk is important to attracting and maintaining customers, investors and employees. Threats to the Company's reputation can come from many sources, including unethical practices, employee misconduct, failure to deliver minimum standards of service or quality, compliance deficiencies, and questionable or fraudulent activities of the Company's customers. The Company has policies and procedures in place to protect its reputation and promote ethical conduct, but these policies and procedures may not be fully effective. Negative publicity regarding the

Company's businesses, employees or customers, with or without merit, may result in the loss of customers, investors and employees, costly litigation, a decline in revenues, and increased governmental regulation.

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

East West's headquarters is located at 135 North Los Robles Avenue, Pasadena, California, in an eight-story office building. The Company operates over 130 locations worldwide including its headquarters, main administrative offices, branches and representative offices. In the U.S., the Bank's headquarters, main administrative offices and branches are located in California, New York, Texas, Washington, Massachusetts, Nevada and Georgia. In Greater

China, East West's presence includes full service branches in Hong Kong, Shanghai, Shantou and Shenzhen, and representative offices in Beijing, Chongqing, Guangzhou, Taipei and Xiamen.

As of December 31, 2016, the Bank owns the property at 34 of its U.S. locations. All international and other domestic branch and office locations are leased by the Bank, with lease expiration dates ranging from 2017 to 2032, exclusive of renewal options. All properties occupied by the Bank are used across all business segments and for corporate purposes. See Note 19 - Business Segments to the Consolidated Financial Statements for details on each segment. The Bank also owns leasehold improvements, equipment, furniture, and fixtures at its offices, all of which are used in its business activities.

East West uses the premises, equipment, and furniture of the Bank and does not currently own or lease any real or personal property. The Agency also currently conducts its operations in one of the administrative offices of the Bank and reimburses the Bank for its use of this facility. The Company believes that its existing facilities are in good condition and suitable for the conduct of its business and operations. On an ongoing basis, the Company evaluates its current and planned projected space requirements and, from time to time, it may determine that certain premises or facilities are no longer necessary for its operations. The Company believes that, if necessary, it could secure alternative facilities on similar terms without adversely affecting its operations.

ITEM 3. LEGAL PROCEEDINGS

See Litigation in Note 13 — Commitments, Contingencies and Related Party Transactions to the Consolidated Financial Statements, which is incorporated herein by reference.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Market Information

The Company's common stock is traded on the NASDAQ under the symbol "EWBC." The following tables set forth, for the periods indicated, the high and low sales prices of the Company's common stock as reported on NASDAQ, as well as dividend information.

	2016		
	High	Low	Cash Dividends
First quarter	\$41.07	\$27.25	\$0.20
Second quarter	\$40.00	\$31.34	\$0.20
Third quarter	\$37.59	\$31.34	\$0.20
Fourth quarter	\$51.73	\$36.31	\$0.20

	2015		
	High	Low	Cash Dividends
First quarter	\$41.48	\$35.68	\$0.20
Second quarter	\$46.50	\$39.88	\$0.20
Third quarter	\$45.91	\$37.19	\$0.20
Fourth quarter	\$43.94	\$36.40	\$0.20

As of January 31, 2017, 144,167,656 shares of the Company's common stock were held by 753 stockholders of record and by approximately 49,000 additional stockholders whose shares were held for them in street name or nominee accounts.

The quarterly dividends declared on the Company's common stock were \$0.20 per share for each quarter of 2016 (\$0.80 per share for the year). On January 25, 2017, the Company's Board declared first quarter 2017 cash dividends of \$0.20 for the Company's common stock. The common stock cash dividend of \$0.20 per share was paid on February 15, 2017 to stockholders of record on February 1, 2017. For information on the statutory and regulatory limitations on the ability of the Company to pay dividends to its stockholders and on the Bank to pay dividends to East West, see Item 1. Business — Supervision and Regulation — Dividends and Other Transfers of Funds, Item 7. MD&A — Asset Liability and Market Risk Management and Note 20 — Parent Company Condensed Financial Statements to the Consolidated Financial Statements. For information regarding securities authorized for issuance under the Company's equity compensation plans, see Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters of Part III presented elsewhere in this report, which are incorporated herein by reference.

Stock Performance Graph

The following graph and table compare the Company's cumulative total return on its common stock with the cumulative total return of the Standard & Poor's 500 (the "S&P 500") Index and the KBW Regional Bank (the "KRX") Index over the five-year period through December 31, 2016. In 2015, the Company changed its stock performance graph indices from the SNL Bank and Thrift and SNL Western Bank Indices to the S&P 500 Index and the KRX Index. The KRX Index was used to further align EWBC with those companies of a relatively similar size. The S&P 500 Index was utilized as a benchmark against performance. The S&P 500 Index is a commonly referenced U.S. equity benchmark consisting of leading companies from different economic sectors. The KRX Index seeks to reflect the performance of banks and thrifts that are publicly traded in the U.S. and is composed of approximately 50 companies. The graph and table below assume that on December 31, 2011, \$100 was invested in EWBC's common stock, the S&P 500 Index and the KRX Index, and that all dividends were reinvested. Historical stock price performance shown on the graph is not necessarily indicative of future price performance. The information set forth under the heading "Stock Performance Graph" shall not be deemed "soliciting material" or to be "filed" with the Commission, except to the extent the Company specifically requests that such information be treated as soliciting material or specifically incorporates it by reference into a filing under the Exchange Act, or the Securities Act of 1933, as amended.

Index	December 31,					
	2011	2012	2013	2014	2015	2016
East West Bancorp, Inc.	\$100.00	\$110.78	\$183.95	\$207.73	\$227.39	\$284.11
KRX Index	\$100.00	\$113.25	\$166.31	\$170.34	\$180.41	\$250.79
S&P 500 Index	\$100.00	\$116.00	\$153.57	\$174.60	\$177.01	\$198.18
SNL Western U.S. Bank Index	\$100.00	\$126.20	\$177.56	\$213.09	\$220.79	\$244.77
SNL U.S. Bank and Thrift Index	\$100.00	\$134.28	\$183.86	\$205.25	\$209.39	\$264.35

Source: SNL Financial LC; Keefe, Bruyette & Woods

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

On July 17, 2013, the Company's Board authorized a stock repurchase program to buy back up to \$100.0 million of the Company's common stock. The Company did not repurchase any shares under this program thereafter, including during 2016 and 2015. Although this program has no stated expiration date, the Company does not intend to repurchase any stock pursuant to this program absent further action of the Company's Board.

ITEM 6. SELECTED FINANCIAL DATA

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

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

The following discussion provides information about the results of operations, financial condition, liquidity, and capital resources of East West 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.

Overview

The Company's vision is to serve as the financial bridge between the U.S. 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 U.S. 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 year with strong earnings and financial results for the year ended December 31, 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 BSA/AML programs in order to meet increasing regulatory expectations, while still providing strong return to stockholders.

Noteworthy items on the Company's performance included:

Net income totaled \$431.7 million for the year ended December 31, 2016, which reflected an increase of \$47.0 million or 12%, compared to the same period in 2015.

Diluted earnings per share was \$2.97 for the year ended December 31, 2016, which reflected an increase of \$0.31 or 12%, compared to the same period in 2015.

Revenue, the sum of net interest income and noninterest income (loss), before provision for credit losses, increased \$81.7 million or 7% to \$1.22 billion for the year ended December 31, 2016, compared to the same period in 2015.

Noninterest expense increased \$75.0 million or 14% to \$615.9 million for the year ended December 31, 2016, compared to the same period in 2015.

The Company's effective tax rate for the year ended December 31, 2016 was 24.6%, compared to 33.5% for the same period in 2015. The decrease in the effective tax rate was primarily attributable to additional tax credit investments in 2016, compared to 2015.

Return on average assets increased three basis points to 1.30% for the year ended December 31, 2016, compared to the same period in 2015. Return on average equity increased 32 basis points to 13.06% for the year ended December 31, 2016, compared to the same period in 2015.

Cost of funds improved three basis points to 0.36% for the year ended December 31, 2016, compared to the same period in 2015.

Additionally, the Company experienced growth of total assets of \$2.44 billion or 8% to \$34.79 billion as of December 31, 2016, compared to \$32.35 billion as of December 31, 2015. This increase was primarily attributable to the increases in gross loans held-for-investment, cash and cash equivalents and securities purchased under resale agreements ("resale agreements"), partially offset by a decrease in available-for-sale investment securities.

Gross loans held-for-investment increased \$1.86 billion or 8% to \$25.50 billion as of December 31, 2016, compared to \$23.64 billion as of December 31, 2015, while the allowance for loan losses to loans held-for-investment ratio as of December 31, 2016 declined by 10 basis points to 1.02% compared to 1.12% as of December 31, 2015 as credit quality continued to improve. The overall balance sheet growth was primarily fueled by solid deposit growth during the year ended December 31, 2016. Deposits increased \$2.42 billion or 9% to \$29.89 billion as of December 31, 2016 compared to \$27.48 billion as of December 31, 2015, primarily due to a \$3.42 billion or 16% increase in core deposits to \$24.28 billion as of December 31, 2016, partially offset by a \$1.00 billion or 15% decrease in time deposits to \$5.62 billion as of December 31, 2016. Core deposits accounted for 81% and 76% of total deposits as of December 31, 2016 and 2015, respectively.

From a capital management perspective, the Company continued to maintain a strong capital position with its CET1 capital ratio at 10.9% as of December 31, 2016, compared to 10.5% as of December 31, 2015. The total risk-based capital ratios were 12.4% and 12.2% as of December 31, 2016 and 2015, respectively. The Tier I leverage capital ratio was 8.7% as of December 31, 2016, compared to 8.5% as of December 31, 2015. Book value per common share increased \$2.08 or 10% to \$23.78 as of December 31, 2016 from \$21.70 as of December 31, 2015.

The strong balance sheet growth and increased revenues positioned the Company well to focus on its bridge banking strategy and target future growth opportunities. The Company continued to provide stockholders with healthy returns on their investment by maintaining the \$0.20 quarterly dividend during 2016. As the Company remains focused on its continued growth, the Company continues to meet its customers' financial needs. In January 2017, the Company's Board declared first quarter dividends for the Company's common stock. The common stock cash dividend of \$0.20 per share was paid on February 15, 2017 to stockholders of record on February 1, 2017.

Five-Year Summary of Selected Financial Data

(\$ and shares in thousands, except per share data)	2016	2015	2014	2013	2012
Summary of Operations:					
Interest and dividend income	\$1,137,481	\$1,053,815	\$1,153,698	\$1,068,685	\$1,051,095
Interest expense	104,843	103,376	112,820	112,492	132,168
Net interest income before provision for credit losses	1,032,638	950,439	1,040,878	956,193	918,927
Provision for credit losses	27,479	14,217	49,158	22,364	65,184
Net interest income after provision for credit losses	1,005,159	936,222	991,720	933,829	853,743
Noninterest income (loss) ⁽¹⁾	182,918	183,383	(11,714)	(92,468)	(5,618)
Noninterest expense	615,889	540,884	532,983	394,215	406,837
Income before income taxes	572,188	578,721	447,023	447,146	441,288
Income tax expense	140,511	194,044	101,145	153,822	163,552
Net income	431,677	384,677	345,878	293,324	277,736
Preferred stock dividends	—	—	—	3,428	6,857
Net income available to common stockholders	\$431,677	\$384,677	\$345,878	\$289,896	\$270,879
Per Common Share:					
Basic earnings	\$3.00	\$2.67	\$2.42	\$2.10	\$1.89
Diluted earnings	\$2.97	\$2.66	\$2.41	\$2.09	\$1.87
Dividends declared	\$0.80	\$0.80	\$0.72	\$0.60	\$0.40
Book value	\$23.78	\$21.70	\$19.89	\$17.19	\$17.01
Weighted Average Number of Shares					
Outstanding:					
Basic	144,087	143,818	142,952	137,342	141,457
Diluted	145,172	144,512	143,563	139,574	147,175
Common shares outstanding at period-end	144,167	143,909	143,582	137,631	140,294
At Year End:					
Total assets	\$34,788,840	\$32,350,922	\$28,743,592	\$24,732,216	\$22,539,744

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Loans held-for-investment, net	\$25,242,619	\$23,378,789	\$21,468,270	\$17,600,613	\$14,645,785	
Available-for-sale investment securities	\$3,335,795	\$3,773,226	\$2,626,617	\$2,733,797	\$2,607,029	
Customer deposits	\$29,890,983	\$27,475,981	\$24,008,774	\$20,412,918	\$18,309,354	
Long-term debt	\$186,327	\$206,084	\$225,848	\$226,868	\$137,178	
FHLB	\$321,643	\$1,019,424	\$317,241	\$315,092	\$312,975	
Stockholders' equity	\$3,427,741	\$3,122,950	\$2,856,111	\$2,366,373	\$2,385,991	
Financial Ratios:						
Return on average assets	1.30	% 1.27	% 1.25	% 1.24	% 1.27	%
Return on average stockholders' equity	13.06	% 12.74	% 12.72	% 12.50	% 11.94	%
Total average stockholders' equity to total average assets	9.97	% 9.95	% 9.83	% 9.95	% 10.62	%
Common dividend payout ratio	27.01	% 30.21	% 30.07	% 28.74	% 21.26	%
Net interest margin	3.30	% 3.35	% 4.03	% 4.38	% 4.63	%

Includes changes in FDIC indemnification asset and receivable/payable charges of \$38.0 million, \$201.4 million, \$228.6 million and \$122.3 million for the years ended December 31, 2015, 2014, 2013 and 2012, respectively.

(1) During the year ended December 31, 2015, the Company terminated the UCB and WFIB shared-loss agreements. There was no balance of FDIC indemnification asset and receivable/payable during the year ended December 31, 2016.

Results of Operations

Net income for the year ended December 31, 2016 was \$431.7 million compared to \$384.7 million and \$345.9 million for the same period in 2015 and 2014, respectively. The Company has successfully increased net income for seven consecutive years. The 2016 earnings performance reflected the Company's continued focus on its growth and efforts in achieving business excellence. The results of operations for the year ended December 31, 2016 benefited from improved revenue from diverse sources and a lower effective tax rate, which was partially offset by a higher noninterest expense.

Revenue, the sum of net interest income and noninterest income (loss), before provision for credit losses, was \$1.22 billion for the year ended December 31, 2016, an increase of \$81.7 million or 7% from \$1.13 billion for the same period in 2015. The increase was mainly due to higher interest income from strong loan growth. Revenue for the year ended December 31, 2015 was \$1.13 billion, an increase of \$104.7 million or 10% from \$1.03 billion for the same period in 2014. The increase was primarily due to the reduction in expenses related to changes in the FDIC indemnification asset and receivable/payable. This decrease was largely due to the expiration of the UCB non-single-family shared-loss agreement in 2014 and the early termination of the remaining shared-loss agreements in 2015.

Income tax expense was \$140.5 million, \$194.0 million, and \$101.1 million for the years ended December 31, 2016, 2015, and 2014, respectively. The effective tax rate was 24.6%, 33.5%, and 22.6% for the years ended December 31, 2016, 2015, and 2014, respectively. The fluctuation of the effective tax rate year over year was mainly attributable to the tax credits recognized from investments in historic rehabilitation and renewable energy projects.

Noninterest expense was \$615.9 million for the year ended December 31, 2016, an increase of \$75.0 million or 14% from \$540.9 million for the same period in 2015. The increase was mainly due to higher amortization of tax credit and other investments from additional tax credit investments placed into service for the year ended December 31, 2016, and higher compensation and employee benefits in support of business expansion and regulatory compliance requirements for the year ended December 31, 2016. Noninterest expense increased slightly to \$540.9 million for the year ended December 31, 2015 from \$533.0 million for the same period in 2014.

Return on average assets increased three basis points to 1.30% for the year ended December 31, 2016, compared to 1.27% for the same period in 2015; and also increased two basis points to 1.27% for the year ended December 31, 2015, compared to 1.25% for the same period in 2014. The return on average equity increased 32 basis points to 13.06% for the year ended December 31, 2016, compared to 12.74% for the same period in 2015; and increased two basis points to 12.74% for the year ended December 31, 2015, compared to 12.72% for the same period in 2014. The strong returns on average assets and average equity reflected the Company's ability to achieve higher profitability while expanding the loan and deposit base.

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 and other interest-earning assets less interest expense on customer deposits, securities sold under repurchase agreements ("repurchase agreements"), long-term debt and other interest-bearing liabilities. Net interest margin is calculated by dividing gross interest revenue less gross interest expense 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 year ended December 31, 2016 was \$1.03 billion, an increase of \$82.2 million or 9% compared to \$950.4 million for the same period in 2015. The increase in net interest income was primarily due to higher interest income from strong loan growth during 2016. Net interest margin was 3.30% for the year ended December 31, 2016, a five basis points decrease from 3.35% in 2015. The decrease in net interest margin was primarily due to a reduction of eight basis points in loan yields from 4.35% for the year ended December 31, 2015 to 4.27% for the year ended December 31, 2016. The decrease in loan yields was primarily due to the lower accretion income from the loans accounted for under Accounting Standards Codification (“ASC”) 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality (“ASC 310-30”). For the year ended December 31, 2016, total accretion income from the loans accounted for under ASC 310-30 was \$45.4 million compared to \$61.3 million for the same period in 2015.

Net interest income for the year ended December 31, 2015 was \$950.4 million, a decrease of \$90.4 million or 9% compared to \$1.04 billion for the same period in 2014. Net interest margin was 3.35% for the year ended December 31, 2015, a decrease of 68 basis points from 4.03% for the year ended December 31, 2014. The decreases in net interest income and net interest margin were primarily due to the decreases in interest income and yields on loans as a result of lower accretion income associated with the loans acquired from the FDIC-assisted acquisitions of UCB and WFIB, partially offset by a reduction in interest expense on repurchase agreements that were paid off during 2015.

For the year ended December 31, 2016, average interest-earning assets increased \$2.91 billion or 10% to \$31.30 billion from \$28.39 billion for the same period in 2015. The increase was primarily due to a \$1.98 billion or 9% increase in average loan balances to \$24.26 billion for the year ended December 31, 2016, compared to \$22.28 billion for the same period in 2015. For the year ended December 31, 2015, average interest-earning assets increased by \$2.59 billion or 10% to \$28.39 billion from \$25.80 billion for the year ended December 31, 2014. The increase was primarily due to an increase in average loan balances of \$1.92 billion or 9% to \$22.28 billion for the year ended December 31, 2015, compared to \$20.35 billion for the same period in 2014.

Customer deposits are an important source of low-cost funding affecting both net interest income and net interest margin. Average deposits which consist of noninterest-bearing demand, interest-bearing checking, money market, saving and time deposits, increased by \$2.74 billion or 11% to \$28.50 billion for the year ended December 31, 2016, compared to \$25.76 billion for the same period in 2015. Average deposits increased by \$2.82 billion or 12% to \$25.76 billion for the year ended December 31, 2015, compared to \$22.94 billion for the same period in 2014.

The ratio of average noninterest-bearing demand deposits to total average deposits increased from 31% as of December 31, 2015 to 33% as of December 31, 2016. Cost of deposits was 0.30% for the year ended December 31, 2016. Cost of deposits remained stable at 0.29% for each of the years ended December 31, 2015 and 2014. Average loans were 117% funded by average deposits for the year ended December 31, 2016, which was higher than the funding level of 116% and 113% for the same periods in 2015 and 2014, respectively.

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The following table presents the interest spread, net interest margin, average balances, interest income and expense, and the average yield/rates by asset and liability component for the years ended December 31, 2016, 2015 and 2014:

(\$ in thousands)	Year Ended December 31, 2016			2015			2014		
	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate
ASSETS									
Interest-earning assets:									
Interest-bearing cash and deposits with banks	\$1,893,064	\$14,731	0.78%	\$1,851,604	\$17,939	0.97%	\$1,469,200	\$23,214	1.58%
Resale agreements (1)	1,708,470	30,547	1.79%	1,337,274	19,799	1.48%	1,340,411	20,323	1.52%
Investment securities (2)(3)	3,355,086	53,399	1.59%	2,847,655	41,375	1.45%	2,540,228	44,684	1.76%
Loans (4)(5)	24,264,895	1,035,377	4.27%	22,276,589	968,625	4.35%	20,351,818	1,059,205	5.20%
Investments in FHLB and Federal Reserve Bank stock	75,260	3,427	4.55%	77,460	6,077	7.85%	96,921	6,272	6.47%
Total interest-earning assets	\$31,296,775	\$1,137,481	3.63%	\$28,390,582	\$1,053,815	3.71%	\$25,798,578	\$1,153,698	4.47%
Noninterest-earning assets:									
Cash and due from banks	365,104			342,606			322,581		
Allowance for loan losses	(262,804)			(263,143)			(254,616)		
Other assets	1,770,298			1,858,412			1,786,427		
Total assets	\$33,169,373			\$30,328,457			\$27,652,970		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Interest-bearing liabilities:									
Checking deposits	\$3,495,094	\$12,640	0.36%	\$2,795,379	\$8,453	0.30%	\$2,179,428	\$5,431	0.25%
Money market deposits	7,679,695	27,094	0.35%	6,763,979	18,988	0.28%	5,958,461	16,001	0.27%
Saving deposits	2,104,060	4,719	0.22%	1,785,085	3,468	0.19%	1,748,465	2,971	0.17%
Time deposits	5,852,042	39,771	0.68%	6,482,697	42,596	0.66%	6,218,745	41,083	0.66%
Federal funds purchased and other short-term borrowings	25,591	713	2.79%	4,797	58	1.21%	888	—	— %
FHLB advances	380,868	5,585	1.47%	327,080	4,270	1.31%	349,767	4,116	1.18%
Repurchase agreements (1)	211,475	9,304	4.40%	404,096	20,907	5.17%	955,147	38,395	4.02%

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Long-term debt	198,589	5,017	2.53%	218,353	4,636	2.12%	237,738	4,823	2.03%
Total interest-bearing liabilities	\$19,947,414	\$104,843	0.53%	\$18,781,466	\$103,376	0.55%	\$17,648,639	\$112,820	0.64%
Noninterest-bearing liabilities and stockholders' equity:									
Demand deposits	9,371,481			7,928,460			6,834,871		
Accrued expenses and other liabilities	544,549			599,436			451,287		
Stockholders' equity	3,305,929			3,019,095			2,718,173		
Total liabilities and stockholders' equity	\$33,169,373			\$30,328,457			\$27,652,970		
Interest rate spread			3.10%			3.16%			3.83%
Net interest income and net interest margin		\$1,032,638	3.30%		\$950,439	3.35%		\$1,040,878	4.03%

(1) Average balances of resale and repurchase agreements are reported net pursuant to ASC 210-20-45, Balance Sheet Offsetting.

(2) Yields on tax-exempt securities are not presented on a tax-equivalent basis.

(3) Includes the amortization of net premiums on investment securities of \$26.2 million, \$18.7 million and \$24.2 million for the years ended December 31, 2016, 2015 and 2014, respectively.

(4) Average balance includes nonperforming loans.

(5) Includes the accretion of ASC 310-30 discount, net deferred loan fees, unearned income and amortization of premiums, which totaled \$53.5 million, \$66.2 million and \$185.8 million for the years ended December 31, 2016, 2015 and 2014, respectively.

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

(\$ in thousands)	Year Ended December 31,					
	2016 vs. 2015			2015 vs. 2014		
	Total Change	Changes Due to Volume	Yield/Rate	Total Change	Changes Due to Volume	Yield/Rate
Interest-bearing assets:						
Interest-bearing cash and deposits with banks	\$(3,208)	\$394	\$(3,602)	\$(5,275)	\$5,102	\$(10,377)
Resale agreements	10,748	6,149	4,599	(524)	(47)	(477)
Investment securities	12,024	7,831	4,193	(3,309)	5,022	(8,331)
Loans	66,752	85,120	(18,368)	(90,580)	94,158	(184,738)
Investments in FHLB and Federal Reserve Bank stock	(2,650)	(168)	(2,482)	(195)	(1,389)	1,194
Total interest and dividend income	\$83,666	\$99,326	\$(15,660)	\$(99,883)	\$102,846	\$(202,729)
Interest-bearing liabilities:						
Checking deposits	\$4,187	\$2,348	\$1,839	\$3,022	\$1,722	\$1,300
Money market deposits	8,106	2,798	5,308	2,987	2,237	750
Saving deposits	1,251	671	580	497	63	434
Time deposits	(2,825)	(4,249)	1,424	1,513	1,735	(222)
Federal funds purchased and other short-term borrowings	655	503	152	58	—	58
FHLB advances	1,315	752	563	154	(278)	432
Repurchase agreements	(11,603)	(8,831)	(2,772)	(17,488)	(26,397)	8,909
Long-term debt	381	(445)	826	(187)	(405)	218
Total interest expense	\$1,467	\$(6,453)	\$7,920	\$(9,444)	\$(21,323)	\$11,879
Change in net interest income	\$82,199	\$105,779	\$(23,580)	\$(90,439)	\$124,169	\$(214,608)

Noninterest Income (Loss)

Noninterest income decreased slightly to \$182.9 million for the year ended December 31, 2016, compared to \$183.4 million for the same period in 2015. The decrease was primarily due to the decreases in net gains on sales of available-for-sale investment securities and loans, partially offset by a reduction in expenses related to changes in FDIC indemnification asset and receivable/payable. Noninterest income increased by \$195.1 million to \$183.4 million for the year ended December 31, 2015 compared to noninterest loss of \$11.7 million for the same period in 2014. The increase was primarily due to a reduction in expenses related to changes in FDIC indemnification asset and receivable/payable and an increase in net gains on sales of available-for-sale investment securities.

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

(\$ in millions)	Year Ended December		
	31,	2015	2014
Branch fees	\$41.2	\$39.5	\$37.9
Letters of credit fees and foreign exchange income	45.8	39.0	37.3
Ancillary loan fees	19.4	15.0	10.6
Wealth management fees	13.2	18.3	16.2
Derivative fees and other income	16.8	16.5	11.0
Net gains on sales of loans	6.1	24.9	39.1
Net gains on sales of available-for-sale investment securities	10.4	40.4	10.7
Changes in FDIC indemnification asset and receivable/payable	—	(38.0)	(201.4)
Other fees and other operating income	30.0	27.8	26.9
Total noninterest income (loss)	\$182.9	\$183.4	\$(11.7)

The following discussion provides the composition of the major changes in noninterest income (losses) and the factors contributing to the changes.

Net gains on sales of available-for-sale investment securities decreased by \$30.0 million or 74% to \$10.4 million for the year ended December 31, 2016, compared to \$40.4 million for the same period in 2015. Net gains on sales of available-for-sale investment securities increased by \$29.7 million or 277% to \$40.4 million for the year ended December 31, 2015, compared to \$10.7 million for the same period in 2014. The larger net gains on sales of available-for-sale investment securities recognized during the year ended December 31, 2015, compared to December 31, 2016 and 2014, was primarily due to \$21.7 million of gains realized from the sale of non-investment grade corporate debt securities, which had a \$112.3 million of other-than-temporary impairment (“OTTI”) losses recorded prior to December 31, 2015 and 2014.

Net gains on sales of loans for the year ended December 31, 2016 totaled \$6.1 million, compared to \$24.9 million and \$39.1 million for the same periods in 2015 and 2014, respectively. The net gains included valuation adjustments of \$5.6 million and \$3.0 million to carry loans held-for-sale at lower of cost or fair value for the years ended December 31, 2016 and 2015, respectively. No valuation adjustment was recorded for the same period in 2014. See Item 7. MD&A — Total Loan Portfolio for details.

During the year ended December 31, 2015, the Company reached an agreement with the FDIC to early terminate the UCB and WFIB shared-loss agreements. There were no remaining shared-loss agreements with the FDIC as of December 31, 2015. As a result, there was no expense related to the changes in FDIC indemnification asset and receivable/payable for the year ended December 31, 2016, compared to \$38.0 million and \$201.4 million of expenses for the same period in 2015 and 2014, respectively.

Noninterest Expense

Noninterest expense totaled \$615.9 million for the year ended December 31, 2016, an increase of \$75.0 million or 14%, compared to \$540.9 million for the same period in 2015. The increase for the year ended December 31, 2016 compared to the same period in 2015 was primarily due to higher amortization of tax credit and other investments, compensation and employee benefits, and other real estate owned (“OREO”) expense (income). This increase was partially offset by the fact that there were no repurchase agreements’ extinguishment costs incurred for the year ended December 31, 2016 and lower legal expense. Noninterest expense totaled \$540.9 million for the year ended December

31, 2015, an increase of \$7.9 million or 1%, compared to \$533.0 million for the same period in 2014. The increase for the year ended December 31, 2015 compared to the same period in 2014 was primarily due to higher compensation and employee benefits and extinguishment costs related to repurchase agreements, which was partially offset by lower legal expenses.

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

(\$ in millions)	Year Ended December		
	31, 2016	2015	2014
Compensation and employee benefits	\$300.1	\$262.2	\$231.8
Occupancy and equipment expense	61.5	61.3	63.8
Deposit insurance premiums and regulatory assessments	23.3	18.8	21.9
OREO expense (income)	1.5	(8.9)	(3.6)
Legal expense	2.8	16.4	53.0
Data processing	11.7	10.2	15.9
Consulting expense	22.7	17.2	8.5
Deposit related expenses	10.4	10.4	8.5
Computer software expense	12.9	8.7	7.5
Other operating expense	77.5	77.5	71.4
Amortization of tax credit and other investments	83.4	36.1	44.1
Amortization of core deposit intangibles	8.1	9.2	10.2
Repurchase agreements' extinguishment costs	—	21.8	—
Total noninterest expense	\$615.9	\$540.9	\$533.0

Compensation and employee benefits increased by \$37.9 million or 14% to \$300.1 million for the year ended December 31, 2016, compared to \$262.2 million for the same period in 2015. The increase was primarily attributable to the increased headcount to support the Company's growing business and to enhance the Company's risk management programs. For the year ended December 31, 2015, compensation and employee benefits increased by \$30.4 million or 13% to \$262.2 million, compared to \$231.8 million for the same period in 2014. The increase was primarily due to an increase in headcount due to the growth that the Company experienced.

The amortization of tax credit and other investments increased by \$47.3 million or 131% to \$83.4 million for the year ended December 31, 2016, compared to \$36.1 million for the same period in 2015. The increase was primarily due to additional tax credit investments that were placed into service during 2016. For the year ended December 31, 2015, amortization of tax credit and other investments decreased by \$8.0 million or 18% to \$36.1 million, compared to \$44.1 million for the same period in 2014. This decrease was primarily due to a reduction in tax credit investments that were placed into service during 2015 compared to 2014.

OREO expense was \$1.5 million for the year ended December 31, 2016, compared to OREO income of \$8.9 million for the same period in 2015. The change was mainly attributable to lower net gains on OREO sales. In comparison, OREO income increased by \$5.3 million or 147% to \$8.9 million for the year ended December 31, 2015 from \$3.6 million for the same period in 2014. The increase was primarily due to lower expense associated with a declining OREO portfolio.

There were no extinguishment costs related to repurchase agreements for the years ended December 31, 2016 and 2014. For the year ended December 31, 2015, the Company recorded \$21.8 million related to the extinguishment of higher-cost repurchase agreements of \$545.0 million.

Legal expense decreased by \$13.6 million or 83% to \$2.8 million for the year ended December 31, 2016, compared to \$16.4 million for the same period in 2015. The decrease was mainly due to a reversal of a \$13.4 million legal accrual following the settlement of a lawsuit titled "F&F, LLC and 618 Investments, Inc. v. East West Bank" during the year ended December 31, 2016. For the year ended December 31, 2015, legal expense decreased by \$36.6 million or 69%

to \$16.4 million, compared to \$53.0 million for the same period in 2014. The decrease was mainly due to the fact that the amount incurred for the year ended December 31, 2014 included a \$31.6 million legal accrual related to the aforementioned lawsuit. See Note 13 — Commitments, Contingencies and Related Party Transactions to the Consolidated Financial Statements for further details of the lawsuit.

Income Taxes

Income tax expense was \$140.5 million, \$194.0 million, and \$101.1 million for the years ended December 31, 2016, 2015 and 2014, respectively. The effective tax rates were 24.6%, 33.5% and 22.6% for the years ended December 31, 2016, 2015 and 2014, respectively. The lower effective tax rate for the year ended December 31, 2016, compared to the same period in 2015, was mainly due to more tax credits that were recognized in 2016 from investments in qualified affordable housing, historic rehabilitation and renewable energy projects. The higher effective tax rate for the year ended December 31, 2015, compared to the same period in 2014, was attributable to less tax credits that were recognized in 2015 from investments in qualified affordable housing, historic rehabilitation and renewable energy projects. The Company recognizes investment tax credits from qualified affordable housing partnerships and other tax credit investments in the year the credit arises under the flow-through method of accounting. Included in the income tax expense recognized during the years ended December 31, 2016, 2015 and 2014 was \$126.2 million, \$67.6 million and \$85.7 million, respectively, of tax credits generated from investments in qualified affordable housing partnerships and other tax credit investments.

As of December 31, 2016 and 2015, the Company had net deferred tax assets of \$129.7 million and \$135.9 million, respectively. For additional details on components of net deferred tax assets, see Note 12 — Income Taxes to the Consolidated Financial Statements.

Operating Segment Results

The Company defines its operating segments based on its core strategy, and has identified three reportable operating segments: Retail Banking, Commercial Banking and Other.

The Retail Banking segment focuses primarily on retail operations through the Bank's branch network. The Commercial Banking segment, which includes C&I and CRE, primarily generates commercial loans through the domestic commercial lending offices located in California, New York, Texas, Washington, Massachusetts, Nevada and Georgia; and the foreign commercial lending offices located in China and Hong Kong. Furthermore, the Commercial Banking segment offers a wide variety of international finance and trade services and products. The remaining centralized functions, including the treasury operations of the Company and eliminations of intersegment amounts have been aggregated and included in the "Other" segment.

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 when there are changes in management structure or reporting methodologies, unless it is not deemed practicable to do so.

The Company's internal transfer pricing process is formulated to incentivize loan and deposit growth that is consistent with the overall growth objectives, as well as to provide a reasonable and consistent basis for measurement of the business segments and product net interest margins. The Company's internal transfer pricing assumptions and methodologies are reviewed at least annually to ensure that the process is reflective of current market conditions.

For additional information about the Company's segments, including information about the underlying accounting and reporting process, see Note 19 — Business Segments to the Consolidated Financial Statements.

The following table presents the selected segment information for the periods indicated:

(\$ in millions)	Year ended December 31,								
	2016	2015	2014	2016	2015	2014	2016	2015	2014
	Retail Banking			Commercial Banking			Other		

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Net interest income (loss)	\$459.4	\$453.0	\$462.1	\$530.9	\$509.6	\$596.4	\$42.3	\$(12.2)	\$(17.6)
Noninterest income (loss)	\$51.4	\$46.3	\$14.5	\$96.0	\$71.8	\$(63.9)	\$35.5	\$65.3	\$37.7
Noninterest expense	\$230.5	\$199.6	\$197.8	\$178.1	\$164.5	\$189.4	\$207.3	\$176.8	\$145.8
Pretax income (loss)	\$170.1	\$212.0	\$181.3	\$377.9	\$382.2	\$293.4	\$24.2	\$(15.5)	\$(27.7)

Retail Banking

The Retail Banking segment reported pretax income of \$170.1 million for the year ended December 31, 2016, compared to \$212.0 million for the same period in 2015. The decrease in pretax income for this segment for the year ended December 31, 2016 was primarily driven by an increase in noninterest expense, which was partially offset by increases in net interest income and noninterest income.

Net interest income for this segment increased \$6.4 million or 1% to \$459.4 million for the year ended December 31, 2016, compared to \$453.0 million for the same period in 2015. The increase in net interest income was primarily due to the growth in core deposits for the segment, partially offset by lower discount accretion to interest income from the purchased credit impaired ("PCI") loan portfolio and lower-yielding single-family residential loans, compared to loans in the portfolio during the same periods in 2015.

Noninterest income for this segment increased \$5.1 million or 11% to \$51.4 million for the year ended December 31, 2016, compared to \$46.3 million for the same period in 2015. The increase in noninterest income was attributable to a decrease in the reduction of changes in FDIC indemnification asset and receivable/payable, as all shared-loss agreements with the FDIC were early terminated in 2015, and an increase in derivative income. The increase in noninterest income was partially offset by decreases in net gains on sales of loans and wealth management fees.

Noninterest expense for this segment increased \$30.9 million or 15% to \$230.5 million for the year ended December 31, 2016, compared to \$199.6 million for the same period in 2015. The increase was primarily due to higher consulting expense, compensation and employee benefits, deposit insurance premiums and regulatory assessments and data processing expense.

Comparing the years ended December 31, 2015 and 2014, the Retail Banking segment reported pretax income of \$212.0 million for the year ended December 31, 2015, compared to pretax income of \$181.3 million for the same period in 2014. The increase of \$30.7 million or 17% in earnings for this segment was due to higher noninterest income and lower provision for credit losses, partially offset by lower net interest income. Net interest income for this segment decreased \$9.1 million or 2%, to \$453.0 million for the year ended December 31, 2015, compared to \$462.1 million for the same period in 2014. The reduction in net interest income was primarily due to lower discount accretion to interest income from the PCI loan portfolio and sale of single-family residential loans. Noninterest income for this segment increased \$31.8 million or 219% to \$46.3 million for the year ended December 31, 2015, compared to \$14.5 million for the same period in 2014. The increase was primarily due to a decrease in the reduction of changes in FDIC indemnification asset and receivable/payable, partially offset by lower net gains on sales of loans. Noninterest expense for this segment increased \$1.8 million or 1% to \$199.6 million for the year ended December 31, 2015, compared to \$197.8 million for the same period in 2014. The increase in noninterest expense was primarily due to higher compensation and employee benefits, partially offset by lower deposit insurance premiums and regulatory assessments.

Commercial Banking

The Commercial Banking segment reported pretax income of \$377.9 million for the year ended December 31, 2016, compared to \$382.2 million for the same period in 2015. The decrease of \$4.3 million or 1% in pretax income for this segment was attributable to increases in noninterest expense and provision for credit losses, partially offset by increases in noninterest income and net interest income.

Net interest income for this segment increased \$21.3 million or 4% to \$530.9 million for the year ended December 31, 2016, compared to \$509.6 million for the same period in 2015. The increase in net interest income for the year ended December 31, 2016 was due to the growth of CRE and C&I loans, partially offset by the lower discount accretion to

interest income from the PCI loan portfolio.

Noninterest income for this segment increased \$24.2 million or 34% to \$96.0 million for the year ended December 31, 2016, compared to \$71.8 million for the same period in 2015. The increase was attributable to a decrease in the reduction of changes in FDIC indemnification asset and receivable/payable, as discussed above under “Retail Banking”, and increases in ancillary loan fees, letters of credit fees and foreign exchange income, partially offset by decreases in net gains on sales of loans and derivative fees and other income.

Noninterest expense for this segment increased \$13.6 million or 8% to \$178.1 million for the year ended December 31, 2016, compared to \$164.5 million for the same period in 2015. The increase in noninterest expense was primarily due to increases in compensation and employee benefits, OREO expense and consulting expense, partially offset by decreases in legal and loan-related expenses.

Comparing the years ended December 31, 2015 and 2014, the Commercial Banking segment reported pretax income of \$382.2 million for the year ended December 31, 2015, compared to \$293.4 million for the same period in 2014. The increase of \$88.8 million or 30% in earnings for this segment was due to an increase in noninterest income and decreases in noninterest expense and provision for credit losses, partially offset by a decrease in net interest income. Net interest income for this segment decreased \$86.8 million or 15%, to \$509.6 million for the year ended December 31, 2015, compared to \$596.4 million for the same period in 2014. The decrease in net interest income was primarily due to lower discount accretion to interest income from the PCI loan portfolio. Noninterest income for this segment increased \$135.7 million or 212%, to income of \$71.8 million for the year ended December 31, 2015, compared to a noninterest loss of \$63.9 million for the same period in 2014. The increase was primarily due to a decrease in the reduction of changes in FDIC indemnification asset and receivable/payable and higher net gains on sales of loans. Noninterest expense for this segment decreased \$24.9 million or 13%, to \$164.5 million for the year ended December 31, 2015, compared to \$189.4 million for the same period in 2014. The decrease in noninterest expense was largely attributed to a decrease in legal expense, partially offset by an increase in compensation and employee benefits.

Other

The Other segment reported pretax income of \$24.2 million for the year ended December 31, 2016, compared to pretax loss of \$15.5 million for the same period in 2015. The increase in pretax income for this segment for the year ended December 31, 2016 was driven by an increase in net interest income, partially offset by a decrease in noninterest income and an increase in noninterest expense.

Net interest income for this segment increased \$54.5 million to \$42.3 million for the year ended December 31, 2016, compared to a net interest loss of \$12.2 million for the same period in 2015. The Other segment includes the activities of the treasury function, which is responsible for the liquidity and interest rate risk management of the Company, and supports the Retail Banking and Commercial Banking segments through internal transfer pricing credits and charges, which are included in net interest income. The increase in net interest income for the year ended December 31, 2016 was primarily due to an increase in interest income from investment securities and resale agreements, a decrease in interest expense on repurchase agreements, and a reduction in net transfer pricing paid.

Noninterest income for this segment decreased \$29.8 million or 46% to \$35.5 million for the year ended December 31, 2016, compared to \$65.3 million recorded for the same period in 2015. The decrease in noninterest income for the year ended December 31, 2016 was primarily due to lower net gains on sales of available-for-sale investment securities.

Noninterest expense for this segment increased \$30.5 million or 17% to \$207.3 million for the year ended December 31, 2016, compared to \$176.8 million for the same period in 2015. This increase was primarily due to higher amortization of tax credit and other investments and compensation and employee benefits, partially offset by repurchase agreements' extinguishment costs incurred in 2015 and lower consulting expense.

Comparing the years ended December 31, 2015 and 2014, the Other segment reported pretax loss of \$15.5 million for 2015, compared to pretax loss of \$27.7 million for 2014. The decrease in losses was due to lower net interest loss and higher noninterest income, partially offset by an increase in noninterest expense. Net interest loss for this segment decreased \$5.4 million or 31%, to \$12.2 million for the year ended December 31, 2015, compared to \$17.6 million for the same period in 2014. Noninterest income for this segment increased \$27.6 million or 73%, to \$65.3 million for the year ended December 31, 2015, compared to \$37.7 million for the same period in 2014. The increase was primarily due to higher net gains on sales of available-for-sale investment securities. Noninterest expense for this segment increased \$31.0 million or 21%, to \$176.8 million for the year ended December 31, 2015, compared to \$145.8 million for the same period in 2014. The increase was primarily due to the extinguishment costs related to repurchase agreements incurred in 2015, and increases in compensation and employee benefits and consulting expense in the

same period, partially offset by reductions in amortization of tax credit and other investments and other one-time merger and integration expense related to the MetroCorp acquisition in 2014.

Balance Sheet Analysis

Total assets increased \$2.44 billion or 8% to \$34.79 billion as of December 31, 2016, compared to \$32.35 billion as of December 31, 2015. The increase in total assets was primarily attributable to the increases of \$1.86 billion or 8% in net loans held-for-investment, \$517.6 million or 38% in cash and cash equivalents, \$400.0 million or 25% in resale agreements and \$144.0 million in the held-to-maturity investment security, partially offset by a decrease of \$437.4 million or 12% in available-for-sale investment securities.

The \$1.86 billion increase in net loans held-for-investment was primarily driven by growth in the loan portfolio, mainly from increases of \$649.0 million in C&I loans, \$590.8 million in CRE loans, \$501.4 million in residential loans and \$118.2 million in consumer loans. The \$517.6 million increase in cash and cash equivalents was largely due to cash inflow versus outflows from fundings, payments and cash requirements related to normal operating activities. The \$400.0 million increase in resale agreements was due to \$1.55 billion of purchases of resale agreements, partially offset by \$1.50 billion of paydowns and maturities of resale agreements during the year ended December 31, 2016. The increase was also due to a \$350.0 million decrease in resale and repurchase agreements that were eligible for netting as of December 31, 2016 compared to December 31, 2015. The \$144.0 million increase in held-to-maturity investment security was the result of a securitization of multifamily real estate loans entered into by the Company during the first quarter of 2016. The \$437.4 million decrease in available-for-sale investment securities was largely due to decreases of \$494.0 million in U.S. government agency and U.S. government sponsored enterprise debt securities and \$278.0 million in U.S. Treasury securities, partially offset by increases of \$294.1 million in foreign bonds and \$176.5 million in U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities.

Total liabilities increased \$2.13 billion or 7% to \$31.36 billion as of December 31, 2016, compared to \$29.23 billion as of December 31, 2015. The increase in total liabilities funded the asset growth. This net increase was primarily attributable to the increases of \$2.42 billion or 9% in customer deposits and \$350.0 million in repurchase agreements, partially offset by a decrease of \$697.8 million or 68% in FHLB advances.

Total customer deposits grew to \$29.89 billion as of December 31, 2016, largely due to increases in noninterest-bearing demand deposits of \$1.53 billion, money market deposits of \$1.24 billion, and savings and interest-bearing checking accounts of \$647.6 million. Such increases in customer deposits were partially offset by a decrease in time deposits of \$1.00 billion as a result of reductions in public deposits. The \$350.0 million increase in repurchase agreements was due to a \$350.0 million decrease in resale and repurchase agreements that were eligible for netting as of December 31, 2016 compared to December 31, 2015 as discussed in the preceding paragraph. The \$697.8 million decrease in FHLB advances was primarily due to the repayment of \$700.0 million of short-term FHLB advances which matured in the first quarter of 2016.

Total stockholders' equity increased \$304.8 million or 10% to \$3.43 billion as of December 31, 2016, compared to \$3.12 billion as of December 31, 2015. This increase was primarily due to changes in net income after common stock dividends paid.

The following discussion provides additional information about the major components of the Consolidated Balance Sheet.

Investment Securities

Income from investment securities provides a significant portion of the Company's total income, primarily from available-for-sale investment securities. The Company aims to maintain an investment portfolio, which consists of high quality and liquid securities with relatively short durations to minimize overall interest rate and liquidity risk.

The Company's available-for-sale investment securities provide:

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

Held-to-maturity security

During the first quarter of 2016, the Company securitized \$201.7 million of multifamily loans and retained \$160.1 million of the senior tranche of the resulting securities from the securitization as held-to-maturity, which is carried at amortized cost. The held-to-maturity security is a non-agency commercial mortgage-backed security maturing on April 25, 2046. Management intends to, and the Company has the ability to, hold the security to maturity.

Available-for-sale investment securities

The Company's available-for-sale investment securities portfolio consists primarily of U.S. Treasury securities, U.S. government agency and U.S. government sponsored enterprise debt securities, U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities, municipal securities, corporate debt securities and foreign bonds. Investments classified as available-for-sale are carried at their estimated fair values with the corresponding changes in fair values recorded in Accumulated other comprehensive loss, net of tax, as a component of Stockholders' equity on the Consolidated Balance Sheets.

The following table provides a breakout of the amortized cost and fair value of available-for-sale investment securities by major categories as of the dates indicated:

(\$ in thousands)	December 31,		2015		2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-sale investment securities:						
U.S. Treasury securities	\$730,287	\$720,479	\$1,002,874	\$998,515	\$873,101	\$873,435
U.S. government agency and U.S. government sponsored enterprise debt securities	277,891	274,866	771,288	768,849	311,927	311,024
U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities	1,539,044	1,525,546	1,350,673	1,349,058	926,369	932,508
Municipal securities	148,302	147,654	173,785	175,649	245,408	250,448
Non-agency residential mortgage-backed securities	11,592	11,477	62,133	62,393	52,694	53,918
Non-agency commercial mortgage-backed securities	—	—	—	—	34,000	34,053
Corporate debt securities	232,381	231,550	292,341	289,074	99,117	95,056
Foreign bonds	405,443	383,894	90,586	89,795	39,510	39,318
Other securities	40,501	40,329	40,149	39,893	37,181	36,857
Total available-for-sale investment securities	\$3,385,441	\$3,335,795	\$3,783,829	\$3,773,226	\$2,619,307	\$2,626,617

Total fair value of available-for-sale investment securities decreased by \$437.4 million or 12% to \$3.34 billion as of December 31, 2016, compared with \$3.77 billion as of December 31, 2015. The primary drivers of this decrease were:

- \$278.0 million decrease in U.S. Treasury securities primarily due to \$820.9 million of sales and \$110.0 million of maturities, partially offset by \$661.8 million of purchases;

- \$494.0 million decrease in U.S. government agency and U.S. government sponsored enterprise debt securities primarily due to \$618.9 million of securities called and \$57.0 million of maturities, partially offset by \$190.3 million of purchases; and

- \$294.1 million increase in foreign bonds primarily due to purchases of multilateral development bank bonds of \$374.9 million. These purchases were partially offset by calls of \$50.0 million.

The Company recorded net gains totaling \$10.4 million, \$40.4 million, and \$10.9 million on sales of available-for-sale investment securities for the years ended December 31, 2016, 2015, and 2014, respectively. The available-for-sale

investment portfolio had net unrealized losses of \$49.6 million and \$10.6 million as of December 31, 2016 and 2015, respectively. The changes in the net unrealized amount were primarily attributed to an increase in interest rates. As of December 31, 2016 and 2015, available-for-sale investment securities with a fair value of \$767.4 million and \$873.0 million, 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.

Securities in an unrealized loss position are analyzed periodically for other-than-temporary impairment ("OTTI"). No OTTI was recognized for the years ended December 31, 2016, 2015 and 2014. For complete discussion and disclosure, see Note 1 — Summary of Significant Accounting Policies, Note 3 — Fair Value Measurement and Fair Value of Financial Instruments, and Note 5 — Investment Securities to the Consolidated Financial Statements.

The following table presents the weighted average yields and contractual maturity distribution, excluding periodic principal payments, of the Company's investment securities as of the periods indicated. Actual maturities of mortgage-backed securities can differ from contractual maturities as the borrowers have the right to prepay the obligations. In addition, such factors as prepayments and interest rate changes may affect the yields on the carrying values of mortgage-backed securities.

(\$ in thousands)	December 31, 2016			2015		
	Amortized Cost	Fair Value	Yield ⁽¹⁾	Amortized Cost	Fair Value	Yield ⁽¹⁾
Available-for-sale investment securities:						
U.S. Treasury securities:						
Maturing in one year or less	\$ 100,707	\$ 100,653	0.65 %	\$ 110,513	\$ 110,439	0.50 %
Maturing after one year through five years	376,580	371,917	1.27 %	790,117	785,929	1.17 %
Maturing after five years through ten years	253,000	247,909	1.59 %	102,244	102,147	1.78 %
Total	730,287	720,479	1.29 %	1,002,874	998,515	1.16 %
U.S. government agency and U.S. government sponsored enterprise debt securities:						
Maturing in one year or less	118,966	118,982	0.94 %	538,737	537,393	1.03 %
Maturing after one year through five years	52,622	52,630	1.38 %	143,448	143,057	1.02 %
Maturing after five years through ten years	81,829	78,977	2.07 %	89,103	88,399	1.91 %
Maturing after ten years	24,474	24,277	2.50 %	—	—	— %
Total	277,891	274,866	1.49 %	771,288	768,849	1.13 %
U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities:						
Maturing after one year through five years	47,278	46,950	1.74 %	45,635	45,379	1.09 %
Maturing after five years through ten years	79,379	78,903	3.11 %	257,707	256,086	2.10 %
Maturing after ten years	1,412,387	1,399,693	2.34 %	1,047,331	1,047,593	1.74 %
Total	1,539,044	1,525,546	2.36 %	1,350,673	1,349,058	1.78 %
Municipal securities ⁽²⁾ :						
Maturing in one year or less	6,404	6,317	2.56 %	—	—	— %
Maturing after one year through five years	127,178	127,080	2.31 %	140,602	142,781	2.32 %
Maturing after five years through ten years	9,785	9,515	2.50 %	25,515	25,252	2.48 %
Maturing after ten years	4,935	4,742	3.95 %	7,668	7,616	3.94 %
Total	148,302	147,654	2.40 %	173,785	175,649	2.42 %
Non-agency residential mortgage-backed securities:						
Maturing after ten years	11,592	11,477	2.52 %	62,133	62,393	3.20 %
Corporate debt securities:						
Maturing in one year or less	12,671	11,347	1.80 %	12,741	10,822	1.29 %
Maturing after five years through ten years	40,479	40,500	2.40 %	79,890	79,096	1.68 %
Maturing after ten years	179,231	179,703	2.26 %	199,710	199,156	1.89 %
Total	232,381	231,550	2.26 %	292,341	289,074	1.81 %
Foreign bonds:						
Maturing in one year or less	304,427	287,695	2.09 %	54,515	54,189	1.04 %
Maturing after one year through five years	101,016	96,199	2.11 %	36,071	35,606	2.22 %
Total	405,443	383,894	2.09 %	90,586	89,795	1.51 %
Other securities:						
Maturing in one year or less	40,501	40,329	2.72 %	40,149	39,893	2.71 %

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Maturing in one year or less	583,676	565,323		756,655	752,736
Maturing after one year through five years	704,674	694,776		1,155,873	1,152,752
Maturing after five years through ten years	464,472	455,804		554,459	550,980
Maturing after ten years	1,632,619	1,619,892		1,316,842	1,316,758
Total available-for-sale investment securities	\$3,385,441	\$3,335,795		\$3,783,829	\$3,773,226

Held-to-maturity investment security:

Non-agency commercial mortgage-backed security:

Maturing after ten years	\$143,971	\$144,593	3.91 %	\$—	\$—	— %
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(1) Weighted average yields are computed based on amortized cost balances.

(2) Yields on tax exempt securities are not presented on a tax-equivalent basis.

Total Loan Portfolio

The Company offers a broad range of financial products designed to meet the credit needs of its borrowers. The Company's loan portfolio segments include CRE, C&I, residential and consumer. Net loans, including loans held-for-sale, increased \$1.85 billion or 8% from \$23.41 billion as of December 31, 2015 to \$25.27 billion as of December 31, 2016. The increase was largely attributable to increases of \$649.0 million or 7% in C&I loans, \$590.8 million or 7% in CRE loans, \$501.4 million or 11% in residential loans and \$118.2 million or 6% in consumer loans.

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

(\$ in thousands)	December 31,		2015		2014		2013		2012	
	2016		Amount ⁽¹⁾	%	Amount ⁽¹⁾	%	Amount ⁽¹⁾	%	Amount ⁽¹⁾	%
CRE:										
Income producing	\$8,016,109	31 %	\$7,471,812	32 %	\$6,253,195	29 %	\$5,265,861	30 %	\$4,742,418	33 %
Construction	551,560	2 %	434,623	2 %	332,135	1 %	225,098	1 %	394,517	2 %
Land	123,194	1 %	193,637	1 %	231,061	1 %	182,937	1 %	180,094	1 %
Total CRE	8,690,863	34 %	8,100,072	35 %	6,816,391	31 %	5,673,896	32 %	5,317,029	36 %
C&I:										
Commercial business	8,959,633	35 %	8,201,764	35 %	7,180,848	33 %	4,884,737	27 %	3,924,096	26 %
Trade finance	680,930	3 %	789,771	3 %	895,602	4 %	875,911	5 %	843,683	6 %
Total C&I	9,640,563	38 %	8,991,535	38 %	8,076,450	37 %	5,760,648	32 %	4,767,779	32 %
Residential:										
Single-family	3,509,779	14 %	3,069,969	13 %	3,872,141	18 %	3,474,701	19 %	2,522,889	17 %
Multifamily	1,585,939	6 %	1,524,367	6 %	1,451,918	7 %	1,369,051	8 %	1,484,253	10 %
Total residential	5,095,718	20 %	4,594,336	19 %	5,324,059	25 %	4,843,752	27 %	4,007,142	27 %
Consumer:										
Student loans	—	— %	—	— %	—	— %	637,241	4 %	442,963	3 %
Other consumer	2,075,995	8 %	1,957,805	8 %	1,513,049	7 %	934,751	5 %	345,407	2 %
Total consumer	2,075,995	8 %	1,957,805	8 %	1,513,049	7 %	1,571,992	9 %	788,370	5 %
Total loans										
held-for-investment ⁽²⁾	\$25,503,139	100 %	\$23,643,748	100 %	\$21,729,949	100 %	\$17,850,288	100 %	\$14,880,320	100 %
Allowance for loan losses	(260,520)		(264,959)		(261,679)		(249,675)		(234,535)	
Loans held-for-sale	23,076		31,958		45,950		204,970		174,317	
Total loans, net	\$25,265,695		\$23,410,747		\$21,514,220		\$17,805,583		\$14,820,102	

Includes \$1.2 million, \$(16.0) million, \$2.8 million, \$(23.7) million and \$(19.3) million as of December 31, 2016, (1)2015, 2014, 2013 and 2012, respectively, of unearned fees, net deferred loan fees, and unamortized premiums and unaccreted discounts.

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

Although the loan portfolio grew 8% in 2016, the loan type composition remained relatively unchanged from December 31, 2015. The Company's largest credit risks are concentrated in the commercial lending portfolios, comprised of C&I and CRE loans. The commercial lending portfolios comprised 72% and 73% of the total loan portfolio as of December 31, 2016 and 2015, respectively, and are discussed further below.

C&I Loans. C&I loans of \$9.64 billion and \$9.0 billion as of December 31, 2016 and 2015, respectively, which includes commercial business and trade finance loans, accounted for 38% of the total loan portfolio in both years, and comprises the largest sector in the lending portfolio. Over the last few years, the Company has experienced higher growth in its specialized lending verticals in industries such as entertainment, private equity, technology, health care and energy. As of December 31, 2016 and 2015, specialized lending verticals comprised approximately 37% and 31% of total C&I loans, respectively.

Although the C&I industry sectors in which the Company provides financing are diversified, the Company had higher concentrations in the industry sectors of wholesale trade (which includes \$680.9 million and \$789.8 million of trade finance loans as of December 31, 2016 and 2015, respectively), manufacturing, real estate and leasing, entertainment, and private equity. The Company's exposures within wholesale trade are largely to U.S. domiciled companies, which import goods from Greater China for U.S. consumer consumption, many of which are based in California. The private equity loans are largely capital call lines of credit. The Company also has a syndicated loan portfolio within the C&I loan portfolio, which totaled \$755.9 million and \$462.1 million as of December 31, 2016 and 2015, respectively. The Company monitors concentrations within the C&I loan portfolio by customer exposure and industry classifications, setting limits for specialized lending verticals and setting diversification targets.

CRE Loans. CRE loans include income producing real estate, construction and land loans where interest rates may be fixed, variable, or hybrid. The Company focuses on providing financing to experienced real estate investors and developers who are long-time customers and have moderate levels of leverage. Loans are generally underwritten with high standards for cash flow, debt service coverage ratios, and loan-to-value ratios. Due to the nature of the Company's geographical footprint and market presence, the Company has CRE loan concentrations in California, which comprised 74% and 75% of the CRE loan portfolio as of December 31, 2016 and 2015, respectively, where changes in the California economy and real estate values could have a significant impact on the collectability of these loans and the required level of allowance for loan losses. Approximately 19% and 20% of the CRE loans as of December 31, 2016 and 2015, respectively, are owner occupied properties, while the remaining 81% and 80% are non-owner occupied (where 50% or more of the debt service for the loan is provided by rental income) as of December 31, 2016 and 2015, respectively. Within the income producing CRE category, the Company had higher concentrations in retail and strip centers, industrial and office buildings as of December 31, 2016 and 2015.

The Company had \$551.6 million of construction loans and \$526.4 million of unfunded commitments as of December 31, 2016, compared to \$434.6 million of construction loans and \$527.4 million of unfunded commitments as of December 31, 2015. The composition of the construction portfolio as of December 31, 2016 and 2015 was largely in the financing of the construction of hotels, mixed use (residential and retail), multifamily and residential condominiums.

Residential Loans. Residential loans are comprised of single-family and multifamily loans. The Company offers first lien mortgage loans secured by one-to-four unit residential properties located in its primary lending areas. The Company offers a variety of first lien mortgage loan programs, including fixed rate conforming loans and adjustable rate mortgage ("ARM") loans with initial fixed periods of one to five years, which adjust annually thereafter. The Company's multifamily loan portfolio is largely comprised of loans secured by smaller multifamily properties ranging from five to 15 units, in its primary lending areas. Approximately 73% and 79% of the Company's residential loans are concentrated in California as of December 31, 2016 and 2015. Many of the single-family residential loans within the Company's portfolio are reduced documentation loans where a substantial down payment is required, resulting in a low loan to value ratio, typically 60% or less. These loans have historically experienced low delinquency and default rates.

Consumer Loans. Consumer loans are comprised of home equity lines of credit ("HELOCs"), auto loans, and insurance premium financing loans. As of December 31, 2016 and 2015, the Company's HELOCs are the largest component of the consumer loan portfolio, and are secured by one-to-four unit residential properties located in its primary lending areas. The HELOCs loan portfolio is largely comprised of loans originated through a reduced documentation loan program, where a substantial down payment is required, resulting in a low loan to value ratio, typically 60% or less. The Company is in a first lien position for many of these reduced documentation HELOCs. These loans have historically experienced low delinquency and default rates.

The Company's total loan portfolio includes originated and purchased loans. Originated and purchased loans, for which there was no evidence of credit deterioration at their acquisition date, are referred to collectively as

non-purchased credit impaired (“non-PCI”) loans. Acquired loans for which there was, at the acquisition date, evidence of credit deterioration are referred to as PCI loans. PCI loans are recorded net of ASC 310-30 discount and totaled \$642.4 million and \$970.8 million, respectively, as of December 31, 2016 and 2015. For additional details regarding PCI loans, see Note 7 — Loans Receivable and Allowance for Credit Losses to the Consolidated Financial Statements.

The Company’s overseas offices include the branch in Hong Kong and the subsidiary bank in China. As of December 31, 2016, 2015 and 2014, loans held in the Hong Kong branch totaled \$733.3 million, \$694.6 million and \$423.4 million, respectively. As of December 31, 2016, 2015 and 2014, loans held in the subsidiary bank in China totaled \$425.3 million, \$356.5 million and \$271.8 million, respectively. These overseas loans are largely comprised of C&I loans to cross-border or trade finance companies. In total, these loans represent approximately 3%, 3% and 2% of total consolidated assets as of December 31, 2016, 2015 and 2014, respectively. These loans are included in the total loan portfolio table.

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 the lower of cost or fair value. Transfers of loans held-for-investment to loans held-for-sale were \$814.2 million for the year ended December 31, 2016. These loan transfers were comprised of C&I, multifamily residential and CRE loans. In comparison, \$1.69 billion and \$837.4 million of loans held-for-investment were transferred to loans held-for-sale during the years ended December 31, 2015 and 2014, respectively. These loan transfers were comprised primarily of single-family residential and C&I loans for the year ended December 31, 2015, and consumer and C&I loans for the year ended December 31, 2014. The Company recorded \$1.9 million, \$5.1 million and \$5.2 million, respectively, 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 years ended December 31, 2016, 2015 and 2014.

During the year ended December 31, 2016, the Company sold or securitized \$571.3 million in originated loans, which were primarily comprised of \$262.9 million of multifamily loans, \$175.1 million of C&I loans and \$115.2 million of CRE loans, resulting in net gains of \$11.5 million. During the same period, the Company also 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. In comparison, during the year ended December 31, 2015, the Company sold \$1.04 billion in originated loans, which were primarily comprised of \$907.4 million of single-family residential loans and \$127.7 million of C&I loans, resulting in net gains of \$26.1 million. During the year ended December 31, 2014, the Company sold \$68.1 million in originated loans, which were primarily comprised of \$67.0 million of C&I loans, resulting in net gains of \$7.2 million. Excluding the impact of the \$571.3 million in originated loans sold and securitized, organic loan growth during the year ended December 31, 2016 was \$2.43 billion or 10%.

From time to time, the Company purchases and sells loans in the secondary market. The Company purchased approximately \$1.14 billion, \$282.4 million and \$865.2 million of loans during the years ended December 31, 2016, 2015 and 2014, respectively. The increase in the loans purchased in 2016, compared to 2015, was primarily due to the purchase of single-family residential loans that were made to low-to-moderate income borrowers. Other loan purchases were largely made within the Company's syndicated loan portfolio, which is discussed above. Certain purchased loans were transferred from loans held-for-investment to loans held-for-sale and a write-down to allowance for loan losses was recorded, where appropriate. During the year ended December 31, 2016, the Company sold \$259.1 million of loans in the secondary market at net gains of \$188 thousand. In comparison, the Company sold \$661.9 million and \$1.02 billion, respectively, of loans in the secondary market during the years ended December 31, 2015 and 2014, resulting in net gains of \$1.7 million and \$31.9 million, respectively, during the same periods.

For the years ended December 31, 2016 and 2015, the Company recorded valuation adjustments of \$5.6 million and \$3.0 million, respectively, in Net gains on sales of loans on the Consolidated Statements of Income to carry the loans held-for-sale portfolio at the lower of cost or fair value. No such valuation adjustment was recorded for the year ended December 31, 2014.

The following table shows the contractual loan maturities by loan segments:

(\$ in thousands)	Within One Year	After One But Within Five Years	More Than Five Years	Total
CRE	\$1,031,625	\$3,084,306	\$4,574,932	\$8,690,863
C&I	3,402,510	4,569,628	1,668,425	9,640,563

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Residential	73,965	307,548	4,714,205	5,095,718
Consumer	56,341	203,963	1,815,691	2,075,995
Total loans ⁽¹⁾	\$4,564,441	\$8,165,445	\$12,773,253	\$25,503,139

Distribution of loans to changes in interest rates:

Fixed rate loans	\$541,958	\$592,646	\$1,149,020	\$2,283,624
Variable rate loans	3,957,753	7,374,838	8,059,541	19,392,132
Hybrid adjustable-rate loans	64,730	197,961	3,564,692	3,827,383
Total loans ⁽¹⁾	\$4,564,441	\$8,165,445	\$12,773,253	\$25,503,139

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

Non-PCI Nonperforming Assets

Non-PCI nonperforming assets are comprised of nonaccrual loans and OREO, net. Loans are placed on nonaccrual status when they become 90 days past due or when the full collection of principal or interest becomes uncertain regardless of the length of past due status. The following table presents information regarding non-PCI nonperforming assets and performing troubled debt restructurings (“TDRs”) as of the dates indicated:

(\$ in thousands)	December 31,					
	2016	2015	2014	2013	2012	
Nonaccrual loans	\$122,817	\$121,698	\$100,262	\$129,315	\$135,490	
OREO, net	6,745	7,034	32,111	40,273	59,719	
Total nonperforming assets	\$129,562	\$128,732	\$132,373	\$169,588	\$195,209	
Performing TDRs	\$83,238	\$43,743	\$68,338	\$71,826	\$94,580	
Non-PCI nonperforming assets to total assets	0.37	% 0.40	% 0.46	% 0.69	% 0.87	%
Non-PCI nonaccrual loans to loans held-for-investment	0.48	% 0.51	% 0.46	% 0.72	% 0.91	%
Allowance for loan losses to non-PCI nonaccrual loans	212.12	% 217.72	% 261.00	% 193.08	% 173.10	%

Typically, changes to nonaccrual loans period-over-period represent inflows for loans that are placed on nonaccrual status in accordance with the Company’s accounting policy, offset by reductions for loans that are paid down, charged off, sold, foreclosed, or no longer classified as nonaccrual as a result of continued performance and improvement in the borrower’s financial condition and loan repayment capabilities. Nonaccrual loans increased slightly to \$122.8 million as of December 31, 2016 from \$121.7 million as of December 31, 2015. Nonaccrual loans increased by \$21.4 million or 21% from \$100.3 million as of December 31, 2014 to \$121.7 million as of December 31, 2015, mainly due to three TDR commercial loans and one commercial loan where payments are current but was placed on nonaccrual status during 2015 due to future cash flow concerns. This increase was partially offset by payoffs and principal paydowns in 2015.

As of December 31, 2016, \$78.8 million or 64% of the \$122.8 million non-PCI nonaccrual loans consisted of loans which were less than 90 days past due. In comparison, approximately \$69.3 million or 57% of the \$121.7 million non-PCI nonaccrual loans consisted of loans which were less than 90 days past due as of December 31, 2015. For additional details regarding the Company’s non-PCI nonaccrual loans policy, see Note 1 — Summary of Significant Accounting Policies to the Consolidated Financial Statements.

TDRs may be designated as performing or nonperforming. A TDR may be designated as performing, if the loan has demonstrated sustained performance under the modified terms. The period of sustained performance may include the periods prior to modification if prior performance has met or exceeded the modified terms. A loan will remain on nonaccrual status until the borrower demonstrates a sustained period of performance, generally six consecutive months of payments.

The following table presents the performing and nonperforming TDRs by loan segments as of December 31, 2016 and 2015:

(\$ in thousands)	December 31,		2015	
	Performing TDRs	Nonperforming TDRs	Performing TDRs	Nonperforming TDRs

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CRE	\$20,145	\$ 14,446	\$11,530	\$ 8,333
C&I	44,363	23,771	17,205	34,240
Residential	17,178	717	13,766	10,522
Consumer	1,552	49	1,242	—
Total TDRs	\$83,238	\$ 38,983	\$43,743	\$ 53,095

Performing TDRs increased \$39.5 million or 90% to \$83.2 million as of December 31, 2016, primarily due to one CRE loan and three C&I loans becoming TDRs in 2016. Nonperforming TDRs decreased \$14.1 million or 27% to \$39.0 million as of December 31, 2016, primarily due to the charge-offs of two C&I loans and payoff of one residential loan.

The Company's impaired loans include predominantly non-PCI loans held-for-investment on nonaccrual status and any non-PCI loans modified as a TDR, on either accrual or nonaccrual status. See Note 1 — Summary of Significant Accounting Policies to the Consolidated Financial Statements for additional information regarding the Company's TDRs and impaired loan policies. As of December 31, 2016, the allowance for loan losses included \$12.7 million for impaired loans with a total recorded balance of \$84.1 million. In comparison, the allowance for loan losses included \$20.4 million for impaired loans with a total recorded balance of \$86.2 million as of December 31, 2015.

The following table presents the recorded investment balances for non-PCI impaired loans as of December 31, 2016 and 2015:

(\$ in thousands)	December 31, 2016		December 31, 2015	
	Amount	Percent	Amount	Percent
CRE:				
Income producing	\$46,508	23 %	\$40,216	24 %
Construction	—	— %	14	— %
Land	5,870	3 %	1,345	1 %
Total CRE impaired loans	52,378	26 %	41,575	25 %
C&I:				
Commercial business	120,453	58 %	71,399	43 %
Trade finance	5,166	2 %	10,689	7 %
Total C&I impaired loans	125,619	60 %	82,088	50 %
Residential:				
Single-family	14,335	7 %	15,042	9 %
Multifamily	10,041	5 %	23,751	15 %
Total residential impaired loans	24,376	12 %	38,793	24 %
Consumer	3,682	2 %	1,242	1 %
Total impaired loans	\$206,055	100 %	\$163,698	100 %

Allowance for Credit Losses

Allowance for credit losses consists of allowance for loan losses and allowance for unfunded credit reserves. Unfunded credit reserves include reserves provided for unfunded lending commitments, issued commercial letters of credit and standby letters of credit ("SBLCs") and recourse obligations for loans sold. The allowance for credit losses is increased by the provision for credit losses which is charged against current period operating results, and is increased or decreased by the amount of net recoveries or charge-offs, respectively, during the period. The allowance for unfunded credit reserves is included in Accrued expenses and other liabilities on the Consolidated Balance Sheets. Net adjustments to the allowance for unfunded credit reserves are included in Provision for credit losses on the Consolidated Statements of Income.

The Company is committed to maintaining the allowance for credit losses at a level that is commensurate with the estimated inherent loss in the loan portfolio, including unfunded credit reserves. In addition to regular quarterly reviews of the adequacy of the allowance for credit losses, the Company performs an ongoing assessment of the risks inherent in the loan portfolio. While the Company believes that the allowance for loan losses is appropriate as of December 31, 2016, future allowance levels may increase or decrease based on a variety of factors, including loan growth, portfolio performance and general economic conditions. For additional details on the Company's allowance for credit losses, including the methodologies used, see Item 7. MD&A — Critical Accounting Policies and Estimates, Note 1 — Summary of Significant Accounting Policies and Note 7 — Loans Receivable and Allowance for Credit Losses

to the Consolidated Financial Statements.

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

(\$ in thousands)	Year Ended December 31,				
	2016	2015	2014	2013	2012
Allowance for loan losses, beginning of period	\$264,959	\$261,679	\$249,675	\$234,535	\$216,523
Provision for loan losses	31,718	6,569	47,583	20,207	66,747
Gross charge-offs:					
CRE	(581)	(1,545)	(3,660)	(3,737)	(28,595)
C&I	(47,739)	(20,423)	(39,984)	(8,461)	(26,792)
Residential	(166)	(1,686)	(1,103)	(3,197)	(7,700)
Consumer	(22)	(600)	(5,871)	(2,385)	(1,825)
Total gross charge-offs	(48,508)	(24,254)	(50,618)	(17,780)	(64,912)
Gross recoveries:					
CRE	1,691	7,135	1,982	4,793	9,482
C&I	8,453				