EAST WEST BANCORP INC
Form 10-K
March 02, 2015

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

FORM 10-K
Mark One

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

For the fiscal year ended December 31, 2014

or

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

For the transition period from to .

Commission file number 000-24939

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

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

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

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

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

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

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

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

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

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

Indicate by check mark 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. x

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

Large accelerated filer	x	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 x

The aggregate market value of the registrant's common stock held by non-affiliates was approximately $4,967,770,786 (based on the June 30, 2014 closing price of Common Stock of $34.99 per share).

As of January 31, 2015, 143,583,710 shares of East West Bancorp, Inc. of Common Stock were outstanding.

DOCUMENT INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement relating to its 2015 Annual Meeting of Stockholders, are incorporated by reference into Part III.

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PART I

Certain matters discussed in this Annual Report contain or incorporate statements that East West Bancorp, Inc. (the "Company") 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," "conti "remain," or similar expressions, or future or conditional verbs, such as "will," "would," "should," "could," "may," "might," "c 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 a difference include, but are not limited to:

- our ability to achieve the projected synergies of the MetroCorp Bancshares, Inc. ("MetroCorp") acquisition;
- changes in our borrowers' performance on loans;
- changes in the commercial and consumer real estate markets;
- changes in our costs of operation, compliance and expansion;
- changes in the U.S. economy, including inflation;
- changes in government interest rate policies;
- changes in laws or the regulatory environment;
- changes in the economy of and monetary policy in the People's Republic of China;
- changes in critical accounting policies and judgments;
- changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or other regulatory agencies;
- changes in the equity and debt securities markets;
- changes in competitive pressures on financial institutions;
- effect of additional provision for loan losses;
- effect of government budget cuts and government shut down;
- fluctuations of our stock price;
- success and timing of our business strategies;
- impact of reputational risk created by these developments on such matters as business generation and retention, funding and liquidity;
- impact of potential federal tax increases and spending cuts;
- impact of adverse judgments or settlements in litigation against the Company;
- changes in our ability to receive dividends from our subsidiaries; and
- impact of political developments, wars or other hostilities which may disrupt or increase volatility in securities or otherwise affect economic conditions.

For a more detailed discussion of some of the factors that might cause such differences, see "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.

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ITEM 1. BUSINESS
Organization
East West Bancorp, Inc. East West Bancorp, Inc. (referred to herein on an unconsolidated basis as “East West” and on a consolidated basis as the “Company” or “we”) is a bank holding company incorporated in Delaware on August 26, 1998 and registered under the Bank Holding Company Act of 1956, as amended (“BHCA”). The Company commenced business on December 30, 1998 when, pursuant to a reorganization, it acquired all of the voting stock of East West Bank, or the “Bank”. The Bank is the Company’s principal asset. In addition to the Bank, the Company has six other subsidiaries established as statutory business trusts as of December 31, 2014 (the “Trusts”) and one subsidiary that provides business and consumer insurance services. The Trusts were set up for the purpose of issuing junior subordinated debt to third party investors.
East West’s principal business is to serve as a holding company for the Bank and other banking or banking-related subsidiaries which East West may establish or acquire. East West has not engaged in any other activities to date. As a legal entity separate and distinct from its subsidiaries, East West’s principal source of funds is, and will continue to be, dividends that may be paid by its subsidiaries. East West’s other sources of funds include proceeds from the issuance of its common stock in connection with stock option and employee stock purchase plans. As of December 31, 2014, the Company had $28.74 billion in total consolidated assets, $21.51 billion in net consolidated loans, and $24.01 billion in total consolidated deposits.
The principal office of the Company is located at 135 N. Los Robles Ave., 7th Floor, Pasadena, California 91101, and the telephone number is (626) 768-6000.
East West Insurance Services, Inc. On August 22, 2000, East West completed the acquisition of East West Insurance Services, Inc. (the “Agency”) in a stock exchange transaction. The Agency provides business and consumer insurance services primarily to the Southern California market. The Agency runs its operations autonomously from the operations of the Company. The operations of the Agency are limited and are not deemed material in relation to the overall operations of the Company.
East West Bank. East West Bank was chartered by the Federal Home Loan Bank Board in June 1972, as the first federally chartered savings institution focused primarily on the Chinese-American community, and opened for business at its first office in the Chinatown district of Los Angeles in January 1973. From 1973 until the early 1990’s, the Bank conducted a traditional savings and loan business by making predominantly long-term, single-family and multifamily residential loans and commercial real estate (“CRE”) loans. These loans were made principally within the ethnic Chinese market in Southern California and were funded primarily with retail savings deposits and advances from the Federal Home Loan Bank (“FHLB”) of San Francisco. The Bank has emphasized commercial lending since its conversion to a state-chartered commercial bank on July 31, 1995 and also provides commercial business and trade finance loans for companies primarily located in the U.S.
As of December 31, 2014, the Bank has three wholly owned subsidiaries. The first subsidiary, E-W Services, Inc., is a California corporation organized by the Bank in 1977. E-W Services, Inc. holds property used by the Bank in its operations. The second subsidiary, East-West Investments, Inc., primarily acts as a trustee in connection with real estate secured loans. The remaining subsidiary is East West Bank (China) Limited.
On November 6, 2009, the Bank 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 liabilities with a fair value of approximately $481.3 million were assumed. Both of these transactions were Federal Deposit Insurance Corporation (“FDIC”)-assisted acquisitions.
On January 17, 2014, the Bank completed the acquisition of 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 presence, primarily in Texas, within the markets of

Houston and Dallas, and in California, within the San Diego market. The purchase consideration was satisfied with two thirds in East West stock and one third in cash. Approximately $1.70 billion of assets were acquired and $1.41 billion of liabilities were assumed.

The Bank has also grown through strategic partnerships. On August 30, 2001, the Bank entered into an agreement with 99 Ranch Market, the largest Asian focused chain of supermarkets on the West Coast, to provide retail banking services in their stores throughout California. The Bank is currently providing in-store banking services in twelve 99 Ranch Market locations in California.

The Bank continues to develop its international banking capabilities. The Bank’s presence includes five full-service branches in Greater China, located in Hong Kong, two in Shanghai including one in the Shanghai Pilot Free Trade Zone, Shantou and Shenzhen. The Bank also has five representative offices in Greater China located in Beijing, Chongqing, Guangzhou, Xiamen and Taiwan. In addition to facilitating traditional letters of credit and trade finance to businesses, these representative offices allow the Bank to assist existing clients, as well as develop new business relationships. Through these offices, the Bank is focused on growing its export-import lending volume by aiding U.S. exporters in identifying and developing new sales opportunities to China-based customers as well as capturing additional letters of credit business generated from China-based exporters through broader correspondent banking relationships.

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

Banking Services

East West Bank is the fifth largest independent commercial bank headquartered in California as of December 31, 2014 based on total assets. East West Bank is the largest bank in the United States that focuses on the financial services needs of individuals and businesses which operate both in the United States and Greater China, as well as having a strong focus on the Chinese American community. Through its network of banking locations in the United States and Greater China, the Bank provides a wide range of personal and commercial banking services to small and medium-sized businesses, business executives, professionals, and other individuals. The Bank offers multilingual services to its customers in English, Cantonese, Mandarin, Vietnamese and Spanish. The Bank also offers a variety of deposit products which includes the traditional range of personal and business checking and savings accounts, time deposits and individual retirement accounts, travelers’ checks, safe deposit boxes, and MasterCard and Visa merchant deposit services. The Bank’s lending activities include commercial and residential real estate, construction, trade finance, and commercial business, including accounts receivable, small business administration (“SBA”), inventory and working capital loans. The Bank generally provides commercial business loans to small and medium-sized businesses. The Bank’s commercial borrowers are engaged in a wide variety of manufacturing, wholesale trade and service businesses. In addition, the Bank is focused on providing financing to clients needing a financial bridge that facilitates their business transactions between Asia and the United States.

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, which includes commercial and industrial (“C&I”) and CRE, primarily generates commercial loans through the efforts of the commercial lending offices located in California, New York, Texas, Washington, Massachusetts, Nevada and Georgia. Furthermore, the Commercial Banking segment also 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 “Other.” For complete discussion and disclosure, see the information in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” (“MD&A”) and Note 20 to the Company’s consolidated financial statements presented elsewhere in this report.

Market Area and Competition

The banking and financial services industry in California generally, and in our market areas specifically, is highly competitive. The increasingly competitive environment is primarily a result of changes in laws and regulations, changes in technology and product delivery systems, as well as continuing consolidation among financial services providers. The Bank competes for loans, deposits, and customers with other commercial banks, and other financial services institutions. Some of these competitors are larger in total assets and capitalization and offer a broader range of financial services than the Bank.

The Bank concentrates on marketing its services in the greater Los Angeles metropolitan area and the greater San Francisco Bay area. Greater China and other Pacific Rim countries continue to grow as California's top trading partners. This provides the Bank with an important competitive advantage to its customers participating in the Asia Pacific marketplace. We believe that our customers benefit from our understanding of Asian markets through our physical presence in the Greater China, our corporate and organizational ties throughout Asia, as well as our international banking products and services. We believe that this approach, combined with the extensive ties of our management and Board of Directors to the growing Asian business opportunities as well as the Chinese-American communities, provides us with an advantage in competing for customers in our market area.

Legislation and Regulatory Developments

The Dodd-Frank Wall Street Reform and Consumer Protection Act

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

Dodd-Frank 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 affecting the financial industry are now either effective or are in the proposed rule or implementation stages.

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 and the Deposit Insurance Fund administered by the FDIC and not for the benefit of stockholders. Set forth below is a brief description of key laws and regulations which relate to our operations. These descriptions are qualified in their entirety by reference to the applicable laws and regulations. The federal and state agencies regulating the financial services industry also frequently adopt changes to their regulations.

East West

As a bank holding company, and pursuant to its election of financial holding company status, East West is subject to regulation and examination by the Federal Reserve Board ("FRB") under the BHCA and its authority to:

- require periodic reports and such additional information as the FRB may require;

- require the Company to maintain certain levels of capital (see “ITEM 1. BUSINESS — Supervision and Regulation — Capital Requirements”);

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

East West may engage in certain nonbanking activities and broader securities, insurance, merchant banking and other activities that are determined to be "financial in nature" or are incidental or complementary to activities that are financial in nature without prior FRB approval pursuant to its election to become a financial holding company. 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 Department of Business Oversight ("DBO"). DBO approvals may also be required for certain mergers and acquisitions.

The Bank

As a California state-chartered bank, the Bank is subject to primary supervision, periodic examination, and regulation by the CFPB, DBO, and by the FRB as the Bank's primary federal regulator. The FRB and the DBO also regulate the Bank's foreign operations. These operations are subject to the supervisory authorities of the host countries in which the Bank's overseas offices reside. Specific federal and state laws and regulations which are applicable to banks regulate, among other things, the scope of their business, their investments, their reserves against deposits, the timing of the availability of deposited funds, and the nature and amount of 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.

Permissible Activities and Subsidiaries

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 ("GLBA"), the Bank may conduct certain "financial" activities in a subsidiary to the same extent as may a national bank, provided the Bank is and remains "well-capitalized," "well-managed" and in satisfactory compliance with the Community Reinvestment Act ("CRA"). Presently, none of the Bank's subsidiaries are financial subsidiaries.

FHLB and Federal Reserve System

The Bank is a member of the FHLB of San Francisco. As an FHLB member, the Bank is required to own a certain amount of capital stock in the FHLB. The Bank may also access FHLB for both short-term and long-term secured borrowing sources. The FRB requires all depository institutions to maintain interest-bearing reserves at specified levels against their transaction accounts. As of December 31, 2014, the Bank was in compliance with these requirements. As a member bank, the Bank is also required to own capital stock in the Federal Reserve Bank.

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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 regulations, the FRB or FDIC may prohibit a bank holding company from paying any dividends if the holding company's bank subsidiary is classified as "undercapitalized." For more information, see "Capital Requirements" below. It is FRB's policy that bank holding companies should generally pay dividends on common stock only out of income available over the past year, and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. It is also FRB'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. Additionally, in consideration of the current financial and economic environment, the FRB has stated that bank holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong.

Capital Requirements

Bank holding companies and banks are subject to various regulatory capital requirements administered by state and federal banking agencies. The regulatory agencies' risk-based capital guidelines are based upon the 1988 capital accord ("Basel I") of the International Basel Committee on Bank Supervision ("Basel Committee"). This is a committee of central banks and bank supervisors/regulators from the major industrialized countries that develops broad policy guidelines that each country's supervisors can use to determine the supervisory policies they apply to their home jurisdiction. The federal banking agencies have adopted risk-based minimum capital adequacy guidelines for bank holding companies and banks, which are intended to provide a measure of capital that reflects the degree of risk associated with a banking organization's operations for both transactions reported on the balance sheet as assets and transactions which are recorded as off-balance sheet items. The risk-based capital ratio is determined by classifying assets and certain off-balance sheet financial instruments into weighted categories, with higher levels of capital being required for those categories perceived as representing greater risk. Bank holding companies and banks engaged in significant trading activity may also be subject to the market risk capital guidelines and be required to incorporate additional market and interest rate risk components into their risk-based capital standards.

Under the current Basel I capital adequacy guidelines, a banking organization's total capital is divided into tiers. "Tier I capital" currently includes common equity and trust preferred securities, is subject to certain criteria and quantitative limits. Under Dodd-Frank, depository institution holding companies, such as the Company, with more than $15 billion in total consolidated assets as of December 31, 2009, will no longer be able to include trust preferred securities as Tier I regulatory capital at the end of a three-year phase-out period in 2016, and may be obligated to replace any outstanding trust preferred securities issued prior to May 19, 2010, with qualifying Tier I regulatory capital during the phase-out period. Tier II capital includes hybrid capital instruments, other qualifying debt instruments, a limited amount of the allowance for loan and lease losses and a limited amount of unrealized holding gains on equity securities. Following the phase-out period under Dodd-Frank, trust preferred securities will be treated as Tier II capital, subject to certain limits and qualifications. The risk-based capital guidelines require a minimum ratio of qualifying total risk-based capital of 8.0% and a minimum ratio of Tier I risk-based capital of 4.0%. An institution is defined as well capitalized if its total risk-based capital ratio is 10.0% or more; its Tier 1 risk-based capital ratio is 6.0% or more; and its Tier 1 leverage ratio is 5.0% or more. Bank holding companies and banks are also required to comply with minimum leverage ratio requirements. The leverage ratio is the ratio of the bank holding company or banking organization's Tier I capital to its total adjusted quarterly average assets (as defined for regulatory purposes). Holding companies and banks are required to maintain a minimum Tier 1 leverage ratio of 4.0%, unless a different minimum is specified by an appropriate regulatory authority. For a depository institution to be considered "well capitalized" under the regulatory framework for prompt corrective action, its Tier 1 leverage ratio must be at least 5.0%. Basel I was replaced by the Basel Committee's new Basel III capital framework effective January 1, 2015, as described in the next section.

As of December 31, 2014, the Company’s and the Bank’s capital ratios exceeded the minimum capital adequacy guideline percentage requirements of the federal banking agencies for “well capitalized” institutions. For complete discussion and disclosure see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Risk-Based Capital” and Note 19 to the Company’s consolidated financial statements presented elsewhere in this report.

In December 2010, the Basel Committee released its final framework for strengthening international capital and liquidity regulation, now officially identified as “Basel III.” Basel III is designed to significantly enhance the original regulatory capital framework under Basel I. In July 2013, the FRB approved final rules implementing Basel III and certain changes required by the Dodd Frank Act, effective on January 1, 2015 (subject to a phase-in period). On July 9, 2013, the Office of the Comptroller of the Currency (“OCC”) adopted the same rules for national banks and federal savings associations, and the FDIC approved the same provisions, as an interim final rule, for state nonmember banks and state savings associations. The final rules apply to all depository institutions and top-tier bank holding companies with assets of $500 million or more.

The Basel III capital rules: (i) introduce a new capital measure called “Common Equity Tier 1” (“CET1”) and related regulatory capital ratio of CET1 to risk-weighted assets; (ii) specify that Tier 1 capital consists of CET1 and “Additional Tier 1 capital” instruments meeting certain revised requirements; (iii) mandate that most deductions/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 1 capital is noncumulative perpetual preferred stock and the most common form of Tier 2 capital is subordinated notes and a portion of the allowance for loan and lease losses, which in each case, are 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 1 capital (that is, CET1 plus Additional Tier 1 capital) to risk-weighted assets;
- 8.0% total capital (that is, Tier 1 capital plus Tier 2 capital) to risk-weighted assets; and
- 4.0% Tier 1 leverage ratio.

The Basel III capital rules also introduce a new “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 will begin on January 1, 2016 at 0.625% and 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). Thus, when fully phased-in on January 1, 2019, the Company and the Bank will be required to maintain this additional capital conservation buffer of 2.5% of CET1, resulting in 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 1 capital to risk-weighted assets, plus the capital conservation buffer, effectively resulting in a minimum Tier 1 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 1 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 will be phased-in over a four-year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter). In addition, under the current capital standards, the effects of accumulated other comprehensive income or loss (“AOCI”) items included in stockholders’ equity (for example, unrealized gains or losses on securities held in the available-for-sale portfolio) under U.S. GAAP are excluded for the purposes of determining regulatory capital ratios. Under the Basel III capital rules, the effects of certain AOCI items are not excluded; however, nonadvanced approaches banking organizations, including the Company and the Bank, may make a one-time permanent election to continue to exclude these items. This election must be made concurrently with the first filing of certain of the Company and the Bank’s periodic regulatory reports in the beginning of 2015. At this time, the Company and the Bank expect to make this election 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 securities portfolio.

The Basel III capital rules prescribe a new standardized approach for risk weightings that expand the risk weighting categories from the current 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. Additional aspects of the Basel III capital rules that are more relevant to the Bank include:

- consistent with the current risk-based capital rules, assigning exposures secured by single family residential properties to either a 50% risk weight for first-lien mortgages that meet prudential 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 (currently set at 0%);
- assigning a 150% risk weight to all exposures that are nonaccrual or 90 days or more past due (currently set at 100%), except for those secured by single family residential properties, which will be assigned a 100% risk weight, consistent with the current 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 MSRs and DTAs arising from temporary differences that could not be realized through net operating loss carrybacks that are not deducted from CET1 capital (currently set at 100%).

Based on our current interpretation of the Basel III capital rules, the Company believes that both the Company and the Bank would have met all capital adequacy requirements under the Basel III capital rules on a fully phased-in basis as if such requirements were effective as of December 31, 2014.

With respect to the Bank, the Basel III capital rules also revise the “prompt corrective action” regulations pursuant to Section 38 of the Federal Deposit Insurance Act, as discussed below under “Prompt Corrective Action.”

Prompt Corrective Action

The Federal Deposit Insurance Act, as amended (“FDIA”) requires federal banking agencies to take “prompt corrective action” 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 current relevant capital measures are the total capital ratio, the Tier 1 capital ratio and the leverage ratio. Under the current prompt corrective action provisions of the FDIA, an insured depository institution generally will be classified in the following categories based on the capital measures indicated:

“Well capitalized”	“Adequately capitalized”
Tier 1 leverage ratio of 5% or greater	Tier 1 leverage ratio of at least 4%
Tier 1 risk-based capital of 6% or greater	Tier 1 risk-based capital of at least 4%, or
Total risk-based capital of 10% or greater, and	Total risk-based capital of at least 8%.
Not subject to a written agreement, order, capital directive or prompt corrective action directive requiring a specific capital level.	

“Undercapitalized”	“Significantly undercapitalized”
Tier 1 leverage ratio less than 4%	Tier 1 leverage ratio less than 3%
Tier 1 risk-based capital of 4%, or	Tier 1 risk-based capital of 3%, or
Total risk-based capital less than 8%.	Total risk-based capital less than 6%.

“Critically undercapitalized”

Tangible equity to total assets less than 2%.

The Basel III capital rules, as promulgated by the FRB, revise the current prompt corrective action requirements effective January 1, 2015. Under the new rules, a bank will be (i) “well capitalized” if the institution has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, common equity Tier 1 capital ratio of 6.5% or greater, and a leverage ratio of 5.0% or greater, and is not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure; (ii) “adequately capitalized” if the institution has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, common equity Tier 1 capital ratio of 4.5% or greater, and a leverage ratio of 4.0% or greater; (iii) “undercapitalized” if the institution has a total risk-based capital ratio that is less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, common equity Tier 1 capital ratio of less than 4.5%, or a leverage ratio of less than 4.0%; (iv) “significantly undercapitalized” if the institution has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 4.0%, common equity Tier 1 capital ratio of less than 3.0%, or a leverage ratio of less than 3.0%; and (v) “critically undercapitalized” if the institution’s tangible equity (defined as Tier 1 capital plus non-Tier 1 perpetual preferred stock) is equal to or less than 2.0% of average quarterly tangible assets. An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. A bank’s capital category is determined solely for the purpose of applying prompt corrective action 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 a capital restoration plan. If a depository institution fails to submit an acceptable plan, it is treated as if it is “significantly undercapitalized.” “Significantly undercapitalized” depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become “adequately capitalized,” requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. “Critically undercapitalized” institutions are subject to the appointment of a receiver or conservator.

Stress Testing

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 consolidated assets (“$10 - $50 billion companies”). Additional stress testing is required for banking organizations having $50 billion or more of assets. $10 - $50 billion companies, including the Company and the Bank, are required to conduct annual company-run stress tests under rules the federal bank regulatory agencies issued in October 2012. 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 of directors and senior management are required to approve and review 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. Public disclosure of stress test results for $10 - $50 billion companies is required beginning in 2015. The Company is in the process of preparing its stress tests.

FDIC Deposit Insurance

The FDIC insures our customer deposits through the Deposit Insurance Fund of the FDIC up to prescribed limits for each depositor. The Bank is subject to deposit insurance assessments as determined by the FDIC. The FDIC established a minimum ratio of deposit insurance reserves in the Deposit Insurance Fund (“DIF”) to estimated insured deposits of 1.15% until September 2020 and 1.35% thereafter. At least semi-annually, the FDIC will update its loss and income projections for the DIF and, if needed, will increase or decrease assessment rates, following notice-and-comment rulemaking, if required.

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

Federal Banking Agency Compensation Guidelines

Guidelines adopted by the federal banking agencies pursuant to the FDIA prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal stockholder. In June 2010, the federal banking agencies issued comprehensive guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking.

In addition, the Dodd-Frank Act requires the federal bank regulatory agencies and the SEC to establish joint regulations or guidelines prohibiting certain incentive-based payment arrangements. These regulators must establish regulations or guidelines requiring enhanced disclosure to regulators of incentive-based compensation arrangements. The agencies proposed such regulations in April 2011, but the regulations have not been finalized.

The scope, content and application of the U.S. banking regulators’ policies on incentive compensation continue to evolve. It cannot be determined at this time whether compliance with such policies will adversely affect the ability of the Company and the Bank to hire, retain and motivate key employees.

Operations and Consumer Compliance Laws

The Bank must comply with numerous federal anti-money laundering and consumer privacy and protection statutes and regulations. The CFPB is directed to prevent unfair, deceptive and abusive practices and ensure that all consumers have access to markets for consumer financial products and services, and that such markets are fair, transparent and competitive. The CFPB has authority under the Dodd-Frank Act to enforce and issue rules and regulations implementing existing consumer protection laws and responsibility for all such existing regulations. Depository institutions with assets exceeding $10 billion (such as the Bank), their affiliates, and other “larger participants” 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.

Under the Dodd-Frank Act, regulators were required to mandate specific underwriting criteria to support a reasonable, good faith determination by lenders of a consumer's ability to repay a mortgage. The CFPB by amendment to Regulation Z, which implements the Truth in Lending Act and took effect on January 10, 2014, has defined what would be considered a "qualified mortgage." Another Dodd-Frank provision requires banks and other mortgage lenders to retain a minimum 5% economic interest in mortgage loans sold through securitizations unless the loans meet a definition of a "qualified residential mortgage."

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

Regulation of Subsidiaries/Branches

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

Employees

East West does not have any employees other than officers who are also officers of the Bank. Such employees are not separately compensated for their employment with the Company. As of December 31, 2014, the Bank had a total of 2,618 full-time employees and 72 part-time employees and East West Insurance had a total of 19 full-time employees. None of the employees are represented by a union or collective bargaining group. The management of the Bank and East West Insurance each believe that their respective employee relations are satisfactory.

Available Information

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

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

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

Executive Officers of the Registrant

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

Name	Age (1)	Position with Company or Bank and Prior Positions
Dominic Ng	56	Chairman and Chief Executive Officer of the Company and the Bank since 1992.
Julia S. Gouw	55	President and Chief Operating Officer of the Company and the Bank since 2009; 1994 - 2008: Executive Vice President and Chief Financial Officer of the Company and the Bank.
Wendy Cai-Lee	40	Executive Vice President and Head of U.S. Eastern and Texas Regions since 2014; 2011 - 2014: Senior Managing Director and Head of U.S. Eastern and Texas Regions; 2009 - 2011: Managing Director at Deloitte & Touche LLP.
Ming Lin Chen	54	Executive Vice President and Head of Retail and Banking Operations of the Bank since 2009.
William H. Fong	67	Executive Vice President and Head of Northern California Commercial Lending Division of the Bank since 2006.
Karen A. Fukumura	50	Executive Vice President and Head of Change Execution of the Bank since 2013; 2008 - 2012: Executive Vice President and Head of Retail Banking of the Bank.
John R. Hall	59	Executive Vice President and Chief Credit Officer of the Bank since 2010; 2004 - 2010: Regional Vice President of Commercial Banking Office in Los Angeles at Wells Fargo Bank.
Douglas P. Krause	58	Executive Vice President, Chief Risk Officer, General Counsel, and Secretary of the Company and the Bank since 1996.
Robert Lo	50	Executive Vice President and Head of Commercial Real Estate Banking of the Bank since 2014; 2013 - 2014: Senior Vice President and Head of Commercial Real Estate Banking of the Bank; 2007 - 2013: Senior Vice President and Manager of Corporate Banking Division of the Bank.
Irene H. Oh	37	Executive Vice President and Chief Financial Officer of the Company and the Bank since 2010; 2008 - 2010: Senior Vice President and Director of Corporate Finance.
Bennett Pozil	53	Executive Vice President and Head of Corporate Banking of the Bank since 2011; 2008 - 2011: President of Match Point Holdings, LLC.
Andy Yen	57	Executive Vice President and Head of International Banking and the Business Banking Division of the Bank since 2013; 2005 - 2013: Executive Vice President and Director of the Business Banking Division of the Bank.

(1) As of March 2, 2015.

ITEM 1A. RISK FACTORS

Risk Factors That May Affect Future Results

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

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

- imposes new capital requirements on bank holding companies and eliminates certain trust preferred securities from Tier 1 capital;
- revises the FDIC’s insurance assessment methodology so that premiums are assessed based upon the average consolidated total assets of a bank less tangible equity capital;
- expands the FDIC’s authority to raise insurance premiums and permanently raises the current standard deposit insurance limit to $250,000;
- allows financial institutions to pay interest on business checking accounts;
- authorizes nationwide interstate de novo branching for banks;
- limits interchange fees payable on debit card transactions;
- establishes the CFPB to promulgate and enforce consumer protection regulations relating to financial products and services offered by banks and nonbank finance companies;
- contains provisions that affect corporate governance and executive compensation;
- restricts proprietary trading by financial institutions, their owning or sponsoring hedge and private equity funds, and regulates the derivatives activities of banks and their affiliates.

The CFPB has adopted revisions to Regulation Z, which implements the Truth in Lending Act, pursuant to Dodd-Frank. The revisions went into effect on January 10, 2014 and apply to all consumer mortgages, except home equity lines of credit (“HELOCs”), timeshare plans, reverse mortgages and temporary loans. The revisions mandate specific underwriting criteria for home loans in order for creditors to make a reasonable, good faith determination of a consumer’s ability to repay and establish certain protections from liability under this requirement for “qualified mortgages” meeting certain standards. This may impact our underwriting of single family residential loans and the resulting unknown effect on potential delinquencies. In particular, the revisions prevent us from making “no documentation” and “low documentation” home loans, because the rules require determining a consumer’s ability to pay based in part on verified and documented information. Low documentation loans represent a substantial portion of our single family residential loan portfolio. Accordingly, these new provisions may adversely affect the growth in the residential loan portfolio.

Additionally, on December 10, 2013, five financial regulatory agencies, including our primary federal regulator, the FRB, adopted final rules implementing the Volcker Rule embodied in Section 13 of the Bank Holding Company Act, which was added by Section 619 of Dodd-Frank. The final rules prohibit banking entities from, among other things, (1) engaging in short-term proprietary trading for their own accounts, and (2) having certain ownership interests in and relationships with hedge funds or private equity funds. The final rules are intended to provide greater clarity with respect to both the extent of those primary prohibitions and of the related exemptions and exclusions. The final rules also require each regulated entity to establish an internal compliance program that is consistent with the extent to which it engages in activities covered by the Volcker Rule, which must include (for the largest entities) making regular reports about those activities to regulators. The final rules were effective April 1, 2014, but the conformance period was extended from its statutory date of July 21, 2014 until July 21, 2016.

In addition to the enactment of Dodd-Frank, the federal regulatory agencies recently have begun to take stronger supervisory actions against financial institutions that have experienced increased loan losses and other weaknesses as a result of the recent economic crisis. These actions include the entering into of written agreements and cease and desist orders that place certain limitations on their operations. Federal bank regulators recently have also been using with more frequency their ability to impose individual minimal capital requirements on banks, which requirements may be higher than those imposed under Dodd-Frank or which would otherwise qualify the bank as being “well capitalized” under the Office of the Comptroller of the Currency’s prompt corrective action regulations. If we were to become subject to a supervisory agreement or higher individual capital requirements, such action may have a negative impact on our ability to execute our business plans, as well as our ability to grow, pay dividends, repurchase stock or engage in mergers and acquisitions and may result in restrictions in our operations.

The CFPB may reshape the consumer financial laws through rulemaking and enforcement of the prohibitions against unfair, deceptive and abusive business 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 Dodd-Frank 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. The concept of what may be considered to be an “abusive” practice is relatively new under the law. Moreover, the Bank will be supervised and examined by the CFPB for compliance with the CFPB’s regulations and policies. The costs and limitations related to this additional regulatory reporting regimen have yet to be fully determined, although they may be material and the limitations and restrictions that will be placed upon the Bank with respect to its consumer product offering and services may produce significant, material effects on the Bank’s (and the Company’s) profitability.

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

On July 2, 2013, the FRB approved the final rules implementing Basel III capital adequacy. The rules include a new common equity Tier 1 capital to risk-weighted assets ratio of 4.5% and a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets. The final rules also raise the minimum ratio of Tier 1 capital to risk-weighted assets to 6.0%. On July 9, 2013, the OCC adopted the same rules for national banks and federal savings associations, and the FDIC approved the same provisions, as an interim final rule, for state nonmember banks and state savings associations. The phase-in period for the final rules began for us on January 1, 2015, with full compliance with all of the final rule’s requirements phased in over a multi-year schedule. Based on our current interpretation of the Basel III capital rules, the Company believes that both the Company and the Bank would have met all capital adequacy requirements under the Basel III capital rules on a fully phased-in basis as if such requirements were effective as of December 31, 2014.

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

- We face increased regulation of our industry including heightened legal standards and regulatory requirements or expectations imposed in connection with Dodd-Frank. Compliance with such regulation may increase our costs and limit our ability to pursue business opportunities.
- The process we use to estimate losses inherent in our credit exposure requires difficult, subjective and complex judgments, including forecasts of economic conditions and how these economic conditions might impair the ability of our borrowers to repay their loans. The level of uncertainty concerning economic conditions may adversely affect the accuracy of our estimates which may, in turn, impact the reliability of the process.
- The Company’s commercial and residential borrowers may be unable to make timely repayments of their loans, or the decrease in value of real estate collateral securing the payment of such loans could result in significant credit losses, increased delinquencies, foreclosures and customer bankruptcies, any of which could have a material adverse effect on the Company’s operating results.
- The value of the portfolio of investment securities that we hold may be adversely affected by increasing interest rates and defaults by debtors.
- 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.
- Increased competition among financial services companies due to the recent consolidation of certain competing financial institutions and the conversion of certain investment banks to bank holding companies may adversely affect the Company’s ability to market its products and services.

Adverse conditions in Asia could adversely affect our business. A substantial number of our customers have economic and cultural ties to Asia. The Bank’s presence includes five full-service branches in Greater China, located in Hong Kong, two in Shanghai including one in the Shanghai Pilot Free Trade Zone, Shantou and Shenzhen. The Bank also has five representative offices in Greater China located in Beijing, Chongqing, Guangzhou, Xiamen and Taiwan. As a result, our business and results of operations may be impacted by adverse economic and political conditions in Asia and, in particular, in China. Volatility in the Shanghai and Hong Kong stock exchanges and/or a potential dramatic fall in real estate prices in China, among other things, may negatively impact asset values and the profitability and liquidity of our customers who operate in this region. Pandemics and other public health crises or concerns over the possibility of such crises could create economic and financial disruptions in the region. United States and global economic policies, military tensions, and unfavorable global economic conditions may also adversely impact the Asian economies. Transfer risk may result when an entity is unable to obtain the foreign exchange needed to meet its obligations or to provide liquidity. This may adversely impact the recoverability of investments with or loans made to such entities.

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

United States and international financial markets and economic conditions, particularly in California, could adversely affect our liquidity, results of operations and financial condition. Our business, earnings and profitability are highly sensitive to general economic, political and industry conditions. While the United States is slowly recovering from the recent economic crisis, the pace of recovery is slow and there can be no assurance that these conditions will continue to improve or worsen. Business activity across a wide range of industries and regions in the U.S. remains reduced and local governments and many businesses continue to experience financial difficulty. Although the Company and the Bank remain well capitalized and have not suffered any significant liquidity issues as a result of the most recent economic downturn, the cost and availability of funds may be adversely impacted by illiquid credit markets and the demand for our products and services may be impacted as our borrowers and customers may continue to experience the impact of the recession, and the economic pressure and uncertainty regarding continuing economic improvement may adversely impact their business activities. In view of the concentration of our operations and the collateral securing our loan portfolio primarily in Northern and Southern California, we may be particularly susceptible to the adverse economic conditions in the state of California, where our business is concentrated. In addition, the duration of the current economic conditions is unknown and may exacerbate the Company's exposure to credit risk and adversely affect the ability of borrowers to perform under the terms of their lending arrangements with us. Any turbulence in the United States and international markets and economy may adversely affect our liquidity, financial condition, results of operations and profitability.

We may be required to make additional provisions for loan losses and charge off additional loans in the future, which could adversely affect our results of operations. During the year ended December 31, 2014, we recorded a $44.1 million provision for loan losses on non-covered loans and charged off $39.8 million, gross of $13.5 million in recoveries on non-covered loans. The Bank has a concentration of real estate loans in California, including the areas of Los Angeles, Riverside, San Bernardino and Orange counties. Potential further deterioration in the real estate market generally and residential homes in particular could result in additional loan charge-offs and provisions for loan losses in the future, which could have a material adverse effect on the Company's financial condition, net income and capital.

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

Liquidity risk could impair our ability to fund operations and jeopardize our financial condition. Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a material adverse effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities could be impaired by factors that affect us specifically or the financial services industry in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity due to a market downturn or adverse regulatory action against us. Our ability to acquire deposits or borrow could also be impaired by factors that are not specific to us, such as a severe disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole as a result of conditions faced by banking organizations in the domestic and worldwide credit markets.

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

A portion of our loan portfolio is secured by real estate and thus we have a higher degree of risk from a downturn in our real estate markets. A decline in our real estate markets could hurt our business because many of our loans are secured by real estate. Real estate values and real estate markets are generally affected by changes in national, regional or local economic conditions, fluctuations in interest rates and the availability of loans to potential purchasers, changes in tax laws and other governmental statutes, regulations and policies and acts of nature, such as earthquakes and national disasters particular to California. A significant portion of our real estate collateral is located in California. If real estate values decline, the value of real estate collateral securing our loans could be significantly reduced. Our ability to recover on defaulted loans by foreclosing and selling the real estate collateral would then be diminished and we would be more likely to suffer losses on defaulted loans. Furthermore, a significant portion of our loan portfolio is comprised of CRE. 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 our business.

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

We are subject to extensive government regulation that could limit or restrict our activities, which, in turn, may hamper our ability to increase our assets and earnings. Our operations are subject to extensive regulation by federal, state and local governmental authorities and are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of our operations. Because our business is highly regulated, the laws, rules, regulations and supervisory guidance and policies applicable to us are subject to regular modification and change. From time to time, various laws, rules and regulations are proposed, which, if adopted, could impact our operations by making compliance much more difficult or expensive, restricting our ability to originate or sell loans or further restricting the amount of interest or other charges or fees earned on loans or other products.

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

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

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

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

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

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

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

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

Laws may restrict our ability to pay dividends. The ability of the Bank to pay dividends to the Company is limited by California law and the FRB. The Company’s ability to pay dividends on its outstanding stock is limited by Delaware law. The FRB and the DBO have authority to prohibit the Bank from engaging in business practices which are considered to be unsafe or unsound. Depending upon the financial condition of the Bank and upon other factors, the FRB or DBO could assert that payments of dividends or other payments by the Bank might be such an unsafe or unsound practice.

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

These broad market fluctuations could adversely affect the market price of our common stock. Among the factors that could affect our stock price are:

- actual or anticipated quarterly fluctuations in our operating results and financial condition;
- changes in revenue or earnings estimates or publication of research reports and recommendations by financial analysts;
- failure to meet analysts’ revenue or earnings estimates;
- speculation in the press or investment community;

- strategic actions by us or our competitors, such as acquisitions or restructurings;
- actions by institutional stockholders;
- fluctuations in the stock price and operating results of our competitors;
- general market conditions and, in particular, developments related to market conditions for the financial services industry;
- proposed or adopted regulatory changes or developments;
- anticipated or pending investigations, proceedings or litigation that involve or affect us; or
- domestic and international economic factors unrelated to our performance.

The stock market and, in particular, the market for financial institution stocks, has experienced significant volatility during the past couple of years. As a result, the market price of our common stock may be volatile. In addition, the trading volume in our common stock may fluctuate more than usual and cause significant price variations to occur. The trading price of the shares of our common stock and the value of our other securities will depend on many factors, which may change from time to time, including, without limitation, our financial condition, performance, creditworthiness and prospects, and future sales of our 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 our stock price could result in substantial losses for individual stockholders and could lead to costly and disruptive securities litigation.

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

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

Our interest expense may increase following the repeal of the federal prohibition on payment of interest on demand deposits. The federal prohibition on the ability of financial institutions to pay interest on demand deposit accounts was repealed as part of Dodd-Frank. As a result, beginning on July 21, 2011, financial institutions could commence offering interest on demand deposits to compete for clients. Our interest expense will increase and our net interest margin will decrease if the Bank begins offering interest on demand deposits to attract additional customers or maintain current customers, which could have a material adverse effect on our financial condition, net income and results of operations.

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

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

We are subject to environmental liability risk associated with lending activities. A significant portion of our loan portfolio is secured by real property. During the ordinary course of business, we may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses which may materially reduce the affected property’s value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. Although we have policies and procedures to perform an environmental review before initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our financial condition and results of operations.

Failure to keep pace with technological change could adversely affect our business. 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. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on our business and, in turn, our financial condition and results of operations.

If our goodwill were determined to be impaired, it would result in a charge against earnings and thus a reduction in our stockholders’ equity. We test 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 we were to determine that the carrying amount of our goodwill exceeded its implied fair value, we would be required to write down the value of the goodwill on our balance sheet, adversely affecting our earnings as well as our capital.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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

The Bank owns the buildings and land at 33 of its retail branches and offices. Four of these retail branch locations are either attached or adjacent to offices that are being used by the Bank to house various administrative departments. All other branch and administrative locations are leased by the Bank, with lease expiration dates ranging from 2015 to 2032, exclusive of renewal options.

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

As of December 31, 2014, the Bank's consolidated investment in premises and equipment, net of accumulated depreciation and amortization, totaled $180.9 million. Total occupancy expense, inclusive of rental payments and furniture and equipment expense, for the year ended December 31, 2014 was $63.8 million. Total annual rental expense (exclusive of operating charges and real property taxes) was approximately $26.2 million during 2014.

ITEM 3. LEGAL PROCEEDINGS

See Litigation and Regulatory Matters in Note 15 – Commitments and Contingencies 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 Global Select Market under the symbol "EWBC." The following tables presents the range of closing sales prices and dividend information for the Company's common stock for the years ended December 31, 2014 and 2013.

	2014		
	High	Low	Dividends
First quarter	$38.26	$31.62	$0.18 cash dividend
Second quarter	$36.98	$32.19	$0.18 cash dividend
Third quarter	$36.95	$33.04	$0.18 cash dividend
Fourth quarter	$39.71	$30.50	$0.18 cash dividend

	2013		
	High	Low	Dividends
First quarter	$25.78	$22.11	$0.15 cash dividend
Second quarter	$27.68	$22.56	$0.15 cash dividend
Third quarter	$31.98	$27.55	$0.15 cash dividend
Fourth quarter	$35.43	$31.89	$0.15 cash dividend

On January 21, 2015, dividends for the Company's common stock were declared for the first quarter of 2015 in the amount of $0.20 payable on or about February 17, 2015 to stockholders of record on February 2, 2015. This represents an increase of $0.02 per share, or an 11% increase from the prior quarterly dividend of $0.18 per share.

The closing price of our common stock on January 31, 2015 was $36.18 per share, as reported by the NASDAQ Global Select Market. As of January 31, 2015, 143,583,710 shares of the Company's common stock were held by 806 stockholders of record and by approximately 76,400 of additional stockholders whose shares were held for them in street name or nominee accounts.

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

Stock Performance Graph

The following table and graph compare yearly percentage change in the Company's cumulative total return on its common stock with the cumulative total returns of the Standard & Poor's 500 Index, SNL Western Bank Index and SNL Bank and Thrift Index over the five-year period ended on December 31, 2014. The graph below assumes that $100 was invested in EWBC's common stock and in each index at the beginning of the five-year period shown 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 we specifically request that such information be treated as soliciting material or specifically incorporate it by reference into a filing under the Securities Exchange Act of 1934, as amended, or the Securities Act of 1933, as amended.

	December 31,					
Index	2009	2010	2011	2012	2013	2014
East West Bancorp, Inc.	100.00	124.03	126.36	140.04	232.90	263.18
SNL Western Bank Index	100.00	113.31	102.37	129.18	181.76	218.14
SNL Bank and Thrift	100.00	111.64	86.81	116.57	159.61	178.18
S&P 500	100.00	115.06	117.49	136.30	180.44	205.14

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

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

On July 17, 2013, the Company's Board of Directors authorized a stock repurchase program to buy back up to $100.0 million of the Company's common stock. The Company did not repurchase any shares under this program during 2013 and 2014.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with the Company's consolidated financial statements and the accompanying notes presented elsewhere in this report. Certain items in the consolidated balance sheet and the consolidated statements of income were reclassified for prior years to conform to the 2014 presentation. These reclassifications did not affect previously reported net income.

	2014	2013	2012	2011	2010
	(In thousands, except per share data)				
Summary of Operations:					
Interest and dividend income	$1,153,698	$1,068,685	$1,051,095	$1,080,448	$1,095,831
Interest expense	112,820	112,492	132,168	177,422	201,117
Net interest income before provision for loan losses	1,040,878	956,193	918,927	903,026	894,714
Provision for loan losses on non-covered loans	44,125	18,336	60,168	92,584	195,934
Provision for loan losses on covered loans	5,033	4,028	5,016	2,422	4,225
Net interest income after provision for loan losses	991,720	933,829	853,743	808,020	694,555
Noninterest (loss) income (1)	(11,714)	(92,468)	(5,618)	10,924	39,270
Noninterest expense	564,551	415,511	422,533	435,610	477,916
Income before provision for income taxes	415,455	425,850	425,592	383,334	255,909
Provision for income taxes	72,972	130,805	143,942	138,100	91,345
Net income	342,483	295,045	281,650	245,234	164,564
Preferred stock dividends, amortization of preferred stock discount, and inducement of preferred stock conversion	—	3,428	6,857	6,857	43,126
Net income available to common stockholders	$342,483	$291,617	$274,793	$238,377	$121,438
Per Common Share:					
Basic earnings	$2.39	$2.11	$1.92	$1.62	$0.88
Diluted earnings	$2.38	$2.10	$1.89	$1.60	$0.83
Dividends declared	$0.72	$0.60	$0.40	$0.16	$0.04
Book value	$19.85	$17.18	$16.39	$14.92	$13.67
Average Common Shares Outstanding:					
Basic	142,952	137,342	141,457	147,093	137,478
Diluted	143,563	139,574	147,175	153,467	147,102
Common shares outstanding at period-end	143,582	137,631	140,294	149,328	148,543
At Year End:					
Total assets	$28,738,049	$24,730,068	$22,536,110	$21,968,667	$20,700,537
Non-covered loans, net of allowance	$19,994,081	$15,412,715	$11,710,190	$10,061,788	$8,430,199

Covered loans, net of allowance	$1,474,189	$2,187,898	$2,935,595	$3,923,142	$4,800,876
Investment securities	$2,626,365	$2,733,797	$2,607,029	$3,072,578	$2,875,941
Customer deposits	$24,008,774	$20,412,918	$18,309,354	$17,453,002	$15,641,259
Long-term debt	$225,848	$226,868	$137,178	$212,178	$235,570
Federal Home Loan Bank advances	$317,241	$315,092	$312,975	$455,251	$1,214,148
Stockholders' equity	$2,850,568	$2,364,225	$2,382,122	$2,311,743	$2,113,931
Financial Ratios:					
Return on average assets	1.24 %	1.25 %	1.29 %	1.14 %	0.82 %
Return on average equity	12.61	12.59	12.14	10.98	7.02
Common dividend payout ratio	30.37	28.57	20.96	10.02	4.57
Average stockholders' equity to average assets	9.83	9.95	10.62	10.36	11.62
Net interest margin	4.03	4.38	4.63	4.66	5.05
Asset Quality Ratios:					
Net charge-offs on non-covered loans to average total non-covered loans	0.14 %	0.03 %	0.38 %	1.16 %	2.35 %
Nonperforming assets to total assets	0.45	0.53	0.63	0.80	0.94
Allowance for loan losses on non-covered loans to total gross non-covered loans	1.27	1.54	1.92	2.04	2.64

(1) Changes in FDIC indemnification asset and receivable/payable was a charge of $201.4 million, $228.6 million, $122.3 million, $100.1 million and $83.2 million in 2014, 2013, 2012, 2011 and 2010, respectively. There were no other-than-temporary impairment ("OTTI") charges related to investment securities in 2014 and 2013. 2012, 2011 and 2010 include OTTI charges related to investment securities of $99 thousand, $633 thousand and $16.7 million, respectively. Pre-tax gain on acquisition was $22.9 million in 2010.

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

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

Critical Accounting Policies

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

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

Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and, in many cases, requires management to make a number of significant judgments. Based on the observability of the inputs used in the valuation techniques, the Company classifies its assets and liabilities measured and disclosed at fair value in accordance with a three-level hierarchy (e.g., Level 1, Level 2 and Level 3) established under Accounting Standards Codification ("ASC") 820, Fair Value Measurements. In determining the fair value of financial instruments, the Company uses market prices of the same or similar instruments whenever such prices are available. The Company does not use prices involving distressed sellers in determining fair value. If observable market prices are unavailable or impracticable to obtain, then fair value is estimated using modeling techniques such as discounted cash flow analysis. These modeling techniques incorporate management's assessments regarding assumptions that market participants would use in pricing the asset or the liability, including assumptions about the risks inherent in a particular valuation technique and the risk of nonperformance.

The Company records certain financial instruments such as investment securities available-for-sale, derivative assets and liabilities at fair value on a recurring basis. Certain financial statement line items such as impaired loans, other real estate owned are recorded at fair value on a nonrecurring basis. Nonrecurring fair value measurements generally involve assets that are periodically evaluated for impairment.

For a complete discussion on our fair value valuation of financial instruments, our related measurement techniques, and the impact to our consolidated financial statements, see Note 3 to the Company's consolidated financial statements presented elsewhere in this report.

Investment Securities

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

For broker prices obtained on certain investment securities that we believe are based on forced liquidation or distressed sale values in inactive markets, the Company individually examines these securities for the appropriate valuation methodology based on a combination of the market approach reflecting current broker prices and a discounted cash flow approach. In calculating the fair value derived from the income approach, the Company makes assumptions such as constant prepayment rate, constant default rate, loss severity for deferrals/defaults, and discount margin.

Available-for-sale debt and marketable equity securities in unrealized loss positions are analyzed as part of the Company's ongoing assessment of OTTI. In determining whether an impairment is other than temporary, the Company considers the severity and duration of the decline in fair value, the length of time expected for recovery, the financial condition of the issuer, changes in the securities' ratings and other qualitative factors, as well as whether the Company either plans to sell the security or it is more-likely-than-not that it will be required to sell the security before recovery of the amortized cost. If the impairment of the available-for-sale debt security is credit-related, an OTTI loss is recorded in earnings. For available-for-sale debt securities, the non-credit-related impairment loss is recognized in accumulated other comprehensive income ("OCI"). If the Company intends to sell an available-for-sale debt security or believes it will more-likely-than-not be required to sell a security, the Company records the full amount of the impairment loss as an OTTI loss. Available-for-sale marketable equity securities are carried at fair value with net unrealized gains and losses included in accumulated OCI on an after-tax basis. If there is an other-than-temporary decline in the fair value of any individual available-for-sale marketable equity security, the cost basis is reduced and the Company reclassifies the associated net unrealized loss out of accumulated OCI with a corresponding charge to the consolidated income statement.

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

Purchased Credit Impaired Loans

Acquired loans, in accordance with ASC 805, Business Combinations, are recorded at fair value as of their acquisition date. Loans purchased with evidence of credit deterioration since origination, purchased credit impaired (“PCI”) loans, for which it is probable that all contractually required payments will not be collected are accounted for under ASC 310-30, Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality.

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

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

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

Loans acquired in FDIC-assisted acquisitions that are subject to FDIC shared-loss agreements (“shared-loss agreements”) are referred to as covered loans. Covered loans are reported exclusive of the expected cash flow reimbursements expected to be collected from the FDIC. At the date of acquisition, all covered loans were accounted for under ASC 805 and ASC 310-30.

FDIC Indemnification Asset/Payable to FDIC, net

In conjunction with the FDIC-assisted acquisitions of WFIB and UCB, the Bank entered into shared-loss agreements with the FDIC. At the date of the acquisition, the amounts receivable under the shared-loss agreements with the FDIC related to covered loans and covered other real estate owned (“OREO”). The FDIC indemnification asset is initially recorded at fair value, based on the discounted value of expected future cash flows under the shared-loss agreements. The Company has elected to account for amounts receivable under the shared-loss agreements as an indemnification asset in accordance with ASC 805. The difference between the present value and the undiscounted cash flow the Company expects to collect from the FDIC is accreted into noninterest income over the life of the FDIC indemnification asset. The FDIC indemnification asset is reviewed on a quarterly basis and adjusted for any changes in expected cash flows based on recent performance and expectations for future performance of the covered portfolio. Any increases in cash flow of the loans over those expected will reduce the FDIC indemnification asset and any decreases in cash flow of the loans over those expected will increase the FDIC indemnification asset. Over the life of the FDIC indemnification asset, increases and decreases are recorded as adjustments to noninterest income. Due to continued payoffs and improved credit performance of the covered loan portfolio as compared to our original estimates, the expected reimbursement from the FDIC under the shared-loss agreements has decreased and a payable to FDIC, net has been recorded. Additionally, the FDIC proportionately shares recoveries recognized on previously charged off covered loans.

Allowance for Loan Losses

Our process for determining the allowance for loan losses is discussed in the “Allowance for Loan Losses” section of Note 1 to the Company’s consolidated financial statements and “Management’s Discussion and Analysis of Consolidated Financial Condition and Results of Operations - Allowance for Loan Losses” presented elsewhere in this report. The Company’s allowance for loan loss methodology incorporates a variety of risk considerations, both quantitative and qualitative, in establishing an allowance for loan loss that management believes is appropriate at each reporting date. Quantitative factors include our historical loss experience, delinquency and charge-off trends, collateral values, changes in nonperforming loans, and other factors. Qualitative considerations include, but are not limited to, prevailing economic or market conditions, relative risk profiles of various loan segments, volume concentrations, growth trends, delinquency and nonaccrual status, problem loan trends, and geographic concentrations.

As the Company adds new products, increases the complexity of our loan portfolio, and expands our geographic coverage, the Company will continue to enhance the methodology to keep pace with the size and complexity of the loan portfolio and the changing credit environment. Changes in any of the factors cited above could have a significant impact on the loan loss calculation. The Company believes that our methodologies currently employed continue to be appropriate given our size and level of complexity. This discussion should also be read in conjunction with the Company's consolidated financial statements and the accompanying notes presented elsewhere in this report. See Note 8 and 9 to the Company's consolidated financial statements.

Goodwill Impairment

Under ASC 350, Intangibles—Goodwill and Other, goodwill must be allocated to reporting units and tested for impairment. The Company tests goodwill for impairment at least annually or more frequently if events or circumstances, such as adverse changes in the business, indicate that there may be justification for conducting an interim test. Impairment testing is performed at the reporting-unit level (which is the same level as the Company's major operating segments identified in Note 20 to the Company's consolidated financial statements presented elsewhere in this report). The first part of the test is a comparison, at the reporting unit level, of the fair value of each reporting unit to its carrying value, including goodwill. In order to determine the fair value of the reporting units, a combined income approach and market approach was used. Under the income approach, the Company provided a net income projection and a terminal growth rate was used to calculate the discounted cash flows and the present value of the reporting units. Under the market approach, the fair value was calculated using the current fair values of comparable peer banks of similar size, geographic footprint and focus. The market capitalizations and multiples of these peer banks were used to calculate the market price of the Company and each reporting unit. The fair value was also subject to a control premium adjustment, which is the cost savings that a purchase of the reporting unit could achieve by eliminating duplicative costs. Under the combined income and market approach, the value from each approach was weighted based on management's perceived risk of each approach to determine the fair value. If the fair value is less than the carrying value, then the second part of the test is needed to measure the amount of goodwill impairment. The implied fair value of the reporting unit goodwill is calculated and compared to the actual carrying value of goodwill recorded within the reporting unit. If the carrying value of reporting unit goodwill exceeds the implied fair value of that goodwill, then the Company would recognize an impairment loss for the amount of the difference, which would be recorded as a charge against net income. For complete discussion and disclosure see Note 11 to the Company's consolidated financial statements presented elsewhere in this report.

Income Taxes

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

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

Share-Based Compensation

The Company accounts for share-based awards to employees, officers, and directors in accordance with the provisions of ASC 505, Equity, and ASC 718, Compensation—Stock Compensation. Share-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as expense over the employee's requisite service period.

The Company grants nonqualified stock options and restricted share awards, which include a service condition for vesting. Additionally, some of our stock awards include a company financial performance requirement for vesting. The stock option awards vest in three to four years from the grant date. Restricted share awards vest ratably in three or five years or cliff vest in five years from the date of grant. Compensation expense is amortized on a straight-line basis over the requisite service period for the entire award, which is generally the maximum vesting period of the award.

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

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

As share-based compensation expense is based on awards ultimately expected to vest, it is reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and are reviewed annually for reasonableness. If the estimated forfeitures are revised, a cumulative effect of a change in estimated forfeitures for current and prior periods are recognized in compensation cost in the period of change. Share-based compensation is discussed in more detail in Note 1 and Note 16 to the Company’s consolidated financial statements presented elsewhere in this report.

New Accounting Pronouncements Adopted

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740)—Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. ASU 2013-11 eliminates diversity in practice as it provides guidance on financial statement presentation of an unrecognized tax benefit when a net operating loss (“NOL”) carryforward, a similar tax loss, or a tax credit carryforward exists. The Company adopted this guidance in first quarter 2014 with prospective application to all unrecognized tax benefits that exist at the effective date. ASU 2013-11 did not have a material impact on the Company’s consolidated financial statements.

Recent Accounting Standards

In January 2014, the FASB issued ASU 2014-01, Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects. ASU 2014-10 permits reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). ASU 2014-10 is effective for interim and annual periods beginning after December 15, 2014 and if elected, should be applied retrospectively to all periods presented. Early adoption is permitted. The Company is currently evaluating the impact on the Company’s consolidated financial statements.

In January 2014, the FASB issued ASU 2014-04, Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. ASU 2014-04 clarifies when an in-substance repossession or foreclosure occurs that would require a transfer of mortgage loans collateralized by residential real estate properties to OREO. The standard permits the use of either a modified retrospective or prospective transition method. ASU 2014-04 is effective for interim and annual periods beginning after December 15, 2014. Early adoption is permitted. The Company does not expect the adoption of this guidance to have a material effect on its consolidated financial statements.

In May 2014, The FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The new guidance replaces existing revenue recognition guidance for contracts to provide goods or services to customers and amends existing guidance related to recognition of gains and losses on the sale of certain nonfinancial assets such as real estate. ASC 606 establishes a principles-based approach to recognizing revenue that applies to all contracts other than those covered by other authoritative GAAP guidance. Quantitative and qualitative disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows are also required. ASC 606 is effective for interim and annual periods beginning after December 15, 2016 and is applied on either a modified retrospective or full retrospective basis. Early adoption is not permitted. The Company is currently evaluating the impact on its consolidated financial statements.

Business Overview and Strategy

East West Bancorp, Inc. is a bank holding company registered under the Bank Holding Company Act of 1956, as amended. Our principal business is to serve as the holding company for our Pasadena-based wholly-owned subsidiary, East West Bank, which may be referred to as the “Bank”. When we say “we,” “our” or the “Company,” we mean the Company on a consolidated basis with the Bank. When we refer to “East West” or to the holding company, we are referring to the parent company on a stand-alone basis.

The Company’s vision is to serve as the financial bridge between the United States and Greater China. The Company’s primary strategy to achieving this vision is to grow our business so that we are able to reach more customers with our cross-border products and capabilities. During the fourth quarter of 2014, we opened two new branches in Greater China, in Shenzhen and in the Shanghai Pilot Free Trade Zone. With these additional branches, we will be better positioned to assist our customers and facilitate their financial needs between Greater China and the U.S.

On January 17, 2014, the Company completed the acquisition of 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 Company acquired MetroCorp to further expand its presence, primarily in Texas, within the markets of Houston and Dallas, and in California, within the San Diego market. The purchase consideration was satisfied with two thirds in East West Bank common stock and one third in cash. The fair value of the consideration transferred in the acquisition of MetroCorp was $291.4 million, which consisted of 5,583,093 shares of East West common stock fair valued at $190.8 million at the date of acquisition and $89.4 million in cash, $2.4 million of additional cash to MetroCorp stock option holders and a MetroCorp warrant, fair valued at $8.8 million, assumed by the Company. Approximately $1.70 billion of assets were acquired and $1.41 billion of liabilities were assumed.

For the year ended December 31, 2014, net income totaled a record $342.5 million, a $47.4 million or 16% increase from $295.0 million for the year ended December 31, 2013. Diluted earnings per share totaled $2.38 for the year ended December 31, 2014, an increase of $0.28 or 13% from $2.10 in 2013. Net interest margin, defined as net interest income divided by average earning assets, decreased by 35 basis points to 4.03% for the year ended December 31, 2014, from 4.38% during the same period in 2013. The $80.8 million or 87% decrease in noninterest loss from $92.5 million for the year ended December 31, 2013 to $11.7 million for the year ended December 31, 2014 was mainly due to increases in net gains on loan sales, changes in FDIC indemnification asset and receivable/payable and other commission and fee income. The $149.0 million or 36% increase in noninterest expense from $415.5 million for the year ended December 31, 2013 to $564.6 million for the year ended December 31, 2014 was mainly due to an increases in compensation and employee benefits, amortization of investments in affordable housing partnerships and other tax credit investments, legal expenses and other operating expenses. The effective tax rate was 17.6% for the year ended December 31, 2014, compared to 30.7% for the same period in 2013. The lower effective tax rate in 2014 compared to 2013 was mainly due to the additional purchases of affordable housing partnership and other tax credit investments.

Over the last year, the Company’s total assets have increased $4.01 billion or 16% from $24.73 billion as of December 31, 2013 to $28.74 billion as of December 31, 2014. This increase is attributable to our organic growth and the MetroCorp acquisition. Total non-covered gross loans held for investment as of December 31, 2014 was $20.25 billion, an increase of $4.57 billion or 29% compared to $15.68 billion as of December 31, 2013. The MetroCorp acquisition added $1.19 billion of loans. Excluding the MetroCorp acquisition, non-covered loan growth for the year ended December 31, 2014 was $3.38 billion or 22%, largely driven by growth in C&I.

Covered loans totaled $1.48 billion as of December 31, 2014, a decrease of $717.9 million or 33% from December 31, 2013. The covered loan portfolio is comprised of loans acquired from the FDIC-assisted acquisitions of UCB and WFIB which are covered under shared-loss agreements with the FDIC. The decrease in the covered loan portfolio was primarily due to payoffs and paydown activities. For the year ended December 31, 2014, we recorded a net decrease in the FDIC indemnification asset receivable/payable included in noninterest loss of $201.4 million, largely due to continued payoffs and the continuing improved credit performance of the UCB portfolio, as compared to our original estimate.

Loans held for sale decreased $159.0 million or 78% from $205.0 million as of December 31, 2013 to $46.0 million as of December 31, 2014. The majority of loans sold during 2014 were comprised of student loans.

As a result of continued credit quality improvement, non-covered nonperforming assets, as of December 31, 2014, decreased to $128.7 million, a decrease of $1.9 million or 1% from the prior year. The provision for loan losses for non-covered loans of $44.1 million for the year ended December 31, 2014, as compared to the prior year of $18.3 million was primarily due to the growth in the non-covered loan portfolio. Additionally, non-covered nonaccrual loans comprised $101.0 million or 0.50% of total gross non-covered loans as of December 31, 2014.

Total deposits were $24.01 billion as of December 31, 2014, an increase of a $3.60 billion or 18% from $20.41 billion as of December 31, 2013. Excluding the MetroCorp acquisition, deposit growth for the year ended December 31, 2014 was $2.28 billion or 11%. Core deposits grew to a record $17.90 billion, an increase of $3.31 billion or 23% year-over-year. As of December 31, 2014, the Company's $24.01 billion deposit portfolio was comprised of $7.38 billion or 31% of noninterest-bearing demand deposits, $10.52 billion or 44% of money-market, interest-bearing checking and savings deposits and $6.11 billion or 25% of time deposits.

Since the acquisition of the loans and deposits of UCB five years ago, the Company has transformed its balance sheet by increasing diversification in both loans and deposits, while shedding most of the $1.26 billion of nonperforming loans acquired from UCB. Additionally, loan portfolios have been substantially diversified and the Company has reduced its CRE concentration. In anticipation of a rising interest rate environment, core commercial deposits have been strategically increased.

The Company is focused on active capital management and is committed to maintaining strong capital levels that exceed regulatory requirements, while also supporting balance sheet growth and providing a strong return to stockholders. Capital levels for the Company remained strong. As of December 31, 2014, the Company's Tier 1 risk-based capital and total risk-based ratios were 11.0% and 12.6%, respectively, greater than the well capitalized requirements of 6.0% and 10.0%, respectively.

Results of Operations

Net income for the year ended December 31, 2014 increased $47.5 million or 16% to $342.5 million as compared to net income of $295.0 million for the year ended December 31, 2013. Net income for the year ended December 31, 2013 increased $13.3 million or 5% from $281.7 million for the year ended December 31, 2012. These continued increases in net income are largely the result of strong loan growth, maintaining high credit quality, and steady growth in lower cost deposits.

The Company's return on average assets was 1.24% for the year ended December 31, 2014, compared to 1.25% and 1.29% for the same periods in 2013 and 2012, respectively. The return on average equity was 12.61% for the year ended December 31, 2014, compared to 12.59% and 12.14% for the same periods in 2013 and 2012, respectively. These relatively stable returns on equity reflect the Company's ability to maintain increasing profitability while expanding the loan and deposit base.

Table 1: Components of Net Income

	Year Ended December 31,					
	2014		2013		2012	
	($ in millions)					
Net interest income	$1,040.9		$956.2		$918.9	
Provision for loan losses on non-covered loans	(44.1	)	(18.3	)	(60.2	)
Provision for loan losses on covered loans	(5.0	)	(4.0	)	(5.0	)
Noninterest loss	(11.7	)	(92.5	)	(5.6	)
Noninterest expense	(564.6	)	(415.5	)	(422.5	)
Provision for income taxes	(73.0	)	(130.8	)	(143.9	)
Net income	$342.5		$295.0		$281.7	
Return on average assets	1.24	%	1.25	%	1.29	%
Return on average equity	12.61	%	12.59	%	12.14	%

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 the interest expense on deposits, borrowings and other interest-bearing liabilities. Net interest income for the year ended December 31, 2014 totaled $1.04 billion, an increase of $84.7 million or 9% over net interest income of $956.2 million for the same period in 2013. The increase in net interest income between 2014 and 2013 was primarily due to the increase in the volume of non-covered loans, partially offset by the decrease in volume of covered loans. In comparison, net interest income for the year ended December 31, 2013 totaled $956.2 million, an increase of $37.3 million or 4% increase over net interest income of $918.9 million for the year ended December 31, 2012. The increase in net interest income between 2013 and 2012 was primarily due to the increase in volume of non-covered loans and yields of covered loans, partially offset by a decrease in the volume of covered loans and yields of non-covered loans.

Net interest margin, defined as net interest income divided by average earning assets, decreased by 35 basis points to 4.03% for the year ended December 31, 2014, from 4.38% for the same period in 2013. For the year ended

December 31, 2014, net interest margin decreased as compared to the same period in 2013, primarily due to a decrease in discount accretion from covered loans as the covered loan portfolio continues to payoff and paydown. The interest income on covered loans was $277.1 million and $395.2 million with a resulting yield of 15.31% and 15.55% for the years ended December 31, 2014 and 2013, respectively. Net interest margin decreased 25 basis points for the year ended December 31, 2013, from 4.63% for the same period in 2012. The decrease was primarily due to decrease in discount accretion from covered loans similar to the year ended December 31, 2014.

The following table presents the interest rate spread, net interest margin, average balances, interest income and expense, and the average yield rates by asset and liability component for the years ended December 31, 2014, 2013 and 2012:

Table 2: Summary of Selected Financial Data

	Year Ended December 31, 2014			2013			2012		
	Average Balance	Interest	Average Yield Rate	Average Balance	Interest	Average Yield Rate	Average Balance	Interest	Avera Yield Rate
	($ in thousands)								
ASSETS									
Interest-earning assets:									
Due from banks and short-term investments	$1,469,200	$23,214	1.58 %	$1,184,709	$17,340	1.46 %	$1,457,153	$22,316	1.53
Securities purchased under resale agreements	1,340,411	20,323	1.52 %	1,503,014	21,236	1.41 %	1,267,284	20,392	1.61
Investment securities available-for-sale (1) (2)	2,540,228	44,684	1.76 %	2,729,019	43,846	1.61 %	2,475,489	58,184	2.35
Non-covered loans (3) (4)	18,542,476	782,135	4.22 %	13,734,759	584,164	4.25 %	11,023,745	515,378	4.68
Covered loans (4)	1,809,342	277,070	15.31 %	2,541,238	395,230	15.55 %	3,445,693	430,152	12.48
Federal Home Loan Bank and Federal Reserve Bank stock	96,921	6,272	6.47 %	134,918	6,869	5.09 %	171,816	4,673	2.72
Total interest-earning assets	$25,798,578	$1,153,698	4.47 %	$21,827,657	$1,068,685	4.90 %	$19,841,180	$1,051,095	5.30
Noninterest-earning assets:									
Cash and cash equivalents	322,581			306,551			255,975		
Allowance for loan losses	(254,616)			(241,049)			(228,355)		
Other assets	1,785,254			1,667,533			1,961,743		
Total assets	$27,651,797			$23,560,692			$21,830,543		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Interest-bearing liabilities:									
Checking deposits	$2,179,428	$5,431	0.25 %	$1,487,844	$3,556	0.24 %	$1,059,517	$3,163	0.30
Money market deposits	5,958,461	16,001	0.27 %	5,217,666	15,019	0.29 %	4,883,413	16,984	0.35
Savings deposits	1,748,465	2,971	0.17 %	1,546,188	2,961	0.19 %	1,267,059	2,795	0.22

Time deposits	6,218,745	41,083	0.66	%	5,964,017	41,960	0.70	%	6,435,102	52,953	0.82	
Federal funds purchased and other short-term borrowings	888	—	—		155	—	—		2,975	4	0.14	
FHLB advances	349,767	4,116	1.18	%	315,867	4,173	1.32	%	385,644	6,248	1.62	
Securities sold under repurchase agreements	955,147	38,395	4.02	%	995,000	41,381	4.16	%	997,938	46,166	4.63	
Long-term debt	237,738	4,823	2.03	%	166,690	3,442	2.06	%	183,285	3,855	2.10	
Total interest-bearing liabilities	$17,648,639	$112,820	0.64	%	$15,693,427	$112,492	0.72	%	$15,214,933	$132,168	0.87	
Noninterest-bearing liabilities:												
Demand deposits	6,834,871				5,179,687				3,902,534			
Other liabilities	451,287				343,271				393,948			
Stockholders' equity	2,717,000				2,344,307				2,319,128			
Total liabilities and stockholders' equity	$27,651,797				$23,560,692				$21,830,543			
Interest rate spread			3.83	%			4.18	%			4.43	
Net interest income and net interest margin		$1,040,878	4.03	%		$956,193	4.38	%		$918,927	4.63	

(1) Includes the amortization of premiums on investment securities of $24.2 million, $34.0 million and $21.3 million for the years ended December 31, 2014, 2013 and 2012, respectively.

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

(3) Includes the accretion of discount on non-covered loans receivable of $15.5 million, $7.6 million and $13.2 million for the years ended December 31, 2014, 2013 and 2012, respectively. Also includes the net amortization of deferred loan fees and cost totaling $8.9 million, $15.3 million and $16.2 million for the years ended December 31, 2014, 2013 and 2012, respectively.

(4) Average balances include nonperforming loans.

Analysis of Changes in Net Interest Income

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

Table 3: Analysis of Changes in Net Interest Income

	Year Ended December 31,		
	2014 vs. 2013		2013 vs. 2012
	Total Change	Changes Due to	Total