EAST WEST BANCORP INC
Form 10-Q
August 07, 2015

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

FORM 10-Q

Mark One

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

For the quarterly period ended June 30, 2015
or

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

For the transition period from to

Commission file number 000-24939

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

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

Number of shares outstanding of the issuer’s common stock on the latest practicable date: 143,850,084 shares as of July 31, 2015.

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Forward-Looking Statements

Certain matters discussed in this Quarterly Report on Form 10-Q (this “Form 10-Q”) 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 “believe “plans,” “trend,” “objective,” “continues,” “remain,” or similar expressions, or future or conditional verbs, such as “will,” “wou “should,” “could,” “may,” “might,” “can,” or similar verbs. You should not place undue reliance on these statements, as they ar 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, some of which are beyond our control, include, but are not limited to:

- 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, employment levels, rate of growth and general business conditions;
- changes in government interest rate policies;
- changes in laws or the regulatory environment including regulatory reform initiatives and policies of the U.S. Department of Treasury, the Board of Governors of the Federal Reserve Board System, and the Federal Deposit Insurance Corporation (“FDIC”), the U.S. Securities and Exchange Commission (“SEC”) and the Consumer Financial Protection Bureau;
- changes in the economy of and monetary policy in the People’s Republic of China;
- changes in accounting standards as may be required by the Financial Accounting Standards Board or other regulatory agencies and its impact on critical accounting policies and assumptions;
- changes in the equity and debt securities markets;
- changes in competitive pressures on financial institutions;
- future credit quality and performance, including our expectations regarding future loan losses and allowance levels;
- 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 matters such 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;
- impact of regulatory enforcement actions;
- changes in our ability to receive dividends from our subsidiaries;
- impact of political developments, wars or other hostilities may disrupt or increase volatility in securities or otherwise affect economic conditions;
- our capital requirements and our ability to generate capital internally or raise capital on favorable terms; and
- impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act on our business, business practices and cost of operations.

For a more detailed discussion of some of the factors that might cause such differences, see the Company’s annual report on Form 10-K for the fiscal year ended December 31, 2014, filed with the SEC on March 2, 2015 (the “2014 Form 10-K”), under the heading “ITEM 1A. RISK FACTORS” and the information set forth under “ITEM 1A. RISK FACTORS” in this Form 10-Q. The Company does not undertake, and specifically disclaims any obligation to update any forward-looking statements to reflect the occurrence of events or circumstances after the date of such statements except as required by law.

PART I — FINANCIAL INFORMATION

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

	June 30, 2015	December 31, 2014
ASSETS		
Cash and cash equivalents	$1,877,914	$1,039,885
Short-term investments	274,838	338,714
Securities purchased under resale agreements ("resale agreements")	1,100,000	1,225,000
Available-for-sale investment securities, at fair value	2,982,146	2,626,365
Loans held for sale	195,427	45,950
Loans held-for-investment (net of allowance for loan losses of $261,229 in 2015 and $261,679 in 2014)	21,697,435	21,468,270
Other real estate owned, net	25,792	32,111
Investment in Federal Home Loan Bank stock, at cost	18,155	31,239
Investment in Federal Reserve Bank stock, at cost	54,675	54,451
Investments in qualified affordable housing partnerships, net (1)	176,566	178,962
Premises and equipment (net of accumulated depreciation of $92,797 in 2015 and $85,409 in 2014)	173,333	180,900
Goodwill	469,433	469,433
Other assets (1)	1,018,358	1,052,312
TOTAL (1)	$30,064,072	$28,743,592
LIABILITIES		
Customer deposits:		
Noninterest-bearing	$7,705,335	$7,381,030
Interest-bearing	17,822,885	16,627,744
Total deposits	25,528,220	24,008,774
Short-term borrowings	3,271	—
Federal Home Loan Bank advances	318,322	317,241
Securities sold under repurchase agreements ("repurchase agreements")	400,000	795,000
Long-term debt	215,964	225,848
Accrued expenses and other liabilities	593,347	540,618
Total liabilities	27,059,124	25,887,481
COMMITMENTS AND CONTINGENCIES (Note 12)		
STOCKHOLDERS' EQUITY		
Common stock, $0.001 par value, 200,000,000 shares authorized; 164,182,103 and 163,772,218 shares issued in 2015 and 2014, respectively; 143,849,036 and 143,582,229 shares outstanding in 2015 and 2014, respectively.	164	164
Additional paid in capital	1,690,384	1,677,767
Retained earnings (1)	1,744,955	1,604,141
Treasury stock at cost—20,333,067 shares in 2015 and 20,189,989 shares in 2014.	(435,985)	(430,198)
Accumulated other comprehensive income, net of tax	5,430	4,237
Total stockholders' equity(1)	3,004,948	2,856,111
TOTAL (1)	$30,064,072	$28,743,592

(1) Prior periods were restated to reflect the retrospective application of adopting the new accounting guidance related to the Company’s investments in qualified affordable housing projects Accounting Standards Update (“ASU”) 2014-01. See Note 10 of the Notes to Consolidated Financial Statements for additional information.

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
INTEREST AND DIVIDEND INCOME				
Loans receivable, including fees	$234,049	$269,484	$475,615	$531,055
Available-for-sale investment securities	9,484	12,490	19,668	24,766
Resale agreements	4,680	4,559	9,529	9,412
Investment in Federal Home Loan Bank and Federal Reserve Bank stock	2,306	1,555	3,542	3,426
Due from banks and short-term investments	4,926	6,354	10,352	11,956
Total interest and dividend income	255,445	294,442	518,706	580,615
INTEREST EXPENSE				
Customer deposits	18,195	15,569	35,158	31,451
Short-term borrowings	18	—	18	—
Federal Home Loan Bank advances	1,049	1,015	2,082	2,060
Repurchase agreements	7,533	10,189	15,939	20,267
Long-term debt	1,158	1,219	2,300	2,421
Total interest expense	27,953	27,992	55,497	56,199
Net interest income before provision for loan losses	227,492	266,450	463,209	524,416
Provision for loan losses	3,494	8,000	8,481	14,933
Net interest income after provision for loan losses	223,998	258,450	454,728	509,483
NONINTEREST INCOME (LOSS)				
Branch fees	9,791	9,519	19,175	18,965
Letters of credit fees and foreign exchange income	8,825	8,940	17,531	15,796
Ancillary loan fees	2,812	2,521	5,468	4,993
Wealth management fees	4,757	5,232	9,936	8,260
Derivative commission income	2,733	2,634	7,763	5,223
Changes in FDIC indemnification asset and receivable/payable	(6,668)	(57,558)	(15,090)	(111,192)
Net gains on sales of loans	5,280	6,793	14,831	12,989
Net gains on sales of available-for-sale investment securities	5,554	671	9,958	4,089
Other fees and other operating income	7,509	6,303	15,147	11,016
Total noninterest income (loss)	40,593	(14,945)	84,719	(29,861)
NONINTEREST EXPENSE				
Compensation and employee benefits	62,860	55,081	127,113	114,358
Occupancy and equipment expense	15,185	16,534	30,628	32,385
Amortization of tax credit and other investments [(1)]	2,997	5,490	9,296	6,982
Amortization of premiums on deposits acquired	2,337	2,624	4,728	5,124
Deposit insurance premiums and regulatory assessments	3,341	5,812	8,997	11,514
Loan related expense (income)	1,750	(1,098)	4,090	1,477
Other real estate owned (income) expense	(5,081)	783	(6,107)	2,117
Legal expense	4,134	9,104	11,004	12,903
Data processing	2,377	2,940	4,994	11,140
Consulting expense	2,182	2,328	4,613	3,377
Repurchase agreements extinguishment costs	6,625	—	6,625	—
Other operating expense	21,463	20,941	42,219	39,116

Total noninterest expense [1]	120,170	120,539	248,200	240,493
INCOME BEFORE INCOME TAXES [1]	144,421	122,966	291,247	239,129
INCOME TAX EXPENSE [1]	45,673	38,661	92,472	80,653
NET INCOME [1]	$98,748	$84,305	$198,775	$158,476
EARNINGS PER SHARE				
BASIC [1]	$0.69	$0.59	$1.38	$1.11
DILUTED [1]	$0.68	$0.59	$1.38	$1.11
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING				
BASIC	143,846	143,187	143,751	142,578
DILUTED	144,480	143,689	144,408	143,158
DIVIDENDS DECLARED PER COMMON SHARE	$0.20	$0.18	$0.40	$0.36

(1) Prior periods were restated to reflect the retrospective application of adopting the new accounting guidance related to the Company's investments in qualified affordable housing projects ASU 2014-01. See Note 10 of the Notes to Consolidated Financial Statements for additional information.

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income [1]	$98,748	$84,305	$198,775	$158,476
Other comprehensive (loss) income, net of tax:				
Net change in unrealized (losses) gains on available-for-sale investment securities	(8,135)	14,506	1,190	27,945
Net change in unrealized gains (losses) on other investments	10	(4)	3	(21)
Other comprehensive (loss) income	(8,125)	14,502	1,193	27,924
COMPREHENSIVE INCOME [1]	$90,623	$98,807	$199,968	$186,400

(1) Prior periods were restated to reflect the retrospective application of adopting the new accounting guidance related to the Company's investments in qualified affordable housing projects ASU 2014-01. See Note 10 of the Notes to Consolidated Financial Statements for additional information.

See accompanying notes to consolidated financial statements.

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

	Common Stock	Additional Paid In Capital Common Stock	Retained Earnings [1]	Treasury Stock	Accumulated Other Comprehensive (Loss) Income, Net of Tax	Total Stockholders' Equity [1]
BALANCE, JANUARY 1, 2014 [1]	$163	$1,571,670	$1,362,278	$(537,279)	$ (30,459)	$2,366,373
Net income [1]	—	—	158,476	—	—	158,476
Other comprehensive income	—	—	—	—	27,924	27,924
Stock compensation costs	—	6,745	—	—	—	6,745
Tax benefit from stock compensation plans, net	—	3,787	—	—	—	3,787
Issuance of 390,195 shares of common stock pursuant to various stock compensation plans and agreements	—	1,207	—	—	—	1,207
Cancellation of 12,959 shares of common stock due to forfeitures of issued restricted stock	—	241	—	(241)	—	—
202,070 shares of restricted stock surrendered due to employee tax liability	—	—	—	(7,308)	—	(7,308)
Common stock dividends	—	—	(51,970)	—	—	(51,970)
Issuance of 5,583,093 shares pursuant to MetroCorp Bancshares, Inc. acquisition	—	73,044	—	117,786	—	190,830
Warrant acquired pursuant to MetroCorp Bancshares, Inc. acquisition	—	4,855	—	—	—	4,855
BALANCE, JUNE 30, 2014 [1]	$163	$1,661,549	$1,468,784	$(427,042)	$ (2,535)	$2,700,919
BALANCE, JANUARY 1, 2015 [1]	$164	$1,677,767	$1,604,141	$(430,198)	$ 4,237	$2,856,111
Net income	—	—	198,775	—	—	198,775
Other comprehensive income	—	—	—	—	1,193	1,193
Stock compensation costs	—	7,652	—	—	—	7,652
Tax benefit from stock compensation plans, net	—	3,196	—	—	—	3,196
Issuance of 409,885 shares of common stock pursuant to various stock compensation plans and agreements	—	1,769	—	—	—	1,769
143,078 shares of restricted stock surrendered due to employee tax liability	—	—	—	(5,787)	—	(5,787)
Common stock dividends	—	—	(57,961)	—	—	(57,961)

BALANCE, JUNE 30, 2015	$164	$1,690,384	$1,744,955	$(435,985)	$5,430	$3,004,948

(1) Prior periods were restated to reflect the retrospective application of adopting the new accounting guidance related to the Company's investments in qualified affordable housing projects ASU 2014-01. See Note 10 of the Notes to Consolidated Financial Statements for additional information.

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30,			
	2015		2014	
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income [1]	$198,775		$158,476	
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization [1]	30,801		38,302	
(Accretion) of discount and amortization of premiums, net	(29,504	)	(113,327	)
Changes in FDIC indemnification asset and receivable/payable	15,090		111,192	
Stock compensation costs	7,652		6,745	
Deferred tax expense	10,056		7	
Tax benefit from stock compensation plans, net	(3,196	)	(3,787	)
Provision for loan losses	8,481		14,933	
Net gains on sales of loans	(14,831	)	(12,989	)
Net gains on sales of available-for-sale investment securities	(9,958	)	(4,089	)
Net gains on sales of other real estate owned, premises and equipment and other assets	(9,041	)	(3,863	)
Originations and purchases of loans held for sale	(442	)	(86,312	)
Proceeds from sales and paydowns/payoffs in loans held for sale	1,863		109,241	
Repurchase agreements extinguishment costs	6,625		—	
Net (payments to) proceeds from FDIC shared-loss agreements	(1,331	)	2,367	
Net change in accrued interest receivable and other assets [1]	76,621		(112,876	)
Net change in accrued expenses and other liabilities	3,145		(55,872	)
Other net operating activities	(1,346	)	(633	)
Total adjustments [1]	90,685		(110,961	)
Net cash provided by operating activities	289,460		47,515	
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions, net of cash paid	—		138,465	
Net (increase) decrease in:				
Loans receivable	(1,350,101	)	(1,581,763	)
Short-term investments	63,876		(28,657	)
Investments in qualified affordable housing partnerships, tax credit and other investments	(31,977	)	(43,195	)
Purchases of:				
Resale agreements	(1,345,000	)	(475,000	)
Available-for-sale investment securities	(1,221,706	)	(250,607	)
Loans receivable	(2,514	)	(1,817	)
Proceeds from sale of:				
Available-for-sale investment securities	473,062		351,842	
Loans receivable	1,013,886		355,974	
Other real estate owned	15,337		20,943	
Paydowns and maturities of resale agreements	1,175,000		500,000	
Repayments, maturities and redemptions of available-for-sale investment securities	396,809		207,746	
Redemption of Federal Home Loan Bank stock	13,084		27,309	
Surrender of life insurance policies	156		49,111	
Other net investing activities	1,459		(11,384	)

Net cash used in investing activities	(798,629)	(741,033)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in:		
Deposits	1,519,447	1,143,322
Short-term borrowings	3,271	—
Proceeds from:		
Issuance of common stock pursuant to various stock plans and agreements	1,769	1,207
Payment for:		
Repayment of Federal Home Loan Bank advances	—	(10,000)
Repayment of long-term debt	(10,000)	(20,310)
Extinguishment of repurchase agreements	(106,625)	(15,000)
Repurchase of vested shares due to employee tax liability	(5,787)	(7,308)
Cash dividends	(58,073)	(51,956)
Tax benefit from stock compensation plans, net	3,196	3,787
Net cash provided by financing activities	1,347,198	1,043,742
NET INCREASE IN CASH AND CASH EQUIVALENTS	838,029	350,224
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	1,039,885	895,820
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	$1,877,914	$1,246,044

(1) Prior periods were restated to reflect the retrospective application of adopting the new accounting guidance related to the Company's investments in qualified affordable housing projects ASU 2014-01. See Note 10 of the Notes to Consolidated Financial Statements for additional information.

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30, 2015	2014
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$55,036	$56,357
Income tax payments, net of refunds	$19,174	$221,355
Noncash investing and financing activities:		
Loans transferred to loans held for sale, net	$1,149,830	$605,726
Transfers to other real estate owned	$4,629	$38,048
Loans to facilitate sale of other real estate owned	$1,750	$—
Issuance of stock related to acquisition	$—	$190,830

See accompanying notes to consolidated financial statements.

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

NOTE 1 — BASIS OF PRESENTATION

The unaudited interim consolidated financial statements in this Form 10-Q include the accounts of East West Bancorp, Inc. (referred to herein on an unconsolidated basis as “East West” and on a consolidated basis as the “Company”) and its wholly-owned subsidiaries, East West Bank and subsidiaries (referred to herein as “East West Bank” or the “Bank”) and East West Insurance Services, Inc. Intercompany transactions and balances have been eliminated in consolidation. As of June 30, 2015, East West has six wholly-owned subsidiaries that are statutory business trusts (the “Trusts”), one of which was the result of the acquisition of MetroCorp Bancshares, Inc. (“MetroCorp”) during the three months ended March 31, 2014, as discussed in Note 3 to the Company’s consolidated financial statements. In accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 810, the Trusts are not consolidated into the Company.

The unaudited interim consolidated financial statements presented in accordance with accounting principles generally accepted in the United States of America (“GAAP”), applicable guidelines prescribed by regulatory authorities, and general practices within the banking industry, reflect all adjustments that, in the opinion of management, are necessary for fair statement of the interim period financial statements. Certain prior year balances and notes have been reclassified to conform to current period presentation.

The Company restated prior period financial statements to reflect the impact of the retrospective application of Accounting Standards Update (“ASU”) 2014-01, Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects. See Note 10 to the Company’s consolidated financial statements for details.

The current period’s results of operations are not necessarily indicative of results that may be expected for any other interim period or for the year as a whole. Events subsequent to the consolidated balance sheet date have been evaluated through the date the financial statements are issued for inclusion in the accompanying financial statements. The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto, included in the Company’s annual report on Form 10-K for the year ended December 31, 2014, as filed with the U.S. Securities and Exchange Commission on March 2, 2015 (the “2014 Form 10-K”).

NOTE 2 — CURRENT ACCOUNTING DEVELOPMENTS

New Accounting Pronouncements Adopted

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 2014-01 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, the Company amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the amortization expense in the income statement as a component of income tax expense. The Company adopted this guidance in the first quarter of 2015 with retrospective application to all periods presented. See Note 10 for details regarding this adoption.

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 other real estate owned ("OREO"). The guidance also requires disclosure of the amount of foreclosed residential real estate property held by the creditor and the recorded investment in residential real estate mortgage loans that are in process of foreclosure. The Company adopted this guidance in the first quarter 2015 with prospective application. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements as this guidance was consistent with the Company's prior practice. See Note 9 for details regarding this adoption.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The new guidance replaces existing revenue recognition guidance for contracts to provide goods or services to customers and amends existing guidance related to recognition of gains and losses on the sale of certain nonfinancial assets such as real estate. ASU 2014-09 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. ASU 2014-09 is effective for interim and annual periods beginning after December 15, 2017 and is applied on either a modified retrospective or full retrospective basis. Early adoption is not permitted. The Company is currently evaluating the impact on its consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis to improve targeted areas of the consolidation guidance and reduce the number of consolidation models. The Company may either apply the amendments retrospectively or use a modified retrospective approach. ASU 2015-02 is effective for interim and annual periods beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 simplifies the presentation of debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of debt liability, consistent with debt discounts. The Company should apply the new guidance retrospectively to all prior periods. ASU 2015-03 is effective for interim and annual periods beginning after December 15, 2015. Early adoption is permitted if the guidance is applied as of the beginning of the annual period of adoption. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05, Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement. ASU 2015-05 amends ASC 350-40 and requires the Company to determine whether a cloud computing arrangement contains a software license. If the arrangement contains a software license, the Company should account for the fees related to the software license element consistent with how the acquisition of other software licenses are accounted for under ASC 350-40. If the arrangement does not contain a software license, the Company should account for the arrangement as a service contract. The Company may either apply the new guidance prospectively to all arrangements entered into or materially modified after the effective date, or retrospectively. ASU 2015-05 is effective for interim and annual periods beginning after December 15, 2015. Early adoption is permitted. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

NOTE 3 — BUSINESS COMBINATION

There were no business combinations during the six months ended June 30, 2015.

On January 17, 2014, the Company completed the acquisition of MetroCorp, parent of MetroBank, N.A. and Metro United Bank. The purchase consideration was satisfied with two thirds East West stock and one third 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. The assets acquired and liabilities assumed have been accounted for under the acquisition method of accounting. At the acquisition date, the Company recorded total fair value of assets and liabilities acquired of $1.70 billion and $1.41 billion, respectively. Goodwill from the acquisition represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired and is not deductible for tax purposes. The Company recorded $121.0 million of goodwill at the MetroCorp acquisition date. During the three months ended December 31, 2014, the Company recorded additional tax and bank owned life insurance adjustments of $10.3 million and $0.7 million, respectively, related to the MetroCorp acquisition, increasing goodwill to $132.0 million.

Refer to Note 2 — Business Combination in Item 8 of the Company's 2014 Form 10-K for additional details related to the MetroCorp acquisition.

NOTE 4 — FAIR VALUE MEASUREMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

In determining fair value, the Company uses various methods including market and income approaches. Based on these approaches, the Company utilizes certain assumptions that market participants would use in pricing the asset or liability. These inputs can be readily observable, market corroborated, or generally unobservable. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The hierarchy is based on the quality and reliability of the information used to determine fair values. The hierarchy gives the highest priority to quoted prices available in active markets and the lowest priority to data lacking transparency. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

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

In determining the appropriate hierarchy levels, the Company performs an analysis of the assets and liabilities that are subject to fair value disclosure. These assets and liabilities are reported on the consolidated balance sheets at their fair values as of June 30, 2015 and December 31, 2014. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to their fair value measurements.

The following tables present both financial assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2015 and December 31, 2014:

($ in thousands)	Assets (Liabilities) Measured at Fair Value on a Recurring Basis as of June 30, 2015			
	Fair Value Measurements June 30, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale investment securities:				
U.S. Treasury securities	$1,200,111	$1,200,111	$—	$—
U.S. government agency and U.S. government sponsored enterprise debt securities	424,863	—	424,863	—
U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	187,388	—	187,388	—
Residential mortgage-backed securities	688,712	—	688,712	—
Municipal securities	206,422	—	206,422	—
Other residential mortgage-backed securities:				
Investment grade	61,908	—	61,908	—
Corporate debt securities:				
Investment grade	156,978	—	156,978	—
Non-investment grade	10,025	—	10,025	—
Other securities	45,739	35,534	10,205	—
Total available-for-sale investment securities	$2,982,146	$1,235,645	$1,746,501	$—
Derivative assets:				
Interest rate swaps and caps	$44,424	$—	$44,424	$—
Foreign exchange contracts	$11,044	$—	$11,044	$—
Derivative liabilities:				
Interest rate swaps on certificates of deposit	$(8,177)	$—	$(8,177)	$—
Interest rate swaps and caps	$(43,810)	$—	$(43,810)	$—
Foreign exchange contracts	$(10,186)	$—	$(10,186)	$—

($ in thousands)	Assets (Liabilities) Measured at Fair Value on a Recurring Basis as of December 31, 2014			
	Fair Value Measurements December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale investment securities:				
U.S. Treasury securities	$873,435	$873,435	$—	$—
U.S. government agency and U.S. government sponsored enterprise debt securities	311,024	—	311,024	—
U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	141,420	—	141,420	—
Residential mortgage-backed securities	791,088	—	791,088	—
Municipal securities	250,448	—	250,448	—
Other residential mortgage-backed securities:				
Investment grade	53,918	—	53,918	—
Other commercial mortgage-backed securities:				
Investment grade	34,053	—	34,053	—
Corporate debt securities:				
Investment grade	115,182	—	115,182	—
Non-investment grade	14,681	—	8,153	6,528
Other securities	41,116	32,105	9,011	—
Total available-for-sale investment securities	$2,626,365	$905,540	$1,714,297	$6,528
Derivative assets:				
Foreign exchange options	$6,136	$—	$6,136	$—
Interest rate swaps and caps	$41,534	$—	$41,534	$—
Foreign exchange contracts	$8,118	$—	$8,118	$—
Derivative liabilities:				
Interest rate swaps on certificates of deposit	$(9,922)	$—	$(9,922)	$—
Interest rate swaps and caps	$(41,779)	$—	$(41,779)	$—
Foreign exchange contracts	$(9,163)	$—	$(9,163)	$—
Embedded derivative liabilities	$(3,392)	$—	$—	$(3,392)

At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. The following tables present a reconciliation of the beginning and ending balances for major asset and liability categories measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and six months ended June 30, 2015 and 2014:

($ in thousands)	Three Months Ended June 30, 2015 Corporate Debt Securities: Non-Investment Grade	2015 Embedded Derivative Liabilities	2014 Corporate Debt Securities: Non-Investment Grade	2014 Embedded Derivative Liabilities
Beginning balance, April 1	$—	$(3,412)	$6,717	$(3,398)
Total gains for the period:				
Included in earnings(1)	—	—	—	36
Included in other comprehensive income (unrealized)(2)	—	—	1,209	—
Purchases, issues, sales, settlements:				
Purchases	—	—	—	—
Issues	—	—	—	—
Sales	—	—	—	—
Settlements	—	3,412	(9)	—
Transfer from investment grade to non-investment grade	—	—	—	—
Transfers in and/or out of Level 3	—	—	—	—
Ending balance, June 30	$—	$—	$7,917	$(3,362)
Changes in unrealized gains included in earnings relating to assets and liabilities held at the end of June 30	$—	$—	$—	$(36)

($ in thousands)	Six Months Ended June 30, 2015 Corporate Debt Securities: Non-Investment Grade	2015 Embedded Derivative Liabilities	2014 Corporate Debt Securities: Non-Investment Grade	2014 Embedded Derivative Liabilities
Beginning balance, January 1	$6,528	$(3,392)	$6,371	$(3,655)
Total gains or (losses) for the period:				
Included in earnings(1)	960	(20)		293
Included in other comprehensive income (unrealized)(2)	922	—	1,643	—
Purchases, issues, sales, settlements:				
Purchases	—	—	—	—
Issues	—	—	—	—
Sales	(7,219)	—	—	—
Settlements	(98)	3,412	(97)	—
Transfer from investment grade to non-investment grade	—	—	—	—
Transfers in and/or out of Level 3	(1,093)	—	—	—
Ending balance, June 30	$—	$—	$7,917	$(3,362)
	$—	$—	$—	$(293)

Changes in unrealized gains included in earnings relating to assets and liabilities held at the end of June 30

(1) Realized gains or losses of corporate debt securities and embedded derivative liabilities are included in net gains on sales of investment securities and other operating expense, respectively, in the consolidated statements of income.

(2) Unrealized gains or losses on available-for-sale investment securities are reported in other comprehensive income, net of tax, in the consolidated statements of comprehensive income.

Transfers into or out of fair value hierarchy classifications are made if the significant inputs used in the financial models measuring the fair values of the assets and liabilities became unobservable or observable in the current marketplace. The Company's policy, with respect to transfers between levels of the fair value hierarchy, is to recognize transfers into and out of each level as of the end of the reporting period. There were no transfers of assets measured on a recurring basis in and out of Level 1, Level 2 or Level 3 during the three months ended June 30, 2015 and 2014. During the six months ended June 30, 2015, the Company transferred $1.1 million of assets measured on a recurring basis out of Level 3 into Level 2 due to increased market liquidity and price observability on certain pooled trust preferred securities. There were no transfers of assets measured on a recurring basis in and out of Level 1, Level 2 or Level 3 during the six months ended June 30, 2014.

The following table presents quantitative information about significant unobservable inputs used in the valuation of assets and liabilities measured on a recurring basis classified as Level 3 as of December 31, 2014:

($ in thousands)	Fair Value Measurements (Level 3)	Valuation Technique(s)	Unobservable Input(s)	Range of Inputs	Weighted Average
December 31, 2014					
Available-for-sale investment securities:					
Corporate debt securities:					
Non-investment grade	$ 6,528	Discounted cash flow	Constant prepayment rate	0.00% - 1.00%	0.73%
			Constant default rate	0.75% - 1.20%	0.87%
			Loss severity	85.00%	85.00%
			Discount margin	4.50% - 7.50%	6.94%
Embedded derivative liabilities	$ (3,392)	Discounted cash flow	Credit risk	0.12% - 0.14%	0.13%

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

The following tables present the carrying amounts of all assets that were still held as of June 30, 2015 and December 31, 2014 for which a nonrecurring fair value measurement was recorded:

	Assets Measured at Fair Value on a Nonrecurring Basis as of June 30, 2015			
($ in thousands)	Fair Value Measurements	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Non-PCI impaired loans:				
Commercial Real Estate (“CRE”)	$14,641	$—	$—	$14,641
Commercial and Industrial (“C&I”)	43,138	—	—	43,138
Residential	15,104	—	—	15,104
Consumer	608	—	—	608
Total non-PCI impaired loans	$73,491	$—	$—	$73,491
OREO	$3,848	$—	$—	$3,848
Loans held for sale	$33,719	$—	$33,719	$—

	Assets Measured at Fair Value on a Nonrecurring Basis as of December 31, 2014			
($ in thousands)	Fair Value Measurements	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Non-PCI impaired loans:				
CRE	$26,089	$—	$—	$26,089
C&I	16,581	—	—	16,581
Residential	25,034	—	—	25,034
Consumer	107	—	—	107
Total non-PCI impaired loans	$67,811	$—	$—	$67,811
OREO	$17,521	$—	$—	$17,521

The following table presents fair value adjustments of certain assets measured on a nonrecurring basis recognized during the three and six months ended and still held as of June 30, 2015 and 2014:

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in thousands)	2015	2014	2015	2014
Non-PCI impaired loans:				
CRE	$(445)	$1,865	$(905)	$1,376
C&I	(6,454)	(9,642)	(9,303)	