

EAST WEST BANCORP INC  
Form 10-Q  
August 08, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

Mark One

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

For the quarterly period ended June 30, 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.**

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(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 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  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  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       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

Number of shares outstanding of the issuer's common stock on the latest practicable date: 143,388,292 shares of common stock as of July 31, 2014.

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**Forward-Looking Statements**

Certain matters discussed in this Quarterly Report contain or incorporate statements that we believe 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 our 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 will likely result, may, are expected to, is anticipated, estimate, forecast, projected, intends to, or may include other words or phrases, such as believes, plans, trend, objective, continue, remain, or similar expressions, or future or conditional verbs, such as would, should, could, might, can, or similar verbs. You should not place undue reliance on these statements, as they are subject to risks and uncertainties, including, but not limited to, those described in the documents incorporated by reference. When considering these forward-looking statements, you should keep in mind these risks and uncertainties, as well as any cautionary statements we 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 us.

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 MetroCorp Bancshares, Inc. ( MetroCorp ) acquisition;
- our ability to manage the loan portfolios acquired from Federal Deposit Insurance Corporation (FDIC)-assisted acquisitions within the limits of the loss protection provided by the FDIC;
- 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;

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- 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
- political developments, wars or other hostilities may disrupt or increase volatility in securities or otherwise affect economic conditions.

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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, 2013, filed with the Securities and Exchange Commission on March 3, 2014 (the "2013 Annual Report"), under the heading "ITEM 1A. RISK FACTORS" and the information set forth under "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.

Table of Contents**PART I FINANCIAL INFORMATION****EAST WEST BANCORP, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS***(In thousands, except share data)**(Unaudited)*

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,246,044	\$ 895,820
Short-term investments	286,130	257,473
Securities purchased under resale agreements	1,275,000	1,300,000
Investment securities available-for-sale, at fair value (with amortized cost of \$2,534,163 in 2014 and \$2,786,490 in 2013)	2,529,652	2,733,797
Loans held for sale	450,864	204,970
Loans receivable, excluding covered loans (net of allowance for loan losses of \$246,468 in 2014 and \$241,930 in 2013)	18,025,711	15,412,715
Covered loans (net of allowance for loan losses of \$4,880 in 2014 and \$7,745 in 2013)	1,803,090	2,187,898
Total loans receivable, net	19,828,801	17,600,613
FDIC indemnification asset, net		74,708
Other real estate owned, net	42,458	18,900
Other real estate owned covered, net	24,779	21,373
Total other real estate owned	67,237	40,273
Investment in Federal Home Loan Bank stock, at cost	37,731	62,330
Investment in Federal Reserve Bank stock, at cost	54,217	48,333
Investment in affordable housing partnerships	181,943	164,776
Premises and equipment, net	183,498	177,710
Accrued interest receivable	100,323	116,314
Due from customers on acceptances	27,237	21,236
Premiums on deposits acquired, net	50,389	46,920
Goodwill	458,467	337,438
Cash surrender value of life insurance policies	99,817	112,650
Other assets	679,755	534,707
<b>TOTAL</b>	<b>\$ 27,557,105</b>	<b>\$ 24,730,068</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Customer deposit accounts:		
Noninterest-bearing	\$ 6,889,950	\$ 5,821,899
Interest-bearing	15,985,139	14,591,019
Total deposits	22,875,089	20,412,918
Federal Home Loan Bank advances	316,156	315,092
Securities sold under repurchase agreements	1,005,211	995,000
Payable to FDIC, net	24,337	
Bank acceptances outstanding	27,237	21,236
Long-term debt	235,732	226,868
Accrued expenses and other liabilities	372,319	394,729
Total liabilities	24,856,081	22,365,843
<b>COMMITMENTS AND CONTINGENCIES (Note 12)</b>		

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STOCKHOLDERS EQUITY

Common stock, \$0.001 par value, 200,000,000 shares authorized; 163,488,203 and 163,098,008 shares issued in 2014 and 2013, respectively; 143,389,155 and 137,630,896 shares outstanding in 2014 and 2013, respectively	163	163
Additional paid in capital	1,661,549	1,571,670
Retained earnings	1,468,889	1,360,130
Treasury stock, at cost 20,099,048 shares in 2014 and 25,467,112 shares in 2013	(427,042)	(537,279)
Accumulated other comprehensive loss, net of tax	(2,535)	(30,459)
Total stockholders equity	2,701,024	2,364,225
<b>TOTAL</b>	<b>\$ 27,557,105</b>	<b>\$ 24,730,068</b>

See accompanying notes to consolidated financial statements.



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## EAST WEST BANCORP, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

*(In thousands, except per share data)**(Unaudited)*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
<b>INTEREST AND DIVIDEND INCOME</b>				
Loans receivable, including fees	\$ 269,484	\$ 234,290	\$ 531,055	\$ 451,449
Investment securities	12,490	9,594	24,766	19,804
Securities purchased under resale agreements	4,559	5,435	9,412	10,964
Investment in Federal Home Loan Bank stock	773	1,021	1,896	1,550
Investment in Federal Reserve Bank stock	782	721	1,530	1,441
Due from banks and short-term investments	6,354	4,292	11,956	8,568
Total interest and dividend income	294,442	255,353	580,615	493,776
<b>INTEREST EXPENSE</b>				
Customer deposit accounts	15,569	15,738	31,451	32,592
Federal Home Loan Bank advances	1,015	1,047	2,060	2,086
Securities sold under repurchase agreements	10,189	10,217	20,267	20,746
Long-term debt	1,219	707	2,421	1,417
Total interest expense	27,992	27,709	56,199	56,841
<b>Net interest income before provision for loan losses</b>	<b>266,450</b>	<b>227,644</b>	<b>524,416</b>	<b>436,935</b>
Provision for loan losses, excluding covered loans	8,944	8,277	16,898	7,515
(Reversal of) provision for loan losses on covered loans	(944)	723	(1,965)	5,812
<b>Net interest income after provision for loan losses</b>	<b>258,450</b>	<b>218,644</b>	<b>509,483</b>	<b>423,608</b>
<b>NONINTEREST INCOME (LOSS)</b>				
Changes in FDIC indemnification asset and receivable/payable	(57,558)	(47,905)	(111,192)	(79,804)
Branch fees	9,519	8,119	18,965	15,773
Net gains on sales of investment securities	671	5,345	4,089	10,922
Net gains on sales of fixed assets	180	228	360	352
Letters of credit fees and commissions	6,099	5,426	12,266	10,488
Foreign exchange income	2,841	3,649	3,530	5,985
Ancillary loan fees	2,521	2,634	4,993	4,686
Income from life insurance policies	881	900	2,032	1,868
Net gains (losses) on sales of loans	6,793	(354)	12,989	(260)
Other operating income	13,108	9,604	22,107	15,537
Total noninterest loss	(14,945)	(12,354)	(29,861)	(14,453)
<b>NONINTEREST EXPENSE</b>				
Compensation and employee benefits	55,081	42,026	114,358	87,757
Occupancy and equipment expense	16,534	13,706	32,385	27,514
Amortization of investments in affordable housing partnerships and other investments	12,851	5,064	18,815	9,347
Amortization of premiums on deposits acquired	2,624	2,375	5,124	4,784
Deposit insurance premiums and regulatory assessments	5,812	3,875	11,514	7,657
Loan related (income) expenses	(1,098)	3,573	1,477	7,157
Other real estate owned expense (gains on sale)	783	(1,188)	2,117	(2,172)
Legal expense	9,104	5,467	12,903	9,911

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Data processing	2,940	2,200	11,140	4,637
Deposit related expenses	1,956	1,516	3,660	3,090
Consulting expense	2,328	1,003	3,377	1,457
Other operating expenses	18,984	14,803	35,456	29,636
Total noninterest expense	127,899	94,420	252,326	190,775
INCOME BEFORE PROVISION FOR INCOME TAXES	115,606			