EAST WEST BANCORP INC
Form 10-K
March 02, 2009

Table of Contents

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-K

Mark One

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

For the fiscal year ended December 31, 2008

or

o 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**<br>(State or other jurisdiction of incorporation or organization) | **95-4703316**<br>(I.R.S. Employer Identification No.) |
| **135 North Los Robles Ave., 7th Floor, Pasadena, California**<br>(Address of principal executive offices) | **91101**<br>(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 ý No o

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 o No ý

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 ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 or Regulation S-K 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. ý

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 filed o | Accelerated filer ý | Non-accelerated filer o | Smaller reporting company o |

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

The aggregate market value of the registrant's common stock held by non-affiliates is approximately $439,466,813 (based on the June 30, 2008 closing price of Common Stock of $7.06 per share).

As of January 31, 2009, 63,745,261 shares of East West Bancorp, Inc. Common Stock were outstanding.

**DOCUMENT INCORPORATED BY REFERENCE**

Definitive Proxy Statement for the Annual Meeting of Stockholders Part III

Table of Contents

**EAST WEST BANCORP, INC.**
**2008 ANNUAL REPORT ON FORM 10-K**
**TABLE OF CONTENTS**


| | | |
|---|---|---|
| **PART I** | | 3 |
| Item 1. | Business | 3 |
| Item 1A. | Risk Factors | 23 |
| Item 1B. | Unresolved Staff Comments | 32 |
| Item 2. | Properties | 32 |
| Item 3. | Legal Proceedings | 32 |
| Item 4. | Submission of Matters to a Vote of Security Holders | 32 |
| **PART II** | | 33 |
| Item 5. | Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities | 33 |
| Item 6. | Selected Financial Data | 37 |
| Item 7. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 38 |
| Item 7A. | Quantitative and Qualitative Disclosures of Market Risks | 84 |
| Item 8. | Financial Statements and Supplementary Data | 84 |
| Item 9. | Changes in and Disagreements With Accountants on Accounting and Financial Disclosure | 84 |
| Item 9A. | Controls and Procedures | 84 |
| Item 9B. | Other Information | 88 |
| **PART III** | | 89 |
| Item 10. | Directors, Executive Officers and Corporate Governance | 89 |
| Item 11. | Executive Compensation | 89 |
| Item 12. | Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters | 89 |
| Item 13. | Certain Relationships and Related Transactions and Director Independence | 90 |
| Item 14. | Principal Accountant Fees and Services | 90 |
| **PART IV** | | 91 |
| Item 15. | Exhibits and Financial Statement Schedules | 91 |
| **SIGNATURES** | | 160 |
| **EXHIBIT INDEX** | | 162 |

Table of Contents

## PART I

Certain matters discussed in this Annual Report may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "1933 Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and as such, may involve risks and uncertainties. These forward-looking statements relate to, among other things, expectations of the environment in which the Company operates and projections of future performance including future earnings and financial condition. The Company's actual results, performance, or achievements may differ significantly from the results, performance, or achievements expected or implied in such forward-looking statements. Such risk and uncertainties and other factors include, but are not limited to adverse developments or conditions related to or arising from:

- 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 economy, including inflation;
- changes in government interest rate policies;
- changes in laws or the regulatory environment;
- 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 any goodwill impairment;
- 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;

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.

For a more detailed discussion of some of the factors that might cause such differences, see "ITEM 1A. RISK FACTORS." The Company does not undertake, and specifically disclaims any obligation to update any forward-looking statements to reflect the occurrence of events or circumstances after the date of such statements, except as required by law.

## ITEM 1. BUSINESS

### *Organization*

*East West 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 ten other subsidiaries, namely East West Insurance Services, Inc., East West Capital Trust I, East West Capital Trust II, East West Capital Statutory Trust III, East West Capital Trust IV, East West Capital Trust V, East West Capital Trust VI, East West Capital Trust VII, East West Capital Trust VIII, and East West Capital Trust IX.

*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 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.

*Other Subsidiaries of East West Bancorp, Inc.* The Company has established nine other subsidiaries as statutory business trusts, East West Capital Trust I and East West Capital Trust II in 2000, East West Capital Statutory Trust III in 2003, East West Capital Trust IV and East West Capital Trust V in 2004, East West Capital Trust VI in 2005, East West Capital Trust VII in 2006, and East West Capital Trusts VIII and IX in 2007, collectively referred to as the "Trusts". In nine separate private placement transactions, the Trusts have issued either fixed or variable rate capital securities representing undivided preferred beneficial interests in the assets of the Trusts. East West is the owner of all the beneficial interests represented by the common securities of the Trusts. The purpose of issuing the capital securities was to provide the Company with a cost-effective means of obtaining Tier I capital for regulatory purposes. In accordance with Financial Accounting Standards Interpretation No. 46R, *Consolidation of Variable Interest Entities* ("FIN No. 46R"), the Trusts are not consolidated into the accounts of the Company.

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 warrant exercises and employee stock purchase plans. At December 31, 2008, the Company had $12.42 billion in total consolidated assets, $8.07 billion in net consolidated loans, and $8.14 billion in total consolidated deposits.

The principal office of the Company is located at 135 N. Los Robles Ave., 7$^{th}$ Floor, Pasadena, California 91101, and the telephone number is (626) 768-6000.

*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 residential and commercial and multifamily real estate 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 of San Francisco. The Bank has emphasized commercial lending since its conversion to a state-chartered commercial bank on July 31, 1995. The Bank now also provides loans for commercial, construction, and residential real estate projects and for the financing of international trade for companies primarily in California.

At December 31, 2008, the Bank had 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 secondary subsidiary, East-West Investments, Inc., primarily acts as a trustee in connection with real estate secured loans. The third subsidiary, East West Mortgage Securities, LLC, is a California limited liability company organized by the Bank in September

Table of Contents

2002. East West Mortgage Securities, LLC acts primarily as a special purpose entity in connection with the Bank's private label securitization activities.

Acquisitions of existing banks have contributed to the Bank's growth. We continue to look for opportunities to expand the Bank's branch network by acquiring other financial institutions to diversify our customer base in order to compete for new deposits and loans, and to serve our customers effectively by providing them with a wide array of financial solutions, products and services.

On March 17, 2006, the Bank completed its acquisition of Standard Bank, a federal savings bank headquartered in Monterey Park, California. The purchase price was $200.3 million with sixty-seven percent paid in stock and the remainder in cash. Standard Bank provided banking services to the community through six branches in the Los Angeles metropolitan area. The Bank acquired approximately $487.1 million in net loans receivable and assumed $729.0 million in deposits through this acquisition.

On August 17, 2007, the Bank completed the acquisition of Desert Community Bank ("DCB"), a commercial bank headquartered in Victorville, California. The purchase price was $145.0 million with fifty-five percent of the merger consideration paid in East West common stock and the remainder in cash. DCB operated through nine branches located throughout the High Desert area of San Bernardino County. The Bank acquired approximately $406.1 million in net loans receivable and assumed $506.7 million in deposits through this acquisition. These nine branches are operated under the name Desert Community Bank, a division of East West Bank.

The Bank has also grown through strategic partnerships and additional branch locations. On August 30, 2001, the Bank entered into an exclusive ten-year agreement with 99 Ranch Market to provide retail banking services in their stores throughout California. 99 Ranch Market is the largest Asian-focused chain of supermarkets on the West Coast, with 24 full service stores in California, two in Washington, and affiliated licensee stores in Arizona, Georgia, Hawaii, Nevada, and Indonesia. Tawa Supermarket Companies or "Tawa" is the parent company of 99 Ranch Market. Tawa's property development division owns and operates many of the shopping centers where 99 Ranch Market stores are located. We are currently providing in-store banking services to nine 99 Ranch Market locations in Southern California and one in Northern California.

The Bank continues to expand its market presence in the international arena. The Bank has a full-service branch in Hong Kong, which commenced operations during the first quarter of 2007. The Hong Kong branch is the Bank's first overseas full-service branch office offering a variety of deposit, loan, and international banking products. The Bank also has two overseas representative offices in China. The first office, located in Beijing, was opened on January 20, 2003. The second overseas representative office was opened on August 10, 2007, and is located in Shanghai. These representative offices serve to further develop the Bank's existing international banking capabilities. 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 domestic 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 exports through broader correspondent banking relationships with a variety of Chinese financial institutions.

The Bank continues to explore opportunities to establish other foreign offices, subsidiaries or strategic investments and partnerships to expand its footprint in the international and global marketplace.

Table of Contents

***Banking Services***

The Bank was the second largest independent commercial bank headquartered in Southern California as of December 31, 2008, and one of the largest banks in the United States that focuses on the Chinese-American community. Through its network of 71 banking locations, 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 residential and commercial real estate, construction, commercial, trade finance, accounts receivable, small business administration ("SBA"), inventory and working capital loans. The Bank's commercial borrowers are engaged in a wide variety of manufacturing, wholesale trade, and service businesses. The Bank provides commercial loans to small and medium-sized businesses with annual revenues that generally range from several million to $200 million. In addition, the Bank provides short-term trade finance facilities for terms of less than one year primarily to U.S. importers and manufacturers doing business in the Asia Pacific region.

***Market Area and Competition***

The Bank concentrates on marketing its services in the Los Angeles metropolitan area, Orange County, San Bernardino County, and the greater San Francisco Bay area, including San Mateo County, the Silicon Valley area of Santa Clara County, and Alameda County, with a particular focus on regions with a high concentration of ethnic Chinese. The ethnic Chinese markets within the Bank's primary market area have experienced rapid growth in recent years. According to information provided by the U.S. Census Bureau's 2005-2007 American Community Survey, there were an estimated 4.6 million Asians and Pacific Islanders residing in California, or 12.6% of the total population. As California continues to gain momentum as the hub of the Pacific Rim, the Bank provides important competitive advantages to its customers participating in the Asia Pacific marketplace. We believe that our customers benefit from our understanding of Asian markets and cultures, 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 and ethnic Chinese communities, provides us with an advantage in competing for customers in our market area. The Bank is also committed to expanding its customer base to other high growth communities in Southern California.

The Bank has 69 branches in California located in the following counties: Los Angeles, Orange, San Bernardino, San Francisco, San Mateo, Santa Clara and Alameda. Additionally, the Bank has one branch in Houston, Texas as a result of the United National Bank ("UNB") acquisition in September 2005.

The banking and financial services industry in California generally, and in our market areas specifically, is highly competitive. The increasingly competitive environment is a result primarily of changes in laws and regulations, changes in technology and product delivery systems, as well as continuing consolidation and nationwide expansion among financial services providers.

The Bank competes for loans, deposits, and customers with other commercial banks, savings and loan associations, savings banks, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market funds, credit unions, and other nonbank financial service providers. Some of these competitors are larger in total assets and capitalization, have greater access to capital markets, including foreign ownership, and offer a broader range of financial services than the Bank.

***Economic Conditions, Government Policies, Legislation, and Regulation***

The Company's profitability, like most financial institutions, is primarily dependent on interest rate differentials. In general, the difference between the interest rates paid by the Bank on interest-bearing liabilities, such as deposits and other borrowings, and the interest rates received by the Bank on interest-earning assets, such as loans extended to customers and securities held in the investment portfolio, will comprise the major portion of the Company's earnings. These rates are highly sensitive to many factors that are beyond the control of the Company, such as inflation, recession and unemployment, and the impact which future changes in domestic and foreign economic conditions might have on the Company cannot be predicted.

The Company's business is also influenced by the monetary and fiscal policies of the federal government and the policies of regulatory agencies, particularly the Board of Governors of the Federal Reserve System (the "FRB"). The FRB implements national monetary policies (with objectives such as curbing inflation and combating recession) through its open-market operations in U.S. Government securities by adjusting the required level of reserves for depository institutions subject to its reserve requirements, and by varying the target federal funds and discount rates applicable to borrowings by depository institutions. The actions of the FRB in these areas influence the growth of bank loans, investments, and deposits and also affect interest earned on interest-earning assets and paid on interest-bearing liabilities. The nature and impact of any future changes in monetary and fiscal policies on the Company cannot be predicted.

From time to time, federal and state legislation is enacted which may have the effect of materially increasing the cost of doing business, limiting or expanding permissible activities, or affecting the competitive balance between banks and other financial services providers. Several proposals for legislation that could substantially intensify the regulation of the financial services industry (including a possible comprehensive overhaul of the financial institutions regulatory system) are expected to be introduced and possibly enacted in the new Congress in response to the current economic downturn and financial industry instability. Other legislative and regulatory initiatives which could affect us and the banking industry in general are pending, and additional initiatives may be proposed or introduced, before the Congress, the California legislature, and other governmental 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 regulation, disclosure, and reporting requirements. In addition, the various bank regulatory agencies often adopt new rules and regulations and policies to implement and enforce existing legislation. It cannot be predicted whether, or in what form, any such legislation or regulations or changes in policy may be enacted or the extent to which the business of the Bank would be affected thereby. The Company cannot predict whether or when potential legislation will be enacted, and if enacted, the effect that it, or any implemented regulations and supervisory policies, would have on our financial condition or results of operations. In addition, the outcome of examinations, any litigation or any investigations initiated by state or federal authorities may result in necessary changes in our operations and increased compliance costs.

Negative developments beginning in the latter half of 2007 in the sub-prime mortgage market and the securitization markets for such loans, together with volatility in oil prices and other factors, have resulted in uncertainty in the financial markets in general and a related general economic downturn, which have continued through 2008 and are anticipated to continue through 2009. Dramatic declines in the housing market, with decreasing home prices and increasing delinquencies and

Table of Contents

foreclosures, have negatively impacted the credit performance of mortgage and construction loans and resulted in significant write-downs of assets by many financial institutions. In addition, the values of real estate collateral supporting many loans have declined and may continue to decline. General downward economic trends, reduced availability of commercial credit and increasing unemployment have negatively impacted the credit performance of commercial and consumer credit, resulting in additional write-downs. Concerns over the stability of the financial markets and the economy have resulted in decreased lending by financial institutions to their customers and to each other. This market turmoil and tightening of credit has led to increased commercial and consumer delinquencies, lack of customer confidence, increased market volatility and widespread reduction in general business activity. Competition among depository institutions for deposits has increased significantly. Bank and bank holding company stock prices have been significantly negatively affected as has the ability of banks and bank holding companies to raise capital or borrow in the debt markets compared to recent years. The bank regulatory agencies have been very aggressive in responding to concerns and trends identified in examinations, and this has resulted in the increased issuance of enforcement orders requiring action to address credit quality, liquidity and risk management, and capital adequacy concerns, as well as other safety and soundness concerns.

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 was enacted ("EESA") to restore confidence and stabilize the volatility in the U.S. banking system and to encourage financial institutions to increase their lending to customers and to each other. Initially introduced as the Troubled Asset Relief Program ("TARP"), the EESA authorized the United States Department of the Treasury ("U.S. Treasury") to purchase from financial institutions and their holding companies up to $700 billion in mortgage loans, mortgage-related securities and certain other financial instruments, including debt and equity securities issued by financial institutions and their holding companies in a troubled asset relief program. Initially, $350 billion or half of the $700 billion was made immediately available to the U.S. Treasury. On January 15, 2009, the remaining $350 billion was released to the U.S. Treasury.

On October 14, 2008, the U.S. Treasury announced its intention to inject capital into nine large U.S. financial institutions under the TARP Capital Purchase Program (the "TARP CPP"), and since has injected capital into many other financial institutions, including the Company. The U.S. Treasury initially allocated $250 billion towards the TARP CPP. On December 5, 2008, the Company entered into a Securities Purchase Agreement Standard Terms with the U.S. Treasury ("Stock Purchase Agreement"), pursuant to which, among other things, the Company sold to the U.S. Treasury for an aggregate purchase price of $306.5 million, preferred stock and warrants. Under the terms of the TARP CPP, the Company is prohibited from increasing dividends on its common stock, and from making certain repurchases of equity securities, including its common stock, without the U.S. Treasury's consent. Furthermore, as long as the preferred stock issued to the U.S. Treasury is outstanding, dividend payments and repurchases or redemptions relating to certain equity securities, including the Company's common stock, are prohibited until all accrued and unpaid dividends are paid on such preferred stock, subject to certain limited exceptions. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources" in Part II, Item 7 herein.

In order to participate in the TARP CPP, financial institutions were required to adopt certain standards for executive compensation and corporate governance. These standards generally apply to the Chief Executive Officer, Chief Financial Officer and the three next most highly compensated senior executive officers. The standards include (1) ensuring that incentive compensation for senior executives does not encourage unnecessary and excessive risks that threaten the value of the financial institution; (2) required clawback of any bonus or incentive compensation paid to a senior executive based on statements of earnings, gains or other criteria that are later proven to be materially inaccurate;

Table of Contents

(3) prohibition on making golden parachute payments to senior executives; and (4) agreement not to deduct for tax purposes executive compensation in excess of $500,000 for each senior executive. The Company has complied with these requirements.

The bank regulatory agencies, U.S. Treasury and the Office of Special Inspector General, also created by the EESA, have issued guidance and requests to the financial institutions that participate in the TARP CPP to document their plans and use of TARP CPP funds and their plans for addressing the executive compensation requirements associated with the TARP CPP.

On February 10, 2009, the U.S. Treasury and the federal bank regulatory agencies announced in a Joint Statement a new Financial Stability Plan which would include additional capital support for banks under a Capital Assistance Program, a public-private investment fund to address existing bank loan portfolios and expanded funding for the FRB's pending Term Asset-Backed Securities Loan Facility to restart lending and the securitization markets.

On February 17, 2009, the American Recovery and Reinvestment Act of 2009 ("ARRA") was signed into law by President Obama. The ARRA includes a wide variety of programs intended to stimulate the economy and provide for extensive infrastructure, energy, health, and education needs. In addition, the ARRA imposes certain new executive compensation and corporate expenditure limits on all current and future TARP recipients, including the Company, until the institution has repaid the U.S. Treasury, which is now permitted under the ARRA without penalty and without the need to raise new capital, subject to the U.S. Treasury's consultation with the recipient's appropriate regulatory agency.

The executive compensation standards are more stringent than those currently in effect under the TARP CPP or those previously proposed by the U.S. Treasury. The new standards include (but are not limited to) (i) prohibitions on bonuses, retention awards and other incentive compensation, other than restricted stock grants which do not fully vest during the TARP period up to one-third of an employee's total annual compensation, (ii) prohibitions on golden parachute payments for departure from a company, (iii) an expanded clawback of bonuses, retention awards, and incentive compensation if payment is based on materially inaccurate statements of earnings, revenues, gains or other criteria, (iv) prohibitions on compensation plans that encourage manipulation of reported earnings, (v) retroactive review of bonuses, retention awards and other compensation previously provided by TARP recipients if found by the U.S. Treasury to be inconsistent with the purposes of TARP or otherwise contrary to public interest, (vi) required establishment of a company-wide policy regarding "excessive or luxury expenditures," and (vii) inclusion in a participant's proxy statements for annual shareholder meetings of a nonbinding "Say on Pay" shareholder vote on the compensation of executives.

On February 23, 2009, the U.S. Treasury and the federal bank regulatory agencies issued a Joint Statement providing further guidance with respect to the Capital Assistance Program ("CAP") announced February 10, 2009, including: (i) that the CAP will be initiated on February 25, 2009 and will include "stress test" assessments of major banks and that should the "stress test" indicate that an additional capital buffer is warranted, institutions will have an opportunity to turn first to private sources of capital; otherwise the temporary capital buffer will be made available from the government; (ii) such additional government capital will be in the form of mandatory convertible preferred shares, which would be converted into common equity shares only as needed over time to keep banks in a well-capitalized position and can be retired under improved financial conditions before the conversion becomes mandatory; and (iii) previous capital injections under the TARP CPP will also be eligible to be exchanged for the mandatory convertible preferred shares. The conversion of preferred shares to common equity shares would enable institutions to maintain or enhance the quality of their capital by increasing their tangible common equity capital ratios; however, such conversions would necessarily dilute the interests of existing shareholders.

On February 25, 2009, the first day the CAP program was initiated, the U.S. Treasury released the actual terms of the program, stating that the purpose of the CAP is to restore confidence throughout the financial system that the nation's largest banking institutions have a sufficient capital cushion against larger than expected future losses, should they occur due to more a more severe economic environment, and to support lending to creditworthy borrowers. Under the CAP terms, eligible U.S. banking institutions with assets in excess of $100 billion on a consolidated basis are required to participate in coordinated supervisory assessments, which are forward-looking "stress test" assessments to evaluate the capital needs of the institution under a more challenging economic environment. Should this assessment indicate the need for the bank to establish an additional capital buffer to withstand more stressful conditions, these institutions may access the CAP immediately as a means to establish any necessary additional buffer or they may delay the CAP funding for six months to raise the capital privately. Eligible U.S. banking institutions with assets below $100 billion may also obtain capital from the CAP. The CAP program is an additional program from the TARP CCP and is open to eligible institutions regardless of whether they participated in the TARP CCP. The deadline to apply to the CAP is May 25, 2009. Recipients of capital under the CAP will be subject to the same executive compensation requirements as if they had received TARP CCP.

The EESA also increased Federal Deposit Insurance Corporation ("FDIC") deposit insurance on most accounts from $100,000 to $250,000. This increase is currently in place until the end of 2009 and is not covered by deposit insurance premiums paid by the banking industry. The FDIC has recently proposed that Congress extend the $250,000 limit to 2016. In addition, the FDIC has implemented two temporary programs under the Temporary Liquidity Guaranty Program ("TLGP") to provide deposit insurance for the full amount of most noninterest bearing transaction accounts through the end of 2009 and to guarantee certain unsecured debt of financial institutions and their holding companies through June 2012. Financial institutions had until December 5, 2008 to opt out of these two programs. The Company and the Bank have elected to not opt out of these two programs. The FDIC charges "systemic risk special assessments" to depository institutions that participate in the TLGP. The FDIC has recently proposed that Congress give the FDIC expanded authority to charge fees to the holding companies which benefit directly and indirectly from the FDIC guarantees.

***Supervision and Regulation***

*General.* The Company 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 ("DIF") 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.

*The Company.* As a bank and financial holding company, the Company is subject to regulation and examination by the FRB under the BHCA. Accordingly, the Company is subject to the FRB's regulation 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 "Capital Requirements".

require that bank holding companies 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.

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.

approve acquisitions and mergers with banks and consider certain competitive, management, financial and other factors in granting these approvals. Similar California and other state banking agency approvals may also be required.

*Nonbanking and Financial Activities*

Subject to certain prior notice or FRB approval requirements, bank holding companies may engage in any, or acquire shares of companies engaged in, those nonbanking activities determined by the FRB to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. The Company may engage in these 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. Pursuant to the Gramm-Leach-Bliley Act of 1999 ("GLBA"), in order to elect and retain financial holding company status, all depository institution subsidiaries of a bank holding company must be well capitalized, well managed, and, except in limited circumstances, be in satisfactory compliance with the Community Reinvestment Act ("CRA"). Failure to sustain compliance with these requirements or correct any non-compliance within a fixed time period could lead to divestiture of subsidiary banks or require all activities to conform to those permissible for a bank holding company.

The Company is also a bank holding company within the meaning of the California Financial Code. As such, the Company and its subsidiaries are subject to examination by, and may be required to file reports with, the Department of Financial Institutions ("DFI").

*Securities Registration*

The Company's securities are registered with the Securities Exchange Commission ("SEC") under the Exchange Act of 1934, as amended (the "Exchange Act"). As such, the Company is subject to the information, proxy solicitation, insider trading, corporate governance, and other requirements and restrictions of the Exchange Act.

*The Sarbanes-Oxley Act*

The Company is subject to the accounting oversight and corporate governance requirements of the Sarbanes-Oxley Act of 2002, including:

required executive certification of financial presentations;

increased requirements for board audit committees and their members;

enhanced disclosure of controls and procedures and internal control over financial reporting;

Table of Contents

- enhanced controls over, and reporting of, insider trading; and
- increased penalties for financial crimes and forfeiture of executive bonuses in certain circumstances.

*The Bank.* As a California chartered bank, the Bank is subject to primary supervision, periodic examination, and regulation by the DFI and by the FRB as the Bank's primary federal regulator. As a member bank, the Bank is a stockholder of the Federal Reserve Bank of San Francisco (the "Reserve Bank").

In general, under the California Financial Code, California banks have all the powers of a California corporation, subject to the general limitation of state bank powers under the Federal Deposit Insurance Act ("FDIA") to those permissible for national banks. 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 and 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, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. If, as a result of an examination, the DFI or the FRB should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of the Bank's operations are unsatisfactory or that the Bank or its management is violating or has violated any law or regulation, the DFI and the FRB, and separately the FDIC as insurer of the Bank's deposits, have residual authority to:

- require affirmative action to correct any conditions resulting from any violation or practice;
- direct an increase in capital and the maintenance of specific minimum capital ratios;
- restrict the Bank's growth geographically, by products and services or by mergers and acquisitions;
- enter into informal or formal enforcement orders, including memoranda of understanding, written agreements; and consent or cease and desist orders to take corrective action and enjoin unsafe and unsound practices;
- remove officers and directors and assess civil monetary penalties; and
- take possession and close and liquidate the Bank.

*Permissible Activities and Subsidiaries*

California law permits state chartered commercial banks to engage in any activity permissible for national banks. 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 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 CRA. Presently, none of the Bank's subsidiaries are financial subsidiaries.

*Interstate Banking and Branching*

Under the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, bank holding companies and banks generally have the ability to acquire or merge with banks in other states and, subject to certain state restrictions, banks may also acquire or establish new branches outside their home state. Interstate branches are subject to certain laws of the states in which they are located. The Bank presently has one interstate branch in Houston, Texas.

Table of Contents

*Federal Home Loan Bank System*

The Bank is a member of the Federal Home Loan Bank ("FHLB") of San Francisco. Among other benefits, each FHLB serves as a reserve or central bank for its members within its assigned region and makes available loans or advances to its members. Each FHLB is financed primarily from the sale of consolidated obligations of the FHLB system. As an FHLB member, the Bank is required to own a certain amount of capital stock in the FHLB. At December 31, 2008, the Bank was in compliance with the FHLB's stock ownership requirement and our investment in FHLB capital stock totaled $86.7 million. In January 2009, the FHLB announced that it will suspend dividend payments for the fourth quarter of 2008 to preserve capital given the possibility of other-than-temporary charges on certain non-agency mortgage-backed securities in the future. Additionally, the FHLB announced that it will not repurchase excess capital stock on January 31, 2009, the next regularly scheduled repurchase date.

*Federal Reserve System*

The Federal Reserve Board requires all depository institutions to maintain interest bearing reserves at specified levels against their transaction accounts. At December 31, 2008, the Bank was in compliance with these requirements. As a member bank, the Bank is also required to own capital stock in the Reserve Bank. At December 31, 2008, the Bank held an investment of $27.6 million in capital stock.

*Foreign Operations*

The Bank has a full-service branch in Hong Kong and representative offices in Beijing and Shanghai, China. The Bank's overseas activities are regulated by the FRB and the DFI, and are also regulated by supervisory authorities of the host countries where the Bank has offices.

*Dividends and Other Transfers of Funds*

Dividends from the Bank constitute the principal source of income to the Company. The Bank is subject to various statutory and regulatory restrictions on its ability to pay dividends. Under such restrictions, the amount available for payment of dividends to the Company by the Bank totaled $162.9 million at December 31, 2008. 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." See "Capital Requirements."

It is FRB 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 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 indicated 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.

Under the terms of the TARP CPP, for so long as any preferred stock issued under the TARP CPP remains outstanding, the Company is prohibited from increasing dividends on its common stock, and from making certain repurchases of equity securities, including its common stock, without the U.S. Treasury's consent until the third anniversary of the U.S. Treasury's investment or until the U.S. Treasury has transferred all of the preferred stock it purchased under the TARP CPP to third parties. As long as the preferred stock issued to the U.S. Treasury is outstanding, as well as the Company's Series A Preferred Stock, dividend payments and repurchases or redemptions relating to certain equity securities, including the Company's common stock, are also prohibited until all accrued and unpaid dividends are paid on such preferred stock, subject to certain limited exceptions (see "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources" in Part II, Item 7 herein).

*Capital Requirements*

Bank holding companies and banks are subject to various regulatory capital requirements administered by state and federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors. At December 31, 2008, the Company's and the Bank's capital ratios exceed the minimum capital adequacy guideline percentage requirements of the federal banking agencies "well capitalized" institutions. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Risk-Based Capital" and Note 24 to the consolidated financial statements for further information regarding the regulatory capital guidelines as well as the Company's and the Bank's actual capitalization as of December 31, 2008.

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 capital adequacy guidelines, a banking organization's total capital is divided into tiers. "Tier I capital" includes common equity and trust-preferred securities, subject to certain criteria and quantitative limits. The TARP CPP capital received by the Company from the U.S. Treasury and the capital received from the Series A preferred stock offering also qualifies as Tier I capital. "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. "Tier III capital" consists of qualifying unsecured debt. The sum of Tier II and Tier III capital may not exceed the amount of Tier I capital. The risk-based capital guidelines require a minimum ratio of qualifying total capital to risk-weighted assets of 8% and a minimum ratio of Tier I capital to risk-weighted assets of 4%. An institution is defined as well capitalized if its total capital to risk-weighted assets ratio is 10.00% or more; its core capital to risk-weighted assets ratio is 6.00% or more; and its core capital to adjusted average assets ratio is 5.00% or more.

Bank holding companies and banks are also required to comply with minimum leverage ratio requirements. The leverage ratio is the ratio of a banking organization's Tier 1 capital to its total adjusted quarterly average assets (as defined for regulatory purposes). The requirements necessitate a minimum leverage ratio of 3.0% for holding companies and banks that either have the highest supervisory rating or have implemented the appropriate federal regulatory authority's risk-adjusted measure for market risk. All other holding companies and banks are required to maintain a minimum 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 leverage ratio must be at least 5.0%.

*Basel and Basel II Accords*

The current risk-based capital guidelines which apply to the Company and the Bank are based upon the 1988 capital accord of the International Basel Committee on Banking Supervision, a committee of central banks and bank supervisors and regulators from the major industrialized countries that develops broad policy guidelines for use by each country's supervisors in determining the supervisory policies they apply. A new international accord, referred to as Basel II, which emphasizes internal assessment of credit, market and operational risk; supervisory assessment and market discipline in determining minimum capital requirements, became mandatory for large or "core" international banks outside the U.S. in 2008 (total assets of $250 billion or more or consolidated foreign exposures of $10 billion or more); is optional for others, and if adopted, must first be complied with in a "parallel run" for two years along with the existing Basel I standards. In January 2009, the Basel Committee proposed to reconsider regulatory-capital standards, supervisory and risk-management requirements and additional disclosures to further strengthen Basel II framework in response to recent worldwide developments.

In July 2008, the U.S. federal banking agencies issued a proposed rule for banking organizations that do not use the "advanced approaches" under Basel II. While this proposed rule generally parallels the relevant approaches under Basel II, it diverges where U.S. markets have unique characteristics and risk profiles, most notably with respect to risk weighting residential mortgage exposures. A definitive final rule has not yet been issued. The U.S. banking agencies have indicated, however, that they will retain the minimum leverage requirement for all U.S. banks.

*Prompt Corrective Action*

The FDIA provides a framework for regulation of depository institutions and their affiliates, including parent holding companies, by their federal banking regulators. Among other things, it requires the relevant federal banking regulator to take "prompt corrective action" with respect to a depository institution if that institution does not meet certain capital adequacy standards, including requiring the prompt submission of an acceptable capital restoration plan. Supervisory actions by the appropriate federal banking regulator under the prompt corrective action rules generally depend upon an institution's classification within five capital categories as defined in the regulations. The relevant capital measures are the capital ratio, the Tier 1 capital ratio and the leverage ratio. However, the federal banking agencies have also adopted non-capital safety and soundness standards to assist examiners in identifying and addressing potential safety and soundness concerns before capital becomes impaired. These include operational and managerial standards relating to: (i) internal controls, information systems and internal audit systems, (ii) loan documentation, (iii) credit underwriting, (iv) asset quality and growth, (v) earnings, (vi) risk management, and (vii) compensation and benefits.

A depository institution's capital tier under the prompt corrective action regulations will depend upon how its capital levels compare with various relevant capital measures and the other factors established by the regulation. 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 6.0% 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

Table of Contents

Tier 1 risk-based capital ratio of 4.0% or greater, and a leverage ratio of 4.0% or greater and is not "well capitalized"; (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 4.0% 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 3.0% or a leverage ratio of less than 3.0%; and (v) "critically undercapitalized" if the institution's tangible equity 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.

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. The agencies may not accept such a plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution's capital. In addition, for a capital restoration plan to be acceptable, the depository institution's parent holding company must guarantee that the institution will comply with such capital restoration plan. The bank holding company must also provide appropriate assurances of performance. The aggregate liability of the parent holding company is limited to the lesser of (i) an amount equal to 5.0% of the depository institution's total assets at the time it became undercapitalized and (ii) the amount which is necessary (or would have been necessary) to bring the institution into compliance with all capital standards applicable with respect to such institution as of the time it fails to comply with the 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.

The appropriate federal banking agency may, under certain circumstances, reclassify a well capitalized insured depository institution as adequately capitalized. The FDIA provides that an institution may be reclassified if the appropriate federal banking agency determines (after notice and opportunity for hearing) that the institution is in an unsafe or unsound condition or deems the institution to be engaging in an unsafe or unsound practice. The appropriate agency is also permitted to require an adequately capitalized or undercapitalized institution to comply with the supervisory provisions as if the institution were in the next lower category (but not treat a significantly undercapitalized institution as critically undercapitalized) based on supervisory information other than the capital levels of the institution.

*FDIC Insurance*

*FDIC Deposit Insurance*

The FDIC is an independent federal agency that insures deposits, up to prescribed statutory limits, of federally insured banks and savings institutions and safeguards the safety and soundness of the banking and savings industries. The FDIC insures our customer deposits through the DIF up to prescribed limits for each depositor. Pursuant to the EESA, the maximum deposit insurance amount has been increased from $100,000 to $250,000. The amount of FDIC assessments paid by each DIF member institution is based on its relative risk of default as measured by regulatory capital ratios and other supervisory factors. Pursuant to the Federal Deposit Insurance Reform Act of 2005, the FDIC is authorized to set the reserve ratio for the DIF annually at between 1.15% and 1.50% of estimated

Table of Contents

insured deposits. The FDIC may increase or decrease the assessment rate schedule on a semi-annual basis. In an effort to restore capitalization levels and to ensure the DIF will adequately cover projected losses from future bank failures, the FDIC, in October 2008, proposed a rule to alter the way in which it differentiates for risk in the risk-based assessment system and to revise deposit insurance assessment rates, including base assessment rates. First quarter 2009 assessment rates were increased to between 12 and 50 cents for every $100 of domestic deposits, with most banks paying between 12 and 14 cents.

On February 27, 2009, the FDIC approved an interim rule to institute a one-time special assessment of 20 cents per $100 in domestic deposits to restore the DIF reserves depleted by recent bank failures. The interim rule additionally reserves the right of the FDIC to charge an additional up-to-10 basis point special premium at a later point if the DIF reserves continue to fall. The FDIC also approved an increase in regular premium rates for the second quarter of 2009. For most banks, this will be between 12 to 16 basis points per $100 in domestic deposits. Premiums for the rest of 2009 have not yet been set.

If the DIF's reserves exceed the designated reserve ratio, the FDIC is required to pay out all or, if the reserve ratio is less than 1.5%, a portion of the excess as a dividend to insured depository institutions based on the percentage of insured deposits held on December 31, 1996 adjusted for subsequently paid premiums. Insured depository institutions that were in existence on December 31, 1996 and paid assessments prior to that date (or their successors) were entitled to a one-time credit against future assessments based on their past contributions to the predecessor to the DIF. The Bank used the remaining balance of its special assessment credit to offset a portion of its deposit insurance premium in the first quarter of 2008.

Additionally, by participating in the TLGP, banks temporarily become subject to "systemic risk special assessments" of 10 basis points for transaction account balances in excess of $250,000 assessments up to 100 basis points of the amount of TLGP debt issued. Further, all FDIC-insured institutions are required to pay assessments to the FDIC to fund interest payments on bonds issued by the Financing Corporation ("FICO"), an agency of the Federal government established to recapitalize the predecessor to the DIF. The FICO assessment rates, which are determined quarterly, averaged 0.0113% of insured deposits in fiscal 2008. These assessments will continue until the FICO bonds mature in 2017.

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

*Loans-to-One Borrower Limitations*

With certain limited exceptions, the maximum amount of obligations, secured or unsecured, that any borrower (including certain related entities) may owe to a California state bank at any one time may not exceed 25% of the sum of the shareholders' equity, allowance for loan losses, capital notes and debentures of the bank. Unsecured obligations may not exceed 15% of the sum of the shareholders' equity, allowance for loan losses, capital notes and debentures of the bank. The Bank has established internal loan limits which are lower than the legal lending limits for a California bank.

Table of Contents

*Extensions of Credit to Insiders and Transactions with Affiliates*

The Federal Reserve Act and FRB Regulation O place limitations and conditions on loans or extensions of credit to:

- a bank or bank holding company's executive officers, directors and principal shareholders (i.e., in most cases, those persons who own, control or have power to vote more than 10% of any class of voting securities);
- any company controlled by any such executive officer, director or shareholder; or
- any political or campaign committee controlled by such executive officer, director or principal shareholder.

Such loans and leases:

- must comply with loan-to-one-borrower limits;
- require prior full board approval when aggregate extensions of credit to the person exceed specified amounts;
- must be made on substantially the same terms (including interest rates and collateral) and follow credit-underwriting procedures no less stringent than those prevailing at the time for comparable transactions with non-insiders; and
- must not involve more than the normal risk of repayment or present other unfavorable features.

In addition, Regulation O provides that the aggregate limit on extensions of credit to all insiders of a bank as a group cannot exceed the bank's unimpaired capital and unimpaired surplus. California has laws and the DFI has regulations which adopt and also apply Regulation O to the Bank.

The Bank also is subject to certain restrictions imposed by Federal Reserve Act Sections 23A and 23B and FRB Regulation W on any extensions of credit to, or the issuance of a guarantee or letter of credit on behalf of, any affiliates, the purchase of, or investments in, stock or other securities thereof, the taking of such securities as collateral for loans, and the purchase of assets of any affiliates. Affiliates include parent holding companies, sister banks, sponsored and advised companies, financial subsidiaries and investment companies where the Bank's affiliate serves as investment advisor. Sections 23A and 23B and Regulation W generally:

- prevent any affiliates from borrowing from the Bank unless the loans are secured by marketable obligations of designated amounts;
- limit such loans and investments to or in any affiliate individually to 10.0% of the Bank's capital and surplus;
- limit such loans and investments to all affiliate in the aggregate to 20.0% of the Bank's capital and surplus; and
- require such loans and investments to or in any affiliate to be on terms and under conditions substantially the same or at least as favorable to the Bank as those prevailing for comparable transactions with nonaffiliated parties.

Additional restrictions on transactions with affiliates may be imposed on the Bank under the FDIA prompt corrective action provisions and the supervisory authority of the federal and state banking agencies.

Table of Contents

*Securities Activities*

FRB Regulation R implements exceptions provided in GLBA for securities activities which banks may conduct without registering with the SEC as securities broker or moving such activities to a broker-dealer affiliate. Regulation R provides exceptions for networking arrangements with third-party broker-dealers and authorizes compensation for bank employees who refer and assist retail and high net worth bank customers with their securities, including sweep accounts to money market funds, and with related trust, fiduciary, custodial and safekeeping needs. The current securities activities which the Bank provides customers are conducted in conformance with these rules and regulations.

*USA PATRIOT Act and Anti-Money Laundering Compliance*

The USA PATRIOT Act of 2001 and its implementing regulations significantly expanded the anti-money laundering and financial transparency laws, including the Bank Secrecy Act. The Bank has adopted comprehensive policies and procedures to address the requirements of the USA PATRIOT Act. Material deficiencies in anti-money laundering compliance can result in public enforcement actions by the banking agencies, including the imposition of civil money penalties and supervisory restrictions on growth and expansion. Such enforcement actions could also have serious reputation consequences for the Company and the Bank.

*Consumer Laws*

The Bank and the Company are subject to many federal and state consumer protection laws and regulations prohibiting unfair or fraudulent business practices, untrue or misleading advertising and unfair competition, including:

- The Home Ownership and Equity Protection Act of 1994, or HOEPA, which requires extra disclosures and consumer protections to borrowers from certain lending practices, such as practices deemed to be "predatory lending."

- Privacy policies required by federal and state banking laws and regulations which limit the ability of banks and other financial institutions to disclose nonpublic information about consumers to nonaffiliated third parties.

- The Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act, or the FACT Act, which requires financial firms to help deter identity theft, including developing appropriate fraud response programs, and gives consumers more control of their credit data.

- The Equal Credit Opportunity Act, or ECOA, which generally prohibits discrimination in any credit transaction, whether for consumer or business purposes, on the basis of race, color, religion, national origin, sex, marital status, age (except in limited circumstances), receipt of income from public assistance programs, or good faith exercise of any rights under the Consumer Credit Protection Act.

- The Truth in Lending Act, or TILA, which requires that credit terms be disclosed in a meaningful and consistent way so that consumers may compare credit terms more readily and knowledgeably.

- The Fair Housing Act, which regulates many lending practices, including making it unlawful for any lender to discriminate in its housing-related lending activities against any person because of race, color, religion, national origin, sex, handicap or familial status.

- The CRA, which requires insured depository institutions, while operating safely and soundly, to help meet the credit needs of their communities; directs the federal regulatory agencies in examining insured depository institutions to assess a bank's record of helping meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent

with safe and sound banking practices; and further requires the agencies to take a financial institution's record of meeting its community credit needs into account when evaluating applications for, among other things, domestic branches, mergers or acquisitions, or holding company formations. In its last examination for CRA compliance, as of July 7, 2008, the Bank was rated "satisfactory."

The Home Mortgage Disclosure Act, or HMDA, which includes a "fair lending" aspect that requires the collection and disclosure of data about applicant and borrower characteristics as a way of identifying possible discriminatory lending patterns and enforcing anti-discrimination statutes.

The Real Estate Settlement Procedures Act, or RESPA, which requires lenders to provide borrowers with disclosures regarding the nature and cost of real estate settlements and prohibits certain abusive practices, such as kickbacks.

The National Flood Insurance Act, which requires homes in flood-prone areas with mortgages from a federally regulated lender to have flood insurance.

*Regulation of Nonbank Subsidiaries*

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.

***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, 2008, the Bank had a total of 1,237 full-time employees and 97 part-time employees and the Agency had a total of 12 full-time employees. None of the employees are represented by a union or collective bargaining group. The managements of the Bank and Agency believe that their employee relations are satisfactory.

***Recently Issued Accounting Standards***

For a discussion of recent accounting pronouncements and their expected impact on the Company's consolidated financial statements, refer to Note 1 "Recent Accounting Pronouncements" in the accompanying notes to the consolidated financial statements included elsewhere in this report.

***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 web site 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.

Table of Contents

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 shareholders 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. The SEC also maintains a website at *www.sec.gov* that contains reports, proxy statements and other information regarding SEC registrants, including the Company.

***Executive Officers of the Registrant***

The following table sets forth 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** |
|---|---|---|
| Dominic Ng | 50 | Chairman of the Board, President, and Chief Executive Officer of the Company and the Bank |
| Wellington Chen | 49 | Executive Vice President and Director of Corporate Banking Division of the Bank |
| Donald S. Chow | 58 | Executive Vice President |
| William H. Fong | 61 | Executive Vice President and Head of Northern California Commercial Lending Division of the Bank |
| Karen Fukumura | 43 | Executive Vice President and Head of Retail Strategy, Deposit Service & Technology |
| Agatha Fung | 49 | Executive Vice President and Head of the International Banking Division of the Bank |
| Douglas P. Krause | 52 | Executive Vice President, Chief Risk Officer, General Counsel, and Secretary of the Company and the Bank |
| William J. Lewis | 65 | Executive Vice President and Chief Credit Officer of the Bank |
| Steven D. Munter | 52 | Executive Vice President and Director of the Commercial Banking Division of the Bank |
| Thomas J. Tolda | 53 | Executive Vice President and Chief Financial Officer of the Company and the Bank |
| Andy Yen | 51 | Executive Vice President and Director of the Business Banking Division of the Bank |

(1) As of March 2, 2009

Table of Contents

**Dominic Ng** serves as Chairman, President and Chief Executive Officer of East West Bancorp, Inc. and East West Bank. Prior to taking the helm of East West in 1992, Mr. Ng was President and Chief Executive Officer of Seyen Investment, Inc. and before that spent over a decade as a CPA with Deloitte & Touche LLP. Mr. Ng serves on the Boards of Directors of the Federal Reserve Bank of San Francisco, Los Angeles Branch and Mattel, Inc.

**Wellington Chen** serves as Executive Vice President and Director of the Corporate Banking Division. Prior to joining East West in 2003, Mr. Chen was Senior Executive Vice President of Far East National Bank (Far East), heading up their Commercial Banking and Consumer Banking groups. He also served on the Board of Directors of Far East. Mr. Chen's career with Far East started in 1986 and included a variety of branch and credit management positions. Prior to that, Mr. Chen spent three years with Security Pacific National Bank where he began his banking career as an asset-based lending auditor. Mr. Chen serves on the Board of Directors of the Pasadena Tournament of Roses Foundation.

**Donald S. Chow** serves as Executive Vice President. Mr. Chow has over 30 years of experience in commercial lending. Before joining East West in 1993, Mr. Chow was First Vice President and Senior Credit Officer for Mitsui Manufacturers Bank from 1987 to 1993, and prior to that spent over 14 years with Security Pacific National Bank where he held a number of management positions in the commercial lending area.

**William H. Fong** serves as Executive Vice President and Head of the Bank's Northern California Commercial Lending division. Mr. Fong joined East West in April 2006 from United Commercial Bank where he was the Head of Commercial Banking. Prior to this, Mr. Fong spent 23 years with the BNP Paribas/Bank of the West group. His responsibilities as an Executive Vice President with Bank of the West included the oversight of the Pacific Rim Division's Corporate Banking department as well as the strategic planning and development of the division's branch network in Portland, California, Nevada, and representative offices in Shanghai. Before transferring to Bank of the West, Mr. Fong spent 20 years with BNP Paribas as Director of the Asia Desk. Mr. Fong is a member of the California Economic Development Commission Goods Movement International Trade Advisory Committee.

**Karen Fukumura** serves as Executive Vice President and Head of Retail Strategy, Deposits Services & Technology. Prior to joining East West in April 2008, Ms. Fukumura was a Senior Vice President with Bank of America and held several transformational leadership roles within the Consumer Bank and Service & Fulfillment Operations. Additionally, Ms. Fukumura has seven years of management consulting experience in Asia, and previously held sales and manufacturing operations roles within Mobil Oil and Xerox Corporation, respectively.

**Agatha Fung** serves as Executive Vice President and Head of the International Banking division. In October 2005, Ms. Fung joined East West from CITIC International Financial Holdings in Hong Kong where she held positions as Head of Business Banking of CITIC Ka Wah Bank and Chief Executive Officer and Executive Director of HKCB Finance. Ms. Fung has over 20 years of banking experience and has also held senior management positions at Standard Chartered Bank and Citibank in both Hong Kong and Tokyo. Ms. Fung is a member of the Advisory Board for Asia Society Southern California.

**Douglas P. Krause** serves as Executive Vice President, Chief Risk Officer, General Counsel and Corporate Secretary of East West Bancorp, Inc. and East West Bank. Prior to joining East West in 1996, Mr. Krause was Corporate Senior Vice President and General Counsel of Metrobank from 1991 to 1996. Mr. Krause started his career with the law firms Dewey & LeBoeuf and Jones, Day, Reavis and Pogue where he specialized in financial services. Mr. Krause also serves on the governing boards of the Port of Los Angeles and of the Alameda Corridor Transportation Authority; he is the chairman of the Audit Committees of both Commissions.

**William J. Lewis** serves as Executive Vice President and Chief Credit Officer. Mr. Lewis joined the Bank in 2002 with over 35 years of banking experience, during which time he has held a number of senior management positions. He was Executive Vice President and Chief Credit Officer of PriVest Bank from 1998 to 2002 and held the same positions with Eldorado Bank from 1994 to 1998. Prior to that, Mr. Lewis was with Sanwa Bank for over 12 years where he administered a 35 branch region. Before that, Mr. Lewis spent 13 years with First Interstate Bank where he held a variety of branch and credit management positions.

**Steven D. Munter** serves as Executive Vice President and Director of Commercial Banking. Prior to joining East West in November 2006, Mr. Munter spent over 25 years with Bank of America where he held a number of senior management positions, most recently as the Commercial Banking National Credit Products Executive for Government, Healthcare and Institutions. His long standing global career with Bank of America has also included assignments in Central and South America and, for five years in Asia, where he held senior positions with Banc America Securities, Japan.

**Thomas J. Tolda** serves as Executive Vice President and Chief Financial Officer. Prior to joining East West Bank in April 2008, Mr. Tolda was executive vice president and group CFO for Wells Fargo's Consumer Credit Group in San Francisco from 1999 to March 2008. Mr. Tolda began his career in New York with Citibank's International Banking Group in 1976 and took on various positions of increasing responsibility and geographic diversity including financial controller for Citibank in Italy, CFO for Citibank Brazil and CFO and Board member for Citibank Savings F.S.B. in Chicago. Mr. Tolda is a member of the Affordable Housing Finance Committee for Contra Costa County. He is a graduate of New York University and received his M.B.A. from Fordham University's Graduate School of Business.

**Andy Yen** serves as Executive Vice President and Director of Business Banking Division. Mr. Yen joined the Bank in September 2005 through its merger with United National Bank. Before being promoted to President of UNB in 2001, Mr. Yen was the Executive Vice President from 1998 to 2000 and Senior Vice President from 1992 to 1997, overseeing both the operations and lending functions of UNB. Mr. Yen also served as a member of the Board of Directors of UNB from 1992 to 2005. Mr. Yen has over 20 years experience in commercial and real estate lending and also held positions at Tokai Bank of California and Trans National Bank before he joined UNB.

## 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 our 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.

***Difficult economic and market conditions have adversely affected our industry.*** Dramatic declines in the housing market, with decreasing home prices and increasing delinquencies and foreclosures, have negatively impacted the credit performance of mortgage and construction loans and resulted in significant writedowns of assets by many financial institutions. General downward economic trends,

Table of Contents

reduced availability of commercial credit and increasing unemployment have negatively impacted the credit performance of commercial and consumer credit, resulting in additional writedowns. Concerns over the stability of the financial markets and the economy have resulted in decreased lending by financial institutions to their customers and to each other. This market turmoil and tightening of credit has led to increased commercial and consumer deficiencies, lack of customer confidence, increased market volatility and widespread reduction in general business activity. Financial institutions have experienced decreased access to deposits and borrowings. The resulting economic pressure on consumers and businesses and the lack of confidence in the financial markets may adversely affect our business, financial condition, results of operations and stock price. We do not expect that the difficult conditions in the financial markets are likely to improve in the near future. 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 potentially face increased regulation of our industry including heightened legal standards and regulatory requirements or expectations imposed in connection with the EESA and the ARRA. 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.

We may be required to pay significantly higher FDIC premiums because market developments have significantly depleted the insurance fund of the FDIC and reduced the ratio of reserves to insured deposits.

The Company's 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.

Further 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.

***Recent legislative and regulatory initiatives to address difficult market and economic conditions may not stabilize the U.S. banking system. If current levels of market disruption and volatility continue or worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on our ability to access capital and on our business, financial condition, results of operations, and cash flows.*** The EESA, which established TARP, was signed into law on October 3, 2008. As part of TARP, the U.S. Treasury established the TARP CPP to provide up to $700 billion of funding to eligible financial institutions through the purchase of capital stock and other financial instruments for the purpose of stabilizing and providing liquidity to the U.S. financial markets. Then, on February 17, 2009, the ARRA was signed into law as a sweeping economic recovery package intended to stimulate the economy and provide for broad infrastructure, energy, health, and education needs. There can be no assurance as to the actual impact that EESA or its programs, including the TARP CPP, and ARRA or its programs, will have on the national economy or financial markets. The failure of these significant legislative measures to help stabilize the financial markets and a continuation or worsening of current financial market conditions

Table of Contents

could materially and adversely affect the Company's business, financial condition, results of operations, access to credit or the trading price of its common shares.

There have been numerous actions undertaken in connection with or following the EESA and ARRA by the FRB, Congress, U.S. Treasury, the SEC and the federal bank regulatory agencies in efforts to address the current liquidity and credit crisis in the financial industry that followed the sub-prime mortgage market meltdown which began in late 2007. These measures include homeowner relief that encourages loan restructuring and modification; the temporary increase in FDIC deposit insurance from $100,000 to $250,000, the establishment of significant liquidity and credit facilities for financial institutions and investment banks; the lowering of the federal funds rate; emergency action against short selling practices; a temporary guaranty program for money market funds; the establishment of a commercial paper funding facility to provide back-stop liquidity to commercial paper issuers; and coordinated international efforts to address illiquidity and other weaknesses in the banking sector. The purpose of these legislative and regulatory actions is to help stabilize the U.S. banking system. The EESA, ARRA and the other regulatory initiatives described above may not have their desired effects. If the volatility in the markets continues and economic conditions fail to improve or worsen, the Company's business, financial condition and results of operations could be materially and adversely affected.

***U.S. and international financial markets and economic conditions, particularly in California, could adversely affect our liquidity, results of operations and financial condition.*** As described in "Management's Discussion and Analysis of Financial Condition and Results of Operations," recent turmoil and downward economic trends have been particularly acute in the financial sector. Although the Company and the Bank remain well capitalized and have not suffered any significant liquidity issues as a result of these recent events, the cost and availability of funds may be adversely affected by illiquid credit markets and the demand for our products and services may decline as our borrowers and customers realize the impact of an economic slowdown and recession. In view of the concentration of our operations and the collateral securing our loan portfolio 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 severity and duration of these adverse conditions is unknown and may exacerbate our exposure to credit risk and adversely affect the ability of borrowers to perform under the terms of their lending arrangements with us. In addition, the severity and duration of these adverse 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. Accordingly, continued turbulence in the U.S. 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, 2008, we recorded a $226.0 million provision for loan losses and charged off $147.5 million, gross of $6.0 million in recoveries. There has been a significant slowdown in the housing market in portions of Los Angeles, Riverside, San Bernardino and Orange counties where a majority of our loan customers are based. This slowdown reflects declining prices and excess inventories of homes to be sold, which has contributed to financial strain on home builders and suppliers. As of December 31, 2008, we had $5.31 billion in commercial real estate and construction loans. Continuing deterioration in the real estate market generally and in the residential building segment 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 our financial condition, net income and capital.

***Our allowance for loan and lease 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 and leases. 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 and lease losses to provide for loan and lease defaults and non-performance. The allowance is also appropriately increased for new loan growth. While we believe that our allowance for loan and lease losses is adequate to cover current losses, we cannot assure you that we will not increase the allowance for loan and lease 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 the recent turmoil faced by banking organizations in the domestic and worldwide credit markets deteriorates.

***The actions and commercial soundness of other financial institutions could affect the Company's ability to engage in routine funding transactions.*** Financial service 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. Recent defaults by financial services institutions, and even rumors or 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 collateral held by it cannot be realized upon 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.

***Our loan portfolio is predominantly secured by real estate and thus we have a higher degree of risk from a downturn in our real estate markets.*** A downturn 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. Substantially all of our real estate collateral is located in California. If real estate values continue to further 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.

***We may experience additional goodwill impairment.*** In light of the overall instability of the economy, the continued volatility in the financial markets, the downward pressure on bank stock prices, and expectations of financial performance for the banking industry, including the Company, our estimates of goodwill fair value may be subject to change or adjustment and we may determine that additional impairment charges are necessary. Estimates of fair value are determined based on a complex model using cash flows and company comparisons. If management's estimates of future cash flows are inaccurate, the fair value determined could be inaccurate and impairment may not be recognized in a timely manner. Subsequent to December 31, 2008, the Company's market capitalization continued to decrease. If the Company's market capitalization continues to remain below book value, the Company will update its valuation analysis to determine whether goodwill is impaired. No assurance can be given that goodwill will not be written down further in future periods.

***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. The Company is now also subject to supervision, regulation and investigation by the U.S. Treasury and the Office of the Special Inspector General for the TARP under the EESA by virtue of its participation in the TARP CPP. 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.

***The short term and long term impact of the new Basel II capital standards and the forthcoming new capital rules to be proposed for non-Basel II U.S. banks is uncertain.*** As a result of the recent deterioration in the global credit markets and the potential impact of increased liquidity risk and interest rate risk, it is unclear what the short term impact of the implementation of Basel II may be or what impact a pending alternative standardized approach to Basel II option for non-Basel II U.S. banks may have on the cost and availability of different types of credit and the potential compliance costs of implementing the new capital standards.

***Failure to manage our growth may adversely affect our performance.*** Our financial performance and profitability depend on our ability to manage our recent and 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 face strong competition from financial services companies and other companies that offer banking services.*** We conduct most 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

Table of Contents

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 internet 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 are a limited number of qualified persons with knowledge of, and experience in, the California community banking industry. 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 President, 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.

***State laws may restrict our ability to pay dividends.*** Our ability for the Bank to pay dividends to the Company is limited by California law and the Company's ability to pay dividends on its outstanding stock is limited by Delaware law. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources."

***The terms of our outstanding preferred stock limit our ability to pay dividends on and repurchase our common stock, and there can be no assurance of any future dividends on our common stock.*** The Stock

Purchase Agreement between the Company and the U.S. Treasury pursuant to which we sold $306.5 million of our Series B Preferred Stock (the "Series B Preferred Stock") and issued a warrant to purchase up to 3,035,109 shares of our common stock (the "TARP Warrant") provides that prior to the earlier of (i) December 5, 2011 and (ii) the date on which all of the shares of the Series B Preferred Stock have been redeemed by us or transferred by the U.S. Treasury to third parties, we may not, without the consent of the U.S. Treasury, (a) increase the cash dividend on our common stock above $0.10 per share or (b) subject to limited exceptions, redeem, repurchase or otherwise acquire shares of our common stock or preferred stock other than the Series A Preferred Stock and Series B Preferred Stock. The terms of our outstanding Series A Preferred Stock have similar limitations on our ability to redeem or repurchase our common stock. In addition, we are unable to pay any dividends on our common stock unless we are current in our dividend payments on the Series B Preferred Stock and Series A Preferred Stock. These restrictions, together with the potentially dilutive impact of the TARP Warrant and common stock issuable upon conversion of the Series A Preferred Stock, described below, could have a negative effect on the value of our common stock. Moreover, holders of our common stock are entitled to receive dividends only when, as and if declared by our Board of Directors. Although we have historically paid cash dividends on our common stock, we are not required to do so. Commencing with first quarter 2009 dividends, our Board of Directors reduced our common stock dividend to $0.02 per share, relative to our previous quarterly dividend rate of $0.10 per share. See "Management's Discussion and Analysis of Financial Condition and Results of Operations    Liquidity and Capital Resources" herein. The terms of the Stock Purchase Agreement allow the U.S. Treasury to impose additional restrictions, including those on dividends and including unilateral amendments required to comply with changes in applicable federal law.

***Our outstanding preferred stock impacts net income available to our common stockholders and earnings per common share, and the TARP Warrant as well as other potential issuances of equity securities may be dilutive to holders of our common stock.*** The dividends declared and the accretion on discount on our outstanding preferred stock will reduce the net income available to common stockholders and our earnings per common share. Our outstanding preferred stock will also receive preferential treatment in the event of liquidation, dissolution or winding up of the Company. Additionally, the ownership interest of the existing holders of our common stock will be diluted to the extent the TARP Warrant is exercised. The shares of common stock underlying the TARP Warrant represent approximately 5% of the shares of our common stock outstanding as of January 31, 2009 (including the shares issuable upon exercise of the TARP Warrant in total shares outstanding). Although the U.S. Treasury has agreed not to vote any of the shares of common stock it receives upon exercise of the TARP Warrant, a transferee of any portion of the TARP Warrant or of any shares of common stock acquired upon exercise of the TARP Warrant is not bound by this restriction. In addition, to the extent our Series A Preferred Stock is converted, or options to purchase common stock under our employee and director stock option plans are exercised, holders of our common stock will incur additional dilution. Further, if we sell additional equity or convertible debt securities, such sales could result in increased dilution to our shareholders.

***Because of our participation in the Troubled Asset Relief Program, we are subject to several restrictions including restrictions on compensation paid to our executives.*** Pursuant to the terms of the Stock Purchase Agreement, we adopted certain standards for executive compensation and corporate governance for the period during which the U.S. Treasury holds the equity issued pursuant to the Purchase Agreement, including the common stock which may be issued pursuant to the TARP Warrant. These standards generally apply to our Chief Executive Officer, Chief Financial Officer and the three next most highly compensated senior executive officers. The standards include (1) ensuring that incentive compensation for senior executives does not encourage unnecessary and excessive risks that threaten the value of the financial institution; (2) required clawback of any bonus or incentive compensation paid to a senior executive based on statements of earnings, gains or other criteria that are later proven to be materially inaccurate; (3) prohibition on making golden parachute payments to senior executives; and (4) agreement not to deduct for tax purposes executive compensation in excess of $500,000 for each senior executive. In particular, the change to the deductibility limit on executive compensation will likely increase the overall cost of our compensation programs in future periods. Since the TARP Warrant has a ten year term, we could potentially be subject to the executive compensation and corporate governance restrictions for a ten year time period.

The adoption of the ARRA on February 17, 2009 imposed certain new executive compensation and corporate expenditure limits on all current and future TARP recipients, including the Company, until the institution has repaid the U.S. Treasury, which is now permitted under the ARRA without penalty and without the need to raise new capital, subject to the U.S. Treasury's consultation with the recipient's appropriate regulatory agency. The executive compensation standards are more stringent than those currently in effect under the TARP CPP or those previously proposed by the U.S. Treasury. The new standards include (but are not limited to) (i) prohibitions on bonuses, retention awards and other incentive compensation, other than restricted stock grants which do not fully vest during the TARP period up to one-third of an employee's total annual compensation, (ii) prohibitions on golden parachute payments for departure from a company, (iii) an expanded clawback of bonuses, retention awards, and incentive compensation if payment is based on materially inaccurate statements of earnings, revenues, gains or other criteria, (iv) prohibitions on compensation plans that encourage manipulation of reported earnings, (v) retroactive review of bonuses, retention awards and other compensation previously provided by TARP recipients if found by the Treasury to be inconsistent with the purposes of TARP or otherwise contrary to public interest, (vi) required establishment of a company-wide policy regarding "excessive or luxury expenditures," and (vii) inclusion in a participant's proxy statements for annual shareholder meetings of a nonbinding "Say on Pay" shareholder vote on the compensation of executives.

***The price of our common stock may be volatile or may decline.*** The trading price of our common stock may fluctuate widely 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 shareholders;
- 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 recently. 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

Table of Contents

limitation, our financial condition, performance, creditworthiness and prospects, future sales of our equity or equity related securities, and other factors identified above in "Special Cautionary Note Regarding Forward-Looking Statements." Current levels of market volatility are unprecedented. The capital and credit markets have been experiencing volatility and disruption for more than a year. In recent months, the volatility and disruption has reached unprecedented levels. 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 shareholders 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 chargeoffs, and provision for loan losses, which could adversely affect our earnings.

***Adverse conditions in Asia could adversely affect our business.*** A substantial number of our customers have economic and cultural ties to Asia and, as a result, we are likely to feel the effects of adverse economic and political conditions in Asia. Additionally, we also have representative offices in Beijing and Shanghai and a full-service branch in Hong Kong. U.S. and global economic policies, military tensions, and unfavorable global economic conditions may adversely impact the Asian economies. Pandemics and other public health crises or concerns over the possibility of such crises could create economic and financial disruptions in the region. If economic conditions in Asia deteriorate, we could, among other things, be exposed to economic and transfer risk, and could experience an outflow of deposits by those of our customers with connections to Asia. 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. Adverse economic conditions in Asia, and in China in particular, may also negatively impact asset values and the profitability and liquidity of our customers who operate in this region.

***We have engaged in and may continue to engage in further expansion through acquisitions, which could negatively affect our business and earnings.*** We have engaged in and may continue to engage in expansion through acquisitions. There are risks associated with such expansion. 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.

Our earnings, financial condition, and prospects after a merger or acquisition depend in part on our ability to successfully integrate the operations of the acquired company. We may be unable to integrate operations successfully or to achieve expected cost savings. Any cost savings which are realized may be offset by losses in revenues or other charges to earnings.

**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 23 of its retail branch offices. Nine 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 2009 to 2020, 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.

At December 31, 2008, the Bank's consolidated investment in premises and equipment, net of accumulated depreciation and amortization, totaled $60.2 million. Total occupancy expense, inclusive of rental payments and furniture and equipment expense, for the year ended December 31, 2008 was $27.0 million. Total annual rental expense (exclusive of operating charges and real property taxes) was approximately $10.7 million during 2008.

**ITEM 3. LEGAL PROCEEDINGS**

Neither the Company nor the Bank is involved in any material legal proceedings. The Bank, from time to time, is party to litigation which arises in the ordinary course of business, such as claims to enforce liens, claims involving the origination and servicing of loans, and other issues related to the business of the Bank. After taking into consideration information furnished by counsel to the Company and the Bank, management believes that the resolution of such issues would not have a material adverse impact on the financial position, results of operations, or liquidity of the Company or the Bank.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

There were no matters submitted to a vote of security holders during the fourth quarter of the year ended December 31, 2008.

Table of Contents

## PART II

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

*Market Information*

East West Bancorp, Inc. commenced trading on the NASDAQ Global Select Market on February 8, 1999 under the symbol "EWBC." The following table sets forth the range of sales prices for the Company's common stock for the years ended December 31, 2008 and 2007.

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | **High** | **Low** | **High** | **Low** |
| First quarter | $25.75 | $16.96 | $38.96 | $35.26 |
| Second quarter | 18.74 | 6.94 | 41.86 | 35.31 |
| Third quarter | 17.65 | 6.77 | 39.59 | 34.95 |
| Fourth quarter | 18.40 | 9.85 | 38.27 | 24.13 |

The foregoing reflects information available to the Company and does not necessarily include all trades in the Company's stock during the periods indicated. The closing price of our common stock on January 31, 2009 was $9.49 per share, as reported by the Nasdaq Global Select Market.

*Issuance of Preferred Stock*

In April 2008, the Company issued 200,000 shares of 8% Non-Cumulative Perpetual Convertible Preferred Stock, Series A ("Series A preferred shares"), with a liquidation preference of $1,000 per share. In conjunction with this issuance, the Company received $194.1 million of additional Tier 1 qualifying capital, net of stock issuance costs. The shares are quoted on the Over-the-Counter Bulletin board under the symbol "EWBCP.PK" on an exchange. The holders of the Series A preferred shares will have the right at any time to convert each share of Series A into 64.9942 shares of the Company's common stock, plus cash in lieu of fractional shares. This represented an initial conversion price of approximately $15.39 per share of common stock or a 22.5% conversion premium based on the closing price of the Company's common stock on April 23, 2008 of $12.56 per share. On or after May 1, 2013, the Company has the right to cause the Series A preferred shares to be converted into shares of the Company's common stock, subject to conversion provisions. Dividends on the Series A preferred shares, if declared, will accrue and be payable quarterly in arrears at a rate per annum equal to 8% on the liquidation preference of $1,000 per share, on February 15, May 15, August 15 and November 15 of each year.

On December 5, 2008, the Company issued 306,546 shares of Fixed Rate Cumulative Perpetual Senior Preferred Stock, Series B ("Series B preferred shares"), with a liquidation preference of $1,000 per share in conjunction with its participation in the U.S. Treasury's TARP CPP. The Company received $306.5 million of additional Tier 1 qualifying capital as a result of this issuance. The shares are not listed on an exchange. The Series B preferred shares are senior to common stock and pari passu with existing preferred shares (including shares of our Series A preferred stock discussed above) other than preferred shares which by their terms rank junior to any existing preferred shares. The Series B preferred shares will pay cumulative dividends at a rate of 5% per annum until the fifth anniversary of the investment date and thereafter at a rate of 9% per annum. Dividends will be payable quarterly in arrears on February 15, May 15, August 15 and November 15 of each year. For as long as any Series B preferred shares are outstanding, no dividends may be declared or paid on junior preferred shares, preferred shares ranking pari passu with the Series B preferred shares, or common shares (other than

Table of Contents

in the case of pari passu preferred shares, in which case, dividends are paid on a pro rata basis with the Series B preferred shares), nor may the Company repurchase or redeem any junior preferred shares, preferred shares ranking pari passu with the Series B preferred shares or common shares, unless all accrued and unpaid dividends for all past dividend periods on the Series B preferred shares are fully paid. Series B preferred shares are transferable by the U.S. Treasury at any time. Subject to the approval of the FRB, the Series B preferred shares are redeemable at the option of the Company at 100% of liquidation preference (plus any accrued and unpaid dividends), provided, however, that the Series B preferred shares may be redeemed prior to the first dividend payment date falling after the third anniversary of the Closing Date (February 15, 2012) only if (i) the Company has raised aggregate gross proceeds in one or more Qualified Equity Offerings in excess of $76,636,500, and (ii) the aggregate redemption price does not exceed the aggregate net proceeds from such Qualified Equity Offerings. Except for certain specified transactions, Series B preferred shares shall be non-voting in nature.

In connection with the Series B offering, the Company issued warrants to purchase 3,035,109 shares of common stock with an initial price of $15.15 per share of common stock for which the warrant may be exercised. The warrants may be exercised at any time on or before December 5, 2018.

*Common Stock Holders*

As of January 31, 2009, 63,745,261 shares of the Company's common stock were held by 1,933 shareholders of record.

*Common Dividends*

We declared and paid cash dividends of $0.10 per share during each of the four quarters of 2007 and $0.10 per share during each of the four quarters of 2008. Refer to "Item 1. BUSINESS Supervision and Regulation Dividends and Other Transfers of Funds" for information regarding dividend payment restrictions.

Table of Contents

*Stock Performance Graph*

The following graph shows a comparison of stockholder return on the Company's common stock based on the market price of the common stock assuming the reinvestment of dividends, with the cumulative total returns for the companies in the Standard & Poor's 500 Index and the SNL Western Bank Index for the 5-year period beginning on December 31, 2003 through December 31, 2008. This graph is historical only and may not be indicative of possible future performance of the Company's common stock. 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.

**Total Return Performance**

| | Period Ended | | | | | |
|---|---|---|---|---|---|---|
| **Index** | **12/31/03** | **12/31/04** | **12/31/05** | **12/31/06** | **12/31/07** | **12/31/08** |
| East West Bancorp, Inc. | 100.00 | 157.37 | 137.62 | 134.30 | 92.88 | 62.75 |
| SNL Western Bank Index | 100.00 | 113.64 | 118.32 | 133.50 | 111.51 | 108.57 |
| S&P 500 | 100.00 | 110.88 | 116.33 | 134.70 | 142.10 | 89.53 |

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

*Purchases of Equity Securities by the Issuer and Affiliated Purchasers*

On January 23, 2007, the Company's Board of Directors authorized a new stock repurchase program to buy back up to $30.0 million of the Company's common stock. On March 20, 2007, the Company's Board of Directors authorized an increase in the stock repurchase program to buy back up to an additional $50.0 million of the Company's common stock in 2007. This new authorization is in addition to the $30.0 million stock repurchase authorized on January 23, 2007. The Company completed the repurchase of 1,392,176 shares at a weighted average price of $38.69 during 2007. There

Table of Contents

were no repurchases of equity securities during the year ended 2008. The Company had $26.2 million in authorized share repurchases remaining as of December 31, 2008.

Repurchases of the Company's securities during the fourth quarter of 2008 are as follows:

| Month Ended | Total Number of Shares Purchased (1) | Weighted Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Programs | Approximate Dollar Value in Millions of Shares that May Yet Be Purchased Under the Programs (2) |
|---|---|---|---|---|
| October 31, 2008 | | $ | | $ 26.2 |
| November 30, 2008 | | | | 26.2 |
| December 31, 2008 | | | | 26.2 |
| Total | | $ | | $ 26.2 |

(1) Excludes 134,775 in repurchased shares totaling $3.9 million due to granting of unrestricted stock awards as well as forfeitures and vesting of restricted stock awards pursuant to the Company's 1998 Stock Incentive Plan.

(2) During the first quarter of 2007, the Company's Board of Directors announced a repurchase program authorizing the repurchase of up to $80.0 million of its common stock. This repurchase program has no expiration date and, to date, 1,392,176 shares have been purchased under this program.

Table of Contents

## 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 herein.

| | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| | *(In thousands, except per share data)* | | | | |
| **Summary of Operations:** | | | | | |
| Interest and dividend income | $ 664,858 | $ 773,607 | $ 660,050 | $ 411,399 | $ 252,070 |
| Interest expense | 309,694 | 365,613 | 292,568 | 131,284 | 52,897 |
| Net interest income | 355,164 | 407,994 | 367,482 | 280,115 | 199,173 |
| Provision for loan losses | 226,000 | 12,000 | 6,166 | 15,870 | 16,750 |
| Net interest income after provision for loan losses | 129,164 | 395,994 | 361,316 | 264,245 | 182,423 |
| Noninterest (loss) income (1) | (25,062) | 49,520 | 33,920 | 29,649 | 31,938 |
| Noninterest expense | 201,270 | 183,255 | 161,455 | 123,533 | 93,028 |
| (Loss) income before provision (benefit) for income taxes | (97,168) | 262,259 | 233,781 | 170,361 | 121,333 |
| (Benefit) provision for income taxes | (47,485) | 101,092 | 90,412 | 61,981 | 43,311 |
| Net (loss) income | $ (49,683) | $ 161,167 | $ 143,369 | $ 108,380 | $ 78,022 |
| PREFERRED STOCK DIVIDENDS AND AMORTIZATION OF PREFERRED STOCK DISCOUNT | 9,474 | - | - | - | - |
| NET (LOSS) INCOME AVAILABLE TO COMMON STOCKHOLDERS | $ (59,157) | $ 161,167 | $ 143,369 | $ 108,380 | $ 78,022 |
| **Per Common Share** | | | | | |
| Basic earnings per share | $ (0.94) | $ 2.63 | $ 2.40 | $ 2.03 | $ 1.54 |
| Diluted earnings per share | $ (0.94) | $ 2.60 | $ 2.35 | $ 1.97 | $ 1.49 |
| Common dividends per share | $ 0.40 | $ 0.40 | $ 0.20 | $ 0.20 | $ 0.20 |
| Average number of shares outstanding, basic | 62,673 | 61,180 | 59,605 | 53,454 | 50,654 |
| Average number of shares outstanding, diluted | 62,673 | 62,093 | 60,909 | 55,034 | 52,297 |
| **At Year End:** | | | | | |
| Total assets | $ 12,422,816 | $ 11,852,212 | $ 10,823,711 | $ 8,278,256 | $ 6,028,880 |
| Loans receivable, net | 8,069,377 | 8,750,921 | 8,182,172 | 6,724,320 | 5,080,454 |
| Investment securities held-to-maturity | 122,317 | - | - | - | - |
| Investment securities available-for-sale | 2,040,194 | 1,887,136 | 1,647,080 | 869,837 | 534,452 |
| Deposits | 8,141,959 | 7,278,914 | 7,235,042 | 6,258,587 | 4,522,517 |
| Federal Home Loan Bank advances | 1,353,307 | 1,808,419 | 1,136,866 | 617,682 | 860,803 |
| Stockholders' equity | 1,550,766 | 1,171,823 | 1,019,390 | 734,138 | 514,309 |
| Common shares outstanding | 63,746 | 63,137 | 61,431 | 56,519 | 52,501 |
| Book value per common share | $ 16.94 | $ 18.56 | $ 16.59 | $ 12.99 | $ 9.80 |
| **Financial Ratios:** | | | | | |
| Return on average assets | (0.42)% | 1.45% | 1.46% | 1.55% | 1.57% |
| Return on average common equity | (5.41) | 14.89 | 15.78 | 18.27 | 17.86 |
| Return on average total equity | (3.99) | 14.89 | 15.78 | 18.27 | 17.86 |
| Common dividend payout ratio | 0.43 | 15.27 | 8.35 | 9.88 | 12.93 |
| Average stockholders' equity to average assets | 10.55 | 9.77 | 9.26 | 8.48 | 8.77 |
| Net interest margin | 3.19 | 3.94 | 3.98 | 4.22 | 4.24 |
| Efficiency ratio (2) | 45.94 | 37.44 | 37.07 | 36.53 | 36.08 |
| **Asset Quality Ratios:** | | | | | |
| Net chargeoffs (recoveries) to average loans | 1.64% | 0.08% | (0.01)% | 0.08% | 0.12% |
| Nonperforming assets to year end total assets | 2.12 | 0.57 | 0.18 | 0.36 | 0.10 |
| Allowance for loan losses to year end total gross loans | 2.16 | 1.00 | 0.95 | 1.01 | 0.99 |

(1) 2008 includes other-than-temporary ("OTTI") charges relating to investment securities of $73.2 million.

(2) Represents noninterest expense, excluding the amortization of intangibles, amortization and impairment writedowns of premiums on deposits acquired, impairment writedown on goodwill, and investments in affordable housing partnerships, divided by the aggregate of net interest income before provision for loan losses and noninterest income, excluding impairment writedowns on investment securities and other equity investment.

Table of Contents

## 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 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 of 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. Various elements of our accounting policies, by their nature, are inherently subject to estimation techniques, 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 judgments necessary to prepare 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 net income.

*Fair Valuation of Financial Instruments*

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements*, on January 1, 2008. This standard provides a definition of fair value, establishes a framework for measuring fair value, and requires expanded disclosures about fair value measurements. Fair value is the price that could be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Based on the observability of the inputs used in the valuation techniques, we classify our financial assets and liabilities measured and disclosed at fair value in accordance with the three-level hierarchy (e.g., Level 1, Level 2 and Level 3) established under SFAS No. 157. Fair value determination in accordance with SFAS No. 157 requires that we make a number of significant judgments. In determining the fair value of financial instruments, we use market prices of the same or similar instruments whenever such prices are available. We do 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 analyses. These modeling techniques incorporate our 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.

Fair value is used on a recurring basis for certain assets and liabilities in which fair value is the primary basis of accounting. Additionally, fair value is used on a non-recurring basis to evaluate assets or liabilities for impairment or for disclosure purposes in accordance with SFAS No. 107, *Disclosures About Fair Value of Financial Instruments*.

*Investment Securities*

The classification and accounting for investment securities are discussed in detail in Note 1 of the consolidated financial statements presented elsewhere in this report. Under SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, investment securities generally must be classified as held-to-maturity, available-for-sale, or trading. The appropriate classification is based partially on our ability to hold the securities to maturity and largely on management's intentions with respect to either holding or selling the securities. The classification of investment securities is significant since it directly impacts the accounting for unrealized gains and losses on securities. Unrealized gains and losses on trading securities flow directly through earnings during the periods in which they arise. Investment securities that are classified as held-to-maturity are recorded at amortized cost. Unrealized gains and losses on available-for-sale securities are recorded as a separate component of stockholders' equity (accumulated other comprehensive income or loss) and do not affect earnings until realized or are deemed to be other-than-temporarily impaired. The fair values of investment securities are generally determined by reference to the average of at least two quoted market prices obtained from independent external brokers or independent external pricing service providers who have experience in valuing these securities. 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 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 whether prices received from independent brokers represent a reasonable estimate of fair value through the use of internal and external cash flow models developed based on spreads, and when available, market indices. As a result of this analysis, if the Company determines 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 inputs that may be difficult to corroborate with observable market based data. Additionally, the majority of these independent broker quotations are non-binding.

For current broker prices obtained on certain investment securities that we believe are based on forced liquidation or distressed sale values in very inactive markets, we have modified our approach in determining the fair values of these securities. We have determined that each of these securities will be individually examined 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 made assumptions related to the implied rate of return, general change in market rates, estimated changes in credit quality and liquidity risk premium, specific non-performance and default experience in the collateral underlying the security, as well as broker discount rates are taken into consideration in determining the discount rate. The values resulting from each approach (i.e. market and income approaches) are weighted to derive the final fair value for each security trading in an inactive market.

We are obligated to assess, at each reporting date, whether there is an "other-than-temporary" impairment to our investment securities. Such impairment must be recognized in current earnings rather than in other comprehensive income. The determination of other-than-temporary impairment is a subjective process, requiring the use of judgments and assumptions. We examine all individual securities that are in an unrealized loss position at each reporting date for other-than-temporary

Table of Contents

impairment. Specific investment-related factors we examine to assess impairment include the nature of the investment, severity and duration of the loss, the probability that we will be unable to collect all amounts due, an analysis of the issuers of the securities and whether there has been any cause for default on the securities and any change in the rating of the securities by the various rating agencies. Additionally, we evaluate whether the creditworthiness of the issuer calls the realization of contractual cash flows into question. We reexamine the financial resources, intent and the overall ability of the Company to hold the securities until their fair values recover. Management does not believe that there are any investment securities, other than those identified in the current and previous periods, which are deemed to be "other-than-temporarily" impaired as of December 31, 2008. Investment securities are discussed in more detail in Note 7 to the Company's consolidated financial statements presented elsewhere in this report.

As required under Emerging Issues Task Force ("EITF") 99-20, *Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interest in Securitizes Financial Assets,* and EITF 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-*20, the Company considers all available information relevant to the collectibility of the security, including information about past events, current conditions, and reasonable and supportable forecasts, when developing the estimate of future cash flows and making its other-than-temporary impairment assessment for our portfolio of residual securities and pooled trust preferred securities. The Company considers factors such as remaining payment terms of the security, prepayment speeds, the financial condition of the issuer(s), expected defaults, and the value of any underlying collateral.

*Allowance for Loan Losses*

Our 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 chargeoff trends, collateral values, changes in nonperforming loans, and other factors. Quantitative factors also incorporate known information about individual loans, including borrowers' sensitivity to interest rate movements and borrowers' sensitivity to quantifiable external factors including commodity and finished good prices as well as acts of nature (earthquakes, floods, fires, etc.) that occur in a particular period. Qualitative factors include the general economic environment in our markets and, in particular, the state of certain industries. Size and complexity of individual credits, loan structure, extent and nature of waivers of existing loan policies, and pace of portfolio growth are other qualitative factors that are considered in our methodologies.

A detailed discussion of our allowance for loan loss methodology can be found in "Management's Discussion and Analysis of Consolidated Financial Condition and Results of Operations Allowance for Loan Losses." As we add new products, increase the complexity of our loan portfolio, and expand our geographic coverage, we continue to enhance our methodology to keep pace with the size and complexity of the loan portfolio and changing credit environment. Changes in any of the factors cited above could have a significant impact on the loan loss calculation. We believe that our methodologies 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 including the section entitled "Loans and Allowance for Loan Losses."

*Other Real Estate Owned*

Other real estate owned ("OREO") represents properties acquired through foreclosure or through full or partial satisfaction of loans, is considered held for sale, and is recorded at the lower of cost or estimated fair value at the time of foreclosure. Loan balances in excess of fair value of the real estate acquired at the date of foreclosure are charged against the allowance for loan losses. After foreclosure, valuations are periodically performed as deemed necessary by management and the real estate is carried at the lower of carrying value or fair value less costs to sell. Subsequent declines in the fair value of the OREO below the carrying value are recorded through the use of a valuation allowance by charges to noninterest expense. Any subsequent operating expenses or income of such properties are charged to non-interest expense. If the REO is sold shortly after it is received in a foreclosure (i.e., the holding period was deemed minimal), the Company substitutes the value received in the sale (net of costs to sell) for the fair value (less costs to sell). Any adjustment made to the loss originally recognized at the time of foreclosure is then charged against or credited to the allowance for loan and lease losses, if deemed material. Otherwise, any declines in value after foreclosure are recorded as gains or losses from the sale or disposition of the real estate. Revenue recognition upon disposition of a property is dependent on the sale having met certain criteria relating to the buyer's initial investment in the property sold.

*Loan Sales*

From time to time, we sell and securitize single family and multifamily loans to secondary market investors. We may retain residual and other interests, which are considered retained interests in the sold or securitized loans. The gain on sale recorded on these loans depends, in part, on our allocation of the previous carrying amount of the loans to the retained interests. Previous carrying amounts are allocated in proportion to the relative fair values of the loans sold and the interests retained. The fair values of retained interests are estimated based upon the present value of the associated expected future cash flows taking into consideration future prepayment rates, discount rates, expected credit losses, and other factors that impact the value of the retained interests.

When mortgage loans are sold, we generally retain the right to service these loans. We may record mortgage servicing assets, or "MSAs", when the benefits of servicing are expected to be more than adequate compensation to a servicer. Mortgage servicing assets are initially recorded at fair value. The Company determines whether the benefits of servicing are expected to be more than adequate compensation to a servicer by discounting all of the future net cash flows associated with the contractual rights and obligations of the servicing agreement. The expected future net cash flows are discounted at a rate equal to the return that would adequately compensate a substitute servicer for performing the servicing. In addition to the anticipated rate of loan prepayments and discount rates, other assumptions such as the cost to service the underlying loans, foreclosure costs, ancillary income and float rates are also used in determining the value of the MSAs. Mortgage servicing assets are discussed in more detail in Notes 1 and 13 to the Company's consolidated financial statements presented elsewhere in this report.

*Goodwill Impairment*

Under SFAS No. 142, *Goodwill and Other Intangibles,* 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 four major operating segments identified in Note 25 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 appropriately weighted 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 additional information regarding goodwill, see Note 12 to the Company's consolidated financial statements presented elsewhere in this report.

*Share-Based Compensation*

We account for share-based awards to employees, officers, and directors in accordance with the provisions of SFAS No. 123(R), *Share-Based Payment*. Under SFAS No. 123(R), 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. We adopted SFAS No. 123(R), as required, on January 1, 2006. Prior to 2006, we recognized stock-based compensation expense for employee share-based awards based on their intrinsic value on the date of grant pursuant to Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and followed the disclosure requirements of SFAS No. 123, *Accounting for Stock-Based Compensation*.

We adopted SFAS No. 123(R) using the modified prospective approach. Under the modified prospective approach, prior periods are not restated for comparative purposes. The valuation provisions of SFAS No. 123(R) apply to new awards and to awards that are outstanding on the effective date and subsequently modified, repurchased or cancelled. Compensation expense, net of estimated forfeitures, for awards outstanding at the effective date is recognized over the remaining service period using the compensation cost calculated for pro forma disclosures under the original SFAS No. 123.

We grant nonqualified stock options and restricted stock. Most of our stock option and restricted stock awards include a service condition that relates only to vesting. The stock option awards generally vest in one to four years from the grant date, while the restricted stock awards generally vest in three to 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.

We use 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. These methods used to determine these variables are generally similar to the methods used prior to 2006 for the purposes of our pro forma disclosures under SFAS No. 123. We make 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 our 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. For 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 under SFAS No. 123(R) is based on awards ultimately expected to vest, it is reduced for estimated forfeitures. SFAS No. 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Share-based compensation is discussed in more detail in Notes 1 and 21 to the Company's consolidated financial statements presented elsewhere in this report.

**Overview**

2008 proved to be one of the most challenging periods in our 36-year history. The downturn in the U.S. housing markets, the volatility in the financial services industry, and continued uncertainty in the U.S. economy have caused widespread instability on the global financial systems. Liquidity concerns and credit issues have resulted in the failure and insolvency of several large financial companies as well as the U.S. government's conservatorship of Fannie Mae and Freddie Mac. To this end, we undertook several decisive and strategic actions throughout the year to strengthen our balance sheet improving our capital and liquidity positions, fortifying our loss reserve levels, as well as stabilizing our problem loans and reducing our credit risk exposures. Additionally, we were able to reduce operating expenses despite higher credit cycle costs. With these measures, we feel we are positioned better than ever to face the economic challenges that will likely continue to plague the financial services industry in the coming year.

In 2008, we raised a total $506.5 million in capital through the issuance of $200.0 million of convertible preferred stock in April 2008 and the issuance of $306.5 million of preferred equity in December 2008 as a participant in the TARP CPP. These issuances of preferred stock have bolstered our capital ratios well above regulatory minimum as well as "well-capitalized" thresholds for banks. As of December 31, 2008, our total risk-based capital ratio was 15.8% or $600.5 million more than the 10.0% regulatory requirement for well-capitalized banks. Our Tier 1 risk-based capital ratio of 13.8% and our Tier 1 leverage ratio of 12.4% as of December 31, 2008 also significantly exceeded regulatory guidelines for "well-capitalized" banks. Our tangible equity to tangible assets ratio improved to 9.9% at December 31, 2008, compared to 7.0% as of December 31, 2007.

Similarly, our liquidity position has also been considerably strengthened. At December 31, 2008, we tripled our total borrowing capacity and holdings of cash and cash equivalents to $3.34 billion, compared to $1.13 billion at December 31, 2007. As of December 31, 2008, we had $878.9 million in cash and cash equivalents and approximately $2.46 billion in available borrowing capacity from various sources including the FHLB, the FRB, repurchase agreements, and federal funds facilities with several financial institutions. During 2008, we obtained additional borrowing capacity from the Federal Reserve discount window of almost $900.0 million. Our combined borrowing capacity and cash holdings represent 27% of total assets and 41% of total deposits as of December 31, 2008. Despite volatile and challenging market conditions, we also experienced a 12%, or $863.0 million, growth in deposits during 2008, with total deposits increasing to $8.14 billion as of December 31, 2008, compared with $7.28 billion as of December 31, 2007. Our continued efforts to deleverage our balance sheet have resulted in a lower loan to deposit ratio of 101% at December 31, 2008, compared to 110% at September 30, 2008 and 122% at December 31, 2007. We believe that our liquidity position is more than sufficient to meet our operating expenses, borrowing needs and other obligations.

Nonperforming assets totaled $263.9 million representing 2.12% of total assets at December 31, 2008. This compares to $200.6 million or 1.71% of total assets at September 30, 2008 and $67.5 million or 0.57% of total assets at December 31, 2007. Nonperforming assets as of December 31, 2008 are comprised of nonaccrual loans totaling $214.6 million, OREO totaling $38.3 million, and loans modified or restructured amounting to $11.0 million. Included in nonaccrual loans as of December 31, 2008 are loans totaling $32.5 million which were not 90 days past due as of December 31, 2008, but have been classified as nonaccrual due to concerns surrounding collateral values and future collectibility. Nonaccrual loans continued to be impacted by the deterioration in the residential construction and land portfolios, which comprised $146.3 million or 56% of total nonperforming assets.

During 2008, we took deliberate measures to proactively identify, quantify, and reduce our exposure to problem loans. We have ordered new appraisals for our entire portfolio of land and construction loans as well as our portfolio of commercial business and trade finance loans. We believe that the early identification of problem loans and potential future problem loans has enabled us to begin the process of resolving credit issues with substantially less risk and ultimate losses. Additionally, during 2008, we lowered total commitments on land and construction loans by $1.01 billion, significantly reducing our overall exposure to these sectors of our loan portfolio which have been most impacted by the downturn in the real estate market. Throughout 2008, we have also aggressively managed our problem loans through weekly meetings with senior management and lenders and through the development of individual borrower action plans to improve our credit and collateral positions. We believe that our disciplined approach in resolving problem credits has proven to be very effective in decelerating the increase in our problem loans despite a highly challenging credit environment.

Partly as a consequence of the actions that we took to identify and manage our problem loans, we recorded $226.0 million in loan loss provisions during 2008. At December 31, 2008, our allowance for loan losses amounted to $178.0 million or 2.16% of total gross loans. In comparison, the allowance for loan losses totaled $88.4 million or 1.00% of total gross loans as of December 31, 2007. Total net chargeoffs amounted to $141.4 million during 2008, representing 1.64% of average loans during 2008. This compares to $6.8 million, representing 0.08% of average loans during 2007. Approximately 74%, or $104.6 million, of the total net chargeoffs recorded during 2008 were related to land and residential construction loans while net chargeoffs on commercial loans amounted to $23.8 million, or approximately 17% of total chargeoffs. These elevated chargeoff levels that we experienced during 2008 reflect the proactive actions that we took to reduce our ultimate loss exposures as we wrote down loans that we believed to be impaired in accordance with SFAS 114, *Accounting by Creditors for Impairment of a Loan*, as amended.

Despite a sizeable loss provision recorded during 2008, our core operating earnings remained profitable during the year. The $49.7 million, or $(0.94) per share, net loss that we recorded during 2008 includes both $226.0 million in loan loss provisions and $73.2 million in OTTI charges on investment securities. A large portion of the non-cash OTTI charges, approximately $55.3 million was related to preferred stock issued by Fannie Mae and Freddie Mac. The fair values of these preferred stock securities were adversely impacted by the federal government's conservatorship of these entities in September 2008. The remaining $17.9 million in OTTI charges recorded during 2008 were related to certain pooled trust preferred debt and equity securities. Excluding loan loss provisions and non-cash OTTI charges on investment securities, our core pretax operating income amounted to $202.0 million, or $3.22 per share, during 2008.

Net interest income decreased 13% to $355.2 million during 2008, compared with $408.0 million 2007. Our net interest margin decreased 75 basis points to 3.19% during 2008. This compares with 3.94% during the same period in 2007. Relative to 2007, our net interest margin during 2008 was adversely impacted by the sharp decline in interest rates prompted by several consecutive Federal

Table of Contents

Reserve rate cuts, by the reversal of interest from nonaccrual loans, and by the reinvestment of loan payoffs into lower yielding investment securities and other short-term investments.

Excluding the non-cash OTTI charges on investment securities amounting to $73.2 million, total noninterest income decreased 4% to $48.1 million during 2008, compared with $49.9 million for the corresponding period in 2007. This decrease is attributable primarily to impairment charges on mortgage servicing assets and other assets totaling $3.7 million during 2008. These decreases were partially offset by higher net gain on sale of investment securities and branch-related revenues earned during 2008. Core noninterest income, which excludes the impact of non-cash OTTI charges, as well as net gains on sales of investment securities, loans and other assets, remained stable at $38.0 million during 2008, compared to $38.9 million during the same period last year.

Total noninterest expense increased 10% to $201.3 million during 2008, compared with $183.3 million for the same period in 2007. The increase in total noninterest expense during 2008, relative to 2007, can be attributed predominantly to higher deposit insurance premiums and regulatory assessments, higher OREO expenses and higher other credit cycle related expenses. Our efficiency ratio, which represents noninterest expense (excluding amortization and impairment writedowns on intangible assets and amortization of investments in affordable housing partnerships) divided by the aggregate of net interest income before provision for loan losses and noninterest income, was 45.94% during 2008 compared with 37.44% for 2007. Despite the year over year increase in noninterest expense, we focused on cost management throughout 2008. Fourth quarter 2008 noninterest expenses decreased $4.3 million from the third quarter, $11.5 million from the second quarter, and $8.7 million from the first quarter amidst rising credit cycle expense, including legal, consulting and OREO expenses. This reduction in operating expenses during 2008 was achieved largely through net attrition and the reduction of incentives and other compensation-related expenses.

Total consolidated assets at December 31, 2008 increased 5% to a record $12.42 billion, compared with $11.85 billion at December 31, 2007. The net increase in total assets is comprised predominantly of increases in cash and cash equivalents of $718.5 million, short-term investments of $228.4 million, held-to-maturity and available-for-sale investment securities totaling $275.4 million, deferred tax assets totaling $118.2 million, and OREO, net amounting to $36.8 million. These increases were partially offset by decreases in net loans receivable of $681.5 million and securities purchased under resale agreements amounting to $100.0 million. Total liabilities increased 2% to $10.87 billion as of December 31, 2008, compared to $10.68 billion as of December 31, 2007. The net increase in liabilities is primarily due to increases in total deposits of $863.0 million, partially offset by decreases in federal funds purchased of $194.3 million and FHLB advances of $455.1 million.

Total average assets increased 7% to $11.80 billion in 2008, compared to $11.08 billion in 2007, due primarily to growth in average available-for-sale securities. Total average investment securities increased 18% to $2.05 billion during 2008 primarily due to $2.69 billion in investment securities purchased since December 31, 2007. Total average deposits rose 3% during 2008 to $7.50 billion, compared to $7.26 billion for 2007, with the most significant contribution coming from time deposits. As a result of the ongoing instability in the financial services industry, we focused on products that provided 100% assurance and protection for our customers' deposits. Specifically, we promoted two deposit programs that provided our customers with enhanced, multi-million dollar FDIC insurance coverage on time deposits and money market accounts. We believe these measures have served to further reinforce the already strong relationships we have with our customers.

As of December 31, 2008, we updated our goodwill impairment analysis to determine whether and to what extent our goodwill asset was impaired. As a result of this updated analysis, we determined that there was no goodwill impairment at December 31, 2008. During the second and third quarters of

Table of Contents

2008, we recorded a combined goodwill impairment charge of $858 thousand which represents the goodwill balance related to East West Insurance Services, Inc. This impairment writedown had no effect on our cash balances, liquidity or regulatory capital ratios.

On January 27, 2009, the Board of Directors declared first quarter 2009 dividends on our common stock and Series A preferred stock. Despite our strong capital position, the Board of Directors authorized to reduce the common stock dividend to $0.02 per share beginning with the first quarter of 2009, as compared with the $0.10 per share paid in previous quarters. We believe the reduction in our common stock dividend payout to be both a responsible and prudent decision to preserve capital during this period of economic uncertainty.

**Results of Operations**

Net loss for 2008 totaled ($49.7) million, compared with net income of $161.2 million for 2007 and $143.4 million for 2006, representing a decrease of 131% for 2008 and an increase of 12% for 2007. On a per diluted share basis, net (loss) income was ($0.94), $2.60 and $2.35 for 2008, 2007 and 2006, respectively. During 2008, our operating results were significantly impacted by $226.0 million in loan loss provisions and $73.2 million in total non-cash OTTI investment securities charges, partially offset by a higher benefit for income taxes. The growth in net earnings during 2007 is primarily attributable to higher net interest and noninterest income, partially offset by higher provision for loan losses, higher operating expenses and a higher provision for income taxes. Our return on average total assets declined to (0.42%) in 2008, compared with 1.45% in 2007 and 1.46% in 2006. Our return on average total stockholders' equity also decreased to (3.99%) in 2008, compared with 14.89% in 2007 and 15.78% in 2006.

Table 1: *Components of Net (Loss) Income*

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2008** | **2007** | **2006** |
| | | ***(In millions)*** | |
| Net interest income | $ 355.2 | $ 408.0 | $ 367.5 |
| Provision for loan losses | (226.0) | (12.0) | (6.2) |
| Noninterest (loss) income | (25.1) | 49.5 | 33.9 |
| Noninterest expense | (201.3) | (183.2) | (161.4) |
| Benefit (provision) for income taxes | 47.5 | (101.1) | (90.4) |
| Net (loss) income | $ (49.7) | $ 161.2 | $ 143.4 |
| Return on average total assets | -0.42% | 1.45% | 1.46% |
| Return on average common equity | -5.41% | 14.89% | 15.78% |
| Return on average total equity | -3.99% | 14.89% | 15.78% |

**Net Interest Income**

Our primary source of revenue is net interest income, which is the difference between interest earned on loans, investment securities and other earning assets less the interest expense on deposits, borrowings and other interest-bearing liabilities. Net interest income in 2008 totaled $355.2 million, a 13% decrease over net interest income of $408.0 million in 2007. Comparing 2007 to 2006, net interest income increased 11% to $408.0 million, as compared to $367.5 million in 2006.

Table of Contents

Net interest margin, defined as net interest income divided by average earning assets, decreased 75 basis points to 3.19% during 2008, from 3.94% during 2007. The decline in the net interest margin reflects the steep decrease in the federal funds target rate during 2008, the significant increase in our overall level of nonaccrual loans, and the reinvestment of net loan payoffs into lower yielding investment securities and short-term investments. Comparing 2007 to 2006, our net interest margin remained relatively flat slightly decreasing by 4 basis points to 3.94% during 2007, compared to 3.98% during 2006.

The following table presents the net interest spread, net interest margin, average balances, interest income and expense, and the average yields and rates by asset and liability component for the years ended December 31, 2008, 2007 and 2006:

Table 2: *Summary of Selected Financial Data*

| | Year Ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2008 | | | 2007 | | | 2006 | | |
| | Average Balance | Interest | Average Yield Rate | Average Balance | Interest | Average Yield Rate | Average Balance | Interest | Average Yield Rate |
| | (Dollars in thousands) | | | | | | | | |
| **ASSETS** | | | | | | | | | |
| Interest-earning assets: | | | | | | | | | |
| Short-term investments | $ 303,344 | $ 7,468 | 2.46% | $ 18,576 | $ 904 | 4.87% | $ 10,531 | $ 443 | 4.21% |
| Securities purchased under resale agreements | 53,552 | 6,372 | 11.87% | 182,055 | 15,064 | 8.27% | 94,795 | 7,076 | 7.46% |
| Investment securities (1)(2)(3) | | | | | | | | | |
| Held-to-maturity | 9,931 | 697 | 7.00% | - | - | - | - | - | - |
| Available-for-sale (5) | 2,035,866 | 100,776 | 4.94% | 1,727,961 | 103,141 | 5.97% | 1,235,633 | 60,698 | 4.91% |
| Loans receivable (1)(4) | 8,601,825 | 545,260 | 6.32% | 8,354,989 | 650,717 | 7.79% | 7,828,579 | 587,831 | 7.51% |
| FHLB and FRB stock | 115,370 | 5,175 | 4.47% | 84,470 | 4,581 | 5.42% | 74,399 | 4,093 | 5.50% |
| Total interest-earning assets | 11,119,888 | 665,748 | 5.97% | 10,368,051 | 774,407 | 7.47% | 9,243,937 | 660,141 | 7.14% |
| Noninterest-earning assets: | | | | | | | | | |
| Cash and due from banks | 137,730 | | | 156,081 | | | 134,182 | | |
| Allowance for loan losses | (144,154) | | | (80,161) | | | (75,969) | | |
| Other assets | 689,323 | | | 635,799 | | | 511,926 | | |
| Total assets | $ 11,802,787 | | | $ 11,079,770 | | | $ 9,814,076 | | |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | | | | | | | |
| Interest-bearing liabilities: | | | | | | | | | |
| Checking accounts | $ 404,404 | $ 3,226 | 0.80% | $ 412,550 | $ 6,646 | 1.61% | $ 414,074 | $ 5,693 | 1.37% |
| Money market accounts | 1,099,576 | 25,805 | 2.34% | 1,302,898 | 53,021 | 4.07% | 1,165,938 | 43,233 | 3.71% |
| Savings deposits | 452,259 | 4,148 | 0.91% | 412,272 | 4,400 | 1.07% | 388,291 | 2,626 | 0.68% |
| Time deposits less than $100,000 | 1,164,622 | 35,061 | 3.00% | 956,203 | 37,164 | 3.89% | 1,081,768 | 40,519 | 3.75% |
| Time deposits $100,000 or greater | 3,018,876 | 109,820 | 3.63% | 2,862,017 | 139,804 | 4.88% | 2,481,870 | 108,194 | 4.36% |
| Federal funds purchased | 89,309 | 2,217 | 2.48% | 173,103 | 8,899 | 5.14% | 110,116 | 5,597 | 5.08% |
| FHLB advances | 1,592,125 | 70,661 | 4.43% | 1,230,940 | 61,710 | 5.01% | 1,088,887 | 50,824 | 4.67% |
| Securities sold under repurchase agreements | 1,000,332 | 46,062 | 4.59% | 978,739 | 38,366 | 3.92% | 633,093 | 23,083 | 3.65% |
| Long-term debt | 235,570 | 12,694 | 5.37% | 211,364 | 15,603 | 7.38% | 177,668 | 12,799 | 7.20% |
| Total interest-bearing liabilities | 9,057,073 | 309,694 | 3.41% | 8,540,086 | 365,613 | 4.28% | 7,541,705 | 292,568 | 3.88% |
| Nonnterest-bearing liabilities: | | | | | | | | | |
| Demand deposits | 1,362,617 | | | 1,312,709 | | | 1,249,935 | | |
| Other liabilities | 137,320 | | | 144,414 | | | 113,819 | | |
| Stockholders' equity | 1,245,777 | | | 1,082,561 | | | 908,617 | | |
| Total liabilities and stockholders' equity | $ 11,802,787 | | | $ 11,079,770 | | | $ 9,814,076 | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Interest rate spread | | 2.56% | | 3.19% | | 3.26% |
| Net interest income and net interest margin | $356,054 | 3.19% | $408,794 | 3.94% | $367,573 | 3.98% |

(1) Includes amortization of premiums and accretion of discounts on investment securities and loans receivable totaling $(7.4) million, $(3.3) million, and $(5.6) million for the years ended December 31, 2008, 2007, and 2006, respectively. Also includes the amortization of deferred loan fees totaling $255 thousand, $5.4 million and $6.5 million for the years ended December 31, 2008, 2007 and 2006, respectively.

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

Table of Contents

(3) Amounts calculated on a fully taxable equivalent basis using the current statutory federal tax rate.

(4) Average balances include nonperforming loans.

(5) Amounts calculated on a full taxable equivalent basis using the current statutory federal tax rate. Total interest income and average yield rate on an unadjusted basis for tax-exempt investment securities available-for-sale is $2.4 million and 5.3% for the twelve months ended December 31, 2008. Total interest income and average yield rate on an unadjusted basis for tax-exempt investment securities available-for-sale is $2.1 million and 6.1% for the twelve months ended December 31, 2007. Total interest income and average yield rate on an unadjusted basis for tax-exempt investment securities available-for-sale is $241 thousand and 4.5% for the twelve months ended December 31, 2006.

**Analysis of Changes in Net Interest Income**

Changes in our net interest income are a function of changes in rates and volumes of both interest-earning assets and interest-bearing liabilities. The following table sets forth information regarding changes in interest income and interest expense for the years indicated. The total change for each category of interest-earning asset and interest-bearing liability 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 average loans used to compute this table.

Table 3: *Analysis of Changes in Net Interest Income*

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2008 vs. 2007 | | | 2007 vs. 2006 | | |
| | Total Change | Changes Due to Volume (1) | Changes Due to Rate (1) | Total Change | Changes Due to Volume (1) | Changes Due to Rate (1) |
| | (In thousands) | | | | | |
| **INTEREST-EARNING ASSETS:** | | | | | | |
| Short-term investments | $ 6,564 | $ 7,224 | $ (660) | $ 461 | $ 382 | $ 79 |
| Securities purchased under resale agreements | (8,692) | (13,507) | 4,815 | 7,988 | 7,146 | 842 |
| Investment securities | | | | | | |
| Held-to-maturity | 697 | - | - | - | - | - |
| Available-for-sale (2) | (2,365) | 16,860 | (19,225) | 42,443 | 28,175 | 14,268 |
| Loans receivable, net | (105,457) | 18,734 | (124,191) | 62,886 | 40,474 | 22,412 |
| FHLB and FRB stock | 594 | 1,479 | (885) | 488 | 547 | (59) |
| Total interest and dividend income | $(108,659) | $ 30,790 | $(140,146) | $114,266 | $ 76,724 | $37,542 |
| **INTEREST-BEARING LIABILITIES:** | | | | | | |
| Checking accounts | $ (3,420) | $ (129) | $ (3,291) | $ 953 | $ (21) | $ 974 |
| Money market accounts | (27,216) | (7,331) | (19,885) | 9,788 | 5,349 | 4,439 |
| Savings deposits | (252) | 402 | (654) | 1,774 | 171 | 1,603 |
| Time deposits less than $100,000 | (2,103) | 7,203 | (9,306) | (3,355) | (4,837) | 1,482 |
| Time deposits $100,000 or greater | (29,984) | 7,317 | (37,301) | 31,610 | 17,690 | 13,920 |
| Federal funds purchased | (6,682) | (3,231) | (3,451) | 3,302 | 3,237 | 65 |
| FHLB advances | 8,951 | 16,614 | (7,663) | 10,886 | 6,944 | 3,942 |
| Securities sold under repurchase agreements | 7,696 | 863 | 6,833 | 15,283 | 13,435 | 1,848 |
| Long-term debt | (2,909) | 1,643 | (4,552) | 2,804 | 2,481 | 323 |
| Total interest expense | $ (55,919) | $ 23,351 | $ (79,270) | $ 73,045 | $ 44,449 | $28,596 |
| **CHANGE IN NET INTEREST INCOME** | $ (52,740) | $ 7,439 | $ (60,876) | $ 41,221 | $ 32,275 | $ 8,946 |

(1) Changes in interest income/expense not arising from volume or rate variances are allocated proportionately to rate and volume.

(2) Amounts calculated on a fully taxable equivalent basis using the current statutory federal tax rate. Total change on an unadjusted basis for tax-exempt investment securities available-for-sale is $242 thousand, and total changes due to volume and rates on an unadjusted basis for tax-exempt investment securities available-for-sale is $554 thousand and $(312) thousand for 2008 vs. 2007. For 2007 vs. 2006, total change on an unadjusted basis for tax-exempt investment securities available-for-sale is $1.9 million, and total changes due to volume and rates on an unadjusted basis for tax-exempt investment securities available-for-sale is $1.8 million and $115 thousand.

Table of Contents

**Provision for Loan Losses**

The provision for loan losses amounted to $226.0 million for 2008, compared to $12.0 million for 2007 and $6.2 million for 2006. The increase in loan loss provisions during 2008 reflects our increased chargeoff levels, our higher volume of classified and nonperforming loans caused by challenging conditions in the real estate housing market, turmoil in the financial markets, as well as recessionary pressures in the overall economic environment. In response to the unprecedented downturn in the real estate and housing markets, we performed an extensive evaluation of our credit portfolio throughout 2008 to identify and mitigate potential losses in loan categories that were especially hard hit by current market conditions. As part of this evaluation process, we ordered new appraisals for land, residential construction, and commercial construction loans during 2008 as well as engaged the services of an independent third party to make a current assessment of the financial strength of our borrowers. We performed a similar evaluation of our commercial business and trade finance loan portfolios during 2008. We sustained higher chargeoff activity and increased loan loss provisions on our land and residential construction loans during 2008 due to the continued weakness in the real estate market. Total net chargeoffs amounted to $141.4 million during 2008, representing 1.64% of average loans during 2008. This compares to $6.8 million, representing 0.08% of average loans during 2007. Approximately 74%, or $104.6 million, of total net chargeoffs recorded during 2008 were related to land and residential construction loans and approximately 17%, or $23.8 million were related to commercial business loans. During 2008, we took proactive measures to reduce our exposure to land and construction loans. As a result of these efforts, total construction loan commitments and land loans declined by $1.01 billion as of December 31, 2008 relative to year-end 2007. We continue to aggressively monitor delinquencies and proactively review the credit risk exposure of our loan portfolio to minimize and mitigate potential losses.

Comparing 2007 to 2006, the entire $12.0 million in loss provisions recorded during 2007 was recorded during the second half of 2007, with $9.0 million recorded during the fourth quarter of 2007. The increase in loan loss provisions during 2007, relative to 2006, reflects our increased chargeoff levels, our higher volume of classified and nonperforming loans, as compared to previous historic lows, and our continued loan growth.

Provisions for loan losses are charged to income to bring the allowance for credit losses as well as the allowance for unfunded loan commitments, off-balance sheet credit exposures, and recourse provisions to a level deemed appropriate by the Company based on the factors discussed under the "Allowance for Loan Losses" section of this report.

**Noninterest (Loss) Income**

Table 4: *Components of Noninterest (Loss) Income*

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| | | *(In millions)* | |
| Impairment writedown on investment securities | $(73.17) | $ (0.41) | $ - |
| Branch fees | 16.97 | 15.07 | 11.27 |
| Letters of credit fees and commissions | 9.74 | 10.25 | 8.67 |
| Net gain on investment securities available-for-sale | 9.01 | 7.83 | 2.54 |
| Ancillary loan fees | 4.65 | 5.77 | 3.89 |
| Income from life insurance policies | 4.15 | 4.16 | 4.00 |
| Net gain on sale of loans | 2.28 | 1.57 | 0.70 |
| Other operating income | 1.31 | 5.28 | 2.85 |
| Total | $(25.06) | $49.52 | $33.92 |

Table of Contents

Noninterest (loss) income includes revenues earned from sources other than interest income. These sources include service charges and fees on deposit accounts, fees and commissions generated from trade finance activities and the issuance of letters of credit, ancillary fees on loans, net gains on sales of loans, investment securities available-for-sale, and other assets, impairment writedowns on investment securities and other assets, and other noninterest-related revenues.

Our recorded noninterest loss of $(25.1) million during 2008 was primarily due to non-cash OTTI charges on our available-for-sale securities portfolio. In comparison, we recorded noninterest income of $49.5 million during 2007. Excluding the non-cash OTTI charges on investment securities totaling $73.2 million in 2008 and $405 thousand in 2007, total noninterest income slightly decreased to $48.1 million during 2008, compared with $49.9 million for the corresponding period in 2007. A large portion of the OTTI charges recorded during 2008, or approximately $55.3 million, was related to Fannie Mae and Freddie Mac preferred securities, with the remaining $17.9 million related to certain pooled trust preferred debt and equity securities. The $405 thousand impairment charge recorded during 2007 was related to a pooled trust preferred debt security.

Branch fees, which represent revenues derived from branch operations, totaled $17.0 million in 2008, representing a 13% increase from the $15.1 million earned in 2007. The increase in branch-related fee income during 2008 can be attributed primarily to higher revenues from service and transaction charges on deposit accounts.

Letters of credit fees and commissions, which represent revenues from trade finance operations as well as fees related to the issuance and maintenance of standby letters of credit, decreased 5% to $9.7 million in 2008, from $10.3 million in 2007. The decrease in letters of credit fees and commissions for both periods is primarily due to the decline in the volume of standby letters of credit during 2008 relative to the prior year as well as a decrease in commissions generated from trade finance activities due to the downturn in the economy.

Net gain on sales of investment securities available-for-sale increased to $9.0 million during 2008 compared with $7.8 million in 2007. The proceeds from the sale of investment securities during 2008 provided additional liquidity to purchase additional high credit quality investment securities and short-term investments as well as pay down our borrowings.

Ancillary loan fees consist of revenues earned from the servicing of mortgages, fees related to the monitoring and disbursement of construction loan proceeds, and other miscellaneous loan income. Ancillary loan fees decreased 20% to $4.6 million in 2008, compared to $5.8 million in 2007. The decrease in ancillary loan fees during 2008 is primarily due to the impairment writedown on mortgage servicing assets that amounted to $2.4 million in 2008, as compared to $580 thousand in 2007. The decrease in MSA values during 2008 was primarily due to increased prepayment activity on the underlying loans prompted by the decline in interest rates.

Other operating income, which includes insurance commissions and insurance-related service fees, rental income, and other miscellaneous income, decreased 75% to $1.3 million in 2008, compared to $5.3 million in 2007. Included in noninterest income during 2007 is $1.2 million in net gains from the sale of bank premises located in Alhambra, California. There were no such gains recorded during 2008. During 2008, we also recorded a $1.3 million impairment writedown on an equity investment which further contributed to the decrease in other operating income from 2007 to 2008.

Comparing 2007 to 2006, noninterest income increased 46% to $49.5 million during 2007 from $33.9 million in 2006 primarily due to higher net gain on sales of investment securities, higher branch fees, higher letters of credit fees and commissions, higher ancillary loan fees, and higher net gain from the disposal of fixed assets. Net gain on sales of available-for-sale securities increased 209% to $7.8 million in 2007, compared with $2.5 million recorded in 2006. Branch-related fee income increased 34% to $15.1 million during 2007, from $11.3 million in 2006, primarily due to higher revenues from alternative investments offered to customers including mutual fund and annuity products, as well as growth in wire transfer fee income and analysis charges on commercial deposit accounts. Letters of credit fees and commissions increased 18% to $10.3 million in 2007, compared to $8.7 million in 2006, primarily due to higher revenues resulting from the growth in the volume of standby letters of credit during 2007 relative to 2006 as well as an increase in commissions generated from trade finance activities. Ancillary loan fees increased 49% to $5.8 million in 2007, compared to $3.9 million in 2006, predominantly due to the rise in servicing income received related to securitized loans. Lastly, included in net gain on disposal of fixed assets during 2007 was the $1.2 million net gain from the sale of bank premises located in Alhambra, California.

**Noninterest Expense**

Table 5: *Components of Noninterest Expense*

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| | | *(In millions)* | |
| Compensation and employee benefits | $ 82.24 | $ 85.93 | $ 70.58 |
| Occupancy and equipment expense | 26.99 | 25.58 | 21.35 |
| Amortization and impairment writedowns of premiums on deposits acquired | 7.27 | 6.85 | 7.12 |
| Amortization of investments in affordable housing partnerships | 7.27 | 4.96 | 5.44 |
| Deposit insurance premiums and regulatory assessments | 7.22 | 1.40 | 1.36 |
| Loan related expense | 6.37 | 3.05 | 2.90 |
| Other real estate owned expense (income) | 6.01 | (1.24) | 0.45 |
| Legal expense | 5.58 | 3.20 | 2.34 |
| Data processing | 4.49 | 4.82 | 3.64 |
| Deposit-related expenses | 4.41 | 6.77 | 9.24 |
| Consulting expense | 4.40 | 3.32 | 2.63 |
| Other operating expenses | 39.02 | 38.62 | 34.41 |
| Total noninterest expense | $ 201.27 | $ 183.26 | $ 161.46 |
| Efficiency Ratio (1) | 45.94% | 37.44% | 37.07% |

(1) Represents noninterest expense, excluding the amortization of intangibles, amortization and impairment writedowns of premiums on deposits acquired, impairment writedown on goodwill, and investments in affordable housing partnerships, divided by the aggregate of net interest income before provision for loan losses and noninterest income, excluding impairment writedowns on investment securities.

Noninterest expense, which is comprised primarily of compensation and employee benefits, occupancy and other operating expenses increased 10% to $201.3 million during 2008, compared to $183.3 million during 2007.

Compensation and employee benefits decreased 4% to $82.2 million in 2008, compared to $85.9 million in 2007, primarily due to the impact of initiatives undertaken by the Company throughout the year to reduce overall staffing levels and lower compensation related expenses. At December 31, 2008, the Company had a total of 1,346 employees, compared with 1,485 employees at December 31, 2007.

Occupancy and equipment expenses increased 6% to $27.0 million during 2008, compared with $25.6 million during 2007. The increase in occupancy and equipment expenses during 2008 is primarily due to the nine branch locations acquired from DCB in August 2007.

The amortization and impairment writedowns of premiums on deposits acquired increased 6% to $7.3 million during 2008, compared with $6.8 million in 2007. The increase in amortization expense during 2008 is primarily due to additional deposit premiums of $14.9 million recorded in connection with the acquisition of DCB in August 2007. During the second quarter of 2008, we also recorded an $855 thousand impairment writedown on deposit premiums related to the DCB acquisition due to higher than anticipated runoffs in certain deposit categories. Premiums on acquired deposits are amortized over their estimated useful lives.

Deposit-related expenses decreased 35% to $4.4 million during 2008, compared with $6.8 million during 2007. Deposit-related expenses represent various business-related expenses paid by the Bank on behalf of its commercial account customers. The decrease in deposit-related expenses can be correlated to the decline in the volume of title and escrow deposit balances during 2008 relative to the prior year. This segment of our deposit base has been adversely impacted by the overall slowing in the housing market both in production and sale.

The amortization of investments in affordable housing partnerships increased 47% to $7.3 million in 2008, from $5.0 million in 2007. The increase in amortization expense is partly due to additional purchases of investments in affordable housing partnerships since the fourth quarter of 2007. Total investments in affordable housing partnerships increased to $48.1 million at December 31, 2008, compared to $44.2 million at December 31, 2007.

Deposit insurance premiums and regulatory assessments increased $5.8 million to $7.2 million during 2008, compared with $1.4 million in 2007. The increase in deposit insurance premiums and regulatory assessments is primarily due to the recent increases in the FDIC deposit assessment rate and due to the full utilization of the one-time FDIC assessment credit in 2008. Pursuant to the Federal Deposit Insurance Reform Act of 2005, the Bank was eligible to share in a one-time assessment credit pool of approximately $4.7 billion. The Bank's pro rata share of this one-time assessment credit was approximately $3.4 million, of which $2.8 million was applied to reduce deposit insurance assessments in 2007. The remaining credit of $628 thousand was fully utilized during the first quarter of 2008. In addition, the enactment of the EESA in October 2008 will temporarily raise the basic limit of the federal deposit insurance coverage ("FDIC") from $100,000 to $250,000 per depositor and to fully insure all non-interest bearing deposit accounts until December 31, 2009. As a result, we anticipate deposit insurance premiums to increase in 2009.

Legal expenses increased 74% to $5.6 million during 2008, compared to $3.2 million from 2007. The increase in legal expenses is primarily due to attorney fees and other legal costs incurred in defending one claim which resulted in a favorable outcome for the Bank in April 2008.

Consulting expenses increased 32% to $4.4 million during 2008, compared to $3.3 million during 2007. The increase in consulting expenses is due to fees paid to a third party service provider during the second and third quarters of 2008 to make an assessment of the financial strength of borrowers as part of our extensive loan review efforts to quantify our credit exposure in certain loan segments.

We recorded OREO expenses, net of OREO revenues and gains, totaling $6.0 million during 2008, compared with $1.2 million in net OREO income during 2007 representing the net gain on sale of one OREO property sold during the first quarter of 2007. The $6.0 million in total OREO expenses incurred during 2008 is comprised of $2.8 million in various operating and maintenance expenses related to our higher volume of OREO properties, $2.4 million in valuation writedowns, and $852 thousand in net losses from the sale of 29 OREO properties consummated in 2008. As of December 31, 2008, total net OREO amounted to $38.3 million, compared to $1.5 million as of December 31, 2007.

Loan related expenses increased to $6.4 million, compared to $3.0 million 2007. The increase in loan related expenses is primarily due to new appraisals ordered during the second and third quarters of 2008 to obtain current valuations of collateral securing our land, residential construction, and commercial construction loan portfolios. This was part of our comprehensive loan portfolio review process to quantify our credit exposure to sectors of the loan portfolio that have been especially hard hit by the downturn in the real estate market. Additionally, loan related expenses were also impacted by higher FNMA guarantee fees during 2008, relative to the previous year, as a result of our loan securitization activities during 2007.

Other operating expenses include advertising and public relations, telephone and postage, stationery and supplies, bank and item processing charges, insurance expenses, and other professional fees, and charitable contributions. Other operating expenses slightly increased 1% to $39.0 million in 2008, compared with $38.6 million in 2007.

Comparing 2007 to 2006, noninterest expense increased $21.8 million, or 14%, to $183.3 million. The increase is comprised primarily of the following: (1) an increase in compensation and employee benefits of $15.3 million, or 22%, primarily due to the addition of personnel throughout the year to support the Company's continued growth as well as the impact of annual salary adjustments and related cost increases for existing employees as well as increase staffing levels resulting from the acquisitions of DCB in August 2007 and Standard Bank in March 2006; (2) an increase in occupancy expenses of $4.2 million, or 20%, reflecting additional rent expense from entering into several new leases during 2006 and 2007 related primarily to new branch locations, including the Hong Kong branch, as well as additional administrative locations; and (3) an increase in other operating expenses of $4.2 million, or 12%, due primarily to expenses incurred to support the Bank's continued overall growth.

The Company's efficiency ratio increased to 45.94% in 2008, compared to 37.44% in 2007 and 37.07% in 2006. The increase in our efficiency ratio during 2008 can be attributed largely to higher deposit insurance premiums, as well as higher credit cycle expenses associated with OREO/foreclosure transactions and legal expenses. Comparing 2007 to 2006, the increase in our efficiency ratio reflects our continued expansion and growth, moderated by operational efficiencies resulting from past infrastructure investments.

**Income Taxes**

The income tax benefit totaled $47.5 million in 2008, representing an effective tax benefit rate of 48.9%. In comparison, the provision for income taxes of $101.1 million represented an effective tax rate of 38.6% for 2007. The income tax benefit recognized during 2008 reflects the utilization of $7.4 million in tax credits, compared to $5.2 million utilized in 2007. The $858 thousand goodwill impairment charge recorded during 2008 is not deductible for tax purposes. The passage of the EESA in October 2008 provided banks with tax relief by treating OTTI losses on Fannie Mae and Freddie Mac preferred stock as ordinary losses, instead of capital losses. As a result of this law change, an additional $5.7 million in tax benefit related to these OTTI charges were recognized during 2008.

Comparing 2007 to 2006, the provision for income taxes increased 12% to $101.1 million in 2007, compared with $90.4 million in 2006. This increase is primarily attributable to a 12% increase in pretax earnings in 2007. The provision for income taxes in 2007 also reflects the utilization of affordable housing tax credits totaling $5.2 million, compared to $4.5 million utilized in 2006. The 2007 provision reflects an effective tax rate of 38.6%, compared with 38.7% for 2006.

Pursuant to the adoption of FIN 48 on January 1, 2007, the Company increased its existing unrecognized tax benefits by $7.1 million by recognizing a one-time cumulative effect adjustment to retained earnings on January 1, 2007 related to the Company's dissolved regulated investment company ("RIC"), East West Securities Company, Inc. During the second quarter of 2008, the Company determined that the remaining $4.6 million, net of tax benefit, would not "more likely than not" be sustained upon examination by tax authorities. As a result, this charge was recorded against the provision for income taxes during the second quarter of 2008. As of December 31, 2008, the Company does not have any tax positions which dropped below a "more likely than not" threshold. See Note 19 to the Company's consolidated financial statements presented elsewhere in this report.

**Operating Segment Results**

The Company has identified four principal operating segments for purposes of management reporting: retail banking, commercial lending, treasury, and residential lending. Although all four operating segments offer financial products and services, they are managed separately based on each segment's strategic focus. While the retail banking segment focuses primarily on retail operations through the Bank's branch network, certain designated branches have responsibility for generating commercial deposits and loans. The commercial lending segment, which includes commercial real estate, primarily generates commercial loans and deposits through the efforts of commercial lending officers located in the Bank's northern and southern California production offices. The treasury department's primary focus is managing the Bank's investments, liquidity, and interest rate risk; the residential lending segment is mainly responsible for the Bank's portfolio of single family and multifamily residential loans. The Company's remaining centralized functions and eliminations of inter-segment amounts have been aggregated and included in "Other."

Future changes in our management structure or reporting methodologies may result in changes in the measurement of operating segment results. Results for prior periods are generally restated for comparability for changes in management structure or reporting methodologies. During the second quarter of 2008, we revised the allocation of certain investment securities resulting from our securitization activities. We securitized a total of $1.18 billion in single family and multifamily loans during 2007. Due to a significant increase in our loan securitization activities during 2007, we determined that it was more appropriate to reallocate investment securities, and their related income components, resulting from our securitization activities to the operating segments that originated the underlying loans to derive a more equitable allocation of profitability amongst the various operating segments. Initially, these securities were allocated to the treasury segment upon securitization. As a result of our new profitability allocation structure, investment securities resulting from our securitization activities are being allocated to the operating segments (i.e., retail banking, commercial lending, and residential lending) that initially originated the underlying loans. As a result of these changes implemented during the second quarter of 2008, we have revised the results for the prior periods to reflect our current allocation methodology between the treasury segment and the other operating segments. For more information about our segments, including information about the underlying accounting and reporting process, see Note 25 to the Company's consolidated financial statements presented elsewhere in this report.

*Retail Banking*

The retail banking segment reported a pretax loss of $33.4 million during 2008, representing a 123% decrease, as compared to the $148.0 million pretax income recorded for the same period in 2007.

The decrease in pretax income for this segment during 2008 is comprised of a 31% or $71.8 million decrease in net interest income to $163.6 million, a $71.1 million increase in loan loss provisions, a 6% or $5.5 million increase in noninterest expense, and a $29.4 million increase in corporate overhead expense allocations.

The decrease in net interest income during 2008 is attributable largely to the steep 400 basis point decrease in interest rates since December 2007. The increase in loan loss provisions for this segment during 2008, relative to 2007, was due to increased chargeoff activity, as well as higher levels of nonperforming and classified assets resulting from the downturn in the real estate housing market. Loan loss provisions are also impacted by average loan balances for each reporting segment. Corporate overhead expense allocations are based on several factors including, but not limited to net interest margin, loan and deposit volume and full-time employee equivalents.

Noninterest income for this segment decreased 9%, to $23.3 million for 2008, from $25.6 million recorded during 2007. The decrease in noninterest income in 2008 is primarily due to lower loan fee income resulting from a notable decrease in our consumer loan origination activities, partially offset by an increase in branch-related fees, specifically service and transaction charges on deposit accounts, as a result of the DCB acquisition in August 2007.

Noninterest expense for this segment increased 6% to $95.0 million during 2008, compared with $89.5 million recorded during 2007. The increase in noninterest expense is primarily due to higher occupancy expenses and FDIC insurance premiums, partially offset by a decrease in commercial deposit-related expenses. Higher occupancy expenses are primarily due to increased expenses associated with the nine additional branch locations from the acquisition of DCB. The increase in FDIC insurance premiums is due to the recent increases in the FDIC deposit assessment rate and full utilization of the one-time FDIC assessment credit of $3.4 million, $2.8 million of which was applied to reduce deposit insurance assessments in 2007 and the remaining $628 thousand was applied in the first quarter of 2008. The decrease in commercial deposit-related expenses can be correlated to lower title and escrow deposit balances during 2008 relative to 2007. Title and escrow deposits have been negatively impacted by the sustained contraction in the housing market.

Comparing 2007 to 2006, the retail banking segment's pre-tax income increased 24% to $148.0 million in 2007, compared to $119.5 million in 2006. The increase in pre-tax income for the retail banking segment for 2007 is primarily due to a $37.4 million increase in net interest income, partially offset by a $6.6 million increase in loan loss provisions and a $7.6 million increase in noninterest expense, relative to 2006. The increase in net interest income during 2007 is primarily due to overall growth, both organically and through acquisitions. The acquisitions of Standard Bank in March 2006 and DCB in August 2007 added fifteen new locations to our branch network as well as several thousand new customers to our customer base. The increase in provision for loan losses for this segment is primarily due to increased substandard loan classifications for loans originated by this segment.

*Commercial Lending*

The commercial lending segment reported a pretax loss of $1.8 million during 2008, or a 102% decrease, compared with pretax income of $103.1 million for 2007. The primary driver of the decrease in pretax income for this segment for both periods is a significant increase in loan loss provisions resulting from increased chargeoff activity as well as higher levels of nonperforming and classified assets and an increase in corporate overhead allocations, partially offset by the increase in net interest income.

Table of Contents

Net interest income for this segment increased 49% to $188.1 million during 2008, compared to $126.6 million for 2007. The increase in net interest income is primarily due to a significant decline in the charge for funds applied to the loan portfolio as a result of the declining interest rate environment. Although interest income on loans also decreased in response to declining interest rates, the interest rate floors on variable loans helped to support the interest income on these loans.

Noninterest income for this segment decreased 23% to $23.5 million during 2008, compared with $30.4 million recorded in 2007. The decrease in noninterest income is primarily due to a decrease in loan fee income resulting from the downturn in the real estate market.

Noninterest expense for this segment increased 8% to $45.5 million during 2008, compared to $42.2 million in 2007. The increase in noninterest expense is due to higher credit cycle related expenses associated with OREO/foreclosure transactions and legal expenses, partially offset by a decrease in compensation and employee benefits through net attrition and reduction in total compensation related costs.

Comparing 2007 to 2006, the commercial lending segment's pre-tax income increased 12% to $103.1 million in 2007, compared to $92.1 million in 2006. The primary driver of the increase in pre-tax income for this segment is a 17% increase in net interest income to $126.6 million in 2007 from $108.6 million in 2006. The increase in net interest income during 2007 is primarily due to the notable growth of our commercial loan portfolio, which includes commercial real estate, construction, and commercial business loans, including trade finance products, during 2007. Specifically, the average aggregate balance of all commercial loan categories grew 22% during 2007 as compared to 2006.

*Treasury*

The treasury segment reported a pre-tax loss of $116.9 million during 2008, compared to pretax income of $18.4 million for 2007. The primary driver of the decrease in pretax income for this segment in 2008 are OTTI charges recorded on government-sponsored entities preferred stock and pooled trust preferred debt and equity securities. OTTI charges are recorded as a component of noninterest income.

The treasury segment reported a net interest expense of $32.4 million for 2008, compared to a net interest income of $17.0 million reported during 2007. Net interest expense or income for this segment is directly correlated to net interest earned on investment securities allocated to this reporting segment relative to the interest expense paid on brokered deposits, borrowings and long-term debt.

Noninterest income decreased to ($71.7) million during 2008 from $2.2 million for 2007. The decrease in noninterest income is primarily due to the $73.2 million in OTTI impairment charges recorded during 2008 which are comprised of $55.3 million on Fannie Mae and Freddie Mac preferred securities and $17.9 million on pooled trust preferred debt and equity securities.

Noninterest expense for this segment increased 67% to $2.3 million during 2008, from $1.4 million during 2007. The increase in noninterest expense for both periods is primarily due to higher compensation due to additional personnel, higher FDIC insurance premiums on brokered and institutional deposits, and higher FHLB letter of credit expenses in conjunction with our loan securitization activities.

Comparing 2007 to 2006, the treasury segment's pre-tax income decreased 52% to $18.4 million in 2007, compared to $38.6 million in 2006. Net interest income decreased 56% to $17.0 million in 2007 from $38.8 million in 2006. Net interest income for this segment is directly correlated to net interest earned on investment securities allocated to this reporting segment relative to the interest expense paid on brokered deposits, borrowings and long-term debt.

*Residential Lending*

The residential lending segment's pretax income decreased 22% to $16.1 million during 2008, from $20.6 million during 2007. Net interest income for this segment increased 50% to $35.7 million during 2008, compared with $23.7 million for 2007. The increase in net interest income for this segment was primarily due to the decrease in the charge for funds on loans allocated to this segment resulting from the 400 basis point decrease in interest rates since December 2007, partly offset by the contraction of the housing market.

Loan loss provisions for this segment increased to $14.5 million during 2008 compared to $610 thousand during 2007. The increase in loan loss provisions was due to increased chargeoff activity, as well as higher levels of nonperforming and classified assets resulting from the downturn in the real estate housing market. Loan loss provisions are also impacted by average loan balances for each reporting segment.

Noninterest income for this segment increased 15% to $14.1 million during 2008, compared to $12.2 million recorded during 2007. The net increase in noninterest income during 2008 year to date is primarily due to higher net gain on sale of loans and higher servicing income received as a result of the Bank's securitization of its residential and multifamily loan portfolios in 2007.

Noninterest expense for this segment increased 18% to $12.1 million during 2008, from $10.3 million during the same period in 2007. The increase in noninterest expense during 2008 is due to an increase in credit cycle related costs, as well as compensation and other operating expenses due to the restructuring and consolidation of two departments. During the first quarter of 2008, the administrative department that provides backoffice support to the lending function was merged into the lending unit to enhance operational efficiencies in this segment of our business.

Comparing 2007 to 2006, the residential lending segment's pre-tax income increased 92% to $20.6 million in 2007, from $10.7 million in 2006. The increase in pre-tax income is partly due to the 52% increase in net interest income to $23.7 million in 2007, from $15.6 million in 2006, compounded by the $66% increase in noninterest income to $12.2 million in 2007, from $7.3 million in 2006. The increase in noninterest income during 2007, relative to 2006, is primarily due to higher servicing income received as a result of the Bank's securitization of its residential single family and multifamily loan portfolios. During 2007, the Bank securitized single family and multifamily loans totaling $1.18 billion.

**Balance Sheet Analysis**

Total assets increased $570.6 million, or 5%, to $12.42 billion as of December 31, 2008. The increase is comprised predominantly of increases in cash and cash equivalents of $718.5 million, short-term investments of $228.4 million, held-to-maturity and available-for-sale investment securities totaling $275.4 million, deferred tax assets totaling $118.2 million, and OREO, net amounting to $36.8 million, partially offset by decreases in net loans receivable of $681.5 million and securities purchased under resale agreements amounting to $100.0 million. The increases in total assets were funded through increases in deposit growth of $863.0 million and net proceeds received of $500.6 million from the Series A & Series B preferred stock offering, partially offset by decreases in federal funds purchased of $194.3 million and FHLB advances of $455.1 million.

Table of Contents

**SFAS 157, *Fair Value Measurement*, and SFAS 159, *Fair Value Option***

SFAS 157 and SFAS 159 became effective on January 1, 2008. We adopted SFAS 157 which provides a framework for measuring fair value under GAAP. This standard applies to all financial assets and liabilities that are being measured and reported at fair value on a recurring and non-recurring basis. For the Company, this includes the investment securities available-for-sale portfolio, equity swap agreements, derivatives payable, mortgage servicing assets and impaired loans. The adoption of SFAS 157 did not have any impact on the Company's financial condition, results of operations, or cash flows. See Note 3 to the Company's consolidated financial statements presented elsewhere in this report.

We did not elect to adopt the fair value option as permitted under SFAS 159, but to continue recording the financial instruments in accordance with current practice.

**Securities Purchased Under Resale Agreements**

We purchase securities under resale agreements ("resale agreements") with terms that range from one day to several years. Total resale agreements decreased to $50.0 million as of December 31, 2008, compared with $150.0 million as of December 31, 2007. The decrease as of December 31, 2008 reflects the early termination of a $100.0 million resale agreement on in January 2008 which had a stated maturity termination date of January 2017. In conjunction with the early termination of this agreement, we received $1.0 million from the counterparty, which we recorded as a yield adjustment included in interest income during the first quarter of 2008.

As of December 31, 2008, the $50.0 million balance of resale agreements is comprised of one resale agreement with a term of ten years. The interest rate is initially fixed for the first two years and thereafter becomes floating. There is no interest payment on this agreement if certain swap yield curves are inverted. The collateral for this resale agreement consists of U.S. Government agency and/or U.S. Government sponsored enterprise debt and mortgage-backed securities held in safekeeping by a third party custodian.

Purchases of securities under resale agreements are overcollateralized to ensure against unfavorable market price movements. We monitor the market value of the underlying securities which collateralize the related receivable on resale agreements, including accrued interest. In the event that the fair market value of the securities decreases below the carrying amount of the related repurchase agreement, our counterparty is required to designate an equivalent value of additional securities. The counterparties to these agreements are nationally recognized investment banking firms that meet credit eligibility criteria and with whom a master repurchase agreement has been duly executed.

**Investment Securities**

Income from investing activities provides a significant portion of our total income. We aim to maintain an investment portfolio with an adequate mix of fixed-rate and adjustable-rate securities with relatively short maturities to minimize overall interest rate risk. Our investment securities portfolio primarily consists of U.S. Treasury securities, U.S. Government agency securities, U.S. Government sponsored enterprise debt securities, U.S. Government sponsored and other mortgage-backed securities, municipal securities, corporate debt securities, residual securities, and U.S. Government sponsored enterprise equity securities. We classify certain investment securities as held-to-maturity, and accordingly, these securities are recorded based on their amortized cost. We also classify certain investments as available-for-sale, and accordingly, these securities are carried at their estimated fair values with the corresponding changes in fair values recorded in accumulated other comprehensive income, as a component of stockholders' equity.

Total investment securities held-to-maturity totaled $122.3 million at December 31, 2008 representing municipal securities and corporate debt securities purchased during the fourth quarter of 2008. We had no held-to-maturity investment securities as of December 31, 2007.

Total investment securities available-for-sale increased 8% to $2.04 billion as of December 31, 2008, compared with $1.89 billion at December 31, 2007. The increase in investment securities was funded by deposit growth and capital raised during 2008. Total repayments/maturities and proceeds from sales of available-for-sale securities amounted to $1.58 billion and $699.4 million, respectively, during 2008. Proceeds from repayments, maturities, sales, and redemptions were applied towards additional investment securities purchases totaling $2.69 billion. We recorded net gains totaling $9.0 million and $7.8 million on sales of available-for-sale securities during 2008 and 2007, respectively. At December 31, 2008, investment securities available-for-sale with a par value of $1.83 billion were pledged to secure public deposits, FHLB advances, repurchase agreements, FRB discount window, and for other purposes required or permitted by law.

We perform regular impairment analyses on the investment securities. If we determine that a decline in fair value is other-than-temporary, an impairment writedown is recognized in current earnings. Other-than-temporary declines in fair value are assessed based on factors including the duration the security has been in a continuous unrealized loss position, the severity of the decline in value, the rating of the security, the probability that we will be unable to collect all amounts due, and our ability and intent on holding the securities until the fair values recover.

The fair values of the investment securities are generally determined by reference to the average of at least two quoted market prices obtained from independent external brokers or prices obtained from independent external pricing service providers who have experience in valuing these securities. The Company performs a monthly analysis on the broker quotes 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 ongoing review of third party pricing methodologies, review of pricing trends, and monitoring of trading volumes. The Company ensures whether prices received from independent brokers represent a reasonable estimate of fair value through the use of internal and external cash flow models developed based on spreads, and when available, market indices. As a result of this analysis, if the Company determines there is a more appropriate fair value based upon 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 inputs that may be difficult to corroborate with observable market based data. Additionally, the majority of these independent broker quotations are non-binding.

As a result of the global financial crisis and illiquidity in the U.S. markets, we believe the current broker prices that we have obtained on our private label mortgage-backed securities and pooled trust preferred debt and equity securities are based on forced liquidation or distressed sale values in very inactive markets that are not representative of the economic value of these securities. The fair values of private label mortgage-backed securities and pooled trust preferred securities have traditionally been based on the average of at least two quoted market prices obtained from independent external brokers since broker quotes in an active market are given the highest priority under SFAS 157. However, in light of these circumstances, we have modified our approach in determining the fair values of these securities. We have determined that each of these securities will be individually examined 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 made assumptions related to the implied rate of return, general change in market rates, estimated changes in credit quality and liquidity risk premium, specific non-performance and default experience in the collateral underlying the security, as well as broker discount rates are taken into consideration in determining the discount rate. The values resulting from each approach (i.e. market and income approaches) are weighted to derive the final fair value on each private label mortgage-backed and pooled trust preferred security.

The majority of unrealized losses in the available-for-sale portfolio at December 31, 2008 are related to AA- and AAA-rated private label mortgage-backed securities that we have retained in connection with our loan securitization activities. As of December 31, 2008, the fair value of these securities totaled $508.9 million, representing 25% of our total investment securities available-for-sale portfolio. Gross unrealized losses related to these securities amounted to $101.8 million, or 17% of the aggregate amortized cost basis of these securities as of December 31, 2008. These unrealized losses are caused by lack of liquidity and market spreads resulting from instability in the residential real estate and credit markets. The underlying loans are not subprime in nature and were originated by the Bank in accordance with our customary underwriting standards. The securities are supported by overcollateralization as of December 31, 2008. Additionally, these securities are insured by a monoline insurance provider who was recently rated as Aa2 and AAA by two major rating agencies.

As of December 31, 2008, we had $42.5 million in trust preferred debt securities available-for-sale, representing 2% of our total investment securities available-for-sale portfolio. These debt instruments had gross unrealized losses amounting to $73.8 million, or 64% of the total amortized cost bases of these securities as of December 31, 2008. Almost all of the pooled trust preferred securities held by the Company have underlying collateral issued by banks and insurance companies. Of the 15 different trust preferred securities that we have purchased, four securities have underlying collateral issued by a combination of bank, insurance, real estate investment trusts or homebuilder companies. Furthermore, most of the trust preferred securities are overcollateralized and have subordination structures that management believes will afford sufficient principal and interest protection. While one pooled trust preferred security was downgraded from an A rating to B- during the fourth quarter of 2008, based on our cash flow and default stress testing analysis, we believe we will be able to collect all amounts due and that this security is not deemed to be other-than-temporarily impaired as of December 31, 2008. During 2007, one pooled trust preferred security was downgraded to a B+ rating, from a BBB rating by one rating agency. During 2008, we recorded a combined $13.6 million in impairment writedowns on this downgraded security and two other trust preferred securities in accordance with SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*, FSP FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, EITF 99-20, *Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets*, and FSP EITF 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20*. We believe that the recent bailout program passed by the U.S. government to provide for an injection of capital reduces the risk of default by bank issuers and increases the probability that the liquidity in this market and the prices of our securities will improve in the future. We will continue to review such factors, including but not limited to, the estimated cash flows, liquidity and credit risk, for these securities on a quarterly basis. The Company believes the cash flows are not at risk and has the ability and the intention to hold these securities until their fair values recover to cost. As such, the Company does not deem these securities to be other-than-temporarily impaired.

In September 2008, the liquidity and credit concerns led the U.S. Federal Government to assume a conservatorship role in Fannie Mae and Freddie Mac. The rating on Fannie Mae and Freddie

Table of Contents

Mac preferred securities was downgraded from BBB- to C reflecting the cessation of dividend payments on these securities. These securities are non-cumulative perpetual preferred stock in which unpaid dividends do not accumulate. The purchase agreement between the U.S. Treasury and these government-sponsored entities contains a covenant prohibiting the payment of dividends on existing preferred stock. As the assessment on the status of any resumption in dividend payments on these securities was uncertain, in accordance with SFAS 115, FSP FAS 115-1 and SFAS 124-1, we recorded $55.3 million in OTTI charges on Fannie Mae and Freddie Mac preferred stock securities in 2008. As of December 31, 2008, the fair value of these preferred securities was $1.2 million. Gross unrealized losses on these securities amounted to $2.2 million as of December 31, 2008, all of which is unrealized loss under twelve months, or 65% of the aggregate amortized cost basis of these securities. The value of these preferred securities have been very volatile and in the month preceding and subsequent to year-end, these securities have traded above their carrying values. The Company has the ability and the intention to hold these securities until their fair values recover to cost. As such, the Company does not deem these securities to be other-than-temporarily impaired.

In accordance with SFAS 115, FSP FAS 115-1 and SFAS 124-1 EITF 99-20, and FSP EITF 99-20-1, we recorded $4.3 million in impairment charges in 2008 related to our pooled trust preferred equity securities, which represented the remaining balance for these securities. The impairment charges were due to the adverse changes in expected cash flows, and the high uncertainty surrounding the collectibility of these securities.

We have fifteen individual securities that have been in a continuous unrealized loss position for twelve months or longer as of December 31, 2008. These securities are comprised of eleven pooled trust preferred securities with a total fair value of $34.6 million and four mortgage-backed securities with a total fair value of $519.1 million. As of December 31, 2008, there were also 52 securities that have been in a continuous unrealized loss position for less than twelve months. The unrealized losses on these securities are primarily attributed to changes in interest rates as well as the liquidity crisis that has impacted all financial industries. The issuers of these securities have not, to our knowledge, established any cause for default on these securities. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated. However, we have the ability and the intention to hold these securities until their fair values recover to cost or maturity. As such, management does not deem these securities to be other-than-temporarily impaired.

Table of Contents

The following table sets forth the amortized cost of investment securities held-to-maturity and the fair values of investment securities available-for-sale at December 31, 2008, 2007 and 2006:

Table 6: *Investment Securities*

| | At December 31, | | |
|---|---|---|---|
| | **2008** | **2007** | **2006** |
| | | *(In thousands)* | |
| **Held-to-maturity (at amortized cost)** | | | |
| Municipal securities | 5,772 | - | - |
| Corporate debt securities | 116,545 | - | - |
| Total investment securities held-to-maturity | $ 122,317 | $ - | $ - |
| **Available-for-sale (at fair value)** | | | |
| U.S. Treasury securities | $ 2,513 | $ 2,492 | $ 2,477 |
| U.S. Government agency securities and U.S Government sponsored enterprise debt securities | 1,023,934 | 426,490 | 790,252 |
| U.S. Government sponsored enterprise mortgage-backed securities | 380,051 | 535,276 | 260,138 |
| Other mortgage-backed securities | 537,326 | 680,598 | 477,771 |
| Corporate debt securities (1) | 42,544 | 119,627 | 97,881 |
| U.S. Government sponsored enterprise equity securities (2) | 1,184 | 75,055 | 4,621 |
| Residual securities | 50,062 | 40,716 | 13,940 |
| Other securities (3) | 2,580 | 6,882 | - |
| Total investment securities available-for-sale | $ 2,040,194 | $ 1,887,136 | $ 1,647,080 |
| **Total investment securities** | $ 2,162,511 | $ 1,887,136 | $ 1,647,080 |

(1) Balances presented net of OTTI charge of $13.6 million and $405 thousand as of December 31, 2008 and December 31, 2007, respectively.

(2) Balances presented net of OTTI charge of $55.3 million as of December 31, 2008.

(3) Balances presented net of OTTI charge of $4.3 million as of December 31, 2008.

The following table sets forth certain information regarding the amortized cost of our investment securities held-to-maturity and fair values of our investment securities available-for-sale, as well as the weighted average yields, and contractual maturity distribution, excluding periodic principal payments, of our investment securities held-to-maturity and available-for-sale portfolio at December 31, 2008. Securities with no stated maturity dates, such as equity securities, are included in the "indeterminate maturity" category.

Table of Contents

Table 7: *Yields and Maturities of Investment Securities*

| | Within One Year | | After One But Within Five Years | | After Five But Within Ten Years | | After Ten Years | | Indeterminate Maturity | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Amount** | **Yield** | **Amount** | **Yield** | **Amount** | **Yield** | **Amount** | **Yield** | **Amount** | **Yield** | **Amount** | **Yield** |
| | *(Dollars in thousands)* | | | | | | | | | | | |
| **Held-to-maturity** | | | | | | | | | | | | |
| Municipal securities | $ - | - | $ - | - | $ 4,007 | 6.91% | $ 1,765 | 7.43% | $ - | - | $ 5,772 | 7.07% |
| Corporate debt securities | 45,463 | 6.77% | 71,082 | 7.73% | - | - | - | - | - | - | 116,545 | 7.36% |
| Total investment securities held-to-maturity | $ 45,463 | 6.77% | $ 71,082 | 7.73% | $ 4,007 | 6.91% | $ 1,765 | 7.43% | - | 0.00% | $ 122,317 | 7.34% |
| **Available-for-sale** | | | | | | | | | | | | |
| U.S. Treasury securities | $ 2,513 | 1.13% | $ - | - | $ - | - | $ - | - | $ - | - | $ 2,513 | 1.13% |
| U.S. Government agency securities and U.S. Government sponsored enterprise debt securities | 461,800 | 3.42% | 274,852 | 3.95% | 103,647 | 4.15% | 183,635 | 5.40% | - | - | 1,023,934 | 3.99% |
| Government sponsored enterprise mortgage-backed securities | 1,900 | 6.50% | 15,421 | 4.99% | 33,478 | 5.15% | 329,252 | 5.32% | - | - | 380,051 | 5.29% |
| Other mortgage-backed securities | 252 | - | - | - | - | - | 537,074 | 0.95% | - | - | 537,326 | 0.95% |
| Corporate debt securities | 62 | - | - | - | - | - | 42,482 | 4.84% | - | - | 42,544 | 4.84% |
| U.S. Government sponsored enterprise equity securities | - | - | - | - | - | - | - | - | 1,184 | - | 1,184 | 0.00% |
| Residual securities | | | | | | | 50,062 | 46.87% | - | - | 50,062 | 46.87% |
| Other securities | 2,580 | 1.33% | - | - | - | - | - | - | - | - | 2,580 | 1.33% |
| Total investment securities available-for-sale | $469,107 | 3.41% | $290,273 | 4.00% | $137,125 | 4.40% | $1,142,505 | 3.91% | $ 1,184 | 0.00% | $2,040,194 | 3.84% |
| Total investment securities | $514,570 | 3.70% | $361,355 | 4.74% | $141,132 | 4.47% | $1,144,270 | 3.92% | $ 1,184 | 0.00% | $2,162,511 | 4.02% |

We retain residual securities in securitized mortgage loans in connection with certain of our securitization activities. The fair value of residual securities is subject to credit, prepayment, and interest rate risk on the underlying mortgage loans. Fair value is estimated based on a discounted cash flow analysis. These cash flows are projected over the lives of the receivables using prepayment speed, expected credit losses, and the forward interest rate environment on the residual securities. At December 31, 2008, the fair values of the residual securities totaled $50.1 million. The fair value of the residual securities at December 31, 2008 is estimated based on a weighted average remaining life of 6.64 years, a weighted average projected prepayment rate of 21%, a weighted average expected credit loss rate of 0.07%, and a weighted average discount rate of 15%. As of December 31, 2007, the fair value of residual securities totaling $40.7 million is based on a weighted average remaining life of 8.9 years, a weighted average projected prepayment rate of 15%, a weighted average expected credit loss rate of 0.05% and a weighted average discount rate of 11%.

**Loans**

We offer a broad range of products designed to meet the credit needs of our borrowers. Our lending activities consist of residential single family loans, residential multifamily loans, commercial real estate loans, construction loans, commercial business loans, trade finance loans, and consumer loans. Net loans receivable decreased $681.5 million, or 8%, to $8.07 billion at December 31, 2008.

Table of Contents

The following table sets forth the composition of the loan portfolio as of the dates indicated:

Table 8: *Composition of Loan Portfolio*

| | December 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | | 2007 | | 2006 | | 2005 | | 2004 | |
| | Amount | Percent | Amount | Percent | Amount | Percent | Amount | Percent | Amount | Percent |
| | (Dollars in thousands) | | | | | | | | | |
| Real estate loans: | | | | | | | | | | |
| Residential, single family | $ 491,315 | 6.0% | $ 433,337 | 4.9% | $ 365,407 | 4.4% | $ 509,151 | 7.5% | $ 327,554 | 6.4% |
| Residential, multifamily | 677,989 | 8.2% | 690,941 | 7.8% | 1,584,674 | 19.2% | 1,239,836 | 18.3% | 1,121,107 | 21.8% |
| Commercial and industrial real estate | 4,048,564 | 49.1% | 4,183,473 | 47.3% | 3,766,634 | 45.6% | 3,321,520 | 48.9% | 2,556,827 | 49.8% |
| Construction | 1,260,724 | 15.3% | 1,547,082 | 17.5% | 1,154,339 | 14.0% | 640,654 | 9.4% | 348,501 | 6.8% |
| Total real estate loans | $6,478,592 | 78.6% | $6,854,833 | 77.5% | $6,871,054 | 83.2% | $5,711,161 | 84.1% | $4,353,989 | 84.8% |
| Other loans: | | | | | | | | | | |
| Commercial business | $1,210,260 | 14.6% | $1,314,068 | 14.8% | $ 960,375 | 11.6% | $ 643,296 | 9.5% | $ 438,537 | 8.6% |
| Trade finance | 343,959 | 4.2% | 491,690 | 5.6% | 271,795 | 3.3% | 230,771 | 3.4% | 155,809 | 3.0% |
| Automobile | 9,870 | 0.1% | 23,946 | 0.3% | 9,481 | 0.1% | 8,543 | 0.1% | 10,151 | 0.2% |
| Other consumer | 206,772 | 2.5% | 160,572 | 1.8% | 152,527 | 1.8% | 200,254 | 2.9% | 175,008 | 3.4% |
| Total other loans | $1,770,861 | 21.4% | $1,990,276 | 22.5% | $1,394,178 | 16.8% | $1,082,864 | 15.9% | $ 779,505 | 15.2% |
| Total gross loans | 8,249,453 | 100.0% | 8,845,109 | 100.0% | 8,265,232 | 100.0% | 6,794,025 | 100.0% | 5,133,494 | 100.0% |
| Unearned fees, premiums, and discounts, net | (2,049) | | (5,781) | | (4,859) | | (1,070) | | (2,156) | |
| Allowance for loan losses | (178,027) | | (88,407) | | (78,201) | | (68,635) | | (50,884) | |
| Loan receivable, net | $8,069,377 | | $8,750,921 | | $8,182,172 | | $6,724,320 | | $5,080,454 | |

*Single Family Residential Loans.* We offer mortgage loans secured by one-to-four unit residential properties located in our primary lending areas. At December 31, 2008, $491.3 million or 6% of the loan portfolio was secured by one-to-four family residential real estate properties, compared to $433.3 million or 5% at December 31, 2007. Residential single family loan origination activity declined in 2008, with $131.3 million in new loan originations during 2008, compared with $282.1 million in 2007. Our loan origination activity during 2008 was adversely impacted by deteriorating conditions in the housing and mortgage markets.

We sold approximately $31.2 million in conforming and non-conforming residential single family loans through our secondary marketing efforts during 2008, compared to $42.3 million sold in 2007. The adverse conditions in the housing market and increased credit risks have further widened credit spreads, and resulted in investors tightening their credit underwriting standards for qualifying loans. Originations of loans not eligible for government guarantees have essentially halted due to the erosion of value and lack of investor confidence in private-label mortgage-backed securities. The FRB recently announced plans to purchase up to $100 billion in government sponsored entities' debt and up to $500 billion in government sponsored entities' mortgage-backed securities over the next few quarters. Although the lower mortgage rates should support our secondary market efforts, concerns about a weakening economy and job instability may curtail customer demand.

We offer both fixed and adjustable rate ("ARM") single family residential mortgage loan programs. We primarily offer ARM loan programs that have six-month, three-year, five-year, or seven-year initial fixed periods. We originate single family residential mortgage loans under three different types of programs: full/alternative documentation, reduced documentation and no documentation loans. The underwriting criteria for these loan programs vary in income and asset documentation levels. Our underwriting criteria for all the loans in our single family residential mortgage loan programs include minimum Fair Isaac Corporation ("FICO") credit scores and maximum loan-to-value ("LTV") ratios. Additionally, our full/alternative documentation loan program requires verification of employment and income. Reduced documentation loans are primarily intended for borrowers who are self-employed. Generally, we require reduced documentation borrowers to have more equity in the property and higher amounts of liquid reserves. Finally, our no documentation loan program is designed for borrowers who demonstrate excellent credit quality and have the ability to place a large down payment or have high equity in the property.

Of the $131.3 million in residential single family mortgage loans originated during 2008, 7% or $8.8 million were full/alternative documentation loans, 35% or $46.0 million were reduced documentation loans and 58% or $76.6 million were no documentation loans. In comparison, of the $282.1 million in residential single family mortgage loans originated during 2007, 2% or $6.8 million were full/alternative documentation loans, 33% or $93.8 million were reduced documentation loans and 64% or $181.5 million were no documentation loans. During 2008, for the no documentation loan program, the maximum LTV ratios ranged from 21% to 77%. For the reduced documentation loan program, the maximum LTV ratios ranged from 22% to 70%. Based on management's evaluation and analysis of the portfolio credit quality and prevailing economic conditions, we believe the loan loss provision is adequate for losses inherent in the portfolio as of December 31, 2008.

*Multifamily Real Estate Loans.* During 2008, severe market conditions also adversely affected our new originations of multifamily loans. We originated $27.8 million multifamily loans in 2008, as compared to $287.2 million in 2007. Although real estate lending activities are collateralized by real property, these transactions are subject to similar credit evaluation, underwriting and monitoring standards as those applied to commercial business loans. Multifamily real estate loans accounted for $678.0 million or 8%, and $690.9 million or 8%, of our loan portfolio at December 31, 2008 and 2007, respectively.

We offer both fixed and adjustable rate multifamily loan programs. We primarily offer adjustable rate multifamily loan programs that have six-month, three-year, or five-year initial fixed periods. Prior to the latter half of 2007, we originated multifamily mortgage loans under two different types of programs full documentation and reduced documentation. During 2008, all of the $27.8 million in multifamily loans originated were reduced documentation loans. In comparison, of the $287.2 million in multifamily loans originated during 2007, 8% or $23.4 million were full/alternative documentation and 92% or $263.9 million were reduced documentation loans. The underwriting criteria for these loan programs vary in income and asset documentation levels, similar to our single family residential loan programs. Underwriting criteria generally include minimum FICO scores, maximum loan-to-value ratios and minimum debt coverage ratios.

Additionally, we own single family and multifamily residential mortgage loans that have contractual features that may increase our credit exposure. These mortgage loans include adjustable rate mortgage loans that may subject borrowers to significant future payment increases or create the potential for negative amortization of the principal balance.

Interest-only mortgage loans allow interest-only payments for a fixed period of time. At the end of the interest-only period, the loan payment includes principal payments and increases significantly. The borrower's new payment once the loan becomes amortizing (i.e., includes principal payments) will be greater than if the borrower had been making principal payments since the origination of the loan. The longer the interest-only period, the larger the amortizing payment will be when the interest-only period ends. There were $40.4 million and $32.6 million in interest-only loans held in the Bank's portfolio as of December 31, 2008 and 2007, respectively. Historically, losses experienced from interest-only loans have been minimal and we do not believe potential losses from these loans will be significant.

Table of Contents

The Bank has purchased adjustable rate mortgage loans which permit different repayment options. The monthly payment for adjustable rate mortgage loans with negative amortization features is set as the initial interest rate for the first year of the loan. After that point, the borrower can make a minimum payment that is limited to a 7.5% increase in payment. If the minimum payment is not adequate to cover the interest amount due on the mortgage loan, the loan would have negative amortization, which will result in an increase in the mortgage loans' principal balance. These loans completely re-amortize every five years and the monthly payment is reset at that point. None of the adjustable rate mortgages held in the Bank's loan portfolio that have the potential to negatively amortize were negatively amortizing as of December 31, 2008 and 2007. We do not believe potential losses from these loans will be significant.

Our total exposure related to these products in our loan portfolio for the years ended December 31, 2008 and 2007 is summarized as follows:

Table 9: *Nontraditional Mortgage Products*

| | Unpaid Principal Balance as of December 31, | |
|---|---|---|
| | **2008** | **2007** |
| | ***(In thousands)*** | |
| Interest only mortgage loans | $ 40,399 | $ 32,571 |
| Adjustable rate mortgages with negative amortization features: | | |
| Residential single family loans | 1,181 | 1,157 |
| Residential multifamily loans | 9,399 | 12,565 |

All of the loans we originate are subject to our underwriting guidelines and loan origination standards. Generally, loans obtained from third party originators, including the higher risk loans in the preceding table, are closed and funded in our name and are also subject to our same underwriting guidelines and loan origination standards. We believe our strict underwriting criteria and procedures adequately consider the unique risks which may come from these products. We conduct a variety of quality control procedures and periodic audits to ensure compliance with our origination standards, including our criteria for lending and legal requirements.

*Commercial Real Estate Loans.* We continue to place emphasis in the origination of commercial real estate loans. Although real estate lending activities are collateralized by real property, these transactions are subject to similar credit evaluation, underwriting and monitoring standards as those applied to commercial business loans. Commercial real estate loans accounted for $4.05 billion or 49%, and $4.18 billion or 47%, of our loan portfolio at December 31, 2008, and 2007, respectively.

Since substantially all of our real estate loans are secured by properties located in California, declines in the California economy and in real estate values could have a significant effect on the collectibility of our loans and on the level of allowance for loan losses required.

*Construction Loans.* We offer loans to finance the construction of income-producing or owner-occupied buildings. At December 31, 2008, construction loans accounted for $1.26 billion or 15% of our loan portfolio. This compares with $1.55 billion or 18% of the loan portfolio at December 31, 2007. Total unfunded commitments related to construction loans decreased to $344.4 million at December 31, 2008, compared to $975.0 million at December 31, 2007. At December 31, 2008, the total commitment for residential construction loans was approximately $1.01 billion. The current residential construction loan balance was $816.4 million, representing 65% of total construction loans and 10% of total gross loans. During 2008, we reduced our total commitment on residential construction loans by 42% from

$1.75 billion as of December 31, 2007. Additionally, all construction disbursements are being carefully monitored and reviewed to address key risks and factors in this portfolio, such as interest reserves remaining, number of homes sold, geographic area and concentration of loans.

*Commercial Business Loans.* We finance small and middle-market businesses in a wide spectrum of industries throughout California. Included in commercial business loans are loans for working capital, accounts receivable lines, inventory lines, SBA guaranteed small business loans and lease financing. At December 31, 2008, commercial business loans accounted for a total of $1.21 billion or 15% of our loan portfolio, compared to $1.31 billion or 15% at December 31, 2007. Total unfunded commitments related to commercial business loans decreased 43% to $548.9 million at December 31, 2008, compared to $954.9 million at year-end 2007. During 2008, we have taken actions to reduce our commitments on letters of credit.

*Trade Finance Products.* We offer a variety of international finance and trade services and products, including letters of credit, revolving lines of credit, import loans, bankers' acceptances, working capital lines, domestic purchase financing, and pre-export financing. At December 31, 2008, these loans to finance international trade totaled $344.0 million or 4% of our loan portfolio, compared to $491.7 million or 6% at December 31, 2007. Although most of our trade finance activities are related to trade with Asian countries, a significant majority of our loans are made to companies domiciled in the United States. A substantial portion of this business involves California-based customers engaged in import activities. In addition, we also offer Export-Import financing to various domestic and foreign exporters. These loans are guaranteed by the Export-Import Bank of the United States. Virtually all of our trade finance portfolio as of December 31, 2008 represents loans made to borrowers on the import side of international trade. At December 31, 2008, such loans amounted to $342.5 million, compared with $469.2 million at December 31, 2007. These financings are generally made through letters of credit ranging from $100 thousand to $1 million. At December 31, 2008, total unfunded commitments related to trade finance loans decreased 31% to $283.9 million, compared to $410.9 million at December 31, 2007.

*Affordable Housing.* We are engaged in a variety of lending and credit enhancement programs to finance the development of affordable housing projects, which are generally eligible for federal low income housing tax credits. As of December 31, 2008, we had outstanding $345.0 million of letters of credit, which were issued to enhance the ratings of revenue bonds used to finance affordable housing projects. This compares to $396.2 million as of year-end 2007. Credit facilities for individual projects generally range in size from $5 million to $15 million.

*Foreign Outstandings.* Foreign outstandings include loans, acceptances, interest bearing deposits with other banks, other interest bearing investments and related accrued interest receivable. Foreign assets are subject to the general risks of conducting business in each foreign country, including economic uncertainty and government regulations. In addition, foreign assets may be impacted by changes in demand or pricing resulting from movements in exchange rates or other factors. The Company's cross-border exposure primarily relate to our branch operations in Hong Kong, China, which commenced in 2007. As of December 31, 2008 and 2007, our cross-border exposure did not exceed 1.00% of our total assets. The Company's branch in Hong Kong experienced a 9% growth in the loan portfolio to $90.7 million as of December 31, 2008, compared to $82.9 million as of December 31, 2007.

*Contractual Maturity of Loan Portfolio.* The following table presents the maturity schedule of our loan portfolio at December 31, 2008. All loans are shown maturing based upon contractual maturities, and include scheduled repayments but not potential prepayments. Demand loans, loans having no stated schedule of repayments and no stated maturity, and overdrafts are reported as due

Table of Contents

within one year. Loan balances have not been reduced for undisbursed loan proceeds, unearned discounts, and the allowance for loan losses. Nonaccrual loans of $214.6 million are included in the following table by their contractual maturity date.

Table 10: *Maturity of Loan Portfolio*

| | Within One Year | After One But Within Five Years | More Than Five Years | Total |
|---|---|---|---|---|
| | | *(In thousands)* | | |
| Residential, single family | $ 17,838 | $ 31,031 | $ 442,446 | $ 491,315 |
| Residential, multifamily | 65,764 | 21,437 | 590,788 | 677,989 |
| Commercial and industrial real estate | 638,102 | 138,733 | 3,271,729 | 4,048,564 |
| Construction | 1,187,828 | 54,039 | 18,857 | 1,260,724 |
| Commercial business | 867,923 | 247,221 | 95,116 | 1,210,260 |
| Trade finance | 339,114 | 4,845 | - | 343,959 |
| Automobile and other consumer | 20,066 | 6,989 | 189,587 | 216,642 |
| Total | $3,136,635 | $504,295 | $4,608,523 | $8,249,453 |

As of December 31, 2008, outstanding loans, including projected prepayments, scheduled to be repriced within one year, after one but within five years, and in more than five years, excluding nonaccrual loans, are as follows:

Table 11: *Loans Scheduled to be Repriced*

| | Within One Year | After One But Within Five Years | More Than Five Years | Total |
|---|---|---|---|---|
| | | *(In thousands)* | | |
| Total fixed rate | $ 422,813 | $ 344,964 | $ 19,925 | $ 787,702 |
| Total variable rate | 6,056,560 | 1,186,187 | 4,397 | 7,247,144 |
| Total | $6,479,373 | $1,531,151 | $ 24,322 | $8,034,846 |

**Mortgage Servicing Assets**

As of December 31, 2008, we had $16.5 million in mortgage servicing assets, which is net of $3.6 million in total valuation allowances. Mortgage servicing assets are initially recorded at fair value. The fair value of servicing assets is determined based on the present value of estimated net future cash flows related to contractually specified servicing fees. The primary determinants of the fair value of mortgage servicing assets are prepayment speeds and discount rates. Published industry standards are used to derive market-based assumptions. Changes in the assumptions used may have a significant impact on the valuation of mortgage servicing assets. Evaluation of impairment is performed on a quarterly basis. We record mortgage servicing assets for loans sold or securitized for which servicing has been retained by the Bank.

We recorded $2.4 million in MSA impairment writedowns during 2008, compared with $580 thousand in 2007. The decline in interest rates as well as the overall increases in borrower refinancing and prepayment rates related to the underlying sold or securitized loans have caused the value of MSAs to decrease. We may expect a further decline in the value of MSAs in the near future if interest rates continue to fall and prepayment speeds increase. For more information about MSAs, see Note 13 to the Company's consolidated financial statements presented elsewhere in this report.

Table of Contents

**Nonperforming Assets**

Loans are continually monitored by management and the Board of Directors. Generally, our policy is to place a loan on nonaccrual status if either (i) principal or interest payments are past due in excess of 90 days; or (ii) the full collection of principal or interest becomes uncertain, regardless of the length of past due status. When a loan reaches nonaccrual status, any interest accrued on the loan is reversed and charged against current income. In general, subsequent payments received are applied to the outstanding principal balance of the loan. Nonaccrual loans that demonstrate a satisfactory payment trend for several months are returned to full accrual status subject to management's assessment of the full collectibility of the account.

Nonperforming assets are comprised of nonaccrual loans, loans past due 90 days or more but not on nonaccrual, restructured loans and other real estate owned, net. Nonperforming assets as a percentage of total assets were 2.12% and 0.57% at December 31, 2008 and 2007, respectively. Nonaccrual loans totaled $214.6 million and $63.9 million at December 31, 2008 and 2007, respectively. Loans totaling $530.4 million were placed on nonaccrual status during 2008. As part of our comprehensive loan review process, loans totaling $32.5 million which were not 90 days past due as of December 31, 2008 were included in nonaccrual loans as of December 31, 2008. Additions to nonaccrual loans during 2008 were offset by $88.9 million in payoffs and principal paydowns, $114.7 million in loans brought current, $92.7 million in net chargeoffs, and $83.4 million in loans transferred to OREO. Additions to nonaccrual loans during the year ended December 31, 2008 were comprised of $232.9 million in construction loans, $200.2 million in commercial real estate loans, $45.4 million in commercial business loans including SBA loans, $25.7 million in single family loans, $20.4 million in multifamily loans, $3.0 million in automobile and other consumer loans, and $2.8 million in trade finance loans.

All loans that were past due 90 days or more were on nonaccrual status at December 31, 2008 and 2007.

The Company had $11.0 million and $2.1 million in restructured loans as of December 31, 2008 and 2007, respectively. As of December 31, 2008, restructured loans were comprised of $1.2 million in single family loans, $3.5 million in multifamily loans, $2.4 million in commercial real estate loans, and $3.9 million in commercial business loans.

Other real estate owned includes properties acquired through foreclosure or through full or partial satisfaction of loans. We had 41 OREO properties at December 31, 2008, with a combined aggregate carrying value of $38.3 million. The majority of these properties were related to our land, residential construction and single family residence portfolios. Approximately 66% of OREO properties as of December 31, 2008 were located in the Greater Los Angeles area and Inland Empire region of Southern California. As of December 31, 2007, we had three OREO properties with a carrying value of $1.5 million. During 2008, we foreclosed on 70 properties with an aggregate carrying value of $83.6 million as of the foreclosure date. During 2008, we sold 29 OREO properties with a carrying value of $44.5 million resulting in a total net loss on sale of $852 thousand. During 2007, the Bank sold one OREO property with a carrying value of $2.8 million for a net gain of $1.3 million. The Bank sold two OREO properties with a combined carrying value of $396 thousand for a net gain of $88 thousand during 2006.

Table of Contents

The following table sets forth information regarding nonaccrual loans, loans past due 90 days or more but not on nonaccrual, restructured loans and other real estate owned as of the dates indicated:

Table 12: *Nonperforming Assets*

| | December 31, | | | | |
|---|---|---|---|---|---|
| | 2008 | 2007 | 2006 | 2005 | 2004 |
| | *(Dollars in thousands)* | | | | |
| Nonaccrual loans | $214,607 | $63,882 | $17,101 | $24,149 | $ 4,924 |
| Loans past due 90 days or more but not on nonaccrual | - | - | - | 5,670 | 681 |
| Total nonperforming loans | 214,607 | 63,882 | 17,101 | 29,819 | 5,605 |
| Restructured loans | 10,992 | 2,081 | - | - | - |
| Other real estate owned, net | 38,302 | 1,500 | 2,786 | 299 | 299 |
| Total nonperforming assets | $263,901 | $67,463 | $19,887 | $30,118 | $ 5,904 |
| Total nonperforming assets to total assets | 2.12% | 0.57% | 0.18% | 0.36% | 0.10% |
| Allowance for loan losses to nonperforming loans | 82.95% | 138.39% | 457.29% | 230.17% | 907.83% |
| Nonperforming loans to total gross loans | 2.60% | 0.72% | 0.21% | 0.44% | 0.11% |

We evaluate loan impairment according to the provisions of SFAS No. 114. Under SFAS No. 114, loans are considered impaired when it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement, including scheduled interest payments. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as an expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent, less costs to sell. If the measure of the impaired loan is less than the recorded investment in the loan, the deficiency will be charged off against the allowance for loan losses or, alternatively, a specific allocation will be established. Also, in accordance with SFAS No. 114, loans that are considered impaired are specifically excluded from the quarterly migration analysis when determining the amount of the allowance for loan and lease losses required for the period.

At December 31, 2008, the Company's total recorded investment in impaired loans was $232.1 million, compared with $123.8 million at December 31, 2007. The increase in impaired loans is largely due to an increase in nonperforming residential construction loans which have been especially hard hit by current economic conditions and the downturn in the housing market. All nonaccrual and doubtful loans are included in impaired loans. Impaired loans at December 31, 2008 are comprised of single family loans totaling $13.5 million, multifamily loans totaling $11.8 million, commercial real estate loans totaling $ 110.2 million, construction loans totaling $66.4 million, commercial business loans totaling $26.2 million, trade finance loans amounting to $1.8 million, SBA loans totaling $354 thousand, and automobile and other consumer loans totaling $1.8 million. As of December 31, 2008, the allowance for loan losses included $23.4 million for impaired loans with a total recorded balance of $69.2 million. As of December 31, 2007, the allowance for loan losses included $16.3 million for impaired loans with a total recorded balance of $67.1 million.

Our average recorded investment in impaired loans during 2008 and 2007 totaled $266.5 million and $121.0 million, respectively. During 2008 and 2007, gross interest income that would have been recorded on impaired loans, had they performed in accordance with their original terms, totaled $19.0 million and $9.7 million, respectively. Of this amount, actual interest recognized on impaired loans, on a cash basis, was $11.6 million and $6.8 million, respectively.

Table of Contents

In light of the credit and mortgage crisis affecting the entire financial industry and its impact on our borrowers, the Company has taken a more proactive approach to assess potential loan impairment in our overall portfolio. We have expanded our scope to perform focused reviews of certain sectors of our loan portfolio to identify and mitigate potential losses. Our recent experience made us aware of the rapid deterioration occurring in the market in a relatively short period of time. Specifically, we have noted that while our borrowers may continue to pay as agreed in accordance with their contractual terms and/or even though loans may not have reached a significant stage of delinquency, the existence of certain warning signs indicating possible collectibility issues warranted a more careful scrutiny of these loans for potential impairment. Specifically, we reviewed loans that exhibited the following characteristics:

- diminishing or adverse changes in cash flows that serve as the principal source of repayment;
- adverse changes in the financial position or net worth of guarantors or investors;
- adverse changes in collateral values for collateral-dependent loans;
- declining or adverse changes in inventory levels securing commercial business and trade finance;
- failure in meeting financial covenants; or
- other changes or conditions that may adversely impact the ultimate collectibility of loans.

Although certain loans are not 90 days or more delinquent and therefore still accruing interest, we have classified them as impaired as of December 31, 2008 because they exhibit one or more of the characteristics described above.

**Allowance for Loan Losses**

We are committed to maintaining the allowance for loan losses at a level that is commensurate with estimated and known risks in the loan portfolio. In addition to regular, quarterly reviews of the adequacy of the allowance for loan losses, management performs an ongoing assessment of the risks inherent in the loan portfolio. While we believe that the allowance for loan losses is adequate at December 31, 2008, future additions to the allowance will be subject to a continuing evaluation of estimated and known, as well as inherent, risks in the loan portfolio.

The allowance for loan losses is increased by the provision for loan losses which is charged against current period operating results, and is increased or decreased by the amount of net recoveries or chargeoffs, respectively, during the year. At December 31, 2008, the allowance for loan losses amounted to $178.0 million, or 2.16% of total loans, compared with $88.4 million, or 1.00% of total loans, at December 31, 2007. The $89.6 million increase in the allowance for loan losses at December 31, 2008, from year-end 2007, reflects $226.0 million in additional loss provisions, less $141.4 million in net chargeoffs during the year. The allowance for unfunded loan commitments, off-balance-sheet credit exposures, and recourse provisions is included in accrued expenses and other liabilities and amounted to $6.3 million at December 31, 2008, compared to $11.4 million at December 31, 2007. The decrease in the off-balance sheet allowance amount was due, in part, to a 46% decline in unfunded loan commitments at December 31, 2008 relative to year-end 2007.

We recorded $226.0 million in loan loss provisions during 2008, as compared to $12.0 million in loss provisions recorded during 2007. The increase in loss provisions recorded during 2008, compared to 2007, was brought on by the sustained downturn in the real estate market and continued instability in the overall economy. During 2008, we recorded $141.4 million in net chargeoffs representing 1.64% of average loans outstanding during the year. In comparison, we recorded net chargeoffs totaling $6.8 million, or less than 0.08% of average loans outstanding, during 2007. We believe that overall

Table of Contents

market conditions will continue to remain challenging in 2009 and we expect to record additional loan loss provisions during the first quarter of 2009.

The following table summarizes activity in the allowance for loan losses for the periods indicated:

Table 13: *Allowance for Loan Losses*

| | At or for the Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2008 | 2007 | 2006 | 2005 | 2004 |
| | *(Dollars in thousands)* | | | | |
| Allowance balance, beginning of year | $ 88,407 | $ 78,201 | $ 68,635 | $ 50,884 | $ 39,246 |
| Allowance from acquisitions | - | 4,125 | 4,084 | 9,290 | 1,583 |
| Allowance for unfunded loan commitments and letters of credit | 5,044 | 841 | (1,168) | (2,738) | (1,566) |
| Provision for loan losses | 226,000 | 12,000 | 6,166 | 15,870 | 16,750 |
| Gross chargeoffs: | | | | | |
| Residential single family | 3,522 | 335 | 3 | 168 | - |
| Multifamily real estate | 1,966 | - | - | - | - |
| Commercial and industrial real estate | 53,459 | - | - | 1,899 | - |
| Construction | 57,629 | 2,810 | - | - | - |
| Commercial business | 24,639 | 3,740 | 236 | 1,428 | 1,679 |
| Trade finance | 5,707 | 249 | 205 | 2,821 | 4,055 |
| Automobile | 268 | 30 | 46 | 97 | 119 |
| Other consumer | 261 | 42 | 25 | 29 | 7 |
| Total gross chargeoffs | $ 147,451 | $ 7,206 | $ 515 | $ 6,442 | $ 5,860 |
| Gross recoveries: | | | | | |
| Residential single family | $ 37 | $ - | $ 2 | $ 23 | $ 9 |
| Residential multifamily | - | - | - | 90 | 26 |
| Commercial and industrial real estate | 2,467 | 7 | 749 | 34 | 3 |
| Construction | 2,654 | - | - | - | - |
| Commercial business | 835 | 419 | 238 | 380 | 507 |
| Trade finance | 9 | - | - | 1,124 | - |
| Automobile | 25 | 20 | 5 | 119 | 186 |
| Other consumer | - | - | 5 | 1 | - |
| Total gross recoveries | $ 6,027 | $ 446 | $ 999 | $ 1,771 | $ 731 |
| Net chargeoffs (recoveries) | $ 141,424 | $ 6,760 | $ (484) | $ 4,671 | $ 5,129 |
| Allowance balance, end of year | $ 178,027 | $ 88,407 | $ 78,201 | $ 68,635 | $ 50,884 |
| Average loans outstanding | $ 8,601,825 | $ 8,354,989 | $ 7,828,579 | $ 5,886,398 | $ 4,170,524 |
| Total gross loans outstanding, end of year | $ 8,249,453 | $ 8,845,109 | $ 8,265,232 | $ 6,794,025 | $ 5,133,494 |
| Net chargeoffs (recoveries) to average loans | 1.64% | 0.08% | (0.01)% | 0.08% | 0.12% |
| Allowance for loan losses to total gross loans at end of year | 2.16% | 1.00% | 0.95% | 1.01% | 0.99% |

Our methodology to determine the overall appropriateness of the allowance is based on a classification migration model and qualitative considerations. The technique of migration analysis essentially looks at pools of loans having similar characteristics and analyzes their loss rates over a historical period. We utilize a loss horizon of seventeen years to better capture the Bank's historical loss trends. This loss horizon represents the timeframe when the Bank started to monitor and track losses incurred in the loan portfolio. Since loss rates derived by the migration model are based predominantly on historical loss trends, they may not be indicative of the actual or inherent loss potential for loan categories that have little or no historical losses. As such, we utilize qualitative and environmental factors as adjusting mechanisms to supplement the historical results of the classification migration model.

72

Table of Contents

Qualitative considerations include, but are not limited to, prevailing economic or market conditions, relative risk profiles of various loan segments, the strength or deficiency of the internal control environment, volume concentrations, growth trends, delinquency and nonaccrual status, problem loan trends, and geographic concentrations. Qualitative and environmental factors are reflected as percent adjustments and are added to the historical loss rates derived from the classified asset migration model to determine the appropriate allowance amount for each loan category.

In consideration of the significant growth and increasing diversity and credit risk profiles of loans in our portfolio over the past several years, our classification migration model utilizes sixteen risk-rated or heterogeneous loan pool categories and three homogeneous loan categories. The loan sectors included in the heterogeneous loan pools are residential single family, residential multifamily, commercial real estate, construction, commercial business, trade finance, and automobile loans. With the exception of automobile loans, all other heterogeneous loan categories have been broken down into additional subcategories. For example, the commercial real estate loan category is further segmented into six subcategories based on industry sector. These subcategories include retail, office, industrial, land, hotel/motel, and other special purpose or miscellaneous. By sectionalizing these broad loan categories into smaller subgroups, we are better able to isolate and identify the risks associated with each subgroup based on historical loss trends.

In addition to the sixteen heterogeneous loan categories, our classification migration model also utilizes three homogeneous loan categories which encompass predominantly consumer-related credits. Specifically, these homogeneous loan categories are home equity lines, overdraft protection lines, and credit card loans.

The following table reflects the Company's allocation of the allowance for loan losses by loan category and the ratio of each loan category to total loans as of the dates indicated.

Table 14: *Allowance for Loan Losses by Loan Category*

| | **At December 31,** | | | |
|---|---|---|---|---|
| | **2008** | | **2007** | |
| | **Amount** | **%** | **Amount** | **%** |
| | ***(Dollars in thousands)*** | | | |
| Residential single family | $ 6,178 | 5.9% | $ 2,475 | 4.9% |
| Residential multifamily | 6,811 | 8.2% | 4,216 | 7.8% |
| Commercial and industrial real estate | 49,567 | 49.1% | 21,072 | 47.3% |
| Construction | 60,478 | 15.3% | 19,132 | 17.5% |
| Commercial business | 40,843 | 14.7% | 24,188 | 14.9% |
| Trade finance | 12,721 | 4.2% | 16,487 | 5.5% |
| Automobile | 282 | 0.1% | 242 | 0.3% |
| Consumer and other | 1,147 | 2.5% | 595 | 1.8% |
| Total | $ 178,027 | 100.0% | $ 88,407 | 100.0% |

The increase of $89.6 million in the allowance for loan at December 31, 2008, relative to year-end 2007, was primarily due to increased loss estimates and historic losses for individual loan categories. Except for trade finance loans, loss reserves on all loan categories increased, reflecting the downturn in the residential real estate market and deteriorating conditions in the overall economy. Loss reserves for construction and land loans (included in commercial and industrial real estate) increased significantly from December 31, 2007, reflecting the sharp decline in values experienced in

Table of Contents

these portfolios. The decrease in loss reserves on trade finance loans is in line with the contraction of this portfolio since year-end 2007.

**Deposits**

We offer a wide variety of deposit account products to both consumer and commercial customers. Total deposits increased $863.0 million to $8.14 billion at December 31, 2008, as compared to $7.28 billion at December 31, 2007. Net deposit growth was comprised of increases in money market accounts of $232.5 million or 21%, and time deposits of $936.6 million or 25%. These increases were partially offset by decreases in noninterest-bearing demand accounts of $138.7 million or 10%, interest-bearing checking accounts of $109.7 million or 23%, and savings accounts of $57.6 million or 12%, during the year.

As a result of the turbulence in the banking sector, we experienced a notable growth in deposit products that afford greater deposit insurance coverage to deposit customers during the second half of 2008. As of December 31, 2008, time deposits within the Certificate of Deposit Account Registry Service ("CDARS") program increased to $946.8 million, compared to $11.7 million at December 31, 2007. The CDARS program allows customers with deposits in excess of FDIC-insured limits to obtain full coverage on time deposits through a network of banks within the CDARS program. Additionally, during the third quarter of 2008, we partnered with another financial institution to implement a new retail sweep product for non-time deposit accounts to provide added deposit insurance coverage for deposits in excess of FDIC-insured limits, Deposits gathered through these programs are considered brokered deposits under current regulatory reporting guidelines.

Public deposits decreased 70% to $153.5 million at December 31, 2008, from $506.5 million at December 31, 2007. A large portion of these public funds are comprised of deposits from the State of California. The decrease in public deposits is due to lack of available funds from funding sources.

Time deposits greater than $100 thousand totaled $3.22 billion, representing 40% of the deposit portfolio at December 31, 2008. These accounts, consisting primarily of deposits by consumers, had a weighted average interest rate of 3.16% at December 31, 2008. The following table provides the remaining maturities at December 31, 2008 of time deposits greater than $100 thousand:

Table 15: *Time Deposits $100,000 or Greater*

| | ***(In thousands)*** |
|---|---|
| 3 months or less | $2,020,077 |
| Over 3 months through 6 months | 614,657 |
| Over 6 months through 12 months | 506,104 |
| Over 12 months | 79,316 |
| Total | $3,220,154 |

**Borrowings**

We utilize a combination of short-term and long-term borrowings to manage our liquidity position. Federal funds purchased generally mature within one business day to six months from the transaction date. At December 31, 2008, federal funds purchased amounted to $28.0 million, an 87% decrease from the $222.3 million balance at December 31, 2007. FHLB advances decreased 25% to $1.35 billion as of December 31, 2008, compared to $1.81 billion at December 31, 2007. The decrease in federal funds purchased and FHLB advances is consistent with our overall strategy to deleverage our balance sheet. During 2008, a portion of the proceeds from the maturities and sales of investment securities, as well as proceeds from our Series A and B preferred stock issuance in April 2008 and December 2008, were used to pay down our borrowings. During the first quarter of 2008, we paid off an FHLB advance totaling $50.0 million prior to its contractual maturity date. In accordance with Accounting Principles Bulletin No. 18, *Early Extinguishment of Debt*, we recorded the penalty amount of $149 thousand as an adjustment to interest expense. As of December 31, 2008, we had no overnight FHLB advances, compared to $350.0 million as of December 31, 2007. We entered into several new FHLB advances totaling $350.0 million during 2008. The maturity terms of these advances are less than 3 years with fixed interest rates ranging from 1.44% to 3.68%. FHLB advances totaling $405.0 million matured during 2008.

In addition to federal funds purchased and FHLB advances, we also utilize securities sold under repurchase agreements ("repurchase agreements") to manage our liquidity position. Repurchase agreements totaled $998.4 million and $1.00 billion as of December 31, 2008 and 2007, respectively. Included in this balance is $3.4 million in overnight repurchase agreements with customers that the Company assumed in conjunction with the DCB acquisition. The interest rates on these customer repurchase agreements ranged from 0.50% to 0.75% as of December 31, 2008. All of the other repurchase agreements are long-term with ten year maturity terms. Repurchase agreements are accounted for as collateralized financing transactions and recorded at the amounts at which the securities were sold. The collateral for these agreements consist of U.S. Government agency and U.S. Government sponsored enterprise debt and mortgage-backed securities. All of these repurchase agreements have an original term of ten years. The rates were generally initially floating rate for a period of time ranging from six months to three years, with the floating interest rates ranging from the three-month Libor minus 80 basis points to the three-month Libor minus 340 basis points. With the exception of one repurchase agreement, the rates have been switched to fixed rates for the remainder of the term, with fixed interest rates ranging from 4.29% to 5.13%. The counterparty has the right to either a one-time call or a quarterly call when the rates change from floating to fixed, for each of the repurchase agreements.

**Long-Term Debt**

Long-term debt remained at $235.6 million at December 31, 2008 and 2007. Long-term debt is comprised of subordinated debt which qualifies as Tier II capital and junior subordinated debt issued in connection with our various trust preferred securities offerings which qualify as Tier I capital for regulatory purposes.

**Off-Balance Sheet Arrangements and Aggregate Contractual Obligations**

In the course of our business, we may enter into or be a party to transactions that are not recorded on the balance sheet and are considered to be off-balance sheet arrangements. Off-balance sheet arrangements are any contractual arrangements whereby an unconsolidated entity is a party, under which we have: (1) any obligation under a guarantee contract; (2) a retained or contingent interest in assets transferred to an unconsolidated entity or similar arrangement that serves as credit, liquidity or market risk support to that entity for such assets; (3) any obligation under certain derivative instruments; or (4) any obligation under a material variable interest held by us in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to us, or engages in leasing, hedging or research and development services with us.

Table of Contents

*Loan Securitizations and Sales*

In the ordinary course of business, the Company sells loans with or without recourse. For loans sold with recourse, the recourse component is considered a guarantee. In certain situations, the Company could also have an obligation for loans sold without recourse. Additional information pertaining to our loan sales is included in Note 20 to the Company's consolidated financial statements presented elsewhere in this report.

From time to time, we securitize certain real estate loans, a portion of which are sold to investors. Securitizations provide us with a source of liquidity and also reduce our credit exposure to borrowers. Securitizations involve the sale of loans to a qualifying special-purpose entity, or "QSPE", typically a trust. In a securitization, we transfer financial assets to a QSPE that is legally isolated from the Company. The QSPE, in turn, issues interest-bearing securities, commonly called asset-backed securities, which are secured by future collections on the sold loans. The QSPE sells securities to investors, which entitle them to receive specified cash flows during the term of the securities. The QSPE uses proceeds from the sale of these securities to pay the purchase price for the sold loans. The proceeds from the issuance of the securities are then distributed to the Company as consideration for the loans transferred.

When we sell or securitize loans, we generally retain the right to service the loans and we may retain residual and other interests, which are considered retained interests in the securitized assets. Retained interests may provide credit enhancement to the investors and represent the Company's maximum risk exposure associated with these transactions. Investors in the securities issued by the QSPE have no further recourse against the Company if cash flows generated by the securitized assets are inadequate to service the obligations of the QSPE. Additional information pertaining to our securitization transactions and related retained interests is included in Note 7 to the Company's consolidated financial statements presented elsewhere in this report.

*Commitments*

As a financial service provider, we routinely enter into commitments to extend credit to customers, such as loan commitments, commercial letters of credit for foreign and domestic trade, standby letters of credit, and financial guarantees. Many of these commitments to extend credit may expire without being drawn upon. The same credit policies are used in extending these commitments as in extending loan facilities to customers. Under some of these contractual agreements, the Company may also have liabilities contingent upon the occurrence of certain events. A schedule of significant commitments to extend credit to customers as of December 31, 2008 is as follows:

Table 16: *Significant Commitments*

| | **December 31, 2008** |
|---|---|
| | ***(In thousands)*** |
| Undisbursed loan commitments | $ 1,469,513 |
| Standby letters of credit | 656,979 |
| Commercial letters of credit | 39,426 |

A discussion of significant contractual arrangements under which the Company may be held contingently liable is included in Note 20 to the Company's consolidated financial statements presented elsewhere in this report. In addition, the Company has commitments and obligations under post-retirement benefit plans as described in Note 22 to the Company's consolidated financial statements presented elsewhere in this report.

Table of Contents

*Contractual Obligations*

The following table presents, as of December 31, 2008, the Company's significant fixed and determinable contractual obligations, within the categories described below, by payment date. With the exception of operating lease obligations, these contractual obligations are included in the consolidated balance sheets. The payment amounts represent the amounts and interest contractually due to the recipient.

Table 17: *Contractual Obligations*

| | Payment Due by Period | | | | | |
|---|---|---|---|---|---|---|
| **Contractual Obligations** | **Less than 1 year** | **1-3 years** | **3-5 years** | **After 5 years** | **Indeterminate Maturity** | **Total** |
| | *(In thousands)* | | | | | |
| Deposits | $4,692,120 | $110,670 | $ 36,206 | $ 10,478 | $ 3,494,207 | $ 8,343,681 |
| Federal funds purchased | 28,023 | | | | | 28,023 |
| FHLB advances | 676,801 | 729,852 | 5,358 | 3,189 | | 1,415,200 |
| Securities sold under repurchase agreements | 51,012 | 95,163 | 95,163 | 1,115,505 | | 1,356,843 |
| Notes payable | | | | | 16,506 | 16,506 |
| Long-term debt obligations | 11,241 | 22,483 | 22,483 | 400,547 | | 456,754 |
| Operating lease obligations | 11,621 | 24,826 | 25,597 | 69,897 | | 131,941 |
| Unrecognized tax benefits | | | | | 1,028 | 1,028 |
| Postretirement benefit obligations | 4,144 | 11,156 | 1,732 | 2,316 | | 19,348 |
| Total contractual obligations | $5,474,962 | $994,150 | $186,539 | $1,601,932 | $ 3,511,741 | $11,769,324 |

**Capital Resources**

Our primary source of capital is the retention of net after tax earnings. At December 31, 2008, stockholders' equity totaled $1.55 billion, a 32% increase from the year-end 2007 balance of $1.17 billion. The increase is comprised of the following: (1) net issuance of Series A convertible preferred stock, totaling $194.1 million, representing 200,000 shares; (2) net issuance of Series B perpetual cumulative preferred stock and warrants totaling $306.8 million, representing 306,546 shares of preferred stock and 3,035,109 shares of warrants; (4) stock compensation costs amounting to $6.2 million related to grants of restricted stock and stock options; (5) net issuance of common stock totaling $2.8 million, representing 496,701 shares, pursuant to various stock plans and agreements; and (6) a purchase accounting adjustment pursuant to the DCB acquisition of $2.3 million. These transactions were offset by (1) net loss of $49.7 million recorded during 2008; (2) $47.7 million in net unrealized losses on available-for-sale securities; (3) a change in accounting principle pursuant to the adoption of EITF 06-4 amounting to $479 thousand; (4) tax provision of $414 thousand from the stock plans; (5) purchase of treasury shares related to vested restricted stock amounting to $306 thousand, representing 20,846 shares; and (6) payment of quarterly cash dividends on common stock, accrual and payment of preferred stock dividends, as well as the amortization of preferred stock discount totaling $34.8 million during 2008.

*Series A Preferred Stock Offering*

We raised $194.1 million in additional capital, net of underwriting discounts, commissions and offering expenses, during April 2008 through the issuance of 200,000 shares of non-cumulative, perpetual convertible preferred stock. The proceeds from this offering were used to reduce our borrowings, enhance our liquidity position, and boost our already strong capital levels. For a further discussion on this preferred stock offering, see Note 23 to the Company's consolidated financial statements presented elsewhere in this report.

Table of Contents

*Series B Preferred Stock Offering*

On December 5, 2008, we received $306.5 million of additional Tier 1 qualifying capital from the U.S. Treasury through the issuance of 306,546 shares of fixed-rate, cumulative perpetual preferred stock. The issuance of Series B preferred stock was made in conjunction with the Company's participation in the U.S. Treasury's Capital Purchase Program. For a further discussion on this preferred stock offering, see Note 23 to the Company's consolidated financial statements presented elsewhere in this report.

*Risk-Based Capital*

We are committed to maintaining capital at a level sufficient to assure our shareholders, our customers and our regulators that our company and our bank subsidiary are financially sound. We are subject to risk-based capital regulations adopted by the federal banking regulators in January 1990. These guidelines are used to evaluate capital adequacy and are based on an institution's asset risk profile and off-balance sheet exposures. According to the regulations, institutions whose Tier I and total capital ratios meet or exceed 6.0% and 10.0%, respectively, are deemed to be "well-capitalized." At December 31, 2008, the Bank's Tier I and total capital ratios were 13.6% and 15.6%, respectively, compared to 8.8% and 10.3%, respectively, at December 31, 2007.

The following table compares East West Bancorp, Inc.'s and East West Bank's actual capital ratios at December 31, 2008, to those required by regulatory agencies for capital adequacy and well-capitalized classification purposes:

Table 18: *Regulatory Required Ratios*

| | **East West Bancorp** | **East West Bank** | **Minimum Regulatory Requirements** | **Well Capitalized Requirements** |
|---|---|---|---|---|
| Total Capital (to Risk-Weighted Assets) | 15.8% | 15.6% | 8.0% | 10.0% |
| Tier 1 Capital (to Risk-Weighted Assets) | 13.8% | 13.6% | 4.0% | 6.0% |
| Tier 1 Capital (to Average Assets) | 12.4% | 12.2% | 4.0% | 5.0% |

## ASSET LIABILITY AND MARKET RISK MANAGEMENT

### Liquidity

Liquidity management involves our ability to meet cash flow requirements arising from fluctuations in deposit levels and demands of daily operations, which include funding of securities purchases, providing for customers' credit needs and ongoing repayment of borrowings. Our liquidity is actively managed on a daily basis and reviewed periodically by the Asset/Liability Committee and the Board of Directors. This process is intended to ensure the maintenance of sufficient funds to meet the needs of the Bank, including adequate cash flow for off-balance sheet instruments.

Our primary sources of liquidity are derived from financing activities which include the acceptance of customer and brokered deposits, federal funds facilities, repurchase agreement facilities, advances from the Federal Home Loan Bank of San Francisco, and issuances of long-term debt. These funding sources are augmented by payments of principal and interest on loans, the routine liquidation of securities from the available-for-sale portfolio and securitizations of loans. In addition, government programs, such as the FDIC's TLGP, may influence deposit behavior. Primary uses of funds include withdrawal of and interest payments on deposits, originations and purchases of loans, purchases of investment securities, and payment of operating expenses.

During the years ended December 31, 2008, 2007, and 2006, we experienced net cash inflows from operating activities of $182.4 million, $224.0 million, and $122.3 million, respectively. Net cash inflows from operating activities reflects the $226.0 million loan loss provision recorded during 2008. Net cash inflows from operating activities during 2007 and 2006 were primarily due to net income earned during the year.

Net cash outflows from investing activities totaled $132.7 million, $519.4 million, and $1.52 billion during 2008, 2007, and 2006, respectively. Net cash outflows from investing activities for 2008 were due primarily to purchases of short-term investments, investment securities, and loans receivable. These factors were partially offset by proceeds from the sale of investment securities and loans, the early termination of a resale agreement, as well as repayments, maturities and redemptions of investment securities. For 2007 and 2006, net cash outflows from investing activities can be attributed primarily to the growth in our loan portfolio and purchases of available-for-sale securities. These activities were partially offset by repayments, maturities, redemptions and net sales proceeds from investment securities.

We experienced net cash inflows from financing activities of $668.8 million during the year ended December 31, 2008, primarily due to $500.6 million net proceeds received from the issuance of Series A and Series B preferred stock during April 2008 and December 2008, respectively, as well as the net increase in deposits. As a result of the turbulence in the banking sector, we experienced a notable growth in deposit products that afford greater deposit insurance coverage to deposit customers during the second half of 2008. As of December 31, 2008, time deposits within the CDARS program increased to $946.8 million, compared to $11.7 million at December 31, 2007. The CDARS program allows customers with deposits in excess of FDIC-insured limits to obtain full coverage on time deposits through a network of banks within the CDARS program. Additionally, during the third quarter of 2008, we partnered with another financial institution to implement a new retail sweep product for non-time deposit accounts to provide added deposit insurance coverage for deposits in excess of FDIC-insured limits. Cash from financing activities were partially offset by net decreases in federal funds purchased and FHLB advances, as well as $33.4 million of existing cash and cash equivalents to pay cash dividends to our stockholders.

During 2007, proceeds from federal funds purchased, FHLB advances, and long-term debt accounted for net cash inflows from financing activities totaling $263.2 million. These factors were partially offset by a net decrease in deposits, purchases of treasury shares related to our Board-approved share repurchase program, and dividends paid on common stock. During 2006, net cash inflows from financing activities amounting to $1.44 billion were due to net increases in repurchase agreements, FHLB advances, deposits, federal funds purchased, and long-term debt.

As a means of augmenting our liquidity, we have available a combination of borrowing sources comprised of the Federal Reserve Bank's discount window, FHLB advances, federal funds lines with various correspondent banks, and several master repurchase agreements with major brokerage companies. During 2008, we obtained additional borrowing capacity from the Federal Reserve discount window of almost $900.0 million by pledging construction and commercial business loans. We believe our liquidity sources to be stable and adequate to meet our day-to-day cash flow requirements. At December 31, 2008, we are not aware of any trends, events or uncertainties that had or were reasonably likely to have a material effect on our liquidity position. As of December 31, 2008, we are not aware of any material commitments for capital expenditures in the foreseeable future.

The liquidity of East West Bancorp, Inc. is primarily dependent on the payment of cash dividends by its subsidiary, East West Bank, subject to limitations imposed by the Financial Code of the State of California. For the years ended December 31, 2008 and 2007, total dividends paid by the Bank to East West Bancorp, Inc. amounted to $33.4 million and $71.6 million, respectively. The large increase in dividend payments by the Bank to the Company during 2007 is primarily due to share repurchases totaling $53.8 million in connection with the Board authorized stock repurchase program announced during 2007. As of December 31, 2008, approximately $162.9 million of undivided profits of the Bank were available for dividends to the Company. On January 27, 2009, the Board of Directors declared first quarter dividends on the Company's common stock and Series A preferred stock. Despite the Company's strong capital position, the Board of Directors authorized the reduction of the common stock dividend to $0.02 per share for the first quarter of 2009, compared with the $0.10 per share paid in previous quarters. As a result of the uncertain economic environment, the Company believes it was a prudent and responsible decision to reduce the dividend payout and preserve capital at this time.

**Interest Rate Sensitivity Management**

Our success is largely dependent upon our ability to manage interest rate risk, which is the impact of adverse fluctuations in interest rates on our net interest income and net portfolio value. Although in the normal course of business we manage other risks, such as credit and liquidity risk, we consider interest rate risk to be among the more significant market risks and could potentially have material effect on our financial condition and results of operations.

The fundamental objective of the asset liability management process is to manage our exposure to interest rate fluctuations while maintaining adequate levels of liquidity and capital. Our strategy is formulated by the Asset/Liability Committee, which coordinates with the Board of Directors to monitor our overall asset and liability composition. The Committee meets regularly to evaluate, among other things, the sensitivity of our assets and liabilities to interest rate changes, the book and market values of assets and liabilities, unrealized gains and losses on the available-for-sale portfolio (including those attributable to hedging transactions, if any), purchase and securitization activity, and maturities of investments and borrowings.

Our overall strategy is to minimize the adverse impact of immediate incremental changes in market interest rates (rate shock) on net interest income and net portfolio value. Net portfolio value is defined as the present value of assets, minus the present value of liabilities and off-balance sheet instruments. The attainment of this goal requires a balance between profitability, liquidity and interest rate risk exposure. To minimize the adverse impact of changes in market interest rates, we simulate the effect of instantaneous interest rate changes on net interest income and net portfolio value on a quarterly basis. The table below shows the estimated impact of changes in interest rates on net interest income and market value of equity as of December 31, 2008 and 2007, assuming a non-parallel shift of 100 and 200 basis points in both directions:

Table 19: *Rate Shock Table*

| Change in Interest Rates (Basis Points) | Net Interest Income Volatility (1) December 31, 2008 | Net Interest Income Volatility (1) December 31, 2007 | Net Portfolio Value Volatility (2) December 31, 2008 | Net Portfolio Value Volatility (2) December 31, 2007 |
|---|---|---|---|---|
| +200 | 11.6% | 12.3% | 8.8% | 6.4% |
| +100 | 5.4% | 7.4% | 4.4% | 5.7% |
| -100 | (1.6)% | (6.8)% | (4.5)% | (6.0)% |
| -200 | (1.4)% | (13.0)% | (9.7)% | (11.4)% |

(1) The percentage change represents net interest income for twelve months in a stable interest rate environment versus net interest income in the various rate scenarios.

(2) The percentage change represents net portfolio value of the Bank in a stable rate environment versus net portfolio value in the various rate scenarios.

All interest-earning assets, interest-bearing liabilities and related derivative contracts are included in the interest rate sensitivity analysis at December 31, 2008 and 2007. At December 31, 2008 and 2007, our estimated changes in net interest income and net portfolio value were within the ranges established by the Board of Directors.

Our primary analytical tool to gauge interest rate sensitivity is a simulation model used by many major banks and bank regulators, and is based on the actual maturity and repricing characteristics of interest-rate sensitive assets and liabilities. The model attempts to predict changes in the yields earned on assets and the rates paid on liabilities in relation to changes in market interest rates. As an enhancement to the primary simulation model, prepayment assumptions and market rates of interest provided by independent broker/dealer quotations, an independent pricing model and other available public sources are incorporated into the model. Adjustments are made to reflect the shift in the Treasury and other appropriate yield curves. The model also factors in projections of anticipated activity levels by product line and takes into account our increased ability to control rates offered on deposit products in comparison to our ability to control rates on adjustable-rate loans tied to the published indices.

The following table provides the outstanding principal balances and the weighted average interest rates of our financial instruments as of December 31, 2008. The information presented below is based on the repricing date for variable rate instruments and the expected maturity date for fixed rate instruments.

Table of Contents

Table 20: *Expected Maturity for Financial Instruments*

| | Expected Maturity or Repricing Date by Year | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 | 2013 | After 2014 | Total | Fair Value at December 31, 2008 |
| | | | | (Dollars in thousands) | | | | |
| **Assets:** | | | | | | | | |
| CD investments | $ 228,441 | | | | | | $ 228,441 | $ 228,353 |
| average yield (fixed rate) | 2.02% | | | | | | 2.02% | |
| Short-term investments | $ 734,367 | | | | | | $ 734,367 | $ 734,367 |
| Weighted average rate | 2.03% | | | | | | 2.03% | |
| Securities purchased under resale agreements | $ 50,000 | | | | | | $ 50,000 | $ 51,581 |
| Weighted average rate | 10.00% | | | | | | 10.00% | |
| Investment securities held-to-maturity (fixed rate) | $ 23,848 | $ 24,752 | $ 14,293 | | | $ 7,053 | $ 69,946 | $ 70,594 |
| Weighted average rate | 5.47% | 7.71% | 7.19% | | | 5.17% | 6.58% | |
| Investment securities held-to-maturity (variable rate) | $ 52,371 | | | | | | $ 52,371 | $ 52,511 |
| Weighted average rate | 2.94% | | | | | | 2.94% | |
| Investment securities available-for-sale (fixed rate) | $ 612,437 | $ 140,043 | $ 182,159 | $ 90,281 | $ 80,625 | $ 198,635 | $ 1,304,180 | $ 1,307,810 |
| Weighted average rate | 4.16% | 5.29% | 4.14% | 4.85% | 4.45% | 5.17% | 4.50% | |
| Investment securities available-for-sale (variable rate) (1) | $ 829,150 | $ 35,603 | $ 5,720 | $ 9,075 | $ 3,672 | $ 2,170 | $ 885,390 | $ 732,384 |
| Weighted average rate | 2.99% | 4.82% | 4.80% | 6.37% | 4.58% | 4.74% | 3.12% | |
| Total gross loans | $ 6,652,984 | $ 924,370 | $ 394,667 | $ 149,970 | $ 75,999 | $ 51,463 | $ 8,249,453 | $ 8,216,482 |
| Weighted average rate | 5.30% | 6.88% | 7.11% | 6.97% | 6.61% | 3.24% | 5.59% | |
| **Liabilities:** | | | | | | | | |
| Checking accounts | $ 363,285 | | | | | | $ 363,285 | $ 317,654 |
| Weighted average rate | 0.52% | | | | | | 0.52% | |
| Money market accounts | $ 1,323,402 | | | | | | $ 1,323,402 | $ 1,306,281 |
| Weighted average rate | 1.69% | | | | | | 1.69% | |
| Savings deposits | $ 420,133 | | | | | | $ 420,133 | $ 374,037 |
| Weighted average rate | 0.76% | | | | | | 0.76% | |
| Time deposits | $ 4,611,084 | $ 93,442 | $ 7,598 | $ 29,078 | $ 886 | $ 54 | $ 4,742,142 | $ 4,750,957 |
| Weighted average rate | 2.76% | 3.49% | 4.23% | 4.17% | 4.07% | 2.19% | 2.79% | |
| Federal funds purchased | $ 28,022 | | | | | | $ 28,022 | $ 28,022 |
| Weighted average rate | 0.25% | | | | | | 0.25% | |
| FHLB advances (term) | $ 630,307 | $ 660,000 | $ 55,000 | $ 5,000 | | $ 3,000 | $ 1,353,307 | $ 1,397,081 |
| Weighted average rate | 4.79% | 3.95% | 5.20% | 4.46% | | 4.44% | 4.40% | |
| Customer repurchase agreements | $ 3,430 | | | | | | $ 3,430 | $ 3,430 |
| Weighted average rate | 0.70% | | | | | | 0.70% | |
| Securities sold under repurchase agreements (fixed rate) | | | | | | $ 945,000 | $ 945,000 | $ 1,143,976 |
| Weighted average rate | | | | | | 4.82% | 4.82% | |
| Securities sold under repurchase agreements (variable rate) | $ 50,000 | | | | | | $ 50,000 | $ 56,923 |
| Weighted average rate | 4.15% | | | | | | 4.15% | |
| Subordinated debt | $ 75,000 | | | | | | $ 75,000 | $ 48,110 |
| Weighted average rate | 4.60% | | | | | | 4.60% | |
| Junior subordinated debt (fixed rate) | | | | | | $ 21,392 | $ 21,392 | $ 22,431 |
| Weighted average rate | | | | | | 10.91% | 10.91% | |
| Junior subordinated debt (variable rate) | $ 139,178 | | | | | | $ 139,178 | $ 49,784 |
| Weighted average rate | 3.92% | | | | | | 3.92% | |

(1) Includes hybrid securities that have fixed interest rates for the first three or five years. Thereafter, interest rates become adjustable based on a predetermined index.

Expected maturities of assets are contractual maturities adjusted for projected payment based on contractual amortization and unscheduled prepayments of principal as well as repricing frequency. Expected maturities for deposits are based on contractual maturities adjusted for projected rollover rates for deposits with no stated maturity dates. We utilize assumptions supported by documented analyses for the expected maturities of our loans and repricing of our deposits. We also use prepayment projections for amortizing securities. The actual maturities of these instruments could vary significantly if future prepayments and repricing frequencies differ from our expectations based on historical experience.

The fair values of short-term investments approximate their book values due to their short maturities. For securities purchased under resale agreements, fair values are calculated by discounting future cash flows based on expected maturities or repricing dates utilizing estimated market discount rates. The fair values of the investment securities are generally determined by reference to the average of at least two quoted market prices obtained from independent external brokers or prices obtained from independent external pricing service providers who have experience in valuing these securities. In obtaining such valuation information from third parties, the Company has reviewed the methodologies used to develop the resulting fair values. For private label mortgage-backed securities and pooled trust preferred securities, fair values are derived based on a combination of broker prices and discounted

Table of Contents

cash flow analyses that are weighted as deemed appropriate for each security. The fair value of loans is determined based on the discounted cash flow approach. The discount rate is derived from the associated yield curve plus spreads, and reflects the offering rates in the market for loans with similar financial characteristics.

The fair value of deposits is determined based on the discounted cash flow approach. The discount rate is derived from the associated yield curve, plus spread, if any. For core deposits, the cash outflows are projected by the decay rate based on the Bank's core deposit premium study. Cash flows for all non-time deposits are discounted using the LIBOR yield curve. For time deposits, the cash flows are based on the contractual runoff and are discounted by the Bank's current offering rates, plus spread. For federal funds purchased, fair value approximates book value due to their short maturities. The fair value of FHLB term advances is estimated by discounting the cash flows through maturity or the next repricing date based on current rates offered by the FHLB for borrowings with similar maturities. Customer repurchase agreements, which have maturities ranging from one to three days, are presumed to have equal book and fair values because the interests rates paid on these instruments are based on prevailing market rates. The fair values of securities sold under repurchase agreements are calculated by discounting future cash flows based on expected maturities or repricing dates, utilizing estimated market discount rates and taking into consideration the call features of each instrument. For both subordinated and junior subordinated debt instruments, fair values are estimated by discounting cash flows through maturity based on current market rates the Bank would pay for new issuances.

The Asset/Liability Committee is authorized to utilize a wide variety of off-balance sheet financial techniques to assist in the management of interest rate risk. We may elect to use derivative financial instruments as part of our asset and liability management strategy, with the overall goal of minimizing the impact of interest rate fluctuations on our net interest margin and stockholders' equity. Currently, derivative instruments do not have material effect on our operating results or financial position.

In August and November 2004, we entered into four equity swap agreements with a major investment brokerage firm to hedge against market fluctuations in a promotional equity index certificate of deposit product that we offered to Bank customers for a limited time during the latter half of 2004. This product, which has a term of $5^1/_2$ years, pays interest based on the performance of the Hang Seng China Enterprises Index, or the "HSCEI". As of December 31, 2008, the combined notional amounts of the equity swap agreements total $19.3 million with termination dates similar to the stated maturity date on the underlying certificate of deposit host contracts. For the equity swap agreements, we agreed to pay interest based on the one-month Libor minus a spread on a monthly basis and receive any increase in the HSCEI at swap termination date. Under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, a certificate of deposit that pays interest based on changes in an equity index is a hybrid instrument with an embedded derivative (i.e., equity call option) that must be accounted for separately from the host contract (i.e., the certificate of deposit). In accordance with SFAS No. 133, both the embedded equity call options on the certificates of deposit and the freestanding equity swap agreements are marked-to-market every month with resulting changes in fair value recorded in the consolidated statements of income.

On April 1, 2005, the Company amended the four equity swap agreements entered into in 2004 effectively removing the swap payable leg. The amendments to the swap agreements changed the terms of the agreements such that instead of paying interest based on the one-month Libor minus a spread on a monthly basis for the remaining terms of the agreements, we prepaid this amount based on the current market value of the cash streams. The total amount paid in conjunction with these swap agreement amendments was $4.2 million on April 1, 2005.

In December 2007, the Company entered into two additional equity swap agreements with a major investment brokerage firm to hedge against market fluctuations in a promotional equity index certificate of deposit product offered to bank customers. This product, which has a term of 5 years, also pays interest based on the performance of the HSCEI similar to the previous index certificate offering in 2004. As of December 31, 2008, the combined notional amounts of these new equity swap agreements totaled $24.1 million and have termination dates similar to the stated maturities of the underlying certificate of deposit host contracts. On December 3, 2007, we prepaid $4.5 million for the option cost based on the current market value of the cash streams.

The fair values of the equity swap agreements and embedded derivative liability for these six derivative contracts amounted to $13.9 million and $14.1 million, respectively, as of December 31, 2008, compared to $28.3 million and $28.3 million, respectively, as of December 31, 2007. The decrease in the fair value of the derivative contracts since December 31, 2007 can be attributed to a 51% decline in the index value as of December 31, 2008, relative to year-end 2007.

The embedded derivative liability is included in interest-bearing deposits and the equity swap agreements are included in other assets on the consolidated balance sheets. The fair value of the derivative contracts is determined based on the change in value of the HSCEI and the volatility of the call option over the life of the individual swap agreement. The option value is derived based on the volatility, the interest rate and the time remaining to maturity of the call option. The Company has also considered the counterparty's as well as its own credit risk in determining the valuation.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

For quantitative and qualitative disclosures regarding market risks in our portfolio, see "Management's Discussion and Analysis of Consolidated Financial Condition and Results of Operations Asset Liability and Market Risk Management."

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements of the Company, including the "Report of Independent Registered Public Accounting Firm," are included in this report immediately following Part IV.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

## ITEM 9A. CONTROLS AND PROCEDURES

*Disclosure Controls and Procedures*

As of December 31, 2008, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e) and 15d-15(e). Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures are effective as of December 31, 2008.

Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed,

Table of Contents

summarized and reported within the time periods specified in the SEC's rules and forms. Our disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

*Management's Annual Report on Internal Control over Financial Reporting*

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rules 13a-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2008. In making this assessment, management used the criteria set forth in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment, we concluded, as of December 31, 2008, the Company's internal control over financial reporting is effective based on those criteria.

*Changes in Internal Control over Financial Reporting*

There have been no changes in our internal control over financial reporting during the quarter ended December 31, 2008 that have materially affected or is reasonably likely to materially affect our internal control over financial reporting.

*Attestation Report of the Company's Registered Public Accounting Firm*

The independent registered public accounting firm of Deloitte & Touche LLP, as auditors of East West Bancorp's consolidated financial statements, has issued an attestation report on the effectiveness of internal control over financial reporting based on criteria established in *Internal Control Integrated Framework,* issued by COSO, which has been presented on the following page.

Table of Contents

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of
East West Bancorp, Inc.
Pasadena, California

We have audited the internal control over financial reporting of East West Bancorp, Inc. and subsidiaries (the "Company") as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Table of Contents

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2008 of the Company and our report dated March 2, 2009 expressed an unqualified opinion on those financial statements.

/s/ DELOITTE & TOUCHE LLP

Los Angeles, California
March 2, 2009

Table of Contents

## ITEM 9B. OTHER INFORMATION

On February 26, 2009, the Compensation Committee for the Company approved the 2009 annual base salaries, cash bonus payments for 2008 work and grants of incentive stock for the Company's executive officers. This information for the Company's named executives is set forth as Exhibit 10.13 "Named Executive Officer Compensation."

Table of Contents

## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information concerning directors and executive officers of the Company, to the extent not included under Item 1 under the heading "*Executive Officers of the Registrant*" appearing at the end of Part I of this report, will appear in the Company's definitive proxy statement for the 2009 Annual Meeting of Shareholders (the "2009 Proxy Statement"), and such information either shall be (i) deemed to be incorporated herein by reference from the section entitled "ELECTION OF DIRECTORS," if filed with the SEC pursuant to Regulation 14A not later than 120 days after the end of the Company's most recently completed fiscal year, or (ii) included in an amendment to this report filed with the SEC on Form 10-K/A not later than the end of such 120 day period. Additionally, information on compensation arrangements for the Board of Directors of the Company is set forth as Exhibit 10.12 "Director Compensation."

**Code of Ethics**

The Company has adopted a code of ethics that applies to its principal executive officer, principal financial and accounting officer, controller, and persons performing similar functions. The code of ethics is posted on our internet website at www.eastwestbank.com.

**Audit Committee Financial Experts**

The Company has determined that all members of the Audit Committee, namely Directors Andrew Kane, John Lee, Herman Li and Keith Renken are "Audit Committee Financial Experts" as defined under Section 407 of the Sarbanes-Oxley Act of 2002 and the rules promulgated by the SEC in furtherance of Section 407. All members of the Audit Committee are independent of management.

### ITEM 11. EXECUTIVE COMPENSATION

On February 26, 2009, the Compensation Committee for the Company approved the 2009 annual base salaries, cash bonus payments for 2008 work and grants of incentive stock for the Company's executive officers. Information concerning executive compensation of the Company's named executives will appear in the 2009 Proxy Statement, and such information either shall be (i) deemed to be incorporated herein by reference from the sections entitled "DIRECTOR COMPENSATION" "COMPENSATION OF EXECUTIVE OFFICERS," "COMPENSATION DISCUSSION AND ANALYSIS," and "REPORT BY THE COMPENSATION COMMITTEE," if filed with the SEC pursuant to Regulation 14A not later than 120 days after the end of the Company's most recently completed fiscal year, or (ii) included in an amendment to this report filed with the SEC on Form 10-K/A not later than the end of such 120 day period.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information concerning security ownership of certain beneficial owners and management will appear in the 2009 Proxy Statement, and such information either shall be (i) deemed to be incorporated herein by reference from the sections entitled "BENEFICIAL STOCK OWNERSHIP OF PRINCIPAL STOCKHOLDERS AND MANAGEMENT" if filed with the SEC pursuant to Regulation 14A not later than 120 days after the end of the Company's most recently completed fiscal year, or (ii) included in an amendment to this report filed with the SEC on Form 10-K/A not later than the end of such 120 day period.

Table of Contents

*Securities Authorized for Issuance Under Equity Compensation Plans*

The following table provides information as of December 31, 2008 regarding equity compensation plans under which equity securities of the Company were authorized for issuance.

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in Column (a) (c) |
|---|---|---|---|
| Equity compensation plans approved by security holders | 2,588,968 | $ 20.67 | 3,512,978 |
| Equity compensation plans not approved by security holders | - | - | - |
| Total | 2,588,968 | $ 20.67 | 3,512,978 |

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information concerning certain relationships and related transactions will appear in the 2009 Proxy Statement, and such information either shall be (i) deemed to be incorporated herein by reference from the section entitled "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS," if filed with the SEC pursuant to Regulation 14A not later than 120 days after the end of the Company's most recently completed fiscal year, or (ii) included in an amendment to this report filed with the SEC on Form 10-K/A not later than the end of such 120 day period.

## ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information concerning principal accountant fees and services will appear in the 2009 Proxy Statement, and such information either shall be (i) deemed to be incorporated herein by reference from the section entitled "INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM," if filed with the SEC pursuant to Regulation 14A not later than 120 days after the end of the Company's most recently completed fiscal year, or (ii) included in an amendment to this report filed with the SEC on Form 10-K/A not later than the end of such 120 day period.

Table of Contents

## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

*(a)(1) Financial Statements*

The following financial statements included in the registrant's 2008 Annual Report to Shareholders are included. Page number references are to the 2008 Annual Report to Shareholders.


| | **Page** |
|---|---|
| East West Bancorp, Inc. and Subsidiaries: | |
| Report of Independent Registered Public Accounting Firm | 93 |
| Consolidated Balance Sheets at December 31, 2008 and 2007 | 94 |
| Consolidated Statements of Operations for the Years Ended December 31, 2008, 2007 and 2006 | 95 |
| Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2008, 2007 and 2006 | 96 |
| Consolidated Statements of Cash Flows for the Years Ended December 31, 2008, 2007 and 2006 | 97 |
| Notes to Consolidated Financial Statements | 98 |


*(a)(2) Financial Statement Schedules*

Schedules have been omitted because they are not applicable, not material or because the information is included in the consolidated financial statements or the notes thereto.

*(a)(3) Exhibits*

| **Exhibit No.** | **Exhibit Description** |
|---|---|
| 3.1 | Certificate of Incorporation of the Registrant [Incorporated by reference from Registrant's Registration Statement on Form S-4 filed with the Commission on September 17, 1998 (File No. 333-63605).] |
| 3.2 | Certificate of Amendment to Certificate of Incorporation of the Registrant [Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2002 filed with the Commission on March 28, 2003.] |
| 3.3 | Certificate of Amendment to Certificate of Incorporation of the Registrant [Incorporated by reference from Registrant's Exhibit A of the Registrant's Definitive Proxy Statement on Schedule 14A filed with the Commission on April 24, 2008.] |
| 3.4 | Bylaws of the Registrant [Incorporated by reference from Registrant's Registration Statement on Form S-4 filed with the Commission on September 17, 1998 (File No. 333-63605).] |
| 3.5 | Amended and Restated Bylaws of the Registrant dated May 29, 2008 [Incorporated by reference from Registrant's Current Report on Form 8-K, filed with the Commission on June 3, 2008.] |
| 3.6 | Certificate of Designations of 8.00% Non-Cumulative Perpetual Convertible Preferred Stock, Series A, including Form of Series A Preferred Stock Certificate. [Incorporated by reference from Registrant's Current Report on Form 8-K, filed with the Commission on April 30, 2008.] |
| 3.7 | Certificate of Designations of Fixed Rate Cumulative Perpetual Preferred Stock, Series B [Incorporated by reference from Registrant's Current Report on Form 8-K, filed with the Commission on December 9, 2008.] |

Table of Contents

| | |
|---|---|
| 4.1 | Specimen Common Stock Certificate of Registrant [Incorporated by reference from Registrant's Registration Statement on Form S-4 filed with the Commission on September 17, 1998 (File No. 333-63605).] |
| 4.2 | Form of Certificate of the Registrant's 8.00% Non-Cumulative Perpetual Convertible Preferred Stock, Series A [Incorporated by reference from Registrant's Current report on Form 8-K, filed with the Commission on April 30, 2008.] |
| 4.3 | Form of Preferred Share Certificate for Fixed Rate Cumulative Perpetual Preferred Stock, Series B. [Incorporated by reference from Registrant's Current report on Form 8-K, filed with the Commission on December 9, 2008.] |
| 4.4 | Warrant to purchase up to 3,035,109 shares of Common Stock [Incorporated by reference from Registrant's Current Report on Form 8-K, filed with the Commission on December 9, 2008.] |
| 10.1 | Employment Agreement with Dominic Ng+ [Incorporated by reference from Registrant's Registration Statement on Form S-4 filed with the Commission on November 13, 1998 (File No. 333-63605).] |
| 10.2 | Employment Agreement with Julia Gouw+ [Incorporated by reference from Registrant's Registration Statement on Form S-4 filed with the Commission on November 13, 1998 (File No. 333-63605).] |
| 10.5 | Employment Agreement with Douglas P. Krause+ [Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2005 filed with the Commission on March 11, 2005.] |
| 10.6.1 | East West Bancorp, Inc. 1998 Stock Incentive Plan and Forms of Agreements+ [Incorporated by reference from Registrant's Registration Statement on Form S-4 filed with the Commission on November 13, 1998 (File No. 333-63605).] |
| 10.6.2 | Amended East West Bancorp, Inc. 1998 Stock Incentive Plan+ [Incorporated by reference from Registrant's Current Report on Form 8-K filed with the Commission on March 9, 2005.] |
| 10.6.3 | 1998 Non-Qualified Stock Option Program for Employees and Independent Contractors+ [Incorporated by reference from Registrant's Current Report on Form 8-K filed with the Commission on March 9, 2005.] |
| 10.6.4 | Performance-Based Bonus Plan+ [Incorporated by reference from Registrant's Current Report on Form 8-K filed with the Commission on March 9, 2005.] |
| 10.6.5 | 1999 Spirit of Ownership Restricted Stock Program+ [Incorporated by reference from Registrant's Current Report on Form 8-K filed with the Commission on March 9, 2005.] |
| 10.6.6 | 2003 Directors' Restricted Stock Program+ [Incorporated by reference from Registrant's Current Report on Form 8-K filed with the Commission on March 9, 2005.] |
| 10.7 | East West Bancorp, Inc. 1998 Employee Stock Purchase Plan+ [Incorporated by reference from Registrant's Registration Statement on Form S-4 filed with the Commission on November 13, 1998 (File No. 333-63605).] |
| 10.8 | Employment Agreement with William J. Lewis+ [Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2005 filed with the Commission on March 11, 2005.] |
| 10.9.1 | Employment Agreement with Donald Sang Chow+ [Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 1999 filed with the Commission on March 30, 2000.] |
| 10.9.2 | Amendment to Employment Agreement with Donald Sang Chow+ [Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 1999 filed with the Commission on March 30, 2000.] |
| 10.9.3 | Amendment to Employment Agreement with Donald Sang Chow+ [Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2005 filed with the Commission on March 11, 2005.] |

Table of Contents

| | |
|---|---|
| 10.10 | Supplemental Executive Retirement Plans+ [Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2005 filed with the Commission on March 11, 2005.] |
| 10.11 | Employment Agreement with Wellington Chen+ [Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2005 filed with the Commission on March 11, 2005.] |
| 10.12 | Director Compensation%+ |
| 10.13 | Named Executive Officer Compensation%+ |
| 10.14 | Letter Agreement, dated December 5, 2008, including Securities Purchase Agreement Standard Terms incorporated by reference therein, by and between the Registrant and the United States Department of Treasury [Incorporated by reference from Registrant's Current report on Form 8-K, filed with the Commission on December 9, 2008.] |
| 21.1 | Subsidiaries of the Registrant% |
| 23.1 | Consent of Independent Registered Public Accounting Firm% |
| 31.1 | Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002% |
| 31.2 | Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002% |
| 32.1 | Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002% |
| 32.2 | Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002% |

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Forms 8-K, 10-Q and 10-K identified in the exhibit index have SEC file number 000-24939.

+ Denotes management contract or compensatory plan or arrangement.

% A copy of this exhibit is being filed with this Annual Report on Form 10-K.

Table of Contents

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of
East West Bancorp, Inc.
Pasadena, California

We have audited the accompanying consolidated balance sheets of East West Bancorp, Inc. and subsidiaries (the "Company") as of December 31, 2008 and 2007, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of East West Bancorp, Inc. and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 2, 2009 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Los Angeles, California
March 2, 2009

Table of Contents

**EAST WEST BANCORP, INC. AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS**
*(In thousands, except share data)*

| | December 31, 2008 | December 31, 2007 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 878,853 | $ 160,347 |
| Short-term investments | 228,441 | - |
| Securities purchased under resale agreements | 50,000 | 150,000 |
| Investment securities held-to-maturity, at amortized cost (with fair value of $123,105) | 122,317 | - |
| Investment securities available-for-sale, at fair value (with amortized cost of $2,189,570 at December 31, 2008 and $1,954,140 at December 31, 2007) | 2,040,194 | 1,887,136 |
| Loans receivable, net of allowance for loan losses of $178,027 in 2008 and $88,407 in 2007 | 8,069,377 | 8,750,921 |
| Investment in Federal Home Loan Bank stock, at cost | 86,729 | 84,976 |
| Investment in Federal Reserve Bank stock, at cost | 27,589 | 21,685 |
| Other real estate owned, net | 38,302 | 1,500 |
| Investment in affordable housing partnerships | 48,141 | 44,206 |
| Premises and equipment, net | 60,184 | 64,943 |
| Due from customers on acceptances | 5,538 | 15,941 |
| Premiums on deposits acquired, net | 21,190 | 28,459 |
| Goodwill | 337,438 | 335,366 |
| Cash surrender value of life insurance policies | 94,745 | 88,658 |
| Deferred tax assets | 184,588 | 66,410 |
| Accrued interest receivable and other assets | 129,190 | 151,664 |
| **TOTAL** | **$ 12,422,816** | **$ 11,852,212** |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Customer deposit accounts: | | |
| Noninterest-bearing | $ 1,292,997 | $ 1,431,730 |
| Interest-bearing | 6,848,962 | 5,847,184 |
| Total deposits | 8,141,959 | 7,278,914 |
| Federal funds purchased | 28,022 | 222,275 |
| Federal Home Loan Bank advances | 1,353,307 | 1,808,419 |
| Securities sold under repurchase agreements | 998,430 | 1,001,955 |
| Notes payable | 16,506 | 16,242 |
| Bank acceptances outstanding | 5,538 | 15,941 |
| Long-term debt | 235,570 | 235,570 |
| Accrued interest payable, accrued expenses and other liabilities | 92,718 | 101,073 |
| Total liabilities | 10,872,050 | 10,680,389 |
| COMMITMENTS AND CONTINGENCIES (Note 20) | | |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock (par value of $0.001 per share) | | |
| Authorized 5,000,000 shares | | |
| Issued 200,000 shares in Series A, non-cumulative convertible preferred stock in 2008 and none in 2007 | | |
| Outstanding 196,505 shares in 2008 and none in 2007 | - | - |
| Issued and outstanding 306,546 shares in Series B, cumulative preferred stock in 2008 and none in 2007 | - | - |
| Common stock (par value of $0.001 per share) | | |
| Authorized 200,000,000 shares | | |
| Issued 70,377,989 shares in 2008 and 69,634,811 shares in 2007 | | |
| Outstanding 63,745,624 shares in 2008 and 63,137,221 shares in 2007 | 70 | 70 |
| Additional paid in capital | 1,167,832 | 652,297 |
| Retained earnings | 572,172 | 657,183 |
| Treasury stock, at cost 6,632,365 shares in 2008 and 6,497,590 shares in 2007 | (102,817) | (98,925) |

| | | |
|---|---|---|
| Accumulated other comprehensive loss, net of tax | (86,491) | (38,802) |
| Total stockholders' equity | 1,550,766 | 1,171,823 |
| **TOTAL** | **$ 12,422,816** | **$ 11,852,212** |

See accompanying notes to consolidated financial statements.

Table of Contents

**EAST WEST BANCORP, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF OPERATIONS**
*(In thousands, except per share data)*

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2008** | **2007** | **2006** |
| **INTEREST AND DIVIDEND INCOME** | | | |
| Loans receivable, including fees | $ 545,260 | $ 650,717 | $ 587,831 |
| Investment securities held-to-maturity | 697 | - | - |
| Investment securities available-for-sale | 99,886 | 102,341 | 60,607 |
| Securities purchased under resale agreements | 6,372 | 15,064 | 7,076 |
| Investment in Federal Home Loan Bank stock | 3,639 | 3,464 | 3,161 |
| Investment in Federal Reserve Bank stock | 1,536 | 1,117 | 932 |
| Short-term investments | 7,468 | 904 | 443 |
| Total interest and dividend income | 664,858 | 773,607 | 660,050 |
| **INTEREST EXPENSE** | | | |
| Customer deposit accounts | 178,060 | 241,035 | 200,265 |
| Federal Home Loan Bank advances | 70,661 | 61,710 | 50,824 |
| Securities sold under repurchase agreements | 46,062 | 38,366 | 23,083 |
| Long-term debt | 12,694 | 15,603 | 12,799 |
| Federal funds purchased | 2,217 | 8,899 | 5,597 |
| Total interest expense | 309,694 | 365,613 | 292,568 |
| NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES | 355,164 | 407,994 | 367,482 |
| PROVISION FOR LOAN LOSSES | 226,000 | 12,000 | 6,166 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 129,164 | 395,994 | 361,316 |
| **NONINTEREST (LOSS) INCOME** | | | |
| Impairment writedown on investment securities | (73,165) | (405) | - |
| Branch fees | 16,972 | 15,071 | 11,265 |
| Net gain on investment securities available-for-sale | 9,005 | 7,833 | 2,537 |
| Letters of credit fees and commissions | 9,739 | 10,252 | 8,673 |
| Ancillary loan fees | 4,646 | 5,773 | 3,885 |
| Income from life insurance policies | 4,151 | 4,156 | 3,997 |
| Net gain on sale of loans | 2,275 | 1,571 | 698 |
| Other operating income | 1,315 | 5,269 | 2,865 |
| Total noninterest (loss) income | (25,062) | 49,520 | 33,920 |
| **NONINTEREST EXPENSE** | | | |
| Compensation and employee benefits | 82,236 | 85,926 | 70,583 |
| Occupancy and equipment expense | 26,991 | 25,582 | 21,350 |
| Amortization of investments in affordable housing partnerships | 7,272 | 4,958 | 5,441 |
| Amortization and impairment writedowns of premiums on deposits acquired | 7,270 | 6,846 | 7,118 |
| Deposit insurance premiums and regulatory assessments | 7,223 | 1,399 | 1,360 |
| Loan related expenses | 6,373 | 3,049 | 2,898 |
| Other real estate owned expense (income) | 6,013 | (1,237) | 453 |
| Legal expense | 5,577 | 3,198 | 2,339 |
| Data processing | 4,494 | 4,818 | 3,644 |
| Deposit-related expenses | 4,414 | 6,767 | 9,244 |
| Consulting expense | 4,398 | 3,324 | 2,628 |
| Other operating expenses | 39,009 | 38,625 | 34,397 |

| | | | |
|---|---|---|---|
| Total noninterest expense | 201,270 | 183,255 | 161,455 |
| (LOSS) INCOME BEFORE (BENEFIT) PROVISION FOR INCOME TAXES | (97,168) | 262,259 | 233,781 |
| (BENEFIT) PROVISION FOR INCOME TAXES | (47,485) | 101,092 | 90,412 |
| **NET (LOSS) INCOME** | **(49,683)** | **161,167** | **143,369** |
| PREFERRED STOCK DIVIDENDS AND AMORTIZATION OF PREFERRED STOCK DISCOUNT | 9,474 | - | - |
| **NET (LOSS) INCOME AVAILABLE TO COMMON STOCKHOLDERS** | $ (59,157) | $ 161,167 | $ 143,369 |
| **(LOSS) EARNINGS PER SHARE AVAILABLE TO COMMON STOCKHOLDERS** | | | |
| BASIC | $ (0.94) | $ 2.63 | $ 2.40 |
| DILUTED | $ (0.94) | $ 2.60 | $ 2.35 |
| DIVIDENDS DECLARED PER COMMON SHARE | $ 0.40 | $ 0.40 | $ 0.20 |
| **WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING** | | | |
| BASIC | 62,673 | 61,180 | 59,605 |
| DILUTED | 62,673 | 62,093 | 60,909 |

See accompanying notes to consolidated financial statements.

Table of Contents

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

| | Preferred Stock | Common Stock | Additional Paid In Capital | Retained Earnings | Deferred Compensation | Treasury Stock | Accumulated Other Comprehensive Income (Loss), Net of Tax | Comprehensive Income (Loss) | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|---|---|
| **BALANCE, JANUARY 1, 2006** | | **$ 61** | **$ 389,004** | **$ 393,846** | **$ (8,242)** | **$ (37,905)** | **$ (2,626)** | | **$ 734,138** |
| Comprehensive income | | | | | | | | | |
| Net income for the year | | | | 143,369 | | | | $ 143,369 | 143,369 |
| Net unrealized loss on investment securities available-for-sale | | | | | | | (7,461) | (7,461) | (7,461) |
| Total comprehensive income | | | | | | | | $ 135,908 | |
| Elimination of deferred compensation pursuant to adoption of SFAS No. 123R | | | (8,242) | | 8,242 | | | | - |
| Stock compensation costs | | | 5,664 | | | | | | 5,664 |
| Tax benefit from stock plans | | | 12,111 | | | | | | 12,111 |
| Issuance of 1,329,460 shares pursuant to | | | | | | | | | - |
| various stock plans and agreements | | 1 | 10,407 | | | | | | 10,408 |
| Issuance of 3,895 shares in lieu of | | | | | | | | | - |
| Board of Director retainer fees | | | 156 | | | | | | 156 |
| Cancellation of 44,846 shares due to forfeitures of issued restricted stock | | | 1,524 | | | (1,524) | | | - |
| Issuance of 3,647,440 shares pursuant to Standard Bank acquisition | | 4 | 133,845 | | | | | | 133,849 |
| Purchase 24,109 shares of treasury stock | | | | | | (876) | | | (876) |
| Dividends paid on common stock | | | | (11,968) | | | | | (11,968) |
| **BALANCE, DECEMBER 31, 2006** | | **66** | **544,469** | **525,247** | **-** | **(40,305)** | **(10,087)** | | **1,019,390** |
| Comprehensive income | | | | | | | | | |
| Net income for the year | | | | 161,167 | | | | $ 161,167 | 161,167 |
| Net unrealized loss on investment securities available-for-sale | | | | | | | (28,715) | (28,715) | (28,715) |
| Total comprehensive income | | | | | | | | $ 132,452 | |
| Cumulative effect from the adoption of FIN 48 | | | | (4,628) | | | | | (4,628) |
| Stock compensation costs | | | 6,767 | | | | | | 6,767 |
| Tax benefit from stock plans | | | 7,457 | | | | | | 7,457 |
| Issuance of 1,195,698 shares pursuant to various stock plans and agreements | | 2 | 11,791 | | | | | | 11,793 |
| Issuance of 5,880 shares in lieu of Board of Director retainer fees | | | 219 | | | | | | 219 |
| Issuance of 2,032,816 shares pursuant to Desert Community Bank acquisition | | 2 | 78,484 | | | | | | 78,486 |
| Cancellation of 85,603 shares due to forfeitures of issued restricted | | | 3,110 | | | (3,110) | | | - |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| stock | | | | | | | | | |
| Purchase of 39,048 shares of treasury stock due to the vesting of restricted stock | | | | | | (1,280) | | | (1,280) |
| Purchase of 11,624 shares of treasury stock due to granting of unrestricted stock to Desert Community Bank | | | | | | (425) | | | (425) |
| Purchase of 1,392,176 shares of treasury stock pursuant to the Stock Repurchase Program | | | | | | (53,805) | | | (53,805) |
| Dividends paid on common stock | | | | (24,603) | | | | | (24,603) |
| **BALANCE, DECEMBER 31, 2007** | | **70** | **652,297** | **657,183** | **-** | **(98,925)** | **(38,802)** | | **1,171,823** |
| Comprehensive loss | | | | | | | | | |
| Net loss for the year | | | | (49,683) | | | | $ (49,683) | (49,683) |
| Net unrealized loss on investment securities available-for-sale | | | | | | | (47,689) | (47,689) | (47,689) |
| Total comprehensive loss | | | | | | | | $ (97,372) | |
| Cumulative effect of change in accounting principle pursuant to adoption of EITF 06-4 | | | | (479) | | | | | (479) |
| Stock compensation costs | | | 6,167 | | | | | | 6,167 |
| Tax provision from stock plans | | | (414) | | | | | | (414) |
| Issuance of 200,000 shares Series A convertible | | | | | | | | | - |
| preferred stock, net of stock issuance costs | | | 194,059 | | | | | | 194,059 |
| Conversion of 3,495 shares of Series A preferred stock | | | (3,391) | | | | | | (3,391) |
| Issuance of 227,150 shares of common stock from converted | | | | | | | | | - |
| 3,495 shares of Series A preferred stock | | | 3,391 | | | | | | 3,391 |
| Issuance of 306,546 shares Series B fixed rate cumulative perpetual preferred stock, net of stock issuance costs and discount | | | 281,643 | | | | | | 281,643 |
| Issuance of 3,035,109 warrants, pursuant to the Series B | | | | | | | | | - |
| preferred stock offering | | | 25,201 | | | | | | 25,201 |
| Issuance of 496,701 shares pursuant to various stock | | | | | | | | | - |
| plans and agreements | | | 2,776 | | | | | | 2,776 |
| Issuance of 18,361 shares pursuant to Director retainer | | | | | | | | | - |
| fee | | | 219 | | | | | | 219 |
| Cancellation of 113,929 shares due to forfeitures of | | | | | | | | | - |
| issued restricted stock | | | 3,586 | | | (3,586) | | | - |
| Purchase accounting adjustment pursuant to | | | | | | | | | - |
| DCB Acquisition | | | 2,298 | | | | | | 2,298 |
| Purchase of 20,846 shares of treasury stock due to the | | | | | | | | | - |
| vesting of restricted stock | | | | | | (306) | | | (306) |
| Amortization of Series B preferred stock discount | | | | (312) | | | | | (312) |
| Dividends accrued and paid on preferred stock | | | | (9,162) | | | | | (9,162) |
| Dividends paid on common stock | | | | (25,375) | | | | | (25,375) |
| **BALANCE, DECEMBER 31, 2008** | **$ -** | **$ 70** | **$ 1,167,832** | **$ 572,172** | **$ -** | **$ (102,817)** | **$ (86,491)** | | **$ 1,550,766** |

| Disclosure of reclassification amount: | Year Ended December 31, 2008 | 2007 | 2006 |
|---|---|---|---|
| | (In thousands) | | |
| Unrealized holding loss on securities arising during the year, net of tax benefit of $61,480 in 2008, $17,504 in 2007, and $4,337 in 2006 | $ (84,902) | $ (24,172) | $ (5,990) |
| Less: Reclassification adjustment for loss (gain) included in net income, net of tax (benefit) expense of $(26,947) in 2008, $3,290 in 2007, and $1,066 in 2006 | 37,213 | (4,543) | (1,471) |
| Net unrealized loss on securities, net of tax benefit of $34,533 in 2008, $20,794 in 2007, $5,403 in 2006 | $ (47,689) | $ (28,715) | $ (7,461) |

See accompanying notes to consolidated financial statements.

Table of Contents

**EAST WEST BANCORP, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
*(In thousands)*

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2008** | **2007** | **2006** |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Net (loss) income | $ (49,683) | $ 161,167 | $ 143,369 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 18,096 | 13,869 | 7,887 |
| Impairment writedown on goodwill | 858 | - | - |
| Impairment writedown on investment securities available-for-sale | 73,165 | 405 | - |
| Impairment writedown on other investment | 1,319 | - | - |
| Stock compensation costs | 6,167 | 6,767 | 5,664 |
| Deferred tax benefit | (83,637) | (17,495) | (14,469) |
| Provision for loan losses | 226,000 | 12,000 | 6,166 |
| Provision for loan loss on other real estate owned | 3,609 | - | - |
| Net gain on sales of investment securities, loans and other assets | (9,851) | (12,460) | (2,576) |
| Federal Home Loan Bank stock dividends | (4,623) | (3,539) | (2,793) |
| Originations of loans held for sale | (49,352) | (42,578) | (22,782) |
| Proceeds from sale of loans held for sale | 49,725 | 42,663 | 22,831 |
| Tax provision (benefit) from stock plans | 414 | (7,457) | (12,111) |
| Net change in accrued interest receivable and other assets | 22,859 | 64,899 | (45,084) |
| Net change in accrued expenses and other liabilities | (22,645) | 5,788 | 36,245 |
| Total adjustments | 232,104 | 62,862 | (21,022) |
| Net cash provided by operating activities | 182,421 | 224,029 | 122,347 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Net decrease (increase) in loans | 302,422 | (1,373,150) | (1,768,618) |
| Purchases of: | | | |
| Short-term investments | (278,828) | - | - |
| Securities purchased under resale agreements | - | (150,000) | (50,000) |
| Investment securities held-to-maturity | (122,185) | - | - |
| Investment securities available-for-sale | (2,566,040) | (943,448) | (1,851,931) |
| Loans receivable | (103,751) | - | - |
| Federal Home Loan Bank stock | (9,400) | (33,829) | (41,647) |
| Federal Reserve Bank stock | (5,904) | (3,351) | (5,545) |
| Premises and equipment | (3,693) | (11,971) | (8,705) |
| Proceeds from unsettled securities acquired | - | - | 225,616 |
| Proceeds from sale of: | | | |
| Investment securities available-for-sale | 699,392 | 541,092 | 232,372 |
| Securities purchased under resale agreements | 100,000 | 100,000 | - |
| Loans receivable | 183,764 | 23,170 | 6,026 |
| Real estate owned | 33,709 | 4,130 | 484 |
| Premises and equipment | 85 | 6,745 | 44 |
| Maturity of short-term investments | 50,387 | 1,205 | 1,059 |
| Repayments, maturity and redemption of investment securities available-for-sale | 1,576,271 | 1,295,580 | 1,624,621 |
| Redemption of Federal Home Loan Bank stock | 12,270 | 31,767 | 19,816 |
| Acquisitions, net of cash (acquired) paid | (1,181) | (7,337) | 98,351 |
| Net cash used in investing activities | (132,682) | (519,397) | (1,518,057) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Net (payment for) proceeds from: | | | |
| Deposits | 863,045 | (462,872) | 247,461 |
| Issuance of short-term borrowings | (547,137) | 197,589 | 9,500 |
| Proceeds from: | | | |
| Isuance of long-term borrowings | 250,000 | 670,641 | 1,400,000 |

| | | | |
|---|---|---|---|
| Issuance of long-term debt | - | 50,000 | 30,000 |
| Issuance of common stock pursuant to various stock plans and agreements | 2,776 | 11,266 | 10,303 |
| Issuance of preferred stock, net of stock issuance costs, and common stock warrants | 500,591 | - | - |
| Payment for: | | | |
| Repayment of long-term borrowings | (355,640) | (123,500) | (251,000) |
| Repayment of notes payable on affordable housing investments | (10,736) | (7,737) | (8,454) |
| Purchase of treasury shares | (306) | (55,085) | (876) |
| Cash dividends on preferred stock | (8,037) | - | - |
| Cash dividends on common stock | (25,375) | (24,603) | (11,968) |
| Tax (provision) benefit from stock plans | (414) | 7,457 | 12,111 |
| Net cash provided by financing activities | 668,767 | 263,156 | 1,437,077 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 718,506 | (32,212) | 41,367 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 160,347 | 192,559 | 151,192 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | $ 878,853 | $ 160,347 | $ 192,559 |
| **SUPPLEMENTAL CASH FLOW INFORMATION:** | | | |
| Cash paid during the year for: | | | |
| Interest | $ 301,744 | $ 372,230 | $ 285,211 |
| Income tax payments, net of refunds | 38,937 | 114,870 | 74,752 |
| Noncash investing and financing activities: | | | |
| Real estate acquired through foreclosure | 83,672 | 1,500 | 2,884 |
| Affordable housing investment financed through notes payable | 11,000 | 12,600 | 11,000 |
| Loans to facilitate sales of real estate owned | 8,701 | - | - |
| Purchase accounting adjustment in connection with acquisition | 2,298 | - | - |
| Accrued preferred stock dividends | 1,125 | - | - |
| Amortization of preferred stock discount | 312 | | |
| Issuance of common stock in lieu of Board of Director retainer fees | 219 | 219 | 156 |
| Guaranteed mortgage loan securitizations | - | 1,180,160 | 788,036 |
| Issuance of equity shares pursuant to acquisition | - | 78,588 | 133,849 |
| Equity interests in East West Capital Trusts | - | 1,547 | 928 |

See accompanying notes to consolidated financial statements.

Table of Contents

**EAST WEST BANCORP, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

## 1. SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

***OPERATIONS SUMMARY***

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 registered bank holding company that offers a full range of banking services to individuals and small to mid-size businesses through its subsidiary bank, East West Bank and its subsidiaries ("East West Bank" or the "Bank"). The Bank is the Company's principal asset. The Bank operates 69 banking locations throughout California, one branch in Houston, Texas, and one branch in Hong Kong, China. The Bank specializes in financing international trade and lending for commercial, construction, and residential real estate projects. Included in the Bank's 71 locations are ten in-store branches located in 99 Ranch Market stores in Southern and Northern California. The Bank's revenues are derived from providing financing for residential and commercial real estate and business customers, as well as investing activities. Funding for lending and investing activities is obtained through acceptance of customer deposits, Federal Home Loan Bank advances and other borrowing activities.

***SIGNIFICANT ACCOUNTING POLICIES***

***Basis of Presentation*** The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and general practices within the banking industry. The following is a summary of significant principles used in the preparation of the accompanying financial statements. In preparing the financial statements, management of the Company has made a number of estimates and assumptions pertaining to the reporting of assets and liabilities, including the allowance for loan losses, the disclosure of contingent assets and liabilities and the disclosure of income and expenses for the periods presented in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

***Principles of Consolidation*** The financial statements include the accounts of the Company and its subsidiaries, East West Bank and East West Insurance Services, Inc. All intercompany transactions and accounts have been eliminated in consolidation. The Company also has nine wholly-owned subsidiaries that are statutory business trusts (the "Trusts"). In accordance with Financial Accounting Standards Board Interpretation No. 46R, *Consolidation of Variable Interest Entities* ("FIN No. 46R"), the Trusts are not consolidated into the accounts of East West Bancorp, Inc.

***Fair Value*** The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 157*Fair Value Measurements*, on January 1, 2008. This standard provides a definition of fair value, establishes a framework for measuring fair value, and requires expanded disclosures about fair value measurements. Fair value is the price that could be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Based on the observability of the inputs used in the valuation techniques, we classify our financial assets and liabilities measured and disclosed at fair value in accordance with the three-level hierarchy (e.g., Level 1, Level 2 and Level 3) established under SFAS No. 157. Fair value determination in accordance with SFAS No. 157 requires that we make a number of significant judgments. In determining the fair value of financial instruments, we use market prices of the same or similar instruments whenever such prices are available. We do 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 analyses. These modeling techniques incorporate our 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.

Fair value is used on a recurring basis for certain assets and liabilities in which fair value is the primary basis of accounting. Additionally, fair value is used on a non-recurring basis to evaluate assets or liabilities for impairment or for disclosure purposes in accordance with SFAS No. 107, *Disclosures About Fair Value of Financial Instruments.*

***Securities Purchased Under Resale Agreements ("Resale Agreements")*** The Company purchases securities under resale agreements with terms that range from one day to several years. These agreements are collateralized by mortgage-backed securities and mortgage or commercial loans that are generally held by a third party custodian. The purchases are overcollateralized to ensure against unfavorable market price movements. In the event that the fair market value of the securities decreases below the carrying amount of the related repurchase agreement, the counterparty is required to designate an equivalent value of additional securities. The counterparties to these agreements are nationally recognized investment banking firms that meet credit eligibility criteria and with whom a master repurchase agreement has been duly executed. Resale agreements which are short-term in nature, or have terms of up to 90 days, are included in cash and cash equivalents. Resale agreements with terms greater than 90 days are separately categorized. The Company had no short-term resale agreements as of December 31, 2008 and 2007.

***Investment Securities*** The Company classifies its investment securities according to their purpose and holding period. Trading account securities are typically investment grade securities which are generally held by the Bank for a period of seven days or less. Trading account securities are carried at fair value. Realized and unrealized gains or losses on trading account securities are included in noninterest income. As of December 31, 2008 and 2007, there were no trading account securities in the investment portfolio. Held-to-maturity debt securities are recorded at amortized cost. The Company has the intent and ability to hold such securities to maturity. Investment securities available-for-sale are reported at estimated fair value, with unrealized gains and losses, excluded from operations and reported as a separate component of accumulated other comprehensive income or loss, net of tax, in stockholders' equity.

The fair values of the investment securities are generally determined by reference to the average of at least two quoted market prices obtained from independent external brokers or independent external pricing service providers who have experience in valuing these securities. 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 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 whether prices received from independent brokers represent a reasonable estimate of fair value through the use of internal and external cash flow models developed based on spreads, and when available, market indices. As a result of this analysis, if the Company determines 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 inputs that may be difficult to corroborate with observable market based data. Additionally, the majority of these independent broker quotations are non-binding.

For current broker prices obtained on certain investment securities that the Company believes are based on forced liquidation or distressed sale values in very inactive markets, the Company has modified its approach in determining the fair values of these securities. The Company has determined that each of these securities will be individually examined 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 made assumptions related to the implied rate of return, general change in market rates, estimated changes in credit quality and liquidity risk premium, specific non-performance and default experience in the collateral underlying the security, as well as broker discount rates are taken into consideration in determining the discount rate. The values resulting from each approach (i.e. market and income approaches) are weighted to derive the final fair value for each security trading in an inactive market.

Amortization of premiums and accretion of discounts on securities are recorded as yield adjustments on such securities using the effective interest method. The specific identification method is used for purposes of determining cost in computing realized gains and losses on investment securities sold.

The Company is obligated to assess, at each reporting date, whether there is an "other-than-temporary" impairment ("OTTI") in its portfolio of investment securities. Such impairment must be recognized in current earnings rather than in other comprehensive income. The Company examines all individual securities that are in an unrealized loss position at each reporting date for other-than-temporary impairment. Specific investment level factors that are examined to assess impairment include the nature of the investments, severity and duration of the loss, the probability that the Company will be unable to collect all amounts due, an analysis of the issuers of the securities and if there has been any cause for default on the securities and any change in the rating of the securities by the various rating agencies. Additionally, management reexamines the Company's financial resources as well as the Company's overall ability and intent to hold the securities until their fair values recover.

As required under Emerging Issues Task Force ("EITF") 99-20, *Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interest in Securitizes Financial Assets,* and FSP EITF 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20*, the Company considers all available information relevant to the collectibility of the security, including information about past events, current conditions, and reasonable and supportable forecasts, when developing the estimate of future cash flows and making its other-than-temporary impairment assessment for its portfolio of residual securities and pooled trust preferred securities. The Company considers factors such as remaining payment terms of the security, prepayment speeds, the financial condition of the issuer(s), expected defaults, and the value of any underlying collateral.

***Derivative Financial Instruments*** As part of its asset and liability management strategy, the Company may use derivative financial instruments to mitigate exposure to risk. Effective January 1, 2001, the Company adopted SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended and interpreted. Pursuant to the requirements of SFAS No. 133, all derivative instruments, including certain derivative instruments embedded in other contracts, are to be recognized on the consolidated balance sheet at fair value. Depending on the nature of the derivative, the corresponding changes in fair value are either reported in current earnings or accumulated other comprehensive loss.

***Loans Receivable*** Loans receivable that the Company has the intent and ability to hold for the foreseeable future, or until maturity, are stated at their outstanding principal, reduced by an allowance

Table of Contents

for loan losses and net deferred loan fees or costs on originated loans and unamortized premiums or discounts on purchased loans. Nonrefundable fees and direct costs associated with the origination or purchase of loans are deferred and netted against outstanding loan balances. The deferred net loan fees and costs are recognized in interest income as an adjustment to yield over the loan term using the effective interest method. Discounts or premiums on purchased loans are accreted or amortized to interest income using the effective interest method over the remaining period to contractual maturity adjusted for anticipated prepayments. Interest on loans is calculated using the simple-interest method on daily balances of the principal amount outstanding. Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that full collection of principal or interest becomes uncertain, regardless of the length of past due status. Generally, loans are placed on nonaccrual status when they become 90 days past due. When interest accrual is discontinued, all unpaid accrued interest is reversed against current earnings. In general, subsequent payments received are applied to the outstanding principal balance of the loan. A loan is returned to accrual status when the borrower has demonstrated a satisfactory payment trend subject to management's assessment of the borrower's ability to repay the loan.

Loans held for sale are carried at the lower of aggregate cost or market value. Origination fees on loans held for sale, net of certain costs of processing and closing the loans, are deferred until the time of sale and are included in the computation of the gain or loss from the sale of the related loans. A valuation allowance is established if the market value of such loans is lower than their cost and operations are charged for valuation adjustments.

***Allowance for Loan Losses*** The allowance for loan losses is established as management's estimate of probable losses inherent in the loan portfolio. The allowance is increased by the provision for loan losses and decreased by chargeoffs when management believes the uncollectibility of a loan is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Additionally, nonclassified loans are also considered in the allowance for loan losses calculation and are factored in based on the historical loss experience adjusted for various qualitative factors.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all scheduled payments of principal or interest due according to the contractual terms of the loan agreement. Factors considered by management in determining and measuring loan impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for real estate, construction, and commercial loans based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as an expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent, less costs to sell. If the measure of the impaired loan is less than the recorded investment in the loan, the deficiency will be charged off against the allowance for loan losses or, alternatively, a specific allocation will be established. Consumer and other homogeneous smaller balance loans are reviewed on a collective basis for impairment.

Table of Contents

***Investment in Federal Home Loan Bank of San Francisco Stock*** As a member of the Federal Home Loan Bank ("FHLB") of San Francisco, the Bank is required to own common stock in the FHLB of San Francisco based upon our balance of residential mortgage loans and outstanding FHLB advances. FHLB stock is carried at cost and may be sold back to the FHLB at its carrying value. Both cash and stock dividends received are reported as dividend income. In January 2009, the FHLB announced that it will suspend dividend payments for the fourth quarter of 2008 to preserve capital given the possibility of other-than-temporary charges on certain non-agency mortgage-backed securities in the future. Additionally, the FHLB announced that it will not repurchase excess capital stock on January 31, 2009, the next regularly scheduled repurchase date.

***Investment in Federal Reserve Bank Stock*** As a member of the Federal Reserve Bank ("FRB") of San Francisco, the Bank is required to maintain stock in the FRB of San Francisco based on a specified ratio relative to our capital. FRB stock is carried at cost and may be sold back to the FRB at its carrying value. Cash dividends received are reported as dividend income.

***Mortgage Servicing Assets*** The Company adopted SFAS No. 156, *Accounting for Servicing of Financial Assets, an amendment of SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,* on January 1, 2007. The adoption did not have a material impact on the Company's consolidated financial statements. Mortgage servicing assets are initially recorded at fair value. Servicing assets are amortized in proportion to, and over the period of, estimated net servicing income. The fair value of servicing assets is determined based on the present value of estimated net future cash flows related to contractually specified servicing fees. The primary determinants of the fair value of mortgage servicing assets are prepayment speeds and discount rates. Evaluation of impairment is performed on a quarterly basis using discounted static cash flow analysis in combination with mortgage dealer consensus prepayment forecasts. Variations in either or a combination of these factors could materially affect the estimated values of mortgage servicing assets. In conjunction with the valuation process, each class of servicing assets is stratified to evaluate and measure impairment, which is measured as the excess of cost over fair value. Determination of each stratum is based on one or more predominant risk characteristics of the underlying financial assets, including loan type, maturity and interest rates. Impairment, if it occurs, is recognized through a valuation allowance for each class.

***Residual Securities*** Residual securities represent retained beneficial interests in certain components of cash flows of underlying mortgage loans in connection with the Company's securitization transactions. Residual securities include interest-only mortgage securities and overcollateralization bonds and are reported at their estimated fair values with unrealized gains and losses reported in accumulated other comprehensive income. To the extent that the cost basis of residual securities exceeds the fair value and the unrealized loss is considered to be other-than-temporary, an impairment charge is recognized and the amount recorded in accumulated other comprehensive income or loss is reclassified to earnings as a realized loss.

Interest-only mortgage securities represent the contractual right to receive excess interest cash flows from a pool of securitized mortgage loans. Interest payments received by the independent trust are first applied to the principal and interest bonds (which are generally retained by the Company in its available-for-sale investment portfolio), servicing fees and administrative fees. The excess, if any, is remitted to the Company related to its ownership of the interest-only mortgage security. Overcollateralization bonds represent the contractual right to excess principal payments resulting from over collateralization of the obligations of the trust.

Interest income on residual securities is recognized using a prospective interest method in accordance with EITF No. 99-20. The Company specifically applies such guidance to beneficial interests in securitized financial assets that (a) can contractually be prepaid or otherwise settled in such a way that the Company may not recover substantially all of its recorded investment (such as interest-only strips) or (b) are not of high credit quality at the acquisition date. EITF 99-20 requires that the Company recognize as interest income (throughout the life of the retained interests) the excess of all estimated cash flows attributable to these interests over its principal amount using the effective yield method. The Company updates its estimates of expected cash flows periodically and recognizes changes in calculated effective yield on a prospective basis. The estimated cash flows change as management's assumptions for credit losses, borrower prepayments, and interest rates are updated.

***Other Real Estate Owned*** Other real estate owned ("OREO") represents properties acquired through foreclosure or through full or partial satisfaction of loans, is considered held for sale, and is recorded at the lower of cost or estimated fair value at the time of foreclosure. Loan balances in excess of fair value of the real estate acquired at the date of foreclosure are charged against the allowance for loan losses. After foreclosure, valuations are periodically performed as deemed necessary by management and the real estate is carried at the lower of carrying value or fair value less costs to sell. Subsequent declines in the fair value of the OREO below the carrying value are recorded through the use of a valuation allowance by charges to noninterest expense. Any subsequent operating expenses or income of such properties are also charged to noninterest expense. If the REO is sold shortly after it is received in a foreclosure (i.e., the holding period was deemed minimal), the Company substitutes the value received in the sale (net of costs to sell) for the fair value (less costs to sell). Any adjustment made to the loss originally recognized at the time of foreclosure is then charged against or credited to the allowance for loan losses, if deemed material. Otherwise, any declines in value after foreclosure are recorded as gains or losses from the sale or disposition of the real estate. Revenue recognition upon disposition of a property is dependent on the sale having met certain criteria relating to the buyer's initial investment in the property sold.

***Investment in Affordable Housing Partnerships*** The Company owns limited partnership interests in projects of affordable housing for lower income tenants. The investments in which the Company has significant influence or has a limited partnership interest that exceeds 5% are recorded using the equity method of accounting. The remaining investments are recorded using the cost method and are being amortized using the level-yield method over the life of the related tax credits. The tax credits are being recognized in the consolidated financial statements to the extent they are utilized on the Company's income tax returns.

***Premises and Equipment*** The Company's premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed based on the straight-line method over the estimated useful lives of the various classes of assets. The ranges of useful lives for the principal classes of assets are as follows:

| | |
|---|---|
| Buildings and building improvements | 25 years |
| Furniture, fixtures and equipment | 3 to 10 years |
| Leasehold improvements | Term of lease or useful life, whichever is shorter |

The Company reviews its long-lived assets for impairment annually or when events or circumstances indicate that the carrying amount of these assets may not be recoverable. An asset is considered impaired when the expected undiscounted cash flows over the remaining useful life is less than the net book value. When impairment is indicated for an asset, the amount of impairment loss is the excess of the net book value over its fair value.

***Goodwill and Other Intangible Assets*** The Company has goodwill, which represents the excess of purchase price over the fair value of net assets acquired, as a result of various past acquisitions. In

Table of Contents

accordance with SFAS No. 142, *Goodwill and Other Intangible Assets,* goodwill is not amortized and is reviewed for impairment on an annual basis on December 31, or on an interim basis if an event occurs or circumstances change that would reduce the fair value of a reporting unit below its carrying value. Premiums on deposits, which represent the intangible value of depositor relationships resulting from deposit liabilities assumed in acquisitions, are amortized over the projected useful lives of the deposits. Core deposit intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment on goodwill and premiums on deposits is permanently recognized by writing down the asset to the extent that the carrying value exceeds the estimated fair value.

***Federal Funds Purchased*** The Company utilizes federal funds purchased as part of its short-term financing strategy. Federal funds purchased are generally overnight borrowings and mature within one business day to six months from the transaction date.

***Securities Sold Under Repurchase Agreements ("Repurchase Agreements")*** The Company sells securities under repurchase agreements. These transactions are accounted for as collateralized financing transactions and recorded at the amounts at which the securities were sold. The Company may have to provide additional collateral to the counterparty, as necessary.

***Long-Term Debt*** Long-term debt consists of both junior subordinated debt and subordinated debt. The Company has established nine statutory business trusts that are wholly-owned subsidiaries of the Company. In nine separate private placement transactions, the Trusts issued both fixed and variable rate capital securities representing undivided preferred beneficial interests in the assets of the Trusts. The Company is the owner of all the beneficial interests represented by the common securities of the Trusts. The purpose of issuing the capital securities was to provide the Company with a cost-effective means of obtaining Tier I capital for regulatory reporting purposes.

FIN No. 46R requires that variable interest entities be consolidated by a company if that company is subject to a majority of expected loss from the variable interest entity's activities or is entitled to receive a majority of the entity's expected residual returns or both. Accordingly, the Trusts are not consolidated by the Company. Junior subordinated debt represents liabilities of the Company to the Trusts and is included in long-term debt on the accompanying consolidated balance sheets.

***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 adopted the provisions of FIN No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"), on January 1, 2007. FIN 48 prescribes a recognition threshold that a tax position is required to meet before being recognized in the financial statements and provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition issues. Pursuant to FIN 48, 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. The Company recognizes interest and penalties arising from income tax settlements as part of its provision for income taxes. Upon adoption of FIN 48 of January 1, 2007, the Company recorded a net decrease to retained earnings of $4.6 million related to the measurement of a position that the Company had taken with respect to the tax treatment of regulated investment companies (RICs). See Notes 19 to the consolidated financial statements.

Table of Contents

***Stock-Based Compensation*** The Company issues stock-based compensation to certain employees, officers, and directors. The Company adopted revised accounting standards for stock based compensation pursuant to SFAS No. 123(R), *Share-Based Payment*, on January 1, 2006. SFAS No. 123(R) requires companies to account for stock options using the fair value method, which generally results in compensation expense recognition. Prior to December 31, 2005, the Company accounted for its fixed stock options using the intrinsic-value method, as prescribed in Accounting Principles Board ("APB") Opinion No. 25. Accordingly, no stock option expense was recorded in periods prior to December 31, 2005.

SFAS No. 123(R) allowed for two alternative transition methods. The Company elected to follow the modified prospective method, which requires application of the new standard to new awards and to awards modified, repurchased or cancelled after the required effective date. Accordingly, prior period amounts have not been restated. Additionally, compensation cost for the portion of awards for which the requisite service has not been rendered that are outstanding as of January 1, 2006 are being recognized as the requisite services are rendered on or after January 1, 2006. The compensation cost of that portion of awards is based on the grant-date fair value of those awards as calculated for pro forma disclosures under the original SFAS No. 123. Under the transition provisions of SFAS No. 123(R), the Company has reduced additional paid in capital by $8.2 million, which represented the remaining deferred compensation balance in the consolidated statement of changes in stockholders' equity as of January 1, 2006. This reclassification adjustment had no impact on total stockholders' equity.

***Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*** Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company; (2) the transferee has the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets; and (3) the Company does not maintain effective control over the transferred assets through either (a) an agreement that entitles and obligates the Company to repurchase or redeem them before their maturity or (b) the ability to unilaterally cause the holder to return specific assets. The difference between the net proceeds received and the allocated carrying amount of the financial assets being sold or securitized is recognized as a gain or loss on sale.

***Earnings (Loss) Per Share ("EPS")*** Basic EPS excludes dilution and is computed by dividing income or loss available to common stockholders by the weighted-average number of shares outstanding during the period. Diluted EPS is calculated on the basis of the weighted average number of shares outstanding during the period plus restricted stock and shares issuable upon the assumed exercise of outstanding convertible preferred stock, common stock options and warrants, unless they have an antidilutive effect.

***Comprehensive Income*** The term "comprehensive income" describes the total of all components of other comprehensive income including net income. "Other comprehensive income" refers to revenues, expenses, and gains and losses that are included in comprehensive income but are excluded from net income because they have been recorded directly in equity under the provisions of other Financial Accounting Standards Board statements. The Company presents the comprehensive income disclosure as a part of the statements of changes in stockholders' equity by identifying each element of other comprehensive income, including net income.

***Reclassifications*** Certain items in the consolidated statements of operations for the years ended December 31, 2007 and 2006 were reclassified to conform to the 2008 presentation. These reclassifications did not affect previously reported net income. During 2008, the Company reclassified net gain on sale of OREO from the caption Noninterest Income to Noninterest Expense in order to present all OREO activity in a single line item. As a result, $1.3 million and $88 thousand for the years ended December 31, 2007 and 2006, respectively, that were previously included under the caption Noninterest Income were reclassified to OREO expense (income), which is a component of Noninterest Expense. Additionally, during 2008, the Company reclassified impairment writedowns on investment securities from the caption Noninterest Expense to Noninterest Income. As a result, $405 thousand in other-than-temporary impairment ("OTTI") charges recorded during the year ended December 31, 2007, was reclassified from the caption Noninterest Expense to Noninterest Income. There were no OTTI charges recorded during the year ended December 31, 2006.

***RECENT ACCOUNTING PRONOUNCEMENTS***

In September 2006, the Emerging Issues Task Force ("EITF") issued EITF 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements,* which requires employers to recognize an obligation associated with endorsement split-dollar life insurance arrangements that extend into the employee's postretirement period. EITF 06-4 is effective for financial statements issued for fiscal years beginning after December 15, 2007. Upon adoption of EITF 06-4, the Company recorded a net decrease to retained earnings of $479 thousand, net of tax.

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"), which provides a definition of fair value, establishes a framework for measuring fair value, and requires expanded disclosures about fair value measurements. The standard applies when GAAP requires or allows assets or liabilities to be measured at fair value and, therefore, does not expand the use of fair value in any new circumstance. The Company adopted SFAS 157 on a prospective basis. The adoption of SFAS 157 on January 1, 2008 did not have any impact on the Company's financial condition, results of operations, or cash flows. The adoption of this standard resulted in additional disclosures which are presented in Note 3 of the Company's consolidated financial statements. In February 2008, the FASB issued SFAS No. 157-2, *Effective Date of FASB Statement No.* 157, which provided for a one-year deferral of the implementation of this standard for other nonfinanical assets and liabilities, effective for fiscal years beginning after November 15, 2008. This additional guidance is not expected to have a material impact on the Company's consolidated financial statements upon adoption.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS 158), which amends SFAS No. 87, *Employers' Accounting for Pensions;* SFAS No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits;* SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions;* and SFAS No. 132(R), *Employers' Disclosures about Pensions and Other Postretirement Benefits* (revised 2003). This Statement requires companies to recognize an asset or liability for the overfunded or underfunded status of their benefit plans in their financial statements. The asset or liability is the offset to other accumulated comprehensive income, consisting of previously unrecognized prior service costs and credits, actuarial gains or losses, and accumulated transition obligations and assets. SFAS 158 also requires the measurement date for plan assets and liabilities to coincide with the sponsor's year-end. The standard provides two transition alternatives for companies to make the measurement-date provisions. The Company adopted the recognition and disclosure elements of SFAS 158, which did not have a material effect on its consolidated financial position, results of operations, or cash flows. In addition, the Company also adopted the measurement elements of SFAS 158 for the year ended December 31, 2008. The adoption of the measurement elements did not have a material impact on the Company's consolidated financial condition, results of operations, or cash flows.

Table of Contents

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115*. SFAS No. 159 would allow the Company a one-time irrevocable election to measure certain financial assets and liabilities on the balance sheet at fair value and report the unrealized gains and losses on the elected items in earnings at each subsequent reporting date. This Statement requires companies to provide additional information that will help investors and other users of financial statements to more easily understand the effect of the company's choice to use fair value on its earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company has elected not to measure any new financial instruments at fair value, as permitted in SFAS No. 159, but to continue recording its financial instruments in accordance with current practice.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS 141(R)), which replaces FASB Statement No. 141, *Business Combinations*. SFAS 141(R) establishes principles and requirements for how an acquiring company (1) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree, (2) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (3) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for business combinations occurring on or after the beginning of the fiscal year beginning on or after December 15, 2008. SFAS 141(R), effective for the Company on January 1, 2009, applies to all transactions or other events in which the Company obtains control in one or more businesses. Management will assess each transaction on a case-by-case basis as they occur.

In December 2007, the FASB issued SFAS No. 160, *"Noncontrolling Interests in Consolidated Financial Statements an Amendment of ARB No. 51"*. This Statement requires that noncontrolling or minority interests in subsidiaries be presented in the consolidated statement of financial position within equity, but separate from the parents' equity, and that the amount of the consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. The Company does not expect this guidance to have a material effect on its financial condition, results of operations, or cash flows.

In February 2008, the FASB issued FASB Staff Position FAS No. 140-3, *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions* ("FSP No. 140-3"), which provides a consistent framework for the evaluation of a transfer of a financial asset and subsequent repurchase agreement entered into with the same counterparty. FSP FAS No. 140-3 provides guidelines that must be met in order for an initial transfer and subsequent repurchase agreement to not be considered linked for evaluation. If the transactions do not meet the specified criteria, they are required to be accounted for as one transaction. This FSP is effective for fiscal years beginning after November 15, 2008, and shall be applied prospectively to initial transfers and repurchase financings for which the initial transfer is executed on or after adoption. The Company does not expect this guidance to have a material effect on its financial condition, results of operations, or cash flows.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ("SFAS 161"). SFAS 161 requires specific disclosures regarding the location and amounts of derivative instruments in the financial statements; how derivative instruments and related hedged items are accounted for; and how derivative instruments and related hedged items affect the financial position, financial performance, and cash flows of the Company. It is effective for financial statements issued for fiscal years beginning after November 15, 2008, with early adoption encouraged. The Company does not expect this guidance to have a material effect on its financial condition, results of operations, or cash flows.

Table of Contents

In April 2008, the FASB directed the FASB Staff to issue FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets*. FSP No. FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used for purposes of determining the useful life of a recognized intangible asset under SFAS 142, "*Goodwill and Other Intangible Assets"* ("SFAS 142"). FSP No. FAS 142-3 is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R) and other GAAP. FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008. Earlier application is not permitted. The Company does not expect this guidance to have a material effect on its financial condition, results of operations, or cash flows.

In June 2008, the FASB issued FSP EITF 03-06-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities.* FSP EITF 03-06-1 requires all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends to be considered participating securities and requires entities to apply the two-class method of computing basic and diluted earnings per share. This FSP is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The Company is currently evaluating the impact that this FSP will have on the Company's consolidated financial statements.

In October 2008, the FASB issued FSP SFAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*. FSP SFAS 157 157-3 clarified the application of SFAS 157 in an inactive market. It demonstrated how the fair value of a financial asset is determined when the market for that financial asset is inactive. FSP SFAS 157-3 was effective upon issuance. The adoption of this guidance did not have a material effect on the Company's financial condition, results of operations, or cash flows.

In December 2008, the FASB issued FSP FAS 140-4 and FIN 46(R)-8, "*Disclosures by Public Entities (Enterprises) About Transfers of Financial Assets and Interests in Variable Interest Entities".* This disclosure-only FSP improves the transparency of transfers of financial assets and an enterprise's involvement with variable interest entities (VIEs), including qualifying special-purpose entities (QSPEs). The disclosures required by this FSP are intended to provide greater transparency to financial statement users about a transferor's continuing involvement with transferred financial assets and an enterprise's involvement with variable interest entities and qualifying SPEs. This FSP shall be effective for the first reporting period ending after December 15, 2008, with earlier application encouraged, and shall be applied for each annual and interim reporting period thereafter. The adoption of this guidance did not have a material impact to the Company's consolidated financial statements.

In January 2009, the FASB issued FSP EITF 99-20-1 ("EITF 99-20-1"), *Amendments to the Impairment Guidance of EITF Issue No. 99-20*, which revises the other-than-temporary-impairment ("OTTI") guidance on beneficial interests in securitized financial assets that are within the scope of EITF Issue 99-20. EITF 99-20-1 amends Issue 99-20 to more closely align its OTTI guidance with paragraph 16 of FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities, by (1) removing the notion of a "market participant" and (2) inserting a "probable" concept related to the estimation of a beneficial interest's cash flows. EITF 99-20-1 is effective prospectively for interim and annual periods ending after December 15, 2008. Retrospective application of this FSP is prohibited. The adoption of this guidance did not have a material effect on the Company's financial condition, results of operations, or cash flows.

**2. BUSINESS COMBINATIONS**

The Company has completed several business acquisitions that have all been accounted for using the purchase method of accounting. Accordingly, all assets and liabilities were adjusted to and recorded at their estimated fair values as of the acquisition date. The excess of purchase price over fair value of net assets acquired, if identifiable, was recorded as a premium on purchased deposits, and if not identifiable, was recorded as goodwill, which is not deductible for tax purposes. The estimated tax effect of differences between tax bases and market values has been reflected in deferred income taxes. The results of operations of the acquired entities have been included in the Company's consolidated financial statements from the date of acquisition.

At the close of business on August 17, 2007, the Company completed the acquisition of Desert Community Bank ("DCB"). The purchase price was $145.0 million and was comprised of $64.1 million in cash and 2,032,816 shares of East West Bancorp, Inc. common stock. The Company recorded total goodwill of $94.0 million and core deposit premium of $14.9 million for this transaction.

At the close of business on March 17, 2006, the Company completed the acquisition of Standard Bank, a federal savings bank headquartered in Monterey Park. The purchase price was $200.3 million which was comprised of $66.4 million in cash and 3,647,440 shares of East West Bancorp, Inc. common stock. The Company recorded total goodwill of $100.9 million and core deposit premium of $8.6 million for this transaction.

The following table provides detailed information on acquisitions during 2007 and 2006:

| | Desert Community Bank | Standard Bank |
|---|---|---|
| | *(In thousands)* | |
| Cash and cash equivalents | $ 65,256 | $ 165,834 |
| Loans receivable | 406,062 | 487,110 |
| Premises and equipment | 21,148 | 3,211 |
| Core deposit premium | 14,922 | 8,648 |
| Goodwill | 94,033 | 100,889 |
| Other assets | 92,238 | 239,497 |
| Total assets acquired | 693,659 | 1,005,189 |
| Deposits | 506,742 | 728,994 |
| Other liabilities | 41,900 | 75,923 |
| Total liabilities assumed | 548,642 | 804,917 |
| Net assets acquired (1) | $ 145,017 | $ 200,272 |
| Date of acquisition | August 17, 2007 | March 17, 2006 |
| Purchase price | $ 145,017 | $ 200,272 |
| Type of transaction | Stock and Cash | Stock and Cash |

(1) In accordance with SFAS No. 141, *Business Combinations*, net assets acquired in a business combination are recorded at their estimated fair values. Adjustments to the estimated fair value of acquired assets and liabilities generally occur within one year of the acquisition.

The pro forma combined amounts presented below give effect to the acquisition of Standard Bank as if this transaction had been completed as of the beginning of each year. The pro forma information is not necessarily indicative of the results of operations that would have resulted had the acquisition been completed at the beginning of the applicable year presented, nor is it necessarily indicative of the results of operations in future periods. Due to the insignificant impact on the total

assets and results of operations of the Company, the acquisition of DCB has not been included in the pro forma financial information below presented in accordance with SFAS No. 141:

| | Year Ended December 31, 2006 (1) |
|---|---|
| Net interest income | $ 371,586 |
| Provision for loan losses | (7,366) |
| Noninterest income | 24,150 |
| Noninterest expense | (164,121) |
| Income before provision for income taxes | 224,249 |
| Provision for income taxes | (86,405) |
| Net income | $ 137,844 |
| **EARNINGS PER SHARE** | |
| BASIC | $ 2.28 |
| DILUTED | $ 2.24 |
| **WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING** | |
| BASIC | 60,364 |
| DILUTED | 61,668 |

(1) The pro forma results of operations for the year ended December 31, 2006 includes $10.3 million in net realized losses on investment securities that were sold by Standard Bank during the first quarter of 2006. Further, the pro forma results of operations for the year ended December 31, 2006 reflect interest expense related to junior subordinated debt amounting to $30.0 million that was issued in connection with the acquisition of Standard Bank as if this debt instrument was issued at the beginning of the year.

## 3. FAIR VALUE

The Company adopted SFAS 157 effective January 1, 2008. SFAS 157 provides a framework for measuring fair value under GAAP. This standard applies to all financial assets and liabilities that are being measured and reported at fair value on a recurring and non-recurring basis. For the Company, this includes the investment securities available-for-sale ("AFS") portfolio, equity swap agreements, derivatives payable, mortgage servicing assets, and impaired loans.

As defined in SFAS 157, fair value is 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. In determining fair value, the Company uses various methods including market and income approaches. Based on these approaches, the Company often 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 firm inputs. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Company is required to provide the following information according to the fair value hierarchy. The hierarchy ranks the quality and reliability of the information used to determine fair values. The hierarchy gives the highest priority to quoted prices available in

Table of Contents

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 Quoted prices for identical instruments that are highly liquid, observable and actively traded in over-the-counter markets. Level 1 financial instruments typically include U.S. Treasury securities.

Level 2 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 2 financial instruments typically include U.S. Government and agency mortgage-backed securities, U.S. Government sponsored enterprise preferred stock securities, trust preferred securities, and equity swap agreements.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category typically includes mortgage servicing assets, impaired loans, private label mortgage-backed securities, retained residual securities in securitizations, pooled trust preferred securities, and derivatives payable.

In determining the appropriate levels, the Company performs a detailed analysis of assets and liabilities that are subject to SFAS 157. The following table presents financial assets and liabilities that are measured at fair value on a recurring and non-recurring basis. These assets and liabilities are reported on the consolidated balance sheets at their fair values as of December 31, 2008. As required by SFAS 157, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to their fair value measurement.

| | Assets (Liabilities) Measured at Fair Value on a Recurring Basis as of December 31, 2008 | | | |
|---|---|---|---|---|
| | **Fair Value Measurements December 31, 2008** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| | | ***(In Thousands)*** | | |
| Investment Securities AFS | $ 2,040,194 | $ 5,093 | $ 1,410,750 | $ 624,351 |
| Equity Swap Agreements | 13,853 | - | 13,853 | - |
| Derivatives Payable | (14,142) | - | - | (14,142) |

| | Assets Measured at Fair Value on a Non-Recurring Basis as of December 31, 2008 | | | |
|---|---|---|---|---|
| | **Fair Value Measurements December 31, 2008** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| | | ***(In Thousands)*** | | |
| Mortgage Servicing Assets | $ 16,492 | $ - | $ - | $ 16,492 |
| Impaired Loans | 208,716 | - | - | 208,716 |

Table of Contents

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 table provides a reconciliation of the beginning and ending balances for asset categories measured at fair value using significant unobservable inputs (Level 3) for the year ended December 31, 2008:

| | Investment Securities Available for Sale | Mortgage Servicing Assets | Impaired Loans | Derivatives Payable |
|---|---|---|---|---|
| | | *(In Thousands)* | | |
| Beginning balance, January 1, 2008 | $ 700,434 | $ 21,558 | $ 107,544 | $ - |
| Total gains or losses (1) | | | | |
| Included in earnings (realized) | (3,031) | (5,361) | (7,090) | 951 |
| Included in other comprehensive loss (unrealized) (2) | (40,779) | - | - | - |
| Purchases, issuances, sales, settlements (3) | (113,057) | 295 | - | - |
| Transfers in and/or out of Level 3 (4) | 80,784 | - | 108,262 | (15,093) |
| Ending balance December 31, 2008 | $ 624,351 | $ 16,492 | $ 208,716 | $ (14,142) |
| Changes in unrealized losses included in earnings relating to assets and liabilities still held at December 31, 2008 | $ (17,845) | $ - | $ - | $ - |

1) Total gains or losses represent the total realized and unrealized gains and losses recorded for Level 3 assets and liabilities. Realized gains or losses are reported in the consolidated statements of operations.

2) Unrealized gains or losses on investment securities are reported in accumulated other comprehensive loss, net of tax in the consolidated statements of changes in stockholders' equity.

3) Purchases, issuances, sales and settlements represent Level 3 assets and liabilities that were either purchased, issued, sold, or settled during the period. The amounts are recorded at their end of period fair values.

4) Transfers in and/or out represent existing assets and liabilities that were either previously categorized as a higher level and the inputs to the model became unobservable or assets and liabilities that were previously classified as Level 3 and the lowest significant input became observable during the period. These assets and liabilities are recorded at their end of period fair values.

**Valuation Methodologies**

***Investment Securities Available-for-Sale*** The fair values of available-for-sale investment securities are generally determined by reference to the average of at least two quoted market prices obtained from independent external brokers or prices obtained from independent external pricing service providers who have experience in valuing these securities. In obtaining such valuation information from third parties, the Company has reviewed the methodologies used to develop the resulting fair values.

The Company's Level 3 available-for-sale securities include private label mortgage-backed securities, pooled trust preferred debt and equity securities, and residual securities that have been retained by the Company in connection with the private label loan securitization activities. The fair values of private label mortgage-backed securities and pooled trust preferred securities have traditionally been based on the average of at least two quoted market prices obtained from independent external brokers since broker quotes in an active market are given the highest priority under SFAS 157. However, as a result of the global financial crisis and illiquidity in the U.S. markets, it is the Company's view that current broker prices on private label mortgage-backed securities and certain pooled trust preferred securities are based on forced liquidation or distressed sale values in very inactive markets that are not representative of the economic value of these securities. In light of these circumstances, the Company has amended its approach to obtaining the current values of these securities. The Company examines the facts and circumstances of each security to determine appropriate combination of the market approach reflecting current broker prices and a discounted cash flow approach. In order to determine the appropriate discount rate for the calculation of the fair value derived from the income approach, we have made assumptions related to the implied rate of return which have been adjusted for general change in market rates, estimated changes in credit quality and liquidity risk premium, specific non-performance and default experience in the collateral underlying the security, as well as broker discount rates. The values resulting from each approach (i.e. market and income approaches) are weighted to derive the final fair value on each private label mortgage-backed and pooled trust preferred security.

The valuation of residual securities is based on a discounted cash flow approach utilizing several assumption factors. Assumptions related to prepayment speeds, forward yield curves, financial characteristics of the underlying assets, delinquency trends, and other factors are taken into consideration in determining the discount margin on residual securities. Furthermore, the liquidity of the market for similar securities is also incorporated in the valuation analysis to better determine the fair value of residual securities.

***Equity Swap Agreements*** The Company has entered into several equity swap agreements with a major investment brokerage firm to hedge against market fluctuations in a promotional equity index certificate of deposit product offered to bank customers. This deposit product, which has a term of 5 years or $5^1/_2$ years, pays interest based on the performance of the Hang Seng China Enterprises Index ("HSCEI"). The fair value of these equity swap agreements is based on the income approach. The fair value is based on the change in the value of the HSCEI and the volatility of the call option over the life of the individual swap agreement. The option value is derived based on the volatility, the interest rate and the time remaining to maturity of the call option. The Company's consideration of its counterparty's credit risk resulted in a $561 thousand adjustment to the valuation of the equity swap agreements for the year ended December 31, 2008. The valuation of equity swap agreements falls within Level 2 of the fair value hierarchy due to the observable nature of the inputs used in deriving the fair value of these derivative contracts.

***Derivatives Payable*** The Company's derivatives payable are recorded in conjunction with the certificate of deposits ("host instrument") that pays interest based on changes in the HSCEI and are included in interest-bearing deposits on the consolidated balance sheets. The fair value of these embedded derivatives is based on the income approach. The Company's consideration of its own credit risk resulted in a $271 thousand adjustment to the valuation of the derivative liabilities, and a net loss of $290 thousand was recognized in noninterest expense as the net difference between the valuation of the equity swap agreements and derivatives payable for the year ended December 31, 2008. The valuation of the derivatives payable falls within Level 3 of the fair value hierarchy since the significant inputs used in deriving the fair value of these derivative contracts are not directly observable.

***Mortgage Servicing Assets ("MSAs")*** The Company records MSAs in conjunction with its loan sale and securitization activities since the servicing of the underlying loans is retained by the Bank. MSAs are initially measured at fair value using an income approach. The initial fair value of MSAs is determined based on the present value of estimated net future cash flows related to contractually specified servicing fees. The valuation for MSAs falls within Level 3 of the fair value hierarchy since

Table of Contents

there are no quoted prices for MSAs and the significant inputs used to determine fair value are not directly observable. The valuation of MSAs is determined using a discounted cash flow approach utilizing the appropriate yield curve and several market-derived assumptions including prepayment speeds, servicing cost, delinquency and foreclosure costs and behavior, and float earnings rate. Net cash flows are present valued using a market-derived discount rate. The resulting fair value is then compared to recently observed bulk market transactions with similar characteristics. The fair value is adjusted accordingly to be better aligned with current observed market trends and activity.

***Impaired Loans*** In accordance with SFAS No. 114, *Accounting by Creditors for Impairment of a Loan, an Amendment of FASB Statements No. 5 and 15,* the Company's impaired loans are generally measured using the fair value of the underlying collateral, which is determined based on the most recent valuation information received, which may be adjusted based on factors such as the Company's historical knowledge and changes in market conditions from the time of valuation. As of December 31, 2008, the impaired loan balance, net of the specific reserve, was $208.7 million. Impaired loans fall within Level 3 of the fair value hierarchy since they were measured at fair value based on appraisals of the underlying collateral.

Table of Contents

**Fair Value of Financial Instruments**

The carrying amounts and fair values of the Company's financial instruments at December 31 were as follows:

| | December 31, | | | |
|---|---|---|---|---|
| | 2008 | | 2007 | |
| | Carrying Notional or Contract Amount | Estimated Fair Value | Carrying Notional or Contract Amount | Estimated Fair Value |
| | (In thousands) | | | |
| **Financial Assets:** | | | | |
| Cash and cash equivalents | $ 878,853 | $ 878,853 | $ 160,347 | $ 160,347 |
| Short-term investments | 228,441 | 228,353 | - | - |
| Securities purchased under resale agreements | 50,000 | 51,581 | 150,000 | 154,977 |
| Investment securities held-to-maturity | 122,317 | 123,105 | - | - |
| Investment securities available-for-sale | 2,040,194 | 2,040,194 | 1,887,136 | 1,887,136 |
| Loans receivable, net | 8,069,377 | 8,036,406 | 8,750,921 | 9,020,362 |
| Investment in Federal Home Loan Bank stock | 86,729 | 86,729 | 84,976 | 84,976 |
| Investment in Federal Reserve Bank stock | 27,589 | 27,589 | 21,685 | 21,685 |
| Accrued interest receivable | 46,230 | 46,230 | 52,312 | 52,312 |
| Equity swap agreements | 43,453 | 13,853 | 46,542 | 28,312 |
| **Financial Liabilities:** | | | | |
| Customer deposit accounts: | | | | |
| Demand, savings and money market deposits | 3,399,817 | 3,141,126 | 3,473,401 | 3,473,401 |
| Time deposits | 4,742,142 | 4,750,957 | 3,805,513 | 3,802,154 |
| Federal funds purchased | 28,022 | 28,022 | 222,275 | 222,275 |
| Federal Home Loan Bank advances | 1,353,307 | 1,397,081 | 1,808,419 | 1,825,649 |
| Securities sold under repurchase agreements | 998,430 | 1,204,329 | 1,001,955 | 1,021,739 |
| Notes payable | 16,506 | 16,506 | 16,242 | 16,242 |
| Accrued interest payable | 18,977 | 18,977 | 10,463 | 10,463 |
| Long-term debt | 235,570 | 120,325 | 235,570 | 251,011 |
| Derivatives payable | 43,453 | 14,142 | 46,542 | 28,312 |
| **Off-balance sheet financial instruments:** | | | | |
| Commitments to extend credit | 1,469,513 | 16,001 | 2,723,859 | 13,412 |
| Standby letters of credit | 656,979 | 3,614 | 569,973 | 4,953 |
| Commercial letters of credit | 39,426 | (204) | 49,939 | (243) |

The methods and assumptions used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value are explained below:

***Cash and Cash Equivalents*** The carrying amounts approximate fair values due to the short-term nature of these instruments.

***Short-Term Investments*** The fair values of short-term investments generally approximate their book values due to their short maturities.

Table of Contents

***Securities Purchased Under Resale Agreements*** For securities purchased under resale agreements with original maturities of 90 days or less, the carrying amounts approximate fair values due to the short-term nature of these instruments. At December 31, 2008 and 2007, the securities purchased under resale agreements are long-term in nature and the fair value is estimated by discounting the cash flows based on expected maturities or repricing dates utilizing estimated market discount rates.

***Investment Securities Held-To-Maturity*** The fair values of the investment securities held-to-maturity are generally determined by reference to the average of at least two quoted market prices obtained from independent external brokers or independent external pricing service providers who have experience in valuing these securities. In obtaining such valuation information from third parties, the Company has reviewed the methodologies used to develop the resulting fair values.

***Investment Securities Available-For-Sale*** The fair values of the investment securities available-for-sale are generally determined by reference to the average of at least two quoted market prices obtained from independent external brokers or independent external pricing service providers who have experience in valuing these securities. In obtaining such valuation information from third parties, the Company has reviewed the methodologies used to develop the resulting fair values. For private label mortgage-backed securities and pooled trust preferred securities, fair values are derived based on a combination of broker prices and discounted cash flow analyses that are weighted as deemed appropriate for each security.

***Loans Receivable, net*** The fair value of loans is determined based on the discounted cash flow approach. The discount rate is derived from the associated yield curve plus spreads, and reflects the offering rates in the market for loans with similar financial characteristics. No adjustments have been made for changes in credit within the loan portfolio. It is management's opinion that the allowance for loan losses pertaining to performing and nonperforming loans results in a fair valuation of such loans.

***Federal Home Loan Bank and Federal Reserve Bank Stock*** The carrying amount approximates fair value, as the stock may be sold back to the Federal Home Loan Bank and the Federal Reserve Bank at carrying value.

***Accrued Interest Receivable*** The carrying amount of accrued interest receivable approximates fair value due to its short-term nature.

***Equity Swap Agreements*** The fair value of the derivative contracts is provided by an independent third party and is determined based on the change in value of the HSCEI and the volatility of the call option over the life of the individual swap agreement. The option value is derived based on the volatility of the option, interest rate and time remaining to the maturity. The Company has also considered the counterparty's credit risk in determining the valuation.

***Deposits*** The fair value of deposits is determined based on the discounted cash flow approach. The discount rate is derived from the associated yield curve, plus spread, if any. For core deposits, the cash outflows are projected by the decay rate based on the Bank's core deposit premium study. Cash flows for all non-time deposits are discounted using the LIBOR yield curve. For time deposits, the cash flows are based on the contractual runoff and are discounted by the Bank's current offering rates, plus spread.

***Federal Funds Purchased*** The carrying amounts approximate fair values due to the short-term nature of these instruments.

Table of Contents

***Federal Home Loan Bank Advances*** The fair value of FHLB advances is estimated based on the discounted value of contractual cash flows, using rates currently offered by the FHLB of San Francisco for fixed-rate credit advances with similar remaining maturities at each reporting date.

***Securities Sold Under Repurchase Agreements*** For securities sold under repurchase agreements with original maturities of 90 days or less, the carrying amounts approximate fair values due to the short-term nature of these instruments. At December 31, 2008 and 2007, most of the securities sold under repurchase agreements are long-term in nature and the fair values of securities sold under repurchase agreements are calculated by discounting future cash flows based on expected maturities or repricing dates, utilizing estimated market discount rates and taking into consideration the call features of each instrument.

***Notes Payable*** The carrying amount of notes payable approximates fair value as these notes are payable on demand.

***Accrued Interest Payable*** The carrying amount of accrued interest payable approximates fair value due to its short-term nature.

***Long-Term Debt*** The fair values of long-term debt are estimated by discounting the cash flows through maturity based on current market rates the Bank would pay for new issuances.

***Derivatives Payable*** The Company's derivatives payable are recorded in conjunction with the certificate of deposits ("host instrument") that pays interest based on changes in the HSCEI. The Company's derivatives payable are estimated using the income approach. The Company has also considered its own credit risk in determining the valuation.

***Commitments to Extend Credit, Standby and Commercial Letters of Credit*** The fair values of commitments are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparty's credit standing.

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

## 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash, amounts due from banks, money-market funds, and other short-term investments with original maturities of less than 90 days. Short-term investments, which include federal funds sold, are recorded at cost, which approximates market. The Company had no outstanding federal funds sold at December 31, 2008 and 2007.

Table of Contents

The composition of cash and cash equivalents at December 31, 2008 and 2007 is presented as follows:

| | December 31, | |
|---|---|---|
| | 2008 | 2007 |
| | *(Dollars in thousands)* | |
| Cash and amounts due from banks | $144,486 | $158,755 |
| Cash equivalents: | | |
| Money-market funds | 724,156 | - |
| Other short-term investments | 10,211 | 1,592 |
| Total cash and cash equivalents | $878,853 | $160,347 |

## 5. SHORT-TERM INVESTMENTS

Short-term investments include interest-bearing deposits in other banks and other short-term investments with original maturities of greater than 90 days and less than one year.

The following table provides information on short-term investments as of and for the period ended December 31, 2008. There were no short-term investments as of and for the year ended December 31, 2007.

| | *(Dollars in thousands)* |
|---|---|
| Balance at end of year | $ 228,441 |
| Average balance outstanding during the year | 25,230 |
| Maximum balance outstanding at any month-end | 228,441 |
| Weighted average interest rate at end of year | 2.02% |

## 6. SECURITIES PURCHASED UNDER RESALE AGREEMENTS

Securities purchased under resale agreements ("resale agreements") decreased to $50.0 million as of December 31, 2008, compared with $150.0 million at December 31, 2007. The decrease as of December 31, 2008 reflects the early termination of a $100.0 million resale agreement in January 2008 which had a stated maturity date of January 2017. In conjunction with the early termination of this agreement, the Company received $1.0 million from the counterparty, which was recorded as a yield adjustment included in interest income during the first quarter of 2008.

The $50.0 million balance of resale agreements at December 31, 2008 is comprised of one resale agreement with a term of ten years. The interest rate is initially fixed for the first two years and thereafter becomes floating. There is no interest payment on this agreement if certain swap yield curves are inverted. The collateral for this resale agreement consists of U.S. Government agency and/or U.S. Government sponsored enterprise debt and mortgage-backed securities held in safekeeping by a third party custodian.

Resale agreements are recorded at the amounts at which the securities were acquired. The Company's policy is to obtain possession of securities purchased under resale agreements that is equal to or greater than the principal amount loaned. The market value of the underlying securities, which collateralize the related receivable on resale agreements, is monitored, including accrued interest. Additional collateral may be requested from the counterparty when determined to be appropriate.

Table of Contents

Total interest income on resale agreements amounted to $6.4 million, $15.1 million, and $7.1 million, for the years ended December 31, 2008, 2007, and 2006, respectively.

## 7. INVESTMENT SECURITIES

An analysis of the held-to-maturity and available-for-sale investment securities portfolio is presented as follows:

| *(In thousands)* | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| **As of December 31, 2008** | | | | |
| **Held-to-maturity** | | | | |
| Municipal securities | $ 5,772 | $ 118 | $ - | $ 5,890 |
| Corporate debt securities | 116,545 | 904 | (234) | 117,215 |
| **Total investment securities held-to-maturity** | $ 122,317 | $ 1,022 | $ (234) | $ 123,105 |
| **Available-for-sale** | | | | |
| U.S. Treasury securities | $ 2,505 | $ 8 | $ - | $ 2,513 |
| U.S. Government agency securities and U.S. Government sponsored enterprise debt securities | 1,020,355 | 4,762 | (1,183) | 1,023,934 |
| U.S. Government agency securities and U.S. Government sponsored enterprise mortgage-backed securities | 373,690 | 6,758 | (397) | 380,051 |
| Other mortgage-backed securities | 645,940 | - | (108,614) | 537,326 |
| Corporate debt securities (1) | 116,127 | 266 | (73,849) | 42,544 |
| U.S. Government sponsored enterprise equity securities (2) | 3,340 | - | (2,156) | 1,184 |
| Residual securities | 25,043 | 25,019 | - | 50,062 |
| Other securities (3) | 2,570 | 10 | - | 2,580 |
| **Total investment securities available-for-sale** | $ 2,189,570 | $ 36,823 | $ (186,199) | $ 2,040,194 |
| **Total investment securities** | $ 2,311,887 | $ 37,845 | $ (186,433) | $ 2,163,299 |
| **As of December 31, 2007:** | | | | |
| **Available-for-sale** | | | | |
| U.S. Treasury securities | $ 2,487 | $ 5 | $ - | $ 2,492 |
| U.S. Government agency securities and U.S. Government sponsored enterprise debt securities | 427,004 | 576 | (1,090) | 426,490 |
| U.S. Government sponsored enterprise mortgage-backed securities | 527,373 | 8,257 | (354) | 535,276 |
| Other mortgage-backed securities | 750,864 | 455 | (70,721) | 680,598 |
| Corporate debt securities (1) | 127,420 | 1,708 | (9,501) | 119,627 |
| U.S. Government sponsored enterprise equity securities | 83,744 | 500 | (9,189) | 75,055 |
| Residual securities | 28,332 | 12,384 | - | 40,716 |
| Other securities | 6,916 | 253 | (287) | 6,882 |
| **Total investment securities** | $ 1,954,140 | $ 24,138 | $ (91,142) | $ 1,887,136 |

(1) Balances presented net of OTTI charge of $13.6 million and $405 thousand as of December 31, 2008 and December 31, 2007, respectively.

(2) Balances presented net of OTTI charge of $55.3 million as of December 31, 2008.

(3) Balances presented net of OTTI charge of $4.3 million as of December 31, 2008.

The fair values of the investment securities are generally determined by reference to the average of at least two quoted market prices obtained from independent external brokers or prices obtained from independent external pricing service providers who have experience in valuing these securities. The Company performs a monthly analysis on the broker quotes received from third parties to ensure that the prices represent a reasonable estimate of the fair value. The procedures include, but are not

Table of Contents

limited to, initial and on-going review of third party pricing methodologies, review of pricing trends, and monitoring of trading volumes. The Company ensures whether prices received from independent brokers represent a reasonable estimate of fair value through the use of internal and external cash flow models developed based on spreads, and when available, market indices. As a result of this analysis, if the Company determines 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 inputs that may be difficult to corroborate with observable market based data. Additionally, the majority of these independent broker quotations are non-binding.

The following table shows the Company's investment portfolio's gross unrealized losses and related fair values, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, for the years ended December 31, 2008 and 2007:

| | Less Than 12 Months | | 12 Months or More | | Total | |
|---|---|---|---|---|---|---|
| *(In thousands)* | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| **As of December 31, 2008** | | | | | | |
| **Held-to-maturity** | | | | | | |
| Municipal securities | $ - | $ - | $ - | $ - | $ - | $ - |
| Corporate debt securities | 40,057 | (234) | - | - | 40,057 | (234) |
| Total temporarily impaired securities held-to-maturity | $ 40,057 | $ (234) | $ - | $ - | $ 40,057 | $ (234) |
| **Available-for-sale** | | | | | | |
| U.S. Government agency securities and U.S. Government sponsored enterprise debt securities | 143,727 | (1,183) | - | - | 143,727 | (1,183) |
| U.S. Government agency securities and U.S. Government sponsored enterprise mortgage-backed securities | 72,245 | (397) | - | - | 72,245 | (397) |
| Other mortgage-backed securities | 17,984 | (3,339) | 519,090 | (105,275) | 537,074 | (108,614) |
| Corporate debt securities | 4,016 | (2,946) | 34,611 | (70,903) | 38,627 | (73,849) |
| U.S. Government sponsored enterprise equity securities | 1,184 | (2,156) | - | - | 1,184 | (2,156) |
| Residual securities | - | - | - | - | - | - |
| Other securities | - | - | - | - | - | - |
| Total temporarily impaired securities available-for-sale | $ 239,156 | $ (10,021) | $ 553,701 | $ (176,178) | $ 792,857 | $ (186,199) |
| Total temporarily impaired securities | $ 279,213 | $ (10,255) | $ 553,701 | $ (176,178) | $ 832,914 | $ (186,433) |
| **As of December 31, 2007** | | | | | | |
| **Available-for-sale** | | | | | | |
| U.S. Government agency securities and U.S. Government sponsored enterprise debt securities | $ 49,938 | $ (63) | $ 169,124 | $ (1,027) | $ 219,062 | $ (1,090) |
| U.S. Government sponsored enterprise mortgage-backed securities | 35,100 | (269) | 16,348 | (85) | 51,448 | (354) |
| Other mortgage-backed securities | 520,535 | (54,079) | 134,785 | (16,642) | 655,320 | (70,721) |
| Corporate debt securities | 97,040 | (8,261) | 8,951 | (1,240) | 105,991 | (9,501) |
| U.S. Government sponsored enterprise equity securities | 49,555 | (9,189) | - | - | 49,555 | (9,189) |
| Residual securities | - | - | - | - | - | - |
| Other securities | 3,350 | (287) | - | - | 3,350 | (287) |
| Total temporarily impaired securities | $ 755,518 | $ (72,148) | $ 329,208 | $ (18,994) | $ 1,084,726 | $ (91,142) |

Table of Contents

The majority of unrealized losses in the available-for-sale portfolio at December 31, 2008 are related to AA and AAA-rated private label mortgage-backed securities that the Company has retained in connection with our loan securitization activities. As of December 31, 2008, the fair value of these securities totaled $508.9 million, representing 25% of the total investment securities available-for-sale portfolio. Gross unrealized losses related to these securities amounted to $101.8 million, or 17% of the aggregate amortized cost basis of these securities as of December 31, 2008. These unrealized losses are caused by lack of liquidity and market spreads resulting from instability in the residential real estate and credit markets. The underlying loans are not subprime in nature and were originated by the Bank in accordance with our customary underwriting standards. The securities are supported by overcollateralization as of December 31, 2008. Additionally, these securities are insured by a monoline insurance provider who was recently rated as Aa2 and AAA by two major rating agencies.

As of December 31, 2008, the Company had $42.5 million in pooled trust preferred debt securities available-for-sale, representing 2% of our total investment securities available-for-sale portfolio. These debt instruments had gross unrealized losses amounting to $73.8 million, or 64% of the total amortized cost basis of these securities as of December 31, 2008. Almost all of the pooled trust preferred securities held by the Company have underlying collateral issued by banks and insurance companies. Of the 15 different pooled trust preferred securities that the Company has purchased, four securities have underlying collateral issued by a combination of bank, insurance, real estate investment trusts or homebuilder companies. Furthermore, most of the pooled trust preferred securities are overcollateralized and have subordination structures that management believes will afford sufficient principal and interest protection. While one pooled trust preferred security was downgraded from an A rating to B- during the fourth quarter of 2008, based on the cash flow and default stress testing analysis, the Company believes it will be able to collect all amounts due and that this security is not deemed to be other-than-temporarily impaired as of December 31, 2008. During 2007, one pooled trust preferred security was downgraded to a B+ rating, from a BBB rating by one rating agency. During 2008, the Company recorded a combined $13.6 million in impairment writedowns on this downgraded security and two other trust preferred securities in accordance with SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*, FSP FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, EITF 99-20, *Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets*, and FSP EITF 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20*. The Company believes that the recent bailout program passed by the U.S. government to provide for an injection of capital reduces the risk of default by bank issuers and increases the probability that the liquidity in this market and the prices of our securities will improve in the future. The Company will continue to review such factors, including but not limited to, the estimated cash flows, liquidity and credit risk, for these securities on a quarterly basis. The Company believes the cash flows are not at risk and has the ability and the intention to hold these securities until their fair values recover to cost. As such, the Company does not deem these securities to be other-than-temporarily impaired.

In September 2008, liquidity and credit concerns led the U.S. Federal Government to assume a conservatorship role in Fannie Mae and Freddie Mac. The rating on Fannie Mae and Freddie Mac preferred stock securities was downgraded from BBB- to C reflecting the cessation of dividend payments on these securities. These securities are non-cumulative perpetual preferred stock in which unpaid dividends do not accumulate. The purchase agreement between the U.S. Treasury and these government-sponsored entities contains a covenant prohibiting the payment of dividends on existing preferred stock. As the assessment on the status of any resumption in dividend payments on these securities was uncertain, the Company recorded $55.3 million in OTTI charges on Fannie Mae and Freddie Mac preferred stock securities in 2008. As of December 31, 2008, the fair value of these preferred stock securities was $1.2 million. Gross unrealized losses on these securities amounted to $2.2 million as of December 31, 2008, all of which is unrealized loss under twelve months, or 65% of the aggregate amortized cost basis of these securities. The value of these preferred securities have been very volatile and in the month preceding and subsequent to year-end, these securities have traded above their carrying values. The Company has the ability and the intention to hold these securities until their fair values recover to cost. As such, the Company does not deem these securities to be other-than-temporarily impaired.

In accordance with SFAS 115, FSP FAS 115-1 and FAS 124-1, EITF 99-20, and FSP EITF 99-20-1, the Company recorded $4.3 million in impairment charges in 2008 related to our pooled trust preferred equity securities, which also represents the remaining balance for these securities. The impairment charges were due to the adverse changes in expected cash flows and the high uncertainty surrounding the collectibility of these securities.

The Company has fifteen individual securities that have been in a continuous unrealized loss position for twelve months or longer as of December 31, 2008. These securities are comprised of eleven pooled trust preferred securities with a total fair value of $34.6 million and four mortgage-backed securities with a total fair value of $519.1 million. As of December 31, 2008, there were also 52 securities that have been in a continuous unrealized loss position for less than twelve months. The unrealized losses on these securities are primarily attributed to changes in interest rates as well as the liquidity crisis that has impacted all financial industries. The issuers of these securities have not, to our knowledge, established any cause for default on these securities. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated. However, the Company has the ability and the intention to hold these securities until their fair values recover to cost or maturity. As such, the Company does not deem these securities to be other-than-temporarily impaired.

As of December 31, 2007, there were eight individual securities that have been in a continuous unrealized loss position for twelve months or more. These unrealized losses are primarily attributable to changes in interest rates. As of December 31, 2007, there were also 24 securities that have been in a continuous unrealized loss position for less than twelve months.

The scheduled maturities of investment securities at December 31, 2008 are presented as follows:

| | **Held-to-maturity** | | **Available-for-sale** | |
|---|---|---|---|---|
| ***(In thousands)*** | **Amortized Cost** | **Estimated Fair Value** | **Amortized Cost** | **Estimated Fair Value** |
| Due within one year | $ 45,463 | $ 45,619 | $ 468,001 | $ 469,107 |
| Due after one year through five years | 71,082 | 71,596 | 288,362 | 290,273 |
| Due after five years through ten years | 4,007 | 4,099 | 136,165 | 137,125 |
| Due after ten years | 1,765 | 1,791 | 1,293,702 | 1,142,505 |
| Indeterminate maturity | - | - | 3,340 | 1,184 |
| **Total** | **$ 122,317** | **$ 123,105** | **$ 2,189,570** | **$ 2,040,194** |

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

Proceeds from sales of available-for-sale securities during 2008, 2007 and 2006 were $699.4 million, $541.1 million and $232.4 million, respectively. Gross realized gains were $9.0 million, $8.3 million and $2.7 million during 2008, 2007 and 2006, respectively. The Company recorded no gross realized losses, $472 thousand and $188 thousand in 2008, 2007 and 2006, respectively. The realized losses recognized in 2007 and 2006 primarily relate to the sale of U.S. Government sponsored enterprise mortgage-backed securities. The tax expense on the sale of investment securities available-for-sale amounted to $3.8 million, $3.3 million and $1.1 million for the years ended December 31, 2008, 2007 and 2006, respectively.

At December 31, 2008 and 2007, investment securities available-for-sale with a par value of $1.83 billion and $1.75 billion, respectively, were pledged to secure public deposits, FHLB advances, repurchase agreements, Federal Reserve Bank's discount window, or for other purposes required or permitted by law. None of the investment securities held-to-maturity were pledged as of December 31, 2008.

During the years ended December 31, 2007 and 2006, the Company securitized $1.18 billion and $788.0 million, respectively, in residential and multifamily mortgage loans through FNMA and through private label securitization. These transactions were treated as guaranteed mortgage securitizations, and in accordance with the provisions of SFAS No. 140, they were accounted for as neither sales nor financings which had no impact on the Company's results of operations. All of the resulting securities were retained in the Company's available-for-sale securities portfolio. The Company recorded $13.8 million and $8.1 million in mortgage servicing assets as a result of the 2007 and 2006 securitizations, respectively, as the Bank continues to service the underlying loans. There were no securitization activities recorded in 2008.

The Company retains residual securities in securitized mortgage loans in connection with certain of its securitization activities. The fair value of residual securities is subject to credit, prepayment, and interest rate risk on the underlying mortgage loans. Fair value is estimated based on a discounted cash flow analysis. These cash flows are projected over the lives of the receivables using prepayment speed, expected credit losses, and the forward interest rate environment on the residual securities. At December 31, 2008, the fair values of the residual securities totaled $50.1 million. The fair value of the residual securities at December 31, 2008 is estimated based on a weighted average remaining life of 6.64 years, a weighted average projected prepayment rate of 21%, a weighted average expected credit loss rate of 0.07% and a weighted average discount rate of 15%. As of December 31, 2007, the fair value of the residual securities totaling $40.7 million is based on a weighted average remaining life of 8.9 years, a weighted average projected prepayment rate of 15%, a weighted average expected credit loss rate of 0.05% and a weighted average discount rate of 11%.

## 8. DERIVATIVE FINANCIAL INSTRUMENTS

***Warrants*** At December 31, 2008 and 2007, the Company had outstanding warrants to purchase the common stock of various companies. The Company received these warrants in connection with certain lending relationships, primarily with small, privately-held companies. The fair value of these warrants is approximately $549 thousand and $114 thousand at December 31, 2008 and 2007.

***Equity Linked Certificate of Deposits*** During 2004, the Company entered into four equity swap agreements with a major investment brokerage firm to hedge against market fluctuations in a promotional equity index certificate of deposit product that was offered to customers for a limited time during the latter half of 2004. This product, which has a term of $5^1/_2$ years, pays interest based on the performance of the Hang Seng China Enterprises Index (the "HSCEI"). As of December 31, 2008, the combined notional amounts of the equity swap agreements totaled $19.3 million with termination dates similar to the stated maturity date on the underlying certificate of deposit host contracts. For the equity swap agreements, the Company agreed to pay interest based on the one-month Libor minus a spread on a monthly basis and receive any increase in the HSCEI at swap termination date. Under SFAS No. 133, a certificate of deposit that pays interest based on changes in an equity index is a hybrid instrument with an embedded derivative (i.e. equity call option) that must be accounted for separately from the host contract (i.e. the certificate of deposit). In accordance with SFAS No. 133, both the embedded equity call options on the certificates of deposit and the freestanding equity swap agreements are marked-to-market every month with resulting changes in fair value recorded in the consolidated statements of operations.

In December 2007, the Company entered into two new equity swap agreements in a promotional deposit product offered to bank customers which has a term of 5 years and pays interest based on the performance of the HSCEI. As of December 31, 2008, the combined notional amounts of the equity swap agreements totaled $24.1 million.

The fair values of the equity swap agreements and embedded derivative liability for these six derivative contracts amounted to $13.9 million and $14.1 million, respectively, as of December 31, 2008, compared to $28.3 million and $28.3 million, respectively, as of December 31, 2007. The embedded derivative liability is included in interest-bearing deposits and the equity swap agreements are included in other assets on the consolidated balance sheets. The fair value of the derivative contracts is determined based on the change in value of the HSCEI and the volatility of the call option over the life of the individual swap agreement. The option value is derived based on the volatility, the interest rate and time remaining to the maturity of the call option. The Company has also considered the counterparty's as well as its own credit risk in determining the valuation of both the equity swap agreements and embedded derivative liability.

## 9. LOANS AND ALLOWANCE FOR LOAN LOSSES

The following is a summary of loans receivable:

| | December 31, | |
|---|---|---|
| | **2008** | **2007** |
| | *(In thousands)* | |
| Real estate loans: | | |
| Residential single family | $ 491,315 | $ 433,337 |
| Residential multifamily | 677,989 | 690,941 |
| Commercial and industrial real estate | 4,048,564 | 4,183,473 |
| Construction | 1,260,724 | 1,547,082 |
| Total real estate loans | 6,478,592 | 6,854,833 |
| Other loans: | | |
| Commercial business | 1,210,260 | 1,314,068 |
| Trade finance | 343,959 | 491,690 |
| Automobile | 9,870 | 23,946 |
| Other consumer | 206,772 | 160,572 |
| Total other loans | 1,770,861 | 1,990,276 |
| Total gross loans | 8,249,453 | 8,845,109 |
| Unearned fees, premiums and discounts, net | (2,049) | (5,781) |
| Allowance for loan losses | (178,027) | (88,407) |
| Loans receivable, net | $ 8,069,377 | $ 8,750,921 |

Included in residential single family loans are loans held for sale totaling $349 thousand and $1.2 million at December 31, 2008 and 2007, respectively. Accrued interest on loans receivable amounted to $32.5 million and $41.8 million at December 31, 2008 and 2007, respectively.

Table of Contents

Loans serviced for others amounted to $2.31 billion and $2.47 billion at December 31, 2008 and 2007, respectively. These represent loans that have either been sold or securitized for which the Bank continues to provide servicing. These loans are maintained off balance sheet and are not included in the loans receivable balance.

At December 31, 2008 and 2007, loans receivable totaling $4.03 billion and $4.01 billion, respectively, were pledged to secure public deposits, FHLB advances, repurchase agreements, and for other purposes required or permitted by law.

The Bank offers both fixed and adjustable rate ("ARM") first mortgage loans secured by one-to-four unit residential properties located in its primary lending areas. The Bank originated $131.3 million and $282.1 million in new residential single family loans during 2008 and 2007, respectively. The Bank primarily offers ARM loan programs that have six-month, three-year, five-year, or seven-year initial fixed periods. Residential single family mortgage loans are originated under three different types of programs: full/alternative documentation, reduced documentation and no documentation. The underwriting criteria for these loan programs vary in income and asset documentation levels. The Bank's underwriting criteria for all the loans in its residential single family mortgage loan programs include minimum FICO scores and maximum loan-to-value ratios. Additionally, the full/alternative documentation loan program requires verification of employment and income. Reduced documentation loans are primarily intended for borrowers who are self-employed. Generally, the Bank requires reduced documentation borrowers to have more equity in the property and higher amounts of liquid reserves. Finally, the no documentation loan program is designed for borrowers who demonstrate excellent credit quality and have the ability to place a large down payment or have high equity in the property. Of the $131.3 million in residential single family mortgage loans originated during 2008, 7% or $8.8 million were full/alternative documentation loans, 35% or $46.0 million were reduced documentation loans and 58% or $76.6 million were no documentation loans. In comparison, of the $282.1 million in residential single family mortgage loans originated during 2007, 2% or $6.8 million were full/alternative documentation loans, 33% or $93.8 million were reduced documentation loans and 64% or $181.5 million were no documentation loans.

The Bank also offers both fixed and ARM residential multifamily loan programs. For the years ended December 31, 2008 and 2007, the Bank originated $27.8 million and $287.2 million, respectively, in multifamily residential loans. The Bank primarily offers ARM multifamily loan programs that have six-month, three-year, or five-year initial fixed periods. Prior to the latter half of 2007, the Bank originated multifamily mortgage loans under two different types of programs: full documentation and reduced documentation. During 2008, all of the $27.8 million in multifamily loans originated were reduced documentation loans. In comparison, of the $287.2 million in multifamily loans originated during 2007, 8% or $23.4 million were full/alternative documentation and 92% or $263.9 million were reduced documentation loans. The underwriting criteria for these loan programs vary in income and asset documentation levels, similar to the programs mentioned in the residential single family loan programs. Underwriting criteria generally include minimum FICO scores, maximum loan-to-value ratios and minimum debt coverage ratios.

Additionally, the Bank has single family and multifamily residential mortgage loans that have contractual features that may increase its credit exposure. These mortgage loans include adjustable rate mortgage loans that may subject borrowers to significant future payment increases or create the potential for negative amortization of the principal balance.

Interest-only mortgage loans allow interest-only payments for a fixed period of time. At the end of the interest-only period, the loan payment includes principal payments and increases significantly. The borrower's new payment once the loan becomes amortizing (i.e. includes principal payments) will be greater than if the borrower had been making principal payments since the origination of the loan. The longer the interest-only period, the larger the amortizing payment will be when the interest-only period ends.

The Bank has purchased adjustable rate mortgage loans which permit different repayment options. The monthly payment is set as the initial interest rate for the first year of the loan. After that point, the borrower can make a minimum payment that is limited to a 7.5% increase in payment. If the minimum payment is not adequate to cover the interest amount due on the mortgage loan, the loan would have negative amortization, which will result in an increase in the mortgage loans' principal balance. These loans completely re-amortize every five years and the monthly payment is reset at that point. None of the adjustable rate mortgages held in the Bank's loan portfolio that have the potential to negatively amortize were negatively amortizing as of December 31, 2008 and 2007.

The Bank's total exposure related to these products included in loans receivable for the years ended December 31, 2008 and 2007 is summarized as follows:

| | **Unpaid Principal Balance as of December 31,** | |
|---|---|---|
| | **2008** | **2007** |
| | ***(In thousands)*** | |
| Interest only mortgage loans | $40,399 | $32,571 |
| Adjustable rate mortgages with negative amortization features: | | |
| Residential single family loans | 1,181 | 1,157 |
| Residential multifamily loans | 9,399 | 12,565 |

All of the loans that the Bank originates are subject to its underwriting guidelines and loan origination standards. Generally, loans obtained from third party originators, including the higher risk loans in the preceding table, are closed and funded in the Bank's name and are also subject to the same underwriting guidelines and loan origination standards. Management believes that the Bank's underwriting criteria and procedures adequately consider the unique risks which may come from these products. The Bank conducts a variety of quality control procedures and periodic audits to ensure compliance with its origination standards, including criteria for lending and legal requirements.

***Allowance for Loan Losses***

An analysis of the activity in the allowance for loan losses is as follows:

| | **Year Ended December 31,** | | |
|---|---|---|---|
| | **2008** | **2007** | **2006** |
| | ***(In thousands)*** | | |
| Balance, beginning of year | $ 88,407 | $78,201 | $68,635 |
| Allowance from acquisitions | - | 4,125 | 4,084 |
| Allowance for unfunded loan commitments, letters of credit and other recourse provision | 5,044 | 841 | (1,168) |
| Provision for loan losses | 226,000 | 12,000 | 6,166 |
| Gross chargeoffs | (147,451) | (7,206) | (515) |
| Gross recoveries | 6,027 | 446 | 999 |
| Balance, end of year | $ 178,027 | $88,407 | $78,201 |

Table of Contents

Generally, impaired loans include loans that are designated as nonaccrual or restructured. When the value of an impaired loan is less than the recorded investment in the loan, the deficiency will be charged off against the allowance for loan losses, or alternatively, a specific allocation will be established.

There were no commitments to lend additional funds to borrowers whose loans are impaired. The following table provides information on impaired loans for the periods indicated:

| | As of and for the Year Ended December 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| | *(In thousands)* | | |
| Recorded investment with related allowance | $ 69,165 | $ 67,105 | $ - |
| Recorded investment with no related allowance | 162,913 | 56,711 | 17,101 |
| Allowance on impaired loans | (23,362) | (16,272) | - |
| Net recorded investment in impaired loans | $208,716 | $107,544 | $17,101 |
| Average total recorded investment in impaired loans | $266,456 | $120,972 | $16,735 |

The following is a summary of interest foregone on impaired loans for the years ended December 31:

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| | *(In thousands)* | | |
| Interest income that would have been recognized had impaired loans performed in accordance with their original terms | $ 18,986 | $ 9,680 | $1,414 |
| Less: Interest income recognized on impaired loans on a cash basis | (11,647) | (6,801) | (717) |
| Interest foregone on impaired loans | $ 7,339 | $ 2,879 | $ 697 |

The Company recorded $226.0 million in loan loss provisions during 2008, as compared to $12.0 million in loss provisions recorded during 2007. The increase in loss provisions recorded during 2008, compared to 2007, was brought on by the sustained downturn in the real estate market and continued instability in the overall economy. In response to the unprecedented downturn in the real estate and housing markets, the Company performed an extensive evaluation of certain sectors of its loan portfolio during the second and third quarters of 2008 to identify and mitigate potential losses in loan categories that were especially hard hit by current market conditions. As part of this evaluation process, the Company ordered new appraisals for land, residential construction, and commercial construction loans and also engaged the services of an independent third party to make a current assessment as to the financial strength of the borrowers. The Company performed a similar evaluation of its commercial business and trade finance loan portfolios during 2008. The significant increase in loan loss provisions recorded during 2008, relative to the same period in 2007, reflects the findings and results from the Company's comprehensive loan review efforts.

During 2008, the Company recorded $141.4 million in net chargeoffs representing 1.64% of average loans outstanding during the year. In comparison, the Company recorded net chargeoffs totaling $6.8 million, or less than 0.08% of average loans outstanding, during 2007. Moreover, the volume of delinquent and nonperforming loans also increased significantly in 2008 relative to 2007 as a result of the deterioration in the real estate and housing markets.

Table of Contents

***Nonaccrual Loans*** Nonaccrual loans totaled $214.6 million and $63.9 million at December 31, 2008 and 2007, respectively. The increase in nonaccrual loans as of December 31, 2008 is due primarily to an increase in nonperforming land and residential construction loans resulting from the downturn in the housing market. Loans totaling $32.5 million which were not 90 days past due as of December 31, 2008 were included in nonaccrual loans as of December 31, 2008.

In light of the credit and mortgage crisis affecting the entire financial industry and its impact on our borrowers, the Company has taken a more proactive approach to assess potential loan impairment in our overall portfolio. The Company has expanded its scope to perform focused reviews of certain sectors of our loan portfolio to identify and mitigate potential losses. As a result of the rapid deterioration in the market, the Company has recently noted that while its borrowers may continue to pay as agreed in accordance with their contractual terms and/or even though loans may not have reached a significant stage of delinquency, the existence of certain warning signs indicating possible collectibility issues warranted a more careful scrutiny of these loans for potential impairment. Specifically, the Company reviewed loans that exhibited the following characteristics:

- diminishing or adverse changes in cash flows that serve as the principal source of repayment;
- adverse changes in the financial position or net worth of guarantors or investors;
- adverse changes in collateral values for collateral-dependent loans;
- declining or adverse changes in inventory levels securing commercial business and trade finance;
- failure in meeting financial covenants; or
- other changes or conditions that may adversely impact the ultimate collectibility of loans.

Although certain loans are not 90 days or more delinquent and therefore still accruing interest, the Company has classified them as impaired as of December 31, 2008 because they exhibit one or more of the characteristics described above.

***Loans Past Due 90 Days or More but not on Nonaccrual*** At December 31, 2008 and 2007, there were no loans past due 90 days or more but not on nonaccrual status.

***Restructured Loans*** The Company had $11.0 million and $2.1 million in restructured loans as of December 31, 2008 and 2007.

***Other Real Estate Owned*** As of December 31, 2008, the Company had 41 OREO properties with a combined carrying value of $38.3 million. Approximately 66% of OREO properties as of December 31, 2008 were located in the Greater Los Angeles area and Inland Empire region of Southern California. During 2008, the Company foreclosed on 70 properties with an aggregate carrying value of $83.6 million as of the foreclosure date. During this period, the Company also sold 29 OREO properties with a carrying value of $44.5 million resulting in a total net loss on sale of $852 thousand. During the year ended December 31, 2007, the Company sold one OREO property with a carrying value of $2.8 million for a net gain of $1.3 million. For the year ended December 31, 2006, the Company sold two OREO properties with a combined carrying value of $396 thousand for a net gain of $88 thousand.

***Allowance for Unfunded Loan Commitments, Off-Balance Sheet Credit Exposures, and Recourse Provisions*** The allowance for unfunded loan commitments, off-balance sheet credit exposures, and recourse provisions is maintained at a level believed by management to be sufficient to absorb estimated probable losses related to these unfunded credit facilities. The determination of the adequacy of the allowance is based on periodic evaluations of the unfunded credit facilities including an assessment of the probability of commitment usage, credit risk factors for loans outstanding to these

Table of Contents

same customers, and the terms and expiration dates of the unfunded credit facilities. As of December 31, 2008 and 2007, the allowance for unfunded loan commitments, off-balance sheet credit exposures, and recourse provisions amounted to $6.3 million and $11.4 million, respectively. Net adjustments to the allowance for unfunded loan commitments, off-balance sheet credit exposures, and recourse provisions are included in the provision for loan losses.

***Credit Risk and Concentrations*** There has been a significant slowdown in the housing market in portions of Los Angeles, Riverside, San Bernardino and Orange counties where a majority of the Company's loan customers are based. As of December 31, 2008, the Company had $5.31 billion in commercial real estate and construction loans. Substantially all of the Company's real estate loans are secured by real properties located in California. Continuing deterioration in the real estate market generally and in the residential building segment 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. In addition, although most of the Company's trade finance activities are related to trade with Asian countries, the majority of our loans are made to companies domiciled in the United States. A substantial portion of this business involves California-based customers engaged in import activities. In addition, we also offer Export-Import financing to various domestic and foreign exporters. These loans are guaranteed by the Export-Import Bank of the United States.

## 10. INVESTMENTS IN AFFORDABLE HOUSING PARTNERSHIPS

The Company has invested in certain limited partnerships that were formed to develop and operate apartment complexes designed as high-quality affordable housing for lower income tenants throughout the United States. The Company's ownership in each limited partnership varies from 1% to 16%. Seven of the investments, with a net carrying value of $18.0 million at December 31, 2008, are accounted for using the equity method of accounting, as the Company has significant influence or has a limited partnership interest that exceeds 5%. The remaining investments owned as of December 31, 2008, with a net carrying value of $30.1 million, are accounted for using the cost method and are being amortized using a level-yield method over the lives of the related tax credits. Each of the partnerships must meet the regulatory requirements for affordable housing for a minimum 15-year compliance period to fully utilize the tax credits. If the partnerships cease to qualify during the compliance period, the credits may be denied for any period in which the projects are not in compliance and a portion of the credits previously taken may be subject to recapture with interest.

The remaining federal tax credits to be utilized over a maximum of 10 years are $47.9 million as of December 31, 2008. The Company's usage of federal tax credits approximated $5.7 million, $5.2 million and $4.5 million during 2008, 2007 and 2006, respectively. Investment amortization amounted to $7.1 million, $5.0 million and $5.2 million for the years ended December 31, 2008, 2007 and 2006, respectively.

The Company finances the purchase of certain real estate tax credits generated by partnerships which own multiple properties currently under construction. These transactions were financed with non-recourse notes which are collateralized by the Company's partnership interests in the real estate investment tax credits. The notes are payable upon demand and, if defaulted, interest will be imposed at an annual rate ranging from 10% to 18% or the maximum rate permitted by applicable law. No interest is due if the notes are paid on demand. At December 31, 2008, outstanding notes payable related to the purchase of real estate tax credits amounted to $16.5 million, compared with $16.2 million at December 31, 2007. The Company has no liabilities in addition to these notes payable or any contingent liabilities to the partnerships.

Table of Contents

## 11. PREMISES AND EQUIPMENT

Premises and equipment consist of the following:

| | December 31, | |
|---|---|---|
| | 2008 | 2007 |
| | (In thousands) | |
| Land | $ 13,285 | $ 13,285 |
| Office buildings | 25,068 | 25,068 |
| Leasehold improvements | 23,648 | 21,980 |
| Furniture, fixtures and equipment | 37,917 | 36,649 |
| Total cost | 99,918 | 96,982 |
| Accumulated depreciation and amortization | (39,734) | (32,039) |
| Net book value | $ 60,184 | $ 64,943 |

Depreciation expense on premises and equipment was $8.3 million, $7.6 million and $6.2 million for the years ended December 31, 2008, 2007 and 2006, respectively.

## 12. GOODWILL AND OTHER INTANGIBLE ASSETS

The carrying amount of goodwill amounted to $337.4 million and $335.4 million at December 31, 2008 and 2007, respectively. Goodwill is tested for impairment on an annual basis as of December 31, or more frequently as events occur, or as current circumstances and conditions warrant. The Company records impairment writedowns as charges to noninterest expense and adjustments to the carrying value of goodwill. Subsequent reversals of goodwill impairment are prohibited.

During the fourth quarter of 2008, both the U.S. and global financial markets continued to experience volatility and the effect of such volatility continued to unfavorably impact the market prices of banking stocks, including the Company's. As of December 31, 2008, the Company's market capitalization based on total outstanding common and preferred shares was $1.45 billion and its total stockholders' equity was $1.55 billion. The Company performed its annual impairment test as of December 31, 2008 to determine whether and to what extent, if any, recorded goodwill was impaired. In accordance with SFAS 131, *Disclosures about Segments of an Enterprise and Related Information,* the Company has identified five business divisions that meet the criteria of an operating segment, comprised of Retail Banking, Commercial Lending, Treasury, Residential Lending and Other. For certain reporting segments, there are identifiable reporting units one level below the operating segment. In accordance with SFAS No. 142, the Company has determined that there are ten components that meet the definition of a reporting unit.

The valuation analysis compared the fair value of each of the reporting units, including goodwill, to the respective carrying amounts. If the carrying amount of the reporting unit, including goodwill exceeds the fair value of that reporting unit, then further testing for goodwill impairment is performed. 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 for the next 5 years plus 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 appropriately weighted to determine the fair value. As a result of this analysis, the Company determined there was no goodwill impairment at December 31, 2008 as the fair values of all reporting units exceed the current carrying amounts of the goodwill.

During the second and third quarters of 2008, the Company recorded goodwill impairment of $858 thousand as a charge to earnings related to the Company's insurance agency reporting unit, East West Insurance Services, Inc. This amount represents the entire goodwill balance for this reporting unit. These impairment charges had no effect on the Company's cash balances or liquidity. In addition, because goodwill and other intangible assets are not included in the calculation of regulatory capital, the Company's well capitalized regulatory ratios are not affected by this non-cash expense. Subsequent to December 31, 2008, the Company's market capitalization continued to decrease. If the Company's market capitalization continues to remain below book value, the Company will update its valuation analysis to determine whether goodwill is impaired. No assurance can be given that goodwill will not be written down further in future periods. The Company did not record any goodwill impairment writedowns during 2007.

The changes in the carrying amount of goodwill for the years ended December 31, 2008 and 2007 are summarized in the following table:

| | As of December 31, | |
|---|---|---|
| | **2008** | **2007** |
| Balance, beginning of year | $335,366 | $244,259 |
| Additions to goodwill | - | 96,135 |
| Impairment write-down | (858) | - |
| Purchase accounting adjustments | 2,930 | (5,028) |
| Balance, end of year | $337,438 | $335,366 |

The change in carrying value of goodwill during the year ended December 31, 2007 primarily represents goodwill of $91.1 million arising from the acquisition of DCB.

The Company also has premiums on acquired deposits which represent the intangible value of depositor relationships resulting from deposit liabilities assumed in various acquisitions. Other intangibles are tested for impairment on an annual basis, or more frequently as events occur, or as current circumstances and conditions warrant. The gross carrying amount of deposit premiums totaled $43.0 million and $46.9 million, respectively, and the related accumulated amortization totaled $21.0 million and $18.5 million, respectively, at December 31, 2008 and 2007. During 2008, the Company recorded an $855 thousand impairment writedown on deposit premiums initially recorded for the DCB acquisition due to higher than anticipated runoffs in certain deposit categories. The Company did not record any impairment writedowns on deposit premiums during 2007. The Company amortizes premiums on acquired deposits based on the projected useful lives of the related deposits. The weighted amortization periods for premiums on acquired deposits for DCB and Standard Bank is 5.3 years and 4.3 years, respectively. Total amortization expense on deposit premiums was $7.3 million, $6.8 million and $7.1 million during the years ended December 31, 2008, 2007 and 2006, respectively.

Table of Contents

The following table provides the estimated future amortization expense of premiums on acquired deposits for the succeeding five years is as follows:

| Estimate For The Year Ending December 31, | Amount *(In thousands)* |
|---|---|
| 2009 | $ 4,344 |
| 2010 | 3,858 |
| 2011 | 3,378 |
| 2012 | 2,602 |
| 2013 | 1707 |

**13. MORTGAGE SERVICING ASSETS**

Mortgage servicing assets are recorded when loans are sold to third parties and the servicing of those loans is retained by the Bank. The Company's two primary classes of mortgage servicing assets, which result from sales and securitizations, are single family loans and multifamily loans. Mortgage servicing assets are subject to interest rate risk and may become impaired when interest rates fall and borrowers refinance or prepay their mortgage loans.

Income from servicing loans is reported as ancillary loan fee income, a component of noninterest income in the Company's consolidated statements of operations, and the amortization of mortgage servicing assets is reported as a reduction to ancillary loan fee income. Late fees and charges collected on delinquent loans are recorded as a component of loans receivable interest income in the consolidated statements of operations.

Information regarding the Company's mortgage servicing assets ("MSAs") for the years ended December 31, 2008 and 2007 is as follows:

| | Single Family | | Multifamily | |
|---|---|---|---|---|
| | Year ended December 31, | | | |
| | 2008 | 2007 | 2008 | 2007 |
| | *(In Thousands)* | | *(In Thousands)* | |
| MSAs balance, beginning of year | $ 6,302 | $ 6,215 | $ 16,495 | $ 5,596 |
| Additions | 238 | 1,714 | 57 | 12,500 |
| Amortization | (1,335) | (1,627) | (1,639) | (1,601) |
| MSAs before valuation allowance, end of year | 5,205 | 6,302 | 14,913 | 16,495 |
| Valuation allowance | (652) | (569) | (2,974) | (670) |
| MSAs, end of year | $ 4,553 | $ 5,733 | $ 11,939 | $ 15,825 |
| Fair value, beginning of year | $ 7,546 | $ 6,847 | $ 15,532 | $ 5,167 |
| Fair value, end of year | $ 4,976 | $ 7,546 | $ 15,198 | $ 15,532 |
| Valuation allowance, beginning of year | $ (569) | $ (302) | $ (670) | $ (357) |
| Impairment provision | (83) | (267) | (2,304) | (313) |
| Valuation allowance, end of year | $ (652) | $ (569) | $ (2,974) | $ (670) |
| Key Assumptions: | | | | |
| Weighted average discount | 13.19% | 12.27% | 12.00% | 12.00% |
| Weighted average prepayment speed assumption | 24.97% | 19.60% | 3.43% | 8.42% |

Table of Contents

Estimated future amortization of mortgage servicing assets for the succeeding five years and thereafter is as follows:

| | Single Family | Multifamily |
|---|---|---|
| | (In thousands) | |
| Estimate for the year ending December 31, | | |
| 2009 | $ 876 | $ 707 |
| 2010 | 648 | 523 |
| 2011 | 480 | 387 |
| 2012 | 355 | 286 |
| 2013 | 263 | 212 |
| Thereafter | 1,931 | 9,824 |
| Total | $ 4,553 | $ 11,939 |

The following table shows the hypothetical effect on the fair value of our mortgage servicing assets using various unfavorable variations of the expected levels of certain key assumptions used in the valuations as of December 31, 2008 and 2007. These sensitivities are hypothetical and are presented for illustration purposes only. As the amounts indicate, changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the interest that continues to be held by the transferor is calculated without changing any of the other assumptions. In reality, changes in one factor may result in changes in another factor, which might magnify or counteract the sensitivities.

| | Single Family | | Mutifamily | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (In thousands) | | | |
| Balance sheet net carrying value | $ 4,553 | $ 5,733 | $ 11,939 | $ 15,825 |
| CPR assumption | 24.97% | 19.60% | 3.43% | 8.42% |
| Impact on fair value of 10% adverse change of prepayment speed | $ (326) | $ (331) | $ (247) | $ (511) |
| Impact on fair value of 20% adverse change of prepayment speed | $ (622) | $ (630) | $ (489) | $ (993) |
| Discount rate assumption | 13.19% | 12.27% | 12.00% | 12.00% |
| Impact on fair value of 10% adverse change of discount rate | $ (142) | $ (232) | $ (807) | $ (706) |
| Impact on fair value of 20% adverse change of discount rate | $ (277) | $ (450) | $ (1,538) | $ (1,354) |

Table of Contents

## 14. CUSTOMER DEPOSIT ACCOUNTS

Customer deposit account balances are summarized as follows:

| | December 31, 2008 | December 31, 2007 |
|---|---|---|
| | *(In thousands)* | |
| Noninterest-bearing demand | $1,292,997 | $1,431,730 |
| Interest-bearing checking | 363,285 | 472,943 |
| Money market accounts | 1,323,402 | 1,090,949 |
| Savings deposits | 420,133 | 477,779 |
| Total core deposits | 3,399,817 | 3,473,401 |
| Time deposits: | | |
| Less than $100,000 | 1,521,988 | 926,459 |
| $100,000 or greater | 3,220,154 | 2,879,054 |
| Total time deposits | 4,742,142 | 3,805,513 |
| Total deposits | $8,141,959 | $7,278,914 |

At December 31, 2008, the scheduled maturities of time deposits are as follows:

| | $100,000 or Greater | Less Than $100,000 | Total |
|---|---|---|---|
| | | *(In thousands)* | |
| 2009 | $3,140,838 | $1,435,269 | $4,576,107 |
| 2010 | 61,378 | 63,412 | 124,790 |
| 2011 | 8,131 | 7,178 | 15,309 |
| 2012 | 9,307 | 15,682 | 24,989 |
| 2013 | 500 | 395 | 895 |
| Thereafter | - | 52 | 52 |
| Total | $3,220,154 | $1,521,988 | $4,742,142 |

Accrued interest payable totaled $10.2 million and $3.2 million at December 31, 2008 and 2007, respectively. Interest expense on customer deposits by account type is summarized as follows:

| | December 31, 2008 | December 31, 2007 | December 31, 2006 |
|---|---|---|---|
| | | *(In thousands)* | |
| Interest-bearing checking | $ 3,226 | $ 6,646 | $ 5,693 |
| Money market accounts | 25,805 | 53,021 | 43,233 |
| Savings deposits | 4,148 | 4,400 | 2,626 |
| Time deposits: | | | |
| Less than $100,000 | 35,061 | 37,164 | 40,519 |
| $100,000 or greater | 109,820 | 139,804 | 108,194 |
| Total | $178,060 | $241,035 | $200,265 |

As a result of the turbulence in the banking sector, the Company experienced a notable growth in deposit products that afford greater deposit insurance coverage to deposit customers during the second half of 2008. As of December 31, 2008, time deposits within the Certificate of Deposit Account

Table of Contents

Registry Service ("CDARS") program increased to $946.8 million, compared to $11.7 million at December 31, 2007. The CDARS program allows customers with deposits in excess of FDIC-insured limits to obtain full coverage on time deposits through a network of banks within the CDARS program. Additionally, during the third quarter of 2008, the Company partnered with another financial institution to implement a new retail sweep product for non-time deposit accounts to provide added deposit insurance coverage for deposits in excess of FDIC-insured limits. Deposits gathered through these programs are considered brokered deposits under current regulatory reporting guidelines.

## 15. FEDERAL FUNDS PURCHASED

Federal funds purchased generally mature within one business day to six months from the transaction date.

The following table provides information on Federal funds purchased for the periods indicated:

| | As of and for the Year Ended December 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| | (Dollars in thousands) | | |
| Balance at end of year | $ 28,022 | $ 222,275 | $ 151,000 |
| Average balance outstanding during the year | $ 89,309 | $ 173,103 | $ 110,116 |
| Maximum balance outstanding at any month-end | $ 193,259 | $ 222,275 | $ 151,000 |
| Weighted average interest rate during the year | 2.05% | 5.07% | 5.08% |
| Weighted average interest rate at end of year | 0.25% | 3.18% | 5.23% |

As a means of augmenting its liquidity, the Company has established Federal funds lines with nine correspondent banks. The Company's available borrowing capacity from Federal funds line facilities amounted to $289.0 million and $247.7 million as of December 31, 2008 and 2007, respectively.

## 16. FEDERAL HOME LOAN BANK ADVANCES

FHLB advances and their related weighted average interest rates are summarized as follows:

| | December 31, 2008 | | December 31, 2007 | |
|---|---|---|---|---|
| Year of Maturity | Amount | Rate | Amount | Rate |
| | (Dollars in thousands) | | | |
| 2008 | - | -% | $ 705,113 | 4.12% |
| 2009 | 630,114 | 4.79% | 630,113 | 4.79% |
| 2010 | 660,074 | 3.95% | 410,074 | 4.39% |
| 2011 | 55,054 | 5.20% | 55,054 | 5.20% |
| 2012 | 5,026 | 4.46% | 5,026 | 4.46% |
| After 2012 | 3,039 | 4.44% | 3,039 | 4.44% |
| Total | $ 1,353,307 | 4.39% | $ 1,808,419 | 4.45% |

There were no overnight borrowings at December 31, 2008, compared with $350.0 million of overnight borrowings at December 31, 2007. All term advances as of December 31, 2008 are at fixed interest rates and are secured by real estate loans.

The Company's available borrowing capacity from unused FHLB advances totaled $556.1 million and $485.7 million at December 31, 2008 and 2007, respectively. The Company's available borrowing

Table of Contents

capacity from FHLB advances is derived from its outstanding FHLB advances and from its portfolio of real estate loans and home equity lines of credit ("HELOC") that are pledged to the FHLB. The increase in available borrowing capacity from FHLB advances at December 31, 2008 is primarily due to the decrease in outstanding FHLB advances, partially offset by the reduction in loans pledged to the FHLB at December 31, 2008, relative to December 31, 2007. Additionally, during 2008, the Company obtained additional borrowing capacity from the Federal Reserve discount window of almost $900.0 million by pledging construction and commercial business loans.

**17. SECURITIES SOLD UNDER REPURCHASE AGREEMENTS**

Securities sold under repurchase agreements totaled $998.4 million and $1.00 billion as of December 31, 2008 and 2007, respectively. Included in this balance is $3.4 million in overnight repurchase agreements with customers that the Company assumed in conjunction with the DCB acquisition. The interest rates on these customer repurchase agreements ranged from 0.50% to 0.75% as of December 31, 2008. All of the other repurchase agreements are long-term with ten year maturity terms. The rates are all initially floating rate for a period of time ranging from six months to three years. Thereafter, the rates are fixed for the remainder of the term, with interest rates ranging from 4.29% to 5.13%. The counterparty has the right to either a one-time call or a quarterly call when the rates change from floating to fixed, for each of the repurchase agreements.

These transactions are accounted for as collateralized financing transactions and recorded at the amounts at which the securities were sold. The collateral for these agreements consist of U.S. Government agency and U.S. Government sponsored enterprise debt and mortgage-backed securities. The Company may have to provide additional collateral for the repurchase agreements, as necessary.

The following table provides information on securities sold under repurchase agreements as of December 31, 2008 and 2007:

| | **December 31, 2008** | | **December 31, 2007** | |
|---|---|---|---|---|
| **Year of Maturity** | **Amount** | **Rate** | **Amount** | **Rate** |
| | *(Dollars in thousands)* | | | |
| 2008 | $ - | -% | $ 6,955 | 4.48% |
| 2009 | 3,430 | 0.70% | - | 0.00% |
| 2015 | 245,000 | 4.50% | 245,000 | 4.37% |
| 2016 | 700,000 | 4.92% | 700,000 | 4.61% |
| 2017 | 50,000 | 4.15% | 50,000 | 3.64% |
| | $998,430 | 4.77% | $1,001,955 | 4.50% |

Total interest expense recorded on repurchase agreements amounted to $46.1 million, $38.5 million and $23.1 million for the years ended December 31, 2008, 2007 and 2006, respectively.

The Company also has master repurchase agreements with other major brokerage companies. The Company's available borrowing capacity from repurchase agreements totaled $721.9 million and $232.8 million at December 31, 2008 and 2007, respectively. The increase in the available borrowing capacity from repurchase agreements is due to the increase in investment securities available to be pledged at year-end 2008.

Table of Contents

## 18. CAPITAL RESOURCES

***Junior Subordinated Debt*** The Company has formed nine statutory business trusts for the purpose of issuing junior subordinated debt to third party investors. Junior subordinated debt is recorded as a component of long-term debt and includes the value of the common stock issued by the Trusts to the Company in conjunction with these transactions. The common stock is recorded in other assets for the amount issued in connection with these junior subordinated debt issuances. As of December 31, 2008 and 2007, total junior subordinated debt of $155.8 million and total common stock of $4.9 million were issued by the Trusts to the Company.

The proceeds from these issuances represent liabilities of the Company to the Trusts and are reported in the consolidated balance sheets as a component of long-term debt. Interest payments on these securities are made either quarterly or semi-annually and are deductible for tax purposes. These securities are not registered with the Securities and Exchange Commission. For regulatory reporting purposes, these securities qualify for Tier I capital treatment.

The table below summarizes pertinent information related to outstanding junior subordinated debt issued by each Trust as of December 31, 2008 and 2007:

| Trust Name | Maturity Date (1) | Stated Interest Rate | Rate at December 31, 2008 | Balance at December 31, 2008 | Balance at December 31, 2007 |
|---|---|---|---|---|---|
| | | | | *(Dollars in thousands)* | |
| East West Capital Trust I | March 2030 | 10.88%, fixed | 10.88% | $ 10,750 | $ 10,750 |
| East West Capital Trust II | July 2030 | 10.95%, fixed | 10.95% | 10,000 | 10,000 |
| East West Capital Statutory Trust III | December 2033 | 3-month Libor + 2.85% | 4.72% | 10,000 | 10,000 |
| East West Capital Trust IV | July 2034 | 3-month Libor + 2.55% | 6.38% | 10,000 | 10,000 |
| East West Capital Trust V | November 2034 | 3-month Libor + 1.80% | 3.95% | 15,000 | 15,000 |
| East West Capital Trust VI | September 2035 | 3-month Libor + 1.50% | 3.50% | 20,000 | 20,000 |
| East West Capital Trust VII | June 2036 | 3-month Libor + 1.35% | 3.35% | 30,000 | 30,000 |
| East West Capital Trust VIII | June 2037 | 3-month Libor + 1.40% | 3.59% | 20,000 | 20,000 |
| East West Capital Trust IX | September 2037 | 3-month Libor + 1.90% | 3.90% | 30,000 | 30,000 |
| | | | | $ 155,750 | $ 155,750 |

(1) All of the above debt instruments are subject to various call options.

***Subordinated Debt*** On April 28, 2005, the Company issued $50.0 million in subordinated debt in a private placement transaction. On September 23, 2005, the Company issued an additional $25.0 million in subordinated debt, as an amendment to the principal balance of the initial $50.0 million subordinated debt agreement. The additional $25.0 million in subordinated debt has a maturity date of September 23, 2015 and the amendment also extended the maturity of the original $50.0 million subordinated debt to the same date. The stated interest rate on the subordinated debt is based on the three-month Libor plus 110 basis points, payable on a quarterly basis. At December 31, 2008, the interest rate on this debt instrument was 4.60%. The subordinated debt was issued through the Bank and qualifies as Tier II capital for regulatory reporting purposes and is included as a component of long-term debt in the accompanying consolidated balance sheets.

Table of Contents

## 19. INCOME TAXES

The benefit or provision for income taxes consists of the following components:

| | Year Ended December 31, 2008 | 2007 | 2006 |
|---|---|---|---|
| | *(Dollars in thousands)* | | |
| Current income tax expense: | | | |
| Federal | $ 20,575 | $ 90,193 | $ 81,148 |
| State | 15,577 | 28,394 | 23,733 |
| Total current income tax expense | 36,152 | 118,587 | 104,881 |
| Deferred income tax benefit: | | | |
| Federal | (61,068) | (14,483) | (12,177) |
| State | (22,569) | (3,012) | (2,292) |
| Total deferred income tax benefit | (83,637) | (17,495) | (14,469) |
| (Benefit) provision for income taxes | $ (47,485) | $ 101,092 | $ 90,412 |

The difference between the effective tax rate implicit in the consolidated financial statements and the statutory federal income tax rate can be attributed to the following:

| | Year Ended December 31, 2008 | 2007 | 2006 |
|---|---|---|---|
| Federal income tax provision at statutory rate | 35.0% | 35.0% | 35.0% |
| State franchise taxes, net of federal tax effect | 4.7 | 6.3 | 6.0 |
| Tax credits | 7.7 | (2.2) | (1.9) |
| Other, net | 1.5 | (0.5) | (0.4) |
| Effective income tax rate | 48.9% | 38.6% | 38.7% |

Table of Contents

The tax effects of temporary differences that give rise to significant portions of the deferred tax (assets) liabilities are presented below:

| | December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2008 | | | 2007 | | |
| | Federal | State | Total | Federal | State | Total |
| | (In thousands) | | | | | |
| Deferred tax liabilities: | | | | | | |
| Premiums on deposits acquired | $ 7,414 | $ 2,296 | $ 9,710 | $ 9,933 | $ 3,076 | $ 13,009 |
| Depreciation | 571 | 411 | 982 | 2,395 | 790 | 3,185 |
| FHLB stock dividends | 7,244 | 2,244 | 9,488 | 5,971 | 1,849 | 7,820 |
| Deferred loan fees | 5,324 | 1,592 | 6,916 | 7,085 | 2,138 | 9,223 |
| Purchased loan discounts | 256 | 79 | 335 | 320 | 99 | 419 |
| State taxes | 8,012 | - | 8,012 | - | - | - |
| Mortgage servicing assets | 1,471 | 564 | 2,035 | 1,913 | 680 | 2,593 |
| Other, net | 1,170 | 363 | 1,533 | 1,111 | 2,401 | 3,512 |
| Total gross deferred tax liabilities | 31,462 | 7,549 | 39,011 | 28,728 | 11,033 | 39,761 |
| Deferred tax assets: | | | | | | |
| Bad debt deduction | (75,693) | (23,354) | (99,047) | (34,717) | (10,663) | (45,380) |
| Affordable housing partnership loss | (930) | (406) | (1,336) | 67 | (93) | (26) |
| Deferred compensation accrual | (15,753) | (4,879) | (20,632) | (16,610) | (5,148) | (21,758) |
| State taxes | - | - | - | (6,656) | - | (6,656) |
| Purchased loan premium | (1,299) | (402) | (1,701) | (1,537) | (476) | (2,013) |
| Unrealized loss on securities | (71,220) | (25,122) | (96,342) | (21,097) | (8,020) | (29,117) |
| Net operating loss carryforwards | - | (326) | (326) | (118) | (460) | (578) |
| Other, net | (3,196) | (1,019) | (4,215) | 177 | (820) | (643) |
| Total gross deferred tax assets | (168,091) | (55,508) | (223,599) | (80,491) | (25,680) | (106,171) |
| Net deferred tax assets | $ (136,629) | $ (47,959) | $ (184,588) | $ (51,763) | $ (14,647) | $ (66,410) |

At December 31, 2008, the Bank did not have any federal net operating loss carryforwards. At December 31, 2007, the Bank had federal net operating loss carryforwards of approximately $336 thousand which expire through 2020. These net operating loss carryforwards were acquired in connection with the Bank's acquisition of American International Bank ("AIB"). The Bank also had state net operating loss carryforwards of approximately $4.2 million which expire in 2017 resulting from the acquisition of DCB. Federal and state tax laws related to a change in ownership, such as the acquisition of AIB and DCB, place limitations on the annual amount of operating loss carryovers that can be utilized to offset post-acquisition operating income. Under Internal Revenue Code Section 382, which has been adopted under California law, if during any three-year period there is more than a 50% change in ownership of the Bank, then the future use of any pre-change net operating losses or built-in losses of the Bank would be subject to an annual percentage limitation based on the value of the Bank at an ownership change date.

The passage of the Emergency Economic Stabilization Act of 2008 ("EESA") in October 2008 provided banks with tax relief by treating OTTI losses on Fannie Mae and Freddie Mac preferred stock

Table of Contents

as ordinary losses, instead of capital losses. As a result of this law change, an additional $5.7 million in tax benefit related to these OTTI charges were recognized during 2008.

The Company adopted the provisions of FIN 48 on January 1, 2007. As a result of implementing FIN 48, the Company increased its existing unrecognized tax benefits by $7.1 million, which included accrued interest, relating to a reduction in the state income tax receivable in connection with its dissolved regulated investment company, East West Securities Company, Inc. This receivable was related to the Franchise Tax Board's position on certain state tax deductions taken by East West Securities Company, Inc. for the 2000, 2001, and 2002 tax years. The $7.1 million increase in unrecognized tax benefits was recorded as a cumulative effect accounting adjustment to retained earnings of $4.6 million, net of the federal deferred tax impact of $2.5 million. During the second quarter of 2008, the Company determined that the remaining $4.6 million, net of tax benefit, would not "more likely than not" be sustained upon examination by tax authorities. As a result, this charge was recorded against the provision for income taxes during the second quarter of 2008. As of December 31, 2008, the Company does not have any tax positions which dropped below a "more likely than not" threshold.

The following table summarizes the activity related to our unrecognized tax benefits:

| | **Year Ended December 31,** | |
|---|---|---|
| | **2008** | **2007** |
| | ***(Dollars in thousands)*** | |
| Balance, beginning of year | $ 7,051 | $6,754 |
| Reductions based on tax positions related to prior years | (6,283) | - |
| Additions based on tax positions related to current year | 335 | 297 |
| Balance, end of year | $ 1,103 | $7,051 |

The Company is not currently under examination by the Internal Revenue Service or any other income or franchise tax authorities other than the FTB. The Company does not believe that there are any other tax jurisdictions in which the outcome of unresolved issues or claims is likely to be material to the Company's financial position, cash flows or results of operations. The Company further believes that adequate provisions have been made for all income tax uncertainties. The Company does not anticipate that the total amount of unrecognized tax benefits will significantly change for the year ending December 31, 2009.

The Company recognizes interest and penalties, if applicable, related to the underpayment of income taxes as a component of income tax expense in the consolidated statement of operations. The Company has accrued $141 thousand and $870 thousand of interest expense for its unrecognized tax position as December 31, 2008 and December 31, 2007, respectively.

**20. COMMITMENTS AND CONTINGENCIES**

***Credit Extensions*** In the normal course of business, there are various outstanding commitments to extend credit which are not reflected in the accompanying consolidated financial statements. While the Company does not anticipate losses as a result of these transactions, commitments to extend credit are included in determining the appropriate level of the allowance for unfunded commitments and credit exposures.

Table of Contents

Loan commitments are agreements to lend to a customer provided there is no violation of any condition established in the agreement. Commitments generally have fixed expiration dates or other termination clauses. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future funding requirements. As of December 31, 2008 and 2007, undisbursed loan commitments amounted to $1.47 billion and $2.72 billion, respectively. In addition, the Bank has committed to fund mortgage and commercial loan applications in process amounting to $65.9 million and $297.4 million as of December 31, 2008 and 2007, respectively. Substantially all commitments are for loans to be held for investment.

Commercial letters of credit are issued to facilitate domestic and foreign trade transactions while standby letters of credit are issued to make payments on behalf of customers when certain specified future events occur. As of December 31, 2008 and 2007, commercial and standby letters of credit totaled $696.4 million and $619.9 million, respectively. The Bank issues standby letters of credit, or "SBLCs" and financial guarantees to support the obligations of its customers to beneficiaries. Based on historical trends, the probability that it will have to make payments under standby letters of credit is low. Additionally, in many cases, the Bank holds collateral in various forms against these standby letters of credit. As part of its risk management activities, the Bank continuously monitors the creditworthiness of the customer as well as its SBLC exposure; however, if the customer fails to perform the specified obligation to the beneficiary, the beneficiary may draw upon the standby letters of credit by presenting documents that are in compliance with the letter of credit terms. In that event, the Bank either repays the money borrowed or advanced, makes payment on account of the indebtedness of the customer or makes payment on account of the default by the customer in the performance of an obligation, to the beneficiary up to the full notional amount of the standby letters of credit. The customer is obligated to reimburse the Bank for any such payment. If the customer fails to pay, the Bank would, as applicable, liquidate collateral and/or set off accounts.

Credit card lines are unsecured commitments that are not legally binding. Management reviews credit card lines at least annually, and upon evaluation of the customers' creditworthiness, the Bank has the right to terminate or change certain terms of the credit card lines.

The Bank uses the same credit policies in making commitments and conditional obligations as in extending loan facilities to customers. It evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties.

As of December 31, 2008 and 2007, the allowance for unfunded loan commitments, off-balance sheet credit exposures, and recourse provision amounted to $6.3 million and $11.4 million, respectively. These amounts are included in accrued expenses and other liabilities in the accompanying consolidated balance sheets. The decrease in the off-balance sheet allowance amount was due, in part, by a 46% decline in unfunded loan commitments at December 31, 2008 relative to December 31, 2007.

***Guarantees*** From time to time, the Company securitizes loans with recourse in the ordinary course of business. For loans that have been securitized with recourse, the recourse component is considered a guarantee. When the Company sells or securitizes a loan with recourse, it commits to stand ready to perform if the loan defaults, and to make payments to remedy the default. As of December 31, 2008, total loans securitized with recourse amounted to $544.5 million and were comprised of $62.4 million in single family loans with full recourse and $482.1 million in multifamily loans with limited recourse. In comparison, total loans securitized with recourse amounted to $650.2 million at December 31, 2007, comprised of $72.7 million in single family loans with full

Table of Contents

recourse and $577.5 million in multifamily loans with limited recourse. The recourse provision on multifamily loans is limited to 2.5% of the top loss on the underlying loans. All of these transactions represent securitizations with Fannie Mae. The Company's recourse reserve related to loan securitizations totaled $1.2 million and $3.0 million as of December 31, 2008 and 2007, respectively, and is included in accrued expenses and other liabilities in the accompanying consolidated balance sheets. Despite the challenging conditions in the real estate market, the Company continues to experience minimal losses from single family and multifamily loan portfolios.

The Company also sells or securitizes loans without recourse that may have to be subsequently repurchased if a defect that occurred during the loan origination process results in a violation of a representation or warranty made in connection with the securitization or sale of the loan. When a loan sold or securitized to an investor without recourse fails to perform according to its contractual terms, the investor will typically review the loan file to determine whether defects in the origination process occurred and if such defects give rise to a violation of a representation or warranty made to the investor in connection with the sale or securitization. If such a defect is identified, the Company may be required to either repurchase the loan or indemnify the investor for losses sustained. If there are no such defects, the Company has no commitment to repurchase the loan. As of December 31, 2008 and 2007, the amount of loans sold without recourse totaled $693.5 million and $606.5 million, respectively. Total loans securitized without recourse amounted to $1.04 billion and $1.19 billion, respectively, at December 31, 2008 and 2007. The loans sold or securitized without recourse represent the unpaid principal balance of the Company's loans serviced for others portfolio.

***Lease Commitments*** The Company conducts a portion of its operations utilizing leased premises and equipment under operating leases. Rental expense amounted to $10.7 million, $10.8 million and $9.2 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Future minimum rental payments under noncancelable operating leases are estimated as follows:

| **Estimate For The Year Ending December 31,** | **Amount *(In thousands)*** |
|---|---|
| 2009 | $ 11,621 |
| 2010 | 12,256 |
| 2011 | 12,570 |
| 2012 | 12,735 |
| 2013 | 12,862 |
| Thereafter | 69,897 |
| Total | $ 131,941 |

***Litigation*** Neither the Company nor the Bank is involved in any material legal proceedings at December 31, 2008. The Bank, from time to time, is a party to litigation which arises in the ordinary course of business, such as claims to enforce liens, claims involving the origination and servicing of loans, and other issues related to the business of the Bank. After taking into consideration information furnished by counsel to the Company and the Bank, management believes that the resolution of such issues will not have a material adverse impact on the financial position, results of operations, or liquidity of the Company or the Bank.

**21. STOCK COMPENSATION PLANS**

The Company issues stock options and restricted stock to employees under share-based compensation plans. The adoption of SFAS No. 123(R) on January 1, 2006 has resulted in incremental stock-based compensation expense. Since the Company has previously recognized compensation expense on restricted stock awards, the incremental stock-based compensation expense recognized pursuant to SFAS No. 123(R) relates only to issued and unvested stock option grants. For the years ended December 31, 2008, 2007, and 2006, incremental stock-based compensation expense reduced income before income taxes by $2.1 million, $1.5 million, and $1.8 million, and reduced net income by $1.2 million, $891 thousand, and $1.1 million, respectively. This additional expense reduced both basic and diluted earnings per share by $0.02, $0.01, and $0.02 for the years ended December 31, 2008, 2007, and 2006, respectively. Cash provided by operating activities increased by $414 thousand in 2008, decreased by $7.5 million in 2007, and $12.1 million in 2006. Cash provided by financing activities decreased during 2008 and increased during 2007 and 2006 by identical amounts related to excess tax benefits from stock-based payment arrangements.

During the years ended December 31, 2008, 2007 and 2006, total compensation cost recognized in the consolidated statements of operations related to stock options and restricted stock awards amounted to $6.2 million, $6.8 million, and $5.7 million, respectively, with related tax benefits of $2.6 million, $2.8 million, and $2.4 million, respectively.

***Stock Options*** The Company issues fixed stock options to certain employees, officers, and directors. Stock options are issued at the current market price on the date of grant with a three-year or four-year vesting period and contractual terms of 7 or 10 years. The Company issues new shares upon the exercise of stock options.

A summary of activity for the Company's stock options as of and for the year ended December 31, 2008 is presented below:

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value (In thousands) |
|---|---|---|---|---|
| Outstanding at beginning of year | 2,099,120 | $ 21.71 | | |
| Granted | 728,260 | 18.67 | | |
| Exercised | (96,198) | 11.06 | | |
| Forfeited | (142,214) | 32.29 | | |
| Outstanding at end of year | 2,588,968 | $ 20.67 | 3.40 years | $ 2,805 |
| Vested or expected to vest at year-end | 2,516,927 | $ 20.55 | 3.33 years | $ 2,757 |
| Exercisable at year-end | 1,534,696 | $ 17.65 | 1.84 years | $ 2,325 |

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| Expected term (1) | 4 years | 4 years | 4 years |
| Expected volatility (2) | 28.1% | 24.1% | 27.3% |
| Expected dividend yield (3) | 1.2% | 1.1% | 0.6% |
| Risk-free interest rate (4) | 2.6% | 4.5% | 4.7% |

(1) The expected term (estimated period of time outstanding) of stock options granted was estimated using the historical exercise behavior of employees.

(2) The expected volatility was based on historical volatility for a period equal to the stock option's expected term.

(3) The expected dividend yield is based on the Company's prevailing dividend rate at the time of grant.

(4) The risk-free rate is based on the U.S. Treasury strips in effect at the time of grant equal to the stock option's expected term.

The following table summarizes information about stock options outstanding as of December 31, 2008:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number of Outstanding Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | Number of Exercisable Options | Weighted Average Exercise Price |
| $5.00 to $9.99 | 75,508 | $ 7.23 | 1.56 years | 73,492 | $ 7.15 |
| $10.00 to $14.99 | 701,058 | 12.91 | 3.78 years | 502,698 | 12.63 |
| $15.00 to $19.99 | 798,007 | 17.01 | 1.32 years | 714,996 | 16.89 |
| $20.00 to $24.99 | 414,367 | 21.09 | 6.14 years | - | - |
| $25.00 to $29.99 | 82,416 | 26.47 | 2.26 years | 79,416 | 26.35 |
| $30.00 to $34.99 | 44,548 | 34.18 | 3.66 years | 30,752 | 34.19 |
| $35.00 to $39.99 | 463,315 | 37.79 | 4.38 years | 129,368 | 37.29 |
| $40.00 to $44.99 | 9,749 | 40.63 | 4.46 years | 3,974 | 41.02 |
| $5.00 to $44.99 | 2,588,968 | $ 20.67 | 3.40 years | 1,534,696 | $ 17.65 |

During the years ended December 31, 2008, 2007 and 2006, information related to stock options are presented as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| Weighted average grant date fair value of stock options granted during the year | $ 4.28 | $ 9.17 | $ 10.01 |
| Total intrinsic value of options exercised (in thousands) | $ 517 | $17,966 | $26,842 |
| Total fair value of options vested (in thousands) | $1,486 | $ 833 | $ 1,924 |

As of December 31, 2008, total unrecognized compensation cost related to stock options amounted to $3.7 million. This cost is expected to be recognized over a weighted average period of 3.5 years.

The Company received $1.1 million and $7.6 million as of December 31, 2008 and 2007, respectively, in cash proceeds from stock option exercises.

***Restricted Stock*** In addition to stock options, the Company also grants restricted stock awards to directors, certain officers and employees. The restricted shares awarded become fully vested after three to five years of continued employment from the date of grant. The Company becomes entitled to an income tax deduction in an amount equal to the taxable income reported by the holders of the restricted shares when the restrictions are released and the shares are issued. Restricted shares are forfeited if officers and employees terminate prior to the lapsing of restrictions. The Company records forfeitures of restricted stock as treasury share repurchases.

Table of Contents

A summary of the activity for the Company's restricted stock as of December 31, 2008, including changes during the year then ended, is presented below:

| | 2008 | |
|---|---|---|
| | Shares | Weighted Average Price |
| Outstanding at beginning of year | 683,336 | $ 34.48 |
| Granted | 280,524 | 19.58 |
| Vested | (96,766) | 34.67 |
| Forfeited | (113,929) | 31.48 |
| Outstanding at end of year | 753,165 | $ 29.35 |

Of the total shares of restricted stock granted in 2008, 23,506 shares were granted to outside directors.

The weighted average fair values of restricted stock awards granted during the years ended December 31, 2008, 2007, and 2006 were $19.58, $32.98, and $36.29, respectively.

The Company also grants performance restricted stock with two-year cliff vesting to an executive officer. The number of shares that the executive will receive under these stock awards will ultimately depend on the Company's achievement of specified performance targets. At the end of each performance period, the number of stock awards issued will be determined by adjusting upward or downward from the target amount of shares in a range between 25% and 125%. The final performance percentages on which the payouts will be based, considering performance metrics established for the performance periods, will be determined by the Board of Directors or a committee of the Board. If the Company performs below its performance targets, the Board or the committee may, at its discretion, choose not to award any shares. Shares of stock, if any, will be issued following the end of each performance period two years from the date of grant. Compensation costs are accrued over the service period and are based on the probable outcome of the performance condition. The number of shares subject to these stock awards varies for each grant representing a maximum total of 99,767 shares to date.

As of December 31, 2008, total unrecognized compensation cost related to restricted stock awards amounted to $12.2 million. This cost is expected to be recognized over a weighted average period of 2.6 years.

***Stock Purchase Plan*** The Company adopted the 1998 Employee Stock Purchase Plan (the "Purchase Plan") providing eligible employees of the Company and its subsidiaries participation in the ownership of the Company through the right to purchase shares of its common stock at a discount. Under the terms of the Purchase Plan, prior to April 2005, employees could purchase shares of the Company's common stock at the lesser of 85% of the per-share market price at the date of grant or exercise, subject to an annual limitation of common stock valued at $25,000. In April 2005, the terms of the Purchase Plan were amended to allow the employees to purchase shares at 90% of the per-share market price at the date of exercise, maintaining the annual common stock value limitation of $25,000. As of December 31, 2008, the Purchase Plan qualifies as a non-compensatory plan under Section 423 of the Internal Revenue Code and, accordingly, no compensation expense is recognized under the plan.

The Purchase Plan covers a total of 2,000,000 shares of the Company's common stock. During, 2008 and 2007, 119,979 shares totaling $1.7 million and 64,194 shares totaling $2.1 million, respectively, were sold to employees under the Purchase Plan.

Table of Contents

***Warrants*** During 2001, in conjunction with an exclusive ten-year agreement with 99 Ranch Market, the Company issued 600,000 warrants to certain senior executives of 99 Ranch Market to purchase common stock of the Company at a price of $13.34 per share (see Note 23). These warrants vest over six years. During 2007, warrants to purchase 120,000 shares of the Company's common stock were exercised. At December 31, 2008 and 2007, there were no remaining warrants pursuant to this agreement.

## 22. EMPLOYEE BENEFIT PLANS

The Company sponsors a defined contribution plan for the benefit of its employees. The Company's contributions to the plan are determined annually by the Board of Directors in accordance with plan requirements. For tax purposes, eligible participants may contribute up to a maximum of 15% of their compensation, not to exceed the dollar limit imposed by the Internal Revenue Service. For the plan years ended December 31, 2008, 2007 and 2006, the Company contributed $3.0 million, $2.9 million and $2.7 million, respectively.

During 2002, the Company adopted a Supplemental Executive Retirement Plan ("SERP"). The SERP meets the definition of a pension plan per SFAS No. 87, *Employers' Accounting for Pensions*, pursuant to which the Company will pay supplemental pension benefits to certain executive officers designated by the Board of Directors upon retirement based upon the officers' years of service and compensation. For the years ended December 31, 2008, 2007, and 2006, $2.5 million, $2.3 million and $1.9 million, respectively, of benefits were accrued and expensed. The SERP is funded through life insurance contracts on the participating officers, though the plan does not require formal funding. At December 31, 2008, the life insurance contracts related to the SERP had an aggregate cash surrender value of $37.3 million. As of December 31, 2008 and 2007, the vested benefit obligation under the SERP was $11.7 million and $9.2 million, respectively.

## 23. STOCKHOLDERS' EQUITY AND EARNINGS PER SHARE

***Authorized Shares*** On May 25, 2005, the Company's shareholders approved an amendment to the Company's Certificate of Incorporation to increase the number of authorized shares of common stock from 100,000,000 to 200,000,000. The additional authorized shares provide the Company greater flexibility for stock splits and stock dividends, issuances under employee benefit plans, financings, corporate mergers and acquisitions, and other general corporate purposes. As of December 31, 2008, the Company also had 5,000,000 authorized shares of preferred stock.

***Series A Preferred Stock Offering*** In April 2008, the Company issued 200,000 shares of 8% Non-Cumulative Perpetual Convertible Preferred Stock, Series A ("Series A preferred shares"), with a liquidation preference of $1,000 per share. The Company received $194.1 million of additional Tier 1 qualifying capital, after deducting underwriting discounts, commissions and offering expenses. The holders of the Series A preferred shares will have the right at any time to convert each share of Series A preferred shares into 64.9942 shares of the Company's common stock, plus cash in lieu of fractional shares. This represents an initial conversion price of approximately $15.39 per share of common stock or a 22.5% conversion premium based on the closing price of the Company's common stock on April 23, 2008 of $12.56 per share. On or after May 1, 2013, the Company will have the right, under certain circumstances, to cause the Series A preferred shares to be converted into shares of the Company's common stock. Dividends on the Series A preferred shares, if declared, will accrue and be payable quarterly in arrears at a rate per annum equal to 8% on the liquidation preference of $1,000 per share, on February 15, May 15, August 15 and November 15 of each year. The proceeds from this offering were used to augment the Company's liquidity and capital positions and reduce its borrowings.

Table of Contents

***Series B Preferred Stock Offering*** On December 5, 2008, the Company issued 306,546 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series B ("Series B preferred shares"), with a liquidation preference of $1,000 per share. The Company received $306.5 million of additional Tier 1 qualifying capital from the U.S. Treasury by participating in the U.S.Treasury's Capital Purchase Program ("TCPP"). The Series B preferred shares will pay cumulative dividends at a rate of 5% per annum until the fifth anniversary of the investment date and thereafter at a rate of 9% per annum. The Series B preferred shares is transferable by the U.S. Treasury at any time. Subject to the approval of the FRB, the Series B preferred shares are redeemable at the option of the Company at 100% of liquidation preference (plus any accrued and unpaid dividends), provided, however, that the Series B preferred shares may be redeemed prior to the first dividend payment date falling after the third anniversary of the Closing Date (February 15, 2012) only if (i) the Company has raised aggregate gross proceeds in one or more Qualified Equity Offerings (as defined in the Stock Purchase Agreement) in excess of $76,636,500, and (ii) the aggregate redemption price does not exceed the aggregate net proceeds from such Qualified Equity Offerings. In connection with the Series B preferred shares offering, the Company issued warrants with an initial price of $15.15 per share of common stock for which the warrant may be exercised. The warrant may be exercised at any time on or before December 5, 2018. The U.S. Treasury may not transfer a portion of the warrant with respect to more than one-half of the original number of shares of common stock until the earlier of the successful completion of an offering of replacement Tier 1 capital of at least $306.5 million and December 31, 2009. The warrants, and all rights under the warrants, are otherwise transferable.

Under the terms of the TCPP, as long as any preferred stock issued under the TCPP remains outstanding, the Company is prohibited from increasing dividends on common stock, and from making certain repurchases of equity securities, including common stock, without the U.S. Treasury's consent until the third anniversary of the U.S. Treasury's investment or until the U.S. Treasury has transferred all of the preferred stock it purchased under the TCPP to third parties. Furthermore, as long as the preferred stock issued to the U.S. Treasury is outstanding or the Series A preferred shares is outstanding, dividend payments and repurchases or redemptions relating to certain equity securities, including common stock, are prohibited until all accrued and unpaid dividends are paid on such preferred stock, subject to certain limited exceptions.

Pursuant to the terms of the Stock Purchase Agreement with the U.S. Treasury ("Stock Purchase Agreement"), the Company adopted certain standards for executive compensation and corporate governance for the period during which the U.S. Treasury holds the equity issued pursuant to the Stock Purchase Agreement, including the common stock which may be issued pursuant to the TARP Warrant. These standards generally apply to our Chief Executive Officer, Chief Financial Officer and the three next most highly compensated senior executive officers. The standards include (1) ensuring that incentive compensation for senior executives does not encourage unnecessary and excessive risks that threaten the value of the financial institution; (2) required clawback of any bonus or incentive compensation paid to a senior executive based on statements of operations, gains or other criteria that are later proven to be materially inaccurate; (3) prohibition on making golden parachute payments to senior executives; and (4) agreement not to deduct for tax purposes executive compensation in excess of $500,000 for each senior executive. In particular, the change to the deductibility limit on executive compensation will likely increase the overall cost of our compensation programs in future periods. Since the TARP Warrant has a ten year term, the Company could potentially be subject to the executive compensation and corporate governance restrictions for a ten year time period.

On February 17, 2009, the American Recovery and Reinvestment Act of 2009 ("ARRA") was signed into law by President Obama. The ARRA includes a wide variety of programs intended to stimulate the economy and provide for extensive infrastructure, energy, health, and education needs. In addition, the ARRA imposes certain new executive compensation and corporate expenditure limits on all current and future TARP recipients, including the Company, until the institution has repaid the U.S. Treasury, which is now permitted under the ARRA without penalty and without the need to raise new capital, subject to the U.S. Treasury's consultation with the recipient's appropriate regulatory agency.

The executive compensation standards are more stringent than those currently in effect under the TARP CPP or those previously proposed by the U.S. Treasury. The new standards include (but are not limited to) (i) prohibitions on bonuses, retention awards and other incentive compensation, other than restricted stock grants which do not fully vest during the TARP period up to one-third of an employee's total annual compensation, (ii) prohibitions on golden parachute payments for departure from a company, (iii) an expanded clawback of bonuses, retention awards, and incentive compensation if payment is based on materially inaccurate statements of earnings, revenues, gains or other criteria, (iv) prohibitions on compensation plans that encourage manipulation of reported earnings, (v) retroactive review of bonuses, retention awards and other compensation previously provided by TARP recipients if found by the U.S. Treasury to be inconsistent with the purposes of TARP or otherwise contrary to public interest, (vi) required establishment of a company-wide policy regarding "excessive or luxury expenditures," and (vii) inclusion in a participant's proxy statements for annual shareholder meetings of a nonbinding "Say on Pay" shareholder vote on the compensation of executives.

***Warrants*** During 2008, in conjunction with the Series B preferred stock offering, the Company issued warrants with an initial price of $15.15 per share of common stock for which the warrant may be exercised, with an allocated fair value of $25.2 million. The warrant may be exercised at any time on or before December 5, 2018. The U.S. Treasury may not transfer a portion of the warrants with respect to more than one-half of the original number of shares of common stock until the earlier of the successful completion of an offering of replacement Tier 1 capital of at least $306.5 million and December 31, 2009. The warrants, and all rights under the warrants, are otherwise transferable. As of December 31, 2008, there were 3,035,109 warrants remaining.

***In-Store Banking Agreement*** During 2001, in conjunction with its exclusive ten-year agreement with 99 Ranch Market to provide in-store banking services to targeted locations throughout California, the Company issued 600,000 warrants to senior executives of 99 Ranch Market to purchase common stock of the Company at a price of $13.34 per share. These warrants vest over six years and are intended to provide direct benefit to 99 Ranch Market executives that make a significant contribution to the success of the in-store banking operations. The estimated fair value of the warrants when issued was $2.7 million.

The excess of the combined fair values of the issued warrants and the purchased shares over the total consideration paid by the senior executives of 99 Ranch Market for the newly issued shares is accounted for as an intangible asset and is being amortized over the life of the agreement. There are no outstanding warrants under this agreement as of December 31, 2008 and 2007.

***Stock Repurchase Program*** During 2007, the Company's Board of Directors authorized a new stock repurchase program to buy back up to $80.0 million of the Company's common stock. During 2007, the Company repurchased a total of 1,392,176 shares of common stock at a weighted average cost of $38.69 per share in connection with this repurchase program. The Company did not repurchase any shares during the year ended December 31, 2008.

***Quarterly Dividends*** The Company's Board of Directors declared and paid quarterly preferred stock cash dividends of $20.00 per share on its Series A preferred stock payable on or about November 3, 2008 to shareholders of record on October 15, 2008. Cash dividends totaling $8.0 million

Table of Contents

were paid to the Company's Series A preferred stock shareholders during year ended December 31, 2008.

The Company also paid quarterly dividends on its common stock of $0.10 per share during 2008 and 2007. Total quarterly dividends amounting to $25.4 million and $24.6 million were paid to the Company's common shareholders during the years ended December 31, 2008 and 2007, respectively.

***Earnings (Loss) Per Share ("EPS")*** The calculation of basic and diluted (loss) earnings per share for the years ended December 31, 2008, 2007 and 2006 is presented below:

| | Net (Loss) Income Available to Common Stockholders | Number of Shares | Per Share Amounts |
|---|---|---|---|
| | *(In thousands, except per share data)* | | |
| **2008** | | | |
| Net loss as reported | $ (49,683) | 62,673 | |
| Less: | | | |
| Preferred stock dividends and amortization of preferred stock discount | (9,474) | - | |
| Basic loss per share | $ (59,157) | 62,673 | $ (0.94) |
| Effect of dilutive securities: | | | |
| Stock options | - | - | |
| Restricted stock | - | - | |
| Noncumulative preferred stock | - | - | |
| Stock warrants | - | - | |
| Diluted loss per share | $ (59,157) | 62,673 | $ (0.94) |
| **2007** | | | |
| Basic earnings per share | $ 161,167 | 61,180 | $ 2.63 |
| Effect of dilutive securities: | | | |
| Stock options | - | 669 | |
| Restricted stock | - | 215 | |
| Stock warrants | - | 29 | |
| Diluted earnings per share | $ 161,167 | 62,093 | $ 2.60 |
| **2006** | | | |
| Basic earnings per share | $ 143,369 | 59,605 | $ 2.40 |
| Effect of dilutive securities: | | | |
| Stock options | - | 1,047 | |
| Restricted stock | - | 182 | |
| Stock warrants | - | 75 | |
| Diluted earnings per share | $ 143,369 | 60,909 | $ 2.35 |

Table of Contents

The following outstanding convertible preferred stock, stock options, restricted stock and stock warrants for years ended December 31, 2008 and 2007, respectively, were excluded from the computation of diluted EPS because including them would have had an antidilutive effect.

| | For the Year Ended | | |
|---|---|---|---|
| | **2008** | **2007** | **2006** |
| | *(In thousands)* | | |
| Convertible preferred stock | 8,924 | - | - |
| Stock options | 1,997 | 506 | 32 |
| Restricted stock | 640 | - | - |
| Warrants | 1 | - | - |

## 24. REGULATORY REQUIREMENTS

***Risk-Based Capital*** In September 2004, the Bank became a member bank of the Federal Reserve System and the FRB replaced the Federal Deposit Insurance Corporation (the "FDIC") as the Bank's primary federal regulator. The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

As of December 31, 2008 and 2007, the most recent notification from FRB categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain specific total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table below. There are no conditions or events since that notification which management believes have changed the category of the Bank.

Table of Contents

The actual and required capital amounts and ratios at December 31, 2008 and 2007 are presented as follows:

| | Actual | | For Capital Adequacy Purposes | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| | | | (Dollars in thousands) | | | |
| **As of December 31, 2008:** | | | | | | |
| Total Capital (to Risk-Weighted Assets) | | | | | | |
| Consolidated Company | $1,636,750 | 15.8% | $829,024 | 8.0% | N/A | N/A |
| East West Bank | $1,614,823 | 15.6% | $828,077 | 8.0% | $1,035,096 | 10.0% |
| Tier I Capital (to Risk-Weighted Assets) | | | | | | |
| Consolidated Company | $1,431,538 | 13.8% | $414,512 | 4.0% | N/A | N/A |
| East West Bank | $1,409,757 | 13.6% | $414,038 | 4.0% | $ 621,058 | 6.0% |
| Tier I Capital (to Average Assets) | | | | | | |
| Consolidated Company | $1,431,538 | 12.4% | $463,539 | 4.0% | N/A | N/A |
| East West Bank | $1,409,757 | 12.2% | $462,734 | 4.0% | $ 578,417 | 5.0% |
| **As of December 31, 2007:** | | | | | | |
| Total Capital (to Risk-Weighted Assets) | | | | | | |
| Consolidated Company | $1,166,487 | 10.5% | $886,085 | 8.0% | N/A | N/A |
| East West Bank | $1,143,077 | 10.3% | $884,919 | 8.0% | $1,106,148 | 10.0% |
| Tier I Capital (to Risk-Weighted Assets) | | | | | | |
| Consolidated Company | $ 991,695 | 9.0% | $443,043 | 4.0% | N/A | N/A |
| East West Bank | $ 968,285 | 8.8% | $442,459 | 4.0% | $ 663,689 | 6.0% |
| Tier I Capital (to Average Assets) | | | | | | |
| Consolidated Company | $ 991,695 | 8.7% | $454,536 | 4.0% | N/A | N/A |
| East West Bank | $ 968,285 | 8.5% | $454,331 | 4.0% | $ 567,914 | 5.0% |

During 2005, the regulatory authorities adopted a final rule that allows the continued inclusion of trust preferred securities in the Tier I capital of bank holding companies. Under the final rule, after a five-year transition period, the aggregate amount of trust preferred securities and certain other capital elements would be limited to 25 percent of Tier I capital elements, net of goodwill. As of December 31, 2008 and 2007, trust preferred securities comprised 10.9% and 15.7%, respectively, of the Company's Tier I capital.

***Reserve Requirement*** The Bank is required to maintain a percentage of its deposits as reserves at the Federal Reserve Bank. The daily average reserve requirement was approximately $38.4 million and $38.0 million at December 31, 2008 and 2007, respectively.

## 25. SEGMENT INFORMATION

The Company utilizes an internal reporting system to measure the performance of various operating segments within the Bank and the Company overall. The Company has identified four principal operating segments for purposes of management reporting: retail banking, commercial lending, treasury, and residential lending. Information related to the Company's remaining centralized functions and eliminations of intersegment amounts have been aggregated and included in "Other." Although all four operating segments offer financial products and services, they are managed separately based on each segment's strategic focus. While the retail banking segment focuses primarily on retail operations through the Bank's branch network, certain designated branches have responsibility for generating commercial deposits and loans. The commercial lending segment, which includes commercial real estate, primarily generates commercial loans and deposits through the efforts of commercial lending officers located in the Bank's northern and southern California production offices. The treasury department's primary focus is managing the Bank's investments, liquidity, and interest rate risk; the residential lending segment is mainly responsible for the Bank's portfolio of single family and multifamily residential loans.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Operating segment results are based on the Company's internal management reporting process, which reflects assignments and allocations of capital, certain operating and administrative costs and the provision for loan losses. Net interest income is based on the Company's internal funds transfer pricing system which assigns a cost of funds or a credit for funds to assets or liabilities based on their type, maturity or repricing characteristics. Noninterest income and noninterest expense, including depreciation and amortization, directly attributable to a segment are assigned to that business. Indirect costs, including overhead expense, are allocated to the segments based on several factors, including, but not limited to, full-time equivalent employees, loan volume and deposit volume. The provision for credit losses is allocated based on actual losses incurred and an allocation of the remaining provision based on new loan originations for the period. The Company evaluates overall performance based on profit or loss from operations before income taxes not including nonrecurring gains and losses.

Commencing in the second quarter of 2008, the Company revised the allocation of certain investment securities and related revenues and expenses previously included in the Treasury segment. Specifically, investment securities that have resulted from the Company's in-house securitization activities have been allocated to the operating segments (i.e. retail banking, commercial lending, and residential lending) that initially originated the underlying loans. Interest income, related premium amortizations and discount accretions, as well as any gains or losses from the sale of these investment securities have also been allocated to the appropriate operating segments. As a result of these changes, the Company has revised its results for prior periods to reflect the current allocation methodology between the treasury segment and the other operating segments.

Table of Contents

The following tables present the operating results and other key financial measures for the individual operating segments for the years ended December 31, 2008, 2007 and 2006:

| | Year Ended December 31, 2008 | | | | | |
|---|---|---|---|---|---|---|
| | Retail Banking | Commercial Lending | Treasury | Residential Lending | Other | Total |
| | (In thousands) | | | | | |
| Interest income | $ 188,251 | $ 333,706 | $ 74,083 | $ 68,556 | $ 262 | $ 664,858 |
| Charge for funds used | (87,940) | (146,370) | (127,406) | (32,908) | - | (394,624) |
| Interest spread on funds used | 100,311 | 187,336 | (53,323) | 35,648 | 262 | 270,234 |
| Interest expense | (139,454) | (15,913) | (154,326) | (1) | - | (309,694) |
| Credit on funds provided | 202,723 | 16,685 | 175,212 | 4 | - | 394,624 |
| Interest spread on funds provided | 63,269 | 772 | 20,886 | 3 | - | 84,930 |
| Net interest income (expense) | $ 163,580 | $ 188,108 | $ (32,437) | $ 35,651 | $ 262 | $ 355,164 |
| Depreciation and amortization | $ 12,187 | $ 799 | $ (6,848) | $ (409) | $ 12,368 | $ 18,097 |
| Goodwill | 269,950 | 16,872 | - | 50,616 | - | 337,438 |
| Segment pretax profit (loss) | (33,443) | (1,789) | (116,875) | 16,064 | 38,875 | (97,168) |
| Segment assets | 2,903,534 | 5,331,464 | 2,482,271 | 1,111,868 | 593,679 | 12,422,816 |

| | Year Ended December 31, 2007 | | | | | |
|---|---|---|---|---|---|---|
| | Retail Banking | Commercial Lending | Treasury | Residential Lending | Other | Total |
| | (In thousands) | | | | | |
| Interest income | $ 276,585 | $ 342,935 | $ 69,600 | $ 79,269 | $ 5,218 | $ 773,607 |
| Charge for funds used | (187,043) | (229,384) | (77,545) | (55,542) | - | (549,514) |
| Interest spread on funds used | 89,542 | 113,551 | (7,945) | 23,727 | 5,218 | 224,093 |
| Interest expense | (179,927) | (20,706) | (164,980) | - | - | (365,613) |
| Credit on funds provided | 325,782 | 33,764 | 189,968 | - | - | 549,514 |
| Interest spread on funds provided | 145,855 | 13,058 | 24,988 | - | - | 183,901 |
| Net interest income | $ 235,397 | $ 126,609 | $ 17,043 | $ 23,727 | $ 5,218 | $ 407,994 |
| Depreciation and amortization | $ 11,030 | $ 881 | $ (2,990) | $ 50 | $ 5,021 | $ 13,992 |
| Goodwill | 267,606 | 16,726 | - | 50,176 | 858 | 335,366 |
| Segment pretax profit (loss) | 148,035 | 103,133 | 18,352 | 20,584 | (27,845) | 262,259 |
| Segment assets | 3,955,598 | 5,083,908 | 1,078,675 | 1,282,461 | 451,570 | 11,852,212 |

Table of Contents

| | Year Ended December 31, 2006 | | | | | |
|---|---|---|---|---|---|---|
| | Retail Banking | Commercial Lending | Treasury | Residential Lending | Other | Total |
| | (In thousands) | | | | | |
| Interest income | $ 234,175 | $ 279,285 | $ 61,604 | $ 78,467 | $ 6,519 | $ 660,050 |
| Charge for funds used | (164,809) | (189,733) | (64,000) | (62,882) | - | (481,424) |
| Interest spread on funds used | 69,366 | 89,552 | (2,396) | 15,585 | 6,519 | 178,626 |
| Interest expense | (139,076) | (20,495) | (132,997) | - | - | (292,568) |
| Credit on funds provided | 267,755 | 39,515 | 174,154 | - | - | 481,424 |
| Interest spread on funds provided | 128,679 | 19,020 | 41,157 | - | - | 188,856 |
| Net interest income | $ 198,045 | $ 108,572 | $ 38,761 | $ 15,585 | $ 6,519 | $ 367,482 |
| Depreciation and amortization | $ 10,656 | $ 704 | $ (6,080) | $ 574 | $ 2,033 | $ 7,887 |
| Goodwill | 182,550 | 12,170 | - | 48,680 | 859 | 244,259 |
| Segment pretax profit (loss) | 119,528 | 92,058 | 38,581 | 10,739 | (27,125) | 233,781 |
| Segment assets | 2,678,900 | 3,674,877 | 1,109,704 | 2,526,827 | 833,403 | 10,823,711 |

Table of Contents

## 26. PARENT COMPANY FINANCIAL STATEMENTS

The financial information of East West Bancorp, Inc. as of December 31, 2008 and 2007 and for the years ended December 31, 2008, 2007 and 2006 are as follows:

***BALANCE SHEETS***

| | December 31, 2008 | December 31, 2007 |
|---|---|---|
| | (In thousands) | |
| **ASSETS** | | |
| Cash and cash equivalents | $ 14,015 | $ 11,782 |
| Investment securities available-for-sale | 2,722 | 10,848 |
| Investment in subsidiaries | 1,685,965 | 1,307,778 |
| Investment in nonbank entity | 5,280 | 3,508 |
| Goodwill | - | 858 |
| Other assets | 6,365 | 1,654 |
| TOTAL | $1,714,347 | $1,336,428 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| LIABILITIES | | |
| Long-term debt | $ 160,570 | $ 160,570 |
| Other liabilities | 3,011 | 4,035 |
| Total liabilities | 163,581 | 164,605 |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock (par value $0.001 per share) | | |
| Authorized 5,000,000 shares | | |
| Issued 200,000 shares in Series A, convertible preferred stock in 2008 and none in 2007 | | |
| Outstanding 196,505 shares in 2008 and none in 2007 | | |
| Issued and outstanding 306,546 shares in Series B, cumulative preferred stock in 2008 and none in 2007 | - | - |
| Common stock (par value $0.001 per share) | | |
| Authorized 200,000,000 shares | | |
| Issued 70,377,989 shares in 2008 and 69,634,811 shares in 2007 | | |
| Outstanding 63,745,624 shares in 2008 and 63,137,221 shares in 2007 | 70 | 70 |
| Additional paid in capital | 1,167,832 | 652,297 |
| Retained earnings | 572,172 | 657,183 |
| Treasury stock, at cost: 6,632,365 shares in 2008 and 6,497,590 shares in 2007 | (102,817) | (98,925) |
| Accumulated other comprehensive loss, net of tax | (86,491) | (38,802) |
| Total stockholders' equity | 1,550,766 | 1,171,823 |
| TOTAL | $1,714,347 | $1,336,428 |

Table of Contents

***STATEMENTS OF OPERATIONS***

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2008** | **2007** | **2006** |
| | | *(In thousands)* | |
| Dividends from subsidiaries and nonbank entity | $ 34,818 | $ 71,932 | $ 12,210 |
| Interest income | 1,293 | 328 | 10 |
| Impairment writedown on investment securities available-for-sale | (4,600) | - | - |
| Impairment writedown on other investment | (1,319) | - | - |
| Other income | 6 | 687 | 29 |
| Total income | 30,198 | 72,947 | 12,249 |
| Interest expense | 9,372 | 10,715 | 8,067 |
| Compensation and net occupancy reimbursement to subsidiary | 4,377 | 4,611 | 4,415 |
| Goodwill impairment | 858 | - | - |
| Other expense | 1,478 | 725 | 983 |
| Total expense | 16,085 | 16,051 | 13,465 |
| Income (loss) before income taxes and equity in undistributed income of subsidiaries | 14,113 | 56,896 | (1,216) |
| Income tax benefit | 9,954 | 6,812 | 5,503 |
| Equity in undistributed (loss) income of subsidiaries | (73,750) | 97,459 | 139,082 |
| Net (loss) income | $ (49,683) | $ 161,167 | $ 143,369 |

Table of Contents

***STATEMENTS OF CASH FLOWS***

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2008** | **2007** | **2006** |
| | | *(In thousands)* | |
| **Cash flows from operating activities:** | | | |
| Net (loss) income | $ (49,683) | $ 161,167 | $ 143,369 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | | |
| Equity in undistributed loss (income) of subsidiaries | 73,750 | (97,459) | (139,082) |
| Depreciation and amortization | 230 | 22 | 330 |
| Impairment writedown on goodwill | 858 | - | - |
| Impairment writedown on investment securities available-for-sale | 4,600 | - | - |
| Impairment writedown on other investment | 1,319 | - | - |
| Stock compensation costs | 6,167 | 6,767 | 5,664 |
| Loss (gain) on sale of other investment | 147 | (250) | - |
| Tax provision (benefit) from stock plans | 414 | (7,457) | (12,111) |
| Net change in other assets | (3,754) | 4,782 | 17,909 |
| Net change in other liabilities | (194) | 146 | 193 |
| Net cash provided by operating activities | 33,854 | 67,718 | 16,272 |
| **Cash flows from investing activities:** | | | |
| Purchase of: | | | |
| Investment securities available-for-sale | - | (9,469) | - |
| Proceeds from: | | | |
| Repayments, maturity and redemption of investment securities available-for sale | 190 | 23 | - |
| Capital contributions to subsidiaries, net | (501,046) | (50,000) | (51,000) |
| Net cash used in investing activities | (500,856) | (59,446) | (51,000) |
| **Cash flows from financing activities:** | | | |
| Payment for: | | | |
| Purchase of treasury shares | (306) | (55,085) | (876) |
| Cash dividends on preferred stock | (8,037) | - | - |
| Cash dividends on common stock | (25,375) | (24,603) | (11,968) |
| Proceeds from: | | | |
| Issuance of common stock pursuant to various stock plans and agreements | 2,776 | 11,266 | 10,303 |
| Issuance of preferred stocks and common stock warrants | 500,591 | - | - |
| Issuance of junior subordinated debt | - | 50,000 | 30,000 |
| Tax (provision) benefit from stock plans | (414) | 7,457 | 12,111 |
| Net cash provided by (used in) financing activities | 469,235 | (10,965) | 39,570 |
| Net increase (decrease) in cash and cash equivalents | 2,233 | (2,693) | 4,842 |
| Cash and cash equivalents, beginning of year | 11,782 | 14,475 | 9,633 |
| Cash and cash equivalents, end of year | $ 14,015 | $ 11,782 | $ 14,475 |

**Supplemental Cash Flow Disclosures**

| | | | |
|---|---|---|---|
| Interest paid | $ 9,584 | $ 10,548 | $ 7,894 |
| Income tax payments, net of refunds | 40,000 | 115,465 | 90,578 |
| Noncash financing activities: | | | |
| Accrued preferred stock dividends | 1,125 | - | - |
| Amortization of preferred stock discount | 312 | - | - |
| Issuance of common stock in lieu of Board of Director retainer fees | 219 | 219 | 156 |
| Issuance of equity shares pursuant to acquisitions | - | 78,588 | 133,849 |
| Equity interests in East West Capital Trusts | - | 1,547 | 928 |

Table of Contents

**27. QUARTERLY FINANCIAL INFORMATION (unaudited)**

| | Quarters Ended | | | |
|---|---|---|---|---|
| | **December 31,** | **September 30,** | **June 30,** | **March 31,** |
| | *(In thousands, except per share data)* | | | |
| **2008** | | | | |
| Interest and dividend income | $ 149,907 | $ 159,862 | $ 167,905 | $ 187,184 |
| Interest expense | 73,053 | 73,347 | 75,729 | 87,565 |
| Net interest income | 76,854 | 86,515 | 92,176 | 99,619 |
| Provision for loan losses | 43,000 | 43,000 | 85,000 | 55,000 |
| Net interest income after provision for loan losses | 33,854 | 43,515 | 7,176 | 44,619 |
| Noninterest (loss) income | (863) | (43,550) | 3,438 | 15,913 |
| Noninterest expense | 44,199 | 48,526 | 55,655 | 52,890 |
| (Loss) income before (benefit) provision for income taxes | (11,208) | (48,561) | (45,041) | 7,642 |
| (Benefit) provision for income taxes | (13,574) | (17,355) | (19,154) | 2,598 |
| Net income (loss) | $ 2,366 | $ (31,206) | $ (25,887) | $ 5,044 |
| Preferred stock dividends and amortization of preferred stock discount | 5,385 | 4,089 | - | - |
| Net (loss) income available to common stockholders | $ (3,019) | $ (35,295) | $ (25,887) | $ 5,044 |
| Basic (loss) earnings per share | $ (0.05) | $ (0.56) | $ (0.41) | $ 0.08 |
| Diluted (loss) earnings per share | $ (0.05) | $ (0.56) | $ (0.41) | $ 0.08 |
| **2007** | | | | |
| Interest and dividend income | $ 201,448 | $ 198,768 | $ 187,214 | $ 186,177 |
| Interest expense | 94,840 | 94,914 | 88,285 | 87,574 |
| Net interest income | 106,608 | 103,854 | 98,929 | 98,603 |
| Provision for loan losses | 9,000 | 3,000 | - | - |
| Net interest income after provision for loan losses | 97,608 | 100,854 | 98,929 | 98,603 |
| Noninterest income | 13,978 | 13,588 | 10,802 | 11,152 |
| Noninterest expense | 52,279 | 46,738 | 43,263 | 40,975 |
| Income before provision for income taxes | 59,307 | 67,704 | 66,468 | 68,780 |
| Provision for income taxes | 22,062 | 26,368 | 25,978 | 26,684 |
| Net income | $ 37,245 | $ 41,336 | $ 40,490 | $ 42,096 |
| Basic earnings per share | $ 0.60 | $ 0.68 | $ 0.67 | $ 0.69 |
| Diluted earnings per share | $ 0.59 | $ 0.67 | $ 0.66 | $ 0.68 |

**28. SUBSEQUENT EVENTS**

On January 27, 2009, the East West Board of Directors declared first quarter dividends on the Company's common stock and Series A preferred stock. The Board of Directors authorized the reduction of the common stock dividend to $0.02 per share for the first quarter of 2009, compared with the $0.10 per share paid in previous quarters in order to reduce the dividend payout and preserve capital at this time. On February 17, 2009, the East West Board of Directors declared first quarter dividends on the Company's Series B preferred stock.

Table of Contents

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 2, 2009

EAST WEST BANCORP INC.
(Registrant)

By /s/ DOMINIC NG

Dominic Ng
*Chairman of the Board, President and Chief Executive Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

| | | |
|---|---|---|
| /s/ DOMINIC NG<br>Dominic Ng | Chairman of the Board, President, Chairman, and Chief Executive Officer (Principal Executive Officer) | March 2, 2009 |
| /s/ THOMAS J. TOLDA<br>Thomas J. Tolda | Executive Vice President, Chief Financial Officer, (Principal Financial and Accounting Officer) | March 2, 2009 |
| /s/ PEGGY T. CHERNG<br>Peggy T. Cherng | Director | March 2, 2009 |
| /s/ RUDOLPH I. ESTRADA<br>Rudolph Estrada | Director | March 2, 2009 |
| /s/ JULIA GOUW<br>Julia Gouw | Vice-Chairman and Director | March 2, 2009 |
| /s/ ANDREW S. KANE<br>Andrew S. Kane | Director | March 2, 2009 |
| /s/ JOHN LEE<br>John Lee | Vice-Chairman and Director | March 2, 2009 |
| /s/ HERMAN Y. LI<br>Herman Y. Li | Director | March 2, 2009 |

Table of Contents

| | | |
|---|---|---|
| /s/ JACK C. LIU | Director | March 2, 2009 |
| Jack C. Liu | | |
| /s/ KEITH W. RENKEN | Director | March 2, 2009 |
| Keith W. Renken | | |

Table of Contents

[Doug to update Exhibits]

| Exhibit No. | Exhibit Description |
|---|---|
| 3.1 | Certificate of Incorporation of the Registrant [Incorporated by reference from Registrant's Registration Statement on Form S-4 filed with the Commission on September 17, 1998 (File No. 333-63605).] |
| 3.2 | Certificate of Amendment to Certificate of Incorporation of the Registrant [Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2002 filed with the Commission on March 28, 2003.] |
| 3.3 | Certificate of Amendment to Certificate of Incorporation of the Registrant [Incorporated by reference from Registrant's Exhibit A of the Registrant's Definitive Proxy Statement on Schedule 14A filed with the Commission on April 24, 2008.] |
| 3.4 | Bylaws of the Registrant [Incorporated by reference from Registrant's Registration Statement on Form S-4 filed with the Commission on September 17, 1998 (File No. 333-63605).] |
| 3.5 | Amended and Restated Bylaws of the Registrant dated May 29, 2008 [Incorporated by reference from Registrant's Current Report on Form 8-K, filed with the Commission on June 3, 2008.] |
| 3.6 | Certificate of Designations of 8.00% Non-Cumulative Perpetual Convertible Preferred Stock, Series A, including Form of Series A Preferred Stock Certificate. [Incorporated by reference from Registrant's Current Report on Form 8-K, filed with the Commission on April 30, 2008.] |
| 3.7 | Certificate of Designations of Fixed Rate Cumulative Perpetual Preferred Stock, Series B [Incorporated by reference from Registrant's Current Report on Form 8-K, filed with the Commission on December 9, 2008.] |
| 4.1 | Specimen Common Stock Certificate of Registrant [Incorporated by reference from Registrant's Registration Statement on Form S-4 filed with the Commission on September 17, 1998 (File No. 333-63605).] |
| 4.2 | Form of Certificate of the Registrant's 8.00% Non-Cumulative Perpetual Convertible Preferred Stock, Series A [Incorporated by reference from Registrant's Current report on Form 8-K, filed with the Commission on April 30, 2008.] |
| 4.3 | Form of Preferred Share Certificate for Fixed Rate Cumulative Perpetual Preferred Stock, Series B. [Incorporated by reference from Registrant's Current report on Form 8-K, filed with the Commission on December 9, 2008.] |
| 4.4 | Warrant to purchase up to 3,035,109 shares of Common Stock [Incorporated by reference from Registrant's Current Report on Form 8-K, filed with the Commission on December 9, 2008.] |
| 10.1 | Employment Agreement with Dominic Ng+ [Incorporated by reference from Registrant's Registration Statement on Form S-4 filed with the Commission on November 13, 1998 (File No. 333-63605).] |
| 10.2 | Employment Agreement with Julia Gouw+ [Incorporated by reference from Registrant's Registration Statement on Form S-4 filed with the Commission on November 13, 1998 (File No. 333-63605).] |
| 10.5 | Employment Agreement with Douglas P. Krause+ [Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2005 filed with the Commission on March 11, 2005.] |
| 10.6.1 | East West Bancorp, Inc. 1998 Stock Incentive Plan and Forms of Agreements+ [Incorporated by reference from Registrant's Registration Statement on Form S-4 filed with the Commission on November 13, 1998 (File No. 333-63605).] |

| Exhibit No. | Exhibit Description |
|---|---|
| 10.6.2 | Amended East West Bancorp, Inc. 1998 Stock Incentive Plan+ [Incorporated by reference from Registrant's Current Report on Form 8-K filed with the Commission on March 9, 2005.] |
| 10.6.3 | 1998 Non-Qualified Stock Option Program for Employees and Independent Contractors+ [Incorporated by reference from Registrant's Current Report on Form 8-K filed with the Commission on March 9, 2005.] |
| 10.6.4 | Performance-Based Bonus Plan+ [Incorporated by reference from Registrant's Current Report on Form 8-K filed with the Commission on March 9, 2005.] |
| 10.6.5 | 1999 Spirit of Ownership Restricted Stock Program+ [Incorporated by reference from Registrant's Current Report on Form 8-K filed with the Commission on March 9, 2005.] |
| 10.6.6 | 2003 Directors' Restricted Stock Program+ [Incorporated by reference from Registrant's Current Report on Form 8-K filed with the Commission on March 9, 2005.] |
| 10.7 | East West Bancorp, Inc. 1998 Employee Stock Purchase Plan+ [Incorporated by reference from Registrant's Registration Statement on Form S-4 filed with the Commission on November 13, 1998 (File No. 333-63605).] |
| 10.8 | Employment Agreement with William J. Lewis+ [Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2005 filed with the Commission on March 11, 2005.] |
| 10.9.1 | Employment Agreement with Donald Sang Chow+ [Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 1999 filed with the Commission on March 30, 2000.] |
| 10.9.2 | Amendment to Employment Agreement with Donald Sang Chow+ [Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 1999 filed with the Commission on March 30, 2000.] |
| 10.9.3 | Amendment to Employment Agreement with Donald Sang Chow+ [Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2005 filed with the Commission on March 11, 2005.] |
| 10.10 | Supplemental Executive Retirement Plans+ [Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2005 filed with the Commission on March 11, 2005.] |
| 10.11 | Employment Agreement with Wellington Chen+ [Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2005 filed with the Commission on March 11, 2005.] |
| 10.12 | Director Compensation%+ |
| 10.13 | Named Executive Officer Compensation%+ |
| 10.14 | Letter Agreement, dated December 5, 2008, including Securities Purchase Agreement Standard Terms incorporated by reference therein, by and between the Registrant and the United States Department of Treasury [Incorporated by reference from Registrant's Current report on Form 8-K, filed with the Commission on December 9, 2008.] |
| 21.1 | Subsidiaries of the Registrant% |
| 23.1 | Consent of Independent Registered Public Accounting Firm% |
| 31.1 | Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002% |
| 31.2 | Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002% |

Table of Contents

| **Exhibit No.** | **Exhibit Description** |
|---|---|
| 32.1 | Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002% |
| 32.2 | Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002% |

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Forms 8-K, 10-Q and 10-K identified in the exhibit index have SEC file number 000-24939.

+ Denotes management contract or compensatory plan or arrangement.

% A copy of this exhibit is being filed with this Annual Report on Form 10-K.