EAST WEST BANCORP INC
Form 10-Q
August 08, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Mark One

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

For the quarterly period ended June 30, 2013

or

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

For the transition period from to

Commission file number 000-24939

EAST WEST BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

135 N. Los Robles Ave, 7th Floor, Pasadena, California 91101

(Address of principal executive offices) (Zip Code)

(626) 768-6000

(Registrant s telephone number, including area code)

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

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

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

Large accelerated filer x	Accelerated filer o
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 x

Number of shares outstanding of the issuer s common stock on the latest practicable date: 137,742,433 shares of common stock as of July 31, 2013.

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Forward-Looking Statements

Certain matters discussed in this Quarterly Report contain or incorporate statements that we believe are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Exchange Act), and Rule 175 promulgated thereunder, and Section 21E of the Securities Exchange Act of 1934, as amended, and Rule 3b-6 promulgated thereunder. These statements relate to our financial condition, results of operations, plans, objectives, future performance or business. They usually can be identified by the use of forward-looking language, such as will likely result, may, are expected to, is anticipated, estimate, forecast, projected, intends to, or may include other similar phrases, such as believes, plans, trend, objective, continue, remain, or similar expressions, or future or conditional verbs, such as will, should, could, might, can, or similar verbs. You should not place undue reliance on these statements, as they are subject to risks and uncertainties, including, but not limited to, those described in the documents incorporated by reference. When considering these forward-looking statements, you should keep in mind these risks and uncertainties, as well as any cautionary statements we make. Moreover, you should treat these statements as speaking only as of the date they are made and based only on information then actually known to us.

There are a number of important factors that could cause future results to differ materially from historical performance and these forward-looking statements. Factors that might cause such a difference include, but are not limited to:

- our ability to manage the loan portfolio acquired from FDIC-assisted acquisitions within the limits of the loss protection provided by the FDIC;
- changes in our borrowers performance on loans;
- changes in the commercial and consumer real estate markets;
- changes in our costs of operation, compliance and expansion;
- changes in the U.S. economy, including inflation;
- changes in government interest rate policies;
- changes in laws or the regulatory environment;
- changes in the economy of and monetary policy in the People s Republic of China;
- changes in critical accounting policies and judgments;
- changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or other regulatory agencies;
- changes in the equity and debt securities markets;
- changes in competitive pressures on financial institutions;
- effect of additional provision for loan losses;

- fluctuations of our stock price;
- success and timing of our business strategies;
- impact of reputational risk created by these developments on such matters as business generation and retention, funding and liquidity;
- impact of the European debt crisis;
- impact of potential federal tax increases and spending cuts;
- impact of adverse judgments or settlements in litigation against the Company;
- changes in our ability to receive dividends from our subsidiaries; and
- political developments, wars or other hostilities that 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 the Company s 2012 Form 10-K under the heading ITEM 1A. RISK FACTORS and the information set forth under RISK FACTORS in this Form 10-Q. The Company does not undertake, and specifically disclaims any obligation to update any forward-looking statements to reflect the occurrence of events or circumstances after the date of such statements except as required by law.

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PART I FINANCIAL INFORMATION

EAST WEST BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

(Unaudited)

	June 30, 2013	December 31, 2012
ASSETS		
Cash and cash equivalents	$ 1,050,214	$ 1,323,106
Short-term investments	330,438	366,378
Securities purchased under resale agreements	1,450,000	1,450,000
Investment securities available-for-sale, at fair value (with amortized cost of $2,704,652 at June 30, 2013 and $2,599,018 at December 31, 2012)	2,667,172	2,607,029
Loans held for sale	245,026	174,317
Loans receivable, excluding covered loans (net of allowance for loan losses of $233,480 at June 30, 2013 and $229,382 at December 31, 2012)	13,264,215	11,710,190
Covered loans (net of allowance for loan losses of $9,629 at June 30, 2013 and $5,153 at December 31, 2012)	2,504,315	2,935,595
Total loans receivable, net	15,768,530	14,645,785
FDIC indemnification asset	219,942	316,313
Other real estate owned, net	21,433	32,911
Other real estate owned covered, net	29,836	26,808
Total other real estate owned	51,269	59,719
Investment in Federal Home Loan Bank stock, at cost	86,139	107,275
Investment in Federal Reserve Bank stock, at cost	48,111	48,003
Investment in affordable housing partnerships	176,588	185,645
Premises and equipment, net	111,762	107,517
Accrued interest receivable	109,822	94,837
Due from customers on acceptances	21,573	28,612
Premiums on deposits acquired, net	51,501	56,285
Goodwill	337,438	337,438
Cash surrender value of life insurance policies	111,531	110,133
Other assets	471,350	517,718
TOTAL	**$ 23,308,406**	**$ 22,536,110**
LIABILITIES AND STOCKHOLDERS EQUITY		
Customer deposit accounts:		
Noninterest-bearing	$ 5,128,894	$ 4,535,877
Interest-bearing	14,153,313	13,773,477
Total deposits	19,282,207	18,309,354
Federal Home Loan Bank advances	314,022	312,975
Securities sold under repurchase agreements	995,000	995,000
Other borrowings		20,000
Bank acceptances outstanding	21,573	28,612
Long-term debt	137,178	137,178
Accrued expenses and other liabilities	300,475	350,869

Total liabilities		21,050,455		20,153,988
COMMITMENTS AND CONTINGENCIES (Note 12)				
STOCKHOLDERS EQUITY				
Preferred stock, $0.001 par value, 5,000,000 shares authorized; Series A, non-cumulative convertible, 200,000 shares issued; no shares outstanding as of June 30, 2013 and 85,710 shares outstanding in 2012.				83,027
Common stock, $0.001 par value, 200,000,000 shares authorized; 162,999,534 and 157,160,193 shares issued in 2013 and 2012, respectively; 137,705,407 and 140,294,092 shares outstanding in 2013 and 2012, respectively		163		157
Additional paid in capital		1,558,415		1,464,739
Retained earnings		1,252,812		1,151,828
Treasury stock, at cost 25,294,127 shares in 2013 and 16,866,101 shares in 2012		(531,761)		(322,298)
Accumulated other comprehensive (loss) income, net of tax		(21,678)		4,669
Total stockholders equity		2,257,951		2,382,122
TOTAL	**$**	**23,308,406**	**$**	**22,536,110**

See accompanying notes to condensed consolidated financial statements.

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EAST WEST BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
INTEREST AND DIVIDEND INCOME				
Loans receivable, including fees	$ 234,290	$ 238,036	$ 451,449	$ 459,075
Investment securities	9,594	16,913	19,804	38,145
Securities purchased under resale agreements	5,435	4,758	10,964	9,072
Investment in Federal Home Loan Bank stock	1,021	167	1,550	387
Investment in Federal Reserve Bank stock	721	714	1,441	1,427
Due from banks and short-term investments	4,292	5,774	8,568	12,306
Total interest and dividend income	255,353	266,362	493,776	520,412
INTEREST EXPENSE				
Customer deposit accounts	15,738	19,177	32,592	39,341
Federal funds purchased				2
Federal Home Loan Bank advances	1,047	1,353	2,086	3,495
Securities sold under repurchase agreements	10,217	11,591	20,746	23,313
Long-term debt	707	1,084	1,417	2,186
Total interest expense	27,709	33,205	56,841	68,337
Net interest income before provision for loan losses	227,644	233,157	436,935	452,075
Provision for loan losses, excluding covered loans	8,277	16,595	7,515	33,074
Provision for (reversal of) loan losses on covered loans	723	(1,095)	5,812	526
Net interest income after provision for loan losses	218,644	217,657	423,608	418,475
NONINTEREST (LOSS) INCOME				
Impairment loss on investment securities				(5,165)
Less: Noncredit-related impairment loss recorded in other comprehensive income				5,066
Net impairment loss on investment securities recognized in earnings				(99)
Decrease in FDIC indemnification asset and receivable	(47,905)	(40,345)	(79,804)	(45,763)
Branch fees	8,119	7,821	15,773	15,484
Net gain on sales of investment securities	5,345	71	10,922	554
Net gain on sale of fixed assets	228	37	352	73
Letters of credit fees and commissions	5,426	4,538	10,488	8,813
Foreign exchange income	3,649	563	5,985	2,359
Ancillary loan fees	2,634	2,188	4,686	4,196
Income from life insurance policies	900	959	1,868	1,949
Net (loss) gain on sales of loans	(354)	6,375	(260)	11,554
Other operating income	9,604	6,138	15,537	10,965
Total noninterest (loss) income	(12,354)	(11,655)	(14,453)	10,085
NONINTEREST EXPENSE				
Compensation and employee benefits	42,026	42,863	87,757	89,272

Occupancy and equipment expense	13,706	13,057	27,514	26,575
Amortization of investments in affordable housing partnerships and other investments	5,064	4,425	9,347	8,891
Amortization of premiums on deposits acquired	2,375	2,838	4,784	5,711
Deposit insurance premiums and regulatory assessments	3,875	3,323	7,657	7,315
Loan related expenses	3,573	4,175	7,157	8,656
Other real estate owned (gain on sale) expense	(1,188)	4,486	(2,172)	15,351
Legal expense	5,467	4,150	9,911	11,323
Prepayment penalty for FHLB advances		2,336		3,657
Data processing	2,200	2,197	4,637	4,661
Deposit related expenses	1,516	1,657	3,090	3,084
Consulting expense	1,003	1,568	1,457	3,035
Other operating expenses	14,803	14,533	29,636	28,840
Total noninterest expense	94,420	101,608	190,775	216,371
INCOME BEFORE PROVISION FOR INCOME TAXES	111,870	104,394	218,380	212,189
PROVISION FOR INCOME TAXES	37,855	33,837	72,274	73,549
NET INCOME	**74,015**	**70,557**	**146,106**	**138,640**
PREFERRED STOCK DIVIDENDS	1,714	1,714	3,428	3,428
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	**$ 72,301**	**$ 68,843**	**$ 142,678**	**$ 135,212**
EARNINGS PER SHARE AVAILABLE TO COMMON STOCKHOLDERS				
BASIC	$ 0.52	$ 0.48	$ 1.03	$ 0.93
DILUTED	$ 0.52	$ 0.47	$ 1.03	$ 0.92
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING				
BASIC	137,536	142,107	137,592	143,727
DILUTED	137,816	147,786	141,573	149,414
DIVIDENDS DECLARED PER COMMON SHARE	$ 0.15	$ 0.10	$ 0.30	$ 0.20

See accompanying notes to condensed consolidated financial statements.

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EAST WEST BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	**2012**	**2013**	**2012**
Net income	$ 74,015	$ 70,557	$ 146,106	$ 138,640
Other comprehensive (loss) income, net of tax:				
Unrealized (loss) gain on investment securities available-for-sale:				
Unrealized holding (losses) gains arising during period	(24,770)	1,002	(20,029)	21,272
Reclassification adjustment for net gains included in net income	(3,100)	(41)	(6,335)	(321)
Noncredit-related impairment loss on securities				(2,938)
Unrealized gains (losses) on other investments	7	(6)	17	4
Reclassification adjustment for net gains included in net income				
Other comprehensive (loss) income	(27,863)	955	(26,347)	18,017
COMPREHENSIVE INCOME	**$ 46,152**	**$ 71,512**	**$ 119,759**	**$ 156,657**

See accompanying notes to condensed consolidated financial statements.

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EAST WEST BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(In thousands, except share data)

(Unaudited)

	Preferred Stock	Additional Paid In Capital Preferred Stock	Common Stock	Additional Paid In Capital Common Stock	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss), Net of Tax	Total Stockholders Equity
BALANCE, JANAURY 1, 2012	**$**	**$ 83,027**	**$ 157**	**$ 1,443,883**	**$ 934,617**	**$ (116,001)**	**$ (33,940)**	**$ 2,311,743**
Net income					138,640			138,640
Other comprehensive income							18,017	18,017
Stock compensation costs				7,773				7,773
Tax benefit from stock compensation plans, net				157				157
Issuance of 274,430 shares of common stock pursuant to various stock compensation plans and agreements				2,678				2,678
Cancellation of 108,662 shares of common stock due to forfeitures of issued restricted stock				1,870		(1,870)		
63,636 shares of restricted stock surrendered due to employee tax liability						(1,396)		(1,396)
Preferred stock dividends					(3,428)			(3,428)
Common stock dividends					(29,294)			(29,294)
Purchase of 6,784,227 shares of treasury stock pursuant to the Stock Repurchase Program						(149,950)		(149,950)
BALANCE, JUNE 30, 2012	**$**	**$ 83,027**	**$ 157**	**$ 1,456,361**	**$ 1,040,535**	**$ (269,217)**	**$ (15,923)**	**$ 2,294,940**
BALANCE, JANAURY 1, 2013	**$**	**$ 83,027**	**$ 157**	**$ 1,464,739**	**$ 1,151,828**	**$ (322,298)**	**$ 4,669**	**$ 2,382,122**
Net income					146,106			146,106
Other comprehensive loss							(26,347)	(26,347)
Stock compensation costs				5,898				5,898
Tax benefit from stock compensation plans, net				2,803				2,803
Issuance of 245,261 shares of common stock pursuant to various stock compensation plans and agreements				1,150				1,150
Cancellation of 44,793 shares of common stock due to forfeitures of issued restricted stock				804		(804)		
356,426 shares of restricted stock surrendered due to employee tax liability						(8,667)		(8,667)
Preferred stock dividends					(3,428)			(3,428)
Common stock dividends					(41,694)			(41,694)
		(83,027)	6	83,021				

Conversion of 85,710 shares of Series A preferred stock into 5,594,080 shares of common stock								
Purchase of 8,026,807 shares of treasury stock pursuant to the Stock Repurchase Program						(199,992)		(199,992)
BALANCE, JUNE 30, 2013	**$**	**$**	**$ 163**	**$ 1,558,415**	**$ 1,252,812**	**$ (531,761)**	**$ (21,678)**	**$ 2,257,951**

See accompanying notes to condensed consolidated financial statements.

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EAST WEST BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended June 30,	
	2013	**2012**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 146,106	$ 138,640
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	46,785	39,711
(Accretion) of discount and amortization of premiums, net	(104,247)	(96,885)
Decrease in FDIC indemnification asset and receivable	79,804	45,763
Stock compensation costs	5,898	7,773
Deferred tax expense (benefit)	320	(19,868)
Provision for loan losses	13,327	33,600
Impairment on other real estate owned	2,153	10,541
Net gain on sales of investment securities, loans and other assets	(16,512)	(14,854)
Prepayment penalty for Federal Home Loan Bank advances, net		3,657
Originations and purchases of loans held for sale	(71,572)	(34,716)
Proceeds from sales of loans held for sale	6,272	
Net proceeds from FDIC shared-loss agreements	42,494	63,077
Net change in accrued interest receivable and other assets	55,158	(67,820)
Net change in accrued expenses and other liabilities	(43,579)	(43,142)
Other net operating activities	(4,671)	(2,007)
Total adjustments	11,630	(75,170)
Net cash provided by operating activities	157,736	63,470
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (increase) decrease in:		
Loans	(679,359)	184,443
Short-term investments	35,940	(192,880)
Federal funds sold		(30,000)
Purchases of:		
Securities purchased under resale agreements	(300,000)	(200,000)
Investment securities available-for-sale	(699,650)	(482,500)
Loans receivable	(466,715)	(239,272)
Premises and equipment	(10,328)	(3,405)
Investments in affordable housing partnerships	(16,683)	(34,128)
Proceeds from sale of:		
Investment securities available-for-sale	325,721	1,097,270
Loans receivable	55,129	58,205
Loans held for sale originated for investment		199,435
Other real estate owned	38,677	59,814
Premises and equipment	352	11
Repayments, maturities and redemptions of investment securities available-for-sale	262,074	606,704
Paydowns, maturities and termination of securities purchased under resale agreements	300,000	311,434
Redemption of Federal Home Loan Bank stock	21,136	12,674
Other net investing activities	(108)	(236)
Net cash (used in) provided by investing activities	(1,133,814)	1,347,569

CASH FLOWS FROM FINANCING ACTIVITIES				
Net increase (decrease) in:				
Deposits		972,853		(110,498)
Short-term borrowings		(20,000)		(25,208)
Proceeds from:				
Issuance of common stock pursuant to various stock plans and agreements		1,150		2,678
Payment for:				
Repayment of FHLB advances				(57,616)
Modification of Federal Home Loan Bank advances				(37,678)
Repurchase of shares of treasury stock pursuant to the Stock Repurchase Plan		(199,992)		(149,950)
Cash dividends		(44,961)		(32,642)
Other net financing activities		(5,864)		(1,239)
Net cash provided by (used in) financing activities		703,186		(412,153)
Effect of exchange rate changes on cash and cash equivalents				(457)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(272,892)		998,429
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		1,323,106		1,431,185
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	1,050,214	$	2,429,614
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash paid during the period for:				
Interest	$	58,336	$	73,938
Income tax payments, net of refunds		92,096		185,729
Noncash investing and financing activities:				
Loans transferred to loans held for sale, net		19,125		21,317
Transfers to other real estate owned		29,782		54,478
Conversion of preferred stock to common stock		83,027		
Loans to facilitate sales of other real estate owned and short sales		139		850
Loans to facilitate sales of loans				638

See accompanying notes to condensed consolidated financial statements.

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EAST WEST BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 BASIS OF PRESENTATION

The condensed consolidated financial statements include the accounts of East West Bancorp, Inc. (referred to herein on an unconsolidated basis as East West and on a consolidated basis as the Company) and its wholly-owned subsidiaries, East West Bank and subsidiaries (East West Bank or the Bank) and East West Insurance Services, Inc. Intercompany transactions and accounts have been eliminated in consolidation. East West also has seven wholly-owned subsidiaries that are statutory business trusts (the Trusts). In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 810, the Trusts are not consolidated into the accounts of East West Bancorp, Inc.

The interim condensed consolidated financial statements, presented in accordance with accounting principles generally accepted in the United States of America (GAAP), are unaudited and reflect all adjustments that, in the opinion of management, are necessary for a fair statement of financial condition and results of operations for the interim periods. All adjustments are of a normal and recurring nature. Results for the three months and six months ended June 30, 2013 are not necessarily indicative of results that may be expected for any other interim period or for the year as a whole. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted. Events subsequent to the condensed consolidated balance sheet date have been evaluated through the date the financial statements are issued for inclusion in the accompanying financial statements. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2012.

Certain prior year balances have been reclassified to conform to current year presentation.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Standards

In October 2012, the FASB issued ASU 2012-06, *Business Combinations (Topic 805): Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution.* ASU 2012-06 clarifies the applicable guidance for subsequently measuring an indemnification asset recognized as a result of a government-assisted acquisition of a financial institution. The standard instructs that when a reporting entity recognizes an indemnification asset, it should subsequently account for the change in the measurement of the indemnification asset on the same basis as the change in the assets subject to indemnification. Any amortization of changes in value should be limited to the contractual term of the indemnification agreement. The amended guidance is effective

for interim and annual periods beginning on or after December 15, 2012. The adoption of this guidance did not have a material effect on the Company s condensed consolidated financial statements, as the Company had applied this methodology prior to the issuance of this ASU.

In January 2013, the FASB issued ASU 2013-01, *Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities.* ASU 2013-01 clarifies that the scope of ASU 2011-01 applies to derivatives, repurchase agreements, and securities lending transactions to the extent that they are (1) offset in the financial statements or (2) subject to an enforceable master netting arrangement or similar agreement. The amended guidance is effective for interim and annual periods beginning on or after January 1, 2013. The adoption of this guidance did not have a material effect on the Company s condensed consolidated financial statements. The Company did include additional disclosure in the notes to the condensed consolidated financial statements to comply with the requirements of the ASU.

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In February 2013, the FASB issued ASU 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income.* ASU 2013-02 enhances the reporting of reclassifications out of accumulated other comprehensive income by requiring entities to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under GAAP to be reclassified in its entirety to net income. For other amounts that are not required under GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under GAAP that provide additional detail about those amounts. The amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. The amendments are effective for interim and annual periods beginning on or after December 15, 2012. The adoption of this guidance did not have a material effect on the Company s condensed consolidated financial statements. The Company did include additional disclosure in the notes to the condensed consolidated financial statements to comply with the requirements of the ASU.

In July 2013, the FASB issued ASU 2013-10, *Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes.* ASU 2013-10 permits the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) to be used as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to interest rates on direct Treasury obligations of the U.S. government and the London Interbank Offered Rate (LIBOR). ASU 2013-10 is effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The Company does not expect the adoption of this guidance to have a material effect on the Company s condensed consolidated financial statements.

NOTE 3 FAIR VALUE

Fair value is defined as the price that would be received to sell an asset or be 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 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 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 noted below. The hierarchy is based on the quality and reliability of the information used to determine fair values. The hierarchy gives the highest priority to quoted prices available in active markets and the lowest priority to data lacking transparency. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1 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 debt and agency mortgage-backed securities, municipal securities, corporate debt securities, single issuer trust preferred securities, equity swap agreements, foreign exchange options and interest rate swaps.

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- 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 is not solely based on observable market inputs and requires management judgment or estimation. This category typically includes pooled trust preferred securities, impaired loans, other real estate owned (OREO) and derivatives payable.

The Company records investment securities available-for-sale, equity swap agreements, derivative liabilities, foreign exchange options, interest rate swaps and short-term foreign exchange contracts at fair value on a recurring basis. Certain other assets such as impaired loans, other real estate owned, loans held for sale, goodwill, premiums on acquired deposits and other investments are recorded at fair value on a nonrecurring basis. Nonrecurring fair value measurements typically involve assets that are periodically evaluated for impairment and for which any impairment is recorded in the period in which the remeasurement is performed.

In determining the appropriate hierarchy levels, the Company performs a detailed analysis of assets and liabilities that are subject to fair value disclosure. The following tables present both financial and nonfinancial assets and liabilities that are measured at fair value on a recurring and nonrecurring basis. These assets and liabilities are reported on the condensed consolidated balance sheets at their fair values as of June 30, 2013 and December 31, 2012. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to their fair value measurement. There were no transfers for assets measured on a recurring basis in and out of Levels 1 and 3 or Levels 2 and 3 during the first six months of 2013 and 2012.

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	Assets (Liabilities) Measured at Fair Value on a Recurring Basis as of June 30, 2013			
	Fair Value Measurements June 30, 2013	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 available-for-sale:				
U.S. Treasury securities	$ 515,762	$ 515,762	$	$
U.S. Government agency and U.S. Government sponsored enterprise debt securities	250,255		250,255	
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	134,248		134,248	
Residential mortgage-backed securities	996,517		996,517	
Municipal securities	229,273		229,273	
Other residential mortgage-backed securities:				
Investment grade	15,202		15,202	
Other commercial mortgage-backed securities:				
Investment grade	51,297		51,297	
Corporate debt securities:				
Investment grade	448,211		448,211	
Non-investment grade	15,640		10,123	5,517
Other securities	10,767		10,767	
Total investment securities available-for-sale	$ 2,667,172	$ 515,762	$ 2,145,893	$ 5,517
Foreign exchange options	$ 5,460	$	$ 5,460	$
Interest rate swaps	22,353		22,353	
Short-term foreign exchange contracts	2,896		2,896	
Derivative liabilities	(33,667)		(30,410)	(3,257)

	Assets (Liabilities) Measured at Fair Value on a Recurring Basis as of December 31, 2012			
	Fair Value Measurements December 31, 2012	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 available-for-sale:				
U.S. Treasury securities	$ 460,677	$ 460,677	$	$
U.S. Government agency and U.S. Government sponsored enterprise debt securities	197,855		197,855	
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	180,665		180,665	
Residential mortgage-backed securities	1,144,085		1,144,085	
Municipal securities	167,093		167,093	
Other commercial mortgage-backed securities:				
Investment grade	17,084		17,084	
Corporate debt securities:				
Investment grade	411,983		411,983	
Non-investment grade	17,417		12,617	4,800

Other securities		10,170				10,170		
Total investment securities available-for-sale	$	2,607,029	$	460,677	$	2,141,552	$	4,800
Foreign exchange options	$	5,011	$		$	5,011	$	
Interest rate swaps		36,943				36,943		
Short-term foreign exchange contracts		896				896		
Derivative liabilities		(42,060)				(39,008)		(3,052)

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Assets measured at fair value on a nonrecurring basis using significant unobservable inputs include certain impaired loans and OREO. The inputs and assumptions for nonrecurring Level 3 fair value measurements for impaired loans and OREO include adjustments to external and internal appraisals for change in the market , assumptions by appraiser embedded into appraisals, probability weighting of brokered price opinions, and management s adjustments for other relevant factors and market trends.

	Assets Measured at Fair Value on a Non-Recurring Basis as of and for the Three Months Ended June 30, 2013				
	Fair Value Measurements June 30, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses) for the Three Months Ended June 30, 2013
			(In thousands)		
Non-covered impaired loans:					
Total residential	$ 22,012	$	$	$ 22,012	$ (838)
Total commercial real estate	35,349			35,349	(1,320)
Total commercial and industrial	9,203			9,203	674
Total consumer	372			372	4
Total non-covered impaired loans	$ 66,936	$	$	$ 66,936	$ (1,480)
Non-covered OREO	$ 435	$	$	$ 435	$ (18)
Covered OREO *(1)*	$ 7,500	$	$	$ 7,500	$ (1,000)

	Assets Measured at Fair Value on a Non-Recurring Basis as of and for the Three Months Ended June 30, 2012				
	Fair Value Measurements June 30, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses) for the Three Months Ended June 30, 2012
			(In thousands)		
Non-covered impaired loans:					
Total residential	$ 14,824	$	$	$ 14,824	$ (2,240)
Total commercial real estate	16,517			16,517	(4,315)
Total commercial and industrial	15,616			15,616	(9,705)
Total consumer	372			372	(264)
Total non-covered impaired loans	$ 47,329	$	$	$ 47,329	$ (16,524)
Non-covered OREO	$ 4,625	$	$	$ 4,625	$ (1,820)
Covered OREO *(1)*	$ 6,544	$	$	$ 6,544	$ (1,241)

(1) Covered OREO results from the WFIB and UCB FDIC-assisted acquisitions for which the Company entered into shared-loss agreements with the FDIC whereby the FDIC will reimburse the Company for 80% of eligible losses. As such, the Company s liability for losses is 20% of the $1.0 million in losses, or $200 thousand, and 20% of the $1.2 million in losses, or $248 thousand, for the three months ended June 30, 2013 and 2012, respectively.

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	Assets Measured at Fair Value on a Non-Recurring Basis as of and for the Six Months Ended June 30, 2013				
	Fair Value Measurements June 30, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses) for the Six Months Ended June 30, 2013
			(In thousands)		
Non-covered impaired loans:					
Total residential	$ 19,971	$	$	$ 19,971	$ (1,274)
Total commercial real estate	30,397			30,397	(3,422)
Total commercial and industrial	9,723			9,723	(1,492)
Total consumer	293			293	(112)
Total non-covered impaired loans	$ 60,384	$	$	$ 60,384	$ (6,300)
Non-covered OREO	$ 13,238	$	$	$ 13,238	$ (1,403)
Covered OREO *(1)*	$ 11,030	$	$	$ 11,030	$ (1,126)

	Assets Measured at Fair Value on a Non-Recurring Basis as of and for the Six Months Ended June 30, 2012				
	Fair Value Measurements June 30, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses) for the Six Months Ended June 30, 2012
			(In thousands)		
Non-covered impaired loans:					
Total residential	$ 18,466	$	$	$ 18,466	$ (2,789)
Total commercial real estate	26,789			26,789	(4,316)
Total commercial and industrial	16,097			16,097	(10,281)
Total consumer	379			379	(321)
Total non-covered impaired loans	$ 61,731	$	$	$ 61,731	$ (17,707)
Non-covered OREO	$ 8,674	$	$	$ 8,674	$ (2,675)
Covered OREO *(1)*	$ 17,712	$	$	$ 17,712	$ (7,689)
Loans held for sale	$	$	$	$	$ (4,730)

(1) Covered OREO results from the WFIB and UCB FDIC-assisted acquisitions for which the Company entered into shared-loss agreements with the FDIC whereby the FDIC will reimburse the Company for 80% of eligible losses. As such, the Company s liability for losses is 20% of the $1.1 million in losses, or $225 thousand, and 20% of the $7.7 million in losses, or $1.5 million, for the six months ended June 30, 2013 and 2012, respectively.

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At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. The following tables provide a reconciliation of the beginning and ending balances for major asset and liability categories measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months and six months ended June 30, 2013 and 2012:

	Investment Securities Available-for-Sale Corporate Debt Securities Non-Investment Grade	Derivatives Payable
	(In thousands)	
Opening balance, April 1, 2013	$ 5,284	$ (3,233)
Total gains or (losses) for the period: *(1)*		
Included in earnings		(24)
Included in other comprehensive income (unrealized) *(2)*	239	
Purchases, issues, sales, settlements *(3)*		
Purchases		
Issues		
Sales		
Settlements	(6)	
Transfer from investment grade to non-investment grade		
Transfers in and/or out of Level 3		
Closing balance, June 30, 2013	$ 5,517	$ (3,257)
Changes in unrealized losses included in earnings relating to assets and liabilities held at the end of June 30, 2013	$	$ 24

	Investment Securities Available-for-Sale Corporate Debt Securities Non-Investment Grade	Derivatives Payable
	(In thousands)	
Opening balance, April 1, 2012	$ 2,247	$ (3,122)
Total gains or (losses) for the period: *(1)*		
Included in earnings		308
Included in other comprehensive income (unrealized) *(2)*	105	
Purchases, issues, sales, settlements *(3)*		
Purchases		
Issues		
Sales		
Settlements	70	
Transfer from investment grade to non-investment grade		
Transfers in and/or out of Level 3		
Closing balance, June 30, 2012	$ 2,422	$ (2,814)
Changes in unrealized gains included in earnings relating to assets and liabilities held at the end of June 30, 2012	$	$ (308)

(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 condensed consolidated statements of income.

(2) Unrealized gains or losses on investment securities are reported in accumulated other comprehensive income (loss), net of tax, in the condensed consolidated statements of comprehensive income.

(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.

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	Investment Securities Available-for-Sale Corporate Debt Securities Non-Investment Grade	Derivatives Payable
	(In thousands)	
Beginning balance, January 1, 2013	$ 4,800	$ (3,052)
Total gains or (losses) for the period: *(1)*		
Included in earnings		(205)
Included in other comprehensive income (unrealized) *(2)*	788	
Purchases, issues, sales, settlements *(3)*		
Purchases		
Issues		
Sales		
Settlements	(71)	
Transfer from investment grade to non-investment grade		
Transfers in and/or out of Level 3		
Closing balance, June 30, 2013	$ 5,517	$ (3,257)
Changes in unrealized losses included in earnings relating to assets and liabilities held at the end of June 30, 2013	$	$ 205

	Investment Securities Available-for-Sale Corporate Debt Securities Non-Investment Grade	Derivatives Payable
	(In thousands)	
Beginning balance, January 1, 2012	$ 2,235	$ (2,634)
Total gains or (losses) for the period: *(1)*		
Included in earnings	(99)	(180)
Included in other comprehensive income (unrealized) *(2)*	330	
Purchases, issues, sales, settlements *(3)*		
Purchases		
Issues		
Sales		
Settlements	(44)	
Transfer from investment grade to non-investment grade		
Transfers in and/or out of Level 3		
Closing balance, June 30, 2012	$ 2,422	$ (2,814)
Changes in unrealized losses included in earnings relating to assets and liabilities held at the end of June 30, 2012	$ 99	$ 180

(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 condensed consolidated statements of income.

(2) Unrealized gains or losses on investment securities are reported in accumulated other comprehensive income (loss), net of tax, in the condensed consolidated statements of comprehensive income.

(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.

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Valuation Methodologies

Investment Securities Available-for-Sale The fair values of available-for-sale investment securities are generally determined by prices obtained from independent external pricing service providers who have experience in valuing these securities or by comparison to the average of at least two quoted market prices obtained from independent external brokers. 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 four pooled trust preferred securities. The fair values of these investment securities represent less than 1% of the total available-for-sale investment securities. The fair values of the 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. As a result of the continued illiquidity in the pooled trust preferred securities market, it is the Company s view that current broker prices (which are typically non-binding) on certain pooled trust preferred securities are based on forced liquidation or distressed sale values in very inactive markets that are not representative of the fair value of these securities. As such, the Company considered what weight, if any, to place on transactions that are not orderly when estimating fair value.

For the pooled trust preferred securities, the fair value was derived based on discounted cash flow analyses (the income method) prepared by management. In order to determine the appropriate discount rate used in calculating fair values derived from the income method for the pooled trust preferred securities, the Company has made assumptions using an exit price approach related to the implied rate of return which have been adjusted for general changes in market rates, estimated changes in credit risk and liquidity risk premium, specific nonperformance, and default experience in the collateral underlying the securities. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for credit risk and liquidity risk. The actual Level 3 unobservable assumption rates used as of June 30, 2013 include: a constant prepayment rate of 0% for year 1-5 and 1% thereafter, a constant default rate of 1.2% for year 1-5 and 0.75% thereafter, and a recovery assumption of 0% for existing deferrals/defaults and 15% for future deferrals with a recovery lag of 60 months. Losses arising during the period, if any, are recognized in noninterest income.

Derivative Liabilities The Company s derivative liabilities include derivatives payable that fall within Level 3 and all other derivative liabilities which fall within Level 2. The derivatives payable are recorded in conjunction with certain certificates of deposit (host instrument). These CDs pay interest based on changes in either the Chinese currency Renminbi (RMB) or the Hang Seng China Enterprises Index (HSCEI), as designated, and are included in interest-bearing deposits on the condensed consolidated balance sheets. CDs paying interest based on changes in the HSCEI matured during the fourth quarter of 2012. The fair value of these embedded derivatives is based on the income approach. The payable is divided by the portion under FDIC insurance coverage and the non-insured portion. For the FDIC insured portion the Company applied a risk premium comparable to an agency security risk premium. For the non-insured portion, the Company considered its own credit risk in determining the valuation by applying a risk premium based on our institutional credit rating, which resulted in a $2.2 million adjustment to the valuation of the derivative liabilities for the six months ended June 30, 2013. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. 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. The actual Level 3 unobservable input used as of June 30, 2013 was a credit risk adjustment with a range of 1.27% to 1.42%. The Level 2 derivative liabilities are mostly comprised of the offsetting interest rate swaps with other counterparties. Refer to ***Interest Rate Swaps*** within this footnote for complete discussion.

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Equity Swap Agreements The Company has entered into equity swap agreements to hedge against market fluctuations in a promotional equity index certificate of deposit product offered to bank customers. This deposit product has a term of 5 years and matured during the fourth quarter of 2012. It paid interest based on the performance of the 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 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. The fair value of the derivative contracts is provided by a third party.

Foreign Exchange Options The Company has entered into foreign exchange option contracts with major investment firms. The settlement amount is determined based upon the performance of the Chinese currency RMB relative to the U.S. Dollar (USD) over the 5-year term of the contract. The performance amount is computed based on the average quarterly value of the RMB per the USD as compared to the initial value. The fair value of the derivative contract is provided by third parties and is determined based on the change in the RMB and the volatility of the option over the life of the agreement. The option value is derived based on the volatility of the option, interest rate, currency rate and time remaining to maturity. The Company s consideration of the counterparty s credit risk resulted in a nominal adjustment to the valuation of the foreign exchange options for the six months ended June 30, 2013. The valuation of the option contract falls within Level 2 of the fair value hierarchy due to the observable nature of the inputs used in deriving the fair value of this derivative contract.

Interest Rate Swaps The Company has entered into pay-fixed, receive-variable swap contracts with institutional counterparties to hedge against interest rate swap products offered to bank customers. This product allows borrowers to lock in attractive intermediate and long-term interest rates by entering into a pay-fixed, receive-variable swap contract with the Company, resulting in the customer obtaining a synthetic fixed rate loan. The Company has also entered into pay-variable, receive-fixed swap contracts with institutional counterparties to hedge against certificates of deposit issued. This product allows the Company to lock in attractive floating rate funding. The fair value of the interest rate swap contracts is based on a discounted cash flow approach. The Company s consideration of the counterparty s credit risk resulted in a $0.2 million adjustment to the valuation of the interest rate swaps for the six months ended June 30, 2013. The valuation of the interest rate swap falls within Level 2 of the fair value hierarchy due to the observable nature of the inputs used in deriving the fair value of this derivative contract.

Short-term Foreign Exchange Contracts The Company entered into short-term foreign exchange contracts to purchase/sell foreign currencies at set rates in the future. These contracts economically hedge against foreign exchange rate fluctuations. The Company enters into contracts with institutional counterparties to hedge against foreign exchange products offered to bank customers. These products allow customers to hedge the foreign exchange risk of their deposits and loans denominated in foreign currencies. The Company does not assume any foreign exchange rate risk as the contract with the customer and the contract with the institutional party mirror each other. The fair value is determined at each reporting period based on the change in the foreign exchange rate. Given the short-term nature of the contracts, the counterparties credit risks are considered nominal and resulted in no adjustments to the valuation of the short-term foreign exchange contracts for the six months ended June 30, 2013. The valuation of the contract falls within Level 2 of the fair value hierarchy due to the observable nature of the inputs used in deriving the fair value of this derivative contract.

Impaired Loans 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. The fair values may be adjusted as needed based on factors such as the Company s historical knowledge and changes in market conditions from the time of valuation. Impaired loans fall within Level 3 of the fair value hierarchy as values are measured at fair value based on the most recent valuation information received on the underlying collateral and may include adjustments by the Company for historical knowledge and for changes in market conditions.

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Other Real Estate Owned The Company s OREO represents properties acquired through foreclosure or through full or partial satisfaction of loans and are recorded at estimated fair value less cost to sell at the time of foreclosure and at the lower of cost or estimated fair value less cost to sell subsequent to acquisition. The fair values of OREO properties are based on third party appraisals, broker price opinions or accepted written offers. These valuations are reviewed and approved by the Company s appraisal department, credit review department, or OREO department and may include adjustments by the Company for historical knowledge and for changes in market conditions. OREO properties are classified as Level 3 assets in the fair value hierarchy.

Loans Held for Sale The Company s loans held for sale are carried at the lower of cost or market value. These loans are currently comprised of mostly student loans. For these loans, the fair value of loans held for sale is derived from current market prices and comparative current sales. For the remainder of the loans held for sale, which fall within Level 2, the fair value is derived from third party sale analysis, existing sale agreements, or appraisal reports on the loans underlying collateral. As such, the Company records any fair value adjustments on a nonrecurring basis.

Fair Value of Financial Instruments

The carrying amounts and fair values of the Company s financial instruments as of June 30, 2013 and December 31, 2012 were as follows:

	June 30, 2013		December 31, 2012	
	Carrying Amount or Notional Amount	Estimated Fair Value	Carrying Amount or Notional Amount	Estimated Fair Value
	(In thousands)			
Financial Assets:				
Cash and cash equivalents	$ 1,050,214	$ 1,050,214	$ 1,323,106	$ 1,323,106
Short-term investments	330,438	330,438	366,378	366,378
Securities purchased under resale agreements	1,450,000	1,429,937	1,450,000	1,442,302
Investment securities available-for-sale	2,667,172	2,667,172	2,607,029	2,607,029
Loans held for sale	245,026	252,894	174,317	180,349
Loans receivable, net	15,768,530	15,255,089	14,645,785	14,743,218
Investment in Federal Home Loan Bank stock	86,139	86,139	107,275	107,275
Investment in Federal Reserve Bank stock	48,111	48,111	48,003	48,003
Accrued interest receivable	109,822	109,822	94,837	94,837
Foreign exchange options	85,614	5,460	85,614	5,011
Interest rate swaps	1,320,438	22,353	1,190,793	36,943
Short-term foreign exchange contracts	256,233	2,896	112,459	896
Financial Liabilities:				
Customer deposit accounts:				
Demand, savings and money market deposits	13,329,875	13,329,875	12,187,740	12,187,740
Time deposits	5,952,332	5,941,410	6,121,614	6,115,530
Federal Home Loan Bank advances	314,022	306,521	312,975	333,060
Securities sold under repurchase agreements	995,000	1,163,468	995,000	1,173,830
Other borrowings			20,000	20,000
Accrued interest payable	9,360	9,360	10,855	10,855
Long-term debt	137,178	83,527	137,178	83,762
Derivative liabilities	1,835,911	33,667	1,392,494	42,060

The following table shows the level in the fair value hierarchy for the estimated fair values of only financial instruments that are not already on the condensed consolidated balance sheets at fair value at June 30, 2013 and December 31, 2012.

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	June 30, 2013			
	Estimated Fair Value Measurements	Level 1	Level 2	Level 3
		(In thousands)		
Financial Assets:				
Cash and cash equivalents	$ 1,050,214	$ 1,050,214	$	$
Short-term investments	330,438		330,438	
Securities purchased under resale agreements	1,429,937		1,429,937	
Loans held for sale	252,894		252,894	
Loans receivable, net	15,255,089			15,255,089
Investment in Federal Home Loan Bank stock	86,139		86,139	
Investment in Federal Reserve Bank stock	48,111		48,111	
Accrued interest receivable	109,822		109,822	
Financial Liabilities:				
Customer deposit accounts:				
Demand, savings and money market deposits	13,329,875		13,329,875	
Time deposits	5,941,410			5,941,410
Federal Home Loan Bank advances	306,521		306,521	
Securities sold under repurchase agreements	1,163,468		1,163,468	
Other borrowings				
Accrued interest payable	9,360		9,360	
Long-term debt	83,527		83,527	

	December 31, 2012			
	Estimated Fair Value Measurements	Level 1	Level 2	Level 3
		(In thousands)		
Financial Assets:				
Cash and cash equivalents	$ 1,323,106	$ 1,323,106	$	$
Short-term investments	366,378		366,378	
Securities purchased under resale agreements	1,442,302		1,442,302	
Loans held for sale	180,349		180,349	
Loans receivable, net	14,743,218			14,743,218
Investment in Federal Home Loan Bank stock	107,275		107,275	
Investment in Federal Reserve Bank stock	48,003		48,003	
Accrued interest receivable	94,837		94,837	
Financial Liabilities:				
Customer deposit accounts:				
Demand, savings and money market deposits	12,187,740		12,187,740	
Time deposits	6,115,530			6,115,530
Federal Home Loan Bank advances	333,060		333,060	
Securities sold under repurchase agreements	1,173,830		1,173,830	
Other borrowings	20,000		20,000	
Accrued interest payable	10,855		10,855	
Long-term debt	83,762		83,762	

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. Due to the short-term nature, the estimated fair value is considered to be within Level 1 of the fair value hierarchy.

Short-Term Investments The fair values of short-term investments generally approximate their book values due to their short maturities. Due to the observable nature of the inputs used in deriving the estimated fair value of these instruments, the estimate is considered to be within Level 2 of the fair value hierarchy.

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Securities Purchased Under Resale Agreements Securities purchased under resale agreements with original maturities of 90 days or less are included in cash and cash equivalents. The fair value of securities purchased under resale agreements with original maturities of more than 90 days is estimated by discounting the cash flows based on expected maturities or repricing dates utilizing estimated market discount rates. Due to the observable nature of the inputs used in deriving the estimated fair value of these instruments, the estimate is considered to be within Level 2 of the fair value hierarchy.

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 pooled trust preferred securities, fair values are based on discounted cash flow analyses. Due to the unobservable inputs used within the discounted cash flow analysis, the estimate for pooled trust preferred securities is considered to be within Level 3 of the fair value hierarchy. The remainder of the portfolio is classified within Level 1 and Level 2, as discussed earlier in this footnote.

Loans Held for Sale The fair value of loans held for sale is derived from current market prices and comparative current sales or from third party sale analysis, existing sale agreements, or appraisal reports on the loans underlying collateral, as applicable. Due to the observable nature of the inputs used in deriving the estimated fair value of these instruments, the estimate is considered to be within Level 2 of the fair value hierarchy.

Loans Receivable, net (includes covered and non-covered loans) The fair value of loans is determined based on a discounted cash flow approach considered for an entry price value. 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 any of the loan portfolios. It is management s opinion that the allowance for loan losses pertaining to performing and nonperforming loans results in a fair valuation of credit for such loans. Due to the unobservable nature of the inputs used in deriving the estimated fair value of these instruments, the estimate is considered to be within Level 3 of the fair value hierarchy.

Investment in Federal Home Loan Bank Stock 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. The valuation of these instruments is the carrying amount as these investments can only be sold and purchased from the Federal Home Loan Bank and Federal Reserve Bank respectively. The valuation of these investments is considered to be within Level 2 of the fair value hierarchy, as the restrictions and value of the investments are the same for all financial institutions which are required to hold these investments.

Accrued Interest Receivable The carrying amounts approximate fair values due to the short-term nature of these instruments, as such, due to the observable nature of the inputs used in deriving the estimated fair value, these instruments are considered to be within Level 2 of the fair value hierarchy.

Equity Swap Agreements Equity swap agreements matured during the fourth quarter of 2012. The fair value of the derivative contracts is provided by a 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 maturity. We also considered the counterparty s credit risk in determining the fair value. Due to the observable nature of the inputs used in deriving the estimated fair value of these instruments, the estimate is considered to be within Level 2 of the fair value hierarchy.

Foreign Exchange Options The fair value of the derivative contracts is provided by third parties and is determined based on the change in the RMB and the volatility of the option over the life of the agreement. The option value is derived based on the volatility of the option, interest rate, and time remaining to maturity. We also considered the counterparty s credit risk in determining the fair value. Due to the observable nature of the inputs used in deriving the estimated fair value of these instruments, the estimate is considered to be within Level 2 of the fair value hierarchy.

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Interest Rate Swaps The fair value of the interest rate swap contracts is provided by a third party and is determined based on a discounted cash flow approach. The Company also considered the counterparty s credit risk in determining the fair value. Due to the observable nature of the inputs used in deriving the estimated fair value of these instruments, the estimate is considered to be within Level 2 of the fair value hierarchy.

Short-term Foreign Exchange Contracts The fair value of short-term foreign exchange contracts is determined based on the change in foreign exchange rate. We also considered the counterparty s credit risk in determining the fair value. Due to the observable nature of the inputs used in deriving the estimated fair value of these instruments, the estimate is considered to be within Level 2 of the fair value hierarchy.

Customer Deposit Accounts The carrying amounts approximate fair value for demand and interest checking deposits, savings deposits, and certain money market accounts as the amounts are payable on demand at the reporting date. Due to the observable nature of the inputs used in deriving the estimated fair value these instruments are considered to be within Level 2 of the fair value hierarchy. For time deposits, the cash flows are based on the contractual runoff and are discounted by the Bank s current offering rates, plus spread. Due to the unobservable nature of the inputs used in deriving the estimated fair value of these instruments, the estimate is considered to be within Level 3 of the fair value hierarchy.

Federal Home Loan Bank Advances The fair value of Federal Home Loan Bank (FHLB) advances is estimated based on the discounted value of contractual cash flows, using rates currently offered by the FHLB of San Francisco for advances with similar remaining maturities at each reporting date. Due to the observable nature of the inputs used in deriving the estimated fair value of these instruments, the estimate is considered to be within Level 2 of the fair value hierarchy.

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 June 30, 2013 and December 31, 2012, 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. Due to the observable nature of the inputs used in deriving the estimated fair value of these instruments, the estimate is considered to be within Level 2 of the fair value hierarchy.

Other Borrowings The carrying amounts approximate fair values due to the short-term nature of these instruments, as such, due to the observable nature of the inputs used in deriving the estimated fair value, these instruments are considered to be within Level 2 of the fair value hierarchy.

Accrued Interest Payable The carrying amounts approximate fair values due to the short-term nature of these instruments, as such, due to the observable nature of the inputs used in deriving the estimated fair value, these instruments are considered to be within Level 2 of the fair value hierarchy.

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. Due to the observable nature of the inputs used in deriving the estimated fair value of these instruments, the estimate is considered to be within Level 2 of the fair value hierarchy.

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Derivatives Liabilities The Company s derivative liabilities include derivatives payable and all other derivative liabilities. The Company s derivatives payable are recorded in conjunction with certain certificates of deposit (host instrument). These CDs pay interest based on changes in RMB or the HSCEI, as designated. CDs paying interest based on changes in the HSCEI matured during the fourth quarter of 2012. The fair value of derivatives payable is estimated using the income approach. Additionally, we considered our own credit risk in determining the valuation. The other derivative liabilities are mostly comprised of the off-setting interest rate swaps. The fair value of the interest rate swap contracts is provided by a third party and is determined based on a discounted cash flow approach. The Company also considered the counterparty s credit risk in determining the fair value. Due to the observable nature of the inputs used in deriving the estimated fair value of the interest rate swaps within derivative liabilities, the estimate is considered to be within Level 2 of the fair value hierarchy. Due to the unobservable nature of the inputs used in deriving the estimated fair value of derivatives payable within derivative liabilities, this estimate is considered to be within Level 3 of the fair value hierarchy.

The fair value estimates presented herein are based on pertinent information available to management as of each reporting date. Although we are 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.

NOTE 4 STOCK-BASED COMPENSATION

During the three and six months ended June 30, 2013, total compensation expense recognized in the condensed consolidated statements of income related to both stock options and restricted stock awards reduced income before taxes by $3.4 million and $5.9 million, respectively, and net income by $2.0 million and $3.4 million, respectively.

During the three and six months ended June 30, 2012, total compensation expense recognized in the condensed consolidated statements of income related to both stock options and restricted stock awards reduced income before taxes by $4.1 million and $7.8 million, respectively, and net income by $2.4 million and $4.5 million, respectively.

The Company received $537 thousand and $2.2 million during the six months ended June 30, 2013 and June 30, 2012, respectively, in cash proceeds from stock option exercises. The net tax benefit recognized in equity for stock compensation plans was $2.8 million and $157 thousand for the six months ended, June 30, 2013 and June 30, 2012, respectively.

As of June 30, 2013, there are 4,166,755 shares available to be issued, subject to the Company s current 1998 Stock Incentive Plan, as amended.

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.

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A summary of activity for the Company s stock options as of and for the six months ended June 30, 2013 is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (In thousands)
Outstanding at beginning of period	677,708	$ 28.41		
Granted				
Exercised	(45,851)	15.63		
Expired	(161,324)	37.18		
Outstanding at end of period	470,533	$ 26.65	1.33 years	$ 2,078
Vested or expected to vest at end of period	470,533	$ 26.65	1.33 years	$ 2,078
Exercisable at end of period	470,533	$ 26.65	1.33 years	$ 2,078

A summary of changes in unvested stock options and related information for the six months ended June 30, 2013 is presented below:

	Shares	Weighted Average Grant Date Fair Value (per share)
Unvested at January 1, 2013	14,502	$ 3.00
Granted		
Vested	(14,502)	3.00
Forfeited		
Unvested at June 30, 2013		$

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: 1) the expected term (estimated period of time outstanding) of stock options granted is estimated using the historical exercise behavior of employees; 2) the expected volatility is 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; and 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 Company did not issue any stock options during the six months ended June 30, 2013 and 2012.

During the three and six months ended June 30, 2013 and 2012, information related to stock options is presented as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Weighted average grant date fair value of stock options granted during the period *(1)*	N/A	N/A	N/A	N/A
Total intrinsic value of options exercised (in thousands)	$ 297	$ 280	$ 424	$ 855
Total fair value of options vested (in thousands) *(2)*	$	$ 671	$ 363	$ 3,672

(1) The Company did not issue any stock options during the three and six months ended June 30, 2013 and 2012.

(2) Stock options were fully vested during the first quarter of 2013.

As of June 30, 2013, all stock options are fully vested and all compensation cost related to stock options have been recognized.

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Restricted Stock Awards

In addition to stock options, the Company also grants restricted stock awards to directors, officers and employees. The restricted stock awards fully vest after one to five years of continued employment from the date of grant; some of the awards are also subject to achievement of certain established financial goals. The Company becomes entitled to an income tax deduction in an amount equal to the taxable income reported by the holders of the restricted stock when the restrictions are released and the shares are issued. Restricted stock awards are forfeited if officers and employees terminate prior to the lapsing of restrictions or if established financial goals are not achieved. The Company records forfeitures of issued restricted stock as treasury share repurchases.

A summary of the activity for the Company s time-based and performance-based restricted stock awards as of June 30, 2013, including changes during the six months then ended, is presented below:

	June 30, 2013 Restricted Stock Awards			
	Time-Based		Performance-Based	
	Shares	Weighted Average Price	Shares	Weighted Average Price
Outstanding at beginning of period	1,512,396	$ 16.30	694,838	$ 22.43
Granted	26,663	24.30	477,165	25.25
Vested	(708,037)	15.77	(170,427)	22.58
Forfeited	(46,944)	17.89	(25,945)	23.98
Outstanding at end of period	784,078	$ 16.94	975,631	$ 23.74

Restricted stock awards are valued at the closing price of the Company s stock on the date of award. The weighted average fair values of time-based restricted stock awards granted during the period ended June 30, 2013 and 2012 were $24.30 and $21.67, respectively. The weighted average fair value of performance-based restricted stock awards granted during the six months ended June 30, 2013 and 2012 were $25.25 and $22.05, respectively. The total fair value of time-based restricted stock awards vested for the three months ended June 30, 2013 and 2012 was $772 thousand and $232 thousand, respectively. The total fair value of time-based restricted stock awards vested for the six months ended June 30, 2013 and 2012 was $17.1 million and $2.0 million, respectively. There is no performance-based restricted stock awards vested during the three months ended June 30, 2013 and a nominal amount vested during the three months ended June 30, 2012. The total fair value of performance-based restricted stock awards vested during the six months ended June 30, 2013 and 2012 was $4.3 million and $1.9 million, respectively.

As of June 30, 2013, total unrecognized compensation cost related to time-based and performance-based restricted stock awards amounted to $5.8 million and $18.0 million, respectively. This cost is expected to be recognized over a weighted average period of 1.4 years and 2.2 years, respectively.

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NOTE 5 INVESTMENT SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(In thousands)		
As of June 30, 2013				
Investment securities available-for-sale:				
U.S. Treasury securities	$ 519,653	$ 72	$ (3,963)	$ 515,762
U.S. Government agency and U.S. Government sponsored enterprise debt securities	256,996	249	(6,990)	250,255
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	136,700	693	(3,145)	134,248
Residential mortgage-backed securities	997,211	10,586	(11,280)	996,517
Municipal securities	242,615	1,082	(14,424)	229,273
Other residential mortgage-backed securities:				
Investment grade	15,980		(778)	15,202
Other commercial mortgage-backed securities:				
Investment grade	50,999	298		51,297
Corporate debt securities:				
Investment grade	451,688	1,752	(5,229)	448,211
Non-investment grade *(1)*	22,020	63	(6,443)	15,640
Other securities	10,790	9	(32)	10,767
Total investment securities available-for-sale	$ 2,704,652	$ 14,804	$ (52,284)	$ 2,667,172
As of December 31, 2012				
Investment securities available-for-sale:				
U.S. Treasury securities	$ 459,613	$ 1,135	$ (71)	$ 460,677
U.S. Government agency and U.S. Government sponsored enterprise debt securities	197,264	673	(82)	197,855
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	174,036	6,665	(36)	180,665
Residential mortgage-backed securities	1,123,880	20,883	(678)	1,144,085
Municipal securities	163,333	4,491	(731)	167,093
Other commercial mortgage-backed securities:				
Investment grade	16,999	85		17,084
Corporate debt securities:				
Investment grade	429,318	237	(17,572)	411,983
Non-investment grade *(1)*	24,620	355	(7,558)	17,417
Other securities	9,955	215		10,170
Total investment securities available-for-sale	$ 2,599,018	$ 34,739	$ (26,728)	$ 2,607,029

(1) For the six months ended June 30, 2013, the Company did not record any OTTI. The Company recorded $99 thousand, on a pre-tax basis, of the credit portion of OTTI through earnings and $5.1 million of the non-credit portion of OTTI for pooled trust preferred securities in other comprehensive income for the year ended December 31, 2012.

The Company did not have any investment securities held-to-maturity as of June 30, 2013 and December 31, 2012.

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 prices obtained from independent external pricing service providers who have experience in valuing these securities. The Company performs a monthly analysis on the pricing service quotes and the broker quotes received from third parties to ensure that the prices represent a reasonable estimate of 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 assesses whether the prices received from independent brokers represent a reasonable estimate of fair value through the use of internal and external cash flow models developed that are 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 third parties is adjusted accordingly.

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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 that 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 ongoing financial crisis in the U.S. and global markets, the market for the pooled trust preferred securities has been distressed since mid-2007. It is the Company s view that current broker prices (which are typically non-binding) on these securities are based on forced liquidation or distressed sale values in very inactive markets that are not representative of the fair value of these securities. As such, the Company considered what weight, if any, to place on transactions that are not orderly when estimating fair value. For the pooled trust preferred securities the Company determined their fair values using the methodologies set forth in Note 3 to the Company s condensed consolidated financial statements presented elsewhere in this report.

The following table shows the Company s rollforward of the amount related to OTTI credit losses for the periods shown:

	Three Months Ended June 30,	
	2013	2012
	(In thousands)	
Beginning balance, April 1,	$ 115,511	$ 115,511
Addition of other-than-temporary impairment that was not previously recognized		
Additional increases to the amount related to the credit loss for which an other-than-temporary impairment was previously recognized		
Reduction for securities sold		
Ending balance	$ 115,511	$ 115,511

	Six Months Ended June 30,	
	2013	2012
	(In thousands)	
Beginning balance, January 1,	$ 115,511	$ 115,412
Addition of other-than-temporary impairment that was not previously recognized		
Additional increases to the amount related to the credit loss for which an other-than-temporary impairment was previously recognized		99
Reduction for securities sold		
Ending balance	$ 115,511	$ 115,511

During the three months ended June 30, 2013, the Company recorded $5.3 million of gross gains and no gross losses resulting in a net income statement impact of $5.3 million of gain on sale of investment securities. During the three months ended June 30, 2012, the Company recorded $26.3 million of gross gains and $26.2 million of gross losses resulting in a net income statement impact of $71 thousand of gain on sale of investment securities. The tax expense on the sale of investment securities available-for-sale amounted to $2.2 million and $30 thousand for the three months ended June 30, 2013 and 2012, respectively. Total net proceeds for these sales were $128.9 million and $837.0 million for the three months ended June 30, 2013 and 2012, respectively.

During the six months ended June 30, 2013, the Company recorded $10.9 million of gross gains and no gross losses resulting in a net income statement impact of $10.9 million of gain on sale of investment securities. During the six months ended June 30, 2012, the Company recorded $28.0 million of gross gains and $27.4 million of gross losses resulting in a net income statement impact of $554 thousand of gain on sale of investment securities. The tax expense on the sale of investment securities available-for-sale amounted to $4.6 million and $233 thousand for the six months ended June 30, 2013 and 2012, respectively. Total net proceeds for these sales were $325.7 million and $1.10 billion for the six months ended June 30, 2013 and 2012, respectively.

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The following tables show 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, as of June 30, 2013 and December 31, 2012:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
As of June 30, 2013						
Investment securities available-for-sale:						
U.S. Treasury securities	$ 403,759	$ (3,963)	$	$	$ 403,759	$ (3,963)
U.S. Government agency and U.S. Government sponsored enterprise debt securities	243,025	(6,990)			243,025	(6,990)
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:						
Commercial mortgage-backed securities	112,519	(3,145)			112,519	(3,145)
Residential mortgage-backed securities	508,853	(10,991)	13,909	(289)	522,762	(11,280)
Municipal securities	181,003	(14,424)			181,003	(14,424)
Other residential mortgage-backed securities:						
Investment grade	15,203	(778)			15,203	(778)
Other commercial mortgage-backed securities:						
Investment grade						
Corporate debt securities:						
Investment grade	105,966	(282)	125,053	(4,947)	231,019	(5,229)
Non-investment grade			13,619	(6,443)	13,619	(6,443)
Other securities	7,269	(32)			7,269	(32)
Total investment securities available-for-sale	$ 1,577,597	$ (40,605)	$ 152,581	$ (11,679)	$ 1,730,178	$ (52,284)

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
As of December 31, 2012						
Investment securities available-for-sale:						
U.S. Treasury securities	$ 95,232	$ (71)	$	$	$ 95,232	$ (71)
U.S. Government agency and U.S. Government sponsored enterprise debt securities	24,912	(82)			24,912	(82)
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:						
Commercial mortgage-backed securities	10,013	(36)			10,013	(36)
Residential mortgage-backed securities	215,826	(678)			215,826	(678)

Municipal securities	48,363	(731)			48,363	(731)
Other commercial mortgage-backed securities:						
Investment grade						
Corporate debt securities:						
Investment grade	225,819	(5,391)	182,697	(12,181)	408,516	(17,572)
Non-investment grade			12,574	(7,558)	12,574	(7,558)
Other securities						
Total investment securities available-for-sale	$ 620,165	$ (6,989)	$ 195,271	$ (19,739)	$ 815,436	$ (26,728)

Unrealized Losses

The majority of the unrealized losses related to securities that have been in a continuous loss position for less than twelve months are related to municipal and residential mortgage-backed securities. As of June 30, 2013, the Company had $229.3 million of municipal securities and $996.5 million of residential mortgage-backed securities available-for-sale, representing 9% and 37% of the total investment securities available-for-sale portfolio, respectively. As of December 31, 2012, the Company had $167.1 million of municipal securities and $1.14 billion of residential mortgage-backed securities available-for-sale, representing 6% and 44% of the total investment securities available-for-sale portfolio, respectively.

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As of June 30, 2013, there were 13 individual securities that have been in a continuous unrealized loss position for twelve months or more. These securities are comprised of 5 positions in non-investment grade trust preferred securities with a total fair value of $13.6 million, 6 investment grade corporate debt securities with a fair value of $125.1 million and 2 residential agency mortgage-backed securities with a fair value of $13.9 million. The unrealized losses on these securities are primarily attributed to the rise in interest rate, together with the widened liquidity spread and credit spread. 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. The Company does not intend to sell these securities and it is not more likely than not that the company will be required to sell these securities before recovery of their current amortized cost basis.

As of June 30, 2013, there were also 242 securities, not including the 13 securities above, which have been in a continuous unrealized loss position for less than twelve months. The securities in an unrealized loss position for less than twelve months include 103 municipal securities, 64 residential agency mortgage-backed securities, 8 government sponsored debt securities, 39 U.S. Treasury securities, 17 commercial agency mortgage-backed securities, 7 investment grade corporate debt securities, 2 other residential mortgage-backed securities and 2 other securities. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated and as long term rates increased during the second quarter 2013, there was a greater unrealized loss impact to the portfolio. The Company does not intend to sell these securities and it is not more likely than not that the company will be required to sell these securities before recovery of their current amortized cost basis. As such, the Company does not deem any of the securities as of June 30, 2013 to be other-than-temporarily impaired.

As of December 31, 2012, there were 13 individual securities that have been in a continuous unrealized loss position for twelve months or more. These securities are comprised of 5 positions in trust preferred securities with a total fair value of $12.6 million and 8 investment grade debt securities with a fair value of $182.7 million. As of December 31, 2012 there were also 77 securities, not including the 13 securities above, which have been in a continuous unrealized loss position for less than twelve months. The securities in an unrealized loss position for less than twelve months include 26 residential agency mortgage-backed securities, 29 municipal securities, 11 investment grade corporate debt securities, 9 U.S. Treasury securities, 1 government agency security, and 1 commercial mortgage-backed security. The unrealized losses on these securities are primarily attributed to the market impact to the sovereign debt crisis in Europe. The company does not have direct holdings of European sovereign debt. However, the Company is indirectly affected through the overall impact to the market and especially to corporate debt securities pricing. 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. The Company does not intend to sell these securities and it is not more likely than not that the Company will be required to sell the investments before recovery of their current amortized cost basis. As such, the Company does not deem these securities, other than those previously stated, to be other-than-temporarily impaired as of December 31, 2012.

Corporate Debt Securities

As of June 30, 2013, the unrealized losses related to securities that have been in a continuous loss position of twelve months or longer are related to 5 positions in non-investment grade trust preferred debt securities and 6 investment grade corporate debt securities. As of June 30, 2013, these 5 positions in trust preferred securities had an estimated fair value of $13.6 million, representing approximately 1% of the total investment securities available-for-sale portfolio. As of June 30, 2013, these non-investment grade trust preferred debt securities had gross unrealized losses amounting to $6.4 million, or 32% of the total amortized cost basis of these securities. We did not record an impairment loss on our portfolio of pooled trust preferred securities during the first six months of 2013. In comparison, as of June 30, 2012, we had $4.7 million in unrealized losses on securities that are not other-than-temporarily impaired and $5.1 million in noncredit-related impairment losses on securities that are other-than-temporarily impaired as of June 30, 2012 pursuant to the provisions of ASC 320-10-65. We recorded an impairment loss of $99 thousand on our portfolio of pooled trust preferred securities during the first six months of 2012 for additional increases to the amount related to the credit loss for which an other-than-temporary impairment was previously recognized.

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The scheduled maturities of investment securities at June 30, 2013 are presented as follows:

	Amortized Cost	Estimated Fair Value
	(In thousands)	
Due within one year	$ 282,318	$ 272,321
Due after one year through five years	563,471	558,278
Due after five years through ten years	636,894	619,747
Due after ten years	1,221,969	1,216,826
Total investment securities available-for-sale	$ 2,704,652	$ 2,667,172

NOTE 6 DERIVATIVE FINANCIAL INSTRUMENTS AND BALANCE SHEET OFFSETTING

The following table summarizes the fair value and balance sheet classification of derivative instruments as of June 30, 2013 and December 31, 2012. The notional amount of the contract is not recorded on the condensed consolidated balance sheets, but is used as the basis for determining the amount of interest payments to be exchanged between the counterparties. If the counterparty fails to perform, the Company s counterparty credit risk is equal to the amount reported as a derivative asset. The valuation methodology of derivative instruments is disclosed in Note 3 to the Company s condensed consolidated financial statements presented elsewhere in this report.

	Fair Values of Derivative Instruments					
	June 30, 2013			December 31, 2012		
	Notional Amount	Derivative Assets (1)	Derivative Liabilities (1)	Notional Amount	Derivative Assets (1)	Derivative Liabilities (1)
	(In thousands)					
Derivatives designated as hedging instruments:						
Interest rate swaps on certificates of deposit fair value	$ 80,000	$	$ 6,831	$ 50,000	$	$ 1,521
Total derivatives designated as hedging instruments	$ 80,000	$	$ 6,831	$ 50,000	$	$ 1,521
Derivatives not designated as hedging instruments:						
Foreign exchange options	$ 85,614	$ 5,460	$ 3,257	$ 85,614	$ 5,011	$ 3,052
Interest rate swaps	1,320,438	22,353	20,129	1,190,793	36,943	36,799
Short-term foreign exchange contracts	256,233	2,896	3,450	112,459	896	688
Total derivatives not designated as hedging instruments	$ 1,662,285	$ 30,709	$ 26,836	$ 1,388,866	$ 42,850	$ 40,539

(1) Derivative assets, which are a component of other assets, include the estimated settlement of the derivative asset position. Derivative liabilities, which are a component of other liabilities and deposits, include the estimated settlement of the derivative liability position.

Derivatives Designated as Hedging Instruments

Interest Rate Swaps on Certificates of Deposit The Company is exposed to changes in the fair value of certain of its fixed rate certificates of deposit due to changes in the benchmark interest rate, LIBOR. In the first half of 2013, the Company entered into three receive-fixed, pay-variable interest rate swaps with major brokerage firms, with a total notional amount of $30.0 million, as a fair value hedge of three fixed rate certificates of deposit, for a total amount of $30.0 million, with the same maturity dates. Interest rate swaps designated as fair value hedges involve the receipt of fixed rate amounts from a counterparty in exchange for the Company making variable-rate payments over the life of the agreements without the exchange of the underlying notional amount.

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As of June 30, 2013 and December 31, 2012 the total notional amount of the interest rate swaps on the certificates of deposit was $80.0 million and $50.0 million, respectively. The fair value of the interest rate swaps amounted to a $6.8 million and $1.5 million liability, respectively, as of June 30, 2013 and December 31, 2012. During the three and six months ended June 30, 2013, the Company recognized a net reduction of $215 thousand and $303 thousand, respectively, in expense related to hedge ineffectiveness. The Company also recognized a net reduction to interest expense of $513 thousand and $899 thousand, respectively, for the three and six months ended June 30, 2013 related to net settlements on the derivatives.

Derivatives Not Designated as Hedging Instruments

Equity Swap Agreements In December 2007, the Company entered into two equity swap agreements with a major investment brokerage firm to economically hedge against market fluctuations in a promotional equity index certificate of deposit product offered to bank customers which has a term of 5 years and pays interest based on the performance of the HSCEI. Under ASC 815, 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 ASC 815, both the embedded equity call options on the certificates of deposit and the freestanding equity swap agreements are marked-to-market each reporting period with resulting changes in fair value recorded in the condensed consolidated statements of income. These equity swap agreements matured during the fourth quarter of 2012.

Foreign Exchange Options During 2010, the Company entered into foreign exchange option contracts with major brokerage firms to economically hedge against currency exchange rate fluctuations in a certificate of deposit product available to bank customers. This product, which has a term of 5 years, pays interest based on the performance of the Chinese currency Renminbi (RMB) relative to the U.S. Dollar. Under ASC 815, a certificate of deposit that pays interest based on changes in currency exchange rates is a hybrid instrument with an embedded derivative that must be accounted for separately from the host contract (i.e. the certificate of deposit). In accordance with ASC 815, both the embedded derivative instruments and the freestanding foreign exchange option contracts are marked-to-market each reporting period with resulting changes in fair value reported in the condensed consolidated statements of income.

As of June 30, 2013 and December 31, 2012, the notional amount of the foreign exchange options totaled $85.6 million and $85.6 million, respectively. The fair values of the foreign exchange options and embedded derivative liability for these contracts amounted to a $5.5 million asset and a $3.3 million liability, as of June 30, 2013. The fair values of the foreign exchange options and embedded derivative liability for these contracts amounted to a $5.0 million asset and a $3.1 million liability, as of December 31, 2012. The Company did not deliver collateral, in the form of securities to counterparty institutions as of June 30, 2013. The Company delivered collateral, in the form of securities to counterparty institutions, valued at $940 thousand, for foreign exchange option contracts that were in a net liability position as of December 31, 2012.

Interest Rate Swaps Since the fourth quarter of 2010, the Company has entered into pay-fixed, receive-variable swap contracts with institutional counterparties to economically hedge against interest rate swap products offered to bank customers. This product allows borrowers to lock in attractive intermediate and long-term interest rates by entering into a pay-fixed, receive-variable swap contract with the Company, resulting in the customer obtaining a synthetic fixed rate loan. The Company does not assume any interest rate risk since the swap agreements mirror each other. As of June 30, 2013 and December 31, 2012, the notional amount of the interest rate swaps with the institutional counterparties totaled $1.32 billion and $1.19 billion, respectively. The interest rate swap agreements are marked-to-market each reporting period with resulting changes in fair value reported in the condensed consolidated statements of income.

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The fair values of the interest rate swap contracts with the institutional counterparties and the bank customers amounted to a $22.4 million asset and a $20.1 million liability, as of June 30, 2013. The fair values of the interest rate swap contracts with the institutional counterparty and the bank customers amounted to a $36.9 million asset and a $36.8 million liability, as of December 31, 2012.

Short-term Foreign Exchange Contracts The Company also enters into short-term forward foreign exchange contracts on a regular basis to economically hedge against foreign exchange rate fluctuations. As of June 30, 2013 and December 31, 2012 the notional amount of the foreign exchange contracts totaled $256.2 million and $112.5 million, respectively. The fair values of the foreign exchange contracts amounted to a $2.9 million asset and a $3.5 million liability, as of June 30, 2013. The fair values of the foreign exchange contracts amounted to an $896 thousand asset and a $688 thousand liability, as of December 31, 2012. The gross aggregate value of the short-term foreign exchange contracts by counterparty was a liability of $635 thousand as of June 30, 2013 and an asset of $495 thousand as of December 31, 2012.

The table below presents the effect of the change in fair value for the Company s derivative financial instruments on the condensed consolidated statements of income for the three and six months ended June 30, 2013 and 2012:

	Location in Condensed Consolidated Statements of Income	Three Months Ended June 30,		Six Months Ended June 30,	
		2013	2012	2013	2012
		(In thousands)			
Derivatives designated as hedging instruments					
Interest rate swaps on certificates of deposit fair value	Interest expense	$ (3,810)	$ 1,045	$ (4,715)	$ 342
	Total net (expense) income	$ (3,810)	$ 1,045	$ (4,715)	$ 342
Derivatives not designated as hedging instruments					
Equity swap agreements	Noninterest expense	$	$	$	$ 2
Foreign exchange options	Noninterest income	97	(142)	238	111
Foreign exchange options	Noninterest expense	(1)	19	6	74
Interest rate swaps	Noninterest income	1,864	(423)	2,080	(308)
Short-term foreign exchange contracts	Noninterest income	(719)	103	(762)	151
	Total net income (expense)	$ 1,241	$ (443)	$ 1,562	$ 30

Credit Risk-Related Contingent Features The Company has agreements with some of its derivative counterparties that contain a provision where if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations.

The Company also has agreements with some of its derivative counterparties that contain a provision where if the Company fails to maintain its status as a well/adequately capitalized institution, then the counterparty could terminate the derivative positions and the Company would be required to settle its obligations under the agreements. Similarly, the Company could be required to settle its obligations under certain of its agreements if the Company was issued a notice of prompt corrective action.

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Balance Sheet Offsetting The Company has entered into agreements with all counterparty financial institutions, which include master netting agreements. However, the Company elects to account for all derivatives with counterparty institutions on a gross basis, excluding the foreign exchange options which are not under agreements that include master netting terms. The Company has also entered into securities purchased under resale agreements (resale agreements), and securities sold under agreements to repurchase (repurchase agreements) which have master netting agreements that allow for the netting of collateral positions. These repurchase and resale agreements of securities are not eligible for offset in the consolidated balance sheet.

The following tables show the gross derivatives, resale agreements and repurchase agreements in the consolidated balance sheets and each the respective collateral received or pledged in the form of other financial instruments, which are generally marketable securities. The collateral amounts in these tables are limited to the outstanding balances of the related asset or liability (after netting is applied); thus instances of overcollateralization are not shown. Most of the assets and liabilities in the following tables were transacted under master netting arrangements that contain a conditional right of offset, such as close-out netting, upon default. Collateral accepted or pledged in resale and repurchase agreements with other financial institutions also may be sold or re-pledged by the secured party, but is usually delivered to and held by third party trustees.

The Company delivered collateral, in the form of securities to counterparty institutions, for derivatives that were in a net liability position as of June 30, 2013 and December 31, 2012 (refer to the table below). Under the Dodd-Frank legislation, as of June 10, 2013, the Company must clear all LIBOR interest rate swaps through a clearing house. As such the Company is required to pledge cash collateral for the margin. As of June 30, 2013 the Company posted $140 thousand of cash collateral. As of December 31, 2012, the Company did not receive or pledge cash collateral and there were no net asset positions with respect to collateral.

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	As of June 30, 2013 (In thousands)					
				Gross Amounts Not Offset in the Condensed Consolidated Balance Sheets		
	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Condensed Consolidated Balance Sheets	Net Amounts of Assets Presented in the Condensed Consolidated Balance Sheets	Financial Instruments	Collateral Received	Net Amount
Assets						
Derivatives	$ 8,148	$	$ 8,148	$ (5,970)	$ (2,178)	$
Resale Agreements	$ 1,550,000	$	$ 1,550,000	$ (545,000)	$ (1,005,000)	$

				Gross Amounts Not Offset in the Condensed Consolidated Balance Sheets		
	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Condensed Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Condensed Consolidated Balance Sheets	Financial Instruments	Collateral Posted	Net Amount
Liabilities						
Derivatives	$ 24,975	$	$ 24,975	$ (5,970)	$ (19,005)	$
Repurchase Agreements	$ 995,000	$	$ 995,000	$ (545,000)	$ (450,000)	$

	As of December 31, 2012 (In thousands)					
				Gross Amounts Not Offset in the Condensed Consolidated Balance Sheets		
	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Condensed Consolidated Balance Sheets	Net Amounts of Assets Presented in the Condensed Consolidated Balance Sheets	Financial Instruments	Collateral Received	Net Amount
Assets						
Derivatives	$ 992	$	$ 992	$ (366)	$ (626)	$
Resale Agreements	$ 1,750,000	$	$ 1,750,000	$ (545,000)	$ (1,205,000)	$

				Gross Amounts Not Offset in the Condensed Consolidated Balance Sheets		
	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Condensed Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Condensed Consolidated Balance Sheets	Financial Instruments	Collateral Posted	Net Amount
Liabilities						
Derivatives	$ 38,513	$	$ 38,513	$ (366)	$ (38,147)	$
Repurchase Agreements	$ 995,000	$	$ 995,000	$ (545,000)	$ (450,000)	$

NOTE 7 COVERED ASSETS AND FDIC INDEMNIFICATION ASSET

Covered Assets

Covered assets consist of loans receivable and OREO that were acquired in the Washington First International Bank (WFIB) Acquisition on June 11, 2010 and in the United Commercial Bank (UCB) Acquisition on November 6, 2009 for which the Company entered into shared-loss agreements (the shared-loss agreements) with the FDIC. The shared-loss agreements covered over 99% of the loans originated by WFIB and all of the loans originated by UCB, excluding the loans originated by UCB in China under its United Commercial Bank China (Limited) subsidiary. The Company shares in the losses, which began with the first dollar of loss incurred, on covered assets under the shared-loss agreements.

Pursuant to the terms of the shared-loss agreements, the FDIC is obligated to reimburse the Company 80% of eligible losses for both WFIB and UCB with respect to covered assets. For the UCB covered assets, the FDIC will reimburse the Company for 95% of eligible losses in excess of $2.05 billion. The Company has a corresponding obligation to reimburse the FDIC for 80% or 95%, as applicable, of eligible recoveries with respect to covered assets. The commercial loan shared-loss agreement and single-family residential mortgage loan shared-loss agreement are in effect for 5 years and 10 years, respectively, from the acquisition date and the loss recovery provisions of these agreements continue on and are in effect for 8 years and 10 years, respectively, from the acquisition date.

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The commercial loan shared-loss agreements related to the UCB and WFIB acquisitions will terminate on November 6, 2014 and June 11, 2015, respectively. The single-family residential mortgage loan shared-loss agreements carry expiration dates of November 6, 2019 and June 11, 2020 for UCB and WFIB, respectively. Upon the completion of these agreements, any losses on loans left in the portfolio will belong solely to the Company. However, due to the performance of the covered loan portfolio, the Company does not expect the expiration of these agreements to have a material impact.

Forty-five days following the 10th anniversary of the respective acquisition date, the Company will be required to pay to the FDIC a calculated amount, based on the specific thresholds of losses not being reached. The calculation of this potential liability as stated in the shared-loss agreements is 50% of the excess, if any of (i) 20% of the Intrinsic Loss Estimate and (ii) the sum of (A) 25% of the asset discount plus (B) 25% of the Cumulative Shared-Loss Payments plus (C) the Cumulative Servicing Amount if net losses on covered loans subject to the stated threshold is not reached. As of June 30, 2013 and December 31, 2012, the Company s recorded estimate in the balance sheet, for this liability to the FDIC for WFIB and UCB was $50.7 million and $27.7 million, respectively.

At each date of acquisition, we accounted for the loan portfolio acquired from the respective bank at fair value. This represents the discounted value of the expected cash flows from the portfolio. In estimating the nonaccretable difference, we (a) calculated the contractual amount and timing of undiscounted principal and interest payments (the undiscounted contractual cash flows) and (b) estimated the amount and timing of undiscounted expected principal and interest payments (the undiscounted expected cash flows). In the determination of contractual cash flows and cash flows expected to be collected, we assume no prepayment on the ASC 310-30 nonaccrual loan pools as we do not anticipate any significant prepayments on credit impaired loans. For the ASC 310-30 accrual loans for single-family, multifamily and commercial real estate, we used a third party vendor to obtain prepayment speeds in order to be consistent with market participant s information. The third party vendor is recognized in the mortgage-industry for the delivery of prepayment and default models for the secondary market to identify loan level prepayment, delinquency, default, and loss propensities. The prepayment rates for the construction, land, and commercial and consumer pools have historically been low and so we applied the prepayment assumptions of our current portfolio using our internal modeling. The difference between the undiscounted contractual cash flows and the undiscounted expected cash flows is the nonaccretable difference. The nonaccretable difference represents our estimate of the credit losses expected and was considered in determining the fair value of the loans as of the acquisition date. The amount by which the undiscounted expected cash flows exceed the estimated fair value (the accretable yield) is accreted into interest income over the life of the loans. The Company has elected to account for all covered loans acquired in the FDIC-assisted acquisitions under ASC 310-30.

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The carrying amounts and the composition of the covered loans as of June 30, 2013 and December 31, 2012 are as follows:

	June 30, 2013	December 31, 2012
	(In thousands)	
Real estate loans:		
Residential single-family	$ 314,483	$ 362,345
Residential multifamily	513,141	647,440
Commercial and industrial real estate	1,190,964	1,348,556
Construction and land	329,397	417,631
Total real estate loans	2,347,985	2,775,972
Other loans:		
Commercial business	481,255	587,333
Other consumer	79,533	87,651
Total other loans	560,788	674,984
Total principal balance	2,908,773	3,450,956
Covered discount	(394,829)	(510,208)
Net valuation of loans	2,513,944	2,940,748
Allowance on covered loans	(9,629)	(5,153)
Total covered loans, net	$ 2,504,315	$ 2,935,595

Credit Quality Indicators At each respective acquisition date, the covered loans were grouped into pools of loans with similar characteristics and risk factors per ASC 310-30. The pools were first developed based on loan categories and performance status. As of June 30, 2013, UCB covered loans represent approximately 94% of total covered loans. For the UCB acquisition, the loans were further segregated among the former UCB domestic, Hong Kong, and China portfolios, representing the three general geographic regions. In addition, the Company evaluated the make-up of geographic regions within the construction, land, and multifamily loan portfolios and further segregated these pools into distressed and non-distressed regions based on our historical experience of real estate loans within the non-covered portfolio. As of the date of acquisition 64% of the UCB portfolio was located in California, 10% was located in Hong Kong and 11% was located in New York. This assessment was factored into the day one valuation and discount applied to the loans. As such, geographic concentration risk is considered in the covered loan discount.

Loans are risk rated based on analysis of the current state of the borrower s credit quality. The analysis of credit quality includes review of all sources of repayment, the borrower s current financial and liquidity status, and all other relevant information. The Company utilizes an eight grade risk rating system, where a higher grade represents a higher level of credit risk. The eight grade risk rating system can be generally classified by the following categories: Pass or Watch, Special Mention, Substandard, Doubtful, and Loss. The risk ratings reflect the relative strength of the sources of repayment. Refer to Note 8 for full discussion of risk ratings.

The Company reduced the nonaccretable difference due to the performance of the portfolio and expectation for the inherent losses in the portfolio subsequent to the initial valuations. By lowering the nonaccretable discount, the overall accretable yield will increase thus increasing the interest income recognized over the remaining life of the loans. This reduction was primarily calculated based on the risk ratings of the loans.

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The Company acquired UCB and WFIB approximately 3.5 and 3 years ago, respectively. The majority of the covered loan portfolio accounted for under ASC 310-30, is still performing as expected from the day one valuation or better than expected. However, the Company has experienced some concentrated credit deterioration in certain loan pools. Thus, during the first half of 2013, due to the concentrated credit deterioration beyond the respective acquisition date fair value of these covered loans under ASC 310-30, a provision for credit losses was recorded through earnings. As of June 30, 2013, there was an allowance of $2.5 million for these loans under ASC 310-30 due to credit deterioration, which resulted from a provision of $2.5 million for the six months ended June 30, 2013. This $2.5 million in allowance is allocated mainly to the portfolio s commercial real estate segment.

As of the acquisition date, WFIB s and UCB s loan portfolios included unfunded commitments for commercial lines of credit, construction draws and other lending activity. The total commitment outstanding as of the acquisition date is covered under the shared-loss agreements. However, any additional advances on these loans subsequent to acquisition date are not accounted for under ASC 310-30. Included in the table below are $358.8 million and $431.7 million of additional advances under the shared-loss agreements which are not accounted for under ASC 310-30 at June 30, 2013 and December 31, 2012, respectively. The Bank has considered these additional advances on commitments covered under the shared-loss agreements in the allowance for loan losses calculation. These additional advances are within our loan segments as follows: $248.3 million of commercial and industrial loans, $67.3 million of commercial real estate loans, $31.9 million of consumer loans and $11.3 million of residential loans. In comparison, at December 31, 2012, these additional advances were within our loan segments as follows: $302.3 million of commercial and industrial loans, $83.4 million of commercial real estate loans, $34.5 million of consumer loans and $11.5 million of residential loans.

During the three and six months ended June 30, 2013, the Company recorded $1.2 million and $1.3 million, respectively, of charge-offs on loans outside of the scope of ASC 310-30. There were no charge-offs during the three and six months ended June 30, 2012. The resulting provision on covered loans outside the scope of ASC 310-30 was $186 thousand and $3.3 million, respectively, for the three and six months ended June 30, 2013. In comparison, there was a provision reversal of $1.1 million and provision of $526 thousand for the three and six months ended June 30, 2012. Refer to Note 8 for additional discussion of these covered charge-offs. As of June 30, 2013, $7.1 million, or 2.9%, of the total allowance is allocated to these additional advances on loans covered under the shared-loss agreements. This $7.1 million in allowance is allocated within our loan segments as follows: $4.1 million for commercial and industrial loans, $2.4 million for commercial real estate loans, $407 thousand for consumer loans, and $174 thousand for residential loans. At December 31, 2012, $5.2 million, or 2.2% of the total allowance was allocated within our loan segments as follows: $2.5 million for commercial real estate loans, $2.4 million for commercial and industrial loans, $194 thousand for consumer loans and $87 thousand for residential loans. The $2.5 million allowance for loans under ASC 310-30 discussed above and the $7.1 million in allowance for loans outside the scope of ASC 310-30 together comprise the total covered allowance of $9.6 million or 4.0% of total allowance as of June 30, 2013.

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The tables below present the covered loan portfolio by credit quality indicator as of June 30, 2013 and December 31, 2012.

	Pass/Watch	Special Mention	Substandard	Doubtful	Total
			(In thousands)		
June 30, 2013					
Real estate loans:					
Residential single-family	$ 300,876	$ 1,253	$ 12,354	$	$ 314,483
Residential multifamily	466,014	2,868	44,259		513,141
Commercial and industrial real estate	884,924	8,031	291,368	6,641	1,190,964
Construction and land	140,619	9,554	178,325	899	329,397
Total real estate loans	1,792,433	21,706	526,306	7,540	2,347,985
Other loans:					
Commercial business	399,075	11,880	70,105	195	481,255
Other consumer	78,207	128	1,198		79,533
Total other loans	477,282	12,008	71,303	195	560,788
Total principal balance	$ 2,269,715	$ 33,714	$ 597,609	$ 7,735	$ 2,908,773

	Pass/Watch	Special Mention	Substandard	Doubtful	Total
			(In thousands)		
December 31, 2012					
Real estate loans:					
Residential single-family	$ 345,568	$ 982	$ 15,795	$	$ 362,345
Residential multifamily	571,061	8,074	68,305		647,440
Commercial and industrial real estate	963,069	10,777	367,869	6,841	1,348,556
Construction and land	170,548	15,135	230,776	1,172	417,631
Total real estate loans	2,050,246	34,968	682,745	8,013	2,775,972
Other loans:					
Commercial business	434,138	22,533	130,467	195	587,333
Other consumer	85,534	515	1,602		87,651
Total other loans	519,672	23,048	132,069	195	674,984
Total principal balance	$ 2,569,918	$ 58,016	$ 814,814	$ 8,208	$ 3,450,956

As of June 30, 2013 and December 31, 2012, $178.4 million and $204.3 million, respectively, of the ASC 310-30 credit impaired loans were considered to be nonaccrual loans in accordance with the contractual terms of the individual loans.

The following table sets forth information regarding covered nonperforming assets as of the dates indicated:

	June 30, 2013	December 31, 2012
	(In thousands)	
Covered nonaccrual loans*(1) (2) (3)*	$ 178,431	$ 204,310
Covered loans past due 90 days or more but not on nonaccrual		
Total nonperforming loans	178,431	204,310

Other real estate owned covered, net		29,836		26,808
Total covered nonperforming assets	$	208,267	$	231,118

(1) Covered nonaccrual loans include loans that meet the criteria for nonaccrual but have a yield accreted through interest income under ASC 310-30 and all losses on covered loans are 80% reimbursed by the FDIC.

(2) Represents principal balance net of discount.

(3) Includes $31.1 million and $29.6 million of loans at June 30, 2013 and December 31, 2012, respectively, accounted for under ASC 310-10, of which some loans have additional partial balances accounted for under ASC 310-30.

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As of June 30, 2013, we had covered OREO properties with a combined aggregate carrying value of $29.8 million. Approximately 54% and 15% of covered OREO properties as of June 30, 2013 were located in California and Washington, respectively. As of December 31, 2012, we had covered OREO properties with an aggregate carrying value of $26.8 million. During the first six months of 2013, 15 properties with an aggregate carrying value of $20.2 million were added through foreclosure. The carrying value at June 30, 2013 is net of adjustments on covered OREO of $750 thousand. During the first six months of 2013, we sold 31 covered OREO properties for total proceeds of $19.2 million resulting in a total net gain on sale of $2.8 million.

Changes in the accretable yield for the covered loans are as follows for the periods shown:

	Three Months Ended June 30,	
	2013	2012
	(In thousands)	
Balance at beginning of period	$ 503,476	$ 696,666
Additions		
Accretion	(84,811)	(105,416)
Changes in expected cash flows	40,052	29,218
Balance at end of period	$ 458,717	$ 620,468

	Six Months Ended June 30,	
	2013	2012
	(In thousands)	
Balance at beginning of period	$ 556,986	$ 785,165
Additions		
Accretion	(166,438)	(184,822)
Changes in expected cash flows	68,169	20,125
Balance at end of period	$ 458,717	$ 620,468

The excess of cash flows expected to be collected over the initial fair value of acquired loans is referred to as the accretable yield and is accreted into interest income over the estimated life of the acquired loans using the effective yield method. The accretable yield will change due to:

- estimate of the remaining life of acquired loans which may change the amount of future interest income;

- estimate of the amount of contractually required principal and interest payments over the estimated life that will not be collected (the nonaccretable difference); and

- indices for acquired loans with variable rates of interest.

From December 31, 2012 to June 30, 2013, excluding scheduled principal payments, a total of $392.7 million of loans were removed from the covered loans accounted for under ASC 310-30 due to loans being paid in full, sold, transferred to covered OREO or charged-off. Interest income was adjusted by $74.3 million related to payoffs and removals offset by charge-offs.

From December 31, 2011 to June 30, 2012, excluding scheduled principal payments, a total of $459.0 million of loans were removed from the covered loans accounted for under ASC 310-30 due to loans being paid in full, sold, transferred to covered OREO or charged-off. Interest income was adjusted by $42.4 million related to payoffs and removals offset by charge-offs.

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FDIC Indemnification Asset

Due to the reductions of the nonaccretable difference on the UCB covered loan portfolio, the expected reimbursement from the FDIC under the loss-sharing agreement decreased. As such, the Company is amortizing the difference between the recorded amount of the FDIC indemnification asset and the expected reimbursement from the FDIC over the life of the indemnification asset, in line with the improved accretable yield as discussed above. For the three and six months ended June 30, 2013, the Company recorded $12.7 million and $21.4 million, respectively, of amortization against income, compared to $7.8 million and $17.9 million of amortization for the three and six months ended June 30, 2012. For the three and six months ended June 30, 2013, the Company recorded reductions of $28.8 million and $52.1 million, respectively. For the three and six months ended June 30, 2012, the Company recorded reductions of $36.1 million and $77.0 million, respectively.

The table below shows FDIC indemnification asset activity for the periods shown:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)		(In thousands)	
Balance at beginning of period	$ 276,834	$ 457,265	$ 316,313	$ 511,135
(Amortization)	(12,696)	(7,787)	(21,382)	(17,858)
Reductions *(1)*	(28,820)	(36,050)	(52,055)	(77,018)
Estimate of FDIC repayment *(2)*	(15,376)	(4,141)	(22,934)	(6,972)
Balance at end of period	$ 219,942	$ 409,287	$ 219,942	$ 409,287

(1) Reductions relate to charge-offs, partial prepayments, loan payoffs and loan sales which result in a corresponding reduction of the indemnification asset.

(2) This represents the change in the calculated estimate the Company will be required to pay the FDIC at the end of the FDIC loss share agreements, due to lower thresholds of losses.

FDIC Receivable

As of June 30, 2013, the FDIC loss-sharing receivable was $47.1 million as compared to $73.1 million as of December 31, 2012. This receivable represents 80% of reimbursable amounts from the FDIC, under the FDIC loss-sharing agreements that have not yet been received. These reimbursable amounts include net charge-offs, loan related expenses and OREO-related expenses. 100% of the loan related and OREO expenses are recorded as noninterest expense, 80% of any reimbursable expense is recorded as noninterest income, netting to the 20% of actual expense paid by the Company. The FDIC also shares in 80% of recoveries received. Thus, the FDIC receivable is reduced when we receive payment from the FDIC as well as when recoveries occur. The FDIC loss-sharing receivable is included in other assets on the condensed consolidated balance sheet.

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NOTE 8 NON-COVERED LOANS AND ALLOWANCE FOR LOAN LOSSES

The following is a summary of loans receivable, excluding covered loans (non-covered loans) for the periods indicated:

	June 30, 2013	December 31, 2012
	(In thousands)	
Residential:		
Single-family	$ 2,575,975	$ 2,187,323
Multifamily	929,867	900,708
Total residential	3,505,842	3,088,031
Commercial Real Estate (CRE):		
Income producing	3,917,082	3,644,035
Construction	105,084	121,589
Land	128,218	129,071
Total CRE	4,150,384	3,894,695
Commercial and Industrial (C&I):		
Commercial business	4,036,795	3,569,388
Trade finance	672,880	661,877
Total C&I	4,709,675	4,231,265
Consumer:		
Student loans	615,707	475,799
Other consumer	544,306	269,083
Total consumer	1,160,013	744,882
Total gross loans receivable, excluding covered loans	13,525,914	11,958,873
Unearned fees, premiums, and discounts, net	(28,219)	(19,301)
Allowance for loan losses, excluding covered loans	(233,480)	(229,382)
Loans receivable, excluding covered loans, net	$ 13,264,215	$ 11,710,190

Accrued interest on covered and non-covered loans receivable amounted to $90.6 million and $76.8 million at June 30, 2013 and December 31, 2012, respectively.

At June 30, 2013 and December 31, 2012, covered and non-covered loans receivable totaling $9.06 billion and $8.88 billion, respectively, were pledged to secure borrowings from the FHLB and the Federal Reserve Bank.

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 $676.5 million and $369.7 million in new residential single-family loans during the six months ended June 30, 2013 and 2012, respectively. The Bank also offers both fixed and ARM residential multifamily loan programs. For the six months ended June 30, 2013 and 2012, the Bank originated $104.2 million and $52.7 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 and ARM single-family loan programs that have three-year, five-year or seven-year initial fixed periods. The Bank originates single-family residential loans where the underwriting criteria is heavily based on a maximum loan to value ratio (generally of 65%) and no or limited verification or documentation of a borrower s income is obtained. The Bank considers all of the single-family and multifamily loans originated to be prime loans and the underwriting criteria include maximum loan-to-value ratios and minimum debt coverage ratios, as applicable. The Bank has single-family loans with interest-only features which represents approximately less than 1% of total single-family loans at both June 30, 2013 and December 31, 2012. Additionally, the Bank owns residential loans that were purchased several years ago that permit different repayment options. For these

loans, there is the potential for negative amortization if the borrower so chooses. These residential loans that permit different repayment options represents approximately less than 1%, of total residential loans at both June 30, 2013 and December 31, 2012. None of these loans were negatively amortizing as of June 30, 2013 and December 31, 2012.

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In addition to residential lending, the Bank s lending activities also include commercial real estate, commercial and industrial, and consumer lending. Our CRE lending activities include loans to finance income producing properties and also construction and land loans. Our C&I lending activities include commercial business financing for small and middle-market businesses in a wide spectrum of industries. Included in commercial business loans are loans for working capital, accounts receivable lines, inventory lines, small business administration loans, and lease financing. We also offer a variety of international trade finance 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. Consumer loans are primarily comprised of fully guaranteed student loans, home equity lines of credit, auto loans and the new insurance premium financing loans.

All of the loans that the Bank originates are subject to its 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.

Credit Risk and Concentrations The Company has a concentration of real estate loans in California, including the areas of Los Angeles, Riverside, San Bernardino, and Orange counties. As of June 30, 2013, the Company had $4.15 billion in non-covered commercial real estate loans and $3.51 billion in non-covered residential loans, of which approximately 88% are secured by real properties located in California. Deterioration in the real estate market generally and residential building 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 loans relate 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 as well as some export activities. We also offer export-import financing to various domestic and foreign customers. Certain trade finance loans may be guaranteed by the Export-Import Bank of the United States or the Export-Import Bank of China.

Purchased Loans During the six months ended June 30, 2013, the Company purchased loans with an unpaid principal balance of $537.5 million and a carrying amount of $524.9 million. The purchased loans during the period consist of approximately, 52% of premium financing loans, 47% of student loans, which are mostly guaranteed by the U.S. Department of Education and pose limited credit risk and 1% of other loans. The insurance premium financing loans are included in the commercial and consumer loan portfolios, as applicable.

Loans Held for Sale Loans held for sale totaled $245.0 million and $174.3 million as of June 30, 2013 and December 31, 2012, respectively. Loans held for sale are recorded at the lower of cost or fair value. Fair value, if lower than cost, is determined based on valuations obtained from market participants or the value of the underlying collateral. As of June 30, 2013, approximately 89% of these loans were student loans, the majority of which are guaranteed by the U.S. Department of Education. During the first six months of 2013, net loans receivable of $19.1 million were reclassified to loans held for sale. Some of these loans were purchased by the Company with the intent to be held for investment; however, subsequent to their purchase, the Company s intent for these loans changed and they were consequently reclassified to loans held for sale. Proceeds from sales of loans held for sale were $6.3 million in the first six months of 2013, resulting in net gains on sale of $1 thousand. Proceeds from sales of loans held for sale were $199.4 million in the first six months of 2012 with $9.3 million net gains on sale.

Credit Quality Indicators Loans are risk rated based on analysis of the current state of the borrower s credit quality. The analysis of credit quality includes review of all sources of repayment, the borrower s current financial and liquidity status, and all other relevant information. The Company utilizes an eight grade risk rating system, where a higher grade represents a higher level of credit risk. The eight grade risk rating system can be generally classified by the following categories: Pass or Watch, Special Mention, Substandard, Doubtful, and Loss. The risk ratings reflect the relative strength of the sources of repayment.

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Pass or Watch loans are generally considered to have sufficient sources of repayment in order to repay the loan in full in accordance with all terms and conditions. These borrowers may have some credit risk that requires monitoring, but full repayment is expected. Special Mention loans are considered to have potential weaknesses that warrant closer attention by management. Special Mention is considered a transitory grade and, generally, the Company does not grade a loan as Special Mention for longer than six months. If any potential weaknesses are resolved, the loan is upgraded to a Pass or Watch grade. If negative trends in the borrower s financial status or other information is presented that indicates the repayment sources may become inadequate, the loan is downgraded to a Substandard grade. Substandard loans are considered to have well-defined weaknesses that jeopardize the full and timely repayment of the loan. Substandard loans have a distinct possibility of loss if the deficiencies are not corrected. Additionally, when management has assessed a potential for loss but a distinct possibility of loss is not recognizable, the loan is still classified as Substandard. Doubtful loans have insufficient sources of repayment and a high probability of loss. Loss loans are considered to be uncollectible and of such little value that they are no longer considered bankable assets. These internal risk ratings are reviewed routinely and adjusted due to changes in borrower status and likelihood of loan repayment. The tables below present the non-covered loan portfolio by credit quality indicator as of June 30, 2013 and December 31, 2012. There were no Loss grade loans as of June 30, 2013 and December 31, 2012.

	Pass/Watch	Special Mention	Substandard	Doubtful	Total
			(In thousands)		
June 30, 2013					
Residential:					
Single-family	$ 2,549,678	$ 11,392	$ 14,905	$	$ 2,575,975
Multifamily	843,283	7,459	79,125		929,867
CRE:					
Income producing	3,659,388	45,802	211,892		3,917,082
Construction	77,327	6,160	21,597		105,084
Land	79,291	13,043	35,884		128,218
C&I:					
Commercial business	3,774,340	142,216	120,239		4,036,795
Trade finance	659,604	9,124	4,152		672,880
Consumer:					
Student loans	615,642	65			615,707
Other consumer	539,178	1,619	3,509		544,306
Total	$ 12,797,731	$ 236,880	$ 491,303	$	$ 13,525,914

	Pass/Watch	Special Mention	Substandard	Doubtful	Total
			(In thousands)		
December 31, 2012					
Residential:					
Single-family	$ 2,163,918	$ 5,131	$ 18,274	$	$ 2,187,323
Multifamily	781,552	13,510	105,646		900,708
CRE:					
Income producing	3,416,142	42,222	185,671		3,644,035
Construction	63,008	16,885	41,696		121,589
Land	79,085	13,232	36,754		129,071
C&I:					
Commercial business	3,380,212	69,687	119,489		3,569,388
Trade finance	632,617	24,778	4,482		661,877
Consumer:					
Student loans	475,799				475,799
Other consumer	261,136	1,115	6,832		269,083
Total	$ 11,253,469	$ 186,560	$ 518,844	$	$ 11,958,873

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Nonaccrual and Past Due Loans Loans are tracked by the number of days borrower payments are past due. The tables below present an aging analysis of nonaccrual loans, past due non-covered loans and loans held for sale, segregated by class of loans, as of June 30, 2013 and December 31, 2012:

	Accruing Loans 30-59 Days Past Due	Accruing Loans 60-89 Days Past Due	Total Accruing Past Due Loans	Nonaccrual Loans Less Than 90 Days Past Due	Nonaccrual Loans 90 or More Days Past Due	Total Nonaccrual Past Due Loans	Current Loans	Total
				(In thousands)				
June 30, 2013								
Residential:								
Single-family	$ 12,885	$ 6,585	$ 19,470	$ 4,144	$ 3,066	$ 7,210	$ 2,549,295	$ 2,575,975
Multifamily	6,929	570	7,499	21,548	8,678	30,226	892,142	929,867
CRE:								
Income producing	15,779	26,227	42,006	5,735	11,536	17,271	3,857,805	3,917,082
Construction				6,888		6,888	98,196	105,084
Land	3,332		3,332	956	3,357	4,313	120,573	128,218
C&I:								
Commercial business	6,256	2,485	8,741	4,214	14,413	18,627	4,009,427	4,036,795
Trade finance				318	545	863	672,017	672,880
Consumer:								
Student loans		65	65				615,642	615,707
Other consumer	1,104	82	1,186		796	796	542,324	544,306
Loans held for sale					25,837	25,837	219,189	245,026
Total	$ 46,285	$ 36,014	$ 82,299	$ 43,803	$ 68,228	$ 112,031	$ 13,576,610	13,770,940
Unearned fees, premiums and discounts, net								(28,219)
Total recorded investment in non-covered loans and loans held for sale								$ 13,742,721

	Accruing Loans 30-59 Days Past Due	Accruing Loans 60-89 Days Past Due	Total Accruing Past Due Loans	Nonaccrual Loans Less Than 90 Days Past Due	Nonaccrual Loans 90 or More Days Past Due	Total Nonaccrual Past Due Loans	Current Loans	Total
				(In thousands)				
December 31, 2012								
Residential:								
Single-family	$ 4,820	$ 2,244	$ 7,064	$ 1,301	$ 9,809	$ 11,110	$ 2,169,149	$ 2,187,323
Multifamily	7,127	924	8,051	6,788	11,052	17,840	874,817	900,708
CRE:								
Income producing	18,118	4,731	22,849	9,485	8,354	17,839	3,603,347	3,644,035
Construction					27,039	27,039	94,550	121,589
Land				637	3,984	4,621	124,450	129,071
C&I:								
Commercial business	3,293	316	3,609	8,068	14,740	22,808	3,542,971	3,569,388
Trade finance	500		500	429	2,003	2,432	658,945	661,877
Consumer:								
Student loans	71		71				475,728	475,799
Other consumer	485	968	1,453	499	3,921	4,420	263,210	269,083
Loans held for sale							174,317	174,317
Total	$ 34,414	$ 9,183	$ 43,597	$ 27,207	$ 80,902	$ 108,109	$ 11,981,484	12,133,190
Unearned fees, premiums and discounts, net								(19,301)
Total recorded investment in non-covered loans and loans held for sale								$ 12,113,889

Generally, loans 90 or more days past due are placed on nonaccrual status, at which point interest accrual is discontinued and all unpaid accrued interest is reversed against interest income. Additionally, loans that are not 90 or more days past due but have identified deficiencies, including delinquent troubled debt restructurings, are also placed on nonaccrual status. Nonaccrual loans totaled $112.0 million and $108.1 million at June 30, 2013 and December 31, 2012, respectively. Loans not 90 or more days past due totaled $43.8 million and $27.2 million as of June 30, 2013 and December 31, 2012, respectively, and were included in non-covered nonaccrual loans.

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The following is a summary of interest income foregone on nonaccrual loans:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Interest income that would have been recognized had nonaccrual loans performed in accordance with their original terms	$ 1,353	$ 1,767	$ 3,009	$ 3,497
Less: Interest income recognized on nonaccrual loans on a cash basis	(623)	(609)	(1,057)	(1,073)
Interest income foregone on nonaccrual loans	$ 730	$ 1,158	$ 1,952	$ 2,424

Troubled debt restructurings A troubled debt restructuring (TDR) is a modification of the terms of a loan when the lender, for economic or legal reasons related to the borrower s financial difficulties, grants a concession to the borrower. The concessions may be granted in various forms, including a below-market change in the stated interest rate, reduction in the loan balance or accrued interest, extension of the maturity date with a stated interest rate lower than the current market rate or note splits referred to as A/B notes. In A/B note restructurings, the original note is bifurcated into two notes where the A note represents the portion of the original loan which allows for acceptable loan-to-value and debt coverage on the collateral and is expected to be collected in full and the B note represents the portion of the original loan where there is a shortfall in value and is fully charged-off. The A/B note balance is comprised of the A note balances only. A notes are not disclosed as TDRs in subsequent years after the year of restructuring if the restructuring agreement specifies an interest rate equal to or greater than the rate that the Bank was willing to accept at the time of the restructuring for a new loan with comparable risk and the loan is not impaired based on the terms specified by the restructuring agreement.

TDRs may be designated as performing or nonperforming. A TDR may be designated as performing if the loan has demonstrated sustained performance under the modified terms. The period of sustained performance may include the periods prior to modification if prior performance met or exceeded the modified terms. For nonperforming restructured loans, the loan will remain on nonaccrual status until the borrower demonstrates a sustained period of performance, generally six consecutive months of payments. The Company had $70.3 million and $94.6 million in total performing restructured loans as of June 30, 2013 and December 31, 2012, respectively. Nonperforming restructured loans were $16.1 million and $10.0 million at June 30, 2013 and December 31, 2012, respectively. Included as TDRs were $4.3 million and $34.8 million of performing A/B notes as of June 30, 2013 and December 31, 2012, respectively. All TDRs are included in the balance of impaired loans.

The following table provides information on loans modified as of June 30, 2013 that were modified as TDRs during the three and six months ended June 30, 2013 and 2012:

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	Loans Modified as TDRs During the Three Months Ended June 30,							
	2013				2012			
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment (1)	Financial Impact (2)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment (1)	Financial Impact (2)
	(Dollars in thousands)							
Residential:								
Single-family		$	$	$	1	$ 965	$ 960	$ 207
Multifamily	1	$ 1,093	$ 1,093	$	6	$ 10,289	$ 10,162	$ 861
CRE:								
Income producing	4	$ 23,167	$ 22,934	$ 102	1	$ 1,146	$ 1,144	$
Construction		$	$	$		$	$	$
Land		$	$	$		$	$	$
C&I:								
Commercial business	3	$ 1,204	$ 1,201	$ 86	5	$ 1,940	$ 1,931	$ 399
Trade finance		$	$	$		$	$	$
Consumer:								
Student loans		$	$	$		$	$	$
Other consumer		$	$	$	1	$ 108	$ 108	$

	Loans Modified as TDRs During the Six Months Ended June 30,							
	2013				2012			
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment (1)	Financial Impact (2)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment (1)	Financial Impact (2)
	(Dollars in thousands)							
Residential:								
Single-family		$	$	$	2	$ 1,267	$ 1,165	$ 302
Multifamily	1	$ 1,093	$ 1,093	$	7	$ 10,687	$ 10,549	$ 861
CRE:								
Income producing	4	$ 23,167	$ 22,934	$ 102	4	$ 4,465	$ 4,040	$ 469
Construction		$	$	$		$	$	$
Land		$	$	$	1	$ 432	$ 70	$ 76
C&I:								
Commercial business	4	$ 1,246	$ 1,241	$ 86	11	$ 4,465	$ 4,333	$ 689
Trade finance		$	$	$		$	$	$
Consumer:								
Student loans		$	$	$		$	$	$
Other consumer	1	$ 651	$ 649	$	1	$ 108	$ 108	$

(1) Includes subsequent payments after modification and reflects the balance as of June 30, 2013 and June 30, 2012.

(2) The financial impact includes charge-offs and specific reserves recorded at modification date.

Potential TDRs are individually evaluated and the type of restructuring is selected based on the loan type and the circumstances of the borrower s financial difficulty in order to maximize the Bank s recovery. As of June 30, 2013, modifications of residential TDRs, including single and multi-family loans, primarily included A/B note splits, which result in a partial charge-off or loss for the Bank at the modification date. Residential TDRs modified using A/B note splits totaled $1.1 million, as of June 30, 2013. Commercial real estate TDRs, including income producing, construction and land loans, were primarily modified through, A/B note splits, forbearance of payments and principal and/or interest

deferment for a total of $22.9 million, as of June 30, 2013. As of June 30, 2013, modifications of commercial and industrial TDRs, including commercial business and trade finance loans, were restructured through principal and interest reduction with an impact of both a reduction of interest collected over the life of the loan and/or an extended time period for collection of principal and interest, for a total of $1.2 million as of June 30, 2013. Consumer TDRs, including student loans and other consumer loans, were restructured through maturity extensions, for a total of $649 thousand, as of June 30, 2013.

As of June 30, 2012, modifications of residential TDRs, including single and multi-family loans, primarily included principal and/or interest deferments, rate reductions, extensions and A/B note splits. For the six months ended June 30, 2012 residential TDRs modified using principal and/or interest deferment and/or rate reductions totaled $4.1 million, as of June 30, 2012. For the six months ended June 30, 2012 residential TDRs modified using extensions and/or A/B note splits totaled $7.6 million, as of June 30, 2012. Commercial real estate TDRs, including income producing, construction and land loans, were primarily modified through A/B note splits, principal reductions and/or non-market interest rate changes with an impact of a partial charge-off or loss for the Bank and reduction of interest collected over the life of the loan. Commercial real estate TDRs modified through A/B note splits, principal reductions and/or non-market interest changes totaled $4.1 million as of June 30, 2012. Commercial and industrial TDRs, including commercial business and trade finance loans, were restructured in various ways, including forbearance payments, principal deferment and/or maturity extensions with an impact of both a reduction of interest collected over the life of the loan and/or an extended time period for collection of principal and interest, for a total of $4.3 million as of June 30, 2012. Consumer TDRs, including student loans and other consumer loans, were restructured through principal deferments. Consumer TDRs modified through principal deferment totaled $108 thousand as of June 30, 2012.

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Performing TDRs at June 30, 2013 were comprised of $18.8 million in residential loans, $46.9 million in commercial real estate loans, $3.9 million in commercial and industrial loans and $756 thousand in consumer loans. Performing TDRs at December 31, 2012 were comprised of $43.5 million in residential loans, $47.4 million in commercial real estate loans, $3.6 million in commercial and industrial loans and $108 thousand in consumer loans. Nonperforming TDRs at June 30, 2013 were comprised of $11.9 million in residential loans, $773 thousand in commercial real estate loans and $3.4 million in commercial and industrial loans. Nonperforming TDRs at December 31, 2012 were comprised of $5.1 million in residential loans, $1.9 million in commercial real estate loans and $3.0 million in commercial and industrial loans.

Subsequent to restructuring, a TDR that becomes delinquent, generally beyond 30 days for commercial and industrial, commercial real estate and consumer loans, and beyond 90 days for residential loans, becomes nonaccrual and is considered to have defaulted. The following table provides information for loans modified as TDRs within the previous 12 months that have subsequently defaulted as of June 30, 2013 and June 30, 2012 for the three and six months ended June 30, 2013 and June 30, 2012.

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	Loans Modified as TDRs that Subsequently Defaulted During the Three Months Ended June 30,			
	2013		2012	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)			
Residential:				
Single-family	1	$ 105		$
Multifamily		$		$
CRE:				
Income producing		$		$
Construction		$		$
Land		$		$
C&I:				
Commercial business		$	1	$ 337
Trade finance		$		$
Consumer:				
Student loans		$		$
Other consumer		$		$

	Loans Modified as TDRs that Subsequently Defaulted During the Six Months Ended June 30,			
	2013		2012	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)			
Residential:				
Single-family	3	$ 2,935		$
Multifamily		$		$
CRE:				
Income producing		$	1	$ 2,916
Construction		$		$
Land		$		$
C&I:				
Commercial business	2	$ 500	3	$ 793
Trade finance		$		$
Consumer:				
Student loans		$		$
Other consumer		$		$

All TDRs are included in the impaired loan quarterly valuation allowance process. See the sections below *Impaired Loans* and *Allowance for Loan Losses* for the complete discussion. All portfolio segments of TDRs are reviewed for necessary specific reserves in the same manner as impaired loans of the same portfolio segment which have not been identified as TDRs. The modification of the terms of each TDR is considered in the current impairment analysis of the respective TDR. For all portfolio segments of delinquent TDRs and when the restructured loan is less than the recorded investment in the loan, the deficiency is charged-off against the allowance for loan losses. If the loan is a performing TDR the deficiency is included in the specific allowance, as appropriate. As of June 30, 2013, the allowance for loan losses associated with TDRs was $7.4 million for performing TDRs and $517 thousand for nonperforming TDRs. As of December 31, 2012, the allowance for loan losses associated with TDRs was $8.7 million for performing TDRs and $203 thousand for nonperforming TDRs.

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Impaired Loans 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 original contractual terms of the loan agreement. Impaired loans include non-covered loans held for investment on nonaccrual status, regardless of the collateral coverage, and loans modified in a TDR.

The Bank s loans are grouped into heterogeneous and homogeneous (mostly consumer loans) categories. Classified loans (graded Substandard or Doubtful) in the heterogeneous category are selected and evaluated for impairment on an individual basis. The Bank considers loans individually reviewed to be impaired if, based on current information and events, it is probable the Bank will not be able to collect all amounts due according to the original contractual terms of the loan agreement. 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. When the value of an impaired loan is less than the recorded investment in the loan and the loan is classified as nonperforming, the deficiency is charged-off against the allowance for loan losses.

At June 30, 2013 and December 31, 2012, impaired non-covered loans totaled $156.5 million and $200.5 million, respectively. Impaired non-covered loans as of June 30, 2013 and December 31, 2012 are set forth in the following tables. The interest income recognized on impaired loans, excluding performing TDRs, is recognized on a cash basis when received.

	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment (2)	Related Allowance	For the Three Months Ended June 30, 2013 Average Recorded Investment	For the Three Months Ended June 30, 2013 Interest Income Recognized (1)	For the Six Months Ended June 30, 2013 Average Recorded Investment	For the Six Months Ended June 30, 2013 Interest Income Recognized (1)
				(In thousands)					
As of and for the three and six months ended June 30, 2013									
Residential:									
Single-family	$ 11,931	$ 9,300	$ 1,814	$ 11,114	$ 304	$ 11,219	$ 66	$ 11,497	$ 126
Multifamily	47,860	27,865	17,221	45,086	1,204	45,230	175	45,407	234
CRE:									
Income producing	69,941	32,896	22,422	55,318	3,829	57,105	184	58,098	359
Construction	6,888		6,888	6,888	375	6,888	25	6,888	25
Land	18,295	5,204	7,971	13,175	3,727	13,231	16	13,285	31
C&I:									
Commercial business	35,946	11,233	10,992	22,225	3,210	23,448	134	24,200	236
Trade finance	2,745	392	771	1,163	498	2,052	20	2,367	41
Consumer:									
Student loans									
Other consumer	1,937	1,552		1,552		1,555	3	1,597	5
Total	$ 195,543	$ 88,442	$ 68,079	$ 156,521	$ 13,147	$ 160,728	$ 623	$ 163,339	$ 1,057

	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment (2)	Related Allowance	For the Year Ended December 31, 2012 Average Recorded Investment	For the Year Ended December 31, 2012 Interest Income Recognized (1)
				(In thousands)			
As of and for the year ended December 31, 2012							
Residential:							
Single-family	$ 19,318	$ 15,610	$ 2,598	$ 18,208	$ 721	$ 19,094	$ 88

Multifamily	57,464	45,511	8,756	54,267	2,410	54,707	403
CRE:							
Income producing	59,574	47,019	7,656	54,675	2,559	57,854	304
Construction	30,815	25,530	1,509	27,039	142	22,696	723
Land	20,317	6,132	8,995	15,127	2,860	17,769	76
C&I:							
Commercial business	38,630	20,235	3,835	24,070	2,835	33,343	614
Trade finance	4,124	2,582		2,582		3,863	48
Consumer:							
Student loans							
Other consumer	4,798	4,528		4,528		4,631	13
Total	$ 235,040	$ 167,147	$ 33,349	$ 200,496	$ 11,527	$ 213,957	$ 2,269

(1) Excludes interest from performing TDRs.

(2) Excludes $31.1 million and $29.6 million of covered non-accrual loans at June 30, 2013 and December 31, 2012, respectively, accounted for under ASC 310-10, of which some loans have additional partial balances accounted for under ASC 310-30.

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Allowance for Loan Losses

The allowance consists of specific reserves and a general reserve. The Bank s loans fall into heterogeneous and homogeneous (mostly consumer loans) categories. Impaired loans are subject to specific reserves. Loans in the homogeneous category, as well as non-impaired loans in the heterogeneous category, are evaluated as part of the general reserve. The general reserve is calculated by utilizing both quantitative and qualitative factors. There are different qualitative risks for the loans in each portfolio segment. As of June 30, 2013, the Residential and CRE segments predominant risk characteristic is the collateral and the geographic location of the property collateralizing the loan. The risk is qualitatively assessed based on the change in the real estate market in those geographic areas. The C&I segment s predominant risk characteristics are the global cash flows of the borrowers and guarantors, if any and economic and market conditions. Consumer loans, excluding the student loan portfolio guaranteed by the U.S. Department of Education, are largely comprised of home equity lines of credit, for which the predominant risk characteristic is the real estate collateral securing the loans.

Our methodology to determine the overall appropriateness of the allowance is based on a classification migration model and qualitative considerations. The migration analysis examines pools of loans having similar characteristics and analyzes their loss rates over a historical period. We utilize historical loss factors derived from trends and losses associated with each pool over a specified period of time. Based on this process, we assign loss factors to each loan grade within each pool of loans. Loss rates derived by the migration model are based predominantly on historical loss trends that may not be entirely indicative of the actual or inherent loss potential. As such, we utilize qualitative and environmental factors as adjusting mechanisms to supplement the historical results of the classification migration model. Qualitative considerations include, but are not limited to, prevailing economic or market conditions, relative risk profiles of various loan segments, volume concentrations, growth trends, delinquency and nonaccrual status, problem loan trends, and geographic concentrations. Qualitative and environmental factors are reflected as percentage adjustments and are added to the historical loss rates derived from the classified asset migration model to determine the appropriate allowance for each loan pool.

Covered Loans The Company acquired UCB and WFIB in 2009 and 2010, respectively. The majority of the covered loan portfolio accounted for under ASC 310-30, is still performing as expected from the day one valuation or better than expected. However, the company has experienced some concentrated credit deterioration in certain pools. Thus, during the first half of 2013, due to the concentrated credit deterioration beyond the respective acquisition date fair value of these covered loans under ASC 310-30, a provision for credit losses has been recorded through earnings. As of June 30, 2013, there was an allowance of $2.5 million for these loans under ASC 310-30 due to credit deterioration, which resulted from a provision of $2.5 million for the six months ended June 30, 2013. This $2.5 million of allowance for loan losses is allocated mainly to the portfolio s commercial real estate segment.

As of the respective acquisition dates, WFIB s and UCB s loan portfolios included unfunded commitments for commercial lines of credit, construction draws and other lending activity. The total commitment outstanding as of the respective acquisition dates is covered under the shared-loss agreements. However, any additional advances on these loans subsequent to acquisition date are not accounted for under ASC 310-30. As additional advances on these commitments have occurred, the Bank has considered these amounts in the allowance for loan losses calculation. As of June 30, 2013 and December 31, 2012, $7.1 million, or 2.9% and $5.2 million, or 2.2%, respectively, of the total allowance is allocated to the allowance for loan losses on covered loans. The covered loans acquired are, and will continue to be, subject to the Bank s internal and external credit review and monitoring. The $2.5 million allowance for loans under ASC 310-30 discussed above and the $7.1 million in allowance for loans outside the scope of ASC 310-30 amount to $9.6 million or 4.0% of total allowance as of June 30, 2013.

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During the six months ended June 30, 2013, the Company recorded $1.3 million of charge-offs on several covered loans outside of the scope of ASC 310-30 mainly in the commercial and industrial and commercial real estate loan segment. The resulting provision on covered loans for the six months ended June 30, 2013 was $3.3 million. As these loans are covered under loss-sharing agreements with the FDIC, the Company recorded income of $1.1 million or 80% of the charge-off amount of $1.3 million in noninterest income as a net increase in the FDIC receivable, resulting in a net impact to earnings for the first half of 2013 of $267 thousand. There were no charge-offs for covered loans outside the scope of ASC 310-30 during the six months ended June 30, 2012.

The Company recorded $13.3 million in total loan loss provisions for the six months ended June 30, 2013, as compared to $33.6 million for the six months ended June 30, 2012. When determined uncollectable, it is the Company s policy to promptly charge-off the amount of impairment on a loan which represents the difference in the outstanding loan balance and the fair value of the collateral. Recoveries are recorded when payment is received on loans that were previously charged-off through the allowance for loan losses. For the six months ended June 30, 2013, the Company recorded $5.9 million in total net charge-offs in comparison to $22.0 million for the six months ended June 30, 2012. The following tables detail activity in the allowance for loan losses, for both non-covered and covered loans, by portfolio segment for the three and six months ended June 30, 2013, and the year ended December 31, 2012. Allocation of a portion of the allowance to one segment of the loan portfolio does not preclude its availability to absorb losses in other segments.

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	Residential	CRE	C&I	Consumer	Covered Loans under ASC 310-10 Subject to Allowance for Loan Losses (1)	Covered Loans under ASC 310-30 Subject to Allowance for Loan Losses	Unallocated	Total
				(In thousands)				
Three Months Ended June 30, 2013								
Beginning balance	$ 46,880	$ 72,958	$ 102,346	$ 6,612	$ 8,118	$ 1,992	$	$ 238,906
Provision for loan losses	704	(426)	6,241	2,190	186	537	(432)	9,000
Allowance for unfunded loan commitments and letters of credit							432	432
Charge-offs	(550)	(762)	(3,816)	(865)	(1,204)			(7,197)
Recoveries	303	1,060	605					1,968
Net charge-offs	(247)	298	(3,211)	(865)	(1,204)			(5,229)
Ending balance	$ 47,337	$ 72,830	$ 105,376	$ 7,937	$ 7,100	$ 2,529	$	$ 243,109
Ending balance allocated to:								
Loans individually evaluated for impairment	$ 1,508	$ 7,931	$ 3,708	$	$	$	$	$ 13,147
Loans collectively evaluated for impairment	45,829	64,899	101,668	7,937	7,100			227,433
Covered loans acquired with deteriorated credit quality*(2)*						2,529		2,529
Ending balance	$ 47,337	$ 72,830	$ 105,376	$ 7,937	$ 7,100	$ 2,529	$	$ 243,109

	Residential	CRE	C&I	Consumer	Covered Loans under ASC 310-10 Subject to Allowance for Loan Losses (1)	Covered Loans under ASC 310-30 Subject to Allowance for Loan Losses	Unallocated	Total
				(In thousands)				
Six Months Ended June 30, 2013								
Beginning balance	$ 49,349	$ 69,856	$ 105,376	$ 4,801	$ 5,153	$	$	$ 234,535
Provision for loan losses	(2,222)	3,392	3,941	3,552	3,283	2,529	(1,148)	13,327
Allowance for unfunded loan commitments and letters of credit							1,148	1,148
Charge-offs	(861)	(1,767)	(5,077)	(1,211)	(1,336)			(10,252)
Recoveries	1,071	1,349	1,136	795				4,351
Net charge-offs	210	(418)	(3,941)	(416)	(1,336)			(5,901)
Ending balance	$ 47,337	$ 72,830	$ 105,376	$ 7,937	$ 7,100	$ 2,529	$	$ 243,109
Ending balance allocated to:								
Loans individually evaluated for impairment	$ 1,508	$ 7,931	$ 3,708	$	$	$	$	$ 13,147
Loans collectively evaluated for impairment	45,829	64,899	101,668	7,937	7,100			227,433
Covered loans acquired with deteriorated credit quality*(2)*						2,529		2,529
Ending balance	$ 47,337	$ 72,830	$ 105,376	$ 7,937	$ 7,100	$ 2,529	$	$ 243,109

	Covered Loans under ASC 310-10 Subject to Allowance for	Covered Loans under ASC 310-30 Subject to Allowance for

	Residential	CRE	C&I	Consumer	Loan Losses (1)	Loan Losses	Unallocated	Total
				(In thousands)				
Year Ended December 31, 2012								
Beginning balance	$ 52,180	$ 66,457	$ 87,020	$ 4,219	$ 6,647	$	$	$ 216,523
Provision for loan losses	3,255	20,977	35,204	2,295	5,016		(1,563)	65,184
Allowance for unfunded loan commitments and letters of credit							1,563	1,563
Charge-offs	(7,700)	(27,060)	(21,818)	(1,824)	(6,510)			(64,912)
Recoveries	1,614	9,482	4,970	111				16,177
Net charge-offs	(6,086)	(17,578)	(16,848)	(1,713)	(6,510)			(48,735)
Ending balance	$ 49,349	$ 69,856	$ 105,376	$ 4,801	$ 5,153	$	$	$ 234,535
Ending balance allocated to:								
Loans individually evaluated for impairment	$ 3,131	$ 5,561	$ 2,835	$	$	$	$	$ 11,527
Loans collectively evaluated for impairment	46,218	64,295	102,541	4,801	5,153			223,008
Covered loans acquired with deteriorated credit quality*(2)*								
Ending balance	$ 49,349	$ 69,856	$ 105,376	$ 4,801	$ 5,153	$	$	$ 234,535

(1) This allowance is related to drawdowns on commitments that were in existence as of the acquisition dates of WFIB and UCB and, therefore, are covered under the shared-loss agreements with the FDIC. Allowance on these subsequent drawdowns is accounted for as part of the allowance for loan losses.

(2) The Company has elected to account for covered loans acquired in the FDIC-assisted acquisitions under ASC 310-30, excluding any additional advances subsequent to acquisition date.

The Company s recorded investment in total loans receivable as of June 30, 2013 and December 31, 2012 related to each balance in the allowance for loan losses by portfolio segment and disaggregated on the basis of the Company s impairment methodology is as follows:

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	Residential	CRE	C&I	Consumer	Covered Loans under ASC 310-10 Subject to Allowance for Loan Losses	Covered Loans under ASC 310-30 Subject to Allowance for Loan Losses	Total
June 30, 2013							
Loans individually evaluated for impairment	$ 56,200	$ 75,381	$ 23,388	$ 1,552	$	$	$ 156,521
Covered loans individually evaluated for impairment *(2)*					3,162		3,162
Loans collectively evaluated for impairment	3,449,642	4,075,003	4,686,287	1,158,461	355,683		13,725,076
Covered loans acquired with deteriorated credit quality *(1)*	816,300	1,360,107	168,387	47,637		157,497	2,549,928
Ending balance	$ 4,322,142	$ 5,510,491	$ 4,878,062	$ 1,207,650	$ 358,845	$ 157,497	$ 16,434,687

	Residential	CRE	C&I	Consumer	Covered Loans under ASC 310-10 Subject to Allowance for Loan Losses	Covered Loans under ASC 310-30 Subject to Allowance for Loan Losses	Total
				(In thousands)			
December 31, 2012							
Loans individually evaluated for impairment	$ 72,475	$ 96,841	$ 26,652	$ 4,528	$	$	$ 200,496
Covered loans individually evaluated for impairment*(2)*					5,237		5,237
Loans collectively evaluated for impairment	3,015,556	3,797,854	4,204,613	740,354	426,448		12,184,825
Covered loans acquired with deteriorated credit quality *(1)*	976,969	1,727,159	261,622	53,521			3,019,271
Ending balance	$ 4,065,000	$ 5,621,854	$ 4,492,887	$ 798,403	$ 431,685	$	$ 15,409,829

(1) The Company has elected to account for all covered loans acquired in the FDIC-assisted acquisitions under ASC 310-30. The total principal balance is presented and excludes the purchase discount and any additional advances subsequent to acquisition date.

(2) Excludes $31.1 million and $29.6 million of covered non-accrual loans at June 30, 2013 and December 31, 2012, respectively, accounted for under ASC 310-10, of which some loans have additional partial balances accounted for under ASC 310-30.

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 same customers, and the terms and expiration dates of the unfunded credit facilities. As of June 30, 2013 and December 31, 2012, the allowance for unfunded loan commitments, off-balance sheet credit exposures, and recourse provisions amounted to $8.3 million and $9.4 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.

Loans serviced for others amounted to $1.38 billion and $1.65 billion at June 30, 2013 and December 31, 2012, respectively. These represent loans that have either been sold or securitized for which the Bank continues to provide servicing or has limited recourse. The majority of these loans are residential and CRE at June 30, 2013 and December 31, 2012. Of the total allowance for unfunded loan commitments, off-balance sheet credit exposures, and recourse provisions, $3.8 million and $4.8 million pertain to these loans as of June 30, 2013 and December 31, 2012,

respectively. These loans are maintained off-balance sheet and are not included in the loans receivable balance.

NOTE 9 AFFORDABLE HOUSING PARTNERSHIPS AND OTHER INVESTMENTS

The Company invests in certain limited partnerships that are 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 amount in each limited partnership varies. 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. The Company is not the primary beneficiary and, therefore, not required to consolidate these entities. Depending on the ownership percentage and the influence the Company has on the limited partnership, the Company uses either the equity method or cost method of accounting. 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 balance of the investments in these entities was $176.6 million and $185.6 million at June 30, 2013 and December 31, 2012, respectively.

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The Company also invests in certain limited partnerships that qualify for Community Reinvestment Act (CRA) credits or that qualify for other types of tax credits. The Community Reinvestment Act encourages banks to meet the credit needs of their communities for housing and other purposes, particularly in neighborhoods with low or moderate incomes. The balance of CRA and other investments was $47.7 million and $45.9 million at June 30, 2013 and December 31, 2012, respectively, and is included in other assets in the condensed consolidated balance sheets.

The Company has unfunded commitments related to the affordable housing and other investments that are payable on demand. Total unfunded commitments for these investments were $70.0 million and $84.6 million at June 30, 2013 and December 31, 2012, respectively, and are recorded in accrued expenses and other liabilities in the condensed consolidated balance sheets.

NOTE 10 PREMISES AND EQUIPMENT

At June 30, 2013, total premises and equipment was $179.9 million with accumulated depreciation and amortization of $68.1 million and a net value of $111.8 million. At December 31, 2012, total premises and equipment was $171.7 million with accumulated depreciation and amortization of $64.2 million and a net value of $107.5 million.

Capitalized assets are depreciated or amortized on a straight-line basis in accordance with the estimated useful life for each fixed asset class. The estimated useful life for furniture and fixtures is seven years, office equipment is five years, and twenty-five years for buildings and improvements. Leasehold improvements are amortized over the shorter of the term of the lease or useful life.

NOTE 11 GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The carrying amount of goodwill remained at $337.4 million as of June 30, 2013 and December 31, 2012. 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 write-downs as charges to noninterest expense and adjustments to the carrying value of goodwill. Subsequent reversals of goodwill impairment are prohibited.

As of June 30, 2013, the Company s market capitalization based on total outstanding common shares was $3.79 billion and its total stockholders equity was $2.26 billion. The Company performed its annual impairment test as of December 31, 2012 to determine whether and to what extent, if any, recorded goodwill was impaired. The 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.

Premiums on Acquired Deposits

The Company also has premiums on acquired deposits, which represent the intangible value of depositor relationships resulting from deposit liabilities assumed in various acquisitions. These intangibles are tested for impairment on an annual basis, or more frequently as events occur, or as current circumstances and conditions warrant. As of June 30, 2013 and December 31, 2012, the gross carrying amount of premiums on acquired deposits remains at $100.2 million, and the related accumulated amortization totaled $48.7 million and $43.9 million, respectively.

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The Company amortizes premiums on acquired deposits based on the projected useful lives of the related deposits. Amortization expense of premiums on acquired deposits was $2.4 million and $2.8 million for the three months ended June 30, 2013 and 2012, respectively. Amortization expense of premiums on acquired deposits was $4.8 million and $5.7 million for the six months ended June 30, 2013 and 2012, respectively.

The following table provides the estimated future amortization expense of premiums on acquired deposits for the succeeding five years and thereafter:

	Amount (In thousands)
Estimated Amortization Expense of Premiums on Acquired Deposits	
Six Months Ending December 31, 2013	$ 4,581
Year Ending December 31, 2014	8,454
Year Ending December 31, 2015	7,543
Year Ending December 31, 2016	6,634
Year Ending December 31, 2017	5,722
Thereafter	18,567
Total	$ 51,501

NOTE 12 COMMITMENTS AND CONTINGENCIES

Credit Extensions In the normal course of business, the Company has various outstanding commitments to extend credit that are not reflected in the accompanying condensed consolidated financial statements. As of June 30, 2013 and December 31, 2012, undisbursed loan commitments amounted to $3.15 billion and $2.61 billion, respectively. Commercial and standby letters of credit amounted to $1.04 billion and $988.7 million as of June 30, 2013 and December 31, 2012, respectively.

Guarantees From time to time, the Company sells or securitizes loans with recourse in the ordinary course of business. For loans that have been sold or 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 June 30, 2013, total loans sold or securitized with recourse amounted to $386.6 million and were comprised of $45.1 million in single-family loans with full recourse and $341.5 million in multifamily loans with limited recourse. In comparison, total loans sold or securitized with recourse amounted to $461.8 million at December 31, 2012 comprised of $48.4 million in single-family loans with full recourse and $413.4 million in multifamily loans with limited recourse. The recourse provision on multifamily loans varies by loan sale and is limited to 4% of the top loss on the underlying loans. The Company s recourse reserve related to loan sales and securitizations totaled $3.8 million as of June 30, 2013 and $4.8 million as of December 31, 2012, and is included in accrued expenses and other liabilities in the accompanying condensed consolidated balance sheets. The Company continues to experience minimal losses from the 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 June 30, 2013 and December 31, 2012, the amount of loans sold without recourse totaled $777.4 million and $953.2 million, respectively. Total loans securitized without recourse amounted to $211.6 million and $235.8 million, respectively, at June 30, 2013 and December 31, 2012. The loans sold or securitized without recourse represent the unpaid principal balance of the Company s loans serviced for others portfolio.

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Litigation Neither the Company nor the Bank is involved in any material legal proceedings at June 30, 2013. Certain lawsuits and claims arising in the ordinary course of business have been filed or are pending against us or our affiliates. Where appropriate, we establish reserves in accordance with ASC 450, *Contingencies*. The outcome of litigation and other legal and regulatory matters is inherently uncertain, however, and it is possible that one or more of the legal or regulatory matters, if any, currently pending or threatened could have a material adverse effect on our liquidity, consolidated financial position, and/or results of operations.

Other Commitments The Company has commitments to invest in affordable housing funds, and other investments qualifying for community reinvestment tax credits. These commitments are payable on demand. As of June 30, 2013 and December 31, 2012 these commitments were $70.0 million and $84.6 million, respectively. These commitments are recorded in accrued expenses and other liabilities in the condensed consolidated balance sheet.

NOTE 13 STOCKHOLDERS EQUITY

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), with a liquidation preference of $1,000 per share. The Company received $194.1 million of additional Tier 1 qualifying capital, after deducting stock issuance costs. On May 1, 2013, the Company exercised its mandatory conversion right related to all the outstanding shares of its Series A preferred stock. At the conversion date, the remaining 85,710 shares of outstanding Series A Preferred Stock were converted to 5,594,080 shares of common stock.

Stock Repurchase Program On January 23, 2013, the Company s Board of Directors authorized a stock repurchase program to buy back up to $200.0 million of the Company s common stock. As of June 30, 2013, the Company completed the authorized repurchase program, repurchasing 8,026,807 shares at a weighted average price of $24.89 per share and a total cost of $200.0 million. In comparison, the Company repurchased 6,784,227 shares at a weighted average price of $22.08 per share and a total cost of $150.0 million during the six months ended June 30, 2012.

Quarterly Dividends In April 2013, the Company declared the payment of second quarter dividends of $20.00 per share on the Company s Series A preferred stock, payable on or about May 1, 2013 to shareholders of record as of April 15, 2013. Total cash dividends paid in conjunction with the Company s Series A preferred stock amounted to $1.7 million and $3.4 million during the three and six months ended June 30, 2013, respectively.

In April 2013, the Company s Board of Directors also declared quarterly common stock cash dividends of $0.15 per share payable on or about May 13, 2013 to shareholders on record on April 26, 2013. Cash dividends totaling $20.6 million and $41.7 million were paid to the Company s common shareholders during the three and six months ended June 30, 2013.

Earnings Per Share (EPS) The number of shares outstanding at June 30, 2013 was 137,705,407. The Company applies the two-class method of computing basic EPS. Under the two-class method, EPS is determined for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings. The Company s restricted stocks, which receive dividends as declared, qualify as participating securities. Restricted stock units issued by the Company are not considered participating securities, as they do not have dividend distribution rights during the vesting period. Diluted EPS is calculated on the basis of the weighted average number of shares

outstanding during the period plus potential dilutive shares.

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The following table sets forth earnings per share calculations for the three and six months ended June 30, 2013 and 2012:

	Three Months Ended June 30, 2013		
	Net Income	Number of Shares	Per Share Amounts
	(In thousands, except per share data)		
Net income	$ 74,015		
Less:			
Preferred stock dividends	(1,714)		
Earnings allocated to participating securities	(400)		
Basic EPS income allocated to common stockholders	$ 71,901	137,536	$ 0.52
Effect of dilutive securities:			
Stock options		59	
Restricted stock units	33	221	
Convertible preferred stock			
Diluted EPS income allocated to common stockholders	$ 71,934	137,816	$ 0.52

	Three Months Ended June 30, 2012		
	Net Income	Number of Shares	Per Share Amounts
	(In thousands, except per share data)		
Net income	$ 70,557		
Less:			
Preferred stock dividends	(1,714)		
Earnings allocated to participating securities	(859)		
Basic EPS income available to common stockholders	$ 67,984	142,107	$ 0.48
Effect of dilutive securities:			
Stock options		36	
Restricted stock units	7	72	
Convertible preferred stock	1,714	5,571	
Diluted EPS income available to common stockholders	$ 69,705	147,786	$ 0.47

	Six Months Ended June 30, 2013		
	Net Income	Number of Shares	Per Share Amounts
	(In thousands, except per share data)		
Net income	$ 146,106		
Less:			
Preferred stock dividends	(3,428)		
Earnings allocated to participating securities	(988)		
Basic EPS income allocated to common stockholders	$ 141,690	137,592	$ 1.03
Effect of dilutive securities:			
Stock options		55	
Restricted stock units	68	227	
Convertible preferred stock	3,428	3,699	
Diluted EPS income allocated to common stockholders	$ 145,186	141,573	$ 1.03

	Six Months Ended June 30, 2012		
	Net Income	Number of Shares	Per Share Amounts
	(In thousands, except per share data)		
Net income	$ 138,640		

Less:					
Preferred stock dividends		(3,428)			
Earnings allocated to participating securities		(1,718)			
Basic EPS income available to common stockholders	$	133,494	143,727	$	0.93
Effect of dilutive securities:					
Stock options			41		
Restricted stock units		15	75		
Convertible preferred stock		3,428	5,571		
Diluted EPS income available to common stockholders	$	136,937	149,414	$	0.92

The following average convertible preferred stock, outstanding stock options, and restricted stock units for the three and six months ended June 30, 2013 and 2012, respectively, were excluded from the computation of diluted EPS because including them would have had an antidilutive effect.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Convertible preferred stock	1,841			
Stock options	159	334	214	365
Restricted stock units	6	1	4	2

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Accumulated Other Comprehensive Income (Loss) As of June 30, 2013, total accumulated other comprehensive loss was $21.7 million which includes the following components: net unrealized loss on securities available for sale of $21.7 million and unrealized gain on other investments of $43 thousand. As of December 31, 2012, total accumulated other comprehensive income was $4.7 million which includes the following components: net unrealized gain on securities available for sale of $4.6 million and unrealized gain on other asset investment of $26 thousand.

Activity in accumulated other comprehensive income (loss), net of tax, for the six months ended June 30, 2013 and 2012, was as follows:

	Unrealized (loss) gain on investment securities available-for-sale	Foreign currency translation adjustments	Unrealized gain on other investments	Total
		(In thousands)		
Balance, December 31, 2011	$ (34,848)	$ 900	$ 8	$ (33,940)
Period Change	18,013		4	18,017
Balance, June 30, 2012	$ (16,835)	$ 900	$ 12	$ (15,923)
Balance, December 31, 2012	$ 4,643	$	$ 26	$ 4,669
Other comprehensive income before reclassifications	(20,029)		17	(20,012)
Amounts reclassified from AOCI	(6,335)			(6,335)
Net current period other comprehensive loss	(26,364)		17	(26,347)
Balance, June 30, 2013	$ (21,721)	$	$ 43	$ (21,678)

Reclassifications out of accumulated other comprehensive income for the three and six months ended June 30, 2013 was as follows:

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income (In thousands)	Affected Line Item in the Statement Where Net Income is Presented
Three Months Ended June 30, 2013		
Investment securities available for sale		
Realized net gains on sale of securities	$ 5,345	Net gain on sales of investment securities
	5,345	
	(2,245)	Tax expense
Total reclassifications	$ 3,100	
Six Months Ended June 30, 2013		
Investment securities available for sale		
Realized net gains on sale of securities	$ 10,922	Net gain on sales of investment securities
	10,922	
	(4,587)	Tax expense
Total reclassifications	$ 6,335	

The following table sets forth the tax effects allocated to each component of other comprehensive income for the three and six months ended June 30, 2013 and 2012:

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	Before-Tax Amount	Tax (Expense) or Benefit (In thousands)	Net-of-Tax Amount
Three Months Ended June 30, 2013			
Unrealized loss on investment securities available-for-sale:			
Unrealized holding losses arising during period	$ (42,707)	$ 17,937	$ (24,770)
Less: reclassification adjustment for gains included in income	(5,345)	2,245	(3,100)
Net unrealized loss	(48,052)	20,182	(27,870)
Noncredit-related impairment loss on securities			
Unrealized gain on other investments	12	(5)	7
Less: reclassification adjustment for gains included in income			
Other comprehensive loss	$ (48,040)	$ 20,177	$ (27,863)

	Before-Tax Amount	Tax (Expense) or Benefit (In thousands)	Net-of-Tax Amount
Three Months Ended June 30, 2012			
Unrealized gain on investment securities available-for-sale:			
Unrealized holding gains arising during period	$ 1,728	$ (726)	$ 1,002
Less: reclassification adjustment for gains included in income	(71)	30	(41)
Net unrealized gain	1,657	(696)	961
Noncredit-related impairment loss on securities			
Unrealized gain on other investments	(10)	4	(6)
Less: reclassification adjustment for gains included in income			
Other comprehensive income	$ 1,647	$ (692)	$ 955

	Before-Tax Amount	Tax (Expense) or Benefit (In thousands)	Net-of-Tax Amount
Six Months Ended June 30, 2013			
Unrealized loss on investment securities available-for-sale:			
Unrealized holding losses arising during period	$ (34,533)	$ 14,504	$ (20,029)
Less: reclassification adjustment for gains included in income	(10,922)	4,587	(6,335)
Net unrealized loss	(45,455)	19,091	(26,364)
Noncredit-related impairment loss on securities			
Unrealized gain on other investments	29	(12)	17
Less: reclassification adjustment for gains included in income			
Other comprehensive loss	$ (45,426)	$ 19,079	$ (26,347)

	Before-Tax Amount	Tax (Expense) or Benefit (In thousands)	Net-of-Tax Amount
Six Months Ended June 30, 2012			
Unrealized gain on investment securities available-for-sale:			
Unrealized gain on holding gains arising during period	$ 36,676	$ (15,404)	$ 21,272
Less: reclassification adjustment for gains included in income	(554)	233	(321)
Net unrealized gains	36,122	(15,171)	20,951
Noncredit-related impairment loss on securities	(5,066)	2,128	(2,938)
Unrealized gains on other investments	7	(3)	4
Less: reclassification adjustment for gains included in income			

Other comprehensive income	$ 31,063	$ (13,046)	$ 18,017

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NOTE 14 FEDERAL HOME LOAN BANK ADVANCES

Total outstanding Federal Home Loan Bank (FHLB) advances amounted to $314.0 million and $313.0 million at June 30, 2013 and December 31, 2012, respectively. There was no prepayment of FHLB advances during the first six months of 2013. In comparison, during the first six months of 2012, FHLB advances totaling $50.0 million were prepaid, with additional prepayment penalties of $3.7 million. Also, during the first six months of 2012, the Company modified $300.0 million of fixed rate FHLB advances into adjustable rate advances, reducing the effective interest rate on these borrowings from 2.27% to 1.36%. As a result of the modification the Company incurred a $37.7 million modification cost which was deferred and treated as a discount on the corresponding debt.

NOTE 15 BUSINESS SEGMENTS

The Company utilizes an internal reporting system to measure the performance of various operating segments within the Bank and the Company overall. We have identified three operating segments for purposes of management reporting: 1) Retail Banking; 2) Commercial Banking; and 3) Other. These three business divisions meet the criteria of an operating segment: the segment engages in business activities from which it earns revenues and incurs expenses, and whose operating results are regularly reviewed by the Company s chief operating decision-maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

The Retail Banking segment focuses primarily on retail operations through the Bank s branch network. The Commercial Banking segment, which includes commercial real estate, primarily generates commercial loans through the efforts of the commercial lending offices located in the Bank s northern and southern California production offices. Furthermore, the Company s Commercial Banking segment also offers a wide variety of international finance and trade services and products. The remaining centralized functions, including treasury activities and eliminations of intersegment amounts, have been aggregated and included in the Other segment, which provides broad administrative support to the two core segments.

The Company s funds transfer pricing assumptions are intended to promote core deposit growth and to reflect the current risk profiles of various loan categories within the credit portfolio. Transfer pricing assumptions and methodologies are reviewed at least annually to ensure that the Company s process is reflective of current market conditions. The transfer pricing process is formulated with the goal of incenting loan and deposit growth that is consistent with the Company s overall growth objectives as well as to provide a reasonable and consistent basis for the measurement of the Company s business segments and product net interest margins. 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 charge-offs for the period as well as average loan balances for each segment during the period. The Company evaluates overall performance based on profit or loss from operations before income taxes excluding nonrecurring gains and losses.

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 unless it is not deemed practicable to do so.

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The following tables present the operating results and other key financial measures for the individual operating segments for the three and six months ended June 30, 2013 and 2012:

	Three Months Ended June 30, 2013			
	Retail Banking	Commercial Banking	Other	Total
	(In thousands)			
Interest income	$ 93,928	$ 147,168	$ 14,257	$ 255,353
Charge for funds used	(17,901)	(27,883)	156	(45,628)
Interest spread on funds used	76,027	119,285	14,413	209,725
Interest expense	(11,708)	(3,940)	(12,061)	(27,709)
Credit on funds provided	36,022	5,711	3,895	45,628
Interest spread on funds provided	24,314	1,771	(8,166)	17,919
Net interest income	$ 100,341	$ 121,056	$ 6,247	$ 227,644
Provision for loan losses	$ 2,886	$ 6,114	$	$ 9,000
Depreciation, amortization and accretion	5,865	3,445	14,602	23,912
Goodwill	320,566	16,872		337,438
Segment pre-tax profit	32,493	65,514	13,863	111,870
Segment assets	7,035,908	10,903,753	5,368,745	23,308,406

	Three Months Ended June 30, 2012			
	Retail Banking	Commercial Banking	Other	Total
	(In thousands)			
Interest income	$ 92,369	$ 152,148	$ 21,845	$ 266,362
Charge for funds used	(22,149)	(29,922)	10,508	(41,563)
Interest spread on funds used	70,220	122,226	32,353	224,799
Interest expense	(14,218)	(5,196)	(13,791)	(33,205)
Credit on funds provided	33,731	3,292	4,540	41,563
Interest spread on funds provided	19,513	(1,904)	(9,251)	8,358
Net interest income	$ 89,733	$ 120,322	$ 23,102	$ 233,157
Provision for loan losses	$ 10,375	$ 5,125	$	$ 15,500
Depreciation, amortization and accretion	2,466	(6,474)	10,013	6,005
Goodwill	320,566	16,872		337,438
Segment pre-tax profit	18,483	63,257	22,654	104,394
Segment assets	6,516,382	10,058,264	4,951,088	21,525,734

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	Six Months Ended June 30, 2013			
	Retail Banking	Commercial Lending	Other	Total
	(In thousands)			
Interest income	$ 176,767	$ 287,228	$ 29,781	$ 493,776
Charge for funds used	(37,885)	(55,956)	9,429	(84,412)
Interest spread on funds used	138,882	231,272	39,210	409,364
Interest expense	(24,353)	(8,317)	(24,171)	(56,841)
Credit on funds provided	68,418	9,334	6,660	84,412
Interest spread on funds provided	44,065	1,017	(17,511)	27,571
Net interest income	$ 182,947	$ 232,289	$ 21,699	$ 436,935
Provision for loan losses	$ 6,566	$ 6,761	$	$ 13,327
Depreciation, amortization and accretion	8,286	626	29,997	38,909
Goodwill	320,566	16,872		337,438
Segment pre-tax profit	51,420	132,195	34,765	218,380
Segment assets	7,035,908	10,903,753	5,368,745	23,308,406

	Six Months Ended June 30, 2012			
	Retail Banking	Commercial Lending	Other	Total
	(In thousands)			
Interest income	$ 178,622	$ 295,113	$ 46,677	$ 520,412
Charge for funds used	(44,409)	(59,671)	19,428	(84,652)
Interest spread on funds used	134,213	235,442	66,105	435,760
Interest expense	(29,766)	(12,262)	(26,309)	(68,337)
Credit on funds provided	68,771	6,416	9,465	84,652
Interest spread on funds provided	39,005	(5,846)	(16,844)	16,315
Net interest income	$ 173,218	$ 229,596	$ 49,261	$ 452,075
Provision for loan losses	$ 17,289	$ 16,311	$	$ 33,600
Depreciation, amortization and accretion	14,399	10,658	19,617	44,674
Goodwill	320,566	16,872		337,438
Segment pre-tax profit	40,242	123,684	48,263	212,189
Segment assets	6,516,382	10,058,264	4,951,088	21,525,734

NOTE 16 SUBSEQUENT EVENTS

Dividend Payout and Capital Action

In July 2013, the Company s Board of Directors declared a quarterly dividend of $0.15 per share on the Company s common stock payable on or about August 15, 2013 to shareholders of record as of July 31, 2013. Additionally, on July 17, 2013, East West s Board of Directors authorized a new repurchase program to buy back up to $100.0 million of the Company s common stock.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion provides information about the consolidated 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 Annual Report on Form 10-K for the year ended December 31, 2012, and the condensed consolidated financial statements and 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, based on approximate measures of the financial effects of transactions and events that have already occurred. 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 the results of operations.

- fair valuation of financial instruments;
- investment securities;
- acquired loans;
- covered loans;
- covered other real estate owned;
- FDIC indemnification asset;
- allowance for loan losses;
- other real estate owned;
- loan, OREO, and note sales;

- goodwill impairment; and
- share-based compensation.

Our significant accounting policies are described in greater detail in our 2012 Annual Report on Form 10-K in the Critical Accounting Policies section of Management s Discussion and Analysis of Financial Condition and Results of Operations and in Note 1 to the Consolidated Financial Statements, Significant Accounting Policies, which are essential to understanding Management s Discussion and Analysis of Financial Condition and Results of Operations.

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Overview

For the second quarter of 2013, net income was $74.0 million or $0.52 per dilutive share. Net income increased by $1.9 million or 3% from the first quarter of 2013 and $3.5 million or 5% from the second quarter of 2012. Earnings per dilutive share grew $0.02 or 4% from the first quarter of 2013 and $0.05 or 11% from the second quarter of 2012.

At June 30, 2013, total assets increased to $23.31 billion compared to $23.10 billion at March 31, 2013. Average earning assets increased during the second quarter of 2013, up $593.6 million compared to the prior quarter. The increase in total assets and average earning assets during the second quarter was primarily attributable to an increase in non-covered loans.

Total loans receivable (including both covered and non-covered loans) at June 30, 2013 equaled $16.28 billion, compared to $15.36 billion as of March 31, 2013. During the second quarter total loans grew 6% or $920.8 million to a record $16.28 billion as of June 30, 2013. This growth was largely due to increases in non-covered commercial and industrial loans, non-covered single-family real estate loans and non-covered commercial real estate loans, which grew 10% or $428.9 million, 10% or $241.1 million and 4% or $162.6 million, respectively. This growth in non-covered loans was partially offset by a decrease in loans covered under loss-sharing agreements.

Covered loans, net of discount totaled $2.51 billion as of June 30, 2013, a decrease of 9% or $248.4 million from March 31, 2013. The decrease in the covered loan portfolio was primarily due to payoffs and paydown activity, as well as charge-offs.

At June 30, 2013, total deposits grew to a record $19.28 billion, an increase of 2% or $346.5 million from $18.94 billion at March 31, 2013. In the second quarter of 2013, the Company continued to execute its strategy to grow low-cost, commercial deposits while reducing its reliance on time deposits. Core deposits increased to a record $13.33 billion at June 30, 2013, or an increase of 3% or $428.8 million from March 31, 2013. The strong increase in core deposits during the second quarter of 2013 was largely driven by an increase in noninterest-bearing demand deposits which increased by 6% or $290.4 million to a record $5.13 billion. Time deposits decreased by 1% or $82.3 million from March 31, 2013 to $6.00 billion at June 30, 2013.

Credit Quality

Non-covered Loans

For the second quarter of 2013, the Company recorded a provision for loan losses for non-covered loans of $8.3 million. This compares to a reversal of provision for loan losses of $762 thousand for the first quarter of 2013 and a provision for loan losses of $16.6 million for the second quarter of 2012. Total net charge-offs on non-covered loans increased to $4.0 million for the second quarter of 2013, up from $540 thousand in the first quarter of 2013. The allowance for non-covered loan losses was $233.5 million or 1.73% of non-covered loans receivable at June 30, 2013. This compares to an allowance for non-covered loan losses of $228.8 million or 1.85% of non-covered loans at March 31, 2013 and $219.5 million or 2.03% of non-covered loans at June 30, 2012.

Covered Loans

During the second quarter of 2013, the Company recorded a provision for loan losses of $186 thousand on covered loans outside of the scope of ASC 310-30 and $537 thousand on covered loans within the scope of ASC 310-30. As these loans are covered under loss-sharing agreements with the FDIC, for any charge-offs, the Company records income of 80% of the charge-off amount in noninterest income as a net increase in the FDIC receivable, resulting in a net impact to earnings of 20% of the charge-off amount.

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Capital Strength

The capital ratios remain strong. As of June 30, 2013, the Company s Tier 1 leverage capital ratio totaled 8.8%, Tier 1 risk-based capital ratio totaled 12.9% and total risk-based capital ratio totaled 14.3%.

The Company is focused on active capital management and is committed to maintaining strong capital levels that exceed regulatory requirements while also supporting balance sheet growth and providing a strong return to our shareholders. During the second quarter of 2013, the Company repurchased 4.5 million shares of common stock at an average price of $25.18 per share or $113.0 million in total cost and completed the $200.0 million stock repurchase program authorized by the Board of Directors in January 2013.

Additionally, on May 1, 2013, the company converted all 85,710 shares of the Series A Preferred Stock into 5.6 million shares of common stock.

The Company s Board of Directors approved the payment of third quarter dividends on the common stock. The common stock cash dividend of $0.15 is payable on or about August 15, 2013 to shareholders of record on July 31, 2013.

Results of Operations

Net income for the second quarter of 2013 totaled $74.0 million, compared with $70.6 million for the second quarter of 2012. Diluted earnings per share was $0.52 and $0.47 for the second quarters of 2013 and 2012, respectively. Our annualized return on average total assets decreased to 1.29% for the quarter ended June 30, 2013, from 1.32% for the same period in 2012. The annualized return on average common stockholders equity increased to 12.59% for the second quarter of 2013, compared with 12.46% for the second quarter of 2012.

Components of Net Income

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In millions)			
Net interest income	$ 227.6	$ 233.2	$ 437.0	$ 452.0
(Provision for) loan losses, excluding covered loans	(8.3)	(16.6)	(7.5)	(33.1)
(Provision for) reversal of loan losses on covered loans	(0.7)	1.1	(5.8)	(0.5)
Noninterest (loss) income	(12.4)	(11.7)	(14.5)	10.1
Noninterest expense	(94.4)	(101.6)	(190.8)	(216.4)
Provision for income taxes	(37.8)	(33.8)	(72.3)	(73.5)
Net income	$ 74.0	$ 70.6	$ 146.1	$ 138.6

Annualized return on average total assets	1.29%	1.32%	1.29%	1.29%
Annualized return on average common equity	12.59%	12.46%	12.52%	12.23%
Annualized return on average total equity	12.73%	12.31%	12.52%	12.09%

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 for the second quarter of 2013 totaled $227.6 million, a 2% decrease over net interest income of $233.2 million for the same period in 2012.

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Net interest margin, defined as net interest income divided by average earning assets, decreased by 52 basis points to 4.29% during the second quarter of 2013, from 4.81% during the second quarter of 2012. During the three and six months ended June 30, 2013 and 2012, our covered loan yield was positively impacted by the accretion from the covered loans accounted for under ASC 310-30. The decrease in net interest margin during the second quarter 2013 resulted primarily from the continued downward repricing of the investment securities and loan portfolios and the additional deposit growth, and resulting excess liquidity.

The following table presents the net interest spread, net interest margin, average balances, interest income and expense, and the average rates by asset and liability component for the three and six months ended June 30, 2013 and 2012:

	Three Months Ended June 30,					
	2013			2012		
	Average Balance	Interest	Average Rate (1)	Average Balance	Interest	Average Rate (1)
	(Dollars in thousands)					
ASSETS						
Interest-earning assets:						
Due from banks and short-term investments	$ 1,247,457	$ 4,292	1.38%	$ 1,504,325	$ 5,774	1.54%
Securities purchased under resale agreements	1,578,846	5,435	1.38%	1,026,923	4,758	1.86%
Investment securities available-for-sale *(3)*	2,582,899	9,594	1.49%	2,487,725	16,913	2.73%
Loans receivable *(2)(3)*	13,099,286	141,904	4.35%	10,742,672	125,526	4.70%
Loans receivable covered*(2)*	2,641,324	92,386	14.03%	3,572,300	112,510	12.67%
FHLB and FRB stock	139,608	1,742	5.00%	174,965	881	2.02%
Total interest-earning assets	21,289,420	255,353	4.81%	19,508,910	266,362	5.49%
Noninterest-earning assets:						
Cash and cash equivalents	265,915			234,918		
Allowance for loan losses	(238,702)			(226,112)		
Other assets	1,678,031			2,009,678		
Total assets	$ 22,994,664			$ 21,527,394		
LIABILITIES AND STOCKHOLDERS EQUITY						
Interest-bearing liabilities:						
Checking accounts	$ 1,440,538	$ 876	0.24%	$ 978,085	$ 725	0.30%
Money market accounts	5,089,063	3,625	0.29%	4,831,665	4,243	0.35%
Savings deposits	1,499,428	762	0.20%	1,232,663	647	0.21%
Time deposits	5,993,464	10,475	0.70%	6,474,566	13,562	0.84%
Federal funds purchased and other borrowings	29		%	9		%
FHLB advances	313,677	1,047	1.34%	393,982	1,353	1.38%
Securities sold under repurchase agreements	995,000	10,217	4.12%	995,000	11,591	4.69%
Long-term debt	137,178	707	2.07%	212,178	1,084	2.05%
Total interest-bearing liabilities	15,468,377	27,709	0.72%	15,118,148	33,205	0.88%
Noninterest-bearing liabilities:						
Demand deposits	4,882,823			3,724,399		
Other liabilities	312,158			378,905		
Stockholders equity	2,331,306			2,305,942		
Total liabilities and stockholders equity	$ 22,994,664			$ 21,527,394		

Interest rate spread			4.09%		4.61%
Net interest income and net interest margin	$ 227,644	4.29%	$ 233,157	4.81%	

(1) Annualized.

(2) Average balances include nonperforming loans.

(3) Includes (amortization) of premiums and accretion of discounts on investment securities and loans receivable totaling ($5.5) million and ($1.7) million for the three months ended June 30, 2013 and 2012, respectively. Also includes the net (amortization) of deferred loans fees totaling ($4.1) million and ($4.3) million for the three months ended June 30, 2013 and 2012, respectively.

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	Six Months Ended June 30,					
	2013			2012		
	Average Balance	Interest	Average Rate (1)	Average Balance	Interest	Average Rate (1)
	(Dollars in thousands)					
ASSETS						
Interest-earning assets:						
Due from banks and short-term investments	$ 1,227,261	$ 8,568	1.41%	$ 1,276,498	$ 12,306	1.94%
Securities purchased under resale agreements	1,603,591	10,964	1.38%	910,857	9,072	2.00%
Investment securities available-for-sale*(3)*	2,607,723	19,804	1.53%	2,725,123	38,145	2.81%
Loans receivable*(2)(3)*	12,666,017	272,872	4.34%	10,711,442	251,201	4.72%
Loans receivable covered*(2)*	2,742,595	178,577	13.13%	3,712,894	207,874	11.26%
FHLB and FRB stock	147,059	2,991	4.10%	179,164	1,814	2.04%
Total interest-earning assets	20,994,246	493,776	4.74%	19,515,978	520,412	5.36%
Noninterest-earning assets:						
Cash and cash equivalents	308,725			252,896		
Allowance for loan losses	(237,501)			(224,646)		
Other assets	1,721,336			2,064,695		
Total assets	$ 22,786,806			$ 21,608,923		
LIABILITIES AND STOCKHOLDERS EQUITY						
Interest-bearing liabilities:						
Checking accounts	$ 1,363,333	$ 1,765	0.26%	$ 970,526	$ 1,413	0.29%
Money market accounts	5,103,698	7,711	0.30%	4,748,698	8,244	0.35%
Savings deposits	1,461,470	1,556	0.21%	1,207,994	1,229	0.20%
Time deposits	6,030,904	21,560	0.72%	6,659,958	28,455	0.86%
Federal funds purchased	153		%	4,470	2	0.11%
FHLB advances	313,416	2,086	1.34%	412,879	3,495	1.70%
Securities sold under repurchase agreements	995,000	20,746	4.20%	1,000,908	23,313	4.68%
Long-term debt	137,178	1,417	2.08%	212,178	2,186	2.07%
Total interest-bearing liabilities	15,405,152	56,841	0.74%	15,217,611	68,337	0.90%
Noninterest-bearing liabilities:						
Demand deposits	4,682,398			3,635,300		
Other liabilities	345,597			450,183		
Stockholders equity	2,353,659			2,305,829		
Total liabilities and stockholders equity	$ 22,786,806			$ 21,608,923		
Interest rate spread			4.00%			4.46%
Net interest income and net interest margin		$ 436,935	4.20%		$ 452,075	4.66%

(1) Annualized.

(2) Average balances include nonperforming loans.

(3) Includes (amortization) of premiums and accretion of discounts on investment securities and loans receivable totaling ($13.0) million and ($4.4) million for the six months ended June 30, 2013 and 2012, respectively. Also includes the net (amortization) of deferred loans fees totaling ($8.4) million and ($7.7) million for the six months ended June 30, 2013 and 2012, respectively.

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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 periods indicated. The total change for each category of interest-earning assets and interest-bearing liabilities is segmented into the change attributable to variations in volume (changes in volume multiplied by old rate) and the change attributable to variations in interest rates (changes in rates multiplied by old volume). Nonaccrual loans are included in average loans used to compute this table.

	Three Months Ended June 30, 2013 vs. 2012			Six Months Ended June 30, 2013 vs. 2012		
	Total Change	Changes Due to		Total Change	Changes Due to	
		Volume (1)	Rate (1)		Volume (1)	Rate (1)
	(In thousands)					
INTEREST-EARNING ASSETS:						
Due from banks and short-term investments	$ (1,482)	$ (922)	$ (560)	$ (3,738)	$ (459)	$ (3,279)
Securities purchased under resale agreements	677	2,113	(1,436)	1,892	5,368	(3,476)
Investment securities available-for-sale	(7,319)	624	(7,943)	(18,341)	(1,579)	(16,762)
Loans receivable	16,378	26,030	(9,652)	21,671	43,259	(21,588)
Loans receivable covered	(20,124)	(31,597)	11,473	(29,297)	(59,777)	30,480
FHLB and FRB stock	861	(210)	1,071	1,177	(375)	1,552
Total interest and dividend income	$ (11,009)	$ (3,962)	$ (7,047)	$ (26,636)	$ (13,563)	$ (13,073)
INTEREST-BEARING LIABILITIES:						
Checking accounts	$ 151	$ 298	$ (147)	$ 352	$ 522	$ (170)
Money market accounts	(618)	217	(835)	(533)	587	(1,120)
Savings deposits	115	136	(21)	327	268	59
Time deposits	(3,087)	(956)	(2,131)	(6,895)	(2,527)	(4,368)
Federal funds purchased and other borrowings				(2)	(1)	(1)
FHLB advances	(306)	(269)	(37)	(1,409)	(747)	(662)
Securities sold under repurchase agreements	(1,374)		(1,374)	(2,567)	(137)	(2,430)
Long-term debt	(377)	(386)	9	(769)	(775)	6
Total interest expense	$ (5,496)	$ (960)	$ (4,536)	$ (11,496)	$ (2,810)	$ (8,686)
CHANGE IN NET INTEREST INCOME	$ (5,513)	$ (3,002)	$ (2,511)	$ (15,140)	$ (10,753)	$ (4,387)

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

Provision for Loan Losses

The Company recorded net provision for loan losses on non-covered loans of $8.3 million and $7.5 million during the second quarter and first half of 2013, respectively. In comparison, the Company recorded $16.6 million and $33.1 million in provision for loan losses on non-covered loans during the second quarter and first half of 2012, respectively. The Company recorded $4.0 million and $4.6 million of net charge-offs on non-covered loans during the second quarter and first half of 2013, compared with $11.7 million and $22.0 million in net charge-offs recorded during the second quarter and first half of 2012, respectively.

During the second quarter and first half of 2013, the Company also recorded a provision for loan losses of $186 thousand and $3.3 million on covered loans outside of the scope of ASC 310-30. In comparison, the Company recorded a reversal of provision of ($1.1) million and a net provision of $526 thousand for loan losses on covered loans outside of the scope of ASC 310-30 during the second quarter and first half of 2012. $1.2 million and $1.3 million of net charge-offs were recorded on covered loans outside of the scope of ASC 310-30 during the second quarter and first half of 2013. In comparison, no net charge-offs on covered loans outside of the scope of ASC 310-30 were recorded during the second quarter and first half of 2012.

The Company recorded a provision for loan losses of $537 thousand and $2.5 million on covered loans within the scope of ASC 310-30 during the second quarter and first half of 2013. In comparison, no provision for loan losses on covered loans within the scope of ASC 310-30 was recorded during the second quarter and first half of 2012. Net charge-offs on covered loans within the scope of ASC 310-30 also were not recorded during the second quarter and first half of 2013 and 2012.

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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

The following table sets forth the various components of noninterest (loss) income for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In millions)			
Impairment loss on investment securities recognized in earnings	$	$	$	$ (0.1)
Decrease in FDIC indemnification asset and receivable	(47.9)	(40.3)	(79.8)	(45.8)
Branch fees	8.1	7.8	15.8	15.5
Net gain on sales of investment securities	5.3	0.1	10.9	0.6
Net gain on sale of fixed assets	0.2		0.4	0.1
Letters of credit fees and commissions	5.4	4.5	10.5	8.8
Foreign exchange income	3.6	0.6	6.0	2.4
Ancillary loan fees	2.6	2.2	4.7	4.2
Income from life insurance policies	0.9	1.0	1.9	1.9
Net (loss) gain on sales of loans	(0.4)	6.4	(0.3)	11.6
Other operating income	9.8	6.0	15.4	10.9
Total	$ (12.4)	$ (11.7)	$ (14.5)	$ 10.1

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, foreign exchange activities and the issuance of letters of credit, ancillary fees on loans, net (loss) gains on sales of loans, investment securities available-for-sale and other assets, impairment losses on investment securities, (decrease)/increase in the FDIC indemnification asset and receivable, income from life insurance policies and other noninterest-related revenues.

The Company recorded a noninterest loss of $12.4 million for the three months ended June 30, 2013, an increase of $699 thousand, compared to noninterest loss of $11.7 million recorded for the same period in 2012. For the first half of 2013, noninterest loss totaled $14.5 million, compared to noninterest income of $10.1 million recorded during the first half of 2012. The additional loss for both periods is primarily due to a larger net reduction of the FDIC indemnification asset and a decrease in net gain on sale of loans.

For the three and six months ended June 30, 2013, the net reduction in the FDIC indemnification asset and receivable recorded in noninterest income was $47.9 million and $79.8 million, respectively. The decrease in the FDIC indemnification asset and receivable resulted from loan disposal activity, recoveries and amortization as well as proceeds from reimbursable expense claims. During the second quarter and first half of 2013, the Company incurred $3.6 million and $3.5 million, respectively, in expenses on covered loans and other real estate owned, 80% or $2.9 million and $2.8 million, respectively, of which is reimbursable from the FDIC.

Letters of credit fees and commissions income for the three months ended June 30, 2013 was $5.4 million, compared to $4.5 million for the three months ended June 30, 2012. For the first half of 2013, letters of credit fees and commissions income totaled $10.5 million, compared to the $8.8 million recorded during the first half of 2012. The increase for both the three and six months ended June 30, 2012 results from an increased volume in trade finance loans and credit enhancements.

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For the second quarter of 2013, net gain on sale of investment securities was $5.3 million as compared to $71 thousand for the second quarter of 2012. For the first half of 2013 and 2012, the net gain on sales of investment securities totaled $10.9 million and $554 thousand, respectively. In 2013, the Company elected to sell certain securities that had returned to a gain position. None of these securities were sold at a loss.

For the second quarter of 2013, the net loss on sales of loans was $354 thousand as compared to net gain on sales of loans of $6.4 million for the second quarter of 2012. For the first half of 2013, the net loss on sales of loans totaled $260 thousand as compared to net gain on sales of loans of $11.6 million. From time to time, the Company buys and sells loans within the loans held for sale portfolio to take advantage of market opportunities. The net gain on sales of loans during the first half of 2012 is mainly due to the sale of approximately $180.0 million of student loans. The Company did not sell any student loans during the first half of 2013.

Noninterest Expense

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In millions)			
Compensation and employee benefits	$ 42.0	$ 42.9	$ 87.8	$ 89.3
Occupancy and equipment expense	13.7	13.0	27.5	26.6
Amortization of investments in affordable housing partnerships and other investments	5.0	4.4	9.3	8.9
Amortization of premiums on deposits acquired	2.4	2.8	4.8	5.7
Deposit insurance premiums and regulatory assessments	3.9	3.3	7.7	7.3
Loan related expenses	3.6	4.2	7.2	8.7
Other real estate owned (gain on sale) expense	(1.2)	4.5	(2.2)	15.3
Legal expense	5.5	4.2	9.9	11.3
Prepayment penalty for FHLB advances		2.3		3.7
Data processing	2.2	2.2	4.6	4.7
Deposit related expenses	1.5	1.7	3.1	3.1
Consulting expense	1.0	1.6	1.5	3.0
Other operating expenses	14.8	14.5	29.6	28.8
Total noninterest expense	$ 94.4	$ 101.6	$ 190.8	$ 216.4
Efficiency Ratio*(1)*	40.40%	41.54%	41.81%	42.86%

(1) Represents noninterest expense, excluding the amortization of intangibles, amortization of premiums on deposits acquired, amortization of investments in affordable housing partnerships and other investments, and prepayment penalties for FHLB advances, divided by the aggregate of net interest income before provision for loan losses and noninterest income, excluding items that are nonrecurring in nature.

Noninterest expense, which is comprised primarily of compensation and employee benefits, occupancy and other operating expenses, decreased $7.2 million, or 7%, to $94.4 million during the second quarter of 2013, compared to $101.6 million for the same quarter in 2012, and decreased $25.6 million, or 12%, to $190.8 million during the first half of 2013, compared to $216.4 million for the same period in 2012.

Compensation and employee benefits decreased $837 thousand, or 2%, to $42.0 million for the three months ended June 30, 2013, compared to $42.9 million for the same period in 2012, and decreased $1.5 million, or 2%, to $87.8 million for the six months ended June 30, 2013, compared to $89.3 million for the same period in 2012.

Other real estate owned expense decreased $5.7 million, or 126%, to a net gain on sale of ($1.2) million for the three months ended June 30, 2013, compared to $4.5 million of expense for the same period in 2012, and decreased $17.5 million, or 114%, to a net gain on sale of ($2.2) million for the six months ended June 30, 2013, compared to $15.3 million of expense for the same period in 2012. The decrease in other real estate owned expense is mainly due to a net decrease in valuation write-downs primarily related to covered OREO and an increase in OREO sales with a gain.

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Legal expense increased to $5.5 million in the second quarter of 2013, compared to $4.2 million in the second quarter of 2012, and decreased to $9.9 million for the first half of 2013, compared to $11.3 million in the same period of 2012. The increase during the second quarter 2013 compared to the second quarter 2012 is primarily due to a few specific legal expenses. However, the decrease during the first half of 2013 compared to the first half of 2012 is primarily due to an overall reduction in credit cycle costs, primarily related to covered loans.

During the three and six months ended June 30, 2013, there were no prepayments of FHLB advances, compared with a $2.3 million and $3.7 million of prepayment of FHLB advances during the three and six months ended June 30, 2012, respectively.

Our efficiency ratio decreased to 40.40% for the three months ended June 30, 2013, compared to 41.54% for the corresponding period in 2012. For the first half of 2013, the efficiency ratio decreased to 41.81% for the six months ended June 30, 2013, compared to 42.86% for the corresponding period in 2012.

Income Taxes

The provision for income taxes was $37.9 million for the second quarter of 2013, representing an effective tax rate of 33.8%, compared to $33.8 million for the same period in 2012, representing an effective tax rate of 32.4%. Included in income taxes recognized during the second quarter of 2013 and 2012 are $11.3 million and $8.7 million, respectively, in federal tax credits generated from our investments in affordable housing partnerships and other investments.

For the first half of 2013, the provision for income taxes was $72.3 million, representing an effective tax rate of 33.1%, compared to $73.5 million for the same period in 2012, representing an effective tax rate of 34.7%. Additionally, during the first quarter of 2013, the effective tax rate was reduced by the impact of $1.6 million due to the retroactive extension of certain exemptions as part of the American Taxpayer Relief Act of 2012 which was signed into law in January 2013.

Management regularly reviews the Company s tax positions and deferred tax assets. Factors considered in this analysis include future reversals of existing temporary differences, future taxable income exclusive of reversing differences, taxable income in prior carryback years, and tax planning strategies. The Company accounts for income taxes using the asset and liability approach, the objective of which is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the tax basis of the Company s assets and liabilities at enacted rates expected to be in effect when such amounts are realized and settled. As of June 30, 2013, the Company had a net deferred tax asset of $204.2 million.

A valuation allowance is established for deferred tax assets if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. A valuation allowance is established, when necessary, to reduce the deferred tax assets to the amount that is more likely than not to be realized. Management has concluded that it is more likely than not that all of the benefit of the deferred tax assets will be realized, with the exception of the deferred tax assets related to certain state net operating losses. Accordingly, a valuation allowance has been recorded for these amounts.

The Company believes that adequate provisions have been made for all income tax uncertainties consistent with the standards of ASC 740-10.

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Operating Segment Results

The Company utilizes an internal reporting system to measure the performance of various operating segments within the Bank and the Company overall. We have identified three operating segments for purposes of management reporting: 1) Retail Banking; 2) Commercial Banking; and 3) Other.

For more information about our segments, including information about the underlying accounting and reporting process, please see Note 15 to the Company s condensed consolidated financial statements presented elsewhere in this report.

Retail Banking

The Retail Banking segment reported pretax income of $32.5 million and $51.4 million for the three and six months ended June 30, 2013, compared to $18.5 million and $40.2 million for the same periods in 2012. The increase in pretax income for this segment during three and six months ended June 30, 2013 is driven by an increase in net interest income, a reduction in provision for loan losses and lower noninterest expense, offset by a higher noninterest loss.

Net interest income for this segment increased $10.6 million to $100.3 million during the quarter ended June 30, 2013, compared to $89.7 million for the same period in 2012. Net interest income for the six months ended June 30, 2013 increased $9.7 million to $182.9 million, compared to $173.2 million for the same period in 2012. The increase in net interest income is primarily due to lower cost of funds and growth in loans and deposits, offset by lower interest rates and flattening yield curve.

Noninterest income for this segment decreased $4.7 million to a loss of $2.1 million for the three month ended June 30, 2013, as compared to noninterest income of $2.6 million recorded for the same period in 2012. For the first half of 2013, noninterest income for this segment decreased $17.2 million to a noninterest loss of $2.8 million for the six months ended June 30, 2013, compared to noninterest income of $14.4 million recorded during the same period in 2012. The increase in noninterest loss is primarily due to a larger decrease in the FDIC indemnification asset and receivable and no sales of student loans, offset by an increase in branch fees.

Noninterest expense for this segment decreased $0.7 million to $45.9 million during the second quarter of 2013, compared to $46.6 million for the same period in 2012. Noninterest expense for this segment decreased $5.6 million to $96.0 million during the first half of 2013, compared to $101.6 million for the same period in 2012. The decrease is primarily due to reductions in occupancy and equipment and REO-related expenses, lower amortization of premium on deposit acquisition, and offset by an increase in compensation and employee benefits.

Commercial Banking

The Commercial Banking segment reported pretax income of $65.5 million for the quarter ended June 30, 2013, compared to $63.3 million for the same period in 2012, driven by higher net interest income, lower noninterest expense, and offset by higher noninterest loss. For the six months ended June 30, 2013, the segment reported pretax income of $132.2 million compared to $123.7 million for the same period in 2012. The increase during the first half of 2013 is attributable to a combination of lower noninterest expense and provision for loan losses, offset by a higher noninterest loss.

Net interest income for this segment increased $0.8 million to $121.1 million for the second quarter of 2013, compared to $120.3 million for the same period in 2012. For the first half of 2013, net interest income increased $2.7 million to $232.3 million, compared to $229.6 million for the same period in 2012. The increase in net interest income for the first half of 2013 is mainly due to larger discount accretion in interest income from the covered loan portfolio and lower cost of funds, offset by the low interest rate environment.

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Noninterest income for this segment decreased $1.8 million to a loss of $20.2 million during the second quarter of 2013, compared to a noninterest loss of $18.4 million for the same period in 2012. For the six months ended June 30, 2013, noninterest income decreased $20.0 million to a loss of $31.2 million, compared to a loss of $11.2 million for the same period in 2012. The decrease in noninterest income is primarily due to a larger decrease in the FDIC indemnification asset and receivables.

Noninterest expense for this segment decreased $2.2 million to $26.8 million during the second quarter of 2013, compared to $29.0 million for the same period in 2012. For the six months ended June 30, 2013, noninterest expense decreased $12.0 million to $59.1 million, compared to $71.1 million for the same period in 2012. The decrease in noninterest expense is primarily due to reductions in REO-related and legal expenses, offset by increases in compensation and employee benefits and occupancy and equipment expense.

Other

The Other segment reported pretax income of $13.9 million for the quarter ended June 30, 2013, compared to $22.7 million recorded in the same period in 2012. For the six months ended June 30, 2013, pretax income for the segment was $34.8 million, compared to $48.3 million recorded in the same period of 2012.

Net interest income for this segment decreased $16.8 million to $6.3 million for the three months ended June 30, 2013, compared to $23.1 million for the same period in 2012. For the six months ended June 30, 2013, net interest income decreased $27.5 million to $21.7 million, compared to $49.2 million for the same period in 2012. The decrease in net interest income for this segment is due to a decrease in investment income offset by a lower borrowing interest expense.

Noninterest income for this segment increased $5.9 million to $10.0 million during the second quarter of 2013, compared to noninterest income of $4.1 million for the same period in 2012. For the six months ended June 30, 2013, noninterest income increased $12.7 million to $19.5 million compared to $6.8 million for the same period in 2012. The increase in noninterest income is primarily due to increases in gains on sales of investment securities.

Noninterest expense for this segment decreased $4.4 million to $21.7 million for the quarter ended June 30, 2013, compared to $26.1 million for the same period in 2012. For the six months ended June 30, 2013, noninterest expense for this segment decreased $8.0 million to $35.7 million compared to $43.7 million during the same period in 2012. The decrease in noninterest expense is primarily due to a decrease in compensation and employee benefits and no prepayment penalties on FHLB advances.

Balance Sheet Analysis

Total assets increased $772.3 million, or 3%, to $23.31 billion as of June 30, 2013, compared to $22.54 billion as of December 31, 2012. The increase in total assets was primarily due an increase in non-covered loans of $1.55 billion, which was due to continued growth in the commercial and industrial, single family residential and commercial real estate loan portfolios. The increase in total assets was partially offset by decreases in covered loans of $431.3 million and cash and cash equivalent of $272.9 million. The decrease in covered loans was primarily due to

payoffs and paydown activity, as well as charge-offs.

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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 remain at $1.45 billion as of June 30, 2013 and December 31, 2012.

Purchases of resale agreements are over-collateralized to protect against unfavorable market price movements. We monitor the fair market value of the underlying securities that 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 appropriate 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 enterprise and other mortgage-backed securities, municipal securities, and corporate debt securities. Investments classified as available-for-sale are carried at their estimated fair values with the corresponding changes in fair values recorded in accumulated other comprehensive income, as a component of stockholders equity. All investment securities have been classified as available-for-sale as of June 30, 2013 and December 31, 2012.

Total investment securities available-for-sale increased to $2.67 billion as of June 30, 2013, compared with $2.61 billion at December 31, 2012. The investment portfolio had net unrealized losses of $37.5 million as of June 30, 2013 and net unrealized gains of $8.0 million as of December 31, 2012. The change in the unrealized position of the investment securities portfolio is mainly attributed to the recent rise in long-term rates during the second quarter of 2013. Total repayments/maturities and proceeds from sales of investment securities amounted to $262.1 million and $325.7 million, respectively, during the six months ended June 30, 2013. Proceeds from repayments, maturities, sales, and redemptions were applied towards additional investment securities purchases totaling $699.7 million during the six months ended June 30, 2013. We recorded net gains on sales of investment securities totaling $5.3 million and $71 thousand during the second quarter of 2013 and 2012, respectively. For the first half of 2013, we recorded net gains on sales of investment securities totaling $10.9 million, compared with $554 thousand during the first half of 2012. At June 30, 2013, investment securities available-for-sale with a par value of $2.00 billion were pledged to secure public deposits, FHLB advances, repurchase agreements, the 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, the credit-related impairment loss is recognized in current earnings. The noncredit-related impairment losses are charged to other comprehensive income which is the portion of the loss attributed to market rates or other factors non-credit related. 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 to not sell the security before recovery of its amortized cost basis. For securities that are determined to not have other-than-temporary declines in value, we have both the ability and the intent to hold these securities and it is not more likely than not that we will be required to sell these securities before recovery of their amortized cost basis.

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As of June 30, 2013, the Company holds a minimal portfolio of foreign corporate debt securities. These securities represent 1.1% of the available-for-sale portfolio and less than 1% of total assets. The majority of the securities are issued by British financial institutions. Due to the minimal holdings, the Company notes the potential exposure is limited.

The following table sets forth certain information regarding the fair value of our investment securities available-for-sale, as well as the weighted average yields, and contractual maturity distribution, excluding periodic principal payments, of our available-for-sale portfolio at June 30, 2013.

	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)											
As of June 30, 2013												
Available-for-sale												
U.S. Treasury securities	$ 20,015	0.24%	$ 474,850	0.37%	$ 20,897	1.32%	$	%	$	%	515,762	0.40%
U.S. Government agency and U.S. Government sponsored enterprise debt securities	218,918	1.17%	31,337	1.26%		%		%		%	250,255	1.18%
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:												
Commercial mortgage-backed securities		%	6,436	3.34%	114,225	2.88%	13,587	3.02%		%	134,248	2.92%
Residential mortgage-backed securities		%		%	16,351	1.33%	980,166	1.73%		%	996,517	1.72%
Municipal securities	9,189	2.08%	19,112	2.55%	185,345	2.49%	15,627	3.67%		%	229,273	2.55%
Other residential mortgage-backed securities:												
Investment grade		%		%		%	15,202	3.15%		%	15,202	3.15%
Other commercial mortgage-backed securities:												
Investment grade		%		%	51,297	2.53%		%		%	51,297	2.53%
Corporate debt securities:												
Investment grade	1,167	3.57%	26,543	1.94%	231,632	1.94%	188,869	1.55%		%	448,211	1.78%
Non-investment grade	12,265	2.48%		%		%	3,375	4.32%		%	15,640	2.97%
Other securities	10,767	1.37%		%		%		%		%	10,767	1.37%
Total investment securities available-for-sale	$ 272,321		$ 558,278		$ 619,747		$ 1,216,826		$		$ 2,667,172	

For complete discussion and disclosure see Note 5 to the Company s condensed consolidated financial statements presented elsewhere in this report.

Covered Assets

Covered assets consist of loans receivable and OREO that were acquired in the WFIB Acquisition on June 11, 2010 and in the UCB Acquisition on November 6, 2009 for which the Company entered into shared-loss agreements with the FDIC. The shared-loss agreements covered over 99% of the loans originated by WFIB and all of the loans originated by UCB, excluding the loans originated by UCB in China under its United Commercial Bank China (Limited) subsidiary. The Company shares in the losses, which began with the first dollar of loss incurred, on the loan

pools (including single-family residential mortgage loans, commercial loans, foreclosed loan collateral, and other real estate owned), covered (covered assets) under the shared-loss agreements.

Pursuant to the terms of the shared-loss agreements, the FDIC is obligated to reimburse the Company 80% of eligible losses for both WFIB and UCB with respect to covered assets. For the UCB covered assets, the FDIC will reimburse the Company for 95% of eligible losses in excess of $2.05 billion with respect to covered assets. The Company has a corresponding obligation to reimburse the FDIC for 80% or 95%, as applicable, of eligible recoveries with respect to covered assets. For both acquisitions the shared-loss agreements for commercial and single-family residential mortgage loans are in effect for 5 years and 10 years, respectively, from the acquisition date and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from the acquisition date.

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

	June 30, 2013		December 31, 2012	
	Amount	Percent	Amount	Percent
	(In thousands)			
Real estate loans:				
Residential single-family	$ 314,483	10.8%	$ 362,345	10.5%
Residential multifamily	513,141	17.6%	647,440	18.8%
Commercial and industrial real estate	1,190,964	41.0%	1,348,556	39.1%
Construction and land	329,397	11.3%	417,631	12.1%
Total real estate loans	2,347,985	80.7%	2,775,972	80.5%
Other loans:				
Commercial business	$ 481,255	16.6%	$ 587,333	17.0%
Other consumer	79,533	2.7%	87,651	2.5%
Total other loans	560,788	19.3%	674,984	19.5%
Total principal balance	2,908,773	100.0%	3,450,956	100.0%
Covered discount	(394,829)		(510,208)	
Allowance on covered loans	(9,629)		(5,153)	
Total covered loans, net	$ 2,504,315		$ 2,935,595	

FDIC Indemnification Asset

During the second quarter of 2013 and 2012, the Company recorded $12.7 million and $7.8 million of amortization, respectively. For the six months ended June 30, 2013 and 2012, the Company recorded $21.4 million and $17.9 million, respectively, of amortization in line with the improved accretable yield as discussed in Note 7 presented elsewhere in this report. Additionally, the Company recorded a $28.8 million and $36.1 million reduction to the FDIC indemnification asset for the three months ended June 30, 2013 and 2012, respectively. For the six months ended June 30, 2013, the Company recorded a $52.1 million and $77.0 million reduction to the FDIC indemnification asset and recorded the adjustment to noninterest (loss) income. The reduction in both the three and six month periods is primarily the result of covered loan payoffs. As these covered loans are removed from their respective pools, the Company records a proportional amount of accretable yield into interest income. Correspondingly, the Company removes the indemnification asset associated with those removed loans and the adjustments are recorded into noninterest income.

FDIC Receivable

As of June 30, 2013, the FDIC loss-sharing receivable was $47.1 million as compared to $73.1 million as of December 31, 2012. This receivable represents 80% of reimbursable amounts from the FDIC that has not yet been received. These reimbursable amounts include charge-offs, loan related expenses, and OREO-related expenses. The 80% of any reimbursable expense is recorded as noninterest income. 100% of the loan related and OREO expenses are recorded as noninterest expense, netting to the 20% of actual expense paid by the Company. The FDIC shares in 80% of recoveries received. Thus, the FDIC receivable is reduced when we receive payment from the FDIC as well as when recoveries occur.

For complete discussion and disclosure of covered assets, FDIC indemnification asset and FDIC receivable see Note 7 to the Company s condensed consolidated financial statements presented elsewhere in this report.

Non-Covered 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, income producing commercial real estate loans, land loans, construction loans, commercial business loans, trade finance loans, and student and other consumer loans. Net non-covered loans receivable, including loans held for sale, increased $1.62 billion, or 14%, to $13.51 billion at June 30, 2013, relative to December 31, 2012. During the first six months of 2013, proceeds from sales of loans held for sale were $6.3 million resulting in net gains on sale of $1 thousand.

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As of June 30, 2013, $366.0 million of loans were held in our overseas offices, including our Hong Kong branch and our subsidiary bank in China. $81.8 million of the $366.0 million of foreign loans are covered under the loss share agreements with the FDIC. In total these foreign loans represent approximately 2% of total consolidated assets. These loans are included in the Composition of Loan Portfolio table below and the Composition of Covered Loan Portfolio table above.

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

	June 30, 2013		December 31, 2012	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Residential:				
Single-family	$ 2,575,975	19.0%	$ 2,187,323	18.3%
Multifamily	929,867	6.9%	900,708	7.5%
Total residential	3,505,842	25.9%	3,088,031	25.8%
Commercial Real Estate (CRE):				
Income producing	3,917,082	29.0%	3,644,035	30.5%
Construction	105,084	0.8%	121,589	1.0%
Land	128,218	0.9%	129,071	1.1%
Total CRE	4,150,384	30.7%	3,894,695	32.6%
Commercial and Industrial (C&I):				
Commercial business	4,036,795	29.8%	3,569,388	29.8%
Trade finance	672,880	5.0%	661,877	5.5%
Total C&I	4,709,675	34.8%	4,231,265	35.3%
Consumer:				
Student loans	615,707	4.6%	475,799	4.0%
Other consumer	544,306	4.0%	269,083	2.3%
Total consumer	1,160,013	8.6%	744,882	6.3%
Total gross loans	13,525,914	100.0%	11,958,873	100.0%
Unearned fees, premiums, and discounts, net	(28,219)		(19,301)	
Allowance for loan losses	(233,480)		(229,382)	
Loans held for sale	245,026		174,317	
Loans receivable, net	$ 13,509,241		$ 11,884,507	

The Company, from time to time, sells problem loans as part of the overall management of its nonperforming assets. The Company also identifies opportunities to sell certain portfolios when the pricing is attractive to provide additional noninterest income. The Company sells these loans out of the loans held for sale portfolio.

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Non-Covered Nonperforming Assets

Generally, the Company s policy is to place a loan on nonaccrual status if principal or interest payments are past due in excess of 90 days or 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 collectability of the loan.

Non-covered nonperforming assets are comprised of nonaccrual loans, accruing loans past due 90 days or more, and non-covered other real estate owned, net. Non-covered nonperforming assets totaled $133.5 million, or 0.57% of total assets, at June 30, 2013 and $141.0 million, or 0.63% of total assets, at December 31, 2012. Nonaccrual loans amounted to $112.0 million at June 30, 2013, compared with $108.1 million at December 31, 2012. During the first six months of 2013, we took actions to reduce our exposure to problem assets. In conjunction with these efforts, we sold non-covered OREO properties with a carrying value of $17.0 million during the first six months of 2013 for a net gain of $2.7 million. Also during the first six months of 2013 we sold notes with a carrying value of $5.4 million for proceeds of $5.9 million. Net charge-offs for non-covered nonperforming loans were $4.0 million and $4.6 million for the three and six months ended June 30, 2013. For non-covered OREO properties, write-downs of $18 thousand and $1.4 million were recorded for the three and six months ended June 30, 2013.

Loans totaling $92.2 million were placed on nonaccrual status during the second quarter of 2013. Loans totaling $43.8 million which were not 90 days past due as of June 30, 2013, were included in nonaccrual loans as of June 30, 2013. Additions to nonaccrual loans during the second quarter of 2013 were offset by $6.0 million in gross charge-offs, $74.5 million in payoffs and principal paydowns, $1.5 million in loan sales, $393 thousand in loans that were transferred to other real estate owned and $24.9 million in loans brought current. Additions to nonaccrual loans during the second quarter of 2013 were comprised of $64.2 million in commercial real estate loans, $23.7 million in residential loans, $4.0 million in commercial and industrial loans and $310 thousand in consumer loans.

The Company had $70.3 million and $94.6 million in total performing troubled debt restructured loans as of June 30, 2013 and December 31, 2012, respectively. Nonperforming TDR loans were $16.1 million and $10.0 million at June 30, 2013 and December 31, 2012, respectively, and are included in nonaccrual loans. Included in the total TDR loans were $4.3 million and $34.8 million of performing A/B notes as of June 30, 2013 and December 31, 2012, respectively. In A/B note restructurings, the original note is bifurcated into two notes where the A note represents the portion of the original loan which allows for acceptable loan-to-value and debt coverage on the collateral and is expected to be collected in full and the B note represents the portion of the original loan where there is a shortfall in value and is fully charged off. The A/B note is comprised of A note balances only. A notes are not disclosed as TDRs in subsequent years after the year of restructuring if the restructuring agreement specifies an interest rate equal to or greater than the rate that the Bank was willing to accept at the time of the restructuring for a new loan with comparable risk and the loan is not impaired based on the terms specified by the restructuring agreement. As of June 30, 2013, TDR loans were comprised of $26.5 million in multifamily loans, $38.6 million in commercial real estate loans, $9.1 million in CRE land loans, $4.2 million in single-family loans, $4.1 million in commercial business loans, $2.6 million in SBA loans, $756 thousand in consumer loans, and $618 thousand in trade finance loans.

Non-covered other real estate owned includes properties acquired through foreclosure or through full or partial satisfaction of loans. At June 30, 2013, total non-covered OREO was $21.4 million, compared to $32.9 million at December 31, 2012. During the first six months of 2013, the Company had an addition of $6.8 million to OREO due to foreclosures. Additionally, the Company recorded $1.4 million in write-downs. During this period, the Company also had a total of $19.6 million in total proceeds for OREO properties sold, resulting in a total net gain on sale of $2.7 million. As previously mentioned, losses on sales of OREO properties that are sold shortly after they are received in a foreclosure are charged against the allowance for loan losses.

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

	June 30, 2013	December 31, 2012
	(Dollars in thousands)	
Nonaccrual loans	$ 112,031	$ 108,109
Loans 90 or more days past due but not on nonaccrual		
Total nonperforming loans	112,031	108,109
Non-covered other real estate owned, net	21,433	32,911
Total nonperforming assets	$ 133,464	$ 141,020
Performing restructured loans	$ 70,326	$ 94,580
Total nonperforming assets to total assets	0.57%	0.63%
Allowance for non-covered loan losses to nonperforming loans	208.41%	212.18%
Nonperforming loans to total gross non-covered loans	0.81%	0.89%

We evaluate loan impairment according to the provisions of ASC 310-10-35, *Receivables Overall Subsequent Measurement*. Under ASC 310-10-35, 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 and the loan is classified as nonperforming, the deficiency is charged-off against the allowance for loan losses. Also, in accordance with ASC 310-10-35, loans that are considered impaired are specifically excluded from the quarterly migration analysis when determining the amount of the general valuation allowance for loan losses required for the period.

For collateral dependent loans, an appraisal is normally obtained to ensure the loan value is charged down to the fair value of the collateral. The appraisal is obtained from a third party appraiser and reviewed by management. Updated appraisals are obtained regularly when it has been assessed that the current appraisal is no longer reasonable due to a change in circumstance or information. Quarterly all appraisals of nonperforming assets are reviewed to ensure an additional charge-off is not necessary until a new appraisal is received. If it is assessed by management that the current appraised value is not reasonable an adjustment will be calculated based on other outstanding information, and an additional charge-off will may taken to reduce the loan to the adjusted appraised value.

At June 30, 2013, the Company s total recorded investment in impaired loans was $156.5 million, compared with $200.5 million at December 31, 2012. All nonaccrual and doubtful loans held for investment are included in impaired loans. Impaired loans at June 30, 2013 are comprised of multifamily loans totaling $45.1 million, income producing commercial real estate loans totaling $55.3 million, commercial business loans totaling $23.4 million, CRE land loans totaling $13.2 million, single-family loans totaling $11.1 million, CRE construction loans totaling $6.9 million and other consumer loans totaling $1.5 million. As of June 30, 2013, the allowance for loan losses included $13.1 million for impaired loans with a total recorded balance of $68.1 million. As of December 31, 2012, the allowance for loan losses included $11.5 million for impaired loans with a total recorded balance of $33.3 million.

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The following table sets forth information regarding impaired loans as of the dates indicated:

	June 30, 2013		December 31, 2012	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Residential:				
Single-family	$ 11,114	7.1%	$ 18,208	9.1%
Multifamily	45,086	28.8%	54,267	27.1%
Total residential impaired loans	56,200	35.9%	72,475	36.2%
Commercial Real Estate (CRE):				
Income producing	55,318	35.4%	54,675	27.3%
Construction	6,888	4.4%	27,039	13.4%
Land	13,175	8.4%	15,127	7.5%
Total CRE impaired loans	75,381	48.2%	96,841	48.2%
Commercial and Industrial (C&I):				
Commercial business	22,225	14.2%	24,070	12.0%
Trade finance	1,163	0.7%	2,582	1.3%
Total C&I impaired loans	23,388	14.9%	26,652	13.3%
Consumer:				
Student loans		%		%
Other consumer	1,552	1.0%	4,528	2.3%
Total consumer impaired loans	1,552	1.0%	4,528	2.3%
Total gross impaired loans	$ 156,521	100.0%	$ 200,496	100.0%

The average recorded investment in impaired loans at June 30, 2013 and December 31, 2012 totaled $163.3 million and $214.0 million, respectively. During the three months ended June 30, 2013 and 2012, gross interest income that would have been recorded on nonaccrual loans had they performed in accordance with their original terms totaled $1.4 million and $1.8 million, respectively. Of these amounts, actual interest recognized on impaired loans, on a cash basis, was $623 thousand and $609 thousand for the three months ended June 30, 2013 and 2012, respectively. During the six months ended June 30, 2013 and 2012, gross interest income that would have been recorded on nonaccrual loans had they performed in accordance with their original terms totaled $3.0 million and $3.5 million, respectively. Of these amounts, actual interest recognized on impaired loans, on a cash basis, was $1.1 million and $1.1 million for the six months ended June 30, 2013 and 2012, respectively.

Allowance for Loan Losses

We are committed to maintaining the allowance for loan losses at a level that is commensurate with the estimated inherent loss in the loan portfolio. In addition to regular quarterly reviews of the adequacy of the allowance for loan losses, we perform an ongoing assessment of the risks inherent 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 charge-offs, respectively, during the period. While we believe that the allowance for loan losses is appropriate at June 30, 2013, future additions to the allowance will be subject to a continuing evaluation of inherent risks in the loan portfolio.

Non-covered Loans

As of June 30, 2013, the allowance for loan losses on non-covered loans amounted to $233.5 million, or 1.73% of total non-covered loans receivable, compared with $229.4 million or 1.92% of total non-covered loans receivable as of December 31, 2012 and $219.5 million or 2.03% of total non-covered loans receivable as of June 30, 2012.

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We recorded a provision for loan losses on non-covered loans of $8.3 million during the second quarter of 2013. In comparison, we recorded $16.6 million in loan loss provisions on non-covered loans during the second quarter of 2012. The decrease in provision for the six months ended June 30, 2013 as compared to the same period of 2012 is mainly due to the continued improvement in credit quality of the loan portfolios, offset by the total loan portfolio growth. During the second quarter of 2013, we recorded $4.0 million in net charge-offs on non-covered loans representing 0.12% of average non-covered loans outstanding during the quarter, on an annualized basis. In comparison, we recorded net charge-offs totaling $11.7 million, or 0.44% of average non-covered loans outstanding, on an annualized basis, for the same period in 2012.

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 $8.3 million at June 30, 2013, compared to $9.4 million at December 31, 2012. 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.

Covered Loans

At June 30, 2013, included in covered loans are $358.8 million of additional advances under the shared-loss agreements which are not accounted for under ASC 310-30, and are subject to the allowance for loan losses on covered loans. The Bank has considered these additional advances on commitments covered under the shared-loss agreements in the allowance for loan losses calculation. These additional advances are within our loan segments as follows: $248.3 million of commercial and industrial loans, $67.3 million of commercial real estate loans, $31.9 million of consumer loans and $11.3 million of residential loans.

At June 30, 2013, the total allowance for loan losses on covered loans amounted to $9.6 million, compared with $5.2 million at December 31, 2012 and $7.2 million at June 30, 2012. The $4.5 million increase in the total allowance for loan losses on covered loans at June 30, 2013, from year-end 2012, primarily reflects $5.8 million in additional loan loss provisions, less $1.3 million in net charge-offs recorded during the first half of 2013. Within the $9.6 million in total allowance for loan losses on covered loans at June 30, 2013 is $7.1 million related to covered loans outside of scope of ASC 310-30, which is allocated within our loan segments as follows: $4.1 million for commercial and industrial loans, $2.4 million for commercial real estate loans, $407 thousand for consumer loans and $174 thousand for residential loans. The remaining $2.5 million of allowance for loans losses on covered loans under ASC 310-30 is allocated mainly to the portfolio s commercial real estate segment.

We recorded $723 thousand in total loan loss provisions on covered loans including $186 thousand outside the scope of ASC 310-30 and $537 thousand under ASC 310-30 during the second quarter of 2013. In comparison, we recorded a reversal of loan loss provisions of ($1.1) million on covered loans outside the scope of ASC 310-30 and no provision for loan losses on covered loans under ASC 310-30 was recorded, during the second quarter of 2012. We recorded net charge-offs of $1.3 million on covered loans outside the scope of ASC 310-30, for the six months ended June 30, 2013, which is 80% reimbursable by the FDIC through loss-share agreements, resulting in a net loss to the Company of $267 thousand. In comparison, we did not record any net charge-offs on these loans for the same period in 2012. There were no charge-offs recorded in either the first half of 2013 or 2012 for the covered loans under ASC 310-30 that were beyond the loan pools associated discount.

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The following table summarizes activity in the allowance for loan losses for the three and six months ended June 30, 2013 and 2012:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars in thousands)			
NON-COVERED LOANS				
Allowance for non-covered loans, beginning of period	$ 228,796	$ 214,253	$ 229,382	$ 209,876
Allowance for unfunded loan commitments and letters of credit	432	274	1,148	(1,504)
Provision for loan losses, excluding covered loans	8,277	16,595	7,515	33,074
Gross charge-offs:				
Residential	550	1,536	861	4,567
Commercial real estate	762	4,871	1,767	15,578
Commercial and industrial	3,816	7,481	5,077	10,368
Consumer	865	928	1,211	1,091
Total net charge-offs	5,993	14,816	8,916	31,604
Gross recoveries:				
Residential	303	242	1,071	1,183
Commercial real estate	1,060	2,027	1,349	4,802
Commercial and industrial	605	857	1,136	3,522
Consumer		22	795	105
Total gross recoveries	1,968	3,148	4,351	9,612
Net charge-offs	4,025	11,668	4,565	21,992
Allowance balance for non-covered loans, end of period	$ 233,480	$ 219,454	$ 233,480	$ 219,454
COVERED LOANS				
Allowance for covered loans not accounted under ASC 310-30, beginning of period *(1)*	$ 8,118	$ 8,268	$ 5,153	$ 6,647
Provision for (reversal of) loan losses on covered loans not accounted under ASC 310-30	186	(1,095)	3,283	526
Gross charge-offs:				
Commercial real estate	380		380	
Commercial and industrial	823		955	
Consumer	1		1	
Total net charge-offs	1,204		1,336	
Allowance for covered loans not accounted under ASC 310-30, end of period *(1)*	$ 7,100	$ 7,173	$ 7,100	$ 7,173
Allowance for covered loans accounted under ASC 310-30, beginning of period *(2)*	$ 1,992	$	$	$
Provision for loan losses on covered loans accounted under ASC 310-30	537		2,529	
Allowance for covered loans accounted under ASC 310-30, end of period *(2)*	$ 2,529	$	$ 2,529	$
Total allowance for loan losses on covered loans, end of period	$ 9,629	$ 7,173	$ 9,629	$ 7,173
Average non-covered loans outstanding	$ 13,099,286	$ 10,742,672	$ 12,666,017	$ 10,711,442
Total gross non-covered loans outstanding, end of period	$ 13,525,914	$ 10,794,870	$ 13,525,914	$ 10,794,870

Annualized net charge-offs on non-covered loans to average non-covered loans	0.12%	0.44%	0.07%	0.41%
Allowance for non-covered loan losses to total gross non-covered loans held for investment at end of period	1.73%	2.03%	1.73%	2.03%

(1) This allowance is related to drawdowns on commitments that were in existence as of the acquisition dates of WFIB and UCB, and therefore, are covered under the shared-loss agreements with the FDIC but are not accounted for under ASC 310-30. Part of allowance on these subsequent drawdowns is accounted for as the allowance for loan losses.

(2) This allowance is related to loans covered under share-loss agreement with the FDIC, accounted for under ASC 310-30.

Our methodology to determine the overall appropriateness of the allowance is based on a loss migration model and qualitative considerations. The migration analysis looks at pools of loans having similar characteristics and analyzes their loss rates over a historical period. We utilize historical loss factors derived from trends and losses associated with each pool over a specified period of time. Based on this process, we assign loss factors to each loan grade within each pool of loans. Loss rates derived by the migration model are based predominantly on historical loss trends that may not be indicative of the actual or inherent loss potential. As such, we utilize qualitative and environmental factors as adjusting mechanisms to supplement the historical results of the classification migration model. Qualitative considerations include, but are not limited to, prevailing economic or market conditions, relative risk profiles of various loan segments, volume concentrations, growth trends, delinquency and nonaccrual status, problem loan trends, and geographic concentrations. 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 pool.

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The following table reflects the Company s allocation of the combined non-covered and covered allowance for loan losses by loan segment and the ratio of each loan segment to total loans as of the dates indicated:

	June 30, 2013		December 31, 2012	
	Amount	%	Amount	%
	(Dollars in thousands)			
Residential	$ 47,337	25.9%	$ 49,349	25.8%
Commercial Real Estate	72,830	30.7%	69,856	32.6%
Commercial and Industrial	105,376	34.8%	105,376	35.3%
Consumer	7,937	8.6%	4,801	6.3%
Covered loans subject to allowance for loan losses	9,629	%	5,153	%
Total	$ 243,109	100.0%	$ 234,535	100.0%

Deposits

We offer a wide variety of deposit account products to both consumer and commercial customers. Total deposits increased $972.9 million to $19.28 billion as of June 30, 2013 from $18.31 billion as of December 31, 2012. The increase in total deposits was due to increases in noninterest-bearing demand deposits of $593.0 million or 13%, interest-bearing demand deposits of $253.5 million or 21%, money market accounts of $171.9 million or 3% and saving accounts of $123.8 million or 9%, which was offset by a decrease of $169.3 million or 3%, in time deposits.

As of June 30, 2013, time deposits within the Certificate of Deposit Account Registry Service (CDARS) program amounted to $226.9 million, compared with $260.5 million as of December 31, 2012. Overall, time deposits have decreased during the six months ended June 30, 2013 including deposits in the CDARS program. 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, we partner with other financial institutions to offer a 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 regulatory reporting guidelines.

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

	June 30, 2013	December 31, 2012	Increase (Decrease)	
			Amount	Percentage
		(Dollars in thousands)		
Core deposits:				
Noninterest-bearing demand	$ 5,128,894	$ 4,535,877	$ 593,017	13%
Interest-bearing checking	1,483,854	1,230,372	253,482	21%
Money market	5,172,192	5,000,309	171,883	3%
Savings	1,544,935	1,421,182	123,753	9%
Total core deposits	13,329,875	12,187,740	1,142,135	9%
Time deposits	5,952,332	6,121,614	(169,282)	(3)%
Total deposits	$ 19,282,207	$ 18,309,354	$ 972,853	5%

Borrowings

We utilize a combination of short-term and long-term borrowings to manage our liquidity position. FHLB advances totaled $314.0 million as of June 30, 2013, compared to $313.0 million as of December 31, 2012. The increase in FHLB advances does not represent additional advances but rather is the accretion adjustment for the discount associated with these advances. During the first six months of 2013, the Company did not prepay or modify any FHLB advances. During the first six months of 2012, the Company prepaid FHLB advances of $50.0 million with $3.7 million of prepayment penalties and modified $300.0 million of FHLB advances. The associated modification cost incurred by the Company was deferred and treated as a discount on the corresponding debt.

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In addition to FHLB advances, we also utilize securities sold under repurchase agreements (repurchase agreements) to manage our liquidity position. Repurchase agreements totaled $995.0 million as of June 30, 2013 and December 31, 2012. No short-term repurchase agreements were outstanding as of June 30, 2013 and December 31, 2012. Repurchase agreements are long-term with interest rates that are largely fixed ranging from 2.50% to 5.01%, as of June 30, 2013. The counterparties have the right to a quarterly call for many of the repurchase agreements. 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.

Long-Term Debt

Long-term debt was $137.2 million, as of June 30, 2013 and December 31, 2012. Long-term debt is comprised of junior subordinated debt. Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, bank holding companies with more than $15 billion in total consolidated assets are no longer able to include trust preferred securities as Tier I regulatory capital which commenced in 2013 with phase-out complete by 2016. The junior subordinated debt is being phased out 25% each year, over the four year period, from Tier I capital into Tier II capital for regulatory purposes. This junior subordinated debt was issued in connection with our various pooled trust preferred securities offerings.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

The following table presents, as of June 30, 2013, 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 condensed consolidated balance sheets. The payment amounts represent the amounts and interest contractually due to the recipient.

	Payment Due by Period					
	Less than 1 year	1-3 years	3-5 years	After 5 years	Indeterminate Maturity	Total
	(In thousands)					
Contractual Obligations						
Deposits	$ 4,850,848	$ 678,896	$ 416,613	$ 91,288	$ 13,421,228	$ 19,458,873
FHLB advances	2,030	4,061	4,061	338,669		348,821
Securities sold under repurchase agreements	40,404	318,021	337,673	508,682		1,204,780
Affordable housing/CRA investment commitments					70,012	70,012
Long-term debt obligations	2,786	5,571	5,571	186,256		200,184
Operating lease obligations *(1)*	26,879	43,250	25,561	31,052		126,742
Unrecognized tax liability		2,264	2,717			4,981
Postretirement benefit obligations	431	900	1,252	16,650		19,233
Total contractual obligations	$ 4,923,378	$ 1,052,963	$ 793,448	$ 1,172,597	$ 13,491,240	$ 21,433,626

(1) Represents the Company s lease obligation for all non-owned premises.

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 our customers as of June 30, 2013 is as follows:

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	Commitments Outstanding (In thousands)
Undisbursed loan commitments	$ 3,151,491
Standby letters of credit	953,584
Commercial letters of credit	83,448

Capital Resources

At June 30, 2013, stockholders equity totaled $2.26 billion, a 5% decrease from the year-end 2012 balance of $2.38 billion. The decrease is comprised of the following: (1) repurchase of treasury stock pursuant to the stock repurchase program totaling $200.0 million, representing 8,026,807 treasury stock shares; (2) accrual and payment of cash dividends on common and preferred stock totaling $45.1 million during the first six months of 2013; (3) other comprehensive loss of $26.3 million; and (4) purchase of treasury shares related to restricted stock surrendered due to employee tax liability amounting to $8.7 million, representing 356,426 shares. These transactions were offset by: (1) net income of $146.1 million recorded during the first six months of 2013; (2) stock compensation amounting to $5.9 million related to grants of restricted stock units; (3) tax benefits of $2.8 million from various stock plans; and (4) issuance of common stock totaling $1.2 million, representing 245,261 shares, pursuant to various stock plans and agreements. Historically, our primary source of capital has been the retention of operating earnings. In order to ensure adequate levels of capital, we conduct an ongoing assessment of projected sources, needs, and uses of capital in conjunction with projected increases in assets and the level of risk. As part of this ongoing assessment, the Board of Directors reviews the various components of capital and the adequacy of capital. As a result of the recently adopted federal regulatory changes to capital requirements, our Board of Directors, in consultation with management, will continue to assess the adequacy and components of our capital to ensure that we meet all required regulatory standards.

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 and capital adequacy guidelines adopted by the federal banking regulators. 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 these guidelines, institutions whose Tier I and total capital ratios meet or exceed 6.0% and 10.0%, respectively, may be deemed well capitalized. At June 30, 2013, the Bank s Tier I and total capital ratios were 12.2% and 13.5%, respectively, compared to 14.3% and 15.6%, respectively, at December 31, 2012.

The following table compares East West Bancorp, Inc. s and East West Bank s capital ratios at June 30, 2013, to those required by regulatory agencies for capital adequacy and well capitalized classification purposes:

	East West Bancorp	East West Bank	Minimum Regulatory Requirements	Well Capitalized Requirements
Total Capital (to Risk-Weighted Assets)	14.3%	13.5%	8.0%	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	12.9%	12.2%	4.0%	6.0%
Tier 1 Capital (to Average Assets)	8.8%	8.4%	4.0%	5.0%

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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 and securities. In addition, government programs 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 first six months of 2013, we experienced net cash inflows from operating activities of $157.7 million, compared to net cash inflows of $63.5 million for the first six months of 2012.

Net cash outflows from investing activities totaled $1.13 billion for the first six months of 2013 compared with net cash inflows of $1.35 billion for the first six months of 2012. Net cash outflows from investing activities for the first six months of 2013 were due to purchase of securities purchased under resale agreements and investment securities. Net cash inflows from investing activities for the first six months of 2012 were due primarily from sales of investment securities, repayments, maturities and redemptions of investment securities available-for-sale and paydowns, maturities of securities purchased under resale agreements.

We experienced net cash inflows from financing activities of $703.2 million during the first six months of 2013, primarily due to the increase in deposits. We experienced net cash outflows from financing activities of $412.2 million during the first six months of 2012, primarily due to the decrease in deposits and repurchase of shares of treasury stock pursuant to the Stock Repurchase Plan.

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. We believe our liquidity sources to be stable and adequate to meet our day-to-day cash flow requirements.

The liquidity of East West Bancorp, Inc. has historically been dependent on the payment of cash dividends by its subsidiary, East West Bank, subject to applicable statutes and regulations. For the six months ended June 30, 2013, total dividends paid by the Bank to the Company amounted to $319.0 million.

In July 2013, the Company s Board of Directors declared a quarterly dividend of $0.15 per share on the Company s common stock payable on or about August 15, 2013 to shareholders of record as of July 31, 2013.

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.

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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 June 30, 2013 and December 31, 2012, assuming a non-parallel shift of 100 and 200 basis points in both directions:

	Net Interest Income Volatility (1)		Net Portfolio Value Volatility (2)	
Change in Interest Rates (Basis Points)	**June 30, 2013**	**December 31, 2012**	**June 30, 2013**	**December 31, 2012**
+200	10.8%	9.0%	11.8%	6.3%
+100	4.8%	4.0%	5.2%	2.4%
-100	(0.4)%	(0.5)%	(2.0)%	(3.7)%
-200	(0.6)%	(0.8)%	(5.0)%	(6.8)%

(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 interest 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 June 30, 2013 and December 31, 2012. As of June 30, 2013, the Bank s balance sheet is more sensitive to interest rate changes on the asset side than the liability side. In a rising rate environment, this allows more net interest income and higher net portfolio value for the bank. However, in a declining rate environment, the bank will see lower net interest income and lower net portfolio value as projected in the volatility table above. At June 30, 2013 and December 31, 2012, 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.

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The following table provides the outstanding principal balances and the weighted average interest rates of our financial instruments as of June 30, 2013. The information presented below is based on the repricing date for variable rate instruments and the expected maturity date for fixed rate instruments.

	Expected Maturity or Repricing Date by Year						
	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter	Total
	(Dollars in thousands)						
Assets:							
CD investments	$ 532,193	$	$	$	$	$	$ 532,193
Average yield (fixed rate)	2.82%	%	%	%	%	%	2.82%
Short-term investments	$ 515,647	$	$	$	$	$	$ 515,647
Weighted average rate	0.40%	%	%	%	%	%	0.40%
Securities purchased under resale agreements	$ 1,150,000	$	$ 100,000	$	$ 150,000	$ 150,000	$ 1,550,000
Weighted average rate	1.31%	%	1.27%	%	3.00%	2.83%	1.62%
Investment securities	$ 1,012,147	$ 231,220	$ 237,863	$ 287,365	$ 326,503	$ 572,074	$ 2,667,172
Weighted average rate	2.02%	2.62%	2.77%	2.44%	2.32%	3.01%	2.43%
Total covered gross loans	$ 2,445,671	$ 176,799	$ 86,196	$ 83,119	$ 93,212	$ 78,997	$ 2,963,994
Weighted average rate	4.43%	5.67%	5.55%	5.12%	5.07%	5.97%	4.62%
Total non-covered gross loans	$ 11,014,566	$ 832,391	$ 736,859	$ 401,119	$ 316,893	$ 414,492	$ 13,716,320
Weighted average rate	3.95%	4.95%	5.01%	5.36%	5.27%	5.95%	4.20%
Liabilities:							
Checking accounts	$ 1,350,880	$	$	$	$	$	$ 1,350,880
Weighted average rate	0.23%	%	%	%	%	%	0.23%
Money market accounts	$ 5,172,192	$	$	$	$	$	$ 5,172,192
Weighted average rate	0.27%	%	%	%	%	%	0.27%
Savings deposits	$ 1,544,935	$	$	$	$	$	$ 1,544,935
Weighted average rate	0.20%	%	%	%	%	%	0.20%
Time deposits	$ 4,819,728	$ 562,492	$ 97,998	$ 204,469	$ 186,965	$ 80,680	$ 5,952,332
Weighted average rate	0.61%	0.99%	1.28%	1.34%	1.30%	0.51%	0.70%
FHLB advances	$ 332,000	$	$	$	$	$	$ 332,000
Weighted average rate	0.61%	%	%	%	%	%	0.61%
Securities sold under repurchase agreements (fixed rate)	$	$	$ 245,000	$ 250,000	$	$ 200,000	$ 695,000
Weighted average rate	%	%	4.49%	5.01%	%	4.27%	4.61%
Securities sold under repurchase agreements (variable rate)	$ 300,000	$	$	$	$	$	$ 300,000
Weighted average rate	2.78%	%	%	%	%	%	2.78%
Junior subordinated debt (variable rate)	$ 137,178	$	$	$	$	$	$ 137,178
Weighted average rate	2.03%	%	%	%	%	%	2.03%

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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. For deposits with stated maturity dates, expected maturities are based on contractual maturity dates. Deposits with no stated maturity dates are assumed to be repriced each month with managed interest rates. 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 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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For quantitative and qualitative disclosures regarding market risks in our portfolio, see, Management s Discussion and Analysis of Financial Condition and Results of Operations Asset Liability and Market Risk Management presented elsewhere in this report.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of June 30, 2013, 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 Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures are effective as of June 30, 2013.

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, 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 Securities Exchange Act of 1934 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.

Internal Controls

During our most recent fiscal quarter, there have been no changes in our internal control over financial reporting that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Certain lawsuits and claims arising in the ordinary course of business have been filed or are pending against us or our affiliates. Where appropriate, we establish reserves in accordance with ASC 450, *Contingencies*. The outcome of litigation and other legal and regulatory matters is inherently uncertain, however, and it is possible that one or more of the legal or, regulatory matters, if any, currently pending or threatened could have a material adverse effect on our liquidity, consolidated financial position, and/or results of operations.

ITEM 1A. RISK FACTORS

The Company s 2012 Form 10-K contains disclosure regarding the risks and uncertainties related to the Company s business under the heading Item 1A. Risk Factors . There are no material changes to our risk factors as presented in the Company s Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

There were no unregistered sales of equity securities during the quarter ended June 30, 2013. The following summarizes share repurchase activities during the second quarter of 2013:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value in Millions of Shares that May Yet Be Purchased Under the Plans or Programs (2)
April 30, 2013	422,335	$ 23.87	422,335	$ 102.9
May 31, 2013	2,867,172	24.91	2,867,172	31.4
June 30, 2013	1,194,200	26.27	1,194,200	
Total	4,483,707	$ 25.18	4,483,707	$

(1) Excludes 34,746 shares surrendered due to employee tax liability and forfeitures of restricted stock awards, totaling $719 thousand, pursuant to the Company s 1998 Stock Incentive Plan, as amended.

(2) On January 23, 2013, the Company s Board of Directors announced a repurchase program authorizing the repurchase of up to $200.0 million of its common stock. As of June 30, 2013, the Company completed the repurchase program and repurchased 8,026,807 shares at a total cost of $200.0 million.

The Company s principal business is to serve as a holding company for the Bank and other related subsidiaries which East West may establish or acquire. As a legal entity separate and distinct from its subsidiaries, the Company s principal source of funds is, and will continue to be, dividends paid to the Company by its subsidiaries. The Company and the Bank are subject to various regulatory policies and requirements relating to the payment of dividends, including requirements to maintain capital above regulatory minimums.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

(i)	Exhibit 4.2	Exercise of mandatory conversion right related to outstanding shares of 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 17, 2013.]
(ii)	Exhibit 31.1	Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
(iii)	Exhibit 31.2	Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
(iv)	Exhibit 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
(v)	Exhibit 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
(vi)	101.INS	XBRL Instance Document
(vii)	101.SCH	XBRL Taxonomy Extension Schema
(viii)	101.CAL	XBRL Taxonomy Extension Calculation Linkbase
(ix)	101.LAB	XBRL Taxonomy Extension Label Linkbase
(x)	101.PRE	XBRL Extension Presentation Linkbase
(xi)	101.DEF	XBRL Extension Definition Linkbase

All other material referenced in this report which is required to be filed as an exhibit hereto has previously been submitted.

SIGNATURE

Pursuant to the requirements 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: August 7, 2013

EAST WEST BANCORP, INC.

By: /s/ IRENE H. OH
Irene H. Oh
Executive Vice President and Chief Financial Officer; Duly Authorized Officer