EAST WEST BANCORP INC
Form 10-Q
November 09, 2015

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

FORM 10-Q

Mark One

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

For the quarterly period ended September 30, 2015
or

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

For the transition period from to

Commission file number 000-24939

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

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

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

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

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

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

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

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

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

Number of shares outstanding of the issuer's common stock on the latest practicable date: 143,900,919 shares as of October 31, 2015.

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Forward-Looking Statements

Certain matters discussed in this Quarterly Report on Form 10-Q (this "Form 10-Q") contain or incorporate statements that East West Bancorp, Inc. (the "Company") believes are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Rule 175 promulgated thereunder, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Rule 3b-6 promulgated thereunder. These statements relate to the Company's financial condition, results of operations, plans, objectives, future performance or business. They usually can be identified by the use of forward-looking language, such as "likely result in," "expects," "anticipates," "estimates," "forecasts," "projects," "intends to," or may include other similar words or phrases, such as "believe "plans," "trend," "objective," "continues," "remains," or similar expressions, or future or conditional verbs, such as "will," "wo "should," "could," "may," "might," "can," or similar verbs. You should not place undue reliance on these statements, as they ar subject to risks and uncertainties, including, but not limited to, those described in the documents incorporated by reference. When considering these forward-looking statements, you should keep in mind these risks and uncertainties, as well as any cautionary statements the Company may make. Moreover, you should treat these statements as speaking only as of the date they are made and based only on information then actually known to the Company.

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

- our ability to compete effectively against other financial institutions in our banking markets;
- changes in the commercial and consumer real estate markets;
- changes in our costs of operation, compliance and expansion;
- changes in the U.S. economy, including inflation, employment levels, rate of growth and general business conditions;
- changes in government interest rate policies;
- changes in laws or the regulatory environment including regulatory reform initiatives and policies of the U.S. Department of Treasury, the Board of Governors of the Federal Reserve Board System, the Federal Deposit Insurance Corporation ("FDIC"), the U.S. Securities and Exchange Commission ("SEC") and the Consumer Financial Protection Bureau;
- changes in the economy of and monetary policy in the People's Republic of China;
- changes in accounting standards as may be required by the Financial Accounting Standards Board or other regulatory agencies and its impact on critical accounting policies and assumptions;
- changes in the equity and debt securities markets;
- future credit quality and performance, including our expectations regarding future credit losses and allowance levels;
- changes in legislative or regulatory initiatives affecting our business;
- fluctuations of our stock price;
- fluctuations in foreign currency exchange rates that could have a material adverse effect on our results of operations and financial condition;
- success and timing of our business strategies;
- impact of reputational risk from negative publicity, fines and penalties and other negative consequences from regulatory violations and legal actions;
- impact of potential federal tax increases and spending cuts;
- impact of adverse judgments or settlements in litigation;
- impact of regulatory enforcement actions;
- changes in our ability to receive dividends from our subsidiaries;
- impact of political developments, wars or other hostilities that may disrupt or increase volatility in securities or otherwise affect economic conditions;
- continuing consolidation in the financial services industry;
- our capital requirements and our ability to generate capital internally or raise capital on favorable terms; and

- impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act on our business, business practices and cost of operations.

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

PART I — FINANCIAL INFORMATION

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

	September 30, 2015	December 31, 2014
ASSETS		
Cash and cash equivalents	$1,875,703	$1,039,885
Short-term investments	258,028	338,714
Securities purchased under resale agreements (“resale agreements”)	1,400,000	1,225,000
Available-for-sale investment securities, at fair value	2,952,277	2,626,617
Loans held for sale	349,375	45,950
Loans held-for-investment (net of allowance for loan losses of $264,430 in 2015 and $261,679 in 2014)	22,381,302	21,468,270
Investment in Federal Home Loan Bank stock, at cost	18,156	31,239
Investment in Federal Reserve Bank stock, at cost	54,786	54,451
Investments in qualified affordable housing partnerships, net (1)	170,213	178,962
Premises and equipment (net of accumulated depreciation of $96,254 in 2015 and $85,409 in 2014)	169,771	180,900
Goodwill	469,433	469,433
Other assets (1)	1,020,632	1,084,171
TOTAL (1)	$31,119,676	$28,743,592
LIABILITIES		
Customer deposits:		
Noninterest-bearing	$8,374,192	$7,381,030
Interest-bearing	18,384,858	16,627,744
Total deposits	26,759,050	24,008,774
Short-term borrowings	3,146	—
Federal Home Loan Bank advances	318,872	317,241
Securities sold under repurchase agreements (“repurchase agreements”)	150,000	795,000
Long-term debt	211,024	225,848
Accrued expenses and other liabilities	606,469	540,618
Total liabilities	28,048,561	25,887,481
COMMITMENTS AND CONTINGENCIES (Note 12)		
STOCKHOLDERS’ EQUITY		
Common stock, $0.001 par value, 200,000,000 shares authorized; 164,204,681 and 163,772,218 shares issued in 2015 and 2014, respectively; 143,869,954 and 143,582,229 shares outstanding in 2015 and 2014, respectively.	164	164
Additional paid in capital	1,695,265	1,677,767
Retained earnings (1)	1,809,913	1,604,141
Treasury stock at cost—20,334,727 shares in 2015 and 20,189,989 shares in 2014.	(436,057)	(430,198)
Accumulated other comprehensive income, net of tax	1,830	4,237
Total stockholders’ equity (1)	3,071,115	2,856,111
TOTAL (1)	$31,119,676	$28,743,592

(1) Prior periods were restated to reflect the retrospective application of adopting the new accounting guidance related to the Company's investments in qualified affordable housing projects Accounting Standards Update ("ASU") 2014-01. See Note 10 — Investments in Qualified Affordable Housing Partnerships, Tax Credit and Other Investments, Net to the Consolidated Financial Statements for additional information.

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
INTEREST AND DIVIDEND INCOME				
Loans receivable, including fees	$244,372	$262,258	$719,987	$793,313
Available-for-sale investment securities	10,279	11,364	29,947	36,130
Resale agreements	4,411	5,344	13,940	14,756
Investment in Federal Home Loan Bank and Federal Reserve Bank stock	1,380	1,477	4,922	4,903
Due from banks and short-term investments	4,190	5,505	14,542	17,461
Total interest and dividend income	264,632	285,948	783,338	866,563
INTEREST EXPENSE				
Customer deposits	18,519	17,158	53,677	48,609
Short-term borrowings	35	—	53	—
Federal Home Loan Bank advances	1,074	1,027	3,156	3,087
Repurchase agreements	3,555	9,578	19,494	29,845
Long-term debt	1,160	1,211	3,460	3,632
Total interest expense	24,343	28,974	79,840	85,173
Net interest income before provision for credit losses	240,289	256,974	703,498	781,390
Provision for credit losses	7,736	15,225	16,217	30,158
Net interest income after provision for credit losses	232,553	241,749	687,281	751,232
NONINTEREST INCOME (LOSS)				
Branch fees	9,982	9,515	29,157	28,480
Letters of credit fees and foreign exchange income	7,468	10,298	24,999	26,094
Ancillary loan fees	4,839	2,874	10,307	7,867
Wealth management fees	4,374	3,845	14,310	12,105
Derivative commission income	4,274	4,319	12,037	9,542
Changes in FDIC indemnification asset and receivable/payable	(3,883)	(39,647)	(18,973)	(150,839)
Net gains on sales of loans	4,888	7,726	19,719	20,715
Net gains on sales of available-for-sale investment securities	17,036	2,514	26,994	6,603
Dividend and other investment income	495	4,132	1,902	5,381
Other fees and other operating income	4,708	4,766	18,448	14,533
Total noninterest income (loss)	54,181	10,342	138,900	(19,519)
NONINTEREST EXPENSE				
Compensation and employee benefits	66,185	58,111	193,298	172,469
Occupancy and equipment expense	15,362	15,842	45,990	48,227
Amortization of tax credit and other investments [(1)]	12,269	26,749	21,565	33,731
Amortization of premiums on deposits acquired	2,310	2,597	7,038	7,721
Deposit insurance premiums and regulatory assessments	4,726	5,247	13,723	16,761
Other real estate owned (income) expense	(1,374)	(1,422)	(7,481)	695
Legal expense	2,099	32,500	13,103	45,403
Data processing	2,602	2,211	7,596	13,351
Consulting expense	4,983	2,982	9,596	6,359
Repurchase agreements' extinguishment costs	15,193	—	21,818	—
Other operating expense	23,390	21,975	69,699	62,568

Total noninterest expense [1]	147,745	166,792	395,945	407,285
INCOME BEFORE INCOME TAXES [1]	138,989	85,299	430,236	324,428
INCOME TAX EXPENSE (BENEFIT) [1]	44,892	(6,601)	137,364	74,052
NET INCOME [1]	$94,097	$91,900	$292,872	$250,376
EARNINGS PER SHARE				
BASIC [1]	$0.65	$0.64	$2.04	$1.75
DILUTED [1]	$0.65	$0.64	$2.03	$1.74
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING				
BASIC	143,861	143,210	143,788	142,791
DILUTED	144,590	143,810	144,468	143,377
DIVIDENDS DECLARED PER COMMON SHARE	$0.20	$0.18	$0.60	$0.54

(1) Prior periods were restated to reflect the retrospective application of adopting the new accounting guidance related to the Company’s investments in qualified affordable housing projects ASU 2014-01. See Note 10 — Investments in Qualified Affordable Housing Partnerships, Tax Credit and Other Investments, Net to the Consolidated Financial Statements for additional information.

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income [(1)]	$94,097	$91,900	$292,872	$250,376
Other comprehensive (loss) income, net of tax:				
Net change in unrealized gains on available-for-sale investment securities	3,246	107	4,439	28,031
Foreign currency translation adjustments	(6,846)	—	(6,846)	—
Other comprehensive (loss) income	(3,600)	107	(2,407)	28,031
COMPREHENSIVE INCOME [(1)]	$90,497	$92,007	$290,465	$278,407

(1) Prior periods were restated to reflect the retrospective application of adopting the new accounting guidance related to the Company’s investments in qualified affordable housing projects ASU 2014-01. See Note 10 — Investments in Qualified Affordable Housing Partnerships, Tax Credit and Other Investments, Net to the Consolidated Financial Statements for additional information.

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

	Common Stock	Additional Paid In Capital Common Stock	Retained Earnings [1]	Treasury Stock	Accumulated Other Comprehensive (Loss) Income, Net of Tax	Total Stockholders' Equity [1]
BALANCE, JANUARY 1, 2014 [1]	$163	$1,571,670	$1,362,278	$(537,279)	$(30,459)	$2,366,373
Net income [1]	—	—	250,376	—	—	250,376
Other comprehensive income	—	—	—	—	28,031	28,031
Stock compensation costs	—	10,382	—	—	—	10,382
Tax benefit from stock compensation plans, net	—	3,916	—	—	—	3,916
Issuance of 398,012 shares of common stock pursuant to various stock compensation plans and agreements	—	1,249	—	—	—	1,249
Issuance of 18,909 shares of common stock pursuant to Director retainer fee	—	630	—	—	—	630
Cancellation of 17,337 shares of common stock due to forfeitures of issued restricted stock	—	323	—	(323)	—	—
208,440 shares of restricted stock surrendered due to employee tax liability	—	—	—	(7,532)	—	(7,532)
Common stock dividends	—	—	(77,978)	—	—	(77,978)
Issuance of 5,583,093 shares pursuant to MetroCorp Bancshares, Inc. acquisition	—	73,044	—	117,786	—	190,830
Warrant acquired pursuant to MetroCorp Bancshares, Inc. acquisition	—	4,855	—	—	—	4,855
BALANCE, SEPTEMBER 30, 2014 [1]	$163	$1,666,069	$1,534,676	$(427,348)	$(2,428)	$2,771,132
BALANCE, JANUARY 1, 2015 [1]	$164	$1,677,767	$1,604,141	$(430,198)	$4,237	$2,856,111
Net income	—	—	292,872	—	—	292,872
Other comprehensive loss	—	—	—	—	(2,407)	(2,407)
Stock compensation costs	—	11,702	—	—	—	11,702
Tax benefit from stock compensation plans, net	—	3,227	—	—	—	3,227
Issuance of 414,623 shares of common stock pursuant to various stock compensation plans and agreements	—	1,769	—	—	—	1,769
	—	800	—	—	—	800

Issuance of 17,840 shares of common stock pursuant to Director retainer fee						
144,738 shares of restricted stock surrendered due to employee tax liability	—	—	—	(5,859)	—	(5,859)
Common stock dividends	—	—	(87,100)	—	—	(87,100)
BALANCE, SEPTEMBER 30, 2015	$164	$1,695,265	$1,809,913	$(436,057)	$ 1,830	$3,071,115

(1) Prior periods were restated to reflect the retrospective application of adopting the new accounting guidance related to the Company’s investments in qualified affordable housing projects ASU 2014-01. See Note 10 — Investments in Qualified Affordable Housing Partnerships, Tax Credit and Other Investments, Net to the Consolidated Financial Statements for additional information.

See accompanying Notes to Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income [1]	$292,872	$250,376
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization [1]	52,810	79,110
(Accretion) of discount and amortization of premiums, net	(47,890)	(155,365)
Changes in FDIC indemnification asset and receivable/payable	18,973	150,839
Stock compensation costs	11,702	10,382
Deferred tax benefit (expense)	118,079	(13,399)
Tax benefit from stock compensation plans, net	(3,227)	(3,916)
Provision for credit losses	16,217	30,158
Net gains on sales of loans	(19,719)	(20,715)
Net gains on sales of available-for-sale investment securities	(26,994)	(6,603)
Net gains on sales of other real estate owned and premises and equipment	(13,350)	(7,863)
Originations and purchases of loans held for sale	(623)	(92,475)
Proceeds from sales and paydowns/payoffs in loans held for sale	2,232	186,498
Repurchase agreements’ extinguishment costs	21,818	—
Net (payments to) proceeds from FDIC shared-loss agreements	(12,038)	787
Net change in accrued interest receivable and other assets [1]	(28,957)	(170,671)
Net change in accrued expenses and other liabilities	39,157	4,811
Other net operating activities	525	1,293
Total adjustments [1]	128,715	(7,129)
Net cash provided by operating activities	421,587	243,247
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions, net of cash paid	—	138,465
Net (increase) decrease in:		
Loans receivable	(2,422,217)	(2,520,300)
Short-term investments	75,940	(78,946)
Investments in qualified affordable housing partnerships, tax credit and other investments	(48,204)	(62,009)
Purchases of:		
Resale agreements	(1,645,000)	(925,000)
Available-for-sale investment securities	(2,190,503)	(504,820)
Loans receivable	(17,431)	(16,446)
Proceeds from sale of:		
Available-for-sale investment securities	1,328,487	395,630
Loans receivable	1,264,606	577,391
Other real estate owned	33,921	53,960
Paydowns and maturities of resale agreements	1,370,000	550,000
Repayments, maturities and redemptions of available-for-sale investment securities	558,669	353,031
Redemption of Federal Home Loan Bank stock	13,083	30,349
Surrender of life insurance policies	156	49,111
Other net investing activities	1,497	(13,778)

Net cash used in investing activities	(1,676,996)	(1,973,362)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in:		
Deposits	2,765,985	2,080,497
Short-term borrowings	3,271	—
Proceeds from:		
Issuance of common stock pursuant to various stock plans and agreements	1,769	1,249
Payment for:		
Repayment of Federal Home Loan Bank advances	—	(10,000)
Repayment of long-term debt	(15,000)	(25,310)
Extinguishment of repurchase agreements	(566,818)	(15,000)
Repurchase of vested shares due to employee tax liability	(5,859)	(7,532)
Cash dividends	(86,850)	(77,772)
Tax benefit from stock compensation plans, net	3,227	3,916
Net cash provided by financing activities	2,099,725	1,950,048
Effect of exchange rate changes on cash and cash equivalents	(8,498)	—
NET INCREASE IN CASH AND CASH EQUIVALENTS	835,818	219,933
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	1,039,885	895,820
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	$1,875,703	$1,115,753

(1) Prior periods were restated to reflect the retrospective application of adopting the new accounting guidance related to the Company’s investments in qualified affordable housing projects ASU 2014-01. See Note 10 — Investments in Qualified Affordable Housing Partnerships, Tax Credit and Other Investments, Net to the Consolidated Financial Statements for additional information.

See accompanying Notes to Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2015	2014
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$81,739	$85,534
Income tax payments, net of refunds	$(20,367)	$279,954
Noncash investing and financing activities:		
Loans transferred to loans held for sale, net	$1,549,934	$675,511
Transfers to other real estate owned	$8,059	$42,175
Loans to facilitate sales of other real estate owned	$1,750	$2,000
Issuance of stock related to acquisition	$—	$190,830

See accompanying Notes to Consolidated Financial Statements.

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

NOTE 1 — BASIS OF PRESENTATION

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

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

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

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

NOTE 2 — CURRENT ACCOUNTING DEVELOPMENTS

New Accounting Pronouncements Adopted

In January 2014, the FASB issued ASU 2014-01, Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects. ASU 2014-01 permits reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, the Company amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the amortization expense in the income statement as a component of income tax expense. The Company adopted this guidance in the first quarter of 2015 with retrospective application to all periods presented. See Note 10 — Investments in Qualified Affordable Housing Partnerships, Tax Credit and Other Investments, Net to the

Consolidated Financial Statements for details regarding this adoption.

In January 2014, the FASB issued ASU 2014-04, Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. ASU 2014-04 clarifies when an in substance repossession or foreclosure occurs that would require a transfer of mortgage loans collateralized by residential real estate properties to other real estate owned ("OREO"). The guidance also requires disclosure of the amount of foreclosed residential real estate property held by the creditor and the recorded investment in residential real estate mortgage loans that are in process of foreclosure. The Company adopted this guidance in the first quarter of 2015 with prospective application. The adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements as this guidance was consistent with the Company's prior practice. See Note 9 — Loans Receivable and Allowance for Credit Losses to the Consolidated Financial Statements for details regarding this adoption.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The new guidance replaces existing revenue recognition guidance for contracts to provide goods or services to customers and amends existing guidance related to recognition of gains and losses on the sale of certain nonfinancial assets such as real estate. ASU 2014-09 establishes a principles-based approach to recognizing revenue that applies to all contracts other than those covered by other authoritative GAAP guidance. Quantitative and qualitative disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows are also required. ASU 2014-09 is effective for interim and annual periods beginning after December 15, 2017 and is applied on either a modified retrospective or full retrospective basis. Early adoption is not permitted. The Company is currently evaluating the impact on its Consolidated Financial Statements.

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

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

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

NOTE 3 — BUSINESS COMBINATION

On January 17, 2014, the Company completed the acquisition of MetroCorp, parent of MetroBank, N.A. and Metro United Bank. The purchase consideration was satisfied with two thirds East West stock and one third cash. The fair value of the consideration transferred in the acquisition of MetroCorp was $291.4 million, which consisted of 5,583,093 shares of East West common stock fair valued at $190.8 million at the date of acquisition and $89.4 million in cash, $2.4 million of additional cash to MetroCorp stock option holders and a MetroCorp warrant, fair valued at $8.8 million, assumed by the Company. The assets acquired and liabilities assumed have been accounted for under the acquisition method of accounting. At the acquisition date, the Company recorded total fair value of assets and liabilities acquired of $1.70 billion and $1.41 billion, respectively. Goodwill from the acquisition represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired and is not deductible for tax purposes. The Company recorded $121.0 million of goodwill at the MetroCorp acquisition date. During the three months ended December 31, 2014, the Company recorded additional tax and bank owned life insurance adjustments of $10.3 million and $0.7 million, respectively, related to the MetroCorp acquisition, increasing goodwill to $132.0 million.

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

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

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

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

In determining the appropriate hierarchy levels, the Company performs an analysis of the assets and liabilities that are subject to fair value disclosure. These assets and liabilities are reported on the Consolidated Balance Sheets at their fair values as of September 30, 2015 and December 31, 2014. The Company's assets and liabilities are classified in their entirety based on the lowest level of input that is significant to their fair value measurements.

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

($ in thousands)	Assets (Liabilities) Measured at Fair Value on a Recurring Basis as of September 30, 2015			
	Fair Value Measurements September 30, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale investment securities:				
U.S. Treasury securities	$752,605	$752,605	$—	$—
U.S. government agency and U.S. government sponsored enterprise debt securities	701,844	—	701,844	—
U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	273,350	—	273,350	—
Residential mortgage-backed securities	754,898	—	754,898	—
Municipal securities	206,825	—	206,825	—
Other residential mortgage-backed securities:				
Investment grade	66,537	—	66,537	—
Other commercial mortgage-backed securities:				
Investment grade	—	—	—	—
Corporate debt securities:				
Investment grade	141,126	—	141,126	—
Non-investment grade	10,524	—	10,524	—
Other securities	44,568	36,224	8,344	—
Total available-for-sale investment securities	$2,952,277	$788,829	$2,163,448	$—
Derivative assets:				
Interest rate swaps and caps	$86,954	$—	$86,954	$—
Foreign exchange contracts	$9,745	$—	$9,745	$—
Derivative liabilities:				
Interest rate swaps on certificates of deposit	$(3,339)	$—	$(3,339)	$—
Interest rate swaps and caps	$(87,330)	$—	$(87,330)	$—
Foreign exchange contracts	$(12,373)	$—	$(12,373)	$—

($ in thousands)	Assets (Liabilities) Measured at Fair Value on a Recurring Basis as of December 31, 2014			
	Fair Value Measurements December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale investment securities:				
U.S. Treasury securities	$873,435	$873,435	$—	$—
U.S. government agency and U.S. government sponsored enterprise debt securities	311,024	—	311,024	—
U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	141,420	—	141,420	—
Residential mortgage-backed securities	791,088	—	791,088	—
Municipal securities	250,448	—	250,448	—
Other residential mortgage-backed securities:				
Investment grade	53,918	—	53,918	—
Other commercial mortgage-backed securities:				
Investment grade	34,053	—	34,053	—
Corporate debt securities:				
Investment grade	115,182	—	115,182	—
Non-investment grade	14,681	—	8,153	6,528
Other securities	41,368	32,357	9,011	—
Total available-for-sale investment securities	$2,626,617	$905,792	$1,714,297	$6,528
Derivative assets:				
Foreign exchange options	$6,136	$—	$6,136	$—
Interest rate swaps and caps	$41,534	$—	$41,534	$—
Foreign exchange contracts	$8,118	$—	$8,118	$—
Derivative liabilities:				
Interest rate swaps on certificates of deposit	$(9,922)	$—	$(9,922)	$—
Interest rate swaps and caps	$(41,779)	$—	$(41,779)	$—
Foreign exchange contracts	$(9,163)	$—	$(9,163)	$—
Embedded derivative liabilities	$(3,392)	$—	$—	$(3,392)

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

	Three Months Ended September 30,			
	2015		2014	
($ in thousands)	Corporate Debt Securities: Non-Investment Grade	Embedded Derivative Liabilities	Corporate Debt Securities: Non-Investment Grade	Embedded Derivative Liabilities
Beginning balance	$—	$—	$7,917	$(3,362)
Total gains (losses) for the period:				
Included in earnings (1)	—	—	—	(64)
Included in other comprehensive income (2)	—	—	1,009	—
Purchases, issues, sales, settlements:				
Purchases	—	—	—	—
Issues	—	—	—	—
Sales	—	—	—	—
Settlements	—	—	(17)	—
Transfer from investment grade to non-investment grade	—	—	—	—
Transfers in and/or out of Level 3	—	—	—	—
Ending balance	$—	$—	$8,909	$(3,426)
Changes in unrealized losses included in earnings relating to assets and liabilities held for the period	$—	$—	$—	$64

	Nine Months Ended September 30,			
	2015		2014	
($ in thousands)	Corporate Debt Securities: Non-Investment Grade	Embedded Derivative Liabilities	Corporate Debt Securities: Non-Investment Grade	Embedded Derivative Liabilities
Beginning balance	$6,528	$(3,392)	$6,371	$(3,655)
Total gains (losses) for the period:				
Included in earnings (1)	960	(20)	—	229
Included in other comprehensive income (2)	922	—	2,652	—
Purchases, issues, sales, settlements:				
Purchases	—	—	—	—
Issues	—	—	—	—
Sales	(7,219)	—	—	—
Settlements	(98)	3,412	(114)	—
Transfer from investment grade to non-investment grade	—	—	—	—
Transfers in and/or out of Level 3	(1,093)	—	—	—
Ending balance	$—	$—	$8,909	$(3,426)
Changes in unrealized gains included in earnings relating to assets and liabilities held for the period	$—	$—	$—	$(229)

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

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

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

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

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

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

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

($ in thousands)	Assets Measured at Fair Value on a Nonrecurring Basis as of September 30, 2015			
	Fair Value Measurements	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Non-PCI impaired loans:				
Commercial Real Estate (“CRE”)	$16,516	$—	$—	$16,516
Commercial and Industrial (“C&I”)	46,772	—	—	46,772
Residential	17,343	—	—	17,343
Consumer	1,186	—	—	1,186
Total non-PCI impaired loans	$81,817	$—	$—	$81,817
OREO	$7,275	$—	$—	$7,275
Loans held for sale	$33,441	$—	$33,441	$—

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

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

($ in thousands)	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Non-PCI impaired loans:				
CRE	$101	$(281)	$(845)	$1,049
C&I	(707)	(3,916)	(9,806)	(9,919)
Residential	(314)	(538)	(565)	(475)
Consumer	(59)	(1)	(59)	(1)
Total non-PCI impaired loans	$(979)	$(4,736)	$(11,275)	$(9,346)
OREO	$(1,556)	$(2,135)	$(1,739)	$(2,379)
Loans held for sale	$—	$—	$(517)	$—

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The following table presents quantitative information about significant unobservable inputs used in the valuation of assets measured on a nonrecurring basis classified as Level 3 as of September 30, 2015 and December 31, 2014:

($ in thousands)	Fair Value Measurements (Level 3)	Valuation Technique(s)	Unobservable Input(s)	Range of Inputs	Weighted Average
September 30, 2015					
Non-PCI impaired loans	$25,044	Discounted cash flow	Discount rate	0% - 98%	22%
	$56,773	Market comparables	Discount rate (1)	0% - 100%	22%
OREO	$7,275	Appraisal	Selling cost	8%	8%
December 31, 2014					
Non-PCI impaired loans	$11,499	Discounted cash flow	Discount rate	0% - 81%	49%
	$56,312	Market comparables	Discount rate (1)	0% - 100%	4%
OREO	$17,521	Appraisal	Selling cost	8%	8%

(1) Discount rate is adjusted for factors such as liquidation cost of collateral and selling costs.

The following tables present the carrying and fair values per the fair value hierarchy of certain financial instruments, excluding those measured at fair value on a recurring basis, as of September 30, 2015 and December 31, 2014:

	September 30, 2015				
($ in thousands)	Carrying Amount	Level 1	Level 2	Level 3	Estimated Fair Value
Financial Assets:					
Cash and cash equivalents	$1,875,703	$1,875,703	$—	$—	$1,875,703
Short-term investments	$258,028	$—	$258,028	$—	$258,028
Securities purchased under resale agreements (“resale agreements”)	$1,400,000	$—	$1,398,488	$—	$1,398,488
Loans held for sale	$349,375	$—	$353,095	$—	$353,095
Loans receivable, net	$22,381,302	$—	$—	$21,947,953	$21,947,953
Investment in Federal Home Loan Bank (“FHLB”) stock	$18,156	$—	$18,156	$—	$18,156
Investment in Federal Reserve Bank stock	$54,786	$—	$54,786	$—	$54,786
Accrued interest receivable	$85,388	$—	$85,388	$—	$85,388
Financial Liabilities:					
Customer deposit accounts:					
Demand, savings and money market deposits	$20,105,272	$—	$20,105,272	$—	$20,105,272
Time deposits	$6,653,778	$—	$6,640,017	$—	$6,640,017
Short-term borrowings	$3,146	$—	$3,146	$—	$3,146
FHLB advances	$318,872	$—	$332,478	$—	$332,478
Securities sold under repurchase agreements (“repurchase agreements”)	$150,000	$—	$209,930	$—	$209,930
Accrued interest payable	$9,403	$—	$9,403	$—	$9,403
Long-term debt	$211,024	$—	$187,630	$—	$187,630

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($ in thousands)	December 31, 2014 Carrying Amount	Level 1	Level 2	Level 3	Estimated Fair Value
Financial Assets:					
Cash and cash equivalents	$1,039,885	$1,039,885	$—	$—	$1,039,885
Short-term investments	$338,714	$—	$338,714	$—	$338,714
Resale agreements	$1,225,000	$—	$1,191,060	$—	$1,191,060
Loans held for sale	$45,950	$—	$45,950	$—	$45,950
Loans receivable, net	$21,468,270	$—	$—	$20,997,379	$20,997,379
Investment in FHLB stock	$31,239	$—	$31,239	$—	$31,239
Investment in Federal Reserve Bank stock	$54,451	$—	$54,451	$—	$54,451
Accrued interest receivable	$88,303	$—	$88,303	$—	$88,303
Financial Liabilities:					
Customer deposit accounts:					
Demand, savings and money market deposits	$17,896,035	$—	$17,896,035	$—	$17,896,035
Time deposits	$6,112,739	$—	$6,095,217	$—	$6,095,217
FHLB advances	$317,241	$—	$336,302	$—	$336,302
Repurchase agreements	$795,000	$—	$870,434	$—	$870,434
Accrued interest payable	$11,303	$—	$11,303	$—	$11,303
Long-term debt	$225,848	$—	$205,777	$—	$205,777

The following is a description of the valuation methodologies and significant assumptions used in estimating fair value:

Cash and Cash Equivalents — The carrying amount approximates fair value due to the short-term nature of these instruments. As such, the estimated fair value is classified as Level 1.

Short-Term Investments — The fair value of short-term investments generally approximates their book value due to their short maturities. In addition, due to the observable nature of the inputs used in deriving the estimated fair value, these instruments are classified as Level 2.

Resale Agreements — The fair value of resale agreements is estimated by discounting the cash flows based on expected maturities or repricing dates utilizing estimated market discount rates. In addition, due to the observable nature of the inputs used in deriving the estimated fair values, these instruments are classified as Level 2.

Available-for-Sale Investment Securities — When available, the Company uses quoted market prices to determine the fair value of available-for-sale investment securities; such items are classified as Level 1. Level 1 available-for-sale investment securities mainly include U.S. Treasury securities. The fair values of other available-for-sale investment securities are generally determined by independent external pricing service providers who have experience in valuing these securities, or by the average of 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 available-for-sale investment securities valued using such methods are classified as Level 2.

Loans Held for Sale — The Company’s loans held for sale are carried at the LOCOM. These loans are comprised of single-family and student loans. The fair value of loans held for sale is derived from current market prices and comparative current sales. As such, the Company records any fair value adjustments on a nonrecurring basis. Loans held for sale are classified as Level 2.

Non-PCI Impaired Loans — The Company evaluates non-PCI impaired loans on a nonrecurring basis. The fair value of non-PCI impaired loans is measured using the market comparables technique. For CRE loans and C&I loans, the fair value is based on each loan's observable market price or the fair value of the collateral less cost to sell, if the loan is collateral dependent. The fair value of collateral is based on third party appraisals or evaluations which are reviewed by the Company's appraisal department. Updated appraisals and evaluations are generally obtained within the last 12 months. For certain impaired loans, the Company utilizes the discounted cash flow approach and applies a discount rate derived from historical data. For impaired loans with an unpaid balance below a certain threshold, the Company applies historical loss rates to derive the fair value. The significant unobservable inputs used in the fair value measurement of non-PCI impaired loans are discount rates applied based on the liquidation cost of collateral and selling costs. On a quarterly basis, all nonperforming assets are reviewed to assess whether the current carrying value is supported by the collateral or cash flow and to ensure that the current carrying value is appropriate. Non-PCI impaired loans are classified as Level 3.

Loans Receivable, Net — The fair value of loans is determined based on a discounted cash flow approach considered for an exit 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 value valuation of credit for such loans. Due to the unobservable nature of the inputs used in deriving the estimated fair values, these instruments are classified as Level 3.

OREO — The Company's OREO represents properties acquired through foreclosure or through full or partial satisfaction of loans receivable, which are recorded at estimated fair value less the cost to sell at the time of foreclosure and at the lower of cost or estimated fair value less the 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. Refer to the "Non-PCI Impaired Loans" section above for a detailed discussion on the Company's policies and procedures related to appraisals and evaluations. The Company uses the market comparables valuation technique to measure the fair value of OREO properties. The significant unobservable input used is the selling cost. OREO properties are classified as Level 3.

Investment in FHLB Stock and Federal Reserve Bank Stock — The carrying amounts of the Company's investments in FHLB Stock and Federal Reserve Bank Stock approximate fair value. The valuation of these investments is classified as Level 2. Ownership of these securities is restricted to member banks and the securities do not have a readily determinable fair value. Purchases and sales of these securities are at par value.

Accrued Interest Receivable — The carrying amount approximates fair value due to the short-term nature of these instruments. Due to the observable nature of the inputs used in deriving the estimated fair value, these instruments are classified as Level 2.

Foreign Exchange Options — The Company entered into foreign exchange option contracts with major investment firms in 2010. The settlement amount is determined based upon the performance of the Chinese currency Renminbi ("RMB") relative to the U.S. Dollar ("USD") over the 5-year term of the contracts. The performance amount is computed based on the average quarterly value of the RMB compared to the USD as compared to the initial value. The fair value of these 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, 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. Due to the observable nature of the inputs used in deriving the fair value of these derivative contracts, the valuation of the option contracts is classified as Level 2.

Interest Rate Swaps and Caps — The Company enters into interest rate swap and cap contracts with institutional counterparties to hedge against interest rate swap and cap products offered to bank customers. These products allow borrowers to lock in attractive intermediate and long-term interest rates by entering into an interest rate swap or cap contract with the Company, resulting in the customer obtaining a synthetic fixed rate loan. The Company also enters into interest rate 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 interest rate swap and cap contracts is based on a discounted cash flow approach. The counterparty's credit risk is considered in the valuation of interest rate swaps and caps. Due to the observable nature of the inputs used in deriving the fair value of these derivative contracts, the valuation of interest rate swaps and caps is classified as Level 2.

Foreign Exchange Contracts — The Company enters 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 also 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 assumes minimal foreign exchange rate risk as the contract with the customer and the institutional party mirror each other. The fair value is determined at each reporting period based on changes in the foreign exchange rate. The counterparties' credit risks are considered nominal and resulted in no adjustments to the valuation of the foreign exchange contracts. The valuation of these contracts is classified as Level 2 due to the observable nature of the inputs used in deriving the fair value.

Customer Deposits — The fair value of deposits with no stated maturity, such as demand deposits, interest checking, savings, and money market deposits, approximates the carrying amount as the amounts are payable on demand at the measurement date. Due to the observable nature of the inputs used in deriving the estimated fair value, these instruments are classified as Level 2. For time deposits, the fair value is based on the discounted value of contractual cash flows using current market rates for instruments with similar maturities. Due to the observable nature of the inputs used in deriving the estimated fair values, time deposits are classified as Level 2.

Short-Term Borrowings — The fair value of short-term borrowings generally approximates their book value due to their short maturities. Due to the observable nature of the inputs used in deriving the estimated fair value, these instruments are classified as Level 2.

FHLB Advances — The fair value of FHLB advances is estimated based on the discounted value of contractual cash flows, using rates currently offered by the FHLB of San Francisco for advances with similar remaining maturities at each reporting date. Due to the observable nature of the inputs used in deriving the estimated fair values, these instruments are classified as Level 2.

Repurchase Agreements — As of September 30, 2015 and December 31, 2014, all of the repurchase agreements were long-term in nature and the fair values of the repurchase agreements were 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 values, these instruments are classified as Level 2.

Accrued Interest Payable — The carrying amount approximates fair value due to the short-term nature of these instruments. Due to the observable nature of the inputs used in deriving the estimated fair value, these instruments are classified as Level 2.

Long-Term Debt — The fair value of long-term debt is estimated by discounting the cash flows through maturity based on current market rates the Company would pay for new issuances. Due to the observable nature of the inputs used in deriving the estimated fair value, long-term debt is classified as Level 2.

Embedded Derivative Liabilities — Under ASC 815, a certificate of deposit that pays interest based on changes in foreign 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). The Company issues certain certificates of deposit that have a term of five years and pay interest based on the performance of the RMB relative to the USD. The fair value of these embedded derivatives was based on the discounted cash flow approach. The liabilities are divided between 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 the Company's institutional credit rating. Total credit valuation adjustments were considered nominal to the valuation of embedded derivative liabilities.

Increases (decreases), if any, of those inputs in isolation would result in a lower (higher) fair value measurement. The valuation of the embedded derivative liabilities 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 fair value estimates presented herein are based on pertinent information available to management as of each reporting date. Although the Company is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and therefore, current estimates of fair value may differ significantly from the amounts presented herein.

NOTE 5 — STOCK-BASED COMPENSATION

Pursuant to the Company's 1998 Stock Incentive Plan, as amended, the Company issues stock options, restricted stock awards and restricted stock units ("RSUs") to employees. The Company did not issue any stock options during the three and nine months ended September 30, 2015 and 2014.

The restricted stock awards vest ratably over three years, cliff vest after three years, or vest at a rate of 50% each at the fourth and fifth year of continued employment from the date of the grant. The RSUs vest ratably over three years or cliff vest after three or five years of continued employment from the date of the grant. The restricted stock entitles the recipient to receive cash dividends equivalent to any dividends paid on the underlying common stock during the period the restricted stock is outstanding and, as such, are considered participating securities as discussed in Note 13 — Stockholders' Equity and Earnings Per Share to the Consolidated Financial Statements. All restricted stock awards have vested as of September 30, 2015. While a portion of the restricted stock awards and RSUs are time-vesting awards, others vest subject to the attainment of specified performance goals. All restricted stock awards and RSUs are subject to forfeiture until vested.

The Company recognized the following stock compensation expense and related net tax benefit associated with its various employee share-based compensation plans:

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	2015	2014	2015	2014
Compensation expense related to restricted stock awards	$4,050	$3,637	$11,702	$10,382
Net tax benefit recognized in equity for stock compensation plans	$31	$129	$3,227	$3,916

The following table presents a summary of the activity for the Company's time-based and performance-based restricted stock awards as of September 30, 2015, including changes during the nine months ended September 30, 2015:

	September 30, 2015 Restricted Stock and RSU Awards			
	Time-Based		Performance-Based	
	Shares	Weighted Average Price	Shares	Weighted Average Price
Outstanding at beginning of period	751,020	$30.61	518,553	$29.64
Granted	466,125	40.35	149,284	39.95
Vested	(218,363)	23.41	(144,445)	22.05
Forfeited	(57,278)	36.41	—	—
Outstanding at end of period	941,504	$36.75	523,392	$35.64

As of September 30, 2015, total unrecognized compensation cost related to time-based and performance-based restricted stock awards amounted to $25.6 million and $9.5 million, respectively. These costs are expected to be recognized over a weighted average period of 2.08 years and 1.88 years, respectively.

NOTE 6 — RESALE AND REPURCHASE AGREEMENTS

Resale Agreements

Resale agreements are recorded at the balances at which the securities were acquired. The market values of the underlying securities collateralizing the related receivable of the resale agreements, including accrued interest, are monitored. Additional collateral may be requested by the Company from the counterparty when deemed appropriate. Gross resale agreements were $1.70 billion and $1.43 billion as of September 30, 2015 and December 31, 2014, respectively. The weighted average interest rates were 1.45% and 1.55% as of September 30, 2015 and December 31, 2014, respectively.

Repurchase Agreements

Long-term repurchase agreements are accounted for as collateralized financing transactions and recorded at the balances at which the securities were sold. The collateral for these agreements are primarily comprised of U.S. government agency and U.S. government sponsored enterprise debt and mortgage-backed securities. The Company may have to provide additional collateral for the repurchase agreements, as necessary. Gross repurchase agreements were $450.0 million as of September 30, 2015 and $995.0 million as of December 31, 2014. The weighted average interest rates were 2.55% and 3.70% as of September 30, 2015 and December 31, 2014, respectively. The Company recorded $15.2 million and $21.8 million of extinguishment charges related to the extinguishment of $445.0 million and $545.0 million of repurchase agreements during the three and nine months ended September 30, 2015, respectively. In comparison, there were no extinguishment charges recorded during the three and nine months ended September 30, 2014.

Balance Sheet Offsetting

The Company's resale and repurchase agreements are transacted under legally enforceable master repurchase agreements that provide the Company, in the event of default by the counterparty, the right to liquidate securities held and to offset receivables and payables with the same counterparty. The Company nets resale and repurchase transactions with the same counterparty on the Consolidated Balance Sheets when it has a legally enforceable master netting agreement and the transactions are eligible for netting under ASC 210-20-45. Collateral accepted include securities that are not recognized on the Consolidated Balance Sheets. Collateral pledged consist of securities that are not netted on the Consolidated Balance Sheets against the related collateralized liability. Collateral accepted or pledged in resale and repurchase agreements with other financial institutions may also be sold or re-pledged by the secured party, but is usually delivered to and held by the third party trustees. The following tables present resale and repurchase agreements included on the Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014:

($ in thousands)	As of September 30, 2015					
				Gross Amounts Not Offset on the Consolidated Balance Sheet		
Assets	Gross Amounts of Recognized Assets	Gross Amounts Offset on the Consolidated Balance Sheet	Net Amounts of Assets Presented on the Consolidated Balance Sheet	Financial Instruments	Collateral Received	Net Amount
Resale agreements	$1,700,000	$(300,000)	$1,400,000	$—	$(1,396,476) [1]	$3,524
				Gross Amounts Not Offset on the Consolidated Balance Sheet		
Liabilities	Gross Amounts of Recognized Liabilities	Gross Amounts Offset on the Consolidated Balance Sheet	Net Amounts of Liabilities Presented on the Consolidated Balance Sheet	Financial Instruments	Collateral Posted	Net Amount
Repurchase agreements	$450,000	$(300,000)	$150,000	$—	$(150,000) [2]	$—

($ in thousands)	As of December 31, 2014			
	Gross Amounts	Gross Amounts	Net Amounts of Assets	Gross Amounts Not Offset on

Assets	of Recognized Assets	Offset on the Consolidated Balance Sheet	Presented on the Consolidated Balance Sheet	the Consolidated Balance Sheet Financial Instruments	Collateral Received	Net Amount
Resale agreements	$1,425,000	$(200,000)	$1,225,000	$(425,000) [3]	$(797,172) [1]	$2,828

Liabilities	Gross Amounts of Recognized Liabilities	Gross Amounts Offset on the Consolidated Balance Sheet	Net Amounts of Liabilities Presented on the Consolidated Balance Sheet	Gross Amounts Not Offset on the Consolidated Balance Sheet		
				Financial Instruments	Collateral Posted	Net Amount
Repurchase agreements	$995,000	$(200,000)	$795,000	$(425,000) [3]	$(370,000) [2]	$—

(1) Represents the fair value of securities the Company has received under resale agreements, limited for table presentation purposes to the amount of the recognized asset due from each counterparty.
(2) Represents the fair value of securities the Company has pledged under repurchase agreements, limited for table presentation purposes to the amount of the recognized liability owed to each counterparty.
(3) Includes financial instruments subject to enforceable master netting arrangements that are not permitted to be offset under ASC 210-20-45 but would be eligible for offsetting to the extent an event of default has occurred.

NOTE 7 — AVAILABLE-FOR-SALE INVESTMENT SECURITIES

The following table presents the amortized cost, gross unrealized gains, gross unrealized losses and fair value by major categories of available-for-sale investment securities:

($ in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2015				
Available-for-sale investment securities:				
U.S. Treasury securities	$750,032	$2,581	$(8)	$752,605
U.S. government agency and U.S. government sponsored enterprise debt securities	701,919	1,544	(1,619)	701,844
U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	271,171	2,584	(405)	273,350
Residential mortgage-backed securities	746,632	10,081	(1,815)	754,898
Municipal securities	203,832	4,604	(1,611)	206,825
Other residential mortgage-backed securities:				
Investment grade (1)	65,706	947	(116)	66,537
Corporate debt securities:				
Investment grade (1)	142,216	22	(1,112)	141,126
Non-investment grade (1)	11,525	—	(1,001)	10,524
Other securities	44,280	693	(405)	44,568
Total available-for-sale investment securities	$2,937,313	$23,056	$(8,092)	$2,952,277
December 31, 2014				
Available-for-sale investment securities:				
U.S. Treasury securities	$873,101	$1,971	$(1,637)	$873,435
U.S. government agency and U.S. government sponsored enterprise debt securities	311,927	490	(1,393)	311,024
U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	140,957	1,056	(593)	141,420
Residential mortgage-backed securities	785,412	9,754	(4,078)	791,088
Municipal securities	245,408	6,202	(1,162)	250,448
Other residential mortgage-backed securities:				
Investment grade (1)	52,694	1,359	(135)	53,918
Other commercial mortgage-backed securities:				
Investment grade (1)	34,000	53	—	34,053
Corporate debt securities:				
Investment grade (1)	116,236	—	(1,054)	115,182
Non-investment grade (1)	17,881	—	(3,200)	14,681
Other securities	41,691	393	(716)	41,368
Total available-for-sale investment securities	$2,619,307	$21,278	$(13,968)	$2,626,617

(1) Available-for-sale investment securities rated BBB- or higher by S&P or Baa3 or higher by Moody’s are considered investment grade. Conversely, available-for-sale investment securities rated lower than BBB- by S&P or lower than Baa3 by Moody’s are considered non-investment grade.

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Realized Gains and Losses

The following table presents the proceeds, gross realized gains, and gross realized losses related to the sales of available-for-sale investment securities for the three and nine months ended September 30, 2015 and 2014:

($ in thousands)	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014	
Proceeds from sales	$855,425	$43,788	$1,328,487	$395,630	
Gross realized gains	$17,036	$2,514	$26,994	$6,730	
Gross realized losses	$—	$—	$—	$127	(1)
Related tax expense	$7,155	$1,056	$11,337	$2,773	

(1) The gross $127 thousand of losses resulted from the available-for-sale investment securities acquired from MetroCorp which were sold immediately after the acquisition closed.

Declines in the fair value of securities below their cost that are deemed to be an other-than-temporary impairment (“OTTI”) are recognized in earnings to the extent the impairment is related to credit losses. The following table presents a rollforward of the amounts related to the OTTI credit losses recognized in earnings for the three and nine months ended September 30, 2015 and 2014:

($ in thousands)	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Beginning balance	$106,688	$115,511	$112,338	$115,511
Addition of OTTI previously not recognized	—	—	—	—
Additional increases to the amount related to the credit loss for which an OTTI was previously recognized	—	—	—	—
Reduction for securities sold	(74,765)	—	(80,415)	—
Ending balance	$31,923	$115,511	$31,923	$115,511

No OTTI credit losses were recognized for the three and nine months ended September 30, 2015 and 2014. For the three months ended September 30, 2015, the Company realized a gain of $10.9 million from the sale of non-investment grade corporate debt securities with previously recognized OTTI credit losses of $74.8 million. For the nine months ended September 30, 2015, the Company realized a gain of $11.9 million from the sale of non-investment grade corporate debt securities with previously recognized OTTI credit losses of $80.4 million. There were no sales of investment securities with previously recognized OTTI credit losses for the three and nine months ended September 30, 2014.

Unrealized Losses

The following tables present 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 September 30, 2015 and December 31, 2014:

($ in thousands)	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
September 30, 2015						
Available-for-sale investment securities:						
U.S. Treasury securities	$10,332	$(1)	$20,479	$(7)	$30,811	$(8)
U.S. government agency and U.S. government sponsored enterprise debt securities	180,594	(1,619)	—	—	180,594	(1,619)
U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities:						
Commercial mortgage-backed securities	13,279	(63)	21,500	(342)	34,779	(405)
Residential mortgage-backed securities	122,716	(520)	69,189	(1,295)	191,905	(1,815)
Municipal securities	47,613	(1,028)	14,536	(583)	62,149	(1,611)
Other residential mortgage-backed securities:						
Investment grade	7,289	(25)	6,576	(91)	13,865	(116)
Corporate debt securities:						
Investment grade	45,013	(87)	90,114	(1,025)	135,127	(1,112)
Non-investment grade	—	—	10,524	(1,001)	10,524	(1,001)
Other securities	7,202	(6)	8,601	(399)	15,803	(405)
Total available-for-sale investment securities	$434,038	$(3,349)	$241,519	$(4,743)	$675,557	$(8,092)

($ in thousands)	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2014						