O REILLY AUTOMOTIVE INC
Form 424B2
May 14, 2018

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CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	**Amount to be registered**	**Proposed maximum offering price**	**Proposed maximum aggregate offering price**	**Amount of registration fee(1)(2)**
4.350% Senior Notes due 2028	$500,000,000	99.732%	$498,660,000	$62,083.17
Total				$62,083.17

(1) Calculated in accordance with Rule 457(r) under the Securities Act of 1933, as amended (the "Securities Act").

(2) This "Calculation of Registration Fee" table shall be deemed to update the "Calculation of Registration Fee" in the Company's Registration Statement on Form S-3 (File No. 333-209788) in accordance with Rules 456(b) and 457(r) under the Securities Act.

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Filed Pursuant to Rule 424(b)(2)
Registration No.: 333-209788

PROSPECTUS SUPPLEMENT
(To Prospectus dated February 29, 2016)

$500,000,000

O'Reilly Automotive, Inc.

4.350% Senior Notes due 2028

This is an offering by O'Reilly Automotive, Inc. of an aggregate of $500 million of 4.350% Senior Notes due 2028, or the "notes."

We will pay interest on the notes on June 1 and December 1 of each year beginning on December 1, 2018. The notes will mature on June 1, 2028. Upon the occurrence of a Change of Control Triggering Event (as defined in this prospectus supplement), we will be required to make an offer to purchase the notes for cash at a price equal to 101% of their principal amount, together with accrued and unpaid interest to but not including the date of repurchase. We have the option to redeem all or a portion of the notes at any time and from time to time for cash at the applicable redemption price described under "Description of Notes Optional Redemption" in this prospectus supplement.

The notes will be our general unsecured senior obligations and will be equal in right of payment with all of our other existing and future unsecured and unsubordinated debt, including our credit facility and our 4.875% senior notes due 2021, our 4.625% senior notes due 2021, our 3.800% senior notes due 2022, our 3.850% senior notes due 2023, our 3.550% senior notes due 2026 and our 3.600% senior notes due 2027 (we refer to these six series of notes as our existing notes). The notes will be effectively junior to any of our future secured indebtedness to the extent of the value of the collateral securing such indebtedness. The notes will be structurally junior to any indebtedness of our subsidiaries, because the notes will not be guaranteed by any of our subsidiaries, except in limited circumstances if such subsidiary incurs or guarantees obligations under our credit facility or certain of our other credit facility debt or capital markets debt. Our existing notes and our credit facility are not currently guaranteed by any of our subsidiaries.

The notes are a new issue of securities with no established trading market. We do not intend to list the notes on any securities exchange or arrange for the quotation of the notes in any automated dealer quotation system.

Investing in these notes involves certain risks. See "Risk Factors" beginning on page S-9 of this prospectus supplement and Part I, Item 1A, "Risk Factors" beginning on page 15 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the SEC on February 28, 2018, which is incorporated by reference herein, as well as the other information included and incorporated by reference herein, to read about factors you should consider before deciding to invest in the notes.

Neither the Securities and Exchange Commission nor any state or other securities commission has approved or disapproved of these securities or determined if this prospectus supplement and the accompanying prospectus are truthful or complete. Any representation to the contrary is a criminal offense.

	Per Note	Total

Public Offering Price(1)	99.732%	$498,660,000
Underwriting Discount	0.650%	$3,250,000
Proceeds, before expenses, to O'Reilly	99.082%	$495,410,000

(1) Plus accrued interest, if any, from May 17, 2018, if settlement occurs after that date.

J.P. Morgan Securities LLC and U.S. Bancorp Investments, Inc., on behalf of the underwriters, expect to deliver the notes on or about May 17, 2018. Delivery of the notes will be made in book-entry form only through the facilities of The Depository Trust Company and its direct and indirect participants, including Euroclear Bank SA/NV, as operator of the Euroclear System, and Clearstream Banking SA, against payment therefor in immediately available funds.

Joint Book-Running Managers

J.P. Morgan
US Bancorp
BofA Merrill Lynch
Wells Fargo Securities

Senior Co-Manager

BB&T Capital Markets

Co-Managers

BNP PARIBAS
Capital One Securities
Citizens Capital Markets
Huntington Capital Markets
Mizuho Securities
MUFG
PNC Capital Markets LLC
Regions Securities LLC
SunTrust Robinson Humphrey
TD Securities

The date of this prospectus supplement is May 10, 2018.

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Prospectus Supplement

Base Prospectus

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You should rely only on the information contained in or incorporated by reference into this prospectus supplement, the accompanying prospectus or any related free writing prospectus. Neither we nor the underwriters have authorized anyone to provide you with different or additional information. If anyone provides you with different or additional information, you should not rely on it. The information in this prospectus supplement, the accompanying prospectus or any free writing prospectus and the documents incorporated by reference herein and therein is accurate only as of their respective dates. Our business, financial condition, results of operations, cash flows and prospects may have changed since those dates.

The distribution of this prospectus supplement and the accompanying prospectus and the offering of the notes in certain jurisdictions may be restricted by law. Persons into whose possession this prospectus supplement and the accompanying prospectus come should inform themselves about and observe any such restrictions. This prospectus supplement and the accompanying prospectus do not constitute, and may not be used in connection with, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement and the accompanying prospectus are each part of an automatic shelf registration statement on Form S-3 that we filed with the Securities and Exchange Commission, or the SEC, as a "well-known seasoned issuer" as defined in Rule 405 of the Securities Act of 1933, as amended, or the Securities Act. Under the shelf registration process, we may from time to time offer and sell to the public any or all of the debt securities described in the registration statement in one or more offerings. This document is in two parts. The first part, which is this prospectus supplement, describes the specific terms of the notes we are offering and other matters relating to us. The second part, which is the accompanying prospectus, gives more general information about debt securities we may offer from time to time, some of which may not apply to the notes offered by this prospectus supplement. Generally when we refer to the "prospectus supplement," we are referring to both parts combined. This prospectus supplement may add to, update or change the information in the accompanying prospectus. To the extent there is a conflict between the information contained in this prospectus supplement, on the one hand, and the information contained in the accompanying prospectus or any document incorporated by reference therein, on the other hand, you should rely on the information contained in this prospectus supplement.

You should not assume that the information contained in this prospectus supplement and the accompanying prospectus is accurate on any date subsequent to the date set forth on the front of the document or that any information we have incorporated by reference is correct on any date subsequent to the date of the document incorporated by reference, even though this prospectus supplement and the accompanying prospectus is delivered or the notes offered hereby are sold on a later date. Information that we file with the SEC subsequent to the date on the cover of this prospectus supplement, and prior to the completion of the offering of the notes, will automatically update and supersede the information contained in this prospectus supplement and the accompanying prospectus. See "Where You Can Find More Information" and "Incorporation of Certain Documents by Reference."

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and its rules and regulations. The Exchange Act requires us to file reports, proxy statements and other information with the SEC. Copies of these reports, proxy statements and other information can be read and copied at: SEC Public Reference Room, 100 F Street N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy statements and other information regarding issuers that file electronically with the SEC. These materials may be obtained electronically by accessing the SEC's website at *http://www.sec.gov*.

We make available, free of charge on our website, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements and amendments to these reports filed or furnished pursuant to Section 13(a), 14 or 15(d) of the Exchange Act, as soon as reasonably practicable after we electronically file these documents with, or furnish them to, the SEC. These documents are posted on our website at *www.oreillyauto.com*. The information contained on our website (other than the SEC filings expressly referred to below) is not incorporated by reference herein and does not form a part of this prospectus supplement or the accompanying prospectus.

Copies of any of the above-referenced documents will also be made available, free of charge, upon written request to: O'Reilly Automotive, Inc., 233 South Patterson Avenue, Springfield, Missouri 65802, Attention: Secretary.

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INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The SEC allows us to incorporate into this prospectus supplement information we file with the SEC in other documents. The information incorporated by reference is considered to be part of this prospectus supplement, and information we later file with the SEC will, subject to the next sentence, automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings made with the SEC under Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act until all of the notes that are part of this offering have been sold or this offering has been terminated. The documents we have incorporated by reference are:

Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the SEC on February 28, 2018;

Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2018, filed with the SEC on May 7, 2018;

Portions of the Definitive Proxy Statement on Schedule 14A, filed with the SEC on March 23, 2018 that are incorporated by reference into Part III of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the SEC on February 28, 2018; and

Current Reports on Form 8-K filed with the SEC on February 7, 2018 (Items 5.02 and 8.01 only), February 27, 2018, March 5, 2018 and May 8, 2018 (Items 5.02, 5.07 and 8.01 only).

Notwithstanding the above, information that is "furnished" to the SEC (including information furnished under Item 2.02 or 7.01 of Form 8-K and corresponding information furnished under Item 9.01 or included as an exhibit) shall not be incorporated by reference or deemed to be incorporated by reference into this prospectus supplement or the related registration statement.

We will provide, without charge, to each person, including any beneficial owner, to whom a copy of this prospectus supplement is delivered, upon written or oral request of such person, a copy of any or all of the documents incorporated by reference in this prospectus supplement, other than exhibits to such documents unless such exhibits are specifically incorporated by reference into such documents. Requests may be made by telephone at (417) 874-7161, or by sending a written request to O'Reilly Automotive, Inc., 233 South Patterson Avenue, Springfield, Missouri 65802, Attention: Secretary.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

We claim the protection of the safe harbor for forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. You can identify these statements by forward-looking words such as "estimate," "may," "could," "will," "believe," "expect," "would," "consider," "should," "anticipate," "project," "plan," "intend" or similar words. In addition, statements contained within this prospectus supplement that are not historical facts are forward-looking statements, such as statements discussing, among other things, expected growth, store development, integration and expansion strategy, business strategies, the impact of the U.S. Tax Cuts and Jobs Act, future revenues and future performance. These forward-looking statements are based on estimates, projections, beliefs and assumptions and are not guarantees of future events and results. Such statements are subject to risks, uncertainties and assumptions, including, but not limited to, the economy in general, inflation, product demand, the market for auto parts, competition, weather, risks associated with the performance of acquired businesses, our ability to hire and retain qualified employees, consumer debt levels, our increased debt levels, credit ratings on public debt, governmental regulations, terrorist activities, war and the threat of war. Actual results may materially differ from anticipated results described or implied in these forward-looking statements. For further information, see the section entitled "Risk Factors" in this prospectus supplement, the accompanying prospectus or any related free writing prospectus and any sections entitled "Business," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors" contained in documents incorporated by reference into this

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prospectus supplement, the accompanying prospectus or any related free writing prospectus. Forward-looking statements speak only as of the date they were made, and we undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

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SUMMARY

This summary highlights material information contained elsewhere in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein and therein but does not contain all of the information you need to consider in making your decision to invest in the notes. This summary is qualified in its entirety by the more detailed information and consolidated financial statements and notes thereto included in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein and therein. You should read carefully this entire prospectus supplement and the accompanying prospectus and should consider, among other things, the matters set forth in the section entitled "Risk Factors" below and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the SEC on February 28, 2018, which is incorporated by reference herein before deciding to invest in the notes. Except where otherwise noted, the words "company," "the Company," "we," "our," "ours" and "us" refer to O'Reilly Automotive, Inc. and all of its subsidiaries. With respect to the discussion of the terms of the notes on the cover page, in the section entitled "Summary The Offering" and in the sections entitled "Description of Notes" and "Description of Other Indebtedness," "we," "our," "us" and "O'Reilly" refer only to O'Reilly Automotive, Inc.

The Company

We are one of the largest specialty retailers of automotive aftermarket parts, tools, supplies, equipment and accessories in the United States, selling our products to both do-it-yourself ("DIY") customers and professional service provider customers, our "dual market strategy." The business was founded in 1957 by Charles F. O'Reilly and his son, Charles H. "Chub" O'Reilly, Sr., and initially operated from a single store in Springfield, Missouri.

At March 31, 2018, we operated 5,097 stores in 47 states. Our stores carry an extensive product line, including:

- new and remanufactured automotive hard parts, such as alternators, batteries, brake system components, belts, chassis parts, driveline parts, engine parts, fuel pumps, hoses, starters, temperature control and water pumps;
- maintenance items, such as antifreeze, appearance products, engine additives, filters, fluids, lighting, oil and wiper blades; and
- accessories, such as floor mats, seat covers and truck accessories.

Our stores offer many enhanced services and programs to our customers, such as:

- battery diagnostic testing;
- battery, wiper and bulb replacement;
- check engine light code extraction;
- custom hydraulic hoses;
- drum and rotor resurfacing;

electrical and module testing;

loaner tool program;

machine shops;

professional paint shop mixing and related materials; and

used oil, oil filter and battery recycling.

Our goal is to continue to achieve growth in sales and profitability by capitalizing on our competitive advantages and executing our growth strategy. We remain confident in our ability to continue to gain market share in our existing markets and grow our business in new markets by focusing on our dual market strategy and the core O'Reilly values, including superior customer service and expense control. Our intent is to be the dominant auto parts provider in all the markets we serve by providing a higher level of customer service and a better value proposition than our competitors to both DIY and professional service provider customers.

We believe our effective dual market strategy, superior customer service, technically proficient store personnel, strategic distribution network and experienced management team make up our key competitive advantages, which cannot be easily duplicated.

For more than 35 years, we have established a track record of effectively serving, at a high level, both DIY and professional service provider customers. We believe our proven ability to effectively execute a dual market strategy is a unique competitive advantage. The execution of this strategy enables us to better compete by targeting a larger base of automotive aftermarket parts consumers, capitalizing on our existing retail and distribution infrastructure, operating profitably in both large markets and less densely populated geographic areas that typically attract fewer competitors, and enhancing service levels offered to DIY customers through the offering of a broad inventory and the extensive product knowledge required by professional service provider customers.

In 2017, we derived approximately 58% of our sales from our DIY customers and approximately 42% of our sales from our professional service provider customers. Historically, we have increased our sales to professional service provider customers at a faster pace than the increase in our sales to DIY customers due to the more fragmented nature of the professional service provider business, which offers a greater opportunity for consolidation. We believe we will continue to have a competitive advantage on the professional service provider portion of our business, due to our systems, knowledge and experience serving the professional service provider side of the automotive aftermarket, supported by our approximately 780 full-time sales staff dedicated solely to calling upon and servicing the professional service provider customer. We will also continue to expand and enhance the level of offerings focused on growing our DIY business and will continue to execute our proven dual market strategy in both existing and new markets.

We seek to provide our customers with an efficient and pleasant in-store experience by maintaining attractive stores in convenient locations with a wide selection of automotive products. We believe the satisfaction of DIY and professional service provider customers is substantially dependent upon our ability to provide, in a timely fashion, the specific automotive products needed to complete their repairs. Accordingly, each O'Reilly store carries, or has same or next day availability to carry, a broad selection of automotive products designed to cover a wide range of vehicle applications. We continuously refine the inventory levels and assortments carried in each of our stores and within our network based in large part on the sales movement tracked by our inventory control system, market vehicle registration data, failure rates and management's assessment of the changes and trends in the marketplace. We have no material backorders for the products we sell.

We seek to attract new DIY and professional service provider customers and retain existing customers by offering superior customer service, the key elements of which are identified below:

- superior in-store service through highly-motivated, technically-proficient store personnel ("Professional Parts People");
- an extensive selection and availability of products;
- attractive stores in convenient locations;

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- competitive pricing, supported by a good, better, best product assortment designed to meet all of our customers' quality and value preferences; and

- a robust point-of-sale system integrated with our proprietary electronic catalog, which contains a wide variety of product images, schematics and technical specifications and equips our Team Members with highly effective tools to source products in our extensive supply network.

Our highly-motivated, technically-proficient Professional Parts People provide us with a significant competitive advantage, particularly over less specialized retail operators. We require our Professional Parts People to undergo extensive and ongoing training and to be knowledgeable, particularly with respect to hard part repairs, in order to better serve the technically-oriented professional service provider customers with whom they interact on a daily basis. Such technical proficiency also enhances the customer service we provide to our DIY customers who value the expert assistance provided by our Professional Parts People.

We believe our commitment to a robust, regional, tiered distribution network provides superior replenishment and access to hard-to-find parts and enables us to optimize product availability and inventory levels throughout our store network. Our strategic, regional, tiered distribution network includes distribution centers and Hub stores. Our inventory management and distribution systems electronically link each of our stores to one or more distribution centers, which provides for efficient inventory control and management. We currently operate 27 regional distribution centers, which provide our stores with same-day or overnight access to an average of 157,000 stock keeping units ("SKUs"), many of which are hard-to-find items not typically stocked by other auto parts retailers. To augment our robust distribution network, we operate 331 Hub stores that also provide delivery service and same-day access to an average of 48,000 SKUs to other stores within the surrounding area. We believe this timely access to a broad range of products is a key competitive advantage in satisfying customer demand and generating repeat business.

Our company philosophy is to "promote from within," and the vast majority of our senior management, district managers and store managers have been promoted from within the company. We augment this promote from within philosophy by pursuing strategic hires with a strong emphasis on automotive aftermarket experience. We have a strong management team comprised, as of December 31, 2017, of 190 senior managers who average 19 years of service; 244 corporate managers who average 16 years of service; and 496 district managers who average 12 years of service. Our management team has demonstrated the consistent ability to successfully execute our business plan and growth strategy by generating 25 consecutive years of record revenues and earnings and positive comparable store sales results since becoming a public company in April 1993.

We intend to continue to consolidate the fragmented automotive aftermarket. During 2017, we opened 190 net new stores. We plan to open approximately 200 net new stores in 2018 which will increase our penetration in existing markets and allow for expansion into new, contiguous markets. The sites for these new stores have been identified, and to date, we have not experienced significant difficulties in locating suitable sites for construction of new stores or identifying suitable acquisition targets for conversion to O'Reilly stores. We typically open new stores by (i) constructing a new facility or renovating an existing one on property we purchase or lease and stocking the new store with fixtures and inventory; (ii) acquiring an independently owned auto parts store, typically by the purchase of substantially all of the inventory and other assets (other than realty) of such store; or (iii) purchasing multi-store chains. New store sites are strategically located in clusters within geographic areas that complement our distribution network in order to achieve economies of scale in management, advertising and distribution. Other key factors we consider in the site selection process include population density and growth patterns, demographic lifestyle segmentation, age and per capita income, vehicle traffic counts, vehicles in operation, number and type of existing automotive repair facilities and competing auto parts stores within a predetermined radius.

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We target both small and large markets for expansion of our store network. While we have faced, and expect to continue to face, aggressive competition in the more densely populated markets, we believe we have competed effectively, and are well positioned to continue to compete effectively, in such markets and to achieve our goal of continued profitable sales growth within these markets. We also believe that with our dual market strategy, we are better able to operate stores in less densely populated areas, which would not otherwise support a national chain store selling primarily to the retail automotive aftermarket. Therefore, we continue to pursue opening new stores in less densely populated market areas as part of our growth strategy.

We are a Missouri corporation, and the address of our principal executive offices is 233 South Patterson Avenue, Springfield, Missouri 65802. Our telephone number is (417) 862-6708, and our website is *www.oreillyauto.com*. Any references in this prospectus supplement and the accompanying prospectus to our website are inactive textual references only, and the information contained on or that can be accessed through our website (except for the SEC filings expressly incorporated by reference herein) is not incorporated in, and is not a part of, this prospectus supplement or the accompanying prospectus, and you should not rely on any such information in connection with your investment decision to purchase the notes.

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The Offering

The summary below describes the principal terms of the notes. Certain of the terms and conditions described below are subject to important limitations and exceptions. Please see the "Description of Notes" section of this prospectus supplement and the "Description of Debt Securities" section of the accompanying prospectus for a more detailed description of the terms of the notes and the subsections mentioned specifically in this summary for a more complete understanding of the notes.

Issuer	O'Reilly Automotive, Inc.
Securities Offered	$500,000,000 aggregate principal amount of 4.350% Senior Notes due 2028.
Maturity	The notes will mature on June 1, 2028.
Interest Rate	The notes will bear interest at a rate of 4.350% per year.
Interest Payment Dates	Interest on the notes will be payable on June 1 and December 1 of each year, commencing on December 1, 2018. Interest will accrue from the issue date of the notes.
Future Subsidiary Guarantees	The notes initially will not be guaranteed by any of our subsidiaries. However, if in the future any of our subsidiaries incurs indebtedness or guarantees obligations under our credit facility or certain of our other credit facility debt or capital markets debt, such subsidiary will be required to guarantee the notes on a senior unsecured basis. Any such future subsidiary guarantee of the notes will be automatically released with respect to the notes, without the consent of the holders of the notes, if such subsidiary guarantor is released from its guarantee of such credit facility debt or capital markets debt, as applicable. A subsidiary's guarantee also may be released in certain other circumstances described under "Description of Notes Future Subsidiary Guarantees."
Priority	The notes will be:
	our unsubordinated and unsecured obligations;
	equal in right of payment with all of our existing and future unsecured and unsubordinated indebtedness, including our credit facility and our existing notes;
	effectively junior to any of our future secured indebtedness to the extent of the value of the assets securing such indebtedness;
	structurally junior to any indebtedness and preferred equity of our subsidiaries (subject to the requirements under " Future Subsidiary Guarantees" above); and
	senior in right of payment to all of our future subordinated indebtedness.

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	As of March 31, 2018, after giving effect to the offering (including the application of the net proceeds therefrom to repay borrowings under our credit facility), our total outstanding consolidated senior debt, including that of our subsidiaries but excluding unused commitments under our credit facility, would have been approximately $3.22 billion, approximately $500 million of which represents the notes and approximately $2.65 billion of which represents our existing notes. As of March 31, 2018, we had $560 million outstanding under our credit facility and approximately $640 million available for borrowing under our credit facility (without giving effect to letters of credit outstanding). As of March 31, 2018, we had no subordinated or secured debt outstanding. As of March 31, 2018, our subsidiaries had no debt and no preferred equity outstanding.
Use of Proceeds	We intend to use the net proceeds from this offering to repay outstanding borrowings under our credit facility and, to the extent any net proceeds remain, for general corporate purposes, which may include ordinary course working capital, repurchases of shares of our common stock, and investments in other business opportunities, including acquisitions, and to pay related fees and expenses. See "Use of Proceeds."
Conflicts of Interest	J.P. Morgan Securities LLC, U.S. Bancorp Investments, Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, and Wells Fargo Securities, LLC and/or their affiliates are lenders under the credit facility and will each receive at least 5% of the net offering proceeds, and will, therefore, have a "conflict of interest" as defined in FINRA Rule 5121. Any of the other underwriters and/or their affiliates that are lenders under the credit facility also will have a conflict of interest pursuant to the rule if they receive at least 5% of the net offering proceeds. Accordingly, this offering will be made in compliance with FINRA Rule 5121 and any underwriter that has a conflict of interest pursuant to the rule will not confirm sales to accounts in which it exercises discretionary authority without the prior written consent of the customer. However, because the notes are investment grade rated, no "qualified independent underwriter" is required to be appointed in connection with this offering. See "Underwriting (Conflicts of Interest) Conflicts of Interest."
Optional Redemption	We may redeem some or all of the notes for cash at any time or from time to time at the applicable redemption price and in the manner described under "Description of Notes Optional Redemption."

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Repurchase Upon a Change of Control Triggering Event	In the event of a Change of Control Triggering Event as described herein, we will be required to offer to repurchase the notes for cash at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest to but not including the repurchase date. See "Description of Notes Change of Control Triggering Event."
Certain Covenants	The indenture under which the notes will be issued contains covenants restricting our ability, subject to certain exceptions, to incur debt secured by liens, to enter into sale and leaseback transactions or to merge or consolidate with another entity or sell substantially all of our assets to another person. See "Description of Notes Certain Covenants."
Further Issues	We may, from time to time, without notice to or the consent of the holders of the notes, increase the principal amount of notes under the indenture and issue such increased principal amount (or any portion thereof), in which case any additional notes so issued will have the same form and terms (other than the date of issuance, public offering price and, under certain circumstances, the date from which interest thereon will begin to accrue and the initial interest payment date), and will carry the same right to receive accrued and unpaid interest, as the notes and such additional notes will form a single series with the notes, including for voting purposes, *provided*, that if any such additional notes are not fungible with the notes initially offered hereby for U.S. federal income tax purposes, such additional notes will have a separate CUSIP number. See "Description of Notes Further Issuances."
No Listing	We do not intend to list the notes on any securities exchange or arrange for the quotation of the notes on any automated dealer quotation system.
Trustee, Registrar and Paying Agent	UMB Bank, N.A.
Risk Factors	You should carefully consider all of the information in this prospectus supplement and the accompanying prospectus. See "Risk Factors" beginning on page S-9 of this prospectus supplement, and Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, which is incorporated herein by reference. See also "Cautionary Statement Concerning Forward-Looking Statements" in this prospectus supplement.

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RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our historical ratio of earnings to fixed charges:

	Three months ended March 31,	Year ended December 31,				
	2018	2017	2016	2015	2014	2013
Ratio of earnings to fixed charges(1)	7.0x	8.0x	8.8x	9.2x	8.1x	7.4x

(1) For purposes of computing our consolidated ratio of earnings to fixed charges, earnings consist of income before income taxes plus fixed charges less capitalized interest. Fixed charges consist of interest expense, amortization of debt issuance costs and an estimate of the interest portion of rent expense.

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RISK FACTORS

The following risk factors, as well as those relating to our business under Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, which are incorporated herein by reference, should be considered prior to deciding to invest in any of the notes offered for sale pursuant to this prospectus supplement. These risk factors may be amended, supplemented or superseded from time to time by risk factors contained in Exchange Act reports that we file with the SEC, which will be incorporated herein by reference, or by a post-effective amendment to the registration statement of which this prospectus supplement forms a part. There may be additional risks that are not presently material or known. If any of the events described below occur, our business, financial condition, results of operations, liquidity or access to the debt or capital markets could be materially adversely affected. The following risks could cause our actual results to differ materially from our historical experience and from any estimates or expectations set forth in forward-looking statements made in or incorporated by reference into this prospectus supplement or the documents incorporated herein by reference. As used herein, "notes" refers to the notes offered hereby and "existing notes" refers to our 4.875% senior notes due 2021, our 4.625% senior notes due 2021, our 3.800% senior notes due 2022, our 3.850% senior notes due 2023, our 3.550% senior notes due 2026 and our 3.600% senior notes due 2027.

Risks Related to the Notes

Our level of indebtedness could limit the cash flow available for our operations and could adversely affect our ability to service our debt or obtain additional financing, if necessary.

As of March 31, 2018, after giving effect to the offering (including the application of the net proceeds therefrom to repay borrowings under our credit facility), our total consolidated senior debt outstanding, including that of our subsidiaries and excluding unused commitments under our credit facility, would have been approximately $3.22 billion. In addition, as of March 31, 2018, after giving effect to the offering (including the application of the net proceeds therefrom to repay borrowings under our credit facility), we would have been able to borrow an additional $1.1 billion under our credit facility. Our level of indebtedness could have important consequences to our financial health. For example, our level of indebtedness could, among other things:

- make it more difficult for us to satisfy our financial obligations, including those relating to the notes, our existing notes and our credit facility;
- affect our liquidity by limiting our ability to obtain additional financing for working capital, or limit our ability to obtain financing for capital expenditures and acquisitions or make any available financing more costly;
- require us to dedicate all or a substantial portion of our cash flow to service our debt, which would reduce funds available for other business purposes, such as capital expenditures, dividends or acquisitions, including our ability to open additional stores;
- limit our flexibility in planning for or reacting to changes in the markets in which we compete;
- place us at a competitive disadvantage relative to our competitors who may have less indebtedness and more available cash flow;
- render us more vulnerable to general adverse economic and industry conditions; and
- result in an event of default if we fail to satisfy our obligations under the notes or our other debt or fail to comply with the financial and other restrictive covenants contained in the indenture governing the notes or our other debt, which event of default could result in the notes and all of our debt becoming immediately due and payable and could permit certain of our lenders to foreclose on our assets securing such debt.

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In addition, the indenture governing our existing notes and our credit facility contain financial and/or other restrictive covenants, and the indenture governing the notes will contain restrictive covenants, that will limit our ability to engage in activities that may be in our long-term best interests. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all of our debt, including the notes.

Despite current indebtedness levels, we and our subsidiaries may incur substantially more debt. This could further exacerbate the risks associated with our leverage.

The terms of the indenture governing our existing notes and our credit facility do not, and the terms of the indenture governing the notes will not, prohibit us or our subsidiaries from incurring additional indebtedness. If new debt is added to our and our subsidiaries' current debt levels, the related risks (described in " Our level of indebtedness could limit the cash flow available for our operations and could adversely affect our ability to service our debt or obtain additional financing, if necessary") that we and they now face could intensify.

We are a holding company dependent on our subsidiaries for the ability to service our debt.

We are a holding company with no operations of our own. Consequently, the ability to service our debt is dependent upon the earnings and cash flows from the business conducted by our subsidiaries. Our subsidiaries are separate and distinct legal entities and have no obligation to provide us with funds for our payment obligations, whether by dividends, distributions, loans or other payments. Any distribution of earnings to us from our subsidiaries, or advances or other distributions of funds by our subsidiaries to us, are contingent upon our subsidiaries' earnings and cash flows and are subject to various business considerations. Our right to receive any assets of any of our subsidiaries upon their liquidation or reorganization will be structurally subordinated to the claims of that subsidiary's creditors and any preferred equity holders. In addition, even if we were a creditor of any of our subsidiaries, our rights as a creditor would be subordinated to any secured debt of our subsidiaries to the extent of the assets securing that debt and to any indebtedness of our subsidiaries senior to that held by us.

The notes will be unsecured. Therefore, any future secured creditors would have a prior claim, ahead of the notes, on our assets to the extent such assets secure that secured debt.

The notes will be our senior unsecured indebtedness. As of March 31, 2018, neither we nor our subsidiaries had any secured indebtedness. Holders of our future secured indebtedness will have claims that are prior to your claims as holders of the notes to the extent of the value of the assets securing such indebtedness. In the event of any distribution or payment of our assets in any foreclosure, dissolution, winding-up, liquidation, reorganization or other bankruptcy proceeding, holders of our future secured indebtedness will have prior claim to our assets that constitute their collateral. Holders of the notes will participate ratably with all holders of our unsecured indebtedness (including our credit facility and our existing notes) that is deemed to be of the same class as the notes. In that event, because the notes will not be secured by any of our assets, it is possible that our remaining assets might be insufficient to satisfy your claims in full. In addition, if we fail to meet our payments or other obligations under any future secured debt, the holders of that secured debt would be entitled to foreclose on our assets securing that secured debt and liquidate those assets to the exclusion of the holders of the notes, even if an event of default existed under the indenture governing the notes at such time.

The notes will be structurally junior to the indebtedness and other liabilities of our subsidiaries.

The notes initially will not be guaranteed by any of our subsidiaries, and are not required to be guaranteed by any of our subsidiaries in the future, except in the limited circumstances described under "Description of Notes Future Subsidiary Guarantees." You will not have any claim as a creditor

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against any of our subsidiaries, and all existing and future indebtedness and other liabilities, including trade payables, whether secured or unsecured, of our subsidiaries will be structurally senior to the notes. Furthermore, in the event of any bankruptcy, liquidation or reorganization of any of our subsidiaries, the rights of the holders of the notes to participate in the assets of such subsidiary will be behind the claims of that subsidiary's creditors, including trade creditors (except to the extent we have a claim as a creditor of such subsidiary). As a result, the notes will be structurally junior to the outstanding debt and other liabilities, including trade payables, of our subsidiaries. In addition, the indentures governing the notes and our existing notes do not prohibit our subsidiaries from incurring additional indebtedness which could be structurally senior to the notes and will not contain any limitation on the amount of other liabilities, such as trade payables, that may be incurred or issued by our subsidiaries. Accordingly, there may be insufficient funds to satisfy claims of holders of the notes.

Our ability to service our debt and meet our cash requirements depends on many factors, some of which are beyond our control.

Our ability to satisfy our obligations under our debt will depend on our ability to generate sufficient cash flow to service our debt, which in turn depends on our future operating performance and financial results. Our future performance and results will be subject, in part, to factors beyond our control, including interest rates and general economic, financial and business conditions. In addition, if we consummate significant acquisitions in the future, our cash requirements may increase significantly. If we are unable to generate sufficient cash flow to service our debt, we may be required to:

- refinance all or a portion of our debt, including our existing notes, our credit facility and the notes;
- obtain additional financing;
- sell some of our assets or operations;
- reduce or delay capital expenditures and/or acquisitions; or
- revise or delay our strategic plans.

If we are required to take any of these actions, it could have a material adverse effect on our business, financial condition, liquidity and results of operations. In addition, we cannot assure you that we would be able to take any of these actions, that these actions would enable us to continue to satisfy our capital requirements or that these actions would be permitted under the terms of our various debt instruments, including our credit facility and the indentures governing the notes and our existing notes.

Our failure to remain in compliance with the covenants in our existing debt agreements may result in an event of default.

Our credit facility contains negative and affirmative covenants affecting us and our existing and future subsidiaries, including a number of covenants that, subject to customary exceptions, restrict our ability to, among other things:

- create, incur or assume liens;
- incur or assume certain subsidiary debt;
- make certain fundamental changes; and
- materially change the nature of our business and the business conducted by our subsidiaries.

In addition, our credit facility requires us to comply with financial covenants, including (i) a minimum consolidated fixed charge coverage ratio and (ii) a maximum consolidated leverage ratio, in each case, as set forth in the documentation relating to our credit facility.

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The indenture governing our existing notes contains negative covenants substantially similar to the covenants that will be contained in the indenture governing the notes. These negative covenants may affect us and our existing and future subsidiaries, including, subject to customary exceptions, restricting our ability to, among other things:

- incur debt secured by liens;
- enter into sale and leaseback transactions; and
- merge or consolidate with another entity or sell substantially all of our assets to another person.

A failure to comply with the financial or other covenants contained in our credit facility or the covenants contained in the indentures governing the notes or our existing notes will constitute a default under such indebtedness and, subject to cure periods and notice provisions applicable to certain covenants, an event of default. An event of default, if not waived by our lenders under or holders of such indebtedness, could result in the acceleration of such indebtedness and all of our other outstanding indebtedness, including our credit facility, our existing notes and the notes, and cause our debt to become immediately due and payable. If acceleration occurs, we may not be able to repay our debt and may not be able to borrow sufficient funds to refinance our debt. Even if new financing is offered to us, it may not be on terms acceptable to us.

Our credit ratings may not reflect all risks of your investment in the notes.

Our credit ratings are an assessment by rating agencies of our ability to pay our debt when due. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of the notes and our access to the capital markets. These credit ratings may not reflect the potential impact of risks relating to structure or marketing of the notes. Agency ratings are not a recommendation to buy, sell or hold any security, and may be revised or withdrawn at any time by the issuing organization. Each agency's rating should be evaluated independently of any other agency's rating.

We may not be able to repurchase the notes upon a Change of Control Triggering Event.

Upon a Change of Control Triggering Event, as defined under the indenture governing the notes, we are required to offer to repurchase all of the notes then outstanding for cash at a price equal to 101% of the aggregate principal amount of the notes repurchased, plus accrued and unpaid interest to but not including the repurchase date. The indentures governing our existing notes contain a substantially identical provision and definition of "Change of Control Triggering Event" that, upon such a Change of Control Triggering Event, would require us to offer to repurchase all of our existing notes then outstanding for cash at a price equal to 101% of the aggregate principal amount of notes repurchased, plus accrued and unpaid interest to but not including the repurchase date. In order to obtain sufficient funds to pay the repurchase price of the outstanding notes and our existing notes, we expect that we would need to refinance the notes and our existing notes. We may not under these circumstances be able to refinance the notes and our existing notes on reasonable terms, if at all. Our failure to offer to repurchase all outstanding notes or to repurchase all validly tendered notes and existing notes would be an event of default under the indentures governing the notes and our existing notes, respectively. Such an event of default may cause the acceleration of our other indebtedness. A change of control will constitute an event of default under our credit facility and would therefore permit the lenders under our credit facility to accelerate the maturity of the borrowings thereunder. Our future indebtedness may contain similar provisions as those in the notes, our existing notes and our credit facility or could restrict our ability to repurchase the notes and our existing notes in the event of a Change of Control Triggering Event or a change of control. In the event of a Change of Control Triggering Event or a change of control, as applicable, we may not have sufficient funds to purchase all of the notes and our existing notes and to repay the amounts outstanding under our credit

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facility or other indebtedness. Please see the section entitled "Description of Notes Change of Control Triggering Event."

An active trading market for the notes may not develop or be maintained.

The notes are a new issue of securities with no established trading market. We do not intend to list the notes on any securities exchange or arrange for the quotation of the notes on any automated dealer quotation system. We have been informed by the underwriters that they presently intend to make a market in the notes as permitted by applicable laws and regulations after the offering is completed. However, the underwriters have no obligation to make a market in the notes and they may cease their market-making at any time without notice. In addition, the liquidity of the trading market in the notes, and the market price quoted for the notes, may be adversely affected by changes in the overall market for this type of security and by changes in our financial performance or prospects or in the prospects for companies in our industry generally. As a result, we cannot assure you that an active trading market will develop for the notes or be maintained. If an active trading market does not develop or is not maintained, the market price and liquidity of the notes may be adversely affected. In that case, you may not be able to sell your notes at a particular time or you may not be able to sell your notes at a favorable price.

Federal and state statutes allow courts, under specific circumstances, to avoid or limit the notes and any future subsidiary guarantees, and to require holders of the notes to return payments previously made by us or any future subsidiary guarantors.

Our creditors and the creditors of any future subsidiary guarantors of the notes could challenge the issuance of the notes or our future subsidiary guarantors' issuance of their guarantees, respectively, as fraudulent conveyances or on other grounds such as equitable subordination. Under the federal bankruptcy law and similar provisions of state fraudulent transfer laws, the issuance of the notes and any future subsidiary guarantees could be avoided (that is, cancelled or limited) as fraudulent transfers or subordinated to other creditors if a court determined that the company, at the time it issued the notes, or any future subsidiary guarantor, at the time it issued the guarantee (or in some jurisdictions, when payment became due under the guarantee):

- issued the notes or the guarantees, as the case may be, with the intent to hinder, delay or defraud its existing or future creditors; or

- received less than reasonably equivalent value or did not receive fair consideration for the issuance of the notes or guarantees, as the case may be, and if the company or any future subsidiary guarantor:

  - was insolvent or rendered insolvent at the time it issued the notes or issued the guarantee, as applicable;

  - was engaged in a business or transaction for which the company's or guarantor's remaining assets constituted unreasonably small capital; or

  - intended to incur, or believed that it would incur, debts beyond its ability to pay such debts generally as they mature.

If the notes or any future subsidiary guarantees were avoided or limited under fraudulent transfer or other laws, any claim you may make against us or the applicable guarantor for amounts payable on the notes or related guarantee would be unenforceable to the extent of such avoidance or limitation or may be subordinated to the claims of other creditors. Moreover, the court could order you to return any payments previously made by us or such guarantor.

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The measures of insolvency for purposes of these fraudulent transfer laws will vary depending upon the law applied in any proceeding to determine whether a fraudulent transfer has occurred. Generally, however, a party would be considered insolvent if:

- the sum of its debts, including contingent liabilities, was greater than the fair saleable value of its assets;
- the present fair saleable value of its assets was less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they become absolute and mature; or
- it could not pay its debts as they become due.

We cannot be sure what standard a court would apply in making these determinations or, regardless of the standard, that a court would not avoid the notes or any future subsidiary guarantees.

The indenture governing the notes provides that the issuance of the notes, and the obligation of any future subsidiary guarantor under its guarantee, are limited as necessary to prevent them from constituting a fraudulent conveyance or fraudulent transfer under applicable law. We cannot assure you that this limitation will protect the issuance of the notes or any future subsidiary guarantees from fraudulent conveyance or fraudulent transfer challenges or, if it does, that the remaining amount due and collectible would suffice, if necessary, to pay the notes in full when due.

We can release future subsidiary guarantees, if any, from time to time without the consent of holders.

The notes initially will not be guaranteed by any of our subsidiaries. However, if in the future, any of our subsidiaries incurs indebtedness or guarantees obligations under our credit facility or certain of our other credit facility debt or capital markets debt, such subsidiary will be required to guarantee the notes on a senior unsecured basis. Any such future subsidiary guarantee of the notes will be automatically released with respect to the notes, without the consent of the holders of the notes, upon such subsidiary guarantor ceasing to guarantee or be an obligor with respect to our credit facility or such other credit facility debt or capital markets debt of ours or any future subsidiary guarantors, as applicable. A future subsidiary guarantee also may be released in certain other circumstances described under "Description of Notes Future Subsidiary Guarantees." Any such release would result in any debt or other obligations of the applicable subsidiary becoming structurally senior to the notes.

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USE OF PROCEEDS

We estimate that the net proceeds from this offering will be approximately $495 million, after deducting the underwriting discounts and estimated offering expenses payable by us. We intend to use the net proceeds from this offering to repay outstanding borrowings under our credit facility and, to the extent any net proceeds remain, for general corporate purposes, which may include ordinary course working capital, repurchases of shares of our common stock, and investments in other business opportunities, including acquisitions, and to pay related fees and expenses.

Certain of the underwriters and/or their affiliates currently serve as bookrunners, arrangers, lenders and/or agents under our credit facility. Consequently, these underwriters and/or their affiliates will receive a portion of the net proceeds of this offering that are used to repay amounts outstanding under our credit facility. See "Underwriting (Conflicts of Interest) Conflicts of Interest." As of March 31, 2018, the weighted-average variable interest rate on outstanding borrowings under our credit facility was 2.784%. Our credit facility is scheduled to mature in April 2022.

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CAPITALIZATION

The following table sets forth our cash and cash equivalents and total capitalization as of March 31, 2018 (i) on an actual basis and (ii) as adjusted to give effect to the offering of the notes and the application of the net proceeds thereof to repay borrowings under our credit facility.

The table below should be read in conjunction with the "Use of Proceeds" section of this prospectus supplement and our historical consolidated financial statements and related notes incorporated by reference into this prospectus supplement and the accompanying prospectus.

($ in thousands)	**March 31, 2018 Actual**	**March 31, 2018 As Adjusted(1)**
	(unaudited)	
Cash and Cash Equivalents	$ 38,525	$ 39,203
Debt:		
Revolving Credit Facility(2)	$ 560,000	$ 66,000
4.875% Senior Notes due 2021(3)	497,766	497,766
4.625% Senior Notes due 2021(4)	299,032	299,032
3.800% Senior Notes due 2022(5)	298,303	298,303
3.850% Senior Notes due 2023(6)	298,642	298,642
3.550% Senior Notes due 2026(7)	495,902	495,902
3.600% Senior Notes due 2027(8)	743,421	743,421
Notes Offered Hereby(1)		494,678
Total Debt	$ 3,193,066	$ 3,193,744
Shareholders' Equity:		
Total Shareholders' Equity	$ 423,828	$ 423,828
Total Capitalization	$ 3,616,894	$ 3,617,572

(1) As adjusted represents $500 million aggregate face amount of the notes, net of unamortized original issuance discount of $1.3 million and unamortized debt issuance costs (consisting of underwriting discounts and estimated offering expenses payable by us) of $4.0 million.

(2) As of March 31, 2018, we had approximately $640 million available for borrowing under our credit facility (without giving effect to letters of credit outstanding).

(3) Represents $500 million aggregate face amount, net of unamortized original issuance discount of $1.0 million and unamortized debt issuance costs of $1.3 million.

(4) Represents $300 million aggregate face amount, net of unamortized original issuance discount of $0.2 million and unamortized debt issuance costs of $0.8 million.

(5) Represents $300 million aggregate face amount, net of unamortized original issuance discount of $0.5 million and unamortized debt issuance costs of $1.2 million.

(6) Represents $300 million aggregate face amount, net of unamortized original issuance discount of less than $0.1 million and unamortized debt issuance costs of $1.3 million.

(7) Represents $500 million aggregate face amount, net of unamortized original issuance discount of $0.7 million and unamortized debt issuance costs of $3.4 million.

(8) Represents $750 million aggregate face amount, net of unamortized original issuance discount of $1.1 million and unamortized debt issuance costs of $5.4 million.

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DESCRIPTION OF OTHER INDEBTEDNESS

Revolving Credit Facility

We are party to a credit agreement, as amended, with JPMorgan Chase Bank, N.A., as administrative agent, swing line lender, letter of credit issuer and a lender, and the other lenders party thereto.

The credit agreement provides for a $1.2 billion senior unsecured revolving credit facility maturing in April 2022, with a $200 million sub-limit for the issuance of letters of credit and a $75 million sub-limit for swing line borrowings. The credit agreement also provides for an uncommitted incremental facility that permits us, subject to certain conditions, to increase the aggregate commitments by up to $600 million; provided that the aggregate amount of the commitments does not exceed $1.8 billion at any time. As of March 31, 2018, we had $560 million outstanding under our credit facility and approximately $640 million available for borrowing under our credit facility (without giving effect to letters of credit outstanding).

Loans made under the credit agreement (other than swing line loans) will bear interest, at our option, at either an Alternate Base Rate (as set forth in the credit agreement) or an Adjusted LIBO Rate (as set forth in the credit agreement) plus a margin that will vary from 0.000% to 0.250% in the case of Alternate Base Rate loans and 0.680% to 1.250% in the case of Adjusted LIBO Rate loans, in each case based upon the better of the ratings assigned to our debt by Moody's Investors Service, Inc. and Standard & Poor's Ratings Services. Borrowings of swing line loans under the credit agreement will bear interest at an Alternate Base Rate plus the margin described above for Alternate Base Rate loans. In addition, we pay a facility fee on the aggregate amount of the commitments under the credit agreement at a per annum rate that will vary from 0.070% to 0.250% based upon the ratings assigned to our debt by Moody's Investors Service, Inc. and Standard & Poor's Rating Services.

The credit agreement contains negative and affirmative covenants applicable to us and our existing and future subsidiaries (subject to certain exceptions, including carve-outs and baskets), including, without limitation, negative covenants that, subject to customary exceptions, restrict our ability to create, incur or assume liens, incur or assume certain subsidiary debt, make certain fundamental changes and materially change the nature of our business and the business conducted by our subsidiaries. In addition, the credit agreement will require us to comply with certain financial covenants, including a minimum consolidated fixed charge coverage ratio and a maximum consolidated leverage ratio, in each case, as set forth in the credit agreement.

The credit agreement contains certain events of default (subject to customary grace periods, cure rights and materiality thresholds), including, among others, failure to pay principal, interest or fees, violation of covenants, material inaccuracy of representations and warranties, cross-defaults and cross-acceleration to material indebtedness, certain bankruptcy and insolvency events, certain material judgments, certain ERISA events, change of control and invalidity of loan documents. Upon the occurrence of an event of default, under the credit agreement, the lenders, by a majority vote, will have the ability to direct the administrative agent to (or the administrative agent may) terminate the commitments, accelerate all loans made under the credit agreement and exercise any of the lenders' other rights under the credit agreement and the related loan documents on their behalf.

If in the future, any of our subsidiaries incurs or guarantees obligations under our credit facility or certain other credit facility debt or capital markets debt as described in "Description of Notes Future Subsidiary Guarantees," such subsidiary will be required at such time also to guarantee the credit agreement, the notes and the existing notes, as provided in the credit agreement, the indenture and the respective indentures governing the existing notes.

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Unsecured Senior Notes

We have issued a cumulative $2.65 billion aggregate principal amount of unsecured senior notes in the public market, which are due between 2021 and 2027, with UMB Bank, N.A. as trustee. Interest on the existing notes, ranging from 3.550% to 4.875%, is payable semi-annually and is computed on the basis of a 360-day year consisting of twelve 30-day months. None of our subsidiaries is a guarantor of the existing notes.

Prior to the date that is three months prior to the maturity date of a series of existing notes, such series of existing notes are redeemable in whole, at any time, or in part, from time to time, at our option upon not less than 30 or more than 60 days' notice at a redemption price, plus any accrued and unpaid interest to, but not including, the redemption date, equal to the greater of: (i) 100% of the principal amount thereof; and (ii) the sum of the present values of the remaining scheduled payments of principal and interest thereon discounted to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the applicable Treasury Yield (as defined in the indenture governing such series of existing notes) plus a number of basis points ranging from 25 to 40 basis points (in each case, as set forth in the indenture governing such series of existing notes).

On or after the date that is three months prior to the maturity date of a series of existing notes, such series of existing notes are redeemable in whole, at any time, or in part, from time to time, at our option upon not less than 30 or more than 60 days' notice at a redemption price equal to 100% of the principal amount thereof plus accrued and unpaid interest to, but not including, the redemption date. In addition, if at any time we undergo a change of control triggering event (as defined in the indenture governing such series of existing notes), holders of our existing notes may require us to repurchase all or a portion of their existing notes at a price equal to 101% of the principal amount being repurchased, plus accrued and unpaid interest, if any, to, but not including, the repurchase date.

The indentures governing our existing notes contain covenants that limit our ability and the ability of certain of our subsidiaries to, among other things, create certain liens on assets to secure certain debt and enter into certain sale and leaseback transactions, and limit our ability to merge or consolidate with another company or transfer all or substantially all of our property, in each case as set forth in the indentures governing the existing notes. These covenants are, however, subject to a number of important limitations and exceptions. The indentures governing our existing notes also contain other customary terms, including, but not limited to, events of default.

DESCRIPTION OF NOTES

The following description of the particular terms of the notes supplements and, to the extent inconsistent with, supersedes the description of the general terms and provisions of debt securities set forth under "Description of Debt Securities" in the accompanying prospectus. See " Certain Definitions" at the end of this section for the definitions of certain capitalized words used in discussing the terms of the notes.

We will issue the notes under an indenture, dated as of March 8, 2016 (the "base indenture"), and a separate supplemental indenture thereto with respect to the notes (together with the base indenture, the "indenture"), between us and UMB Bank, N.A., as trustee.

The terms of the notes include those expressly set forth in the indenture and those made part of the indenture by reference to the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act").

In this description, the words "we", "us", "our" and "O'Reilly" refer only to O'Reilly Automotive, Inc. and not to any of the subsidiaries of O'Reilly Automotive, Inc.

This "Description of Notes" section, together with the "Description of Debt Securities" section of the accompanying prospectus, together summarize some of the provisions of the indenture and the notes. These summaries do not, however, purport to be complete and are subject to, and qualified in their entirety by reference to, all the provisions of the indenture, including, without limitation, the definitions of certain terms in the indenture. Copies of the indenture are available upon request at the address indicated under "Where You Can Find More Information."

We will issue $500 million aggregate principal amount of notes in this offering. As described under " Further Issuances," under the indenture we can issue additional notes at later dates. In addition, we can issue additional series of debt securities without limitation as to aggregate principal amount in the future.

General

The notes will be issued only in registered form without coupons in minimum denominations of $2,000 and any integral multiple of $1,000 above that amount. The notes initially will be represented by one or more global certificates registered in the name of a nominee of The Depository Trust Company, which we refer to as "DTC," as described under "Description of Debt Securities Global Debt Securities" in the accompanying prospectus.

The trustee, through its corporate trust office in Kansas City, Missouri, will act as our paying agent and security registrar in respect of the notes. The current location of such corporate trust office is 1010 Grand Blvd., Kansas City, Missouri 64106. So long as the notes are issued in the form of global certificates, payments of principal, interest and premium, if any, will be made by us through the paying agent to DTC.

The notes will be senior unsecured obligations of O'Reilly and will be equal in priority with all other unsecured and unsubordinated indebtedness of O'Reilly from time to time outstanding, including the Existing Notes and borrowings under the Revolving Credit Facility. The notes will not be entitled to the benefit of any sinking fund.

We do not intend to list the notes on any securities exchange or arrange for quotation of the notes in any automated dealer quotation system.

The notes initially will not be guaranteed by any of our subsidiaries. However, if in the future, any of our subsidiaries incurs indebtedness or guarantees obligations under the Revolving Credit Facility or incurs or guarantees obligations under any other Credit Facility Debt or Capital Markets Debt (each as

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defined under " Future Subsidiary Guarantees") of O'Reilly or any future subsidiary guarantor, any such subsidiary would be required to also guarantee the notes on a senior unsecured basis.

Principal, Maturity and Interest

We are issuing $500 million aggregate principal amount of notes in this offering. The notes will mature on June 1, 2028. Interest on the notes will accrue at a rate of 4.350% per annum and will be payable semi-annually in arrears on June 1 and December 1 of each year beginning on December 1, 2018. We will pay interest to those persons who were holders of record on the May 15 or November 15 immediately preceding the applicable interest payment date. Interest on the notes will accrue from the date of original issuance of the notes or, if interest has already been paid on the notes, from the date it was most recently paid. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months. If any interest payment date falls on a date that is not a business day, the payment will be made on the next business day, and no interest shall accrue on the amount of interest due on that interest payment date for the period from and after such interest payment date to the next business day.

Future Subsidiary Guarantees

Our obligations under the notes initially will not be guaranteed by any of our subsidiaries. However, if in the future, any of our subsidiaries incurs or guarantees obligations under the Revolving Credit Facility or incurs or guarantees obligations under any other Credit Facility Debt or Capital Markets Debt of O'Reilly or any future subsidiary guarantor, such subsidiary would be required to guarantee the notes on a senior unsecured bases. Any such future subsidiary guarantee would be equal in right of payment with all liabilities of the applicable subsidiary guarantor that are not subordinated, provided that any such future subsidiary guarantee would effectively be junior to any secured indebtedness of its respective subsidiary guarantor to the extent of the value of the assets securing such indebtedness. Under the terms of any such subsidiary guarantees, holders of the notes would not be required to exercise their remedies against us before they proceed directly against any such subsidiary guarantors.

For purposes of the future subsidiary guarantee provisions of the indenture, the following terms are defined as follows:

"*Capital Markets Debt*" means any debt for borrowed money that (i) is in the form of, or represented by, bonds, notes, debentures or other securities (other than promissory notes or similar evidences of debt under a credit agreement) and (ii) has an aggregate principal amount outstanding of (a) at least $25.0 million, at any time that any Existing Notes remain outstanding, or (b) at least $100.0 million at any time that no Existing Notes remain outstanding.

"*Credit Facility Debt*" means any debt for borrowed money that (i) is incurred pursuant to a credit agreement, including pursuant to the Revolving Credit Facility, or other agreement providing for revolving credit loans, term loans or other debt entered into between O'Reilly or any subsidiary of O'Reilly and any lender or group of lenders and (ii) has an aggregate principal amount outstanding or committed of (a) at least $25.0 million, at any time that any Existing Notes remain outstanding, or (b) at least $100.0 million at any time that no Existing Notes remain outstanding.

"*Existing Notes*" means the following series of notes issued by O'Reilly: 4.875% Senior Notes due 2021; 4.625% Senior Notes due 2021; 3.800% Senior Notes due 2022; 3.850% Senior Notes due 2023; 3.550% Senior Notes due 2026; and 3.600% Senior Notes due 2027.

"*Revolving Credit Facility*" means the Credit Agreement, dated as of April 5, 2017, among O'Reilly, the lenders from time to time party thereto and JPMorgan Chase Bank, N.A., as administrative agent, swing line lender and letter of credit issuer, as amended, amended and restated, extended, renewed, restated, supplemented or otherwise modified (in whole or in part, and without limitation as to amount, terms, conditions, covenants and other provisions) from time to time.

"*subsidiary guarantor*" means any subsidiary of O'Reilly that becomes a guarantor under the indenture.

Under the indenture, if in the future a subsidiary is required to provide a guarantee of the notes because it incurs or guarantees obligations under the Revolving Credit Facility or any other Credit Facility Debt or Capital Markets Debt as described above, the holders of the notes will be deemed to have consented to the release of such future guarantee of the notes provided by such subsidiary guarantor, without any action required on the part of the trustee or any holder of the notes, upon such subsidiary guarantor ceasing to guarantee or be an obligor with respect to the Revolving Credit Facility or a guarantor or obligor under such other Credit Facility Debt or Capital Markets Debt of O'Reilly or any future subsidiary guarantors, as applicable.

In addition, any future subsidiary guarantor would be released and relieved from all its obligations under its subsidiary guarantee in the following circumstances, each of which is permitted by the indenture:

- upon the sale or other disposition (including by way of consolidation or merger), in one transaction or a series of related transactions, of a majority of the total voting power of the capital stock or other interests of such subsidiary guarantor (other than to O'Reilly or any affiliate); or

- upon the sale or disposition of all or substantially all the property of such subsidiary guarantor (other than to any affiliate of O'Reilly other than another subsidiary guarantor).

provided, *however,* that, in each case, after giving effect to such transaction, such subsidiary is no longer liable for any guarantee or other obligations in respect of any Credit Facility Debt or Capital Markets Debt of O'Reilly or any of the subsidiary guarantors.

Any future subsidiary guarantee of a subsidiary guarantor also would be released with respect to the notes if we exercise our legal defeasance or our covenant defeasance option with respect to the notes or if our obligations under the indenture with respect to the notes are discharged, in each case as described under " Defeasance and Discharge." At our written instruction, the trustee will execute and deliver any documents, instructions or instruments evidencing any such release.

If a subsidiary becomes obligated to guarantee the notes after the initial issue date, then O'Reilly shall cause such subsidiary, within 30 days, to (A) execute and deliver to the trustee a supplemental indenture in form reasonably satisfactory to the trustee pursuant to which such subsidiary shall guarantee all of O'Reilly's obligations under the notes and the indenture with respect to the notes and (B) deliver to the trustee an opinion of counsel to the effect that (i) such supplemental indenture and guarantee of the notes has been duly executed and authorized and (ii) such supplemental indenture and guarantee of the notes constitutes a valid, binding and enforceable obligation of such subsidiary, except insofar as enforcement thereof may be limited by bankruptcy, insolvency or similar laws and except insofar as enforcement thereof is subject to general principles of equity. Any such guarantee of the notes shall be equal ("pari passu") or senior in right of payment with the guarantee or other obligation giving rise to the obligation to guarantee the notes.

The indenture governing the notes provides that the obligations of any future subsidiary guarantor under its subsidiary guarantee would be limited as necessary to prevent that future subsidiary guarantee from constituting a fraudulent conveyance or fraudulent transfer under applicable law. We cannot assure you that this limitation would protect any subsidiary guarantees from fraudulent conveyance or fraudulent transfer challenges or, if it does, that the remaining amount due and collectible under the subsidiary guarantees would suffice, if necessary, to pay the notes in full when due.

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Priority

The notes will be:

- senior unsecured obligations of O'Reilly,
- effectively junior to any of our future secured indebtedness to the extent of the value of the assets securing such indebtedness,
- structurally junior to any indebtedness and preferred equity of any of our subsidiaries (subject to the requirements under " Future Subsidiary Guarantees" above),
- equal in right of payment with all our existing and future senior unsecured indebtedness, including the Revolving Credit Facility and our existing notes, and
- senior in right of payment to all our future subordinated indebtedness.

As of March 31, 2018, after giving effect to this offering (including the application of the net proceeds therefrom to repay borrowings under our Revolving Credit Facility), our total outstanding consolidated senior debt, including that of our subsidiaries but excluding unused commitments under the Revolving Credit Facility, would have been approximately $3.22 billion, approximately $500 million of which represents the notes and approximately $2.65 billion of which represents the Existing Notes. As of March 31, 2018, we had $560 million outstanding under our Revolving Credit Facility and approximately $640 million available for borrowing under our Revolving Credit Facility (without giving effect to letters of credit outstanding). As of March 31, 2018, we had no subordinated or secured debt outstanding. As of March 31, 2018, our subsidiaries had no debt and no preferred equity outstanding.

Holders of the notes will only be creditors of O'Reilly (subject to the requirements under " Future Subsidiary Guarantees" above). We only have a stockholder's claim on the assets of our subsidiaries. This stockholder's claim is junior to the claims that creditors of our subsidiaries have against our subsidiaries. Subject to the requirements under " Future Subsidiary Guarantees" above, all of the liabilities of our subsidiaries, including any claims of trade creditors, and any preferred equity will be effectively senior to the notes.

The ability of our subsidiaries to pay dividends and make other payments to us is also restricted by, among other things, applicable corporate and other laws and regulations as well as agreements to which our subsidiaries are or may become a party, including the Revolving Credit Facility. See "Description of Other Indebtedness."

Our subsidiaries have other liabilities, including contingent liabilities that may be significant. The indenture does not contain any limitations on the amount of additional debt that we and our subsidiaries may incur. The amount of this debt could be substantial, and subject to the requirements under " Future Subsidiary Guarantees" above, this debt would be effectively senior in right of payment to the notes. See "Risk Factors Despite current indebtedness levels, we and our subsidiaries may incur substantially more debt. This could further exacerbate the risks associated with our leverage."

Further Issuances

We may, from time to time, without notice to or the consent of the holders of the notes, increase the principal amount of notes under the indenture and issue such increased principal amount (or any portion thereof), in which case any additional notes so issued will have the same form and terms (other than the date of issuance, public offering price and, under certain circumstances, the date from which interest thereon will begin to accrue and the initial interest payment date), and will carry the same right to receive accrued and unpaid interest, as the notes previously issued, and such additional notes will form a single series with the previously issued notes, including for voting purposes; *provided*, that if any such additional notes are not fungible with the notes initially offered hereby for U.S. federal income tax purposes, such additional notes will have a separate CUSIP number.

In addition, we may, from time to time, without notice to or the consent of the holders of the notes, issue additional series of debt securities without limitation as to aggregate principal amount. Such debt securities would be a separate series from the notes, including for voting purposes.

Optional Redemption

Prior to March 1, 2028 (three months prior to the maturity date (such date, the "Par Call Date")), the notes will be redeemable, in whole, at any time, or in part, from time to time, at our option, for cash, at a redemption price, plus accrued and unpaid interest to, but not including, the redemption date (subject to the rights of holders of notes on the relevant record date to receive interest due on the relevant interest payment date), equal to the greater of:

(1) 100% of the principal amount thereof, or

(2) the sum of the present values of the remaining scheduled payments of principal and interest thereon that would have been due if the notes matured on the Par Call Date, not including accrued and unpaid interest, to, but not including, the date of redemption, discounted to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the applicable Treasury Yield plus 25 basis points.

On or after the Par Call Date, the notes will be redeemable, in whole at any time or in part from time to time, at our option, for cash, at a redemption price equal to 100% of the principal amount thereof plus accrued and unpaid interest to, but not including, the redemption date (subject to the rights of holders of notes on the relevant record date to receive interest due on the relevant interest payment date).

"*Treasury Yield*" means, with respect to any redemption date for the notes, the rate per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the applicable Comparable Treasury Price for such redemption date.

"*Comparable Treasury Issue*" means, with respect to the notes, the United States Treasury security selected by the Independent Investment Banker as having a maturity comparable to the remaining term of the notes (assuming for this purpose that the notes matured on the Par Call Date), that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the notes.

"*Independent Investment Banker*" means, with respect to the notes offered hereby, either J.P. Morgan Securities LLC and a Primary Treasury Dealer (as defined herein) appointed by U.S. Bancorp Investments, Inc., as selected by us, or, if both firms are unwilling or unable to select the applicable Comparable Treasury Issue, an independent investment banking institution of national standing appointed by us.

"*Comparable Treasury Price*" means, with respect to any redemption date for the notes, (i) the average of the applicable Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such applicable Reference Treasury Dealer Quotations, or (ii) if the trustee obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such Reference Treasury Dealer Quotations.

"*Reference Treasury Dealer*" means, with respect to the notes offered hereby, each of (i) J.P. Morgan Securities LLC and a Primary Treasury Dealer (as defined herein) appointed by U.S. Bancorp Investments, Inc. or their respective successors; *provided, however*, that if either of the foregoing shall cease to be a primary United States Government securities dealer in the United States

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(a "Primary Treasury Dealer"), we shall substitute therefor another Primary Treasury Dealer; and (ii) any other Primary Treasury Dealer selected by us.

"*Reference Treasury Dealer Quotations*" means, with respect to each Reference Treasury Dealer and any redemption date for the notes, the average, as determined by the trustee, of the bid and asked prices for the Comparable Treasury Issue for the notes (expressed in each case as a percentage of its principal amount) quoted in writing to the trustee by such Reference Treasury Dealer at 5:00 p.m., New York City time, on (i) the third business day preceding such redemption date or (ii) in the case of a redemption in connection with a legal defeasance, covenant defeasance or discharge with respect to the notes, on the third business day preceding the date the deposit is made with the trustee.

A notice of redemption shall be sent by us (or, at our request, by the trustee on our behalf) by first class mail to each holder of notes to be redeemed (or, in the case of global notes, electronically through the procedures of DTC) not less than 30 nor more than 60 days in advance of the redemption date (except that such notice may be greater than 60 days in the case of a redemption in connection with a legal defeasance, covenant defeasance or discharge with respect to the notes). Such notice of redemption shall specify the principal amount of notes to be redeemed, the CUSIP and ISIN numbers of the notes to be redeemed, the date fixed for redemption, the redemption price, the place or places of payment and that payment will be made upon presentation and surrender of such notes. Notice of any redemption of the notes prior to the Par Call Date need not set forth the redemption price but only the manner of calculation thereof. We will give the trustee notice of the amount of the redemption price for any such redemption promptly after the calculation thereof, and the trustee shall have no responsibility for such calculation. Once notice of redemption is sent to holders the notes called for redemption will become due and payable on the redemption date at the redemption price, plus interest accrued to, but not including, the redemption date. On or before 10:00 a.m., New York City time, on the redemption date, we will deposit with the trustee or with one or more paying agents an amount of money sufficient to redeem on the redemption date all the notes so called for redemption at the appropriate redemption price, together with accrued interest to, but not including, the date fixed for redemption. Unless we default in payment of the redemption price, plus interest accrued to the redemption date, commencing on the redemption date interest on notes called for redemption will cease to accrue and holders of such notes will have no rights with respect to such notes except the right to receive the redemption price and any unpaid interest to, but not including, the redemption date.

If fewer than all of the notes are being redeemed, the trustee will select the notes to be redeemed pro rata, by lot or by any other method the trustee in its sole discretion deems fair and appropriate, in accordance with methods generally used at the time of selection by fiduciaries in similar circumstances. Notes of $2,000 principal amount or less will not be redeemed in part. Upon surrender of any note redeemed in part, the holder will receive a new note equal in principal amount to the unredeemed portion of the surrendered note.

In addition, we may at any time purchase notes by tender, in the open market or by private agreement, subject to applicable law.

Change of Control Triggering Event

Upon the occurrence of a Change of Control Triggering Event, unless we have exercised our right to redeem the notes as described above under "   Optional Redemption," the indenture provides that each holder of notes will have the right to require us to repurchase all or a portion of such holder's notes pursuant to the offer described below (the "Change of Control Offer"), for cash, at a repurchase price equal to 101% of the aggregate principal amount thereof plus accrued and unpaid interest, if any, on the amount repurchased to, but not including, the date of repurchase, subject to the rights of holders of notes on the relevant record date to receive interest due on the relevant interest payment date.

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Within 30 days following the date upon which the Change of Control Triggering Event occurred, or at our option, prior to any Change of Control but after the public announcement of the pending Change of Control, we are required to send, by first class mail, a notice to each holder of notes (or, in the case of global notes, electronically through the procedures of DTC), with a copy to the trustee, which notice will govern the terms of the Change of Control Offer. Such notice will state, among other things, the repurchase date, which must be no earlier than 30 days nor later than 60 days from the date such notice is sent (the "Change of Control Payment Date"). The notice, if sent prior to the date of consummation of the Change of Control, will state that the Change of Control Offer is conditioned on the Change of Control being consummated on or prior to the Change of Control Payment Date. Holders of notes electing to have notes repurchased pursuant to a Change of Control Offer will be required to surrender their notes, with the form entitled "Option of Holder to Elect Purchase" on the reverse of the note completed, to the paying agent at the address specified in the notice, or transfer their notes to the paying agent by book-entry transfer pursuant to the applicable procedures of the paying agent, prior to the close of business on the third business day prior to the Change of Control Payment Date.

We will not be required to make a Change of Control Offer if a third party makes such an offer in the manner, at the times and otherwise in compliance with the requirements for such an offer made by us and such third party purchases all notes properly tendered and not withdrawn under its offer.

"*Change of Control*" means the occurrence of any one of the following:

(1) the direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the assets of O'Reilly and its subsidiaries taken as a whole to any Person (including any "person" (as that term is used in Section 13(d)(3) of the Exchange Act)) other than O'Reilly or one of its subsidiaries;

(2) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any Person (including any "person" or "group" (as those terms are used in Section 13(d)(3) of the Exchange Act)) becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of more than 50% of the outstanding Voting Stock of O'Reilly or any other Voting Stock into which the Voting Stock of O'Reilly is reclassified, consolidated, exchanged or changed, measured by voting power rather than number of shares;

(3) O'Reilly consolidates with, or merges with or into, any Person, or any Person consolidates with, or merges with or into, O'Reilly, in any such event pursuant to a transaction in which any of the outstanding Voting Stock of O'Reilly (or any other Voting Stock into which the Voting Stock of O'Reilly is reclassified, consolidated, exchanged or changed) is converted into or exchanged for cash, securities or other property, other than any such transaction where the shares of the Voting Stock of O'Reilly (or any other Voting Stock into which the Voting Stock of O'Reilly is reclassified, consolidated, exchanged or changed) outstanding immediately prior to such transaction constitute, or are converted into or exchanged for, a majority of the Voting Stock of the surviving Person immediately after giving effect to such transaction; or

(4) the adoption of a plan relating to the liquidation or dissolution of O'Reilly.

Notwithstanding the foregoing, a transaction will not be deemed to involve a Change of Control under clause (2) above if (i) we become a direct or indirect wholly owned subsidiary of a holding company and (ii)(A) the holders having ultimate beneficial ownership of the Voting Stock of such holding company immediately following that transaction are substantially the same as the holders having beneficial ownership of our Voting Stock immediately prior to that transaction or (B) immediately following that transaction no Person (other than a holding company satisfying the requirements of this sentence) is the beneficial owner, directly or indirectly, of more than 50% of the Voting Stock of such holding company.

"*Change of Control Triggering Event*" means the occurrence of both a Change of Control and a Rating Event.

"*Investment Grade*" means a rating of Baa3 or better by Moody's (or its equivalent under any successor rating category of Moody's) and a rating of BBB- or better by S&P (or its equivalent under any successor rating category of S&P) and the equivalent investment grade rating from any replacement Rating Agency or Rating Agencies appointed by us.

"*Moody's*" means Moody's Investors Service, Inc., a subsidiary of Moody's Corporation, and its successors.

"*Person*" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, limited liability company or government or other entity.

"*Rating Agency*" means each of Moody's and S&P; *provided*, that if either Moody's or S&P ceases to provide rating services to issuers or investors, we may appoint a replacement for such Rating Agency.

"*Rating Event*" means:

(1) if the notes are rated Investment Grade by each of the Rating Agencies on the first day of the Trigger Period, the notes cease to be rated Investment Grade by each of the Rating Agencies on any date during the Trigger Period, or

(2) if the notes are not rated Investment Grade by each of the Rating Agencies on the first day of the Trigger Period, the notes are downgraded by at least one rating category (*e.g.*, from BB+ to BB or Ba1 to Ba2) from the applicable rating of the notes on the first day of the Trigger Period by each of the Rating Agencies on any date during the Trigger Period.

"*S&P*" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors.

"*Trigger Period*" means the period commencing 60 days prior to the first public announcement by us of any Change of Control (or pending Change of Control) and ending 60 days following consummation of such Change of Control (which Trigger Period will be extended following consummation of a Change of Control for so long as either of the Rating Agencies has publicly announced that it is considering a possible ratings change).

"*Voting Stock*" of any specified Person as of any date means the capital stock of such Person that is at the time entitled to vote generally in the election of the board of directors of such Person.

The change of control feature of the notes may in certain circumstances make it more difficult to consummate or discourage a sale or takeover of us and, thus, the removal of incumbent management. We could, in the future, enter into certain transactions, including takeovers, recapitalizations or other similar transactions, that would not constitute a Change of Control under the notes, but that could increase the amount of indebtedness outstanding at such time or otherwise affect our capital structure or credit ratings on the notes.

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Certain Covenants

Limitation on Liens

The indenture provides that we will not, and will not permit any of our subsidiaries to, create, incur, issue, assume or guarantee any debt secured by a Lien (other than Permitted Liens) upon any Property, or any shares of stock or evidences of indebtedness issued by any of our subsidiaries and owned by us or by any other of our subsidiaries, owned on the date of issuance of the notes, without making effective provision to secure all of the notes, equally and ratably with any and all other debt secured thereby, so long as any of such other debt shall be so secured.

Limitation on Sale and Leaseback Transactions

The indenture provides that we will not, and will not permit any subsidiary to, enter into any arrangement with any person providing for the leasing by us or any subsidiary of any Property that has been or is to be sold or transferred by us or such subsidiary to such person, with the intention of taking back a lease of such property or assets (a "Sale and Leaseback Transaction") unless either:

- within 12 months after the receipt of the proceeds of the sale or transfer, we or any subsidiary apply an amount equal to the greater of the net proceeds of the sale or transfer or the fair value (as determined in good faith by O'Reilly's board of directors) of such Property at the time of such sale or transfer to the prepayment or retirement (other than any mandatory prepayment or retirement) of Senior Funded Debt; or

- we or such subsidiary would be entitled, at the effective date of the sale or transfer, to incur debt secured by a Lien on such Property in an amount at least equal to the Attributable Debt in respect of the Sale and Leaseback Transaction, without equally and ratably securing the notes pursuant to the covenant described under " Limitation on Liens."

The foregoing restriction in the paragraph above will not apply to any Sale and Leaseback Transaction (i) for a term of not more than three years including renewals; (ii) between us and a subsidiary or between subsidiaries, provided that the lessor is us or a wholly owned subsidiary; or (iii) entered into within 270 days after the later of the acquisition or completion of construction of the subject property or assets.

Certain Definitions

The following terms used in " Certain Covenants" are defined as follows. Reference is made to the indenture for the full definition of all such terms as well as any other capitalized terms used herein for which no definition is provided.

"*Attributable Debt*" in respect of a Sale and Leaseback Transaction means, at the time of determination, the present value discounted at the rate of interest implicit in the terms of the lease (as determined in good faith by us) of the obligations of the lessee under such lease for net rental payments during the remaining term of the lease (including any period for which such lease has been extended or may, at our option, be extended).

"*Consolidated Net Tangible Assets*" means the aggregate amount of our assets (less applicable reserves and other properly deductible items) and our consolidated subsidiaries' assets after deducting therefrom (a) all current liabilities (excluding the sum of any debt for money borrowed having a maturity of less than twelve months from the date of our most recent consolidated balance sheet but which by its terms is renewable or extendable beyond twelve months from such date at the option of the borrower and, without duplication, any current installments thereof payable within such twelve month period) and (b) all goodwill, trade names, patents, unamortized debt discount and expense and

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other like intangibles, all as set forth on our most recent consolidated balance sheet and computed in accordance with United States generally accepted accounting principles ("GAAP").

"*Funded Debt*" means debt which matures more than one year from the date of creation, or which is extendable or renewable at the sole option of the obligor so that it may become payable more than one year from such date or which is classified, in accordance with GAAP, as long-term debt on the consolidated balance sheet for the most-recently ended fiscal quarter (or if incurred subsequent to the date of such balance sheet, would have been so classified) of the person for which the determination is being made. Funded Debt does not include (1) obligations created pursuant to leases, (2) any debt or portion thereof maturing by its terms within one year from the time of any computation of the amount of outstanding Funded Debt unless such debt shall be extendable or renewable at the sole option of the obligor in such manner that it may become payable more than one year from such time, or (3) any debt for which money in the amount necessary for the payment or redemption of such debt is deposited in trust either at or before the maturity date thereof.

"*Lien*" means, with respect to any Property, shares of stock or evidences of indebtedness, any mortgage or deed of trust, pledge, hypothecation, security interest, lien, encumbrance or other security arrangement of any kind or nature on or with respect to such Property, shares of stock or evidences of indebtedness.

"*Permitted Liens*" means:

(1) Liens (other than Liens created or imposed under the Employee Retirement Income Security Act of 1974, as amended ("ERISA")), for taxes, assessments or governmental charges or levies not yet subject to penalties for non-timely payment or Liens for taxes being contested in good faith by appropriate proceedings for which adequate reserves determined in accordance with GAAP have been established (and as to which the property or assets subject to any such Lien is not yet subject to foreclosure, sale or loss on account thereof);

(2) statutory Liens of landlords and Liens of mechanics, materialmen, warehousemen, carriers and suppliers and other Liens imposed by law or pursuant to customary reservations or retentions of title arising in the ordinary course of business, provided that any such Liens which are material secure only amounts not yet due and payable or, if due and payable, are unfiled and no other action has been taken to enforce the same or are being contested in good faith by appropriate proceedings for which adequate reserves determined in accordance with GAAP have been established (and as to which the property or assets subject to any such Lien is not yet subject to foreclosure, sale or loss on account thereof);

(3) Liens (other than Liens created or imposed under ERISA) incurred or deposits made by us and our subsidiaries in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security, laws or regulations, or to secure the performance of tenders, statutory obligations, bids, leases, trade or government contracts, surety, indemnification, appeal, performance and return-of-money bonds, letters of credit, bankers acceptances and other similar obligations (exclusive of obligations for the payment of borrowed money), or as security for customs or import duties and related amounts;

(4) Liens in connection with attachments or judgments (including judgment or appeal bonds), provided that the judgments secured shall, within 30 days after the entry thereof, have been discharged or execution thereof stayed pending appeal, or shall have been discharged within 30 days after the expiration of any such stay;

(5) Liens securing indebtedness (including capital leases) incurred to finance the purchase price or cost of construction of property or assets (or additions, repairs, alterations or improvements thereto), provided that such Liens and the indebtedness secured thereby are

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incurred within twelve months of the later of acquisition or completion of construction (or addition, repair, alteration or improvement) and full operation thereof;

(6) Liens securing industrial revenue bonds, pollution control bonds or similar types of tax-exempt bonds;

(7) Liens arising from deposits with, or the giving of any form of security to, any governmental agency required as a condition to the transaction of business or exercise of any privilege, franchise or license;

(8) encumbrances, covenants, conditions, restrictions, easements, reservations and rights of way or zoning, building code or other restrictions, (including defects or irregularities in title and similar encumbrances) as to the use of real property, or Liens incidental to conduct of the business or to the ownership of our or our subsidiaries' properties not securing debt that do not in the aggregate materially impair the use of said properties in the operation of our business, including our subsidiaries, taken as a whole;

(9) leases, licenses, subleases or sublicenses granted to others not interfering in any material respect with our business, including our subsidiaries, taken as a whole;

(10) Liens on property or assets at the time such property or assets are acquired by us or any of our subsidiaries;

(11) Liens on property or assets of any person at the time such person becomes one of our subsidiaries;

(12) Liens on receivables from customers sold to third parties pursuant to credit arrangements in the ordinary course of business;

(13) Liens existing on the date of this prospectus supplement or any extensions, amendments, renewals, refinancings, replacements or other modifications thereto;

(14) Liens on any property or assets created, assumed or otherwise brought into existence in contemplation of the sale or other disposition of the underlying property or assets, whether directly or indirectly, by way of share disposition or otherwise;

(15) Liens securing debt of a subsidiary owed to us or to another one of our subsidiaries;

(16) Liens in favor of the United States of America or any State thereof, or any department, agency or instrumentality or political subdivision thereof, to secure partial, progress, advance or other payments;

(17) Liens to secure debt of joint ventures in which we or any of our subsidiaries have an interest, to the extent such Liens are on property or assets of, or equity interests in, such joint ventures;

(18) Liens arising solely by virtue of any statutory or common law provisions relating to banker's Liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a depositary institution;

(19) Liens arising from financing statement filings regarding operating leases;

(20) Liens in favor of customs and revenue authorities to secure custom duties in connection with the importation of goods;

(21) Liens securing the financing of insurance premiums payable on insurance policies; *provided*, that such Liens shall only encumber unearned premiums with respect to such insurance, interests in any state guarantee fund relating to such insurance and subject and subordinate to the rights and interests of any loss payee, loss payments which shall reduce such unearned premiums;

(22) Liens securing cash management obligations (that do not constitute indebtedness), or arising out of conditional sale, title retention, consignment or similar arrangements for sale of goods and contractual rights of set-off relating to purchase orders and other similar arrangements, in each case in the ordinary course of business;

(23) Liens on any property or assets of our foreign subsidiaries securing debt of such subsidiaries (but not debt of O'Reilly or any of our subsidiary guarantors);

(24) Liens securing debt in an aggregate principal amount at any time outstanding not exceeding $500.0 million in respect of any arrangement under which O'Reilly or any of our subsidiary guarantors transfers, once or on a revolving basis, without recourse (except for indemnities and representations customary for securitization transactions and except for the retention of risk in an amount and form required by applicable laws and regulations or as is customary for a similar type of transaction) involving one or more "true sale" transactions, accounts receivable or interests therein and related assets customarily transferred in connection with securitization transactions (i) to a trust, partnership, corporation, limited liability company or other entity, which transfer is funded in whole or in part, directly or indirectly, by the incurrence or issuance by the transferee or successor transferee of Indebtedness or other securities that are to receive payments from, or that represent interests in, the cash flow derived from such accounts receivable or interests therein, or (ii) directly to one or more investors or other purchasers; and

(25) other Liens on our property or assets and the property or assets of our subsidiaries securing debt in an aggregate principal amount (together with the aggregate amount of all Attributable Debt in respect of Sale and Leaseback Transactions entered into in reliance on this clause) not to exceed, as of any date of incurrence of such secured debt pursuant to this clause and after giving effect to such incurrence and the application of the proceeds therefrom, the greater of (a) $500.0 million and (b) 15% of our Consolidated Net Tangible Assets.

"*Property*" means any building, structure or other facility, together with the land upon which it is erected and fixtures comprising a part thereof, used primarily for selling automotive parts and accessories or the warehousing or distributing of such products, owned or leased by us or any one of our Significant Subsidiaries.

"*Senior Funded Debt*" means all Funded Debt of ours or our subsidiaries (except Funded Debt, the payment of which is subordinated to the payment of the notes).

"*Significant Subsidiaries*" means any of our subsidiaries that is a "significant subsidiary" as defined in Rule 1-02 of Regulation S-X, promulgated pursuant to the Securities Act.

Events of Default

Each of the following constitutes an event of default with respect to the notes:

(1) a default in the payment of principal of or premium, if any, on any note when due at its maturity, upon optional redemption, upon required repurchase or otherwise;

(2) our failure to pay interest on any note within 30 days of when such amount becomes due and payable;

(3) our failure to comply with any of our covenants or agreements in the indenture or the notes (other than a failure that is subject to the foregoing clause (1) or (2)) and our failure to cure (or obtain a waiver of) such default and such failure continues for 90 days after written notice is given to us as provided below;

(4) a default under any debt for money borrowed by us or any subsidiary guarantor that results in acceleration of the maturity of such debt, or failure to pay any such debt within any

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applicable grace period after final stated maturity, in an aggregate amount greater than (a) $25.0 million, at any time that any Existing Notes remain outstanding, or (b) $100.0 million at any time that no Existing Notes remain outstanding, or in each case, its foreign currency equivalent, at the time without such debt having been discharged or acceleration having been rescinded or annulled (the "cross acceleration provision");

(5) certain events of bankruptcy, insolvency or reorganization affecting us or any subsidiary guarantor that is a Significant Subsidiary (or group of subsidiary guarantors that together constitute a Significant Subsidiary) (the "bankruptcy provisions"); and

(6) except as permitted by the indenture, any subsidiary guarantee of a subsidiary guarantor that is a Significant Subsidiary (or group of subsidiary guarantors that together constitute a Significant Subsidiary) shall be held in any judicial proceeding to be unenforceable or invalid or shall cease for any reason to be in full force and effect, or any subsidiary guarantor that is a Significant Subsidiary (or group of subsidiary guarantors that together constitute a Significant Subsidiary), or any person acting on its behalf, shall deny or disaffirm its obligation under its subsidiary guarantee.

A default under clause (3) is not an event of default until the trustee or the holders of not less than 25% in aggregate principal amount of the notes then outstanding notify us of the default and we do not cure such default within the time specified after receipt of such notice. Such notice must specify the default, demand that it be remedied and state that such notice is a "Notice of Default."

If an event of default (other than an event of default under clause (5) above) shall have occurred and be continuing, the trustee or the holders of not less than 25% in aggregate principal amount of the notes then outstanding may declare, by notice to us in writing (and to the trustee, if given by holders of such notes) specifying the event of default, to be immediately due and payable the principal amount of all the notes then outstanding, plus accrued but unpaid interest to the date of acceleration. After any such acceleration, but before a judgment or decree based on acceleration is obtained by the trustee, the registered holders of a majority in aggregate principal amount of the notes then outstanding may, under certain circumstances, rescind and annul such acceleration and waive such event of default if all events of default, other than the nonpayment of accelerated principal, premium or interest, have been cured or waived as provided in the indenture. In case an event of default under clause (5) above shall occur, such amount with respect to all the notes shall be due and payable immediately without any declaration or other act on the part of the trustee or the holders of the notes.

Notwithstanding the preceding paragraph, in the event of a declaration of acceleration in respect of the notes because an event of default pursuant to clause (4) shall have occurred and be continuing, such declaration of acceleration shall be automatically annulled if (i) the default under the debt that is the subject of such event of default has been cured by us or any subsidiary guarantor or has been waived by the holders thereof or (ii) the holders of such debt that is the subject of such event of default have rescinded their declaration of acceleration in respect of such debt, and written notice of such cure, waiver or rescission shall have been given to the trustee by us and countersigned by the holders of such debt or a trustee, fiduciary or agent for such holders, within 20 days after such declaration of acceleration in respect of the notes and if the annulment of the acceleration of the notes would not conflict with any judgment or decree of a court of competent jurisdiction, and no other event of default exists or has occurred during such 20-day period which has not been cured or waived during such period.

If we exercise the legal defeasance option with respect to the notes, payment of the notes may not be accelerated. If we exercise the covenant defeasance option with respect to the notes, payment of the notes may not be accelerated because of an event of default specified in clause (3), clause (4), clause (5) (with respect to any subsidiary guarantors only) or clause (6).

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Subject to the provisions of the indenture relating to the duties of the trustee in case an event of default shall occur and be continuing, the trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request or direction of any of the holders of the notes, unless such holders shall have offered to the trustee indemnity or security reasonably satisfactory to it against any loss, liability or expense. Subject to such provisions for the indemnification of the trustee, the holders of a majority in aggregate principal amount of the notes then outstanding will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee or exercising any trust or power conferred on the trustee with respect to the notes.

No holder of notes will have any right to institute any proceeding with respect to the indenture, or for the appointment of a receiver or trustee, or for any remedy thereunder, unless:

(1) such holder has previously given to the trustee written notice of a continuing event of default with respect to the notes;

(2) the holders of at least 25% in aggregate principal amount of the notes then outstanding have made a written request and offered indemnity to the trustee reasonably satisfactory to it to institute such proceeding as trustee; and

(3) the trustee shall not have received from the holders of a majority in aggregate principal amount of the notes then outstanding a written direction inconsistent with such request and shall have failed to institute such proceeding within 60 days.

However, such limitations do not apply to a suit instituted by a holder of any note for enforcement of payment of the principal of, and premium, if any, or interest on, such note on or after the respective due dates expressed in such note.

The indenture provides that if a default with respect to the notes occurs and is continuing and is known to the trustee, the trustee must send to each holder of notes notice of the default within 90 days after it occurs. The trustee may withhold the notice if and so long as a committee of its trust officers in good faith determines that withholding notice is in the interest of the holders of the notes.

The indenture requires us to furnish to the trustee, within 120 days after the end of each fiscal year, a written statement of an officer regarding compliance with the indenture. Within 30 days after the occurrence of any default or event of default, we are required to deliver to the trustee written notice in the form of an officer's certificate a statement specifying its status and what actions we are taking or propose to take with respect thereto.

Defeasance and Discharge

The accompanying prospectus contains a description of our legal defeasance, covenant defeasance and discharge options with respect to the notes under "Description of Debt Securities Defeasance" and "Description of Debt Securities Discharge of the Indenture." If we exercise the covenant defeasance option with respect to the notes, we may terminate at any time our obligations with respect to the notes under the covenants described under " Future Subsidiary Guarantees" and " Certain Covenants" above as well as under "Description of Debt Securities SEC Reports" and "Description of Debt Securities Merger, Consolidation or Sale of Assets" in the accompanying prospectus. In addition, if we exercise our legal defeasance, covenant defeasance and discharge options with respect to the notes, each subsidiary guarantor will be released from its obligations with respect to its subsidiary guarantee of the notes.

U.S. FEDERAL INCOME TAX CONSIDERATIONS FOR NON-U.S. HOLDERS

The following discussion is a summary of U.S. federal income tax considerations generally applicable to the ownership and disposition of the notes as of the date hereof to non-U.S. holders (as defined below) that acquire notes for cash at their original issue price pursuant to this offering. The summary is based on the Internal Revenue Code of 1986, as amended (the "Code"), Treasury Regulations, judicial decisions, published positions of the Internal Revenue Service ("IRS"), and other applicable authorities, all as in effect as of the date hereof and all of which are subject to change or differing interpretations (possibly with retroactive effect). The discussion does not address all of the tax considerations that may be relevant to a particular person or to persons subject to special treatment under U.S. federal income tax laws (such as financial institutions, broker-dealers, insurance companies, regulated investment companies, real estate investment trusts, cooperatives, controlled foreign corporations, passive foreign investment companies, taxpayers subject to special tax accounting rules, traders in securities who elect to apply a mark-to-market method of accounting, expatriates, tax-exempt organizations, or persons that are, or hold their notes through, partnerships or other pass-through entities), or to persons who hold the notes as part of a straddle, hedge, conversion, synthetic security, or constructive sale transaction for U.S. federal income tax purposes, all of whom may be subject to tax rules that differ from those summarized below. In addition, this discussion does not address the considerations of the alternative minimum tax, or any state, local or non-U.S. tax considerations or any tax considerations other than U.S. federal income tax considerations. This summary deals only with persons who hold the notes as capital assets within the meaning of the Code (generally, property held for investment). No IRS ruling has been or will be sought regarding any matter discussed herein. No assurance can be given that the IRS would not assert, or that a court would not sustain, a position contrary to any of those set forth below. Holders are urged to consult their tax advisors as to the particular U.S. federal tax considerations applicable to them of the acquisition, ownership and disposition of notes, as well as the effects of state, local and non-U.S. tax laws.

For purposes of this summary, a "non-U.S. holder" means any beneficial owner (other than a partnership or other pass-through entity for U.S. federal income tax purposes) that is not a "U.S. holder." A "U.S. holder" means a beneficial owner of a note (as determined for U.S. federal income tax purposes) that, for U.S. federal income tax purposes, is, or is treated as, a citizen or individual resident of the U.S., a corporation (including any entity treated as a corporation for U.S. federal income tax purposes) created or organized in the United States or under the laws of the United States or any state thereof, or the District of Columbia, an estate the income of which is subject to U.S. federal income taxation regardless of its source, or a trust if (i) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (ii) the trust has a valid election in effect to be treated as a U.S. person.

If a partnership (including any entity treated as a partnership or other pass-through entity for U.S. federal income tax purposes) is a holder of a note, the U.S. federal income tax treatment of a partner in the partnership generally will depend on the status of the partner and the activities of such partnership. Partners and partnerships should consult their tax advisors as to the particular U.S. federal income tax considerations applicable to them.

Interest. A non-U.S. holder will generally not be subject to U.S. federal income or withholding tax on interest paid on a note, if the interest is not effectively connected with a non-U.S. holder's conduct of a U.S. trade or business (and, in the case of certain tax treaties, is not attributable to a permanent establishment or fixed base within the United States), provided that the non-U.S. holder:

(1) does not actually or constructively, directly or indirectly, own 10% or more of the total combined voting power of all classes of our voting stock;

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(2) is not a controlled foreign corporation that is related to us (directly or indirectly) through stock ownership;

(3) certifies to its non-U.S. status and that no withholding is required pursuant to FATCA (see " FATCA" below) on an IRS Form W-8BEN or IRS Form W-8BEN-E (or other applicable form).

A non-U.S. holder that cannot satisfy the above requirements will generally be exempt from U.S. federal withholding tax with respect to interest paid on the notes if the holder establishes that such interest is not subject to withholding tax because it is effectively connected with the non-U.S. holder's conduct of a trade or business in the United States (and, in the case of certain tax treaties, is attributable to a permanent establishment or fixed base within the United States) (generally, by providing an IRS Form W-8ECI). However, to the extent that such interest is effectively connected with the non-U.S. holder's conduct of a trade or business (and, in the case of certain tax treaties, is attributable to a permanent establishment or fixed base within the United States), the non-U.S. holder will be subject to U.S. federal income tax on a net basis and, if it is treated as a corporation for U.S. federal income tax purposes, may be subject to a branch profits tax equal to 30% of its effectively connected earnings and profits, subject to certain adjustments, unless such holder qualifies for a lower rate under an applicable income tax treaty. In addition, under certain income tax treaties, the U.S. withholding rate on interest payments may be reduced or eliminated, provided the non-U.S. holder complies with the applicable certification requirements (generally, by providing an IRS Form W-8BEN or IRS Form W-8BEN-E). If a non-U.S. holder does not satisfy the requirements described above and does not establish that the interest is effectively connected with the non-U.S. holder's conduct of a trade or business in the United States (and, in the case of certain tax treaties, is attributable to a permanent establishment or fixed base within the United States), the non-U.S. holder generally will be subject to U.S. withholding tax on payments of stated interest, currently imposed at 30%.

Disposition. A non-U.S. holder will generally not be subject to U.S. federal income taxation with respect to gain realized on the sale, exchange or other disposition of a note, unless:

(1) the non-U.S. holder holds the note in connection with the conduct of a U.S. trade or business (and, in the case of certain tax treaties, the gain is attributable to a permanent establishment or fixed base within the United States), in which case such gain will be taxed on a net income basis in the same manner as interest that is effectively connected with the non-U.S. holder's conduct of a trade or business within the United States as described above; or

(2) in the case of an individual, such individual is present in the United States for 183 days or more during the taxable year in which such gain is realized and certain other conditions are met, in which case the non-U.S. holder will be subject to a tax, currently at a rate of 30%, on the excess, if any, of such gain plus all other U.S. source capital gains recognized by such holder during the same taxable year over the non-U.S. holder's U.S. source capital losses recognized during such taxable year.

FATCA. Under the Foreign Account Tax Compliance Act and the regulations and administrative guidance promulgated thereunder ("FATCA"), withholding at a rate of 30% will generally be required in certain circumstances on interest payments in respect of, and, after December 31, 2018, gross proceeds from the sale or other disposition of, notes held by or through certain foreign financial institutions (including investment funds), unless such institution otherwise qualifies for an exemption or (i) enters into, and complies with, an agreement with the IRS to report, on an annual basis, information with respect to interests in, and accounts maintained by, the institution that are owned by certain U.S. persons and by certain non-U.S. entities that are wholly or partially owned by U.S. persons and to withhold on certain payments, or (ii) if required under an intergovernmental agreement between the U.S. and an applicable foreign country, reports such information to its local tax authority, which will exchange such information with the U.S. authorities. An intergovernmental agreement between the

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United States and an applicable foreign country, or other guidance, may modify these requirements. Similarly, in certain circumstances, interest payments in respect of, and, after December 31, 2018, gross proceeds from the sale or other disposition of, notes held by an investor that is a non-financial non-U.S. entity that do not qualify under certain exemptions generally will be subject to withholding at a rate of 30%, unless such entity either (i) certifies that such entity does not have any "substantial United States owners" or (ii) provides certain information regarding the entity's "substantial United States owners," which we will in turn provide to the IRS. Accordingly, the entity through which the notes are held will affect the determination of whether withholding under the rules described in this paragraph is required. We will not pay any additional amounts to non-U.S. holders in respect of any amounts withheld. Prospective investors should consult their tax advisors regarding the possible implications of these rules on their investment in the notes.

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UNDERWRITING (CONFLICTS OF INTEREST)

We have entered into an underwriting agreement with J.P. Morgan Securities LLC and U.S. Bancorp Investments, Inc., as representatives of the underwriters, pursuant to which, and subject to its terms and conditions, we have agreed to sell to the underwriters, and each of the underwriters below has severally agreed to purchase from us, the respective principal amount of notes shown opposite its name in the following table.

Underwriters	Principal Amount of Notes
J.P. Morgan Securities LLC	$ 90,000,000
U.S. Bancorp Investments, Inc.	$ 90,000,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	$ 70,000,000
Wells Fargo Securities, LLC	$ 70,000,000
BB&T Capital Markets, a division of BB&T Securities, LLC	$ 27,500,000
BNP Paribas Securities Corp.	$ 22,500,000
Regions Securities LLC	$ 22,500,000
TD Securities (USA) LLC	$ 22,500,000
Citizens Capital Markets, Inc.	$ 15,000,000
The Huntington Investment Company	$ 15,000,000
Capital One Securities, Inc.	$ 12,500,000
PNC Capital Markets LLC	$ 12,500,000
Mizuho Securities USA LLC	$ 10,000,000
MUFG Securities Americas Inc.	$ 10,000,000
SunTrust Robinson Humphrey, Inc.	$ 10,000,000
Total	$ 500,000,000

The underwriting agreement provides that the underwriters' obligation to purchase the notes depends on the satisfaction of the conditions contained in the underwriting agreement.

The representatives of the underwriters have advised us that the underwriters intend to offer the notes initially at the public offering price shown on the cover page of this prospectus supplement and may offer the notes to certain dealers at such public offering price less a selling concession not to exceed 0.400% of the aggregate principal amount of the notes. The underwriters may allow, and dealers may re-allow, a concession on sales to other dealers not to exceed 0.250% of the aggregate principal amount of the notes. After the initial offering of the notes, the representatives may change the public offering price and the concessions to selected dealers.

Discounts, Commissions and Expenses

The following table shows the underwriting discounts we will pay to the underwriters. The underwriting fee is the difference between the initial public offering price and the amount the underwriters pay to us for the notes:

Per Note	Total
0.650%	$ 3,250,000

We estimate that the expenses of this offering that are payable by us, including registration, filing fees, printing fees and legal and accounting expenses, but excluding the underwriting discounts, will be approximately $1 million. The underwriters have agreed to reimburse us for certain of our expenses in connection with this offering.

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New Issue of Securities

The notes are a new issue of securities with no established trading market. We do not intend to list the notes on any securities exchange or arrange for quotation of the notes on any automated dealer quotation system. The underwriters have advised us that they presently intend to make a market in the notes as permitted by applicable laws and regulations. The underwriters are not obligated, however, to make a market in the notes, and they may discontinue this market making at any time in their sole discretion. Accordingly, we cannot assure investors that there will be an adequate trading market for the notes or of the liquidity of that market.

Price Stabilization, Short Positions and Penalty Bids

The representatives may engage in stabilizing transactions, short sales, purchases to cover positions created by short sales, penalty bids or purchases for the purpose of pegging, fixing or maintaining the price of the notes in accordance with Regulation M under the Exchange Act.

- Stabilizing transactions permit bids to purchase the notes so long as the stabilizing bids do not exceed a specified maximum.

- A syndicate short position is created by sales by the underwriters of notes in excess of the principal amount of notes the underwriters are obligated to purchase in the offering. Since the underwriters in this offering do not have an over-allotment option to purchase additional notes, their short position, if any, will be a naked short position. A naked short position can be closed out only by buying notes in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the notes in the open market after pricing that could adversely affect investors who purchase in the offering.

- Syndicate covering transactions involve purchases of notes in the open market after the distribution has been completed in order to cover syndicate short positions.

- Penalty bids permit the representatives to reclaim a selling concession from a syndicate member when the notes originally sold by the syndicate member are purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of the notes or preventing or retarding a decline in the market price of the notes. As a result, the price of the notes may be higher than the price that might otherwise exist in the open market. These transactions, if commenced, may be discontinued at any time.

Neither we nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the notes. In addition, neither we nor the underwriters make any representation that the representatives will engage in these stabilizing transactions or that any transaction, once commenced, will not be discontinued without notice.

Clear Market

We have agreed not to, directly or indirectly, issue, sell, offer to sell, grant any option for the sale of, or otherwise dispose of, any debt securities that are substantially similar to the notes and the guarantees from the date of this prospectus supplement until the closing of this offering without the prior written consent of J.P. Morgan Securities LLC and U.S. Bancorp Investments, Inc.

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Indemnification

We have agreed to indemnify the underwriters against liabilities relating to the offering, including liabilities under the Securities Act and to contribute to payments that the underwriters may be required to make for these liabilities.

Conflicts of Interest

From time to time, certain of the underwriters and/or their respective affiliates have directly and indirectly engaged, and may engage in the future, in investment and/or commercial banking transactions with us for which they have received, or may receive, customary compensation and expense reimbursement. J.P. Morgan Securities LLC, U.S. Bancorp Investments, Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, and Wells Fargo Securities, LLC and/or their affiliates and certain of the other underwriters and/or their affiliates currently serve, or may serve, as bookrunners, arrangers, lenders and/or agents under our credit facility. To the extent that we use any of the net proceeds from this offering to repay borrowings under our credit facility or to repay any of our other indebtedness held by any of the underwriters or their affiliates, the underwriters or the affiliates of the underwriters that are lenders under our credit facility or holders of such other indebtedness will receive proceeds of this offering through the repayment of borrowings under our credit facility or such other indebtedness. J.P. Morgan Securities LLC, U.S. Bancorp Investments, Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, and Wells Fargo Securities, LLC, and/or their affiliates will each receive at least 5% of the net offering proceeds, and will, therefore, have a "conflict of interest" as defined in FINRA Rule 5121. Any of the other underwriters and/or their affiliates that are lenders under the credit facility also will have a conflict of interest pursuant to the rule if they receive at least 5% of the net offering proceeds. Accordingly, this offering will be made in compliance with FINRA Rule 5121 and any underwriter that has a conflict of interest pursuant to the rule will not confirm sales to accounts in which it exercises discretionary authority without the prior written consent of the customer. However, because the notes are investment grade rated, no "qualified independent underwriter" is required to be appointed in connection with this offering.

In addition, in the ordinary course of their business activities, the underwriters and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. If any of the underwriters or their affiliates have a lending relationship with us, certain of those underwriters or their affiliates routinely hedge, and certain other of these underwriters or their affiliates may hedge, their credit exposure to us consistent with their customary risk management policies. Typically, such underwriters and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the notes offered hereby. The underwriters and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Extended Settlement

We expect that delivery of the notes will be made to investors on or about May 17, 2018, which will be the fifth business day following the date of this prospectus supplement (such settlement being referred to as "T+5"). Pursuant to Rule 15c6-1 under the Exchange Act, trades in the secondary market generally are required to settle in two business days unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers of the notes who wish to trade the notes on the date of this prospectus supplement or the next two business days will be required, by virtue of the fact that the notes initially will settle in T+5, to specify an alternative settlement cycle at the time of any such trade to prevent failed settlement and should consult their own advisors.

Notice to Investors

Canada

The notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 *Prospectus Exemptions* or subsection 73.3(1) of the *Securities Act* (Ontario), and are permitted clients, as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Any resale of the notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this prospectus supplement and the accompanying prospectus (including any amendment hereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 *Underwriting Conflicts* ("NI 33-105"), the underwriters are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

European Economic Area

None of this prospectus supplement, the accompanying prospectus nor any related free writing prospectus is a prospectus for the purposes of the Prospectus Directive (as defined below). This prospectus supplement, the accompanying prospectus and any related free writing prospectus have been prepared on the basis that any offer of notes in any Member State of the European Economic Area (the "EEA") which has implemented the Prospectus Directive (each, a "Relevant Member State") will only be made to a legal entity which is a qualified investor under the Prospectus Directive ("Qualified Investors"). Accordingly any person making or intending to make an offer in that Relevant Member State of notes which are the subject of the offering contemplated in this prospectus supplement, the accompanying prospectus and any related free writing prospectus may only do so with respect to Qualified Investors. Neither O'Reilly Automotive, Inc. nor the underwriters have authorized, nor do they authorize, the making of any offer of notes other than to Qualified Investors. The expression "Prospectus Directive" means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

PRIIPs Regulation / Prospectus Directive / Prohibition of sales to EEA retail investors The notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, (a) a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU, as amended ("MiFID II"); or (ii) a customer within the meaning of Directive 2002/92/EC (the Insurance Mediation Directive), as amended, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive; and (b) the expression "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe for the notes. Consequently no key information document required by Regulation (EU) No 1286/2014, as amended

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(the "PRIIPs Regulation") for offering or selling the notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

Hong Kong

The notes have not been offered or sold and will not be offered or sold in Hong Kong by means of any document other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "SFO") and any rules made thereunder or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "C(WUMP)O") or which do not constitute an offer to the public within the meaning of C(WUMP)O; and no advertisement, invitation or document relating to the notes may be issued or may be in the possession of any person for the purposes of issue (in each case whether in Hong Kong or elsewhere) which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong or otherwise is or contains an invitation to the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made thereunder.

Japan

The notes have not been and will not be registered for a public offering in Japan pursuant to Article 4, Paragraph 1 of the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended) (the "FIEA"), and the notes may not be offered or sold and each underwriter has represented and agreed that it has not offered or sold, and will not offer or sell, any notes, directly or indirectly, in Japan or to or for the account or benefit of any Japanese Person, or to others for re-offering or resale, directly or indirectly, in Japan or to or for the account or benefit of any Japanese Person, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations, ordinances and ministerial guidelines of Japan in effect at the relevant time. For the purposes of this paragraph, "Japanese Person" shall mean any person resident in Japan including any corporation or other entity organized under the laws of Japan.

Singapore

This prospectus supplement and the accompanying prospectus have not been and will not be registered as a prospectus under the Securities and Futures Act, Chapter 289 of Singapore ("SFA") by the Monetary Authority of Singapore, and the offer of the notes in Singapore is made primarily pursuant to the exemptions under Sections 274 and 275 of the SFA. Accordingly, this prospectus supplement and the accompanying prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the notes may not be circulated or distributed, nor may the notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor as defined in Section 4A of the SFA (an "Institutional Investor") pursuant to Section 274 of the SFA, (ii) to an accredited investor as defined in Section 4A of the SFA (an "Accredited Investor") or other relevant person as defined in Section 275(2) of the SFA (a "Relevant Person") and pursuant to Section 275(1) of the SFA, or to any person pursuant to an offer referred to in Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with, the conditions of any other applicable exemption or provision of the SFA.

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It is a condition of the offer that where the notes are subscribed for or acquired pursuant to an offer made in reliance on Section 275 of the SFA by a Relevant Person which is:

(a) a corporation (which is not an Accredited Investor), the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an Accredited Investor; or

(b) a trust (where the trustee is not an Accredited Investor), the sole purpose of which is to hold investments and each beneficiary of the trust is an individual who is an Accredited Investor,

the shares, debentures and units of shares and debentures of that corporation, and the beneficiaries' rights and interest (howsoever described) in that trust, shall not be transferred within six months after that corporation or that trust has subscribed for or acquired the notes except:

(1) to an Institutional Investor, or an Accredited Investor or other Relevant Person, or which arises from an offer referred to in Section 275(1A) of the SFA (in the case of that corporation) or Section 276(4)(i)(B) of the SFA (in the case of that trust);

(2) where no consideration is or will be given for the transfer; or

(3) where the transfer is by operation of law.

United Kingdom

The communication of this prospectus supplement, the accompanying prospectus, any related free writing prospectus and any other document or materials relating to the issue of the notes offered hereby is not being made, and such documents and/or materials have not been approved, by an authorized person for the purposes of section 21 of the United Kingdom's Financial Services and Markets Act 2000, as amended (the "FSMA"). Accordingly, such documents and/or materials are not being distributed to, and must not be passed on to, the general public in the United Kingdom. The communication of such documents and/or materials as a financial promotion is only being made to those persons in the United Kingdom who have professional experience in matters relating to investments and who fall within the definition of investment professionals (as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Financial Promotion Order")), or who fall within Article 49(2)(a) to (d) of the Financial Promotion Order, or who are any other persons to whom it may otherwise lawfully be made under the Financial Promotion Order (all such persons together being referred to as "relevant persons"). In the United Kingdom, the notes offered hereby are only available to, and any investment or investment activity to which this prospectus supplement, the accompanying prospectus and any related free writing prospectus relates will be engaged in only with, relevant persons. Any person in the United Kingdom that is not a relevant person should not act or rely on this prospectus supplement, the accompanying prospectus or any related free writing prospectus or any of their contents.

Any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) in connection with the issue or sale of the notes may only be communicated or caused to be communicated in circumstances in which Section 21(1) of the FSMA does not apply to O'Reilly Automotive, Inc.

All applicable provisions of the FSMA must be complied with in respect to anything done by any person in relation to the notes in, from or otherwise involving the United Kingdom.

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LEGAL MATTERS

Certain legal matters relating to the offering of the notes will be passed upon for us by Skadden, Arps, Slate, Meagher & Flom LLP, Los Angeles, California. Certain matters of Missouri law with respect to the notes and the guarantees will be passed upon for us by Shook, Hardy & Bacon L.L.P., Kansas City, Missouri. Sidley Austin LLP, New York, New York, will act as counsel to the underwriters.

EXPERTS

The consolidated financial statements of O'Reilly Automotive, Inc. and Subsidiaries appearing in O'Reilly Automotive, Inc.'s Annual Report (Form 10-K) for the year ended December 31, 2017 including the related notes and financial statement schedule appearing therein, and the effectiveness of O'Reilly Automotive, Inc.'s internal control over financial reporting as of December 31, 2017, have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their reports thereon included therein, and incorporated herein by reference. Such financial statements are, and audited financial statements to be included in subsequently filed documents will be, incorporated herein in reliance upon the reports of Ernst & Young LLP pertaining to such financial statements and the effectiveness of our internal control over financial reporting as of the respective dates (to the extent covered by consents filed with the Securities and Exchange Commission) given on the authority of such firm as experts in accounting and auditing.

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PROSPECTUS

O'Reilly Automotive, Inc.

Debt Securities

We may offer from time to time debt securities which may or may not be guaranteed by one or more of our subsidiaries.

We will provide specific terms of any offering, including the price to the public of the debt securities, in supplements to this prospectus. These securities may be offered separately or together in any combination and as separate series. You should read this prospectus and any applicable prospectus supplement and free writing prospectus carefully before you invest in our debt securities.

We may sell these debt securities on a continuous or delayed basis directly, through underwriters, dealers or agents as designated from time to time, or through a combination of these methods.

Investing in our debt securities involves certain risks. See "Risk Factors" beginning on page 1 of this prospectus and Part I, Item 1A, "Risk Factors" beginning on page 13 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, filed with the SEC on February 26, 2016, which is incorporated by reference herein, as well as the other information included and incorporated by reference herein, to read about factors you should consider before deciding to invest in our debt securities.

Neither the Securities and Exchange Commission nor any state or other securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is February 29, 2016.

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In this prospectus, except as otherwise noted, the words "we," "our," "ours" and "us" refer to O'Reilly Automotive, Inc. and all of its subsidiaries.

You should rely only on the information contained in or incorporated by reference into this prospectus or any related prospectus supplement or free writing prospectus. We and the underwriters have not authorized anyone to provide you with different or additional information. If anyone provides you with different or additional information, you should not rely on it. The information in this prospectus, any related prospectus supplement or free writing prospectus and the documents incorporated by reference herein and therein is accurate only as of their respective dates, even though this prospectus may be delivered or debt securities may be sold under this prospectus on a later date. Our business, financial condition, results of operations, cash flows and prospects may have changed since those dates.

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ABOUT THIS PROSPECTUS

This prospectus is part of an automatic shelf registration statement on Form S-3 that we filed with the Securities and Exchange Commission, or the SEC, as a "well-known seasoned issuer" as defined in Rule 405 of the Securities Act of 1933, as amended, or the Securities Act. Under the shelf registration process, we may from time to time, offer and sell to the public any or all of the debt securities described in the registration statement in one or more offerings. As allowed by the SEC rules, this prospectus does not contain all of the information included in the registration statement. For further information, we refer you to the registration statement, including its exhibits. Statements contained in this prospectus about the provisions or contents of any agreement or other document are not necessarily complete. If the SEC's rules or regulations require that an agreement or document be filed as an exhibit to the registration statement, please see that agreement or document for a complete description of these matters.

This prospectus provides you with a general description of the debt securities we may offer. Each time debt securities are offered, we will provide a prospectus supplement and/or a free writing prospectus that will describe the specific amounts, prices, and terms of the debt securities we offer. The prospectus supplement and/or free writing prospectus will contain more specific information about the offering. The prospectus supplement and/or free writing prospectus also may add, update, or change information contained in this prospectus. This prospectus, together with any applicable prospectus supplement and/or free writing prospectus, includes all material information relating to this offering. If there is any inconsistency between the information in this prospectus and the information in any such prospectus supplement and/or free writing prospectus, you should rely on the information in such prospectus supplement and/or free writing prospectus. Please carefully read both this prospectus and any prospectus supplement and/or free writing prospectus together with the additional information described below under the section entitled "Incorporation of Certain Documents by Reference."

We may sell these debt securities on a continuous or delayed basis directly, through underwriters, dealers or agents as designated from time to time, or through a combination of these methods. We and our agents reserve the sole right to accept and to reject in whole or in part any proposed purchase of debt securities. The names of any such underwriters, dealers or agents involved in the sale of any such debt securities, and any applicable fee, commission, or discount arrangements with them, will be described in the applicable prospectus supplement and/or free writing prospectus for such debt securities.

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and its rules and regulations. The Exchange Act requires us to file reports, proxy statements and other information with the SEC. Copies of these reports, proxy statements and other information can be read and copied at: SEC Public Reference Room, 100 F Street N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains a web site that contains reports, proxy statements and other information regarding issuers that file electronically with the SEC. These materials may be obtained electronically by accessing the SEC's website at *http://www.sec.gov*.

We make available, free of charge on our web site, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements and amendments to these reports filed or furnished pursuant to Section 13(a), 14 or 15(d) of the Exchange Act, as soon as reasonably practicable after we electronically file these documents with, or furnish them to, the SEC. These documents are posted on our web site at *www.oreillyauto.com*. The information contained on our website (other than the SEC filings expressly referred to below) is not incorporated by reference herein and does not form a part of this prospectus.

Copies of any of the above-referenced documents will also be made available, free of charge, upon written request to: O'Reilly Automotive, Inc., 233 South Patterson, Springfield, Missouri 65802, Attention: Secretary.

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INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The SEC allows us to incorporate into this prospectus information we file with the SEC in other documents. The information incorporated by reference is considered to be part of this prospectus and information we later file with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings made with the SEC under Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act until the offering of debt securities made by this prospectus is completed or terminated. The documents we have incorporated by reference are:

- Annual Report on Form 10-K for the fiscal year ended December 31, 2015, filed with the SEC on February 26, 2016;

- Portions of the Definitive Proxy Statement on Schedule 14A, filed with the SEC on March 20, 2015, that are incorporated by reference into Part III of our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, filed with the SEC on February 27, 2015; and

- Current Reports on Form 8-K filed with the SEC on February 10, 2016 (Item 8.01 only) and February 25, 2016.

Notwithstanding the above, information that is "furnished" to the SEC (including information furnished under Item 2.02 or 7.01 of Form 8-K and corresponding information furnished under Item 9.01 or included as an exhibit) shall not be incorporated by reference or deemed to be incorporated by reference into this prospectus or the related registration statement.

We will provide, without charge, to each person, including any beneficial owner, to whom a copy of this prospectus is delivered, upon written or oral request of such person, a copy of any or all of the documents incorporated by reference in this prospectus, other than exhibits to such documents unless such exhibits are specifically incorporated by reference into such documents. Requests may be made by telephone at (417) 874-7161, or by sending a written request to O'Reilly Automotive, Inc., 233 South Patterson, Springfield, Missouri 65802, Attention: Secretary.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

We claim the protection of the safe harbor for forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. You can identify these statements by forward-looking words such as "estimate," "may," "could," "will," "believe," "expect," "would," "consider," "should," "anticipate," "project," "plan," "intend" or similar words. In addition, statements contained within this prospectus that are not historical facts are forward-looking statements, such as statements discussing, among other things, expected growth, store development, integration and expansion strategy, business strategies, future revenues and future performance. These forward-looking statements are based on estimates, projections, beliefs and assumptions and are not guarantees of future events and results. Such statements are subject to risks, uncertainties and assumptions, including, but not limited to, the economy in general, inflation, product demand, the market for auto parts, competition, weather, risks associated with the performance of acquired businesses, our ability to hire and retain qualified employees, consumer debt levels, our increased debt levels, credit ratings on public debt, governmental regulations, terrorist activities, war and the threat of war. Actual results may materially differ from anticipated results described or implied in these forward-looking statements. For further information, see the section entitled "Risk Factors" in this prospectus and any applicable prospectus supplement and/or free writing prospectus and any sections entitled "Business," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors" contained in documents incorporated by reference into this prospectus or any applicable prospectus supplement and/or free writing prospectus. Forward-looking statements speak only as of the date they were made and we undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

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THE COMPANY

We are one of the largest specialty retailers of automotive aftermarket parts, tools, supplies, equipment and accessories in the United States, selling our products to both do-it-yourself and professional service provider customers, our "dual market strategy." The business was founded in 1957 by Charles F. O'Reilly and his son, Charles H. "Chub" O'Reilly, Sr., and initially operated from a single store in Springfield, Missouri.

At December 31, 2015, we operated 4,571 stores in 44 states. Our stores carry an extensive product line, including

- new and remanufactured automotive hard parts, such as alternators, starters, fuel pumps, water pumps, brake system components, batteries, belts, hoses, temperature control, chassis parts, driveline parts and engine parts;
- maintenance items, such as oil, antifreeze, fluids, filters, wiper blades, lighting, engine additives and appearance products; and
- accessories, such as floor mats, seat covers and truck accessories.

Our stores offer many enhanced services and programs to our customers, such as

- used oil, oil filter and battery recycling;
- battery, wiper and bulb replacement;
- battery diagnostic testing;
- electrical and module testing;
- check engine light code extraction;
- loaner tool program;
- drum and rotor resurfacing;
- custom hydraulic hoses;
- professional paint shop mixing and related materials; and
- machine shops.

We are a Missouri corporation and the address of our principal executive offices is 233 South Patterson, Springfield, Missouri 65802. Our telephone number is (417) 862-6708, and our website is *www.oreillyauto.com*. Any references in this prospectus to our website are inactive textual references only, and the information contained on or that can be accessed through our website (except for the SEC filings expressly incorporated by reference herein) is not incorporated in, and is not a part of, this prospectus, and any such information should not be relied upon in connection with any investment decision to purchase any debt securities.

RISK FACTORS

Investing in our debt securities involves risks. You should carefully review the risk factors contained under the heading "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 and any risk factors that we may describe in our Quarterly Reports on Form 10-Q or Current Reports on Form 8-K filed subsequently to the Annual Report on Form 10-K, which risk factors are incorporated by reference in this prospectus, the information contained under the heading "Cautionary Statement Concerning Forward-Looking Statements" in this prospectus or under any similar heading in any applicable prospectus supplement and/or free writing prospectus or in any document incorporated herein or therein by reference, any specific risk factors discussed under the

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caption "Risk Factors" in any applicable prospectus supplement and/or free writing prospectus or in any document incorporated herein or therein by reference and the other information contained in, or incorporated by reference in, this prospectus or any applicable prospectus supplement and/or free writing prospectus before making an investment decision. The risks and uncertainties described in our SEC filings are not the only ones facing us. Additional risks and uncertainties not presently known to us, or that we currently see as immaterial, may also harm our business. If any such risks and uncertainties actually occur, our business, financial condition, results of operations, cash flows and prospects could be materially and adversely affected, the market price of our debt securities could decline and you could lose all or part of your investment. See "Incorporation of Certain Documents by Reference" and "Cautionary Statement Regarding Forward-Looking Statements."

USE OF PROCEEDS

Unless otherwise stated in the prospectus supplement and/or free writing prospectus accompanying this prospectus, we intend to use the net proceeds from any sale of debt securities that may be offered hereby for general corporate purposes, which may include ordinary course working capital increases, repurchases of shares of common stock, repayment of debt and to invest in other business opportunities, including acquisitions, and to pay related fees and expenses. The prospectus supplement and/or any free writing prospectus relating to an offering will contain a more detailed description of the use of proceeds of any specific offering of debt securities.

RATIO OF EARNINGS TO FIXED CHARGES

The table below reflects our consolidated ratio of earnings to fixed charges for the years ended December 31, 2015, 2014, 2013, 2012 and 2011.

	For the Year Ended December 31,				
	2015	2014	2013	2012	2011
Ratio of earnings to fixed charges(a)	9.2x	8.1x	7.4x	7.9x	7.7x

(a) For purposes of computing our consolidated ratio of earnings to fixed charges, earnings consist of income before income taxes plus fixed charges. Fixed charges consist of interest expense, amortization of debt issuance costs and an estimate of the interest portion of rent expense.

DESCRIPTION OF DEBT SECURITIES

References in this "Description of Debt Securities" section to "we," "us," "our" or "O'Reilly" refer only to O'Reilly Automotive, Inc. and not to any of the subsidiaries of O'Reilly Automotive, Inc.

The following is a summary of some general terms and provisions of debt securities that we may offer by this prospectus. Because it is a summary, it does not contain all of the information that may be important to you. If you want more information, you should read the form of indenture which we have filed as an exhibit to the registration statement of which this prospectus is a part. If we issue debt securities, we will file any final indenture, and any supplemental indenture or officer's certificate related to the particular series of debt securities issued, with the SEC, and you should read those documents for further information about the terms and provisions of such debt securities. See "Where You Can Find More Information." This summary is also subject to and qualified by reference to the descriptions of the particular terms of our debt securities to be described in the applicable prospectus supplement and/or any free writing prospectus. The applicable prospectus supplement and/or any free writing prospectus may add to, update or change the terms of such debt securities from those described below.

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The debt securities sold under this prospectus will be direct obligations of O'Reilly Automotive, Inc., unless otherwise stated in a prospectus supplement. Any such debt securities may be guaranteed by one or more of our subsidiaries, each of which we refer to as a guarantor, to the extent stated in a prospectus supplement. Such debt securities may be secured or unsecured, and may be senior or subordinated indebtedness, in each case as stated in a prospectus supplement. Our debt securities will be issued under an indenture between us and a trustee. The indenture will be subject to and governed by the Trust Indenture Act of 1939, as amended, or the Trust Indenture Act. The statements made in this prospectus relating to the indenture and the debt securities to be issued under the indenture are summaries of certain anticipated provisions of the indenture and are not complete.

General

We may issue debt securities that rank "senior," "senior subordinated" or "junior subordinated." The debt securities that we refer to as "senior" will be direct obligations of O'Reilly Automotive, Inc. and will rank equally and ratably in right of payment with our other indebtedness that is not subordinated, without giving effect to collateral arrangements. We may issue debt securities that may be subordinated in right of payment to the prior payment in full of our senior debt, as defined in the applicable prospectus supplement, and may rank equally and ratably with our other senior subordinated indebtedness, if any, without giving effect to collateral arrangements. We refer to these as "senior subordinated" debt securities. We may also issue debt securities that may be subordinated in right of payment to the senior subordinated debt securities. These would be "junior subordinated" debt securities.

We may issue debt securities without limit as to aggregate principal amount, in one or more series, in each case as we establish in one or more supplemental indentures or officer's certificates. We need not issue all debt securities of one series at the same time. Unless we otherwise provide, we may reopen a series, without the consent of the holders of the series, for issuances of additional debt securities of that series.

We anticipate that the indenture will provide that we may, but need not, designate more than one trustee under the indenture, each with respect to one or more series of debt securities. The trustee under the indenture may resign or be removed with respect to one or more series of debt securities, and we may appoint a successor trustee to act with respect to any such series.

The applicable prospectus supplement and/or any free writing prospectus will describe the specific terms relating to the series of debt securities we will offer, including, where applicable, the following:

- the title and series designation and whether they are senior debt securities, senior subordinated debt securities or junior subordinated debt securities;
- the aggregate principal amount of the debt securities offered and any limit on the aggregate principal amount of that series that may be authenticated and delivered;
- the percentage of the principal amount at which we will issue the debt securities and, if other than the principal amount of the debt securities, the portion of the principal amount of the debt securities payable upon maturity of the debt securities;
- the stated maturity date;
- any fixed or variable interest rate or rates per annum;
- whether such interest will be payable in cash or additional debt securities of the same series or will accrue and increase the aggregate principal amount outstanding of such series;
- the place where principal, premium, if any, and interest will be payable and where the debt securities can be surrendered for transfer, exchange or conversion;

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the date from which interest may accrue and any interest payment dates and any related record dates;

any sinking fund requirements;

any provisions for redemption or repurchase, including the redemption or repurchase price;

whether the debt securities are denominated or payable in U.S. dollars, a foreign currency or units of two or more currencies;

whether the amount of payments of principal of or premium, if any, or interest on the debt securities may be determined with reference to an index, formula or other method and the manner in which such amounts shall be determined;

the events of default and covenants of the debt securities, to the extent different from or in addition to those described in this prospectus;

whether we will issue the debt securities in certificated or book-entry form;

whether the debt securities will be in registered or bearer form and, if in registered form, the denominations, if other than a minimum denomination of $2,000 and integral multiples of $1,000 in excess thereof, and, if in bearer form, the denominations and terms and conditions relating thereto;

whether we will issue any of the debt securities in permanent global form and, if so, the terms and conditions, if any, upon which interests in the global debt security may be exchanged, in whole or in part, for the individual debt securities represented by the global debt security;

any addition or change to the provisions relating to the legal defeasance or covenant defeasance provisions of, or the satisfaction and discharge of, the debt securities;

whether we will pay additional amounts on the debt securities in respect of any tax, assessment or governmental charge and, if so, whether we will have the option to redeem the debt securities instead of making this payment;

the subordination provisions, if any, relating to the debt securities;

any restriction or condition on the transferability of debt securities;

any addition or change to the provisions related to compensation and reimbursement of the trustee which applies to the debt securities;

any addition or change to the provisions related to supplemental indentures both with and without the consent of the holders;

- provisions, if any, granting special rights to holders upon the occurrence of specified events;

- any addition or change to the events of default which applies to any debt securities and any change in the right of the trustee or the requisite holders of such debt securities to declare the principal amount thereof due and payable pursuant to the indenture; and

- any other terms of debt securities of such series (which terms will not be inconsistent with the provisions of the Trust Indenture Act, but may modify, amend, supplement or delete any of the terms of the indenture, including those described in this prospectus or any applicable prospectus supplement and/or free writing prospectus, with respect to such series).

We will describe in the applicable prospectus supplement and/or free writing prospectus any material U.S. federal income tax considerations applicable to the debt securities offered by such prospectus supplement.

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We may issue debt securities at less than the principal amount payable at maturity. We refer to these debt securities as "original issue discount" debt securities. If material or applicable, we will describe in the applicable prospectus supplement special U.S. federal income tax considerations applicable to original issue discount debt securities.

Except as may be described in any prospectus supplement and/or free writing prospectus, the indenture will not contain any provisions that would limit our ability to incur indebtedness or that would afford holders of the debt securities protection in the event of a highly leveraged or similar transaction involving us. You should review carefully the applicable prospectus supplement and/or free writing prospectus for information with respect to events of default and covenants applicable to the debt securities being offered.

Denominations and Interest

Unless otherwise described in the applicable prospectus supplement and/or free writing prospectus, we will issue debt securities of any series that are registered debt securities in a minimum denomination of $2,000 and integral multiples of $1,000 in excess thereof.

Unless otherwise specified in the applicable prospectus supplement and/or free writing prospectus, we will pay the interest, principal and any premium at the corporate trust office of the trustee or, at our option, we may make payment of interest by check mailed to the address of the person entitled to the payment as it appears in the applicable register or by wire transfer of funds to that person at an account maintained within the United States or, in the case of global debt securities, in accordance with the procedures of the depositary for such debt securities.

Certain Covenants

If debt securities are issued, the indenture, as supplemented for a particular series of debt securities, will contain certain covenants for the benefit of the holders of such series of debt securities, which will be applicable (unless waived or amended) so long as any of the debt securities of such series are outstanding, unless stated otherwise in the prospectus supplement. The specific terms of the covenants, and summaries thereof, will be set forth in the prospectus supplement relating to such series of debt securities.

SEC Reports

The indenture provides that we agree to file with the trustee, within 15 days after we are required to file the same with the SEC, copies of the annual reports and of the information, documents, and other reports, if any, that we are required to file with the SEC pursuant to Section 13 or Section 15(d) of the Exchange Act or pursuant to Section 314 of the Trust Indenture Act.

Merger, Consolidation or Sale of Assets

The indenture provides that we shall not merge, consolidate or amalgamate with or into any other person or sell, transfer, assign, lease, convey or otherwise dispose of all or substantially all of our property in any one transaction or series of related transactions unless:

(1) O'Reilly shall be the surviving person (the "Surviving Person") or the Surviving Person (if other than O'Reilly) formed by such merger, consolidation or amalgamation or to which such sale, transfer, assignment, lease, conveyance or disposition is made shall be a person organized and existing under the laws of the U.S., any State thereof or the District of Columbia,

(2) the Surviving Person (if other than O'Reilly) expressly assumes, by supplemental indenture in form reasonably satisfactory to the trustee, executed and delivered to the trustee by such Surviving Person, the due and punctual payment of the principal of, and premium, if any, and

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interest on, all the notes, according to their tenor, and the due and punctual performance and observance of all the covenants and conditions of the indenture to be performed by O'Reilly,

(3) immediately before and immediately after giving effect to such transaction or series of related transactions, no default or event of default shall have occurred and be continuing, and

(4) O'Reilly shall deliver, or cause to be delivered, to the trustee, an officer's certificate and an opinion of counsel, each stating that such transaction and the supplemental indenture, if any, in respect thereto comply with this covenant and that all conditions precedent in the indenture relating to such transaction have been complied with.

For the purposes of this covenant, the sale, transfer, assignment, lease, conveyance or other disposition of all the property of one or more subsidiaries of O'Reilly, which property, if held by O'Reilly instead of such subsidiaries, would constitute all or substantially all the property of O'Reilly on a consolidated basis, shall be deemed to be the transfer of all or substantially all the property of O'Reilly.

With respect to a series of guaranteed debt securities, the indenture provides that, unless the subsidiary guarantee of the applicable subsidiary guarantor is permitted by the indenture to be released in connection with such transaction, such subsidiary guarantor shall not merge, consolidate or amalgamate with or into any other person or sell, transfer, assign, lease, convey or otherwise dispose of all or substantially all its property in any one transaction or series of related transactions unless:

(1) such subsidiary guarantor shall be the surviving person (the "Surviving Guarantor") or the Surviving Guarantor (if other than such subsidiary guarantor) formed by such merger, consolidation or amalgamation or to which such sale, transfer, assignment, lease, conveyance or disposition is made shall be a corporation, limited partnership or limited liability company organized and existing under the laws of the U.S., any State thereof or the District of Columbia,

(2) the Surviving Guarantor (if other than such subsidiary guarantor) expressly assumes, by supplemental indenture in form reasonably satisfactory to the trustee, executed and delivered to the trustee by such Surviving Guarantor, such subsidiary guarantor's guarantee of the due and punctual payment of the principal of, and premium, if any, and interest on, all the notes, according to their tenor, and the due and punctual performance and observance of all the covenants and conditions of the indenture to be performed by such subsidiary guarantor,

(3) immediately before and immediately after giving effect to such transaction or series of related transactions, no default or event of default shall have occurred and be continuing, and

(4) O'Reilly shall deliver, or cause to be delivered, to the trustee, an officers' certificate and an opinion of counsel, each stating that such transaction and the supplemental indenture, if any, in respect thereto comply with this covenant and that all conditions precedent in the indenture relating to such transaction have been complied with.

Notwithstanding the foregoing, (i) any subsidiary may merge, consolidate or amalgamate with or into or sell, transfer, assign, lease, convey or otherwise dispose of all or substantially all its property to O'Reilly or another subsidiary (or, with respect to a series of guaranteed securities, another subsidiary guarantor) and (ii) O'Reilly may merge with an affiliate incorporated solely for the purpose of and with the sole effect of reincorporating or reorganizing O'Reilly in another state of the United States.

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Events of Default

Each of the following constitutes an event of default with respect to a particular series of debt securities:

(1) a default in the payment of principal of or premium, if any, on any debt security of such series when due at its maturity, upon optional redemption, upon required repurchase or otherwise,

(2) our failure to pay interest on any debt security of such series within 30 days of when such amount becomes due and payable,

(3) our failure to comply with any of our covenants or agreements in the indenture (other than a covenant or agreement that does not apply to such series of debt securities) or any debt security of such series (other than a failure that is subject to the foregoing clause (1) or (2)) and our failure to cure (or obtain a waiver of) such default and such failure continues for 90 days after written notice is given to us as provided below,

(4) certain events of bankruptcy, insolvency or reorganization affecting us or any subsidiary guarantor with respect to such series that is a significant subsidiary (or group of subsidiary guarantors that together constitute a significant subsidiary) (the "bankruptcy provisions"),

(5) if such series of debt securities is guaranteed by any subsidiary guarantor that is a significant subsidiary (or group of subsidiary guarantors that together constitute a significant subsidiary), except as permitted by the indenture, any subsidiary guarantee of any such subsidiary guarantor (or group of subsidiary guarantors that together constitute a significant subsidiary) shall be held in any judicial proceeding to be unenforceable or invalid or shall cease for any reason to be in full force and effect, or any subsidiary guarantor that is a significant subsidiary (or group of subsidiary guarantors that together constitute a significant subsidiary), or any person acting on its behalf, shall deny or disaffirm its obligation under any such subsidiary guarantee, and

(6) any other event of default described as may be specified in the applicable prospectus supplement with respect to such series.

A default under clause (3) with respect to a particular series of debt securities is not an event of default with respect to such debt securities until the trustee or the holders of not less than 25% in aggregate principal amount of the debt securities of such series then outstanding notify us of the default and we do not cure such default within the time specified after receipt of such notice. Such notice must specify the default, demand that it be remedied and state that such notice is a "Notice of Default."

If an event of default with respect to a particular series of debt securities (other than an event of default resulting from certain events involving bankruptcy, insolvency or reorganization with respect to us or any subsidiary guarantor with respect to such series) shall have occurred and be continuing, the trustee or the holders of not less than 25% in aggregate principal amount of the debt securities of such series then outstanding may declare, by notice to us in writing (and to the trustee, if given by holders of such debt securities of such series) specifying the event of default, to be immediately due and payable the principal amount of all the debt securities of such series then outstanding, plus accrued but unpaid interest to, but not including, the date of acceleration. After any such acceleration, but before a judgment or decree based on acceleration is obtained by the trustee, the registered holders of a majority in aggregate principal amount of the debt securities of such series then outstanding may, under certain circumstances, rescind and annul such acceleration and waive such event of default if all events of default with respect to such series, other than the nonpayment of accelerated principal or interest, have been cured or waived as provided in the indenture. In case an event of default with respect to a particular series of debt securities resulting from certain events of bankruptcy, insolvency or reorganization with respect to us or any subsidiary guarantor with respect to such series shall occur,

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the principal amount of all of the debt securities of such series then outstanding, plus accrued and unpaid interest, with respect to the debt securities of such series shall be due and payable immediately without any declaration or other act on the part of the trustee or the holders of the debt securities of such series.

Subject to the provisions of the indenture relating to the duties of the trustee in case an event of default shall occur and be continuing, the trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request or direction of any of the holders of the debt securities of any series, unless such holders shall have offered to the trustee indemnity or security reasonably satisfactory to it against any loss, liability or expense. Subject to such provisions for the indemnification of the trustee, the holders of a majority in aggregate principal amount of the debt securities of a particular series then outstanding will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee or exercising any trust or power conferred on the trustee with respect to the debt securities of such series.

No holder of debt securities of any series will have any right to institute any proceeding with respect to the indenture, or for the appointment of a receiver or trustee, or for any remedy thereunder, unless:

(1) such holder has previously given to the trustee written notice of a continuing event of default with respect to the debt securities of such series,

(2) the holders of at least 25% in aggregate principal amount of the debt securities of such series then outstanding have made a written request and offered indemnity to the trustee reasonably satisfactory to it to institute such proceeding as trustee, and

(3) the trustee shall not have received from the holders of a majority in aggregate principal amount of the debt securities of such series then outstanding a written direction inconsistent with such request and shall have failed to institute such proceeding within 60 days.

However, such limitations do not apply to a suit instituted by a holder of any debt security for enforcement of payment of the principal of, and premium, if any, or interest on, such debt security on or after the respective due dates expressed in such debt security.

The indenture provides that if a default with respect to the debt securities of a particular series occurs and is continuing and is known to the trustee, the trustee must send, by first class mail (or, in the case of global debt securities, electronically through the procedures of the depositary for such global debt securities), to each holder of debt securities of such series notice of the default within 90 days after it occurs. The trustee may withhold the notice if and so long as a committee of its trust officers in good faith determines that withholding notice is in the interest of the holders of the debt securities of such series.

The indenture requires us to furnish to the trustee, within 120 days after the end of each fiscal year, a written statement of an officer regarding compliance with the indenture. Within 30 days after the occurrence of any default or event of default, we are required to deliver to the trustee written notice in the form of an officer's certificate a statement specifying its status and what actions we are taking or propose to take with respect thereto.

Modification and Waiver

Modifications and amendments of the indenture may be made by us, the subsidiary guarantors (if any) for such series of debt securities and the trustee with the consent of the holders of a majority in aggregate principal amount of the outstanding debt securities of the series affected by such modification or amendment.

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No such modification or amendment may, without the consent of the holder of each outstanding debt security affected thereby,

- reduce the percentage of principal amount of debt securities the holders of which must consent to an amendment, modification, supplement or waiver,
- reduce the rate of or extend the time of payment for interest on such debt security,
- reduce the principal amount or extend the stated maturity of such debt security,
- reduce the redemption price of such debt security or add redemption provisions to such debt security,
- make such debt security payable in money other than that stated in the indenture or the debt security,
- if such debt security is guaranteed by any subsidiary guarantor, other than in accordance with the provisions of the indenture, eliminate any existing subsidiary guarantee of such debt security, or
- impair the right to receive, and to institute suit for the enforcement of, any payment with respect to such debt security.

Without the consent of any holder, we, the subsidiary guarantors (if any) for such series of debt securities and the trustee may amend the indenture to, among other things, provide for the assumption by a successor of our or any such subsidiary guarantor's obligations under the indenture as permitted thereunder; establish the forms or terms of debt securities of any series; provide for the issuance of additional debt securities of any series, subject to any limitations set forth in the terms of such series; add guarantees or security with respect to any series of debt securities or confirm and evidence the release, termination or discharge of any guarantee or security interest in accordance with the indenture; comply with the requirements of the SEC in connection with the qualification and maintenance of qualification under the Trust Indenture Act and comply with the rules of any applicable securities depositary; conform the text of the indenture or the debt securities or any subsidiary guarantees to any description thereof in this prospectus or any prospectus supplement and/or free writing prospectus; cure any ambiguity, omission, defect or inconsistency; add to, change or eliminate any of the provisions, so long as such addition, change or elimination does not apply to any debt security of any existing series of debt securities entitled to the benefit of such provision or modify the rights of the holder of any such debt security with respect to such provision or such addition, change or elimination only becomes effective when there is no such debt security outstanding; or make any other change that does not adversely affect the rights of any holder in any material respect.

The holders of a majority in principal amount of the outstanding debt securities of a particular series affected may waive compliance by us with certain restrictive provisions of the indenture with respect to such series. The holders of a majority in principal amount of the outstanding debt securities of a particular series may waive any past default with respect to such series under the indenture, except a default in the payment of accelerated principal, premium, if any, or interest, if any, and certain covenants and provisions of the indenture which cannot be amended without the consent of the holder of each outstanding debt security of such series.

Governing Law

Any issued debt securities and the indenture will be governed by the laws of the State of New York.

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Regarding the Trustee

The indenture provides that, except during the continuance of an event of default, the trustee will perform only such duties as are specifically set forth in the indenture. During the existence of an event of default, the trustee will exercise such rights and powers vested in it under the indenture and use the same degree of care and skill in its exercise as a prudent person would exercise under the circumstances in the conduct of such person's own affairs.

The indenture and provisions of the Trust Indenture Act that are incorporated by reference therein contain limitations on the rights of the trustee, should it become one of our creditors, to obtain payment of claims in certain cases or to realize on certain property received by it in respect of any such claim as security or otherwise. The trustee is permitted to engage in other transactions with us or any of our affiliates; *provided*, *however*, that if it acquires any conflicting interest (as defined in the indenture or in the Trust Indenture Act), it must eliminate such conflict or resign.

The trustee is a lender under our credit facility and also serves as trustee under the indenture for our 4.875% senior notes due 2021, our 4.625% senior notes due 2021, our 3.800% senior notes due 2022 and our 3.850% senior notes due 2023.

Each trustee may resign or be removed with respect to one or more series of debt securities provided that a successor trustee is appointed to act with respect to such series. In the event that two or more persons are acting as trustee with respect to different series of debt securities under the indenture, each of the trustees will be a trustee of a trust separate and apart from the trust administered by any other trustee.

Defeasance

We may terminate at any time all our obligations with respect to the debt securities of a particular series, any subsidiary guarantees thereof and the indenture as it applies to such series, which we refer to as "legal defeasance," except for certain obligations, including those respecting the defeasance trust and obligations to register the transfer or exchange of the debt securities of such series, to replace mutilated, destroyed, lost or stolen debt securities of such series and to maintain a registrar and paying agent in respect of the debt securities of such series. We may also terminate at any time our obligations with respect to the restrictive covenants applicable to the debt securities of a particular series and any subsidiary guarantees of such series, which we refer to as "covenant defeasance." We may exercise the legal defeasance option notwithstanding our prior exercise of the covenant defeasance option.

If we exercise our legal defeasance option with respect to the debt securities of a particular series, payment of the debt securities of such series may not be accelerated because of an event of default with respect thereto. If we exercise the covenant defeasance option with respect to the debt securities of a particular series, payment of the debt securities of such series may not be accelerated because of an event of default specified in clause (3) (with respect to the restrictive covenants applicable to the debt securities of such series and any subsidiary guarantees of such series), clause (4) (with respect to any subsidiary guarantors only), clause (5) or clause (6) (as it may be specified in the terms of the debt securities of such series). If we exercise our legal defeasance option or our covenant defeasance option with respect to the debt securities of a particular series, any subsidiary guarantor of the debt securities of such series will be released from its obligations with respect to its subsidiary guarantee of the debt securities of such series.

The legal defeasance option or the covenant defeasance option with respect to the debt securities of a particular series may be exercised only if:

(1) we irrevocably deposit in trust with the trustee money or U.S. Government obligations or a combination thereof for the payment of principal of and interest on the debt securities of such series to maturity,

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(2) we deliver to the trustee a certificate, report or opinion of a nationally recognized investment bank, appraisal firm or firm of independent public accountants in the United States that the payments of principal and interest when due on the deposited U.S. Government obligations plus any deposited money without investment will provide cash at such times and in such amounts as will be sufficient to pay principal and interest when due on all the debt securities of such series to maturity,

(3) no default or event of default with respect to the debt securities of such series has occurred and is continuing on the date of such deposit (other than, if applicable, a default or event of default with respect to the debt securities of such series resulting from the borrowing of funds to be applied to such deposits),

(4) such deposit does not constitute a default under any other agreement or instrument binding us,

(5) in the case of the legal defeasance option, we deliver to the trustee an opinion of counsel stating that:

(a) we have received from, or there has been provided by, the IRS a ruling, or

(b) since the date of the indenture there has been a change in the applicable U.S. federal income tax law,

to the effect, in either case, that, and based thereon such opinion of counsel shall confirm that, the holders of the debt securities of such series will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such legal defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such legal defeasance had not occurred,

(6) in the case of the covenant defeasance option, we deliver to the trustee an opinion of counsel to the effect that the holders of the debt securities of such series will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such covenant defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such covenant defeasance had not occurred, and

(7) we deliver to the trustee an officer's certificate and an opinion of counsel, each stating that all conditions precedent to the legal defeasance or covenant defeasance, as applicable, relating to the debt securities of such series have been complied with as required by the indenture.

Discharge of the Indenture

When (i) we deliver to the trustee all outstanding debt securities of a particular series (other than debt securities replaced because of mutilation, loss, destruction or wrongful taking) for cancellation or (ii) all outstanding debt securities of a particular series have become due and payable, whether at maturity or as a result of the sending of a notice of redemption as described above (or are by their terms to become due and payable within one year or are to be called for redemption within one year under arrangements satisfactory to the trustee for the giving of notice of redemption), and we irrevocably deposit with the trustee funds sufficient to pay at maturity or upon redemption all outstanding debt securities of such series, including principal of, premium if any, and interest thereon, and if in either case we pay all other sums related to the debt securities of such series payable under the indenture by us, then the indenture shall, subject to certain surviving provisions, cease to be of further effect with respect to the debt securities of such series. The trustee shall acknowledge satisfaction and discharge of the indenture with respect to the debt securities of such series on our demand accompanied by an officer's certificate and an opinion of counsel.

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Subordination

We will describe in the applicable prospectus supplement and/or free writing prospectus the terms and conditions, if any, upon which any series of senior subordinated debt securities or junior subordinated debt securities is subordinated to debt securities of another series or to our other indebtedness. The terms will include a description of:

- the "senior indebtedness" with respect to the debt securities being offered;
- the restrictions, if any, on payments to the holders of the debt securities being offered while a default with respect to the senior indebtedness is continuing;
- the restrictions, if any, on payments to the holders of the debt securities being offered following an event of default with respect to such debt securities; and
- provisions requiring holders of the debt securities being offered to remit payments to holders of senior indebtedness.

Guarantees

The debt securities of any series that we issue and our obligations under the indenture may be guaranteed by one or more of our subsidiaries. However, the indenture will not require that any of the subsidiaries be a guarantor of any series of debt securities. As a result, the guarantors of any series of our guaranteed debt securities may differ from the guarantors of any other series of our guaranteed debt securities. In the event we issue a series of guaranteed debt securities, the specific guarantors of the debt securities of that series will be identified in the applicable prospectus supplement.

If we issue a series of guaranteed debt securities, a description of some of the terms of the guarantees of those debt securities will be set forth in the applicable prospectus supplement, including any limitations that may be applicable to the guarantee due to other debt arrangements or otherwise.

The indenture will provide that, in the case of a series of guaranteed debt securities, the obligations of each subsidiary guarantor with respect to such series under its subsidiary guarantee will be limited as necessary to prevent that subsidiary guarantee from constituting a fraudulent transfer under applicable law. We cannot assure you that this limitation will protect any subsidiary guarantees from fraudulent conveyance or fraudulent transfer challenges, or, if it does, that the remaining amount due and collectible under any such subsidiary guarantees would suffice, if necessary, to pay the debt securities of such series in full when due.

The applicable prospectus supplement relating to any series of guaranteed debt securities will specify other terms of the applicable guarantees, which may include provisions that allow a guarantor to be released from its obligations under its guarantee under specified circumstances or that provide for one or more guarantees to be secured by specified collateral.

Global Debt Securities

We may issue the debt securities of a series in whole or in part in the form of one or more registered global debt securities that we will deposit with a depositary or with a nominee for a depositary identified in the applicable prospectus supplement and registered in the name of such depositary or nominee. In such case, we will issue one or more registered global debt securities denominated in an amount equal to the aggregate principal amount of all of the debt securities of the series to be issued and represented by such registered global debt security or securities.

Unless and until it is exchanged in whole or in part for debt securities in definitive registered form, a registered global debt security may not be transferred except as a whole:

- by the depositary for such registered global debt security to its nominee;

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- by a nominee of the depositary to the depositary or another nominee of the depositary; or
- by the depositary or its nominee to a successor of the depositary or a nominee of the successor.

The prospectus supplement relating to a series of debt securities will describe the specific terms of the depositary arrangement with respect to any portion of such series represented by a registered global debt security. We currently anticipate that the following provisions will apply to all depositary arrangements for debt securities:

- ownership of beneficial interests in a registered global debt security will be limited to persons that have accounts with the depositary for the registered global debt security, those persons being referred to as "participants," or persons that may hold interests through participants;
- upon the issuance of a registered global debt security, the depositary for the registered global debt security will credit, on its book-entry registration and transfer system, the participants' accounts with the respective principal amounts of the debt securities represented by the registered global debt security beneficially owned by the participants;
- any underwriters, dealers or agents participating in the distribution of the debt securities will designate the accounts to be credited; and
- ownership of any beneficial interest in the registered global debt security will be shown on, and the transfer of any ownership interest will be effected only through, records maintained by the depositary for the registered global debt security (with respect to interests of participants) and on the records of participants (with respect to interests of persons holding through participants).

The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of the securities in definitive form. These laws may limit the ability of those persons to own, transfer or pledge beneficial interests in registered global debt securities.

So long as the depositary for a registered global debt security, or its nominee, is the registered owner of the registered global debt security, the depositary or the nominee, as the case may be, will be considered the sole owner or holder of the debt securities represented by the registered global debt security for all purposes under the indenture. Except as set forth below, owners of beneficial interests in a registered global debt security:

- will not be entitled to have the debt securities represented by a registered global debt security registered in their names;
- will not receive or be entitled to receive physical delivery of the debt securities in the definitive form; and
- will not be considered the owners or holders of the debt securities under the indenture.

Accordingly, each person owning a beneficial interest in a registered global debt security must rely on the procedures of the depositary for the registered global debt security and, if the person is not a participant, on the procedures of a participant through which the person owns its interest, to exercise any rights of a holder under the indenture.

We understand that under currently existing industry practices, if we request any action of holders or if an owner of a beneficial interest in a registered global debt security desires to give or take any action that a holder is entitled to give or take under the indenture, the depositary for the registered global debt security would authorize the participants holding the relevant beneficial interests to give or take the action, and those participants would authorize beneficial owners owning through those participants to give or take the action or would otherwise act upon the instructions of beneficial owners holding through them.

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We will make payments of principal of and premium, if any, and interest, if any, on debt securities represented by a registered global debt security registered in the name of a depositary or its nominee to the depositary or its nominee, as the case may be, as the registered owners of the registered global debt security. Neither we nor the trustee or any other agent of us or the trustee will be responsible or liable for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the registered global debt security or for maintaining, supervising or reviewing any records relating to the beneficial ownership interests.

We expect that the depositary for any debt securities represented by a registered global debt security, upon receipt of any payments of principal and premium, if any, and interest, if any, in respect of the registered global debt security, will immediately credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the registered global debt security as shown on the records of the depositary. We also expect that standing customer instructions and customary practices will govern payments by participants to owners of beneficial interests in the registered global debt security held through the participants, as is now the case with the securities held for the accounts of customers in bearer form or registered in "street name." We also expect that any of these payments will be the responsibility of the participants.

No registered global debt security may be exchanged in whole or in part for debt securities registered, and no transfer of a registered global debt security in whole or in part may be registered, in the name of any person other than the depositary for such registered global debt security, unless (i) such depositary notifies us that it is unwilling or unable to continue as depositary for such registered global debt security or has ceased to be a clearing agency registered under the Exchange Act, and we fail to appoint an eligible successor depositary within 90 days, (ii) an event of default shall have occurred and be continuing with respect to debt securities of such series, (iii) we determine (subject to the depositary's procedures) not to have the debt securities of such series represented by a global debt security, or (iv) circumstances, if any, exist in addition to or in lieu of the foregoing as have been specified for that purpose in an applicable prospectus supplement. In any such case, the affected registered global debt security may be exchanged in whole or in part for debt securities in definitive form and the applicable trustee will register any such debt securities in such name or names as such depositary directs.

We currently anticipate that certain registered global debt securities will be deposited with, or on behalf of, The Depository Trust Company, or DTC, and will be registered in the name of Cede & Co., as the nominee of DTC. DTC has advised us that DTC is a limited purpose trust company organized under the Banking Law of the State of New York, a "banking organization" within the meaning of the Banking Law of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities that its participants, or direct participants, deposit with DTC. DTC also facilitates the post-trade settlement among direct participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between direct participants' accounts. This eliminates the need for physical movement of securities certificates. Direct participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly. The information in this paragraph concerning DTC and DTC's book-entry system has been obtained from sources that we believe to be reliable, but we take no responsibility for the accuracy thereof. In the event registered global debt securities are deposited with, or on behalf of, a depositary other than DTC, we will describe additional or differing terms of the depositary arrangements in the applicable prospectus supplement relating to that particular series of debt securities.

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We may also issue bearer debt securities of a series in the form of one or more global debt securities, referred to as "bearer global debt securities." We currently anticipate that we will deposit these bearer global debt securities with a common depositary for Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme, or with a nominee for the depositary identified in the prospectus supplement relating to that series. The prospectus supplement relating to a series of debt securities represented by a bearer global debt security will describe the specific terms and procedures, including the specific terms of the depositary arrangement and any specific procedures for the issuance of debt securities in definitive form in exchange for a bearer global debt security, with respect to the portion of the series represented by a bearer global debt security.

Neither we nor the trustee assumes any responsibility for the performance by DTC or any other depositary or its participants of their respective obligations, including obligations that they have under the rules and procedures that govern their operations.

None of O'Reilly, any subsidiary guarantor, underwriter, dealer, agent, trustee or any applicable paying agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of, beneficial interests in a global debt security, or for maintaining, supervising or reviewing any records.

PLAN OF DISTRIBUTION

We may sell debt securities in one or more of the following ways from time to time:

- to or through underwriters or dealers;
- by itself directly;
- through agents; or
- through a combination of any of these methods of sale.

The prospectus supplement relating to an offering of debt securities will set forth the terms of such offering, including:

- the name or names of any underwriters, dealers or agents;
- the purchase price of the offered debt securities and the proceeds to us from the sale;
- any underwriting discounts and commissions or agency fees and other items constituting underwriters' or agents' compensation; and
- any initial public offering price, any discounts or concessions allowed or reallowed or paid to dealers and any securities exchanges on which such offered debt securities may be listed.

Any initial public offering prices, discounts or concessions allowed or reallowed or paid to dealers may be changed from time to time.

If underwriters are used in the sale, the underwriters will acquire the offered debt securities for their own account and may resell them from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. The offered debt securities may be offered either to the public through underwriting syndicates represented by one or more managing underwriters or by one or more underwriters without a syndicate. Unless otherwise set forth in a prospectus supplement, the obligations of the underwriters to purchase any series of debt securities will be subject to certain conditions precedent, and the underwriters will be obligated to purchase all of such series of debt securities if any are purchased.

In connection with underwritten offerings of the offered debt securities and in accordance with applicable law and industry practice, underwriters may over-allot or effect transactions that stabilize,

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maintain or otherwise affect the market price of the offered debt securities at levels above those that might otherwise prevail in the open market, including by entering stabilizing bids, effecting syndicate covering transactions or imposing penalty bids, each of which is described below.

- A stabilizing bid means the placing of any bid, or the effecting of any purchase, for the purpose of pegging, fixing or maintaining the price of a security.

- A syndicate covering transaction means the placing of any bid on behalf of the underwriting syndicate or the effecting of any purchase to reduce a short position created in connection with the offering.

- A penalty bid means an arrangement that permits the managing underwriter to reclaim a selling concession from a syndicate member in connection with the offering when offered debt securities originally sold by the syndicate member are purchased in syndicate covering transactions.

These transactions may be effected in the over-the-counter market, or otherwise. Underwriters are not required to engage in any of these activities, or to continue such activities if commenced.

If a dealer is used in the sale, we will sell such debt securities to the dealer, as principal. The dealer may then resell the debt securities to the public at varying prices to be determined by that dealer at the time for resale. The names of the dealers and the terms of the transaction will be set forth in the prospectus supplement relating to that transaction.

Debt securities may be sold directly by us to one or more institutional purchasers, or through agents designated by us from time to time, at a fixed price or prices, which may be changed, or at varying prices determined at the time of sale. Any agent involved in the offer or sale of debt securities in respect of which this prospectus is delivered will be named, and any commissions payable by us to such agent will be set forth, in the prospectus supplement relating to that offering. Unless otherwise indicated in such prospectus supplement, any such agent will be acting on a best efforts basis for the period of its appointment.

Underwriters, dealers and agents may be entitled under agreements entered into with us to indemnification by us against certain civil liabilities, including liabilities under the Securities Act, or to contribution with respect to payments that the underwriters, dealers or agents may be required to make in respect thereof. Underwriters, dealers and agents may be customers of, engage in transactions with, or perform services for us and our affiliates in the ordinary course of business.

Any debt securities issued hereunder will be a new issue of debt securities and will have no trading market prior to the date of such issuance. Unless otherwise specified in the applicable prospectus supplement, we will not list the debt securities on a national securities exchange. Any underwriters to whom we sell securities for public offering and sale may make a market in the debt securities, but such underwriters will not be obligated to do so and may discontinue any market making at any time without notice. We cannot assure you that there will be a market for the debt securities.

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LEGAL MATTERS

The validity of the debt securities being offered in this prospectus and any related prospectus supplement is being passed upon for O'Reilly Automotive, Inc. by Skadden, Arps, Slate, Meagher & Flom LLP, Los Angeles, California. Certain matters of Missouri law with respect to debt securities will be passed upon for us by Shook, Hardy & Bacon L.L.P., Kansas City, Missouri. If the debt securities are being distributed in an underwritten offering, certain legal matters will be passed upon for the underwriters by counsel identified in the related prospectus supplement.

EXPERTS

The consolidated financial statements of O'Reilly Automotive, Inc. and Subsidiaries appearing in O'Reilly Automotive, Inc.'s Annual Report (Form 10-K) for the year ended December 31, 2015 (including the schedule appearing therein), and the effectiveness of O'Reilly Automotive, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2015, have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their reports thereon included therein, and incorporated herein by reference. Such consolidated financial statements and O'Reilly Automotive Inc. and Subsidiaries management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2015 are incorporated herein by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

$500,000,000

4.350% Senior Notes due 2028

Prospectus Supplement

Joint Book-Running Managers

J.P. Morgan	**US Bancorp**
BofA Merrill Lynch	**Wells Fargo Securities**

Senior Co-Manager

BB&T Capital Markets

Co-Managers

BNP PARIBAS	**Capital One Securities**	**Citizens Capital Markets**
Huntington Capital Markets	**Mizuho Securities**	**MUFG**
PNC Capital Markets LLC	**Regions Securities LLC**	**SunTrust Robinson Humphrey**
	TD Securities	

May 10, 2018

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Repayments, maturities and redemptions of available-for-sale investment securities

244,770

443,641

Other net investing activities

22,557

11,694

Net cash used in investing activities

(643,706
)

(49,681
)
CASH FLOWS FROM FINANCING ACTIVITIES

Net increase (decrease) in:

Customer deposits

1,245,282

752,849

Short-term borrowings

(36,521
)

30,064

Proceeds from:

Issuance of common stock pursuant to various stock compensation plans and agreements

1,008

1,062

Payments for:

Repayment of FHLB advances

—

(700,000
)
Repayment of long-term debt

(10,000
)

(10,000
)
Repurchase of vested shares due to employee tax liability

(12,259
)

(3,094
)
Cash dividends on common stock

(58,949
)

(58,152
)
Other net financing activities

—

1,005

Net cash provided by financing activities

1,128,561

13,734

Effect of exchange rate changes on cash and cash equivalents

8,865

(3,447
)
NET INCREASE IN CASH AND CASH EQUIVALENTS

873,973

231,909

CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD

1,878,503

1,360,887

CASH AND CASH EQUIVALENTS, END OF PERIOD

$
2,752,476

$
1,592,796

See accompanying Notes to Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2017	2016
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$63,416	$50,044
Income tax payments, net	$14,799	$6,359
Noncash investing and financing activities:		
Loans held-for-investment transferred to loans held-for-sale, net	$343,977	$575,804
Held-to-maturity investment security retained from securitization of loans	$—	$160,135
Unsettled purchases of available-for-sale investment securities	$—	$57,711
Unsettled purchases of loans receivable	$—	$106,114

See accompanying Notes to Consolidated Financial Statements.

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

Note 1 — Basis of Presentation

East West Bancorp, Inc. (referred to herein on an unconsolidated basis as “East West” and on a consolidated basis as the “Company”) is a registered bank holding company that offers a full range of banking services to individuals and businesses through its subsidiary bank, East West Bank and its subsidiaries (“East West Bank” or the “Bank”). The unaudited interim Consolidated Financial Statements in this Form 10-Q include the accounts of East West, East West Bank, East West Insurance Services, Inc., and various subsidiaries. Intercompany transactions and accounts have been eliminated in consolidation. As of June 30, 2017, East West also has six wholly-owned subsidiaries that are statutory business trusts (the “Trusts”). In accordance with FASB Accounting Standards Codification (“ASC”) Topic 810, the Trusts are not included on the Consolidated Financial Statements.

The unaudited interim Consolidated Financial Statements presented in accordance with United States Generally Accepted Accounting Principles (“U.S. GAAP”), applicable guidelines prescribed by regulatory authorities, and general practices in the banking industry, reflect all adjustments that, in the opinion of management, are necessary for fair statement of the interim period financial statements. Certain items on the Consolidated Financial Statements and notes for the prior periods have been reclassified to conform to the current period presentation.

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 interim Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and notes thereto, included in the Company’s 2016 Form 10-K.

Note 2 — Current Accounting Developments

New Accounting Pronouncements Adopted

In March 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-05, Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships, to clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument in an existing hedging relationship would not be considered a termination of the derivative instrument or a change in a critical term of the hedging relationship provided that all other hedge accounting criteria in ASC 815 continue to be met. This clarification applies to both cash flow and fair value hedging relationships. The Company adopted this guidance prospectively in the first quarter of 2017. The adoption of this guidance did not have an impact on the Company’s Consolidated Financial Statements.

In March 2016, the FASB issued ASU 2016-06, Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments, which requires an entity to use a four-step decision model when assessing contingent call (put) options that can accelerate the payment of principal on debt instruments to determine whether they are clearly and closely related to their debt hosts. The Company adopted this guidance on a modified retrospective basis in the first quarter of 2017. The adoption of this guidance did not have an impact on the Company’s Consolidated Financial Statements.

In March 2016, the FASB issued ASU 2016-07, Investments — Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting, to eliminate the requirement for an investor to retroactively apply the equity method when its increase in ownership interest (or degree of influence) in an investee triggers equity method accounting. The amendments in ASU 2016-07 also require that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in AOCI at the date the investment becomes qualified for use of the equity method. The Company adopted this guidance prospectively in the first quarter of 2017. The adoption of this guidance did not have an impact on the Company’s Consolidated Financial Statements.

In March 2016, the FASB issued ASU 2016-09, Compensation — Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification in the statements of cash flows. The Company adopted this guidance in the first quarter of 2017. The changes that impacted the Company included a requirement that excess tax benefits and deficiencies be recognized as a component of Income tax expense on the Consolidated Statements of Income rather than Additional paid-in capital on the Consolidated Statements of Changes in Stockholders' Equity as required in the previous guidance. The adoption of this guidance results in increased volatility to the Company's income tax expense but does not have a material impact on the Consolidated Balance Sheets or the Consolidated Statements of Changes in Stockholders' Equity. The income tax expense volatility is dependent on the Company's stock price on the dates the restricted stock units ("RSUs") vest, which occur primarily in the first quarter of each year. Net excess tax benefits for RSUs of approximately $4.5 million have been recognized by the Company as a component of Income tax expense on the Consolidated Statements of Income during the six months ended June 30, 2017. The guidance also removes the impact of the excess tax benefits and deficiencies from the calculation of diluted EPS. In addition, ASU 2016-09 no longer requires a presentation of excess tax benefits and deficiencies as both an operating outflow and financing inflow on the Consolidated Statements of Cash Flows. Instead, excess tax benefits and deficiencies are recorded along with other income tax cash flows as an operating activity on the Consolidated Statements of Cash Flows as required previously. These changes were applied on a prospective basis. The Company has also elected to retain its existing accounting policy election to estimate award forfeitures.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which clarifies the principles for recognizing revenue for contracts to provide goods or services to customers and replaces nearly all existing revenue recognition guidance in U.S. GAAP. Quantitative and qualitative disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers are also required. ASU 2014-09, as amended by ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20, is effective on January 1, 2018, with early adoption permitted on January 1, 2017. The guidance should be applied on either a modified retrospective or full retrospective basis. The Company's revenue is mainly comprised of net interest income and noninterest income. The scope of the guidance explicitly excludes net interest income, as well as other revenues from financial instruments such as loans, leases, securities and derivatives. The Company has conducted a comprehensive scoping exercise to determine the revenue streams that are in the scope of the guidance. The Company's current implementation efforts include reviewing the contracts related to certain noninterest income revenue items that are within the scope of the new guidance to determine if any accounting or internal control changes will be required under the provisions of the new guidance. Overall, the Company does not expect the new guidance to have a material impact on its Consolidated Financial Statements. The next phase of the Company's implementation work will be to evaluate any changes that may be required to its applicable disclosures.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which requires equity investments, except those accounted for under the equity method of accounting or consolidated, to be measured at fair value with changes recognized in net income, thus eliminating eligibility for the current available-for-sale category. If there is no readily determinable fair value, the guidance allows entities to measure equity investments at cost less impairment, whereby impairment is based on a qualitative assessment. Furthermore, investments in Federal Reserve Bank and FHLB stock are not subject to this guidance and will continue to be presented at cost. The guidance eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost and changes the presentation of financial assets and financial liabilities on the Consolidated Balance Sheets or in the footnotes. If an entity has elected the fair value option to measure liabilities, the guidance requires the portion of the change in the fair value of a liability resulting from credit risk to be presented in Other Comprehensive Income.

ASU 2016-01 is effective on January 1, 2018. Early adoption is not permitted except for certain specific changes under the fair value option guidance. To adopt the amendments, the Company is required to make a cumulative-effect adjustment to the Consolidated Balance Sheets as of the beginning of the reporting period of adoption. However, the amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the adoption date. The Company does not have a significant amount of equity securities classified as available-for-sale. Additionally, the Company does not have any financial liabilities accounted for under the fair value option. The Company is evaluating the effects that the other provisions have on its Consolidated Financial Statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which is intended to increase transparency and comparability in the accounting for lease transactions. The guidance requires lessees to recognize right-of-use assets and related lease liabilities for all leases with lease terms of more than 12 months on the Consolidated Balance Sheets and provide quantitative and qualitative disclosures regarding key information about the leasing arrangements. For short-term leases with a term of 12 months or less, lessees can make a policy election not to recognize lease assets and lease liabilities. Lessor accounting is largely unchanged. ASU 2016-02 is effective on January 1, 2019, with early adoption permitted. The guidance should be applied using a modified retrospective transition method through a cumulative-effect adjustment. The Company is currently evaluating the potential impact on its Consolidated Financial Statements by reviewing its existing lease contracts and service contracts that may include embedded leases. The Company expects the adoption of ASU 2016-02 to result in additional assets and liabilities, as the Company will be required to recognize operating leases on its Consolidated Balance Sheets. The population of contracts subject to balance sheet recognition and their initial measurement remains under evaluation. The Company does not expect a material impact to its recognition of operating lease expense on its Consolidated Statements of Income. Upon completion of the contract review and consideration of system requirements, the Company will evaluate the impacts of adopting the new accounting guidance on its disclosures.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, to introduce a new approach based on expected losses to estimate credit losses on certain types of financial instruments, which modifies the impairment model for available-for-sale debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. The new “expected credit loss” impairment model will apply to most financial assets measured at amortized cost and certain other instruments, including trade and other receivables, loan receivables, available-for-sale and held-to-maturity debt securities, net investments in leases and off-balance sheet credit exposures. For available-for-sale debt securities with unrealized losses, ASU 2016-13 does not change the measurement method of credit losses, except that the losses will be recognized as allowances rather than reductions in the amortized cost of the securities. ASU 2016-13 also expands the disclosure requirements regarding an entity’s assumptions, models and methods for estimating the allowance for loans and lease losses and requires disclosure of the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination (i.e., by vintage year). ASU 2016-13 is effective on January 1, 2020, with early adoption permitted on January 1, 2019. The guidance should be applied using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. While the Company is still evaluating the impact on its Consolidated Financial Statements, the Company expects that ASU 2016-13 may result in an increase in the allowance for credit losses due to the following factors: 1) the allowance for credit losses provides for expected credit losses over the remaining expected life of the loan portfolio, and will consider expected future changes in macroeconomic conditions; 2) the nonaccretable difference on the purchased credit impaired (“PCI”) loans will be recognized as an allowance, offset by an increase in the carrying value of the PCI loans; and 3) an allowance may be established for estimated credit losses on available-for-sale and held-to-maturity debt securities. The amount of the increase will be impacted by the portfolio composition and quality, as well as the economic conditions and forecasts as of the adoption date. The Company has begun its implementation efforts by identifying key interpretive issues, assessing its processes and identifying the system requirements against the new guidance to determine what modifications may be required.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flow (Topic 230): Classification of Certain Cash Receipts and Cash Payments, to provide guidance on eight specific issues related to classification on the Consolidated Statements of Cash Flows in order to reduce diversity in practice. The specific issues cover cash payments for debt prepayment or debt extinguishment costs   cash outflows for settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing contingent consideration payments that are not made soon after a business combination   proceeds from the settlement of insurance claims   proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies distributions received from equity method investees beneficial interests received in securitization transactions and clarification regarding when no specific U.S. GAAP guidance exists and the sources of the cash flows are not separately identifiable, the classification should be based on the activity that is likely to be the predominant source or use of the cash flows. ASU 2016-15 is effective on January 1, 2018, with early adoption permitted. The guidance should be applied using a retrospective transition method. The Company does not expect the adoption of this guidance to have a material impact on its Consolidated Financial Statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires the Company to include those amounts that are deemed to be restricted cash and restricted cash equivalents in its cash and cash equivalents balances on the Consolidated Statements of Cash Flows. In addition, the Company is required to explain the changes in the combined total of restricted and unrestricted balances on the Consolidated Statements of Cash Flows. ASU 2016-18 is effective on January 1, 2018, with early adoption permitted. The guidance should be applied using a retrospective transition method to each period presented. The Company does not expect the adoption of this guidance to have a material impact on its Consolidated Financial Statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles — Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, to simplify the accounting for goodwill impairment. An entity will no longer perform a hypothetical purchase price allocation to measure goodwill impairment. Instead, impairment will be measured using the difference between the carrying amount and the fair value of the reporting unit. The guidance also eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment. ASU 2017-04 is effective on January 1, 2020 and should be applied prospectively. Early adoption is permitted for interim or annual goodwill impairment tests with measurement dates after January 1, 2017. The Company is currently evaluating the impact on its Consolidated Financial Statements.

In March 2017, the FASB issued ASU 2017-08, Receivables — Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities, which amends the amortization period for certain purchased callable debt securities held at a premium, shortening such period to the earliest call date. The guidance does not require any accounting change for debt securities held at a discount; the discount continues to be amortized as an adjustment of yield over the contractual life (to maturity) of the instrument. ASU 2017-08 is effective on January 1, 2019, with early adoption permitted. The guidance should be applied using a modified retrospective transition method, with the cumulative-effect adjustment recognized to retained earnings as of the beginning of the period of adoption. The Company is currently evaluating the impact on its Consolidated Financial Statements.

In May 2017, the FASB issued ASU 2017-09, Compensation — Stock Compensation (Topic 718): Scope of Modification Accounting, which amends the scope of modification accounting for share-based payment arrangements. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. ASU 2017-09 is effective on January 1, 2018, with early adoption permitted. The guidance should be applied prospectively to awards modified on or after the adoption date. The Company plans to adopt this guidance in the first quarter of 2018 prospectively.

Note 3 — Disposition of Commercial Property

In the first quarter of 2017, the Company completed the sale and leaseback of a commercial property in San Francisco, California for cash consideration of $120.6 million and entered into a leaseback with the buyer for part of the property, consisting of a retail branch and office facilities. The property had a net book value of approximately $31.6 million at the time of sale, resulting in a pre-tax profit of $85.4 million after considering approximately $3.6 million in selling costs. As the leaseback is an operating lease, $71.7 million of the gain was recognized on the closing date, and $13.7 million was deferred and will be recognized over the term of the lease agreement. The first quarter 2017 diluted EPS impact from the sale of the commercial property was $0.28 per share, net of tax.

Note 4 — Fair Value Measurement and Fair Value of Financial Instruments

In determining the fair value of financial instruments, 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 fair value hierarchy noted below is based on the quality and reliability of the information used to determine fair value. The fair value 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 is 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.

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In determining the appropriate hierarchy levels, the Company performs an analysis of the assets and liabilities that are subject to fair value disclosure. 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 financial assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2017 and December 31, 2016:

	Assets (Liabilities) Measured at Fair Value on a Recurring Basis as of June 30, 2017			
($ in thousands)	Fair Value Measurements	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale investment securities:				
U.S. Treasury securities	$ 546,857	$ 546,857	$ —	$ —
U.S. government agency and U.S. government sponsored enterprise debt securities	173,585	—	173,585	—
U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	325,144	—	325,144	—
Residential mortgage-backed securities	1,128,531	—	1,128,531	—
Municipal securities	105,502	—	105,502	—
Non-agency residential mortgage-backed securities:				
Investment grade	10,210	—	10,210	—
Corporate debt securities:				
Investment grade	2,296	—	2,296	—
Non-investment grade	9,492	—	9,492	—
Foreign bonds:				
Investment grade	479,687	—	479,687	—
Other securities	41,421	31,351	10,070	—
Total available-for-sale investment securities	$ 2,822,725	$ 578,208	$ 2,244,517	$ —
Derivative assets:				
Interest rate swaps and options	$ 64,254	$ —	$ 64,254	$ —
Foreign exchange contracts	14,722	—	14,722	—
Credit risk participation agreements ("RPAs")	2	—	2	—
Warrants	786	—	786	—
Total derivative assets	$ 79,764	$ —	$ 79,764	$ —
Derivative liabilities:				
Interest rate swaps on certificates of deposit	$ (6,686)	$ —	$ (6,686)	$ —
Interest rate swaps and options	(63,551)	—	(63,551)	—
Foreign exchange contracts	(13,161)	—	(13,161)	—
RPAs	(2)	—	(2)	—
Total derivative liabilities	$ (83,400)	$ —	$ (83,400)	$ —

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($ in thousands)	Assets (Liabilities) Measured at Fair Value on a Recurring Basis as of December 31, 2016			
	Fair Value Measurements	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	$ 720,479	$ 720,479	$ —	$ —
U.S. government agency and U.S. government sponsored enterprise debt securities	274,866	—	274,866	—
U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	266,799	—	266,799	—
Residential mortgage-backed securities	1,258,747	—	1,258,747	—
Municipal securities	147,654	—	147,654	—
Non-agency residential mortgage-backed securities:				
Investment grade	11,477	—	11,477	—
Corporate debt securities:				
Investment grade	222,377	—	222,377	—
Non-investment grade	9,173	—	9,173	—
Foreign bonds:				
Investment grade	383,894	—	383,894	—
Other securities	40,329	30,991	9,338	—
Total available-for-sale investment securities	$ 3,335,795	$ 751,470	$ 2,584,325	$ —
Derivative assets:				
Foreign currency forward contracts	$ 4,325	$ —	$ 4,325	$ —
Interest rate swaps and options	67,578	—	67,578	—
Foreign exchange contracts	11,874	—	11,874	—
RPAs	3	—	3	—
Total derivative assets	$ 83,780	$ —	$ 83,780	$ —
Derivative liabilities:				
Interest rate swaps on certificates of deposit	$ (5,976)	$ —	$ (5,976)	$ —
Interest rate swaps and options	(65,131)	—	(65,131)	—
Foreign exchange contracts	(11,213)	—	(11,213)	—
RPAs	(3)	—	(3)	—
Total derivative liabilities	$ (82,323)	$ —	$ (82,323)	$ —

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. There were no assets or liabilities measured using significant unobservable inputs (Level 3) on a recurring basis as of June 30, 2017 and December 31, 2016, and during the three and six months ended June 30, 2017 and 2016.

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 become 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 and liabilities measured on a recurring basis into and out of Level 1, Level 2 and Level 3 during the three and six months ended June 30, 2017 and 2016.

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

The following tables present the carrying amounts of assets included on the Consolidated Balance Sheets that had fair value changes measured on a nonrecurring basis as of June 30, 2017 and December 31, 2016:

	Assets Measured at Fair Value on a Nonrecurring Basis as of June 30, 2017			
($ in thousands)	Fair Value Measurements	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Non-PCI impaired loans:				
Commercial real estate ("CRE")	$ 9,909	$ —	$ —	$ 9,909
Commercial and industrial ("C&I")	43,341	—	—	43,341
Residential	6,117	—	—	6,117
Consumer	633	—	—	633
Total non-PCI impaired loans	$ 60,000	$ —	$ —	$ 60,000
OREO	$ 70	$ —	$ —	$ 70

	Assets Measured at Fair Value on a Nonrecurring Basis as of December 31, 2016			
($ in thousands)	Fair Value Measurements	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Non-PCI impaired loans:				
CRE	$ 14,908	$ —	$ —	$ 14,908
C&I	52,172	—	—	52,172
Residential	2,464	—	—	2,464
Consumer	610	—	—	610
Total non-PCI impaired loans	$ 70,154	$ —	$ —	$ 70,154
OREO	$ 345	$ —	$ —	$ 345
Loans held-for-sale	$ 22,703	$ —	$ 22,703	$ —

The following table presents the fair value adjustments of assets measured on a nonrecurring basis recognized during the three and six months ended and which were included on the Consolidated Balance Sheets as of June 30, 2017 and 2016:

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in thousands)	2017	2016	2017	2016
Non-PCI impaired loans:				
CRE	$193	$(261)	$(29)	$1,908
C&I	(14,060)	(4,693)	(11,418)	(9,149)
Residential	(30)	(4)	51	27
Consumer	24	(2)	25	14
Total non-PCI impaired loans	$(13,873)	$(4,960)	$(11,371)	$(7,200)

OREO	$—	$(1,073)	$(285)	$(1,529)
Loans held-for-sale	$—	$—	$—	$(2,351)

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The following table presents the quantitative information about the significant unobservable inputs used in the valuation of assets measured on a nonrecurring basis classified as Level 3 as of June 30, 2017 and December 31, 2016:

($ in thousands)	Fair Value Measurements (Level 3)	Valuation Technique(s)	Unobservable Input(s)	Range of Inputs	Weighted Average
June 30, 2017					
Non-PCI impaired loans	$ 37,105	Discounted cash flow	Discount	0% — 64%	13%
	$ 22,895	Market comparables	Discount (1)	0% — 100%	31%
OREO	$ 70	Appraisal	Selling cost	8%	8%
December 31, 2016					
Non-PCI impaired loans	$ 31,835	Discounted cash flow	Discount	0% — 62%	7%
	$ 38,319	Market comparables	Discount (1)	0% — 100%	18%
OREO	$ 345	Appraisal	Selling cost	8%	8%

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

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 June 30, 2017 and December 31, 2016:

($ in thousands)	June 30, 2017 Carrying Amount	Level 1	Level 2	Level 3	Estimated Fair Value
Financial assets:					
Cash and cash equivalents	$2,752,476	$2,752,476	$—	$—	$2,752,476
Interest-bearing deposits with banks	$296,679	$—	$296,679	$—	$296,679
Resale agreements (1)	$1,300,000	$—	$1,279,609	$—	$1,279,609
Held-to-maturity investment security	$121,131	$—	$—	$121,803	$121,803
Restricted equity securities	$73,173	$—	$73,173	$—	$73,173
Loans held-for-sale	$11,649	$—	$11,649	$—	$11,649
Loans held-for-investment, net	$26,934,350	$—	$—	$26,460,495	$26,460,495
Accrued interest receivable	$100,036	$—	$100,036	$—	$100,036
Financial liabilities:					
Customer deposits:					
Demand, checking, savings and money market deposits	$25,080,973	$—	$25,080,973	$—	$25,080,973
Time deposits	$6,073,314	$—	$6,066,948	$—	$6,066,948
Short-term borrowings	$24,426	$—	$24,426	$—	$24,426
FHLB advances	$322,756	$—	$336,627	$—	$336,627
Repurchase agreements (1)	$50,000	$—	$107,564	$—	$107,564
Long-term debt	$176,450	$—	$183,589	$—	$183,589
Accrued interest payable	$9,255	$—	$9,255	$—	$9,255

(1) Resale and repurchase agreements are reported net pursuant to ASC 210-20-45, Balance Sheet Offsetting. As of June 30, 2017, $400.0 million out of $450.0 million of repurchase agreements was eligible for netting against resale agreements.

($ in thousands)	December 31, 2016 Carrying Amount	Level 1	Level 2	Level 3	Estimated Fair Value
Financial assets:					
Cash and cash equivalents	$1,878,503	$1,878,503	$—	$—	$1,878,503
Interest-bearing deposits with banks	$323,148	$—	$323,148	$—	$323,148
Resale agreements (1)	$2,000,000	$—	$1,980,457	$—	$1,980,457
Held-to-maturity investment security	$143,971	$—	$—	$144,593	$144,593
Restricted equity securities	$72,775	$—	$72,775	$—	$72,775
Loans held-for-sale	$23,076	$—	$23,076	$—	$23,076
Loans held-for-investment, net	$25,242,619	$—	$—	$24,915,143	$24,915,143
Accrued interest receivable	$100,524	$—	$100,524	$—	$100,524
Financial liabilities:					
Customer deposits:					
Demand, checking, savings and money market deposits	$24,275,714	$—	$24,275,714	$—	$24,275,714
Time deposits	$5,615,269	$—	$5,611,746	$—	$5,611,746
Short-term borrowings	$60,050	$—	$60,050	$—	$60,050
FHLB advances	$321,643	$—	$334,859	$—	$334,859
Repurchase agreements (1)	$350,000	$—	$411,368	$—	$411,368
Long-term debt	$186,327	$—	$186,670	$—	$186,670
Accrued interest payable	$9,440	$—	$9,440	$—	$9,440

(1) Resale and repurchase agreements are reported net pursuant to ASC 210-20-45, Balance Sheet Offsetting. As of December 31, 2016, $100.0 million out of $450.0 million of repurchase agreements was eligible for netting against resale agreements.

The following is a description of the valuation methodologies and significant assumptions used to measure financial assets and liabilities at fair value and to estimate fair value for certain financial instruments not recorded at fair value. The description also includes the level of the fair value hierarchy in which the assets or liabilities are classified.

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.

Interest-bearing Deposits with Banks — The fair value of interest-bearing deposits with banks 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 value, these instruments are classified as Level 2.

Held-to-Maturity Investment Security — The fair value of the held-to-maturity investment security is determined by the discounted cash flow approach. The discount rate is derived from conditional prepayment rate, constant default rate, loss severity and discount margin. Due to the significant unobservable inputs used in deriving the estimated fair value, the held-to-maturity investment security is classified as Level 3.

Available-for-Sale Investment Securities — When available, the Company uses quoted market prices to determine the fair value of available-for-sale investment securities, which are classified as Level 1. Level 1 available-for-sale investment securities are primarily comprised of 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 quoted market prices obtained from independent external brokers. In obtaining such valuation information from third parties, the Company 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 lower of cost or fair value. These loans were mainly comprised of C&I loans as of June 30, 2017 and consumer loans as of December 31, 2016. The fair value of loans held-for-sale is derived from current market prices and comparative current sales. 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 fair value of non-PCI impaired loans is measured using the market comparables or discounted cash flow techniques. 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 generally based on third party appraisals (or internal evaluation if third party appraisal is not required by regulations) which utilize one or more valuation techniques (income, market and/or cost approaches). All third party appraisals and evaluations are reviewed and validated by independent appraisers or the Company's appraisal department staffed by licensed appraisers and/or experienced real estate reviewers. The third party appraisals are ordered through the appraisal department (except for one-to-four unit residential appraisals which are typically ordered through an approved appraisal management company or an approved residential appraiser) at the inception, renewal or, for all real estate related loans, upon the occurrence of any event causing a downgrade to an adverse grade (i.e., "substandard" or "doubtful"). Updated appraisals and evaluations are generally obtained within the last 12 months. The Company increases the frequency of obtaining updated appraisals for adversely graded credits when declining market conditions exist. All appraisals include an "as is" market value without conditions as of the effective date of the appraisal. For certain impaired loans, the Company utilizes the discounted cash flow approach and applies a discount derived from historical data. The significant unobservable inputs used in the fair value measurement of non-PCI impaired loans are discounts applied based on the liquidation cost of collateral and selling cost. 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 Held-for-Investment, net — The fair value of loans held-for-investment other than Non-PCI impaired 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 that reflect the 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 adjustment of credit for such loans. Due to the unobservable nature of the inputs used in deriving the estimated fair value, these instruments are classified as Level 3.

Other Real Estate Owned — The Company's OREO represents properties acquired through foreclosure or through full or partial satisfaction of loans held-for-investment, 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. Please 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. On a monthly basis, the current fair market value of each OREO property is reviewed to ensure that the current carrying value is appropriate. The significant unobservable input used is the selling cost. OREO properties are classified as Level 3.

Restricted Equity Securities — Restricted equity securities are comprised of Federal Reserve Bank stock and FHLB stock. The carrying amounts of the Company's restricted equity securities 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.

Interest Rate Swaps and Options — The Company enters into interest rate swap and option contracts with institutional counterparties to hedge against interest rate swap and option 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 option 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 the interest rate swaps is determined using the market standard methodology of netting the discounted future fixed cash payments (or receipts) and the discounted expected variable cash receipts (or payments). The variable cash receipts (or payments) are based on the expectation of future interest rates (forward curves) derived from observed market interest rate curves. The fair value of the interest rate options, consisting of floors and caps, is determined using the market standard methodology of discounting the future expected cash receipts that would occur if variable interest rates fell below (rise above) the strike rate of the floors (caps). The variable interest rates used in the calculation of projected receipts on the floor (cap) are based on an expectation of future interest rates derived from observable market interest rate curves and volatilities. In addition, to comply with the provisions of ASC 820, the Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements of its derivatives. The credit valuation adjustments associated with the Company's derivatives utilize Level 3 inputs, model-derived credit spreads. As of June 30, 2017, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of these interest rate contracts' positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivative portfolios. As a result, the Company classifies these derivative instruments as Level 2 of the fair value hierarchy due to the observable nature of the significant inputs utilized.

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 because the contracts 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. These are over-the-counter contracts where quoted market prices are not readily available. Valuation is measured using conventional valuation methodologies with observable market data. Valuation depends on the type of derivative and the nature of the underlying rate and contractual terms including period of maturity, price and index upon which the derivative's value is based. Key inputs include foreign exchange rates (spot and/or forward rates), volatility of currencies, and the correlation of such inputs. The counterparties' credit risks are considered nominal and resulted in no adjustments to the valuation of the foreign exchange contracts. Due to the observable nature of the inputs used in deriving the fair value of these contracts, the valuation of foreign exchange contracts is classified as Level 2. As of June 30, 2017, foreign exchange forward contracts used to economically hedge the Company's net investment in East West Bank (China) Limited, a non-U.S. Dollar ("USD") functional currency subsidiary in China, are included in this caption. See Foreign Currency Forward Contracts in the section below for details on valuation methodologies and significant assumptions.

Customer Deposits — The fair value of deposits with no stated maturity, such as noninterest-bearing demand deposits, interest-bearing 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 value, time deposits are classified as Level 2.

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

Repurchase Agreements — The fair value of the repurchase agreements is 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, 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.

Foreign Currency Forward Contracts — During the three months ended December 31, 2015, the Company began entering into foreign currency forward contracts to hedge its net investment in its China subsidiary, East West Bank (China) Limited. Previously, the foreign currency forward contracts or a proportion of the forward contracts were eligible for hedge accounting. During the six months ended June 30, 2017, the foreign currency forward contracts were dedesignated when the hedge relationship ceased to be highly effective. The Company continues to economically hedge its foreign currency exposure resulting from East West Bank (China) Limited and the foreign exchange forward contracts are included as part of the “Foreign Exchange Contracts” caption as of June 30, 2017. The fair value of foreign currency forward contracts is valued by comparing the contracted foreign exchange rate to the current market exchange rate. Inputs include spot rates, forward rates and the interest rate curve of the domestic and foreign currency. Interest rate forward curves are used to determine which forward rate pertains to a specific maturity. Due to the observable nature of the inputs used in deriving the estimated fair value, these instruments are classified as Level 2.

Credit Risk Participation Agreements — The Company enters into RPAs, under which the Company assumes its pro-rata share of the credit exposure associated with the borrower’s performance related to interest rate derivative contracts. The fair value of RPAs is calculated by determining the total expected asset or liability exposure of the derivatives to the borrowers and applying the borrowers’ credit spread to that exposure. Total expected exposure incorporates both the current and potential future exposure of the derivatives, derived from using observable inputs, such as yield curves and volatilities. The credit spreads of the borrowers used in the calculation are estimated by the Company based on current market conditions, including consideration of current borrowing spreads for similar customers and transactions, review of existing collateralization or other credit enhancements, and changes in credit sector and entity-specific credit information. The Company has determined that the majority of the inputs used to value RPAs fall within Level 2 of the fair value hierarchy.

Warrants — The Company obtained warrants to purchase preferred and common stocks of technology and life sciences companies, as part of the loan origination process. As of June 30, 2017, the warrants included on the Consolidated Financial Statements were from public companies. The Company valued these warrants based on the Black-Scholes option pricing model. The model uses the underlying stock prices of publicly-traded issuers, stated strike prices, warrants’ expiration dates, the risk-free interest rate based on duration-matched U.S. Treasury rate and market-observable company-specific option volatility assumptions as inputs to value the warrants. Due to the observable nature of the inputs used in deriving the estimated fair value, these instruments are classified as Level 2.

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 — Securities Purchased under Resale Agreements and Sold under 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 $2.10 billion as of June 30, 2017 and December 31, 2016, respectively. The weighted average interest rates were 2.27% and 1.84% as of June 30, 2017 and December 31, 2016, 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 the repurchase agreements is primarily comprised of U.S. Treasury securities, U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities, and U.S. government agency and U.S. government sponsored enterprise debt securities. The Company may have to provide additional collateral for the repurchase agreements, as necessary. Gross repurchase agreements were $450.0 million as of each of June 30, 2017 and December 31, 2016. The weighted average interest rates were 3.42% and 3.15% as of June 30, 2017 and December 31, 2016, respectively.

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 includes securities that are not recognized on the Consolidated Balance Sheets. Collateral pledged consists 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 collateral amounts received/posted are limited for presentation purposes to the related recognized asset/liability balance for each counterparty, and accordingly, do not include excess collateral received/pledged.

The following tables present the resale and repurchase agreements included on the Consolidated Balance Sheets as of June 30, 2017 and December 31, 2016:

($ in thousands)	As of June 30, 2017					
				Gross Amounts Not Offset on the Consolidated Balance Sheets		
Assets	Gross Amounts of Recognized Assets	Gross Amounts Offset on the Consolidated Balance Sheets	Net Amounts of Assets Presented on the Consolidated Balance Sheets	Financial Instruments	Collateral Pledged	Net Amount
Resale agreements	$1,700,000	$(400,000)	$1,300,000	$ —	$(1,291,869)[2]	$8,131
Liabilities	Gross Amounts of Recognized Liabilities	Gross Amounts Offset on the Consolidated Balance Sheets	Net Amounts of Liabilities Presented on the Consolidated Balance Sheets	Financial Instruments	Collateral Posted	Net Amount
Repurchase agreements	$450,000	$(400,000)	$50,000	$ —	$(50,000)[3]	$ —

($ in thousands)	As of December 31, 2016					
				Gross Amounts Not Offset on the Consolidated Balance Sheets		
Assets	Gross Amounts of Recognized Assets	Gross Amounts Offset on the Consolidated Balance Sheets	Net Amounts of Assets Presented on the Consolidated Balance Sheets	Financial Instruments	Collateral Pledged	Net Amount
Resale agreements	$2,100,000	$(100,000)	$2,000,000	$(150,000)[1]	$(1,839,120)[2]	$10,880

Liabilities	Gross Amounts of Recognized Liabilities	Gross Amounts Offset on the Consolidated Balance Sheets	Net Amounts of Liabilities Presented on the Consolidated Balance Sheets	Gross Amounts Not Offset on the Consolidated Balance Sheets		
				Financial Instruments	Collateral Posted	Net Amount
Repurchase agreements	$450,000	$ (100,000)	$ 350,000	$ (150,000) [(1)]	$ (200,000) [(3)]	$—

(1) Represents financial instruments subject to enforceable master netting arrangements that are not eligible to be offset under ASC 210-20-45 but would be eligible for offsetting to the extent that an event of default has occurred.
(2) 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.
(3) 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.

In addition to the amounts included in the tables above, the Company also has balance sheet netting related to derivatives, refer to Note 7 — Derivatives to the Consolidated Financial Statements for additional information.

Note 6 — Securities

The following tables present the amortized cost, gross unrealized gains and losses and fair value by major categories of available-for-sale investment securities, which are carried at fair value, and the held-to-maturity investment security, which is carried at amortized cost, as of June 30, 2017 and December 31, 2016:

($ in thousands)	As of June 30, 2017 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale investment securities:				
U.S. Treasury securities	$553,795	$ —	$(6,938)	$546,857
U.S. government agency and U.S. government sponsored enterprise debt securities	176,037	203	(2,655)	173,585
U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	331,288	592	(6,736)	325,144
Residential mortgage-backed securities	1,130,303	5,685	(7,457)	1,128,531
Municipal securities	104,991	915	(404)	105,502
Non-agency residential mortgage-backed securities:				
Investment grade (1)	10,262	14	(66)	10,210
Corporate debt securities:				
Investment grade (1)	2,472	—	(176)	2,296
Non-investment grade (1)	10,191	—	(699)	9,492
Foreign bonds:				
Investment grade (1) (2)	495,397	252	(15,962)	479,687
Other securities	40,688	1,070	(337)	41,421
Total available-for-sale investment securities	$2,855,424	$ 8,731	$(41,430)	$2,822,725
Held-to-maturity investment security:				
Non-agency commercial mortgage-backed security	$121,131	$ 672	$—	$121,803
Total investment securities	$2,976,555	$ 9,403	$(41,430)	$2,944,528

($ in thousands)	As of December 31, 2016 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale investment securities:				
U.S. Treasury securities	$730,287	$ 21	$(9,829)	$720,479
U.S. government agency and U.S. government sponsored enterprise debt securities	277,891	224	(3,249)	274,866
U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	272,672	345	(6,218)	266,799
Residential mortgage-backed securities	1,266,372	3,924	(11,549)	1,258,747
Municipal securities	148,302	1,252	(1,900)	147,654
Non-agency residential mortgage-backed securities:				
Investment grade (1)	11,592	—	(115)	11,477

Corporate debt securities:				
Investment grade [1]	222,190	562	(375)	222,377
Non-investment grade [1]	10,191	—	(1,018)	9,173
Foreign bonds:				
Investment grade [1] [2]	405,443	30	(21,579)	383,894
Other securities	40,501	337	(509)	40,329
Total available-for-sale investment securities	$3,385,441	$ 6,695	$(56,341)	$3,335,795
Held-to-maturity investment security:				
Non-agency commercial mortgage-backed security	$143,971	$ 622	$—	$144,593
Total investment securities	$3,529,412	$ 7,317	$(56,341)	$3,480,388

(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. Classifications are based on the lower of the credit ratings by S&P or Moody's.

(2) Fair values of foreign bonds include $449.4 million and $353.6 million of multilateral development bank bonds as of June 30, 2017 and December 31, 2016, respectively.

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Unrealized Losses

The following tables present the gross unrealized losses and related fair values of the Company's investment portfolio, aggregated by investment category and the length of time that individual securities have been in a continuous unrealized loss position, as of June 30, 2017 and December 31, 2016:

	As of June 30, 2017					
	Less Than 12 Months		12 Months or More		Total	
($ in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale investment securities:						
U.S. Treasury securities	$536,842	$(6,932)	$10,014	$(6)	$546,856	$(6,938)
U.S. government agency and U.S. government sponsored enterprise debt securities	134,583	(2,655)	—	—	134,583	(2,655)
U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities:						
Commercial mortgage-backed securities	213,675	(5,521)	48,309	(1,215)	261,984	(6,736)
Residential mortgage-backed securities	423,711	(4,904)	124,052	(2,553)	547,763	(7,457)
Municipal securities	17,652	(312)	2,795	(92)	20,447	(404)
Non-agency residential mortgage-backed securities:						
Investment grade	4,742	(66)	—	—	4,742	(66)
Corporate debt securities:						
Investment grade	—	—	2,296	(176)	2,296	(176)
Non-investment grade	—	—	9,492	(699)	9,492	(699)
Foreign bonds:						
Investment grade	299,434	(10,570)	104,541	(5,392)	403,975	(15,962)
Other securities	31,194	(337)	—	—	31,194	(337)
Total available-for-sale investment securities	$1,661,833	$(31,297)	$301,499	$(10,133)	$1,963,332	$(41,430)
Held-to-maturity investment security:						
Non-agency commercial mortgage-backed security	$—	$—	$—	$—	$—	$—
Total investment securities	$1,661,833	$(31,297)	$301,499	$(10,133)	$1,963,332	$(41,430)

	As of December 31, 2016					
	Less Than 12 Months		12 Months or More		Total	
($ in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale investment securities:						
U.S. Treasury securities	$670,268	$(9,829)	$—	$—	$670,268	$(9,829)
U.S. government agency and U.S. government sponsored enterprise debt securities	203,901	(3,249)	—	—	203,901	(3,249)
U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities:						

Commercial mortgage-backed securities	202,106	(5,452)	29,201	(766)	231,307	(6,218)
Residential mortgage-backed securities	629,324	(9,594)	119,603	(1,955)	748,927	(11,549)
Municipal securities	57,655	(1,699)	2,692	(201)	60,347	(1,900)
Non-agency residential mortgage-backed securities:						
Investment grade	5,033	(101)	6,444	(14)	11,477	(115)
Corporate debt securities:						
Investment grade	—	—	71,667	(375)	71,667	(375)
Non-investment grade	—	—	9,173	(1,018)	9,173	(1,018)
Foreign bonds:						
Investment grade	363,618	(21,327)	14,258	(252)	377,876	(21,579)
Other securities	30,991	(509)	—	—	30,991	(509)
Total available-for-sale investment securities	$2,162,896	$(51,760)	$253,038	$(4,581)	$2,415,934	$(56,341)
Held-to-maturity investment security:						
Non-agency commercial mortgage-backed security	$—	$—	$—	$—	$—	$—
Total investment securities	$2,162,896	$(51,760)	$253,038	$(4,581)	$2,415,934	$(56,341)

For each reporting period, the Company examines all individual securities that are in an unrealized loss position for OTTI. For discussion of the factors and criteria the Company uses in analyzing securities for OTTI, see Note 1 — Summary of Significant Accounting Policies — Available-for-Sale Investment Securities to the Consolidated Financial Statements of the Company's 2016 Form 10-K.

The unrealized losses were primarily attributable to the yield curve movement, in addition to widened liquidity and credit spreads. The issuers of these securities have not, to the Company's 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 believes that the gross unrealized losses detailed in the previous tables are temporary and not due to reasons of credit quality. As a result, the Company expects to recover the entire amortized cost basis of these securities. Accordingly, no impairment loss was recorded on the Company's Consolidated Statements of Income for the three and six months ended June 30, 2017 and 2016. As of June 30, 2017, the Company had 140 available-for-sale investment securities in an unrealized loss position with no credit impairment, primarily comprised of 74 U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities, 24 U.S. Treasury securities, 13 municipal securities and 13 investment grade foreign bonds. In comparison, the Company had 170 available-for-sale investment securities in an unrealized loss position with no credit impairment, primarily comprised of 82 U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities, 26 U.S. Treasury securities and 13 investment grade foreign bonds as of December 31, 2016.

During the first quarter of 2016, the Company obtained a non-agency mortgage-backed investment security, through the securitization of multifamily real estate loans, which was classified as held-to-maturity and recorded at amortized cost. The Company has the intent and ability to hold the security to maturity.

OTTI

No OTTI credit losses were recognized for the three and six months ended June 30, 2017 and 2016.

Realized Gains and Losses

The following table presents the proceeds, gross realized gains and losses, and tax expense related to the sales of available-for-sale investment securities for the three and six months ended June 30, 2017 and 2016:

($ in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Proceeds from sales	$249,233	$211,990	$551,889	$864,743
Gross realized gains	$2,720	$2,836	$5,194	$6,803
Gross realized losses	$—	$—	$—	$(125)
Related tax expense	$1,144	$1,192	$2,184	$2,808

Scheduled Maturities of Investment Securities

The following table presents the scheduled maturities of available-for-sale investment securities as of June 30, 2017:

($ in thousands)	Amortized Cost	Estimated Fair Value
Due within one year	$482,138	$469,865
Due after one year through five years	804,701	794,668

Due after five years through ten years	185,889	182,964
Due after ten years	1,382,696	1,375,228
Total available-for-sale investment securities	$2,855,424	$2,822,725

The following table presents the scheduled maturity of the held-to-maturity investment security as of June 30, 2017:

($ in thousands)	Amortized Cost	Estimated Fair Value
Due after ten years	$ 121,131	$ 121,803

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

Available-for-sale investment securities with fair values of $577.5 million and $767.4 million as of June 30, 2017 and December 31, 2016, respectively, were pledged to secure public deposits, repurchase agreements, the Federal Reserve Bank's discount window, and for other purposes required or permitted by law.

Restricted Equity Securities

Restricted equity securities include stock of the Federal Reserve Bank and of the FHLB. Restricted equity securities are carried at cost as these securities do not have a readily determined fair value. The following table presents the restricted equity securities as of June 30, 2017 and December 31, 2016:

($ in thousands)	June 30, 2017	December 31, 2016
Federal Reserve Bank stock	$ 55,923	$ 55,525
FHLB stock	17,250	17,250
Total	$ 73,173	$ 72,775

Note 7 — Derivatives

The Company uses derivatives to manage exposure to market risk, including interest rate risk and foreign currency risk and to assist customers with their risk management objectives. The Company's goal is to manage interest rate sensitivity and volatility so that movements in interest rates are not significant to earnings or capital. The Company also uses foreign exchange contracts to manage the foreign exchange risk associated with certain foreign currency-denominated assets and liabilities, as well as the Company's investment in its China subsidiary, East West Bank (China) Limited. The Company recognizes all derivatives on the Consolidated Balance Sheets at fair value. While the Company designates certain derivatives as hedging instruments in a qualifying hedge accounting relationship, other derivatives consist of economic hedges. For additional information on the Company's derivatives and hedging activities, see Note 1 — Summary of Significant Accounting Policies to the Consolidated Financial Statements of the Company's 2016 Form 10-K.

The following table presents the total notional and fair values of the Company's derivatives as of June 30, 2017 and December 31, 2016:

($ in thousands)	June 30, 2017 Notional Amount	June 30, 2017 Fair Value Derivative Assets (1)	June 30, 2017 Fair Value Derivative Liabilities (1)	December 31, 2016 Notional Amount	December 31, 2016 Fair Value Derivative Assets (1)	December 31, 2016 Fair Value Derivative Liabilities (1)
Derivatives designated as hedging instruments:						
Interest rate swaps on certificates of deposit	$42,566	$—	$ 6,686	$48,365	$—	$ 5,976
Foreign currency forward contracts	—	—	—	83,026	4,325	—
Total derivatives designated as hedging instruments	$42,566	$—	$ 6,686	$131,391	$4,325	$ 5,976
Derivatives not designated as hedging instruments:						
Interest rate swaps and options	$8,172,811	$64,254	$ 63,551	$7,668,482	$67,578	$ 65,131
Foreign exchange contracts	1,481,244	14,722	13,161	767,764	11,874	11,213
RPAs	69,679	2	2	71,414	3	3
Warrants	— (2)	786	—	—	—	—
Total derivatives not designated as hedging instruments	$9,723,734	$79,764	$ 76,714	$8,507,660	$79,455	$ 76,347

(1) Derivative assets and derivative liabilities are included in Other assets and Accrued expenses and other liabilities, respectively, on the Consolidated Balance Sheets.
(2) The Company held warrants in four public companies as of June 30, 2017.

Derivatives Designated as Hedging Instruments

Interest Rate Swaps on Certificates of Deposit — The Company is exposed to changes in the fair value of certain fixed rate certificates of deposit due to changes in the benchmark interest rate, London Interbank Offered Rate. 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.

As of June 30, 2017 and December 31, 2016, the total notional amounts of the interest rate swaps on certificates of deposit were $42.6 million and $48.4 million, respectively. The fair values of the interest rate swaps were a $6.7 million and a $6.0 million liability as of June 30, 2017 and December 31, 2016, respectively.

The following table presents the net (losses) gains recognized on the Consolidated Statements of Income related to the derivatives designated as fair value hedges for the three and six months ended June 30, 2017 and 2016:

($ in thousands)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
(Losses) gains recorded in interest expense:				
Recognized on interest rate swaps	$(706)	$142	$(1,523)	$4,371
Recognized on certificates of deposit	$664	$(7)	$1,352	$(3,362)

Net Investment Hedges — ASC 830-20, Foreign Currency Matters — Foreign Currency Transactions and ASC 815, Derivatives and Hedging, allow hedging of the foreign currency risk of a net investment in a foreign operation. During the fourth quarter of 2015, the Company began entering into foreign currency forward contracts to hedge its investment in East West Bank (China) Limited, a non-USD functional currency subsidiary in China. The hedging instruments designated as net investment hedges, involve hedging the risk of changes in the USD equivalent value of a designated monetary amount of the Company's net investment in China, against the risk of adverse changes in the foreign currency exchange rate. The Company recorded the changes in the carrying amount of its China subsidiary in the Foreign currency translation adjustment account within AOCI. Simultaneously, the effective portion of the hedge of this exposure was also recorded in the Foreign currency translation adjustment account and the ineffective portion, if any, was recorded in current earnings. During the first quarter of 2017, the Company discontinued hedge accounting prospectively. The cumulative effective portion of the net investment hedges recorded through the point of dedesignation remained in the Foreign currency translation adjustment account within AOCI, and will be reclassified into earnings only upon the sale or liquidation of the China subsidiary. The Company continues to economically hedge its foreign currency exposure in its China subsidiary through foreign exchange forward contracts, which were included as part of the Derivatives Not Designated as Hedging Instruments — "Foreign Exchange Contracts" caption as of June 30, 2017.

As of June 30, 2017, there were no derivative contracts designated as net investment hedges. As of December 31, 2016, the total notional amount and fair value of the foreign currency forward contracts designated as net investment hedges were an $83.0 million and a $4.3 million asset, respectively. The following table presents the gains (losses) recorded in the Foreign currency translation adjustment account within AOCI related to the effective portion of the net investment hedges and the ineffectiveness recorded on the Consolidated Statements of Income for the three and six months ended June 30, 2017 and 2016:

($ in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Gains (losses) recognized in AOCI on net investment hedges (effective portion)	$—	$1,712	$(648)	$227
Gains (losses) recognized in foreign exchange income (ineffective portion)	$—	$449	$(1,953)	$(431)

Derivatives Not Designated as Hedging Instruments

Interest Rate Swaps and Options — The Company enters into interest rate derivatives including interest rate swaps and options with its customers to allow them to hedge against the risk of rising interest rates on their variable rate loans. To economically hedge against the interest rate risks in the products offered to its customers, the Company enters into mirrored interest rate contracts with institutional counterparties. As of June 30, 2017, the total notional amounts of interest rate swaps and options, including mirrored transactions with institutional counterparties and the Company's customers, totaled $4.09 billion for derivatives that were in an asset valuation position and $4.09 billion for derivatives that were in a liability valuation position. As of December 31, 2016, the total notional amounts of interest rate swaps and options, including mirrored transactions with institutional counterparties and the Company's customers, totaled $3.86 billion for derivatives that were in an asset valuation position and $3.81 billion for derivatives that were in a liability valuation position. The fair values of interest rate swap and option contracts with institutional counterparties and the Company's customers amounted to a $64.3 million asset and a $63.6 million liability as of June 30, 2017. The fair values of interest rate swap and option contracts with institutional counterparties and the Company's customers amounted to a $67.6 million asset and a $65.1 million liability as of December 31, 2016.

Foreign Exchange Contracts — The Company enters into foreign exchange contracts with its customers, primarily comprising of forward, swap and spot contracts to enable its customers to hedge their transactions in foreign currencies from fluctuations in foreign exchange rates, and also to allow the Company to economically hedge against foreign currency fluctuations in certain foreign currency denominated deposits that it offers to its customers. For a majority of the foreign exchange transactions entered with its customers, the Company enters into offsetting foreign exchange contracts with institutional counterparties to mitigate the foreign exchange risk. A majority of these contracts have original maturities of one year or less. As of June 30, 2017 and December 31, 2016, the total notional amounts of the foreign exchange contracts were $1.48 billion and $767.8 million, respectively. The fair values of the foreign exchange contracts recorded were a $14.7 million asset and a $13.2 million liability as of June 30, 2017. The fair values of the short-term foreign exchange contracts recorded were an $11.9 million asset and an $11.2 million liability as of December 31, 2016.

Credit Risk Participation Agreements — The Company has entered into RPAs under which the Company assumed its pro-rata share of the credit exposure associated with the borrower's performance related to interest rate derivative contracts. The Company may or may not be a party to the interest rate derivative contract and enters into such RPAs in instances where the Company is a party to the related loan participation agreement with the borrower. The Company will make/receive payments under the RPAs if the borrower defaults on its obligation to perform under the interest rate derivative contract. The Company manages its credit risk on the RPAs by monitoring the credit worthiness of the borrowers, which is based on the normal credit review process. The notional amounts of the RPAs reflect the Company's pro-rata share of the derivative instrument. As of June 30, 2017, the notional amount and fair value of the RPAs purchased were approximately a $48.2 million and a $2 thousand liability, respectively. As of June 30, 2017, the notional amount and fair value of the RPAs sold were approximately a $21.4 million and a $2 thousand asset, respectively. As of December 31, 2016, the notional amount and fair value of the RPAs purchased were approximately a $48.3 million and a $3 thousand liability, respectively. As of December 31, 2016, the notional amount and fair value of the RPAs sold were approximately a $23.1 million and a $3 thousand asset, respectively. Assuming all underlying borrowers referenced in the interest rate derivative contracts defaulted as of June 30, 2017 and December 31, 2016, the exposures from the RPAs purchased would be $113 thousand and $179 thousand, respectively. As of June 30, 2017 and December 31, 2016, the weighted average remaining maturities of the outstanding RPAs were 3.3 years and 3.7 years, respectively.

Warrants — The Company obtained warrants to purchase preferred and common stocks of technology and life sciences companies, as part of the loan origination process. As of June 30, 2017, the Company held warrants in four public companies. The fair value of the warrants was a $786 thousand asset as of June 30, 2017.

The following table presents the net gains (losses) recognized on the Company's Consolidated Statements of Income related to derivatives not designated as hedging instruments for the three and six months ended June 30, 2017 and 2016:

($ in thousands)	Location in Consolidated Statements of Income	Three Months Ended June 30,		Six Months Ended June 30,	
		2017	2016	2017	2016
Derivatives not designated as hedging instruments:					
Interest rate swaps and options	Derivative fees and other income	$(678)	$(1,920)	$(1,744)	$(2,631)
Foreign exchange contracts	Foreign exchange income	8,378	3,069	14,216	8,277
RPAs	Derivative fees and other income	—	—	1	(11)
Warrants	Ancillary loan fees and other income	786	—	786	—
Net gains		$8,486	$1,149	$13,259	$5,635

Credit-Risk-Related Contingent Features — Certain over-the-counter derivative contracts of the Company contain early termination provisions that may require the Company to settle any outstanding balances upon the occurrence of a specified credit-risk-related event. These events, which are defined by the existing derivative contracts, primarily relate to a downgrade in the credit rating of East West Bank to below investment grade. In the event that East West Bank's credit rating is downgraded to below investment grade, no additional collateral would be required to be posted, since the liabilities related to such contracts were fully collateralized as of June 30, 2017 and December 31, 2016.

Offsetting of Derivatives

The Company has entered into agreements with certain counterparty financial institutions, which include master netting agreements. However, the Company has elected to account for all derivatives with counterparty institutions on a gross basis. The following tables present gross derivatives on the Consolidated Balance Sheets and the respective collateral received or pledged in the form of other financial instruments, which are generally marketable securities and/or cash. 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:

($ in thousands)	As of June 30, 2017							
	Total	Contracts Not Subject to Master Netting Arrangements	Contracts Subject to Master Netting Arrangements					
	Gross Amounts Recognized	Gross Amounts Recognized	Gross Amounts Recognized	Gross Amounts Offset on the Consolidated Balance Sheets	Net Amounts Presented on the Consolidated Balance Sheets	Gross Amounts Not Offset on the Consolidated Balance Sheets		
						Derivative Amount	Collateral Received	Net Amount
Derivatives Assets	$79,764	$ 57,471	$22,293	$ —	$ 22,293	$(19,734)[1]	$(2,146)[2]	$ 413
	Gross Amounts Recognized	Gross Amounts Recognized	Gross Amounts Recognized	Gross Amounts Offset on the Consolidated Balance Sheets	Net Amounts Presented on the Consolidated Balance Sheets	Gross Amounts Not Offset on the Consolidated Balance Sheets		
						Derivative Amount	Collateral Posted	Net Amount
Derivatives Liabilities	$83,400	$ 19,130	$64,270	$ —	$ 64,270	$(19,734)[1]	$(43,891)[3]	$ 645

($ in thousands)	As of December 31, 2016							
	Total	Contracts Not Subject to Master Netting Arrangements	Contracts Subject to Master Netting Arrangements					
	Gross Amounts Recognized	Gross Amounts Recognized	Gross Amounts Recognized	Gross Amounts Offset on the Consolidated Balance Sheets	Net Amounts Presented on the Consolidated Balance Sheets	Gross Amounts Not Offset on the Consolidated Balance Sheets		
						Derivative Amounts	Collateral Received	Net Amount
Derivatives Assets	$83,780	$ 51,218	$32,562	$ —	$ 32,562	$(20,991)[1]	$(10,687)[2]	$ 884

	Gross Amounts Recognized	Gross Amounts Recognized	Gross Amounts Recognized	Gross Amounts Offset on the Consolidated Balance Sheets	Net Amounts Presented on the Consolidated Balance Sheets	Gross Amounts Not Offset on the Consolidated Balance Sheets		
						Derivative Amounts	Collateral Posted	Net Amount
Derivatives Liabilities	$82,323	$ 24,097	$58,226	$ —	$ 58,226	$(20,991)(1)	$(36,349)(3)	$ 886

(1) Represents the netting of derivative receivable and payable balances for the same counterparty under enforceable master netting arrangements if the Company has elected to net.

(2) Represents cash and securities received against derivative assets with the same counterparty that are subject to enforceable master netting arrangements. Includes approximately $1.1 million and $8.1 million of cash collateral received as of June 30, 2017 and December 31, 2016, respectively.

(3) Represents cash and securities pledged against derivative liabilities with the same counterparty that are subject to enforceable master netting arrangements. Includes approximately $9.6 million and $170 thousand of cash collateral posted as of June 30, 2017 and December 31, 2016, respectively.

In addition to the amounts included in the tables above, the Company also has balance sheet netting related to resale and repurchase agreements, refer to Note 5 — Securities Purchased under Resale Agreements and Sold under Repurchase Agreements to the Consolidated Financial Statements for additional information. Refer to Note 4 — Fair Value Measurement and Fair Value of Financial Instruments to the Consolidated Financial Statements for fair value measurement disclosures on derivatives.

Note 8 — Loans Receivable and Allowance for Credit Losses

The Company's held-for-investment loan portfolio includes originated and purchased loans. Originated and purchased loans with no evidence of credit deterioration at their acquisition date are referred to collectively as non-PCI loans. PCI loans are loans acquired with evidence of credit deterioration since their origination and it is probable at the acquisition date that the Company would be unable to collect all contractually required payments. PCI loans are accounted for under ASC Subtopic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. The Company has elected to account for PCI loans on a pool level basis under ASC 310-30 at the time of acquisition.

The following table presents the composition of the Company's non-PCI and PCI loans as of June 30, 2017 and December 31, 2016:

	June 30, 2017			December 31, 2016		
($ in thousands)	Non-PCI Loans (1)	PCI Loans (2)	Total (1)(2)	Non-PCI Loans (1)	PCI Loans (2)	Total (1)(2)
CRE:						
Income producing	$8,141,483	$323,547	$8,465,030	$7,667,661	$348,448	$8,016,109
Construction	550,781	—	550,781	551,560	—	551,560
Land	108,795	1,243	110,038	121,276	1,918	123,194
Total CRE	8,801,059	324,790	9,125,849	8,340,497	350,366	8,690,863
C&I:						
Commercial business	9,403,575	20,661	9,424,236	8,921,246	38,387	8,959,633
Trade finance	763,113	—	763,113	680,930	—	680,930
Total C&I	10,166,688	20,661	10,187,349	9,602,176	38,387	9,640,563
Residential:						
Single-family	3,873,803	127,685	4,001,488	3,370,669	139,110	3,509,779
Multifamily	1,696,978	75,763	1,772,741	1,490,285	95,654	1,585,939
Total residential	5,570,781	203,448	5,774,229	4,860,954	234,764	5,095,718
Consumer	2,106,683	16,556	2,123,239	2,057,067	18,928	2,075,995
Total loans held-for-investment	$26,645,211	$565,455	$27,210,666	$24,860,694	$642,445	$25,503,139
Allowance for loan losses	(276,238)	(78)	(276,316)	(260,402)	(118)	(260,520)
Loans held-for-investment, net	$26,368,973	$565,377	$26,934,350	$24,600,292	$642,327	$25,242,619

(1) Includes $(9.6) million and $1.2 million as of June 30, 2017 and December 31, 2016, respectively, of net deferred loan fees, unamortized premiums and unaccreted discounts.
(2) Loans net of ASC 310-30 discount.

CRE loans include income producing real estate, construction and land loans where the interest rates may be fixed, variable or hybrid. Included in CRE loans are owner occupied and non-owner occupied loans where the borrowers rely on income from tenants to service the loan. Commercial business and trade finance in the C&I segment provide financing to businesses in a wide spectrum of industries.

Residential loans are comprised of single-family and multifamily loans. The Company offers first lien mortgage loans secured by one-to-four unit residential properties located in its primary lending areas. The Company offers a variety of first lien mortgage loan programs, including fixed rate conforming loans and adjustable rate mortgage loans with initial fixed periods of one to seven years, which adjust annually thereafter.

Consumer loans are comprised of home equity lines of credit (“HELOCs”), insurance premium financing loans, credit card and auto loans. As of June 30, 2017 and December 31, 2016, the Company’s HELOCs were the largest component of the consumer loan portfolio, and were secured by one-to-four unit residential properties located in its primary lending areas. The HELOCs loan portfolio is largely comprised of loans originated through a reduced documentation loan program, where a substantial down payment is required, resulting in a low loan-to-value ratio, typically 60% or less at origination. The Company is in a first lien position for many of these reduced documentation HELOCs. These loans have historically experienced low delinquency and default rates.

All loans originated are subject to the Company’s underwriting guidelines and loan origination standards. Management believes that the Company’s underwriting criteria and procedures adequately consider the unique risks associated with these products. The Company conducts a variety of quality control procedures and periodic audits, including the review of lending and legal requirements to ensure that it is in compliance with these requirements.

As of June 30, 2017 and December 31, 2016, loans totaling $17.59 billion and $16.44 billion, respectively, were pledged to secure borrowings and to provide additional borrowing capacity from the Federal Reserve Bank and the FHLB.

Credit Quality Indicators

All loans are subject to the Company’s internal and external credit review and monitoring. Loans are risk rated based on an analysis of the current state of the borrower’s credit quality. The analysis of credit quality includes a review of all repayment sources, the borrower’s current payment performance/delinquency, current financial and liquidity status and all other relevant information. For single-family residential loans, payment performance/delinquency is the driving indicator for the risk ratings. Risk ratings are the overall credit quality indicator for the Company and the credit quality indicator utilized for estimating the appropriate allowance for loan losses. The Company utilizes a risk rating system, which can be classified within the following categories: Pass, Watch, Special Mention, Substandard, Doubtful and Loss. The risk ratings reflect the relative strength of the repayment sources.

Pass and 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. Special Mention loans are considered to have potential weaknesses that warrant closer attention by management. Special Mention is considered a transitory grade. If 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 indicate that 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 based on changes in the borrowers’ financial status and the loans’ collectability.

The following tables present the credit risk ratings for non-PCI loans by portfolio segment as of June 30, 2017 and December 31, 2016:

	June 30, 2017					
($ in thousands)	Pass/Watch	Special Mention	Substandard	Doubtful	Loss	Total Non-PCI Loans
CRE:						
Income producing	$8,003,443	$18,859	$ 119,181	$—	$ —	$8,141,483
Construction	521,240	20,548	8,993	—	—	550,781
Land	93,691	—	15,104	—	—	108,795
C&I:						
Commercial business	9,049,939	160,656	168,139	24,841	—	9,403,575
Trade finance	728,700	21,176	13,237	—	—	763,113
Residential:						
Single-family	3,838,847	10,216	24,740	—	—	3,873,803
Multifamily	1,676,251	—	20,727	—	—	1,696,978
Consumer	2,085,524	6,230	14,929	—	—	2,106,683
Total	$25,997,635	$237,685	$ 385,050	$24,841	$ —	$26,645,211

	December 31, 2016					
($ in thousands)	Pass/Watch	Special Mention	Substandard	Doubtful	Loss	Total Non-PCI Loans
CRE:						
Income producing	$7,476,804	$29,005	$ 161,852	$ —	$ —	$7,667,661
Construction	551,560	—	—	—	—	551,560
Land	107,976	—	13,290	10	—	121,276
C&I:						
Commercial business	8,559,674	155,276	201,139	5,157	—	8,921,246
Trade finance	635,027	9,435	36,460	—	8	680,930
Residential:						
Single-family	3,341,015	10,179	19,475	—	—	3,370,669
Multifamily	1,462,522	2,268	25,495	—	—	1,490,285
Consumer	2,043,405	6,764	6,898	—	—	2,057,067
Total	$24,177,983	$212,927	$ 464,609	$ 5,167	$ 8	$24,860,694

The following tables present the credit risk ratings for PCI loans by portfolio segment as of June 30, 2017 and December 31, 2016:

	June 30, 2017					
($ in thousands)	Pass/Watch	Special Mention	Substandard	Doubtful	Loss	Total PCI Loans
CRE:						
Income producing	$272,926	$472	$ 50,149	$ —	$ —	$323,547
Land	914	—	329	—	—	1,243
C&I:						
Commercial business	17,312	585	2,764	—	—	20,661
Residential:						
Single-family	124,216	1,506	1,963	—	—	127,685
Multifamily	69,657	—	6,106	—	—	75,763
Consumer	14,937	369	1,250	—	—	16,556
Total (1)	$499,962	$2,932	$ 62,561	$ —	$ —	$565,455

	December 31, 2016					
($ in thousands)	Pass/Watch	Special Mention	Substandard	Doubtful	Loss	Total PCI Loans
CRE:						
Income producing	$293,529	$3,239	$ 51,680	$ —	$ —	$348,448
Land	1,562	—	356	—	—	1,918
C&I:						
Commercial business	33,885	772	3,730	—	—	38,387
Residential:						
Single-family	136,245	1,239	1,626	—	—	139,110
Multifamily	86,190	—	9,464	—	—	95,654
Consumer	17,433	316	1,179	—	—	18,928
Total (1)	$568,844	$5,566	$ 68,035	$ —	$ —	$642,445

(1) Loans net of ASC 310-30 discount.

Nonaccrual and Past Due Loans

Non-PCI loans that are 90 or more days past due are generally placed on nonaccrual status. Additionally, non-PCI loans that are less than 90 days past due but have identified deficiencies, such as when the full collection of principal or interest becomes uncertain, are also placed on nonaccrual status. The following tables present the aging analysis on non-PCI loans as of June 30, 2017 and December 31, 2016:

($ in thousands)	June 30, 2017 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 Loans	Current Accruing Loans	Total Non-PCI Loans
CRE:								
Income producing	$4,192	$ 1,285	$5,477	$ 5,438	$ 20,537	$ 25,975	$8,110,031	$8,141,483
Construction	—	—	—	—	—	—	550,781	550,781
Land	1,103	—	1,103	21	4,323	4,344	103,348	108,795
C&I:								
Commercial business	2,976	9,126	12,102	49,899	37,290	87,189	9,304,284	9,403,575
Trade finance	—	—	—	—	—	—	763,113	763,113
Residential:								
Single-family	4,581	3,367	7,948	—	7,624	7,624	3,858,231	3,873,803
Multifamily	3,611	368	3,979	966	1,712	2,678	1,690,321	1,696,978
Consumer	3,747	2,333	6,080	101	2,895	2,996	2,097,607	2,106,683
Total	$20,210	$ 16,479	$36,689	$ 56,425	$ 74,381	$ 130,806	$26,477,716	$26,645,211

($ in thousands)	December 31, 2016 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 Loans	Current Accruing Loans	Total Non-PCI Loans
CRE:								
Income producing	$6,233	$ 14,080	$20,313	$ 14,872	$ 12,035	$ 26,907	$7,620,441	$7,667,661
Construction	4,994	—	4,994	—	—	—	546,566	551,560
Land	—	—	—	433	4,893	5,326	115,950	121,276
C&I:								
Commercial business	45,052	2,279	47,331	60,511	20,737	81,248	8,792,667	8,921,246
Trade finance	—	—	—	8	—	8	680,922	680,930
Residential:								
Single-family	9,595	8,076	17,671	—	4,214	4,214	3,348,784	3,370,669
Multifamily	3,951	374	4,325	2,790	194	2,984	1,482,976	1,490,285
Consumer	3,327	3,228	6,555	165	1,965	2,130	2,048,382	2,057,067
Total	$73,152	$ 28,037	$101,189	$ 78,779	$ 44,038	$ 122,817	$24,636,688	$24,860,694

For information on the policy for recording payments received and resuming accrual of interest on non-PCI loans that are placed on nonaccrual status, see Note 1 — Summary of Significant Accounting Policies to the Consolidated Financial Statements of the Company's 2016 Form 10-K.

PCI loans are excluded from the above aging analysis tables as the Company has elected to account for these loans on a pool level basis under ASC 310-30 at the time of acquisition. Please refer to the discussion on PCI loans within this note for additional details on interest income recognition. As of June 30, 2017 and December 31, 2016, PCI loans on nonaccrual status totaled $5.9 million and $11.7 million, respectively.

Loans in Process of Foreclosure

As of June 30, 2017 and December 31, 2016, the Company had $4.8 million and $3.1 million, respectively, of recorded investment in residential and consumer mortgage loans secured by residential real estate properties, for which formal foreclosure proceedings were in process according to local requirements of the applicable jurisdictions, which were not included in OREO. No foreclosed residential real estate properties were included in total net OREO of $2.2 million as of June 30, 2017. In comparison, foreclosed residential real estate properties with a carrying amount of $401 thousand were included in total net OREO of $6.7 million as of December 31, 2016.

Troubled Debt Restructurings ("TDRs")

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 Company's recovery. A TDR is a modification of the terms of a loan when the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not have otherwise considered.

The following tables present the additions to non-PCI TDRs for the three and six months ended June 30, 2017 and 2016:

	Loans Modified as TDRs During the Three Months Ended June 30,							
	2017				2016			
($ in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment (1)	Financial Impact (2)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment (1)	Financial Impact (2)
CRE:								
Income producing	—	$ —	$ —	$ —	2	$ 2,152	$ 2,157	$ 43
Land	—	$ —	$ —	$ —	1	$ 5,522	$ 5,279	$ —
C&I:								
Commercial business	6	$ 17,039	$ 15,673	$ 10,010	1	$ 75	$ 81	$ 12
Residential:								
Single-family	—	$ —	$ —	$ —	1	$ 795	$ 803	$ —
Multifamily	1	$ 3,655	$ 3,638	$ 107	—	$ —	$ —	$ —

	Loans Modified as TDRs During the Six Months Ended June 30,							
	2017				2016			
($ in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment (1)	Financial Impact (2)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment (1)	Financial Impact (2)
CRE:								
Income producing	1	$ 1,527	$ 1,494	$ —	3	$ 15,899	$ 15,811	$ 43
Land	—	$ —	$ —	$ —	1	$ 5,522	$ 5,279	$ —
C&I:								

Commercial business	8	$ 18,189	$ 17,272	$ 11,202	5	$ 21,689	$ 15,810	$ 2,618
Trade finance	—	$ —	$ —	$ —	2	$ 7,901	$ 9,256	$ —
Residential:								
Single-family	—	$ —	$ —	$ —	2	$ 1,071	$ 1,071	$ —
Multifamily	1	$ 3,655	$ 3,638	$ 106	—	$ —	$ —	$ —
Consumer	—	$ —	$ —	$ —	1	$ 344	$ 340	$ 1

(1) Includes subsequent payments after modification and reflects the balance as of June 30, 2017 and 2016.
(2) The financial impact includes charge-offs and specific reserves recorded at the modification date.

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The following tables present the non-PCI TDR modifications for the three and six months ended June 30, 2017 and 2016 by modification type:

($ in thousands)	Modification Type During the Three Months Ended June 30, 2017				2016			
	Principal (1)	Principal and Interest (2)	Other	Total	Principal (1)	Principal and Interest (2)	Other	Total
CRE	$—	$—	$ —	$—	$6,279	$ —	$1,157	$7,436
C&I	3,388	12,285	—	15,673	81	—	—	81
Residential	3,638	—	—	3,638	—	803	—	803
Consumer	—	—	—	—	—	—	—	—
Total	$7,026	$12,285	$ —	$19,311	$6,360	$ 803	$1,157	$8,320

($ in thousands)	Modification Type During the Six Months Ended June 30, 2017				2016			
	Principal (1)	Principal and Interest (2)	Other	Total	Principal (1)	Principal and Interest (2)	Other	Total
CRE	$1,494	$—	$ —	$1,494	$19,932	$—	$1,158	$21,090
C&I	3,388	13,884	—	17,272	18,559	1,986	4,521	25,066
Residential	3,638	—	—	3,638	268	803	—	1,071
Consumer	—	—	—	—	340	—	—	340
Total	$8,520	$13,884	$ —	$22,404	$39,099	$ 2,789	$5,679	$47,567

(1) Includes forbearance payments, term extensions and principal deferments that modify the terms of the loan from principal and interest payments to interest payments only.

(2) Includes principal and interest deferments or reductions.

Subsequent to restructuring, a TDR that becomes delinquent, generally beyond 90 days, is considered to have defaulted. As TDRs are individually evaluated for impairment under the specific reserve methodology, subsequent defaults do not generally have a significant additional impact on the allowance for loan losses. The following tables present information for loans modified as TDRs within the previous 12 months that have subsequently defaulted during the three and six months ended June 30, 2017 and 2016, and were still in default at the respective period end:

($ in thousands)	Loans Modified as TDRs that Subsequently Defaulted During the Three Months Ended June 30, 2017		2016	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Consumer	1	$ 48	—	$ —

($ in thousands)	Loans Modified as TDRs that Subsequently Defaulted During the Six Months Ended June 30, 2017	2016

	Number of Loans	Recorded Investment		Number of Loans	Recorded Investment	
C&I:						
Commercial business	—	$	—	3	$	575
Consumer	1	$	48	—	$	—

The amount of additional funds committed to lend to borrowers whose terms have been modified was $6.8 million and $9.9 million as of June 30, 2017 and December 31, 2016, respectively.

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Impaired Loans

The Company's loans are grouped into heterogeneous and homogeneous (mostly consumer loans) categories. Classified loans in the heterogeneous category are identified and evaluated for impairment on an individual basis. A loan is considered impaired when, based on current information and events, it is probable that the Company will not be able to collect all scheduled payments of principal or interest due in accordance with the original contractual terms. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as 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 and the loan is classified as nonperforming and uncollectible, the deficiency is charged-off against the allowance for loan losses. Impaired loans exclude the homogeneous consumer loan portfolio, which is evaluated collectively for impairment. The Company's impaired loans include predominantly non-PCI loans held-for-investment on nonaccrual status and any non-PCI loans modified in a TDR, which may be on accrual or nonaccrual status.

The following tables present information on the non-PCI impaired loans as of June 30, 2017 and December 31, 2016:

	June 30, 2017				
($ in thousands)	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
CRE:					
Income producing	$ 37,672	$ 33,059	$ 4,598	$ 37,657	$ 702
Land	4,344	4,323	21	4,344	3
C&I:					
Commercial business	106,076	69,274	36,779	106,053	15,580
Trade finance	4,615	—	4,538	4,538	305
Residential:					
Single-family	16,956	4,161	12,788	16,949	492
Multifamily	12,657	6,135	6,531	12,666	206
Consumer	4,528	1,308	3,225	4,533	5
Total	$ 186,848	$ 118,260	$ 68,480	$ 186,740	$ 17,293

	December 31, 2016				
($ in thousands)	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
CRE:					
Income producing	$ 50,718	$ 32,507	$ 14,001	$ 46,508	$ 1,263
Land	6,457	5,427	443	5,870	63
C&I:					
Commercial business	162,239	78,316	42,137	120,453	10,443
Trade finance	5,227	—	5,166	5,166	34
Residential:					
Single-family	15,435	—	14,335	14,335	687
Multifamily	11,181	5,684	4,357	10,041	180
Consumer	4,016	—	3,682	3,682	31

Total	$255,273	$ 121,934	$ 84,121	$ 206,055	$ 12,701

The following table presents the average recorded investment and interest income recognized on non-PCI impaired loans for the three and six months ended June 30, 2017 and 2016:

($ in thousands)	Three Months Ended June 30, 2017 Average Recorded Investment	Three Months Ended June 30, 2017 Recognized Interest Income (1)	2016 Average Recorded Investment	2016 Recognized Interest Income (1)	Six Months Ended June 30, 2017 Average Recorded Investment	Six Months Ended June 30, 2017 Recognized Interest Income (1)	2016 Average Recorded Investment	2016 Recognized Interest Income (1)
CRE:								
Income producing	$37,897	$ 33	$78,183	$ 404	$38,116	$ 80	$79,072	$ 816
Land	4,414	—	6,747	8	4,584	—	6,912	17
C&I:								
Commercial business	109,887	122	100,407	270	115,252	337	100,593	530
Trade finance	3,971	18	12,715	67	4,356	25	13,513	133
Residential:								
Single-family	16,985	35	12,735	74	17,038	93	12,818	148
Multifamily	12,720	81	24,858	77	12,771	129	25,067	154
Consumer	4,541	13	1,585	16	4,548	32	1,589	31
Total non-PCI impaired loans	$190,415	$ 302	$237,230	$ 916	$196,665	$ 696	$239,564	$ 1,829

(1) Includes interest recognized on accruing non-PCI TDRs. Interest payments received on nonaccrual non-PCI loans are reflected as a reduction to principal and not as interest income.

Allowance for Credit Losses

The following tables present a summary of activities in the allowance for loan losses by portfolio segment for the three and six months ended June 30, 2017 and 2016:

($ in thousands)	Three Months Ended June 30, 2017						
	Non-PCI Loans					PCI Loans	Total
	CRE	C&I	Residential	Consumer	Total		
Beginning balance	$74,888	$137,510	$41,746	$8,863	$263,007	$87	$263,094
(Reversal of) provision for loan losses	(1,413)	10,974	1,563	(444)	10,680	(9)	10,671
Charge-offs	(1)	(5,386)	(1)	(3)	(5,391)	—	(5,391)
Recoveries	511	7,038	371	22	7,942	—	7,942
Net recoveries	510	1,652	370	19	2,551	—	2,551
Ending balance	$73,985	$150,136	$43,679	$8,438	$276,238	$78	$276,316

($ in thousands)	Three Months Ended June 30, 2016						
	Non-PCI Loans					PCI Loans	Total
	CRE	C&I	Residential	Consumer	Total		
Beginning balance	$82,538	$134,077	$33,935	$9,360	$259,910	$328	$260,238
(Reversal of) provision for loan losses	(4,439)	15,347	(2,671)	(1,017)	7,220	(71)	7,149
Charge-offs	(139)	(2,214)	—	(3)	(2,356)	—	(2,356)
Recoveries	142	1,217	297	81	1,737	—	1,737
Net recoveries (charge-offs)	3	(997)	297	78	(619)	—	(619)
Ending balance	$78,102	$148,427	$31,561	$8,421	$266,511	$257	$266,768

($ in thousands)	Six Months Ended June 30, 2017						
	Non-PCI Loans					PCI Loans	Total
	CRE	C&I	Residential	Consumer	Total		
Beginning balance	$72,804	$142,166	$37,333	$8,099	$260,402	$118	$260,520
Provision for (reversal of) loan losses	226	12,920	5,398	182	18,726	(40)	18,686
Charge-offs	(149)	(12,443)	(1)	(7)	(12,600)	—	(12,600)
Recoveries	1,104	7,493	949	164	9,710	—	9,710
Net recoveries (charge-offs)	955	(4,950)	948	157	(2,890)	—	(2,890)
Ending balance	$73,985	$150,136	$43,679	$8,438	$276,238	$78	$276,316

($ in thousands)	Six Months Ended June 30, 2016						
	Non-PCI Loans					PCI Loans	Total
	CRE	C&I	Residential	Consumer	Total		
Beginning balance	$81,191	$134,597	$39,292	$9,520	$264,600	$359	$264,959
(Reversal of) provision for loan losses	(3,133)	20,001	(7,988)	(1,243)	7,637	(102)	7,535
Charge-offs	(195)	(8,074)	(137)	(4)	(8,410)	—	(8,410)
Recoveries	239	1,903	394	148	2,684	—	2,684
Net recoveries (charge-offs)	44	(6,171)	257	144	(5,726)	—	(5,726)
Ending balance	$78,102	$148,427	$31,561	$8,421	$266,511	$257	$266,768

For further information on accounting policies and the methodologies used to estimate the allowance for credit losses and loan charge-offs, see Note 1 — Summary of Significant Accounting Policies to the Consolidated Financial Statements of the Company's 2016 Form 10-K.

The following table presents a summary of activities in the allowance for unfunded credit reserves for the three and six months ended June 30, 2017 and 2016:

($ in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Beginning balance	$15,174	$21,414	$16,121	$20,360
Provision for (reversal of) unfunded credit reserves	14	(1,096)	(933)	(42)
Ending balance	$15,188	$20,318	$15,188	$20,318

The allowance for unfunded credit reserves is maintained at a level management believes to be sufficient to absorb estimated probable losses related to unfunded credit facilities. The allowance for unfunded credit reserves is included in Accrued expense and other liabilities on the Consolidated Balance Sheets. See Note 11 — Commitments and Contingencies to the Consolidated Financial Statements for additional information related to unfunded credit reserves.

The following tables present the Company's allowance for loan losses and recorded investments by portfolio segment and impairment methodology as of June 30, 2017 and December 31, 2016:

($ in thousands)	June 30, 2017				
	CRE	C&I	Residential	Consumer	Total
Allowance for loan losses					
Individually evaluated for impairment	$705	$15,885	$698	$5	$17,293
Collectively evaluated for impairment	73,280	134,251	42,981	8,433	258,945
Acquired with deteriorated credit quality	78	—	—	—	78
Ending balance	$74,063	$150,136	$43,679	$8,438	$276,316
Recorded investment in loans					
Individually evaluated for impairment	$42,001	$110,591	$29,615	$4,533	$186,740
Collectively evaluated for impairment	8,759,058	10,056,097	5,541,166	2,102,150	26,458,471
Acquired with deteriorated credit quality (1)	324,790	20,661	203,448	16,556	565,455
Ending balance (1)	$9,125,849	$10,187,349	$5,774,229	$2,123,239	$27,210,666

($ in thousands)	December 31, 2016				
	CRE	C&I	Residential	Consumer	Total
Allowance for loan losses					
Individually evaluated for impairment	$1,326	$10,477	$867	$31	$12,701
Collectively evaluated for impairment	71,478	131,689	36,466	8,068	247,701
Acquired with deteriorated credit quality	112	1	5	—	118
Ending balance	$72,916	$142,167	$37,338	$8,099	$260,520
Recorded investment in loans					
Individually evaluated for impairment	$52,378	$125,619	$24,376	$3,682	$206,055
Collectively evaluated for impairment	8,288,119	9,476,557	4,836,578	2,053,385	24,654,639
Acquired with deteriorated credit quality (1)	350,366	38,387	234,764	18,928	642,445
Ending balance (1)	$8,690,863	$9,640,563	$5,095,718	$2,075,995	$25,503,139

(1) Loans net of ASC 310-30 discount.

Purchased Credit Impaired Loans

At the date of acquisition, PCI loans are pooled and accounted for at fair value, which represents the discounted value of the expected cash flows of the loan portfolio. A pool is accounted for as a single asset with a single interest rate, cumulative loss rate and cash flow expectation. The cash flows expected over the life of the pools are estimated by an internal cash flow model that projects cash flows and calculates the carrying values of the pools, book yields, effective interest income and impairment, if any, based on pool level events. Assumptions as to cumulative loss rates, loss curves and prepayment speeds are utilized to calculate the expected cash flows. The amount of expected cash flows over the initial investment in the loan represents the "accretable yield," which is recognized as interest income on a level yield basis over the life of the loan. Prepayments affect the estimated life of PCI loans, which may change the amount of interest income, and possibly principal, expected to be collected. The excess of total contractual cash flows over the cash flows expected to be received at origination is deemed to be the "nonaccretable difference."

The following table presents the changes in accretable yield for PCI loans for the three and six months ended June 30, 2017 and 2016:

($ in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Beginning balance	$127,990	$185,991	$136,247	$214,907
Accretion	(11,082)	(16,254)	(21,361)	(38,683)
Changes in expected cash flows	1,717	(2,960)	3,739	(9,447)
Ending balance	$118,625	$166,777	$118,625	$166,777

Loans Held-for-Sale

Loans held-for-sale are carried at the lower of cost or fair value. When a determination is made at the time of commitment to originate or purchase loans as held-for-investment, it is the Company's intent to hold these loans to maturity or for the "foreseeable future," subject to periodic reviews under the Company's management evaluation processes, including asset/liability management. When the Company subsequently changes its intent to hold certain loans, the loans are transferred from the loans held-for-investment portfolio to the loans held-for-sale portfolio at the lower of cost or fair value.

As of June 30, 2017, loans held-for-sale amounted to $11.6 million, which were primarily comprised of C&I loans. In comparison, as of December 31, 2016, loans held-for-sale amounted to $23.1 million, which were primarily comprised of consumer loans. Transfers of loans held-for-investment to loans held-for-sale were $66.0 million and $344.0 million during the three and six months ended June 30, 2017, respectively. These loan transfers were primarily comprised of C&I loans for both periods. In comparison, $267.1 million and $575.8 million of loans held-for-investment were transferred to loans held-for-sale during the same periods in 2016, respectively. These loan transfers were primarily comprised of multifamily residential, C&I and CRE loans for both periods. The Company recorded $117 thousand and $209 thousand in write-downs to the allowance for loan losses related to loans transferred from loans held-for-investment to loans held-for-sale for the three and six months ended June 30, 2017, respectively. In comparison, the Company recorded $37 thousand and $1.9 million in write-downs to the allowance for loan losses related to loans transferred from loans held-for-investment to loans held-for-sale for the same periods in 2016, respectively.

During the three months ended June 30, 2017 and 2016, the Company sold $38.3 million and $166.0 million, respectively, in originated loans, resulting in net gains of $1.3 million and $2.8 million, respectively. During the three months ended June 30, 2017, originated loans sold were primarily comprised of C&I and single-family residential loans. In comparison, during the same period in 2016, originated loans sold were primarily comprised of CRE, multifamily residential and C&I loans. During the six months ended June 30, 2017, the Company sold $67.6 million in originated loans, which were primarily comprised of C&I and single-family residential loans, resulting in net gains of $3.1 million. In comparison, during the six months ended June 30, 2016, the Company sold $220.5 million and securitized $201.7 million in originated loans, which were primarily comprised of multifamily residential, CRE and C&I loans, resulting in net gains of $7.1 million. The Company recorded $1.1 million in net gains and $641 thousand in mortgage servicing rights, and retained $160.1 million of the senior tranche of the resulting securities, as a result of the securitization of the $201.7 million of multifamily residential loans.

During the three and six months ended June 30, 2017, the Company purchased $221.5 million and $368.7 million loans, respectively, compared to $541.6 million and $780.9 million during the same periods in 2016, respectively. Purchased loans for the three and six months ended June 30, 2017 were primarily comprised of C&I syndication loans, while purchased loans for the same periods in 2016 were primarily comprised of C&I syndication loans and single-family residential loans. The higher loans purchased for the three and six months ended June 30, 2016, primarily included $250.1 million and $322.5 million, respectively, in single-family residential loans purchased for Community Reinvestment Act purposes.

From time to time, the Company purchases and sells loans in the secondary market. Certain purchased loans were transferred from loans held-for-investment to loans held-for-sale and write-downs to allowance for loan losses were recorded, where appropriate. During the three and six months ended June 30, 2017, the Company sold loans of $50.5 million and $297.1 million, respectively, in the secondary market at net gains of $202 thousand and $1.2 million, respectively. In comparison, the Company sold loans of $79.7 million and $133.6 million, respectively, in the secondary market, resulting in net gains of $69 thousand for each of the three and six months ended June 30, 2016.

For the three months ended June 30, 2017, the Company recorded a reversal of valuation adjustment of $8 thousand in Net gains on sales of loans on the Consolidated Statements of Income to carry the loans held-for-sale portfolio at the lower of cost or fair value. In comparison, no such valuation adjustment was recorded for the same period in 2016. For the six months ended June 30, 2017 and 2016, the Company recorded such valuation adjustments of $61 thousand and $2.4 million, respectively, related to the loans held-for-sale portfolio.

Note 9 — Investments in Qualified Affordable Housing Partnerships, Tax Credit and Other Investments, Net

The Community Reinvestment Act ("CRA") encourages banks to meet the credit needs of their communities for housing and other purposes, particularly in neighborhoods with low or moderate income. The Company invests in certain affordable housing limited partnerships that qualify for CRA credits. Such limited partnerships are formed to develop and operate apartment complexes designed as high-quality affordable housing for lower income tenants throughout the U.S. 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. In addition to affordable housing limited partnerships, the Company invests in new market tax credit projects that qualify for CRA credits and eligible projects that qualify for renewable energy and historic tax credits. Investments in renewable energy tax credits help promote the development of renewable energy sources, while the investments in historic tax credits promote the rehabilitation of historic buildings and economic revitalization of the surrounding areas.

Investments in Qualified Affordable Housing Partnerships, Net

The Company records its investments in qualified affordable housing partnerships, net, using the proportional amortization method. 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 in Income tax expense on the Consolidated Statements of Income.

The following table presents the balances of the Company's investments in qualified affordable housing partnerships, net, and related unfunded commitments as of the periods indicated:

($ in thousands)	June 30, 2017	December 31, 2016
Investments in qualified affordable housing partnerships, net	$169,103	$183,917
Accrued expenses and other liabilities — Unfunded commitments	$51,412	$57,243

The following table presents additional information related to the Company’s investments in qualified affordable housing partnerships, net, for the periods indicated:

($ in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Tax credits and other tax benefits recognized	$9,566	$8,518	$19,187	$17,970
Amortization expense included in income tax expense	$7,051	$7,345	$14,001	$14,311

Investments in Tax Credit and Other Investments, Net

Investments in tax credit and other investments, net, were $189.4 million and $173.3 million as of June 30, 2017 and December 31, 2016, respectively. The Company is not the primary beneficiary in these partnerships and, therefore, is not required to consolidate its investments in tax credit and other investments on the Consolidated Financial Statements. Depending on the ownership percentage and the influence the Company has on the limited partnership, the Company applies either the equity method or cost method of accounting.

Total unfunded commitments for these investments were $110.9 million and $117.0 million as of June 30, 2017 and December 31, 2016, respectively, and were included in Accrued expenses and other liabilities on the Consolidated Balance Sheets. Amortization of tax credit and other investments was $27.9 million and $14.0 million for the three months ended June 30, 2017 and 2016, respectively. Amortization of tax credit and other investments was $42.2 million and $28.2 million for the six months ended June 30, 2017 and 2016, respectively.

Note 10 — Goodwill and Other Intangible Assets

Goodwill

Total goodwill of $469.4 million remained unchanged as of June 30, 2017 compared to December 31, 2016. Goodwill is tested for impairment on an annual basis as of December 31st, or more frequently as events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The Company's three operating segments, Retail Banking, Commercial Banking, and Other, are equivalent to the Company's reporting units. For complete discussion and disclosure, see Note 15 — Business Segments to the Consolidated Financial Statements.

Impairment Analysis

The Company performed its annual impairment analysis as of December 31, 2016 and concluded that there was no goodwill impairment as the fair values of all reporting units exceeded the carrying amounts of goodwill. There were no triggering events during the six months ended June 30, 2017 and therefore, no additional goodwill impairment analysis was performed. No assurance can be given that goodwill will not be written down in future periods. Refer to Note 9 — Goodwill and Other Intangible Assets to the Consolidated Financial Statements of the Company's 2016 Form 10-K for additional details related to the Company's annual goodwill impairment analysis.

Core Deposit Intangibles

Core deposit intangibles 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. There were no impairment write-downs on core deposit intangibles for the six months ended June 30, 2017 and 2016.

The following table presents the gross carrying value of intangible assets and accumulated amortization as of June 30, 2017 and December 31, 2016:

($ in thousands)	June 30, 2017	December 31, 2016
Gross balance	$108,814	$108,814
Accumulated amortization	(84,404)	(80,825)

Net carrying balance	$24,410	$27,989

Amortization Expense

The Company amortizes the core deposit intangibles based on the projected useful lives of the related deposits. The amortization expense related to the intangible assets was $1.8 million and $2.1 million for the three months ended June 30, 2017 and 2016, respectively, and $3.6 million and $4.2 million for the six months ended June 30, 2017 and 2016, respectively.

The following table presents the estimated future amortization expense of core deposit intangibles:

Year Ended December 31,	Amount ($ in thousands)
Remainder of 2017	$ 3,356
2018	5,883
2019	4,864
2020	3,846
2021	2,833
Thereafter	3,628
Total	$ 24,410

Note 11 — 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 Consolidated Financial Statements. While the Company does not anticipate losses as a result of these transactions, commitments to extend credit are included in determining the appropriate level of the allowance for unfunded commitments and outstanding commercial and standby letters of credit (“SBLCs”). The following table presents the Company’s credit-related commitments as of the periods indicated:

($ in thousands)	June 30, 2017	December 31, 2016
Loan commitments	$4,719,772	$5,077,869
Commercial letters of credit and SBLCs	$1,748,510	$1,525,613

Loan commitments are agreements to lend to a customer provided that there is no violation of any condition established in the agreement. Commitments generally have fixed expiration dates or other termination clauses and may require maintenance of compensatory balances. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future funding requirements.

Commercial letters of credit are issued to facilitate domestic and foreign trade transactions, while SBLCs are generally contingent upon the failure of the customers to perform according to the terms of the underlying contract with the third party. As a result, the total contractual amounts do not necessarily represent future funding requirements. The Company’s historical experience is that SBLCs typically expire without being funded. Additionally, in many cases, the Company holds collateral in various forms against these SBLCs. As a part of its risk management activities, the Company monitors the creditworthiness of customers in conjunction with its SBLC exposure. Customers are obligated to reimburse the Company for any payment made on the customers’ behalf. If customers fail to pay, the Company would, as applicable, liquidate the collateral and/or offset accounts. Total letters of credit of $1.75 billion consisted of commercial letters of credit of $45.8 million and SBLCs of $1.70 billion as of June 30, 2017.

The Company uses the same credit underwriting criteria in extending loans, commitments and conditional obligations to customers. Each customer’s creditworthiness is evaluated on a case-by-case basis. Collateral and financial guarantees may be obtained based on management’s assessment of the customer’s credit. Collateral may include cash, accounts receivable, inventory, property, plant and equipment and income-producing commercial property.

Estimated exposure to loss from these commitments is included in the allowance for unfunded credit reserves and amounted to $14.9 million as of June 30, 2017 and $15.7 million as of December 31, 2016. These amounts are included in Accrued expenses and other liabilities on the Consolidated Balance Sheets.

Guarantees — The Company has sold or securitized loans with recourse in the ordinary course of business. The recourse component in the loans sold or securitized with recourse is considered a guarantee. As the guarantor, the Company is obligated to make payments when the loans default. As of June 30, 2017 and December 31, 2016, the unpaid principal balance of total single-family and multifamily residential loans sold or securitized with recourse amounted to $129.4 million and $150.5 million, respectively. The Company's recourse reserve related to these guarantees is included in the allowance for unfunded credit reserves and totaled $290 thousand and $373 thousand as of June 30, 2017 and December 31, 2016, respectively. The allowance for unfunded credit reserves is included in Accrued expenses and other liabilities on the Consolidated Balance Sheets. The Company continues to experience minimal losses from the single-family and multifamily residential loan portfolios sold or securitized with recourse.

Litigation — The Company is a party to various legal actions arising in the course of business. In accordance with ASC 450, Contingencies, the Company accrues reserves for outstanding lawsuits, claims, and proceedings when a loss contingency is probable and can be reasonably estimated. Due to the inherent subjectivity of the assessments and unpredictability of the outcomes of the legal proceedings, any amounts accrued or included in this aggregate amount may not represent the ultimate loss to the Company from the legal proceedings in question. Thus, the Company's exposure and ultimate losses may be higher, and possibly significantly more than the amounts accrued. In 2016, the Company entered into a settlement agreement to fully resolve and discharge the "F&F, LLC and 618 Investment, Inc. v. East West Bank" litigation and accrued $25.0 million as of December 31, 2016. These amounts were subsequently paid in January 2017.

Other Commitments — The Company has commitments to invest in qualified affordable housing partnerships, tax credit and other investments as discussed in Note 9 — Investments in Qualified Affordable Housing Partnerships, Tax Credit and Other Investments, Net to the Consolidated Financial Statements. These commitments are payable on demand. As of June 30, 2017 and December 31, 2016, these commitments were $162.3 million and $174.3 million, respectively. These commitments are included in Accrued expenses and other liabilities on the Consolidated Balance Sheets.

Note 12 — Stock Compensation Plans

Pursuant to the Company's 2016 Stock Incentive Plan, as amended, the Company may issue stock options, restricted stock awards ("RSAs"), RSUs, stock appreciation rights, stock purchase warrants, phantom stock and dividend equivalents to certain employees and non-employee directors of the Company and its subsidiaries. There were no outstanding stock options and unvested RSAs as of June 30, 2017 and 2016.

RSUs are granted under the Company's long-term incentive plan at no cost to the recipient. RSUs vest ratably over three years or cliff vest after three or five years of continued employment from the date of the grant. RSUs entitle the recipient to receive cash dividends equivalent to any dividends paid on the underlying common stock during the period the RSUs are outstanding. RSU dividends are accrued during the vesting period and are paid at the time of vesting. While a portion of RSUs are time-vesting awards, others vest subject to the attainment of specified performance goals referred to as "Performance-based RSUs." All RSUs are subject to forfeiture until vested.

Performance-based RSUs are granted at the target amount of awards. Based on the Company's attainment of specified performance goals and consideration of market conditions, the number of shares that vest can be adjusted to a minimum of zero and to a maximum of 200% of the target. The amount of performance-based RSUs that are eligible to vest is determined at the end of each performance period and is then added together to determine the total number of performance shares that are eligible to vest. Performance-based RSUs cliff vest three years from the date of the grant.

Compensation costs for the time-based awards are based on the quoted market price of the Company's stock at the grant date. Compensation costs associated with performance-based RSUs are based on grant date fair value which considers both market and performance conditions and is subject to subsequent adjustments based on the changes in the Company's stock price and the projected outcome of the performance criteria. Compensation costs of both time-based and performance-based awards are recognized on a straight-line basis from the grant date until the vesting date of each grant.

The following table presents a summary of the total share-based compensation expense and the related net tax benefit associated with the Company's various employee share-based compensation plans for the three and six months ended June 30, 2017 and 2016:

($ in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Stock compensation costs	$4,964	$4,635	$10,115	$9,210
Related net tax benefit for stock compensation plans	$49	$19	$4,463	$1,005

Effective January 1, 2017, the Company adopted ASU 2016-09, Compensation — Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. As a result of the adoption of this new guidance, all excess tax benefits and deficiencies on share-based payment awards were recognized within Income tax expense on the Consolidated Statements of Income for the three and six months ended June 30, 2017. For the three and six months ended June 30, 2016, these tax benefits were recorded as increases to Additional paid-in capital on the Consolidated Statements of Changes in Stockholders' Equity.

The following table presents a summary of the activity for the Company's time-based and performance-based RSUs for the six months ended June 30, 2017 based on the target amount of awards:

	Six Months Ended June 30, 2017			
	Time-Based RSUs		Performance-Based RSUs	
	Shares	Weighted Average Grant-Date Fair Value	Shares	Weighted Average Grant-Date Fair Value
Outstanding at beginning of period	1,218,714	$ 35.92	410,746	$ 35.27
Granted	336,582	54.47	131,597	56.59
Vested	(284,479)	36.80	(118,044)	36.85
Forfeited	(94,346)	39.86	—	—
Outstanding at end of period	1,176,471	$ 40.70	424,299	$ 41.44

As of June 30, 2017, total unrecognized compensation costs related to time-based and performance-based RSUs amounted to $31.0 million and $17.8 million, respectively. These costs are expected to be recognized over a weighted average period of 2.10 years and 2.21 years, respectively.

Note 13 — Stockholders' Equity and Earnings Per Share

Warrant — The Company acquired MetroCorp Bancshares, Inc., ("MetroCorp") on January 17, 2014. Prior to the acquisition, MetroCorp had an outstanding warrant to purchase 771,429 shares of its common stock. Upon the acquisition, the rights of the warrant holder were converted into the right to acquire 230,282 shares of East West's common stock until January 16, 2019. The warrant has not been exercised as of June 30, 2017.

EPS — Basic EPS is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during each period. Diluted EPS is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during each period, plus common share equivalents calculated for warrants and RSUs outstanding using the treasury stock method. With the adoption of ASU 2016-09 during the first quarter of 2017, the impact of excess tax benefits and deficiencies is no longer included in the calculation of diluted EPS. As a result of applying ASU 2016-09, the Company recorded an income tax benefit of approximately $49 thousand or $0 per common share, and $4.5 million or $0.03 per common share for the three and six months ended June 30, 2017, respectively, related to the vesting of the RSUs. See Note 2 — Current Accounting Developments to the Consolidated Financial Statements for additional information.

The following table presents the EPS calculations for the three and six months ended June 30, 2017 and 2016:

($ and shares in thousands, except per share data)	Three Months Ended June 30, 2017	2016	Six Months Ended June 30, 2017	2016
Basic				
Net income	$118,330	$103,284	$288,066	$210,800
Basic weighted average number of shares outstanding	144,485	144,101	144,368	144,029
Basic EPS	$0.82	$0.72	$2.00	$1.46
Diluted				
Net income	$118,330	$103,284	$288,066	$210,800
Basic weighted average number of shares outstanding	144,485	144,101	144,368	144,029
Diluted potential common shares (1)	1,255	977	1,406	944
Diluted weighted average number of shares outstanding	145,740	145,078	145,774	144,973
Diluted EPS	$0.81	$0.71	$1.98	$1.45

(1) Includes dilutive shares from RSUs and warrants for the three and six months ended June 30, 2017 and 2016.

For the three and six months ended June 30, 2017, approximately 2 thousand and 5 thousand weighted average anti-dilutive shares from RSUs, respectively, were excluded from the diluted EPS computation. For the three and six months ended June 30, 2016, approximately 3 thousand and 10 thousand weighted average anti-dilutive shares from RSUs, respectively, were excluded from the diluted EPS computation.

Note 14 — Accumulated Other Comprehensive Income (Loss)

The following tables present the changes in the components of AOCI balances for the three and six months ended June 30, 2017 and 2016:

($ in thousands)	Three Months Ended June 30, 2017 Available-for-Sale Investment Securities	Foreign Currency Translation Adjustments (1)	Total	2016 Available-for-Sale Investment Securities	Foreign Currency Translation Adjustments (1)	Total
Beginning balance	$(25,151)	$(18,367)	$(43,518)	$6,772	$(8,830)	$(2,058)
Net unrealized gains (losses) arising during the period	7,777	3,136	10,913	6,628	(4,638)	1,990
Amounts reclassified from AOCI	(1,576)	—	(1,576)	(1,644)	—	(1,644)
Changes, net of taxes	6,201	3,136	9,337	4,984	(4,638)	346
Ending balance	$(18,950)	$(15,231)	$(34,181)	$11,756	$(13,468)	$(1,712)

Six Months Ended June 30,

($ in thousands)

	2017			2016		
	Available-for-Sale Investment Securities	Foreign Currency Translation Adjustments (1)	Total	Available-for-Sale Investment Securities	Foreign Currency Translation Adjustments (1)	Total
Beginning balance	$(28,772)	$(19,374)	$(48,146)	$(6,144)	$(8,797)	$(14,941)
Net unrealized gains (losses) arising during the period	12,832	4,143	16,975	21,770	(4,671)	17,099
Amounts reclassified from AOCI	(3,010)	—	(3,010)	(3,870)	—	(3,870)
Changes, net of taxes	9,822	4,143	13,965	17,900	(4,671)	13,229
Ending balance	$(18,950)	$(15,231)	$(34,181)	$11,756	$(13,468)	$(1,712)

(1) Represents foreign currency translation adjustments related to the Company’s net investment in non-U.S. operations, including related hedges. The functional currency and reporting currency of the Company’s foreign subsidiary was Chinese Renminbi and USD, respectively.

The following tables present the components of other comprehensive income, reclassifications to net income and the related tax effects for the three and six months ended June 30, 2017 and 2016:

($ in thousands)	Three Months Ended June 30, 2017			2016		
	Before-Tax	Tax Effect	Net-of-Tax	Before-Tax	Tax Effect	Net-of-Tax
Available-for-sale investment securities:						
Net unrealized gains arising during the period	$13,420	$(5,643)	$ 7,777	$11,435	$(4,807)	$ 6,628
Net realized gains reclassified into net income [1]	(2,720)	1,144	(1,576)	(2,836)	1,192	(1,644)
Net change	10,700	(4,499)	6,201	8,599	(3,615)	4,984
Foreign currency translation adjustments:						
Net unrealized gains (losses) arising during period	3,136	—	3,136	(4,638)	—	(4,638)
Net change	3,136	—	3,136	(4,638)	—	(4,638)
Other comprehensive income	$13,836	$(4,499)	$ 9,337	$3,961	$(3,615)	$ 346

($ in thousands)	Six Months Ended June 30, 2017			2016		
	Before-Tax	Tax Effect	Net-of-Tax	Before-Tax	Tax Effect	Net-of-Tax
Available-for-sale investment securities:						
Net unrealized gains arising during the period	$22,141	$(9,309)	$ 12,832	$37,565	$(15,795)	$ 21,770
Net realized gains reclassified into net income [1]	(5,194)	2,184	(3,010)	(6,678)	2,808	(3,870)
Net change	16,947	(7,125)	9,822	30,887	(12,987)	17,900
Foreign currency translation adjustments:						
Net unrealized gains (losses) arising during period	4,143	—	4,143	(4,671)	—	(4,671)
Net change	4,143	—	4,143	(4,671)	—	(4,671)
Other comprehensive income	$21,090	$(7,125)	$ 13,965	$26,216	$(12,987)	$ 13,229

(1) For the three and six months ended June 30, 2017 and 2016, the pretax amounts were reported in Net gains on sales of available-for-sale investment securities on the Consolidated Statements of Income.

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. The Company has identified three operating segments for purposes of management reporting: (1) Retail Banking; (2) Commercial Banking; and (3) Other. These three business segments meet the criteria of an operating segment: the segment engages in business activities from which it earns revenues and incurs expenses; its operating results are regularly reviewed by the Company's chief operating decision-maker to render decisions about resources to be allocated to the segments and assess its performance; and 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 C&I and CRE operations, primarily generates commercial loans and deposits through the bank's commercial lending offices. Furthermore, the Company's Commercial Banking segment offers a wide variety of international finance, trade, and cash management services and products. The remaining centralized functions, including treasury activities and eliminations of inter-segment amounts, have been aggregated and included in the “Other” segment, which provides broad administrative support to the two core segments.

Operating segment results are based on the Company’s internal management reporting process, which reflects assignments and allocations of certain operating and administrative costs and the provision for credit losses. Net interest income is allocated 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 the related business segment. 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.

The Company's internal 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. Internal transfer pricing assumptions and methodologies are reviewed at least annually to ensure that the Company's process is reflective of current market conditions. The internal transfer pricing process is formulated with the goal of encouraging loan and deposit growth that is consistent with the Company's overall profitability 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.

Changes in the Company's management structure or reporting methodologies may result in changes in the measurement of operating segment results. Results for prior year periods are generally restated for comparability for changes in management structure or reporting methodologies unless it is deemed not practicable to do so.

The following tables present the operating results and other key financial measures for the individual operating segments as of and for the three and six months ended June 30, 2017 and 2016:

	Three Months Ended June 30, 2017			
($ in thousands)	Retail Banking	Commercial Banking	Other	Total
Interest income	$88,753	$205,873	$28,149	$322,775
Charge for funds used	(33,139)	(77,750)	(14,516)	(125,405)
Interest spread on funds used	55,614	128,123	13,633	197,370
Interest expense	(18,378)	(5,183)	(9,123)	(32,684)
Credit on funds provided	106,094	12,624	6,687	125,405
Interest spread on funds provided (used)	87,716	7,441	(2,436)	92,721
Net interest income before provision for credit losses	$143,330	$135,564	$11,197	$290,091
(Reversal of) provision for credit losses	$(664)	$11,349	$—	$10,685
Depreciation, amortization and (accretion), net	$996	$(5,686)	$42,378	$37,688
Segment income before income taxes	$63,360	$92,699	$1,626	$157,685
As of June 30, 2017:				
Goodwill	$357,207	$112,226	$—	$469,433
Segment assets	$8,438,706	$20,456,579	$7,022,332	$35,917,617

	Three Months Ended June 30, 2016			
($ in thousands)	Retail Banking	Commercial Banking	Other	Total
Interest income	$78,635	$177,426	$22,804	$278,865
Charge for funds used	(23,798)	(52,681)	(6,770)	(83,249)
Interest spread on funds used	54,837	124,745	16,034	195,616
Interest expense	(14,672)	(4,240)	(6,369)	(25,281)
Credit on funds provided	69,778	8,472	4,999	83,249
Interest spread on funds provided (used)	55,106	4,232	(1,370)	57,968
Net interest income before provision for credit losses	$109,943	$128,977	$14,664	$253,584
Provision for credit losses	$2,445	$3,608	$—	$6,053
(Accretion), depreciation and amortization, net	$(546)	$(9,267)	$22,287	$12,474
Segment income before income taxes	$36,264	$95,179	$11,473	$142,916
As of June 30, 2016:				
Goodwill	$357,207	$112,226	$—	$469,433
Segment assets	$7,437,534	$18,196,664	$7,318,014	$32,952,212

($ in thousands)	Six Months Ended June 30, 2017 Retail Banking	Commercial Banking	Other	Total
Interest income	$169,777	$398,292	$57,375	$625,444
Charge for funds used	(60,877)	(142,259)	(42,684)	(245,820)
Interest spread on funds used	108,900	256,033	14,691	379,624
Interest expense	(34,560)	(10,282)	(18,389)	(63,231)
Credit on funds provided	208,640	24,666	12,514	245,820
Interest spread on funds provided (used)	174,080	14,384	(5,875)	182,589
Net interest income before provision for credit losses	$282,980	$270,417	$8,816	$562,213
(Reversal of) provision for credit losses	$(286)	$18,039	$—	$17,753
Depreciation, amortization and (accretion), net	$3,340	$(9,160)	$71,638	$65,818
Segment income before income taxes	$136,047	$185,170	$64,472	$385,689
As of June 30, 2017:				
Goodwill	$357,207	$112,226	$—	$469,433
Segment assets	$8,438,706	$20,456,579	$7,022,332	$35,917,617

($ in thousands)	Six Months Ended June 30, 2016 Retail Banking	Commercial Banking	Other	Total
Interest income	$156,006	$354,508	$44,523	$555,037
Charge for funds used	(46,450)	(106,472)	(18,607)	(171,529)
Interest spread on funds used	109,556	248,036	25,916	383,508
Interest expense	(29,278)	(8,266)	(11,705)	(49,249)
Credit on funds provided	142,209	18,449	10,871	171,529
Interest spread on funds provided (used)	112,931	10,183	(834)	122,280
Net interest income before provision for credit losses	$222,487	$258,219	$25,082	$505,788
Provision for credit losses	$863	$6,630	$—	$7,493
(Accretion), depreciation and amortization, net	$(503)	$(20,040)	$45,775	$25,232
Segment income before income taxes	$82,209	$188,008	$17,370	$287,587
As of June 30, 2016:				
Goodwill	$357,207	$112,226	$—	$469,433
Segment assets	$7,437,534	$18,196,664	$7,318,014	$32,952,212

Note 16 — Subsequent Events

On July 19, 2017, the Company’s Board of Directors declared third quarter 2017 cash dividends for the Company’s common stock. The common stock cash dividend of $0.20 is payable on August 15, 2017 to stockholders of record as of August 1, 2017.

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

The following discussion provides information about the results of operations, financial condition, liquidity, and capital resources of East West Bancorp, Inc. (referred to herein on an unconsolidated basis as "East West" and on a consolidated basis as the "Company") and its subsidiary bank, East West Bank and its subsidiaries (referred to herein as "East West Bank" or the "Bank"), East West Insurance Services, Inc., and its various subsidiaries. This information is intended to facilitate the understanding and assessment of significant changes and trends related to the Company's financial condition and the results of operations. This discussion and analysis should be read in conjunction with the Consolidated Financial Statements and the accompanying notes presented elsewhere in this report and the Company's annual report on Form 10-K for the year ended December 31, 2016, filed with the U.S. Securities and Exchange Commission on February 27, 2017 (the "Company's 2016 Form 10-K").

Overview

The Company's vision is to serve as the financial bridge between the United States ("U.S.") and Greater China. The Company's primary strategy to achieve this vision is to expand the Company's global network of contacts and resources to better meet its customers' diverse financial needs in and between the world's two largest markets. With over 130 locations in the U.S. and Greater China and a full range of cross-border products and services, the Company continues to seek attractive opportunities for growth in pursuing the cross-border business banking strategy.

Financial Highlights

The Company delivered strong financial performance in the second quarter of 2017, which illustrated the key strengths of the Bank: consistent loan and deposit growth, favorable asset sensitivity and disciplined expense management. It is the Company's priority to focus on strengthening its risk management infrastructure, compliance, and the Bank Secrecy Act ("BSA")/Anti-Money Laundering ("AML") programs in order to meet increasing regulatory expectations, while still providing strong returns to stockholders.

Noteworthy items on the Company's performance included:

- Net income totaled $118.3 million for the three months ended June 30, 2017, which reflected an increase of $15.0 million or 15%, from $103.3 million for the same period in 2016. Net income totaled $288.1 million for the six months ended June 30, 2017, which reflected an increase of $77.3 million or 37%, from $210.8 million for the same period in 2016. This increase for the six months ended June 30, 2017 was primarily due to a $41.5 million net after-tax gain recognized from the sale of a commercial property in San Francisco, California during the first quarter of 2017, and higher net interest income.
- Diluted earnings per share ("EPS") was $0.81 and $0.71 for the three months ended June 30, 2017 and 2016, respectively, which reflected an increase of $0.10 or 14% from the prior year period. Diluted EPS was $1.98 and $1.45 for the six months ended June 30, 2017 and 2016, respectively, which reflected an increase of $0.53 or 37% from the prior year period. The six months ended June 30, 2017 diluted EPS impact from the sale of the commercial property was $0.28, net of tax.
- Revenue, the sum of net interest income before provision for credit losses and noninterest income, increased $39.6 million or 13% to $337.5 million for the three months ended June 30, 2017, compared to the same period in 2016, and $135.1 million or 23% to $725.6 million for the six months ended June 30, 2017, compared to the same period in 2016.
- Noninterest expense increased $20.2 million or 14% to $169.1 million for the three months ended June 30, 2017, compared to the same period in 2016. For the six months ended June 30, 2017, noninterest expense increased $26.7 million or 9% to $322.2 million, compared to the same period in 2016.

- The Company’s effective tax rate for the three and six months ended June 30, 2017 was 25.0% and 25.3%, respectively, compared to 27.7% and 26.7% for the same periods in 2016, respectively.
- Return on average equity increased 34 and 314 basis points to 13.05% and 16.29% for the three and six months ended June 30, 2017, respectively, compared to 12.71% and 13.15% for the same periods in 2016, respectively. Return on average assets increased nine and 36 basis points to 1.36% and 1.66% for the three and six months ended June 30, 2017, respectively, compared to 1.27% and 1.30% for the same periods in 2016, respectively.

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The Company experienced growth of $1.13 billion or 3% in total assets as of June 30, 2017 compared to December 31, 2016. This growth was largely attributable to loan growth and higher cash and cash equivalents, partially offset by decreases in securities purchased under resale agreements ("resale agreements") and available-for-sale investment securities.

Gross loans held-for-investment increased $1.71 billion or 7% to $27.21 billion as of June 30, 2017, compared to $25.50 billion as of December 31, 2016, while the allowance for loan losses to loans held-for-investment ratio of 1.02% remained unchanged as of June 30, 2017, compared to December 31, 2016. The overall loan growth was primarily supported by solid deposit growth during the six months ended June 30, 2017. Deposits increased $1.26 billion or 4% to $31.15 billion as of June 30, 2017, compared to $29.89 billion as of December 31, 2016, consisting of an $805.3 million or 3% increase in core deposits and a $458.0 million or 8% increase in time deposits. Core deposits comprised 81% of total deposits as of each of June 30, 2017 and December 31, 2016.

From a capital management perspective, the Company continued to maintain a strong capital position with its Common Equity Tier 1 ("CET1") capital ratio at 11.3% as of June 30, 2017, compared to 10.9% as of December 31, 2016. The total risk-based capital ratio was 12.8% and 12.4% as of June 30, 2017 and December 31, 2016, respectively. The Tier I leverage capital ratio was 9.3% as of June 30, 2017, compared to 8.7% as of December 31, 2016. Book value per common share increased 7% to $25.40 as of June 30, 2017, compared to $23.78 as of December 31, 2016.

Results of Operations

Components of Net Income

($ in thousands, except per share data)	Three Months Ended June 30, 2017	2016	Basis Point ("bp") Change	Six Months Ended June 30, 2017	2016	BP Change
Interest and dividend income	$322,775	$278,865	16 %	$625,444	$555,037	13 %
Interest expense	32,684	25,281	29	63,231	49,249	28
Net interest income before provision for credit losses	290,091	253,584	14	562,213	505,788	11
Provision for credit losses	10,685	6,053	77	17,753	7,493	137
Noninterest income	47,400	44,264	7	163,423	84,777	93
Noninterest expense	169,121	148,879	14	322,194	295,485	9
Income tax expense	39,355	39,632	(1)	97,623	76,787	27
Net income	$118,330	$103,284	15	$288,066	$210,800	37
Diluted EPS	$0.81	$0.71	14 %	$1.98	$1.45	37 %
Annualized return on average assets	1.36 %	1.27 %	9 bps	1.66 %	1.30 %	36 bps
Annualized return on average equity	13.05 %	12.71 %	34 bps	16.29 %	13.15 %	314 bps

Net income increased $15.0 million or 15% to $118.3 million for the three months ended June 30, 2017, from $103.3 million for the same period in 2016. Diluted EPS was $0.81 for the three months ended June 30, 2017, an increase of $0.10 or 14% from the prior year period. Net income increased $77.3 million or 37% to $288.1 million for the six months ended June 30, 2017, from $210.8 million for the same period in 2016. Diluted EPS was $1.98 for the six months ended June 30, 2017, an increase of $0.53 or 37% from the prior year period. As discussed in Note 3 — Disposition of Commercial Property to the Consolidated Financial Statements, the Company completed the sale and leaseback of a commercial property, which resulted in the after-tax net gain of $41.5 million during the first quarter of 2017. Excluding the net gain on the sale of the commercial property during the six months ended June 30, 2017, non-Generally Accepted Accounting Principles ("non-GAAP") net income of $246.5 million and non-GAAP diluted EPS of $1.70 increased $35.7 million and $0.25 per share, respectively, from the prior year period (see reconciliations of non-GAAP measures used below under "Use of Non-GAAP Financial Measures"). The earnings performance during the three and six months ended June 30, 2017 reflected the Company's continued focus on prudent growth, effort in maintaining operating expense discipline and execution of its business strategy.

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Revenue, the sum of net interest income before provision for credit losses and noninterest income, was $337.5 million for the three months ended June 30, 2017. Revenue increased $39.6 million or 13% from $297.8 million for the same period in 2016. This increase was primarily due to a $36.5 million increase in net interest income, primarily reflecting the growth in the loan portfolio and the positive impact of the recent short-term interest rate increases. Revenue was $725.6 million for the six months ended June 30, 2017. Revenue increased $135.1 million or 23% from $590.6 million for the same period in 2016. This increase was due to a $78.6 million increase in noninterest income, primarily due to the $71.7 million of pre-tax gain recognized from the sale of the commercial property during the first quarter of 2017; and a $56.4 million increase in net interest income, reflecting the growth in the loan portfolio and the positive impact of the recent short-term interest rate increases.

Noninterest expense was $169.1 million for the three months ended June 30, 2017, an increase of $20.2 million or 14% from $148.9 million for the same period in 2016. This increase was largely driven by higher amortization expense of tax credit and other investments and compensation and employee benefits. Noninterest expense was $322.2 million for the six months ended June 30, 2017, an increase of $26.7 million or 9% from $295.5 million for the same period in 2016. This increase was largely driven by higher compensation and employee benefits and amortization expense of tax credit and other investments, partially offset by lower consulting expense.

Strong returns on average assets and average equity during the three and six months ended June 30, 2017 reflected the Company's ability to achieve higher profitability while expanding the loan and deposit base. The return on average assets increased nine basis points to 1.36% while the return on average equity increased 34 basis points to 13.05% for the three months ended June 30, 2017. The return on average assets increased 36 basis points to 1.66% while the return on average equity increased 314 basis points to 16.29% for the six months ended June 30, 2017. Excluding the impact of the gain on the sale of the commercial property that was recognized in the first quarter of 2017, non-GAAP return on average assets was 1.42% for the six months ended June 30, 2017, a 12 basis point increase from the prior year period. Excluding the impact of the gain on the sale of the commercial property, non-GAAP return on average equity was 13.94% for the six months ended June 30, 2017, a 79 basis point increase from the prior year period. (See reconciliations of non-GAAP measures used below under "Use of Non-GAAP Financial Measures".)

Use of Non-GAAP Financial Measures

To supplement the Company's unaudited interim Consolidated Financial Statements presented in accordance with GAAP, the Company uses certain non-GAAP measures of financial performance. Non-GAAP financial measures are not in accordance with, or an alternative for, GAAP. Generally, a non-GAAP financial measure is a numerical measure of a company's performance that either excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP. A non-GAAP financial measure may also be a financial metric that is not required by GAAP or other applicable requirement.

The Company believes these non-GAAP financial measures, when taken together with the corresponding GAAP financial measures, provide meaningful supplemental information regarding its performance. Management believes that excluding the non-recurring after-tax effect of the gain on sale of the commercial property from net income, diluted EPS, and returns on average assets and average equity, will make it easier to analyze the results by presenting them on a more comparable basis. However, note that these non-GAAP financial measures should be considered in addition to, not as a substitute for or preferable to, financial measures prepared in accordance with GAAP.

The following table presents a reconciliation of GAAP to non-GAAP financial measures for the six months ended June 30, 2017 and 2016:

($ and shares in thousands, except per share data)		Six Months Ended June 30, 2017	2016
Net income	(a)	$288,066	$210,800
Less: Gain on sale of the commercial property, net of tax [1]	(b)	(41,526)	—
Non-GAAP net income	(c)	$246,540	$210,800
Diluted weighted average number of shares outstanding	(d)	145,774	144,973
Diluted EPS	(a)/(d)	$1.98	$1.45
Diluted EPS impact of the gain on sale of the commercial property, net of tax	(b)/(d)	(0.28)	—
Non-GAAP diluted EPS	(c)/(d)	$1.70	$1.45
Average total assets	(e)	$34,961,668	$32,539,060
Average stockholders' equity	(f)	$3,565,944	$3,224,652
Return on average assets [2]	(a)/(e)	1.66%	1.30%
Non-GAAP return on average assets [2]	(c)/(e)	1.42%	1.30%
Return on average equity [2]	(a)/(f)	16.29%	13.15%
Non-GAAP return on average equity [2]	(c)/(f)	13.94%	13.15%

(1) Applied statutory tax rate of 42.05%.
(2) Annualized.

A discussion of net interest income, noninterest income, noninterest expense, income taxes and operating segment results are presented below.

Net Interest Income

The Company's primary source of revenue is net interest income, which is the difference between interest earned on loans, investment securities, resale agreements and other interest-earning assets less interest expense on customer deposits, securities sold under repurchase agreements ("repurchase agreements"), borrowings and other interest-bearing liabilities. Net interest margin is calculated by dividing the annualized net interest income by average interest-earning assets. Net interest income and net interest margin are affected by several factors, including changes in average balances and composition of interest-earning assets and funding sources, market interest rate fluctuations and slope of the yield curve, repricing characteristics and maturity of interest-earning assets and interest-bearing liabilities, volume of noninterest-bearing sources of funds, and asset quality.

Net interest income for the three months ended June 30, 2017 was $290.1 million, an increase of $36.5 million or 14% compared to $253.6 million for the same period in 2016. Net interest income for the six months ended June 30, 2017 was $562.2 million, an increase of $56.4 million or 11% compared to $505.8 million for the same period in 2016. The notable increases in net interest income for both the three and six months ended June 30, 2017, compared to the same periods in 2016, were primarily due to increased interest income resulting from the loan growth and higher yields from interest-earning assets except for restricted equity securities. These increases were partially offset by 11 and 10 basis point increases in the cost of interest-bearing deposits for the three and six months ended June 30, 2017, respectively. The cost of interest-bearing deposits was 0.54% and 0.52% for the three and six months ended June 30, 2017, respectively.

For the three and six months ended June 30, 2017, net interest margin was 3.49% and 3.41%, respectively, compared to 3.31% for both periods in 2016. The increases in net interest margin for the three and six months ended June 30, 2017 were due to higher yields from interest-earning assets (primarily due to an increase in loan yields for the three months ended June 30, 2017, and increases in yields of investment securities and loans for the six months ended June 30, 2017), except for restricted equity securities, as a result of the recent interest rate increases. The higher loan yields for both periods were partially offset by lower accretion income from the purchased credit impaired ("PCI") loans accounted for under Accounting Standard Codification 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality ("ASC 310-30"). During the three and six months ended June 30, 2017, total accretion income from loans accounted for under ASC 310-30 was $6.3 million and $9.5 million, respectively, compared to $13.3 million and $26.7 million for the same periods in 2016, respectively.

For the three months ended June 30, 2017, average interest-earning assets increased $2.52 billion or 8% to $33.30 billion from $30.78 billion for the same period in 2016. This increase was primarily due to increases of $2.81 billion or 12% in loans' average balances to $26.70 billion and $531.4 million or 32% in interest-bearing cash and deposits with banks' average balances, partially offset by decreases of $463.2 million or 25% in resale agreements' average balances and $366.3 million or 11% in investment securities' average balances. For the six months ended June 30, 2017, average interest-earning assets increased $2.51 billion or 8% to $33.20 billion from $30.69 billion for the same period in 2016. This increase was primarily due to a $2.55 billion or 11% increase in loans' average balances to $26.40 billion for the six months ended June 30, 2017, partially offset by a $186.4 million or 6% decrease in investment securities' average balances.

Customer deposits are an important source of funding and affect both net interest income and net interest margin. Deposits are comprised of noninterest-bearing demand, interest-bearing checking, money market, savings and time deposits. Average deposits increased $2.12 billion or 8% to $30.20 billion for the three months ended June 30, 2017, compared to $28.08 billion for the same period in 2016. The ratio of average noninterest-bearing demand deposits to total deposits increased to 34% for the three months ended June 30, 2017, from 33% for the three months ended June 30, 2016. Average deposits increased $2.01 billion or 7% to $29.96 billion for the six months ended June 30, 2017, compared to $27.95 billion for the same period in 2016. The ratio of average noninterest-bearing demand deposits to total deposits increased to 34% for the six months ended June 30, 2017, from 32% for the six months ended June 30, 2016. The average loans to deposits ratio was 88% for each of the three and six months ended June 30, 2017, compared to 85% for each of the same periods in 2016. In addition, cost of funds increased seven basis points to 0.42% for the three months ended June 30, 2017 from 0.35% for the same period in 2016. Cost of funds increased seven basis points to 0.41% for the six months ended June 30, 2017 from 0.34% for the same period in 2016.

The Company utilizes various tools to manage interest rate risk. Refer to the "Interest Rate Risk Management" section of Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") — Asset Liability and Market Risk Management for details.

The following table presents the interest spread, net interest margin, average balances, interest income and expense, and the average yield/rate by asset and liability component for the three months ended June 30, 2017 and 2016:

($ in thousands)	Three Months Ended June 30, 2017			2016		
	Average Balance	Interest	Average Yield/ Rate[1]	Average Balance	Interest	Average Yield/ Rate[1]
ASSETS						
Interest-earning assets:						
Interest-bearing cash and deposits with banks	$2,191,730	$7,552	1.38 %	$1,660,312	$3,112	0.75 %
Resale agreements [2]	1,369,231	7,853	2.30 %	1,832,417	7,968	1.75 %
Investment securities [3][4]	2,962,201	13,861	1.88 %	3,328,548	12,852	1.55 %
Loans [5]	26,698,787	293,039 [6]	4.40 %	23,888,867	254,331 [6]	4.28 %
Restricted equity securities	73,063	470	2.58 %	73,301	602	3.30 %
Total interest-earning assets	33,295,012	322,775	3.89 %	30,783,445	278,865	3.64 %
Noninterest-earning assets:						
Cash and due from banks	386,213			337,348		
Allowance for loan losses	(264,869)			(261,256)		
Other assets	1,578,579			1,731,861		
Total assets	$34,994,935			$32,591,398		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing liabilities:						
Checking deposits	$3,872,347	$4,183	0.43 %	$3,423,831	$2,979	0.35 %
Money market deposits	7,964,286	10,145	0.51 %	7,582,827	6,329	0.34 %
Savings deposits	2,295,299	1,386	0.24 %	2,035,209	1,038	0.21 %
Time deposits	5,871,236	11,331	0.77 %	5,899,503	10,016	0.68 %
Federal funds purchased and other short-term borrowings	37,609	252	2.69 %	24,143	169	2.82 %
Federal Home Loan Bank ("FHLB") advances	322,410	1,761	2.19 %	320,199	1,292	1.62 %
Repurchase agreements [2]	117,582	2,273	7.75 %	200,000	2,196	4.42 %
Long-term debt	181,355	1,353	2.99 %	201,082	1,262	2.52 %
Total interest-bearing liabilities	20,662,124	32,684	0.63 %	19,686,794	25,281	0.52 %
Noninterest-bearing liabilities and stockholders' equity:						
Demand deposits	10,195,755			9,135,008		
Accrued expenses and other liabilities	499,361			501,660		
Stockholders' equity	3,637,695			3,267,936		
Total liabilities and stockholders' equity	$34,994,935			$32,591,398		
Interest rate spread			3.26 %			3.12 %
Net interest income and net interest margin		$290,091	3.49 %		$253,584	3.31 %

(1) Annualized.

(2) Average balances of resale and repurchase agreements are reported net, pursuant to ASC 210-20-45, Balance Sheet Offsetting.

(3) Yields on tax-exempt securities are not presented on a tax-equivalent basis.

(4) Includes the amortization of net premiums on investment securities of $5.5 million and $5.8 million for the three months ended June 30, 2017 and 2016, respectively.

(5) Average balance includes nonperforming loans.

(6) Interest income on loans includes net deferred loan fees, accretion of ASC 310-30 discounts and amortization of premiums, which totaled \$9.0 million and \$14.8 million for the three months ended June 30, 2017 and 2016, respectively.

The following table presents the interest spread, net interest margin, average balances, interest income and expense, and the average yield/rates by asset and liability component for the six months ended June 30, 2017 and 2016:

($ in thousands)	Six Months Ended June 30, 2017 Average Balance	Interest	Average Yield/ Rate[1]	2016 Average Balance	Interest	Average Yield/ Rate[1]
ASSETS						
Interest-earning assets:						
Interest-bearing cash and deposits with banks	$1,935,455	$12,668	1.32 %	$1,856,550	$7,077	0.77 %
Resale agreements [2]	1,681,492	17,321	2.08 %	1,605,769	14,645	1.83 %
Investment securities [3][4]	3,110,280	29,108	1.89 %	3,296,674	24,045	1.47 %
Loans [5]	26,403,545	565,100 [6]	4.32 %	23,854,070	507,873 [6]	4.28 %
Restricted equity securities	73,857	1,247	3.40 %	77,891	1,397	3.61 %
Total interest-earning assets	33,204,629	625,444	3.80 %	30,690,954	555,037	3.64 %
Noninterest-earning assets:						
Cash and due from banks	387,306			347,531		
Allowance for loan losses	(264,415)			(262,736)		
Other assets	1,634,148			1,763,311		
Total assets	$34,961,668			$32,539,060		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing liabilities:						
Checking deposits	$3,736,334	$7,770	0.42 %	$3,391,665	$5,805	0.34 %
Money market deposits	7,953,618	18,581	0.47 %	7,504,312	12,632	0.34 %
Saving deposits	2,289,739	2,715	0.24 %	1,998,311	2,047	0.21 %
Time deposits	5,821,587	21,651	0.75 %	6,100,827	19,175	0.63 %
Federal funds purchased and other short-term borrowings	46,420	665	2.89 %	12,937	178	2.77 %
FHLB advances	460,804	3,791	1.66 %	441,344	2,792	1.27 %
Repurchase agreements [2]	231,492	5,416	4.72 %	173,626	4,122	4.77 %
Long-term debt	183,810	2,642	2.90 %	203,531	2,498	2.47 %
Total interest-bearing liabilities	20,723,804	63,231	0.62 %	19,826,553	49,249	0.50 %
Noninterest-bearing liabilities and stockholders' equity:						
Demand deposits	10,154,195			8,952,380		
Accrued expenses and other liabilities	517,725			535,475		
Stockholders' equity	3,565,944			3,224,652		
Total liabilities and stockholders' equity	$34,961,668			$32,539,060		
Interest rate spread			3.18 %			3.14 %
Net interest income and net interest margin		$562,213	3.41 %		$505,788	3.31 %

(1) Annualized.
(2) Average balances of resale and repurchase agreements are reported net, pursuant to ASC 210-20-45, Balance Sheet Offsetting.
(3) Yields on tax-exempt securities are not presented on a tax-equivalent basis.
(4) Includes the amortization of net premiums on investment securities of $11.1 million and $12.8 million for the six months ended June 30, 2017 and 2016, respectively.
(5) Average balance includes nonperforming loans.

(6) Interest income on loans includes net deferred loan fees, accretion of ASC 310-30 discounts and amortization of premiums, which totaled $14.6 million and $31.2 million for the six months ended June 30, 2017 and 2016, respectively.

The following table summarizes the extent to which changes in interest rates and changes in average interest-earning assets and average interest-bearing liabilities affected the Company’s net interest income for the periods presented. The total change for each category of interest-earning assets and interest-bearing liabilities is segmented into the change attributable to variations in volume and the change attributable to variations in interest rates. Changes that are not solely due to either volume or rate are allocated proportionally based on the absolute value of the change related to average volume and average rate. Nonaccrual loans are included in average loans used to compute the table below:

($ in thousands)	Three Months Ended June 30, 2017 vs. 2016			Six Months Ended June 30, 2017 vs. 2016		
	Total	Changes Due to		Total	Changes Due to	
	Change	Volume	Yield/Rate	Change	Volume	Yield/Rate
Interest-earning assets:						
Interest-bearing cash and deposits with banks	$4,440	$1,232	$ 3,208	$5,591	$311	$ 5,280
Resale agreements	(115)	(2,293)	2,178	2,676	702	1,974
Investment securities	1,009	(1,508)	2,517	5,063	(1,431)	6,494
Loans	38,708	31,241	7,467	57,227	53,226	4,001
Restricted equity securities	(132)	(2)	(130)	(150)	(72)	(78)
Total interest and dividend income	$43,910	$28,670	$ 15,240	$70,407	$52,736	$ 17,671
Interest-bearing liabilities:						
Checking deposits	$1,204	$427	$ 777	$1,965	$624	$ 1,341
Money market deposits	3,816	335	3,481	5,949	789	5,160
Savings deposits	348	144	204	668	318	350
Time deposits	1,315	(47)	1,362	2,476	(918)	3,394
Federal funds purchased and other short-term borrowings	83	91	(8)	487	479	8
FHLB advances	469	9	460	999	127	872
Repurchase agreements	77	(1,147)	1,224	1,294	1,343	(49)
Long-term debt	91	(131)	222	144	(259)	403
Total interest expense	$7,403	$(319)	$ 7,722	$13,982	$2,503	$ 11,479
Change in net interest income	$36,507	$28,989	$ 7,518	$56,425	$50,233	$ 6,192

Noninterest Income

Noninterest income increased $3.1 million or 7% to $47.4 million for the three months ended June 30, 2017, compared to $44.3 million for the same period in 2016. This increase was primarily due to a $2.4 million increase in derivative fees and other income and a $1.6 million increase in ancillary loan fees and other income, partially offset by a $1.2 million decrease in net gains on sales of fixed assets. Noninterest income increased $78.6 million or 93% to $163.4 million for the six months ended June 30, 2017, compared to $84.8 million for the same period in 2016. This increase was comprised of a $70.6 million increase in net gains on sales of fixed assets, a $3.0 million increase in ancillary loan fees and other income, a $2.6 million increase in letters of credit fees and foreign exchange income and a $2.3 million increase in derivative fees and other income. Noninterest income represented 14% and 23% of revenue (the sum of net interest income before provision for credit losses and noninterest income) for the three and six months ended June 30, 2017, respectively, compared to 15% and 14% for the same periods in 2016, respectively.

The following table presents the components of noninterest income for the periods indicated:

($ in thousands)	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	% Change	2017	2016	% Change
Branch fees	$10,700	$10,353	3 %	$20,996	$20,575	2 %
Letters of credit fees and foreign exchange income	11,986	10,943	10	23,055	20,496	12
Ancillary loan fees and other income	5,907	4,285	38	10,889	7,862	39
Wealth management fees	3,537	2,778	27	8,067	5,829	38
Derivative fees and other income	3,765	1,444	161	6,271	3,987	57
Net gains on sales of loans	1,546	2,882	(46)	4,300	4,809	(11)
Net gains on sales of available-for-sale investment securities	2,720	2,836	(4)	5,194	6,678	(22)
Net gains on sales of fixed assets	1,042	2,241	(54)	73,049	2,430	NM
Other fees and operating income	6,197	6,502	(5)	11,602	12,111	(4)
Total noninterest income	$47,400	$44,264	7 %	$163,423	$84,777	93 %

NM Not Meaningful.

The following discussion provides the composition of the major changes in noninterest income and the factors contributing to the changes.

Net gains on sale of fixed assets decreased $1.2 million or 54% to $1.0 million for the three months ended June 30, 2017, compared to $2.2 million for the same period in 2016. The net gains on sales of fixed assets increased $70.6 million to $73.0 million for the six months ended June 30, 2017, compared to $2.4 million for the same period in 2016. This was primarily due to the $71.7 million of pre-tax gain recognized from the sale of the commercial property in California during the first quarter of 2017. In the first quarter of 2017, East West Bank completed the sale and leaseback of the commercial property in California for a sale price of $120.6 million and entered into a lease agreement for part of the property, including a retail branch and office facilities. The total pre-tax profit from the sale was $85.4 million with approximately $71.7 million recognized in the first quarter of 2017, and $13.7 million was deferred and will be recognized over the term of the lease agreement.

Ancillary loan fees and other income increased $1.6 million or 38% to $5.9 million for the three months ended June 30, 2017 from $4.3 million for the same period in 2016, and increased $3.0 million or 39% to $10.9 million for the six months ended June 30, 2017 from $7.9 million for the same period in 2016. The increases for the three and six months ended June 30, 2017 were primarily attributable to the increases in unused commitment fees for both periods and the fair value changes recognized on the warrants recorded beginning in the second quarter of 2017.

Derivative fees and other income increased $2.4 million or 161% to $3.8 million for the three months ended June 30, 2017 from $1.4 million for the same period in 2016, and increased $2.3 million or 57% to $6.3 million for the six months ended June 30, 2017 from $4.0 million for the same period in 2016. The increases for the three and six months ended June 30, 2017 were mainly due to increases in interest rate swap income resulting from higher volume and favorable mark-to-market valuation of the interest rate swaps.

Letters of credit fees and foreign exchange income increased $1.0 million or 10% to $12.0 million for the three months ended June 30, 2017 from $11.0 million for the same period in 2016, and increased $2.6 million or 12% to $23.1 million for the six months ended June 30, 2017 from $20.5 million for the same period in 2016. These increases were primarily due to an increase in trade finance fees.

Noninterest Expense

Noninterest expense totaled $169.1 million for the three months ended June 30, 2017, an increase of $20.2 million or 14%, compared to $148.9 million for the same period in 2016. This increase was primarily due to a $13.9 million increase in amortization of tax credit and other investments and a $7.4 million increase in compensation and employee benefits. Noninterest expense totaled $322.2 million for the six months ended June 30, 2017, an increase of $26.7 million or 9%, compared to $295.5 million for the same period in 2016. This increase was primarily due to a $20.2 million increase in compensation and employee benefits and a $14.1 million increase in amortization of tax credit and other investments, partially offset by a $7.7 million decrease in consulting expense.

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

($ in thousands)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	% Change	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	% Change
Compensation and employee benefits	$80,744	$73,287	10 %	$165,347	$145,124	14 %
Occupancy and equipment expense	15,554	15,748	(1)	31,194	30,163	3
Deposit insurance premiums and regulatory assessments	5,779	5,473	6	11,708	10,891	8
Legal expense	2,552	4,346	(41)	5,614	7,353	(24)
Data processing	3,058	3,295	(7)	6,005	5,983	—
Consulting expense	4,769	5,981	(20)	6,688	14,433	(54)
Deposit related expenses	2,505	2,273	10	4,870	4,593	6
Computer software expense	5,462	3,194	71	9,430	5,936	59
Other operating expense	19,064	19,226	(1)	35,527	38,694	(8)
Amortization of tax credit and other investments	27,872	14,006	99	42,232	28,161	50
Amortization of core deposit intangibles	1,762	2,050	(14)	3,579	4,154	(14)
Total noninterest expense	$169,121	$148,879	14 %	$322,194	$295,485	9 %

The following provides a discussion of the major changes in noninterest expense and the factors contributing to the changes.

Compensation and employee benefits increased $7.4 million or 10% to $80.7 million for the three months ended June 30, 2017, compared to $73.3 million for the same period in 2016, and increased $20.2 million or 14% to $165.3 million for the six months ended June 30, 2017, compared to $145.1 million for the same period in 2016. The increases for the three and six months ended June 30, 2017 were primarily attributable to an increase in headcount to support the Company’s growing business and risk management and compliance requirements, as well as additional severance expenses.

Amortization of tax credit and other investments increased $13.9 million or 99% to $27.9 million for the three months ended June 30, 2017, compared to $14.0 million for the same period in 2016, and increased $14.0 million or 50% to $42.2 million for the six months ended June 30, 2017, compared to $28.2 million for the same period in 2016. The increases for both periods were primarily due to additional tax credit investments placed in service for the three and six months ended June 30, 2017.

Consulting expense decreased $1.2 million or 20% to $4.8 million for the three months ended June 30, 2017, compared to $6.0 million for the same period in 2016, and decreased $7.7 million or 54% to $6.7 million for the six months ended June 30, 2017, compared to $14.4 million for the same period in 2016. The decreases for both periods were primarily attributable to a decline in BSA and AML related consulting expense.

Income Taxes

Income tax expense was $39.4 million and $97.6 million for the three and six months ended June 30, 2017, respectively, compared to $39.6 million and $76.8 million for the same periods in 2016, respectively. The effective tax rate was 25.0% and 25.3% for the three and six months ended June 30, 2017, respectively, compared to 27.7% and 26.7% for the same periods in 2016, respectively. The lower effective tax rates for the three and six months ended June 30, 2017, compared to the same periods in 2016, were mainly attributable to additional tax credit investments entered into during the three and six months ended June 30, 2017. Included in the income tax expense recognized for the three and six months ended June 30, 2017 were $34.7 million and $66.4 million, respectively, of tax credits generated mainly from investments in affordable housing partnerships and historic rehabilitation and renewable energy projects, compared to tax credits of $26.1 million and $50.4 million for the same periods in 2016, respectively. In addition, the effective tax rates for the three and six months ended June 30, 2017 were further reduced by the adoption of ASU 2016-09, Compensation — Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, beginning January 1, 2017. As a result of the adoption of this ASU, net excess tax benefits for restricted stock units (“RSUs”) of approximately $49 thousand and $4.5 million, respectively, were recognized in Income tax expense on the Consolidated Statements of Income during the three and six months ended June 30, 2017, which contributed to the lower effective tax rates in these periods.

Management regularly reviews the Company’s tax positions and deferred tax assets. Factors considered in this analysis include the Company’s ability to generate future taxable income, implement tax-planning strategies, and utilize taxable income from prior carryback years (if such carryback is permitted under the applicable tax law), as well as future reversals of existing taxable temporary differences. 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 tax rates expected to be in effect when such amounts are realized and settled. As of June 30, 2017 and December 31, 2016, the Company had net deferred tax assets of $122.4 million and $129.7 million, respectively.

A valuation allowance is established for deferred tax assets if, based on the weight of all positive evidence against all negative 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 used, as needed, 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 benefits of the deferred tax assets will be realized, with the exception of the deferred tax assets related to net operating losses in certain states. 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 ASC 740-10, Income Taxes.

Operating Segment Results

The Company defines its operating segments based on its core strategy, and has identified three reportable operating segments: Retail Banking, Commercial Banking and Other.

The Retail Banking segment focuses primarily on retail operations through the Bank’s branch network. The Commercial Banking segment, which includes commercial and industrial (“C&I”) and commercial real estate (“CRE”) operations, primarily generates commercial loans and deposits through domestic commercial lending offices located in California, New York, Texas, Washington, Massachusetts, Nevada and Georgia, and foreign commercial lending offices located in China and Hong Kong. Furthermore, the Commercial Banking segment offers a wide variety of international finance, trade, and cash management services and products. The remaining centralized functions, including the treasury activities of the Company and eliminations of inter-segment amounts have been aggregated and included in the “Other” segment, which provides broad administrative support to the two core segments.

Changes in the Company's 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 when there are changes in management structure or reporting methodologies, unless it is deemed not practicable to do so.

The Company's internal transfer pricing process is formulated with the goal of encouraging loan and deposit growth that is consistent with the Company's overall profitability objectives, as well as to provide a reasonable and consistent basis for the measurement of its business segments and product net interest margins. The Company's internal transfer pricing assumptions and methodologies are reviewed at least annually to ensure that the process is reflective of current market conditions.

Note 15 — Business Segments to the Consolidated Financial Statements describes the Company's segment reporting methodology, as well as the business activities of each business segment and presents financial results of these business segments for the three and six months ended June 30, 2017 and 2016.

The following tables present the selected segment information for the three and six months ended June 30, 2017 and 2016:

	Three Months Ended June 30, 2017			
($ in thousands)	Retail Banking	Commercial Banking	Other	Total
Net interest income	$143,330	$ 135,564	$11,197	$290,091
Noninterest income	$13,794	$ 26,586	$7,020	$47,400
Noninterest expense	$60,354	$ 46,041	$62,726	$169,121
Pretax income	$63,360	$ 92,699	$1,626	$157,685

	Three Months Ended June 30, 2016			
($ in thousands)	Retail Banking	Commercial Banking	Other	Total
Net interest income	$109,943	$ 128,977	$14,664	$253,584
Noninterest income	$13,522	$ 20,871	$9,871	$44,264
Noninterest expense	$56,994	$ 43,905	$47,980	$148,879
Pretax income	$36,264	$ 95,179	$11,473	$142,916

	Six Months Ended June 30, 2017			
($ in thousands)	Retail Banking	Commercial Banking	Other	Total
Net interest income	$282,980	$ 270,417	$8,816	$562,213
Noninterest income	$27,549	$ 52,325	$83,549	$163,423
Noninterest expense	$125,749	$ 103,824	$92,621	$322,194
Pretax income	$136,047	$ 185,170	$64,472	$385,689

	Six Months Ended June 30, 2016			
($ in thousands)	Retail Banking	Commercial Banking	Other	Total
Net interest income	$222,487	$ 258,219	$25,082	$505,788
Noninterest income	$23,098	$ 44,232	$17,447	$84,777
Noninterest expense	$117,393	$ 100,389	$77,703	$295,485
Pretax income	$82,209	$ 188,008	$17,370	$287,587

Retail Banking

The Retail Banking segment reported pretax income of $63.4 million and $136.0 million for the three and six months ended June 30, 2017, respectively, compared to $36.3 million and $82.2 million for the same periods in 2016, respectively. The increases in pretax income for this segment for the three and six months ended June 30, 2017, compared to the same periods in 2016, were driven by increases in net interest income and noninterest income, as well as a decrease in provision for credit losses, partially offset by an increase in noninterest expense.

Net interest income for this segment increased $33.4 million or 30% to $143.3 million for the three months ended June 30, 2017, compared to $109.9 million for the same period in 2016. Net interest income increased $60.5 million or 27% to $283.0 million for the six months ended June 30, 2017, compared to $222.5 million for the same period in 2016. The increases in net interest income for the three and six months ended June 30, 2017, compared to the same periods in 2016, were primarily due to the growth in retail core deposits, for which the segment receives interest income credit under the Bank's internal funds transfer pricing system.

Noninterest income for this segment increased $0.3 million or 2% to $13.8 million for the three months ended June 30, 2017, compared to $13.5 million for the same period in 2016. Noninterest income increased $4.5 million or 19% to $27.6 million for the six months ended June 30, 2017, compared to $23.1 million for the same period in 2016. The increase in noninterest income for the six months ended June 30, 2017, compared to the same period in 2016, was primarily attributable to increases in branch fees, net gains on sales of loans and wealth management fees.
Noninterest expense for this segment increased $3.4 million or 6% to $60.4 million for the three months ended June 30, 2017, compared to $57.0 million for the same period in 2016. Noninterest expense increased $8.4 million or 7% to $125.8 million for the six months ended June 30, 2017, compared to $117.4 million for the same period in 2016. The increases in noninterest expense for the three and six months ended June 30, 2017, compared to the same periods in 2016, were primarily due to increases in compensation and employee benefits and other operating expense, partially offset by a decrease in consulting expense.

Commercial Banking

The Commercial Banking segment reported pretax income of $92.7 million and $185.2 million for the three and six months ended June 30, 2017, respectively, compared to $95.2 million and $188.0 million for the same periods in 2016, respectively. The decreases in pretax income for this segment for the three and six months ended June 30, 2017, compared to the same periods in 2016, were attributable to increases in noninterest expense and provision for credit losses, partially offset by increases in net interest income and noninterest income.
Net interest income for this segment increased $6.6 million or 5% to $135.6 million for the three months ended June 30, 2017, compared to $129.0 million for the same period in 2016. Net interest income increased $12.2 million or 5% to $270.4 million for the six months ended June 30, 2017, compared to $258.2 million for the same period in 2016. The increases in net interest income for the three and six months ended June 30, 2017, compared to the same periods in 2016, were due to the growth in commercial loans and commercial core deposits, for which the segment receives interest income credit under the Bank’s internal funds transfer pricing system.
Noninterest income for this segment increased $5.7 million or 27% to $26.6 million for the three months ended June 30, 2017, compared to $20.9 million for the same period in 2016. Noninterest income increased $8.1 million or 18% to $52.3 million for the six months ended June 30, 2017, compared to $44.2 million for the same period in 2016. The increases in noninterest income for the three and six months ended June 30, 2017, compared to the same periods in 2016, were primarily due to increases in ancillary loan fees, letters of credit fees and derivative fee income.
Noninterest expense for this segment increased $2.1 million or 5% to $46.0 million for the three months ended June 30, 2017, compared to $43.9 million for the same period in 2016. Noninterest expense increased $3.4 million or 3% to $103.8 million for the six months ended June 30, 2017, compared to $100.4 million for the same period in 2016. The increases in noninterest expense for the three and six months ended June 30, 2017, compared to the same periods in 2016, were primarily due to increases in compensation and employee benefits.

Other

The Other segment includes the activities of the treasury function, which is responsible for liquidity and interest rate risk management of the Company, and supports the Retail Banking and Commercial Banking segments through internal transfer pricing credits and charges, which are included in net interest income. The Other segment reported pretax income of $1.6 million and $64.5 million for the three and six months ended June 30, 2017, respectively, compared to $11.5 million and $17.4 million for the same periods in 2016, respectively. The decrease in pretax income for this segment for the three months ended June 30, 2017, compared to the same period in 2016, was primarily driven by an increase in noninterest expense, as well as decreases in net interest income and noninterest income. The increase in pretax income for this segment for the six months ended June 30, 2017, compared to the same period in 2016, was primarily driven by an increase in noninterest income, partially offset by a decrease in net interest income and an increase in noninterest expense.
Net interest income for this segment decreased $3.5 million or 24% to $11.2 million for the three months ended June 30, 2017, compared to $14.7 million for the same period in 2016. Net interest income decreased $16.3 million or 65% to $8.8 million for the six months ended June 30, 2017, compared to $25.1 million for the same period in 2016. The decreases in net interest income for the three and six months ended June 30, 2017, compared to the same periods in 2016, were partially due to increases in interest expense on borrowings and deposits.

Noninterest income for this segment decreased $2.9 million or 29% to $7.0 million for the three months ended June 30, 2017, compared to $9.9 million for the same period in 2016. Noninterest income increased $66.1 million or 379% to $83.6 million for the six months ended June 30, 2017, compared to $17.5 million for the same period in 2016. The decrease in noninterest income for the three months ended June 30, 2017, compared to the same period in 2016, was primarily due to a decrease in foreign exchange income arising from valuation changes associated with currency hedges, and a decrease in net gains on sale of fixed assets. The increase in noninterest income for the six months ended June 30, 2017, compared to the same period in 2016, was primarily due to the $71.7 million net gain on sale of the commercial property, as discussed in the Noninterest income section of MD&A.
Noninterest expense for this segment increased $14.7 million or 31% to $62.7 million for the three months ended June 30, 2017, compared to $48.0 million for the same period in 2016. Noninterest expense increased $14.9 million or 19% to $92.6 million for the six months ended June 30, 2017, compared to $77.7 million for the same period in 2016. The increase in noninterest expense for the three months ended June 30, 2017, compared to the same period in 2016, was primarily attributable to increases of $13.9 million in amortization of tax credit and other investments and $1.8 million in compensation and employee benefits. The increase in noninterest expense for the six months ended June 30, 2017, compared to the same period in 2016, was primarily attributable to an increase of $14.1 million in amortization of tax credit and other investments.

Balance Sheet Analysis

The following is a discussion of the significant changes between June 30, 2017 and December 31, 2016.

Selected Consolidated Balance Sheets Data

($ in thousands)	June 30, 2017 (Unaudited)	December 31, 2016	Change $	Change %
ASSETS				
Cash and cash equivalents	$2,752,476	$1,878,503	$873,973	47 %
Interest-bearing deposits with banks	296,679	323,148	(26,469)	(8)
Resale agreements	1,300,000	2,000,000	(700,000)	(35)
Available-for-sale investment securities, at fair value	2,822,725	3,335,795	(513,070)	(15)
Held-to-maturity investment security, at cost	121,131	143,971	(22,840)	(16)
Restricted equity securities, at cost	73,173	72,775	398	1
Loans held-for-sale	11,649	23,076	(11,427)	(50)
Loans held-for-investment (net of allowance for loan losses of $276,316 in 2017 and $260,520 in 2016)	26,934,350	25,242,619	1,691,731	7
Investments in qualified affordable housing partnerships, net	169,103	183,917	(14,814)	(8)
Investments in tax credit and other investments, net	189,405	173,280	16,125	9
Premises and equipment	128,282	159,923	(31,641)	(20)
Goodwill	469,433	469,433	—	—
Other assets	649,211	782,400	(133,189)	(17)
TOTAL	$35,917,617	$34,788,840	$1,128,777	3 %
LIABILITIES				
Customer deposits	$31,154,287	$29,890,983	$1,263,304	4 %
Short-term borrowings	24,426	60,050	(35,624)	(59)
FHLB advances	322,756	321,643	1,113	—
Repurchase agreements	50,000	350,000	(300,000)	(86)
Long-term debt	176,450	186,327	(9,877)	(5)

Accrued expenses and other liabilities	519,437	552,096	(32,659)	(6)
Total liabilities	32,247,356	31,361,099	886,257	3
STOCKHOLDERS' EQUITY	3,670,261	3,427,741	242,520	7
TOTAL	$35,917,617	$34,788,840	$1,128,777	3 %

As of June 30, 2017, total assets were $35.92 billion, an increase of $1.13 billion or 3% from December 31, 2016. The predominant area of asset growth was in loans, which was driven by strong increases across all of the Company's commercial and retail lines of business, as well as higher cash and cash equivalents resulting from deposit growth and active liquidity management. These increases were partially offset by maturities of resale agreements and decreases in available-for-sale investment securities and other assets.

As of June 30, 2017, total liabilities were $32.25 billion, an increase of $886.3 million or 3% from December 31, 2016, primarily due to increases in customer deposits, reflecting the continued strong growth from existing and new customers. This increase was partially offset by a decrease in repurchase agreements primarily due to an increase in resale agreements that were eligible for netting against repurchase agreements under ASC 210-20-45, Balance Sheet Offsetting.

Stockholders' equity growth benefited primarily from $288.1 million in net earnings, partially offset by $58.4 million of cash dividends on common stock.

Investment Securities

Income from investment securities provides a significant portion of the Company's total income, primarily from available-for-sale investment securities. The Company aims to maintain an investment portfolio that consists of high quality and liquid securities with relatively short durations to minimize overall interest rate and liquidity risks. The Company's available-for-sale investment securities provide:

- interest income for earnings and yield enhancement;
- availability for funding needs arising during the normal course of business;
- the ability to execute interest rate risk management strategies due to changes in economic or market conditions, which influence loan origination, prepayment speeds, or deposit balances and mix; and
- collateral to support pledging agreements as required and/or to enhance the Company's borrowing capacity.

Held-to-maturity investment security

During the first quarter of 2016, the Company securitized $201.7 million of multifamily residential loans and retained $160.1 million of the senior tranche of the resulting securities from the securitization as held-to-maturity, which is carried at amortized cost. The held-to-maturity investment security is a non-agency commercial mortgage-backed security maturing on April 25, 2046. Management intends to, and the Company has the ability to, hold the security to maturity. As of June 30, 2017, the amortized cost of the held-to-maturity investment security was $121.1 million.

Available-for-sale investment securities

As of June 30, 2017 and December 31, 2016, the Company's available-for-sale investment securities portfolio was primarily comprised of U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities, U.S. Treasury securities and foreign bonds. 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, net of tax, as a component of Stockholders' equity on the Consolidated Balance Sheets.

The following table presents the breakout of the amortized cost and fair value of available-for-sale investment securities by major categories as of June 30, 2017 and December 31, 2016:

($ in thousands)	June 30, 2017 Amortized Cost	June 30, 2017 Fair Value	December 31, 2016 Amortized Cost	December 31, 2016 Fair Value
Available-for-sale investment securities:				
U.S. Treasury securities	$553,795	$546,857	$730,287	$720,479
U.S. government agency and U.S. government sponsored enterprise debt securities	176,037	173,585	277,891	274,866
	1,461,591	1,453,675	1,539,044	1,525,546

U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities				
Municipal securities	104,991	105,502	148,302	147,654
Non-agency residential mortgage-backed securities	10,262	10,210	11,592	11,477
Corporate debt securities	12,663	11,788	232,381	231,550
Foreign bonds	495,397	479,687	405,443	383,894
Other securities	40,688	41,421	40,501	40,329
Total available-for-sale investment securities	$2,855,424	$2,822,725	$3,385,441	$3,335,795

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The fair value of the available-for-sale investment securities totaled $2.82 billion as of June 30, 2017, compared to $3.34 billion as of December 31, 2016. The decrease of $513.1 million or 15% primarily reflected the sales of corporate debt securities, U.S. Treasury securities, and U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities, and paydowns, maturities and calls of U.S. government agency and U.S. government sponsored enterprise debt securities, and U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities. The decrease was partially offset by purchases of U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities and foreign bonds.

The Company's available-for-sale investment securities are carried at fair value with changes in fair value reflected in Other comprehensive income unless a security is deemed to be other-than-temporarily impaired. As of June 30, 2017, the Company's net unrealized losses on available-for-sale investment securities were $32.7 million, compared to $49.6 million as of December 31, 2016. The favorable change in the net unrealized losses was primarily attributed to a flattened yield curve in longer term interest rates. Gross unrealized losses on available-for-sale investment securities totaled $41.4 million as of June 30, 2017, compared to $56.3 million as of December 31, 2016. As of June 30, 2017, the Company had no intention to sell securities with unrealized losses, and believes it is more likely than not that it would not be required to sell such securities before recovery of their amortized cost. No other-than-temporary impairment was recognized for the three and six months ended June 30, 2017 and 2016. For a complete discussion and disclosure, see Note 4 — Fair Value Measurement and Fair Value of Financial Instruments, and Note 6 — Securities to the Consolidated Financial Statements.

As of June 30, 2017 and December 31, 2016, available-for-sale investment securities with a fair value of $577.5 million and $767.4 million, respectively, were pledged to secure public deposits, repurchase agreements, the Federal Reserve Bank's discount window and for other purposes required or permitted by law.

The following table presents the weighted average yields and contractual maturity distributions, excluding periodic principal payments, of the Company's investment securities as of the periods indicated. Actual maturities of mortgage-backed securities can differ from contractual maturities as the borrowers have the right to prepay the obligations. In addition, such factors as prepayments and interest rate changes may affect the yields on the carrying values of mortgage-backed securities.

($ in thousands)	June 30, 2017 Amortized Cost	Fair Value	Yield (1)	December 31, 2016 Amortized Cost	Fair Value	Yield (1)
Available-for-sale investment securities:						
U.S. Treasury securities:						
Maturing in one year or less	$100,485	$100,272	0.79%	$100,707	$100,653	0.65%
Maturing after one year through five years	453,310	446,585	1.31%	376,580	371,917	1.27%
Maturing after five years through ten years	—	—	— %	253,000	247,909	1.59%
Total	553,795	546,857	1.22%	730,287	720,479	1.29%
U.S. government agency and U.S. government sponsored enterprise debt securities:						
Maturing in one year or less	—	—	— %	118,966	118,982	0.94%
Maturing after one year through five years	36,100	36,070	1.43%	52,622	52,630	1.38%
Maturing after five years through ten years	105,822	103,488	2.18%	81,829	78,977	2.07%
Maturing after ten years	34,115	34,027	2.57%	24,474	24,277	2.50%
Total	176,037	173,585	2.10%	277,891	274,866	1.49%
U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities:						
Maturing after one year through five years	49,487	49,441	2.45%	47,278	46,950	1.74%
Maturing after five years through ten years	73,785	73,243	2.60%	79,379	78,903	3.11%
Maturing after ten years	1,338,319	1,330,991	2.29%	1,412,387	1,399,693	2.34%
Total	1,461,591	1,453,675	2.31%	1,539,044	1,525,546	2.36%
Municipal securities (2):						
Maturing in one year or less	7,893	7,896	4.00%	6,404	6,317	2.56%
Maturing after one year through five years	90,816	91,373	2.26%	127,178	127,080	2.31%
Maturing after five years through ten years	6,282	6,233	2.50%	9,785	9,515	2.50%
Maturing after ten years	—	—	— %	4,935	4,742	3.95%
Total	104,991	105,502	2.42%	148,302	147,654	2.40%
Non-agency residential mortgage-backed securities:						
Maturing after ten years	10,262	10,210	2.66%	11,592	11,477	2.52%
Corporate debt securities:						
Maturing in one year or less	12,663	11,788	2.06%	12,671	11,347	1.80%
Maturing after five years through ten years	—	—	— %	40,479	40,500	2.40%
Maturing after ten years	—	—	— %	179,231	179,703	2.26%
Total	12,663	11,788	2.06%	232,381	231,550	2.26%
Foreign bonds:						
Maturing in one year or less	320,409	308,488	2.10%	304,427	287,695	2.09%
Maturing after one year through five years	174,988	171,199	2.45%	101,016	96,199	2.11%
Total	495,397	479,687	2.23%	405,443	383,894	2.09%
Other securities:						
Maturing in one year or less	40,688	41,421	1.45%	40,501	40,329	2.72%
Total:						
Maturing in one year or less	482,138	469,865		583,676	565,323	

Maturing after one year through five years	804,701	794,668		704,674	694,776	
Maturing after five years through ten years	185,889	182,964		464,472	455,804	
Maturing after ten years	1,382,696	1,375,228		1,632,619	1,619,892	
Total available-for-sale investment securities	$2,855,424	$2,822,725		$3,385,441	$3,335,795	
Held-to-maturity investment security:						
Non-agency commercial mortgage-backed security:						
Maturing after ten years	$121,131	$121,803	3.88%	$143,971	$144,593	3.91%

(1) Weighted average yields are computed based on amortized cost balances.
(2) Yields on tax-exempt securities are not presented on a tax-equivalent basis.

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The following sections discuss additional information on the Company's loan portfolios, non-purchased credit impaired ("non-PCI") nonperforming assets and allowance for credit losses.

Total Loan Portfolio

The Company offers a broad range of financial products designed to meet the credit needs of its borrowers. The Company's loan portfolio segments include CRE, C&I, residential and consumer loans. Net loans, including loans held-for-sale, increased $1.68 billion or 7% to $26.95 billion as of June 30, 2017 from $25.27 billion as of December 31, 2016. The increase was broad based and driven by strong increases of $678.5 million or 13% in residential loans, $546.8 million or 6% in C&I loans, $435.0 million or 5% in CRE loans and $47.2 million or 2% in consumer loans.

($ in thousands)	June 30, 2017			December 31, 2016		
	Amount (1)	Percent		Amount (1)	Percent	
CRE:						
Income producing	$8,465,030	31	%	$8,016,109	31	%
Construction	550,781	2	%	551,560	2	%
Land	110,038	1	%	123,194	1	%
Total CRE	9,125,849	34	%	8,690,863	34	%
C&I:						
Commercial business	9,424,236	35	%	8,959,633	35	%
Trade finance	763,113	2	%	680,930	3	%
Total C&I	10,187,349	37	%	9,640,563	38	%
Residential:						
Single-family	4,001,488	15	%	3,509,779	14	%
Multifamily	1,772,741	6	%	1,585,939	6	%
Total residential	5,774,229	21	%	5,095,718	20	%
Consumer	2,123,239	8	%	2,075,995	8	%
Total loans held-for-investment (2)	$27,210,666	100	%	$25,503,139	100	%
Allowance for loan losses	(276,316)			(260,520)		
Loans held-for-sale	11,649			23,076		
Total loans, net	$26,945,999			$25,265,695		

(1) Includes $(9.6) million and $1.2 million as of June 30, 2017 and December 31, 2016, respectively, of net deferred loan fees, unamortized premiums and unaccreted discounts.
(2) Loans net of ASC 310-30 discount.

Although the loan portfolio grew 7% during the six months ended June 30, 2017, the loan type composition remained relatively unchanged from December 31, 2016. The Company's largest credit risks are concentrated in the commercial lending portfolios, which are comprised of C&I and CRE loans. The commercial lending portfolios comprised 71% and 72% of the total loan portfolio as of June 30, 2017 and December 31, 2016, respectively, and are discussed further below.

C&I Loans. C&I loans of $10.19 billion and $9.64 billion, which accounted for 37% and 38% of the total loan portfolio as of June 30, 2017 and December 31, 2016, respectively, include commercial business and trade finance loans, which comprised the largest sector in the lending portfolio. Over the last few years, the Company has experienced higher growth in specialized lending verticals in industries such as structured specialty finance, private equity, entertainment and energy. As of June 30, 2017 and December 31, 2016, specialized lending verticals comprised approximately 39% and 37% of total C&I loans, respectively.

Although the C&I industry sectors in which the Company provides financing are diversified, the Company has higher concentrations in the industry sectors of wholesale trade, manufacturing, real estate and leasing, entertainment and private equity. The Company's C&I loan exposures within the wholesale trade sector, which totaled $1.61 billion and $1.38 billion as of June 30, 2017 and December 31, 2016, respectively, are largely related to U.S. domiciled companies, which import goods from Greater China for U.S. consumer consumption, many of which are companies based in California. The private equity loans are largely capital call lines of credit. The Company also has a syndicated loan portfolio within the C&I loan portfolio, which totaled $630.2 million and $758.5 million as of June 30, 2017 and December 31, 2016, respectively. The Company monitors concentrations within the C&I loan portfolio by customer exposure and industry classifications, setting limits for specialized lending verticals and setting diversification targets.

CRE Loans. CRE loans include income producing real estate, construction and land loans where the interest rates may be fixed, variable or hybrid. The Company focuses on providing financing to experienced real estate investors and developers who are long-time customers and have moderate levels of leverage. Loans are generally underwritten with high standards for cash flow, debt service coverage ratios and loan-to-value ratios. Due to the nature of the Company's geographical footprint and market presence, the Company has CRE loan concentrations primarily in California, which comprised 75% and 74% of the CRE loan portfolio as of June 30, 2017 and December 31, 2016, respectively. Accordingly, changes in the California economy and real estate values could have a significant impact on the collectability of these loans and the required level of allowance for loan losses. Approximately 19% of the CRE loans as of each of June 30, 2017 and December 31, 2016 were owner occupied properties, while the remaining 81% were non-owner occupied properties (where 50% or more of the debt service for the loan is provided by rental income). As of June 30, 2017 and December 31, 2016, the Company had an income-producing CRE portfolio that was broadly diversified across all property types.

The Company had $550.8 million of construction loans and $489.0 million of unfunded commitments as of June 30, 2017, compared to $551.6 million of construction loans and $526.4 million of unfunded commitments as of December 31, 2016. The construction portfolio as of June 30, 2017 and December 31, 2016 was largely comprised of financing for the construction of hotels, multifamily and residential condominiums, as well as mixed use (residential and retail) structures.

Residential Loans. Residential loans are comprised of single-family and multifamily residential loans. The Company offers first lien mortgage loans secured by one-to-four unit residential properties located in its primary lending areas. The Company offers a variety of first lien mortgage loan programs, including fixed rate conforming loans and adjustable rate mortgage loans with initial fixed periods of one to seven years, which adjust annually thereafter. The Company's multifamily loan portfolio is largely comprised of loans secured by smaller multifamily properties ranging from 5 to 15 units in its primary lending areas. Approximately 72% and 73% of the Company's residential loans were concentrated in California as of June 30, 2017 and December 31, 2016, respectively. Many of the single-family residential loans within the Company's portfolio are reduced documentation loans where a substantial down payment is required, resulting in a low loan-to-value ratio, typically 60% or less. These loans have historically experienced low delinquency and default rates.

Consumer Loans. Consumer loans are comprised of home equity lines of credit ("HELOCs"), insurance premium financing loans, credit card and auto loans. As of June 30, 2017 and December 31, 2016, the Company's HELOCs are the largest component of the consumer loan portfolio, and are secured by one-to-four unit residential properties located in its primary lending areas. The HELOC loan portfolio is largely comprised of loans originated through a reduced documentation loan program, where a substantial down payment is required, resulting in a low loan-to-value ratio, typically 60% or less. The Company is in a first lien position for many of these reduced documentation HELOCs. These loans have historically experienced low delinquency and default rates.

The Company's total loan portfolio includes originated and purchased loans. Originated and purchased loans, for which there was no evidence of credit deterioration at their acquisition date, are referred to collectively as non-PCI loans. Acquired loans for which there was, at the acquisition date, evidence of credit deterioration are referred to as PCI loans. PCI loans are recorded net of ASC 310-30 discount and totaled $565.5 million and $642.4 million as of June 30, 2017 and December 31, 2016, respectively. For additional details regarding PCI loans, see Note 8 — Loans Receivable and Allowance for Credit Losses to the Consolidated Financial Statements.

The Company's overseas offices include the branch in Hong Kong and the subsidiary bank in China. As of June 30, 2017 and December 31, 2016, loans held in the Hong Kong branch totaled $760.4 million and $733.3 million, respectively. As of June 30, 2017 and December 31, 2016, loans held in the subsidiary bank in China totaled $464.2

million and $425.3 million, respectively. These overseas loans are comprised mainly of C&I loans made to cross-border or trade finance companies. In total, these loans represent approximately 3% of total consolidated assets as of each of June 30, 2017 and December 31, 2016. These loans are included in the total loans.

When a determination is made at the time of commitment to originate or purchase loans as held-for-investment, it is the Company's intent to hold these loans to maturity or for the "foreseeable future," subject to periodic reviews under the Company's management evaluation processes, including asset/liability management. When the Company subsequently changes its intent to hold certain loans, the loans are transferred from the loans held-for-investment portfolio to the loans held-for-sale portfolio at the lower of cost or fair value. Transfers of loans held-for-investment to loans held-for-sale were $66.0 million and $344.0 million during the three and six months ended June 30, 2017, respectively. These loan transfers were primarily comprised of C&I loans for both periods. In comparison, $267.1 million and $575.8 million of loans held-for-investment were transferred to loans held-for-sale during the same periods in 2016, respectively. These loan transfers were primarily comprised of multifamily residential, C&I and CRE loans for both periods. The Company recorded $117 thousand and $209 thousand in write-downs to the allowance for loan losses related to loans transferred from loans held-for-investment to loans held-for-sale for the three and six months ended June 30, 2017, respectively. In comparison, the Company recorded $37 thousand and $1.9 million in write-downs to the allowance for loan losses related to loans transferred from loans held-for-investment to loans held-for-sale for the same periods in 2016, respectively.

During the three months ended June 30, 2017 and 2016, the Company sold $38.3 million and $166.0 million, respectively, in originated loans, resulting in net gains of $1.3 million and $2.8 million, respectively. During the three months ended June 30, 2017, originated loans sold were primarily comprised of $32.3 million of C&I loans and $5.4 million of single-family residential loans. In comparison, during the same period in 2016, originated loans sold were primarily comprised of $77.7 million of CRE loans, $45.9 million of multifamily residential loans and $40.8 million of C&I loans. During the six months ended June 30, 2017, the Company sold $67.6 million in originated loans, which were primarily comprised of $57.3 million of C&I loans and $9.7 million of single-family residential loans, resulting in net gains of $3.1 million. In comparison, during the six months ended June 30, 2016, the Company sold $220.5 million and securitized $201.7 million in originated loans, which were primarily comprised of $247.5 million of multifamily residential loans, $91.9 million of CRE loans and $79.7 million of C&I loans, resulting in net gains of $7.1 million. The Company recorded $1.1 million in net gains and $641 thousand in mortgage servicing rights, and retained $160.1 million of the senior tranche of the resulting securities, as a result of the securitization of the $201.7 million of multifamily residential loans. Excluding the impact of the $67.6 million in originated loans sold, organic loan growth during the six months ended June 30, 2017 was $1.20 billion or 9% annualized.

During the three and six months ended June 30, 2017, the Company purchased $221.5 million and $368.7 million loans, respectively, compared to $541.6 million and $780.9 million during the same periods in 2016, respectively. Purchased loans for the three and six months ended June 30, 2017, were primarily comprised of C&I syndication loans, while purchased loans for the same periods in 2016 were primarily comprised of C&I syndication loans and single-family residential loans. The higher loans purchased for the three and six months ended June 30, 2016, primarily included $250.1 million and $322.5 million, respectively, in single-family residential loans purchased for Community Reinvestment Act purposes.

From time to time, the Company purchases and also sells these loans in the secondary market. Certain purchased loans were transferred from loans held-for-investment to loans held-for-sale and a write-down to allowance for loan losses was recorded, where appropriate. During the three and six months ended June 30, 2017, the Company sold loans of $50.5 million and $297.1 million, respectively, in the secondary market at net gains of $202 thousand and $1.2 million, respectively. In comparison, the Company sold loans of $79.7 million and $133.6 million, respectively, in the secondary market, resulting in net gains of $69 thousand for each of the three and six months ended June 30, 2016.

For the three months ended June 30, 2017, the Company recorded a reversal of valuation adjustment of $8 thousand in Net gains on sales of loans on the Consolidated Statements of Income to carry the loans held-for-sale portfolio at the lower of cost or fair value. In comparison, no such valuation adjustments were recorded for the same period in 2016. For the six months ended June 30, 2017 and 2016, the Company recorded valuation adjustments of $61 thousand and

$2.4 million, respectively, related to the loans held-for-sale portfolio.

Non-PCI Nonperforming Assets

Non-PCI nonperforming assets are comprised of nonaccrual loans and other real estate owned ("OREO"), net. Loans are placed on nonaccrual status when they become 90 days past due or when the full collection of principal or interest becomes uncertain regardless of the length of past due status. The following table presents information regarding non-PCI nonperforming assets and performing troubled debt restructurings ("TDRs") as of June 30, 2017 and December 31, 2016:

($ in thousands)	June 30, 2017	December 31, 2016
Nonaccrual loans:		
Real estate - commercial	$25,975	$26,907
Real estate - land and construction	4,344	5,326
Commercial	87,189	81,256
Real estate - single-family	7,624	4,214
Real estate - multifamily	2,678	2,984
Consumer	2,996	2,130
Total nonaccrual loans	130,806	122,817
OREO, net	2,189	6,745
Total nonperforming assets	$132,995	$129,562
Performing TDRs	$55,934	$83,238
Non-PCI nonperforming assets to total assets (1)	0.37 %	0.37 %
Non-PCI nonaccrual loans to loans held-for-investment (1)	0.48 %	0.48 %
Allowance for loan losses to non-PCI nonaccrual loans	211.24 %	212.12 %

(1) Total assets and loans held-for-investment include PCI loans of $565.5 million and $642.4 million as of June 30, 2017 and December 31, 2016, respectively.

Typically, changes to nonaccrual loans period-over-period represent inflows for loans that are placed on nonaccrual status in accordance with the Company's accounting policy, offset by reductions for loans that are paid down, charged off, sold, foreclosed, or no longer classified as nonaccrual as a result of continued performance and improvement in the borrower's financial condition and loan repayment capabilities. Nonaccrual loans increased by $8.0 million or 7% to $130.8 million as of June 30, 2017 from $122.8 million as of December 31, 2016. The increase in nonaccrual loans was primarily due to two unrelated loans, one CRE loan and one C&I loan, both of which were fully collateralized as of June 30, 2017. Nonaccrual loans as a percentage of loans held-for-investment remained stable at 0.48% as of both June 30, 2017 and December 31, 2016. C&I loans comprised approximately 67% and 66% of total nonaccrual loans as of June 30, 2017 and December 31, 2016, respectively. Credit risks related to the C&I nonaccrual loans were mitigated by the collateral. In addition, the risk of loss of all the nonaccrual loans had been considered as of June 30, 2017 and December 31, 2016 and the Company believes that this was appropriately covered by the allowance for loan losses.

In addition, approximately 43% and 64% of non-PCI nonaccrual loans consisted of loans that were less than 90 days delinquent as of June 30, 2017 and December 31, 2016, respectively.

For additional details regarding the Company's non-PCI nonaccrual loans policy, see Note 1 — Summary of Significant Accounting Policies to the Consolidated Financial Statements of the Company's 2016 Form 10-K.

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 has met or exceeded the modified terms. A loan will remain on nonaccrual status until the borrower demonstrates a sustained period of performance, generally six consecutive months of payments.

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The following table presents the performing and nonperforming TDRs by loan segment as of June 30, 2017 and December 31, 2016:

($ in thousands)	June 30, 2017		December 31, 2016	
	Performing TDRs	Nonperforming TDRs	Performing TDRs	Nonperforming TDRs
CRE	$11,682	$ 20,008	$20,145	$ 14,446
C&I	23,402	46,055	44,363	23,771
Residential	19,313	493	17,178	717
Consumer	1,537	48	1,552	49
Total TDRs	$55,934	$ 66,604	$83,238	$ 38,983

Performing TDRs decreased by $27.3 million or 33% to $55.9 million as of June 30, 2017, primarily due to the transfers of one CRE and two C&I loans from performing to nonperforming status during the six months ended June 30, 2017. Nonperforming TDRs increased by $27.6 million or 71% to $66.6 million as of June 30, 2017, primarily due to the aforementioned transfers of CRE and C&I loans between performing and nonperforming status and a C&I loan becoming a TDR loan during the six months ended June 30, 2017.

The Company’s impaired loans include predominantly non-PCI loans held-for-investment on nonaccrual status and non-PCI loans modified as a TDR, on either accrual or nonaccrual status. See Note 1 — Summary of Significant Accounting Policies to the Consolidated Financial Statements of the Company’s 2016 Form 10-K for additional information regarding the Company’s TDRs and impaired loan policies. As of June 30, 2017, the allowance for loan losses included $17.3 million for impaired loans with a total recorded balance of $68.5 million. In comparison, the allowance for loan losses included $12.7 million for impaired loans with a total recorded balance of $84.1 million as of December 31, 2016.

The following table presents the recorded investment balances for non-PCI impaired loans as of June 30, 2017 and December 31, 2016:

($ in thousands)	June 30, 2017			December 31, 2016		
	Amount	Percent		Amount	Percent	
CRE:						
Income producing	$37,657	20	%	$46,508	23	%
Land	4,344	2	%	5,870	3	%
Total CRE impaired loans	42,001	22	%	52,378	26	%
C&I:						
Commercial business	106,053	58	%	120,453	58	%
Trade finance	4,538	2	%	5,166	2	%
Total C&I impaired loans	110,591	60	%	125,619	60	%
Residential:						
Single-family	16,949	9	%	14,335	7	%
Multifamily	12,666	7	%	10,041	5	%
Total residential impaired loans	29,615	16	%	24,376	12	%
Consumer	4,533	2	%	3,682	2	%
Total impaired loans	$186,740	100	%	$206,055	100	%

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Allowance for Credit Losses

Allowance for credit losses consists of allowance for loan losses and allowance for unfunded credit reserves. Unfunded credit reserves include reserves provided for unfunded lending commitments, issued commercial letters of credit and standby letters of credit (“SBLCs”) and recourse obligations for loans sold. The allowance for credit losses is increased by the provision for credit 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. The allowance for unfunded credit reserves is included in Accrued expenses and other liabilities on the Consolidated Balance Sheets. Net adjustments to the allowance for unfunded credit reserves are included in Provision for credit losses on the Consolidated Statements of Income.

The Company is committed to maintaining the allowance for credit losses at a level that is commensurate with the estimated inherent loss in the loan portfolio, including unfunded credit reserves. In addition to regular quarterly reviews of the adequacy of the allowance for credit losses, the Company performs an ongoing assessment of the risks inherent in the loan portfolio. While the Company believes that the allowance for loan losses is appropriate as of June 30, 2017, future allowance levels may increase or decrease based on a variety of factors, including loan growth, portfolio performance and general economic conditions. For additional details on the Company’s allowance for credit losses, including the methodologies used, see Note 8 — Loans Receivable and Allowance for Credit Losses to the Consolidated Financial Statements, and Item 7. MD&A — Critical Accounting Policies and Estimates and Note 1 — Summary of Significant Accounting Policies to the Consolidated Financial Statements of the Company’s 2016 Form 10-K.

The following table presents a summary of activities in the allowance for credit losses for the three and six months ended June 30, 2017 and 2016:

($ in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Allowance for loan losses, beginning of period	$263,094	$260,238	$260,520	$264,959
Provision for loan losses	10,671	7,149	18,686	7,535
Gross charge-offs:				
CRE	(1)	(139)	(149)	(195)
C&I	(5,386)	(2,214)	(12,443)	(8,074)
Residential	(1)	—	(1)	(137)
Consumer	(3)	(3)	(7)	(4)
Total gross charge-offs	(5,391)	(2,356)	(12,600)	(8,410)
Gross recoveries:				
CRE	511	142	1,104	239
C&I	7,038	1,217	7,493	1,903
Residential	371	297	949	394
Consumer	22	81	164	148
Total gross recoveries	7,942	1,737	9,710	2,684
Net recoveries (charge-offs)	2,551	(619)	(2,890)	(5,726)
Allowance for loan losses, end of period	276,316	266,768	276,316	266,768
Allowance for unfunded credit reserves, beginning of period	15,174	21,414	16,121	20,360
Provision for (reversal of) unfunded credit reserves	14	(1,096)	(933)	(42)
Allowance for unfunded credit reserves, end of period	15,188	20,318	$15,188	$20,318

Allowance for credit losses	$291,504	$287,086	$291,504	$287,086
Average loans held-for-investment	$26,680,551	$23,859,992	$26,375,601	$23,823,678
Loans held-for-investment, end of period	$27,210,666	$24,236,367	$27,210,666	$24,236,367
Annualized net recoveries (charge-offs) to average loans held-for-investment	0.04 %	(0.01)%	(0.02)%	(0.05)%
Allowance for loan losses to loans held-for-investment	1.02 %	1.10 %	1.02 %	1.10 %

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As of June 30, 2017, the allowance for loan losses amounted to $276.3 million or 1.02% of total loans held-for-investment, compared to $260.5 million or 1.02% and $266.8 million or 1.10% of total loans held-for-investment as of December 31, 2016 and June 30, 2016, respectively. The increase in the allowance for loan losses was largely due to the overall growth in the loan portfolio. The allowance for loan losses to loans held-for-investment ratio as of June 30, 2017 remained stable compared to December 31, 2016, and decreased compared to June 30, 2016. Improvement in this ratio was attributable to proactive credit risk management measures, as well as origination of loans of high credit quality. Provision for credit losses includes provision for loan losses and unfunded credit reserves. Provision for credit losses is charged to income to bring the allowance for credit losses to a level deemed appropriate by the Company based on the factors described above. The fluctuation in the provision for credit losses is highly dependent on the historical loss rates trend along with the net charge-offs experienced during the period. The increase in the provision for credit losses for the three and six months ended June 30, 2017, compared to the same periods in 2016, was reflective of the overall loan portfolio growth, partially offset by a decline in the historical loss factor during the same periods. The Company believes the allowance for credit losses as of June 30, 2017 and December 31, 2016 was appropriate to cover credit losses inherent in the loan portfolio, including unfunded credit commitments at that date.

The following table presents the Company's allocation of the allowance for loan losses by segment and the ratio of each loan segment to total loans held-for-investment as of June 30, 2017 and December 31, 2016.

($ in thousands)	June 30, 2017			December 31, 2016		
	Allowance Allocation	% of Total Loans		Allowance Allocation	% of Total Loans	
CRE	$74,063	34	%	$72,916	34	%
C&I	150,136	37	%	142,167	38	%
Residential	43,679	21	%	37,338	20	%
Consumer	8,438	8	%	8,099	8	%
Total	$276,316	100	%	$260,520	100	%

The Company maintains an allowance on non-PCI and PCI loans. Based on the Company's estimates of cash flows expected to be collected, an allowance for the PCI loans is established, with a charge to income through the provision for loan losses. PCI loan losses are estimated collectively for groups of loans with similar characteristics. As of June 30, 2017, the Company established an allowance of $78 thousand on $565.5 million of PCI loans. In comparison, an allowance of $118 thousand was established on $642.4 million of PCI loans as of December 31, 2016. The allowance balances for both periods were attributed mainly to the PCI CRE loans.

Deposits

The Company offers a wide variety of deposit products to both consumer and commercial customers. Deposits are an important low-cost source of funding and affect net interest income and net interest margin. The following table presents the balances for customer deposits as of June 30, 2017 and December 31, 2016:

($ in thousands)	June 30, 2017	% of total deposits	December 31, 2016	% of total deposits	Change $	Change %
Core deposits:						
Noninterest-bearing demand	$10,460,230	34 %	$10,183,946	34 %	$276,284	3 %
Interest-bearing checking	4,059,046	13 %	3,674,417	12 %	384,629	10
Money market	8,193,086	26 %	8,174,854	27 %	18,232	—
Savings	2,368,611	8 %	2,242,497	8 %	126,114	6
Total core deposits	25,080,973	81 %	24,275,714	81 %	805,259	3
Time deposits	6,073,314	19 %	5,615,269	19 %	458,045	8
Total deposits	$31,154,287	100 %	$29,890,983	100 %	$1,263,304	4 %

Total deposits increased mainly due to growth in time, interest-bearing checking and noninterest-bearing demand deposits from existing and new customers. The Company's deposit strategy is to grow and retain relationship-based deposits and provide a source of low-cost funding and liquidity to the Company. Core deposits comprised 81% of total deposits as of each of June 30, 2017 and December 31, 2016. The $805.3 million or 3% increase in core deposits was primarily due to the increases in interest-bearing checking deposits and noninterest-bearing demand deposits. Interest-bearing checking deposits comprised 13% and 12% of total deposits as of June 30, 2017 and December 31, 2016, respectively. Noninterest-bearing demand deposits comprised 34% of total deposits as of each of June 30, 2017 and December 31, 2016. As of June 30, 2017, deposits were 114% of total loans, compared to 117% as of December 31, 2016 as the growth in total loans outpaced deposit growth.

Borrowings

The Company utilizes short-term and long-term borrowings to manage its liquidity position. Borrowings include short-term borrowings, long-term FHLB advances and repurchase agreements.

As of June 30, 2017 and December 31, 2016, short-term borrowings were primarily comprised of the Company's subsidiary, East West Bank (China) Limited's borrowings of $24.3 million and $60.1 million, respectively. The interest rates of these borrowings ranged from 2.96% to 3.27% and 2.80% to 3.27% as of June 30, 2017 and December 31, 2016, respectively. As of June 30, 2017, these borrowings are due to mature in the fourth quarter of 2017.

FHLB advances increased by $1.1 million to $322.8 million as of June 30, 2017 from $321.6 million as of December 31, 2016. As of June 30, 2017, FHLB advances had floating interest rates ranging from 1.37% to 1.62% with remaining maturities between 1.6 and 5.4 years.

Gross repurchase agreements totaled $450.0 million as of each of June 30, 2017 and December 31, 2016. Resale and repurchase agreements are reported net pursuant to ASC 210-20-45, Balance Sheet Offsetting. Net repurchase agreements totaled $50.0 million and $350.0 million as of June 30, 2017 and December 31, 2016, respectively. As of June 30, 2017, $400.0 million of repurchase agreements were eligible for netting against resale agreements, resulting in $50.0 million of net repurchase agreements reported. In comparison, $100.0 million of gross repurchase agreements were eligible for netting against resale agreements, resulting in $350.0 million of net repurchase agreements reported as of December 31, 2016. As of June 30, 2017, gross repurchase agreements of $450.0 million had interest rates ranging between 3.40% to 3.45% and original terms ranging between 10.0 and 16.5 years. The remaining maturity terms of the repurchase agreements range between 5.3 and 6.2 years.

Repurchase agreements are accounted for as collateralized financing transactions and recorded at the balances at which the securities were sold. The collateral for the repurchase agreements is primarily comprised of U.S. Treasury securities, U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities, and U.S. government agency and U.S. government sponsored enterprise debt securities. To ensure that the market value of the underlying collateral remains sufficient, the Company monitors the fair value of collateral pledged relative to the principal amounts borrowed under repurchase agreements. The Company manages liquidity risks related to the repurchase agreements by sourcing funding from a diverse group of counterparties and entering into repurchase agreements with longer durations, when appropriate. For additional details, see Note 5 — Securities Purchased under Resale Agreements and Sold under Repurchase Agreements to the Consolidated Financial Statements.

Long-Term Debt

The Company uses long-term debt to provide funding to acquire income earning assets and enhance liquidity. Long-term debt, which consists of junior subordinated debt and a term loan, decreased $9.9 million or 5% from $186.3 million as of December 31, 2016 to $176.5 million as of June 30, 2017. The decrease was primarily due to the quarterly repayment on the term loan, totaling $10.0 million during the six months ended June 30, 2017.

The junior subordinated debt was issued in connection with the Company's various pooled trust preferred securities offerings. Junior subordinated debt is recorded as a component of long-term debt and includes the value of the common stock issued by six wholly-owned subsidiaries in conjunction with these transactions. The junior subordinated debt totaled $152.6 million and $146.3 million as of June 30, 2017 and December 31, 2016, respectively. The junior subordinated debt had a weighted average interest rate of 2.67% and 2.17% for the six months ended June 30, 2017 and 2016, respectively, and remaining maturity terms of 17.4 to 20.2 years as of June 30, 2017. Beginning in 2016, trust preferred securities no longer qualify as Tier I capital and are limited to Tier II capital for regulatory purposes, based on Basel III Capital Rules. For further discussion, see Item 1. Business — Supervision and Regulation — Capital Requirements of the Company's 2016 Form 10-K.

In 2013, the Company entered into a $100.0 million three-year term loan agreement. The terms of the agreement were modified in 2015 to extend the term loan maturity from July 1, 2016 to December 31, 2018, where principal repayments of $5.0 million are due quarterly. The term loan bears interest at the rate of the three-month London Interbank Offered Rate plus 150 basis points and the weighted average interest rate was 2.52% and 2.17% for the six months ended June 30, 2017 and 2016, respectively. The outstanding balance of the term loan was $30.0 million and $40.0 million as of June 30, 2017 and December 31, 2016, respectively.

Capital

The Company maintains an adequate capital base to support its anticipated asset growth, operating needs and credit risks and to ensure that East West and the Bank are in compliance with all regulatory capital guidelines. The Company engages in regular capital planning processes to optimize the use of available capital and to appropriately plan for future capital needs. The capital plan considers capital needs for the foreseeable future and allocates capital to both existing and future business activities. In addition, the Company conducts capital stress tests as part of its annual capital planning process. The stress tests enable the Company to assess the impact of adverse changes in the economy and interest rates on its capital base.

The Company's stockholders' equity increased by $242.5 million or 7% to $3.67 billion as of June 30, 2017, compared to $3.43 billion as of December 31, 2016. The Company's primary source of capital is the retention of its operating earnings. Retained earnings increased by $229.7 million or 10% to $2.42 billion as of June 30, 2017, compared to $2.19 billion as of December 31, 2016. The increase was primarily due to net income of $288.1 million, reduced by

$58.4 million of cash dividends during the six months ended June 30, 2017. In addition, common stock and additional paid-in capital increased by $11.1 million or 0.6% primarily due to the activity in employee stock compensation plans. For other factors that contributed to the change in stockholders' equity, refer to the Consolidated Statements of Changes in Stockholders' Equity.

Book value was $25.40 per common share based on 144.5 million common shares outstanding as of June 30, 2017, compared to $23.78 per common share based on 144.2 million common shares outstanding as of December 31, 2016. The Company made dividend payments of $0.20 per common share in each quarter during the six months ended June 30, 2017 and 2016. In July 2017, the Company's Board of Directors (the "Board") declared third quarter 2017 dividends for the Company's common stock. The common stock cash dividend of $0.20 per share is payable on August 15, 2017 to stockholders of record as of August 1, 2017.

Regulatory Capital and Ratios

The federal banking agencies have risk-based capital adequacy guidelines that are designed to reflect the degree of risk associated with a banking organization's operations and transactions. The guidelines cover transactions that are reported on the balance sheet as well as those recorded as off-balance sheet items. In 2013, the Federal Reserve Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency issued the final Basel III Capital Rules establishing a new comprehensive capital framework for strengthening international capital standards as well as implementing certain provisions of the "Dodd-Frank Act". See Item 1. Business — Supervision and Regulation — Capital Requirements of the Company's 2016 Form 10-K for additional details. The Basel III Capital Rules became effective for the Company and the Bank on January 1, 2015 (subject to phase-in periods for certain components).

The Basel III Capital Rules require that banking organizations maintain a minimum CET1 ratio of 4.5%, a Tier I capital ratio of 6.0%, and a total capital ratio of 8.0%. Moreover, the rules require that banking organizations maintain a capital conservation buffer of 2.5% above the capital minimums are being phased-in over four years beginning in 2016 (increasing by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019). When fully phased-in in 2019, the banking organizations will be required to maintain a minimum CET1 capital ratio of 7.0%, a minimum Tier I capital ratio of 8.5% and a minimum total capital ratio of 10.5% to avoid limitations on capital distributions (including common stock dividends and share repurchases) and certain discretionary incentive compensation payments.

The Company is committed to maintaining capital at a level sufficient to assure the Company's stockholders, customers and regulators that the Company and the Bank are financially sound. As of June 30, 2017 and December 31, 2016, both the Company and the Bank were considered "well-capitalized," and met all capital requirements on a fully phased-in basis under the Basel III Capital Rules. The following table presents the Company's and the Bank's capital ratios as of June 30, 2017 and December 31, 2016 under the Basel III Capital Rules, and those required by regulatory agencies for capital adequacy and well-capitalized classification purposes:

	Basel III Capital Rules						
	June 30, 2017		December 31, 2016		Minimum Regulatory Requirements	Well-Capitalized Requirements	Fully Phased-in Minimum Regulatory Requirement
	Company	East West Bank	Company	East West Bank			
CET1 risk-based capital	11.3%	11.5%	10.9%	11.3%	4.5 %	6.5 %	7.0 %
Tier I risk-based capital	11.3%	11.5%	10.9%	11.3%	6.0 %	8.0 %	8.5 %
Total risk-based capital	12.8%	12.5%	12.4%	12.3%	8.0 %	10.0 %	10.5 %
Tier I leverage capital	9.3 %	9.5 %	8.7 %	9.1 %	4.0 %	5.0 %	4.0 %

The Company's CET1 and Tier I capital ratios have improved by approximately 40 basis points, while the total risk-based and Tier I leverage capital ratios increased by approximately 39 and 58 basis points, respectively, during the six months ended June 30, 2017. The improvement was primarily driven by the increases in revenues, partially attributed to the sale of commercial property during the first quarter of 2017. The $1.09 billion or 4% increase in risk-weighted assets increased from $27.36 billion as of December 31, 2016 to $28.45 billion as of June 30, 2017 was primarily due to the growth of the Company's Consolidated Balance Sheets. As of June 30, 2017, the Company's CET1 risk-based capital, Tier I risk-based capital, total risk-based capital ratios and Tier I leverage capital ratios were 11.3%, 11.3%, 12.8% and 9.3%, respectively, well above the well-capitalized requirements of 6.5%, 8.0%, 10.0% and 5.0%, respectively.

Regulatory Matters

The Bank entered into a Written Agreement, dated November 9, 2015, with the Federal Reserve Bank of San Francisco (the “Written Agreement”), to correct less than satisfactory BSA and AML programs detailed in a joint examination by the Federal Reserve Bank of San Francisco (“FRB”) and the California Department of Business Oversight (“DBO”). The Bank also entered into a related Memorandum of Understanding (“MOU”) with the DBO in 2015. See Item 7. MD&A — Regulatory Matters and Note 18 — Regulatory Requirements and Matters to the Consolidated Financial Statements of the Company’s 2016 Form 10-K for further details.

The Company believes that the Bank is making progress in executing the compliance plans and programs required by the Written Agreement and MOU, although there can be no assurances that our plans and progress will be found to be satisfactory by our regulators. To date, the Bank has added significant resources to meet the monitoring and reporting obligations imposed by the Written Agreement and will continue to require significant management and third party consultant resources to comply with the Written Agreement and MOU, and to address any additional findings or recommendations by the regulators. These incremental administrative and third party costs, as well as the operational restrictions imposed by the Written Agreement, may adversely affect the Bank's results of operations.

If additional compliance issues are identified or the regulators determine the Bank has not satisfactorily complied with the terms of the Written Agreement, the regulators could take further actions with respect to the Bank and, if such further actions were taken, such actions could have a material adverse effect on the Bank. The operating and other conditions in the BSA and AML program and the auditing and oversight of the program that led to the Written Agreement and MOU could also lead to an increased risk of being subject to additional actions by the DBO and FRB, an increased risk of future examinations that may downgrade the regulatory ratings of the Bank, and an increased risk investigations by other government agencies may result in fines, penalties, increased expenses or restrictions on operations.

Off-Balance Sheet Arrangements

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

As a financial service provider, the Company routinely enters into commitments to extend credit to customers, such as loan commitments, commercial letters of credit for foreign and domestic trade, SBLCs and financial guarantees. Many of these commitments to extend credit may expire without being drawn upon. The credit policies used in underwriting loans to customers are also used to extend these commitments. Under some of these contractual agreements, the Company may also have liabilities contingent upon the occurrence of certain events. The Company's liquidity sources have been, and are expected to be, sufficient to meet the cash requirements of its lending activities. The following table presents the Company's loan commitments, commercial letters of credit and SBLCs as of June 30, 2017:

($ in thousands)	Commitments Outstanding
Loan commitments	$ 4,719,772
Commercial letters of credit and SBLCs	$ 1,748,510

A discussion of significant contractual arrangements under which the Company may be held contingently liable is included in Note 11 — Commitments and Contingencies to the Consolidated Financial Statements. In addition, the Company has commitments and obligations under post-retirement benefit plans as described in Note 15 — Employee Benefit Plans to the Consolidated Financial Statements of the Company's 2016 Form 10-K, and has contractual obligations for future payments on debts, borrowings and lease obligations as detailed in Item 7 — MD&A — Off-Balance Sheet Arrangements and Aggregate Contractual Obligations of the Company's 2016 Form 10-K.

Asset Liability and Market Risk Management

Liquidity

Liquidity refers to the Company's ability to meet its contractual and contingent financial obligations, on or off-balance sheet, as they become due. The Company's primary liquidity management objective is to provide sufficient funding for its businesses throughout market cycles and be able to manage both expected and unexpected cash flow needs and requirements without adversely impacting the financial health of the Company. To achieve this objective, the Company analyzes its liquidity risk, maintains readily available liquid assets and accesses diverse funding sources including its stable core deposit base. The Company's Asset/Liability Committee ("ALCO") sets the liquidity guidelines that govern the day-to-day active management of the Company's liquidity position. The ALCO regularly monitors the Company's liquidity status and related management processes, and provides regular reports to the Board.

The Company maintains liquidity in the form of cash and cash equivalents, interest-bearing deposits with banks and available-for-sale investment securities. These assets totaled $5.87 billion and $5.54 billion as of June 30, 2017 and December 31, 2016, respectively, accounting for 16% of total assets as of each of June 30, 2017 and December 31, 2016. Traditional forms of funding such as deposits and borrowings augment these liquid assets. Total deposits amounted to $31.15 billion as of June 30, 2017, compared to $29.89 billion as of December 31, 2016, of which core deposits comprised 81% of total deposits as of each of June 30, 2017 and December 31, 2016. As a means of augmenting the Company's liquidity, the Company maintains available borrowing capacity under secured borrowing lines with the FHLB and FRB, unsecured federal funds' lines of credit with various correspondent banks for purchase of overnight funds, and several master repurchase agreements with major brokerage companies. The Company's available borrowing capacity with the FHLB and FRB was $6.44 billion and $3.17 billion, respectively, as of June 30, 2017. The Bank's unsecured federal funds' lines of credit, subject to availability, totaled $721.0 million with correspondent banks as of June 30, 2017. The Company believes that its liquidity sources are sufficient to meet all reasonably foreseeable short-term and intermediate-term needs.

During the six months ended June 30, 2017 and 2016, the Company experienced net cash inflows from operating activities of $380.3 million and $271.3 million, respectively. The $109.0 million increase in net cash inflows from operating activities was primarily due to a $77.3 million increase in net income and a $100.1 million increase in cash inflows from other assets, partially offset by a $47.3 million decrease in cash flows from accrued expenses and other liabilities, and a $17.5 million change in non-cash amounts. The $100.1 million increase in cash inflows from other assets comparing the six months ended June 30, 2017 to the same period in 2016 was primarily due to an $89.8 million increase in fair value of interest rate swaps and options during the six months ended June 30, 2016 contributing to operating cash outflows in that period. The $47.3 million decrease in cash flows from accrued expenses and other liabilities comparing the six months ended June 30, 2017 to the same period in 2016 was primarily due to derivative fair value changes.

Net cash used in investing activities totaled $643.7 million and $49.7 million during the six months ended June 30, 2017 and 2016, respectively. The $594.0 million increase in net cash used in investing activities was primarily due to a $1.02 billion increase in net cash outflows from loans held-for-investment, partially offset by a $450.0 million increase in net cash inflows from resale agreements.

During the six months ended June 30, 2017 and 2016, the Company experienced net cash inflows from financing activities of $1.13 billion and $13.7 million, respectively. Net cash inflows from financing activities of $1.13 billion during the six months ended June 30, 2017 was primarily comprised of a $1.25 billion net increase in deposits, partially offset by $58.9 million in cash dividends paid during the same period. Net cash inflows from financing activities of $13.7 million during the six months ended June 30, 2016 were primarily comprised of a $752.8 million net increase in deposits and a $30.1 million increase in short-term borrowings, partially offset by a $700.0 million repayment of short-term FHLB advances and $58.2 million in cash dividends paid.

As of June 30, 2017, the Company is not aware of any trends, events or uncertainties that had or were reasonably likely to have a material effect on its liquidity position. Furthermore, the Company is not aware of any material commitments for capital expenditures in the foreseeable future.

East West’s liquidity has historically been dependent on the payment of cash dividends by its subsidiary, East West Bank, subject to applicable statutes, regulations and special approval. The Bank paid total dividends of $127.5 million and $100.0 million to East West during the six months ended June 30, 2017 and 2016, respectively. In addition, in July 2017, the Board declared a quarterly cash dividend of $0.20 per share for the Company’s common stock payable on August 15, 2017 to stockholders of record on August 1, 2017.

Interest Rate Risk Management

Interest rate risk results primarily from the Company’s traditional banking activities of gathering deposits and extending loans, and is the primary market risk for the Company. Economic and financial conditions, movements in interest rates and consumer preferences affect the difference between the interest the Company earns on interest-earning assets and pays on interest-bearing liabilities, and the level of the noninterest-bearing funding sources. In addition, changes in interest rates can influence the rate of principal prepayments on loans and speed of deposit withdrawals. Due to the pricing term mismatches and embedded options inherent in certain products, changes in market interest rates not only affect expected near-term earnings, but also the economic value of these interest-earning assets and interest-bearing liabilities. Other market risks include foreign currency exchange risk and equity price risk. These risks are not considered significant to the Company’s interest rate risk and no separate quantitative information concerning these risks is presented herein.

With oversight by the Company’s Board, the ALCO coordinates the overall management of the Company’s interest rate risk. The ALCO meets regularly and is responsible for reviewing the Company’s open market positions and establishing policies to monitor and limit exposure to market risk. Management of interest rate risk is carried out primarily through strategies involving the Company’s investment securities portfolio, loan portfolio, available funding channels and capital market activities. In addition, the Company’s policies permit the use of off-balance sheet derivative instruments to assist in managing interest rate risk.

The interest rate risk exposure is measured and monitored through various risk management tools which include a simulation model that performs interest rate sensitivity analysis under multiple scenarios. The model includes the Company’s loans, investment securities, resale agreements, customer deposits and borrowing portfolios, including repurchase agreements. The financial instruments from the Company’s domestic and foreign operations, forecasted noninterest income and noninterest expense items are also incorporated in the simulation. The interest rate scenarios simulated include an instantaneous parallel shift and non-parallel shift in the yield curve. In addition, the Company also performs various simulations using alternative interest rate scenarios. The alternative interest rate scenarios include yield curve flattening, yield curve steepening and yield curve inverting. In order to apply the assumed interest rate environment, adjustments are made to reflect the shift in the U.S. Treasury and other appropriate yield curves. The Company incorporates both a static balance sheet and a forward growth balance sheet in order to perform these evaluations. Results of these various simulations are used to formulate and gauge strategies to achieve a desired risk profile within the Company’s capital and liquidity guidelines.

The simulation model is based on the actual maturity and re-pricing characteristics of the Company’s interest-rate sensitive assets, liabilities and related derivative contracts. The modeled results are highly sensitive to the deposit decay assumptions used for deposits that do not have specific maturities. The Company uses historical regression analysis of the Company’s internal deposit data as a guide to set deposit decay assumptions. In addition, the model is also highly sensitive to certain assumptions on the correlation of the change in interest rates paid on core deposits to changes in benchmark market interest rates, commonly referred to as deposit beta assumptions. Deposit beta assumptions are based on the Company’s historical experience. The model is also sensitive to the loan and investment prepayment assumption. The loan and investment assumption, which relates to anticipated prepayments under different interest rate environments, is based on an independent model, as well as the Company’s historical prepayment experiences.

Existing investment securities, loans, customer deposits and borrowings are assumed to roll into new instruments at a similar spread relative to benchmark interest rates and internal pricing guidelines. The assumptions applied in the model are documented and supported for reasonableness. Changes to key model assumptions are reviewed by the ALCO. Due to the sensitivity of the model results, the Company performs periodic testing to assess the impact of the assumptions. The Company also makes appropriate calibrations when necessary. Scenarios do not reflect strategies that management could employ to limit the impact as interest rate expectations change. Simulation results are highly dependent on these assumptions. To the extent actual behavior is different from the assumptions in the models, there could be a material change in interest rate sensitivity.

The following table presents the Company's net interest income and economic value of equity ("EVE") sensitivity as of June 30, 2017 and December 31, 2016 related to an instantaneous and sustained non-parallel shift in market interest rates of 100 and 200 basis points in both directions:

Change in Interest Rates (BP)	Net Interest Income Volatility (1)		EVE Volatility (2)	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
+200	20.1 %	22.4 %	12.9 %	12.3 %
+100	11.2 %	12.0 %	9.0 %	7.5 %
-100	(9.5)%	(6.8)%	(5.7)%	(5.0)%
-200	(11.7)%	(7.5)%	(11.2)%	(9.3)%

(1) The percentage change represents net interest income over 12 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 Company in a stable interest rate environment versus net portfolio value in the various rate scenarios.

Twelve-Month Net Interest Income Simulation

The Company's estimated twelve-month net interest income sensitivity on June 30, 2017 was slightly lower compared to December 31, 2016, for both upward interest rate scenarios as simulated increases in interest income is offset by an increase in the rate of repricing for the Company's deposit portfolio. In a simulated downward interest rate scenario, sensitivity increased overall for both downward interest rate scenarios, mainly due to the impact of the recent interest rate increases on December 14, 2016, March 15, 2017, and June 14, 2017. As interest rates rise further away from all time historical lows, there is more room for the Company's simulated interest income to decline in a downward interest rate scenario, relative to prior simulations.

Under most rising interest rate environments, the Company would expect some customers to move balances in demand deposits into higher interest-bearing deposits such as money market, savings deposits or time deposits. The models are particularly sensitive to the assumption about the rate of such migration. It should be noted that despite the two interest rate increases in 2017, as of June 30, 2017, the Company has not experienced this deposit movement, though there can be no assurance as to how long this is expected to last. The following table presents the Company's net interest income sensitivity as of June 30, 2017 for the +100 and +200 basis points interest rate scenarios assuming a $1.00 billion, $2.00 billion and $3.00 billion demand deposit migrations:

Change in Interest Rates (BP)	Net Interest Income Volatility June 30, 2017		
	$1.00 Billion Migration 12 Months	$2.00 Billion Migration 12 Months	$3.00 Billion Migration 12 Months
+200	17.7%	15.3 %	12.8 %
+100	9.7 %	8.1 %	6.5 %

EVE at Risk

The Company's EVE sensitivity increased as of June 30, 2017 compared to December 31, 2016, for both upward interest rate scenarios. In the simulated upward 100 basis points and 200 basis points interest rate scenarios, EVE increased 9.0% and 12.9%, respectively. The increase in sensitivity as of June 30, 2017 compared to December 31, 2016 in the upward interest rate scenario was primarily due to changes in the balance sheet portfolio mix. EVE declined 5.7% and 11.2% of the base level as of June 30, 2017 in declining rate scenarios of 100 and 200 basis points, respectively.

The Company's net interest income and EVE profile as of June 30, 2017, as presented in the net interest income and EVE tables, reflects an asset sensitive net interest income position and an asset sensitive EVE position. The Company is naturally asset sensitive due to its large portfolio of rate-sensitive loans that are funded in part by noninterest-bearing and rate-stable core deposits. As a result, if there are no significant changes in the mix of assets and liabilities, net interest income increases when interest rates increase, and decreases when interest rates decrease. As of June 30, 2017, the federal funds target rate was at a range of 1.00% to 1.25% which was changed from a range of 0.50% to 0.75% as of December 31, 2016. Given the uncertainty of the magnitude, timing and direction of future interest rate movements and the shape of the yield curve, actual results may vary from those predicted by the Company's model.

Derivatives

It is the Company's policy not to speculate on the future direction of interest rates or foreign currency exchange rates. However, the Company will, from time to time, enter into derivatives transactions in order to reduce its exposure to market risks, including interest rate risk and foreign currency risk. The Company believes these transactions, when properly structured and managed, may provide a hedge against inherent risk in assets or liabilities and against risk in specific transactions. Hedging transactions may be implemented using swaps, caps, floors, financial futures, forwards and options. Prior to entering into any hedging activities, the Company analyzes the costs and benefits of the hedge in comparison to alternative strategies.

As of June 30, 2017 and December 31, 2016, the Company had two cancellable interest rate swap contracts with original terms of 20 years. The objective of these interest rate swaps, which were designated as fair value hedges, was to obtain low-cost floating rate funding on the Company's brokered certificates of deposit. As of June 30, 2017 and December 31, 2016, under the terms of the swap contracts, the Company received a fixed interest rate and paid a variable interest rate. As of June 30, 2017 and December 31, 2016, the notional amounts of the Company's brokered certificates of deposit interest rate swaps were $42.6 million and $48.4 million, respectively. The fair value liabilities of the interest rate swaps were $6.7 million and $6.0 million as of June 30, 2017 and December 31, 2016, respectively.

The Company also offers various interest rate derivative products to its customers. When derivative transactions are executed with its customers, the derivative contracts are offset by paired trades with registered swap dealers. These contracts allow borrowers to lock in attractive intermediate and long term fixed rate financing while not increasing the interest rate risk to the Company. These transactions are not linked to specific Company assets or liabilities on the Consolidated Balance Sheets or to forecasted transactions in a hedge relationship and, therefore, are economic hedges and hedge accounting does not apply. The contracts are marked to market at each reporting period and recorded with changes in fair value as part of Noninterest income on the Consolidated Statements of Income. Fair values are determined from verifiable third-party sources that have considerable experience with derivative markets. The Company provides data to the third party source for purposes of calculating the credit valuation component of the fair value measurement of client derivative contracts. As of June 30, 2017 and December 31, 2016, the Company had entered into derivative contracts with customers and offsetting derivative contracts with counterparties having notional balances totaling $8.17 billion and $7.67 billion, respectively. The Company's net fair value exposures to these interest rate derivative contracts as of June 30, 2017 and December 31, 2016 were $703 thousand and $2.4 million in assets, respectively, due to the credit valuation component of these back-to-back interest rate swap contracts.

The Company enters into foreign exchange contracts with its customers, primarily comprised of forward, swap and spot contracts to enable its customers to hedge their transactions in foreign currencies from fluctuations in foreign exchange rates, and also to allow the Company to economically hedge against foreign currency fluctuations in certain foreign currency denominated deposits that it offers to its customers. For a majority of the foreign exchange transactions entered with its customers, the Company enters into offsetting foreign exchange contracts with institutional counterparties to mitigate the foreign exchange risk. These transactions are economic hedges and the

Company does not apply hedge accounting. The Company's policies also permit taking proprietary currency positions within approved limits, in compliance with the proprietary trading exemption provided under Section 619 of the Dodd-Frank Act. The Company does not speculate in the foreign exchange markets, and actively manages its foreign exchange exposures within prescribed risk limits and defined controls. As of June 30, 2017 and December 31, 2016, the Company's outstanding foreign exchange contracts that were not designated as hedging instruments totaled $1.48 billion and $767.8 million, respectively. The fair values of the foreign exchange contracts, included in Other assets and Accrued expenses and other liabilities on the Consolidated Balance Sheets, totaled $14.7 million and $13.2 million, respectively, as of June 30, 2017 and $11.9 million and $11.2 million, respectively, as of December 31, 2016.

ASC 830-20, Foreign Currency Matters — Foreign Currency Transactions and ASC 815, Derivatives and Hedging allow hedging of the foreign currency risk of a net investment in a foreign operation. During the fourth quarter of 2015, the Company began entering into foreign currency forward contracts to hedge its investment in East West Bank (China) Limited, a non-USD functional currency subsidiary in China. The hedging instruments, designated as net investment hedges, involve hedging the risk of changes in the USD equivalent value of a designated monetary amount of the Company's net investment in China, against the risk of adverse changes in the foreign currency exchange rate. Since recent policy changes by the People's Bank of China, the central bank of the People's Republic of China, as well as market sentiments, have caused a divergence in the exchange rate movements of the on-shore Chinese Renminbi (CNY) and off-shore Chinese Renminbi (CNH), the hedge relationships were dedesignated during the first quarter of 2017, even though it continued to meet the hedge effectiveness test. The Company then entered into additional offsetting foreign exchange contracts to offset the exposure of the dedesignated foreign exchange forward contracts, and subsequently entered into two new foreign exchange forward contracts to economically hedge against the foreign exchange risk of its China subsidiary. As of June 30, 2017 and December 31, 2016, these two foreign exchange forward contracts had notional amounts of $91.4 million and $83.0 million, respectively. The fair values were a $2.3 million liability and a $4.3 million asset as of June 30, 2017 and December 31, 2016, respectively. The foreign exchange forward contracts as of June 30, 2017 are included in the amounts disclosed for foreign exchange contracts above.

The Company obtained warrants to purchase preferred and common stocks of technology and life sciences companies, as part of the loan origination process. As of June 30, 2017, the warrants included on the Consolidated Financial Statements were from public companies. The warrants were valued based on the Black-Scholes option pricing model which uses the underlying stock prices of publicly-traded issuers, stated strike prices, volatility, the risk-free rate and the warrants' expiration dates as inputs to value the warrants. As of June 30, 2017, the Company held warrants in four public companies and the total fair value of the warrants was a $786 thousand asset.

Additional information on the Company's derivatives is presented in Note 1 — Summary of Significant Accounting Policies to the Consolidated Financial Statements of the Company's 2016 Form 10-K, Note 4 — Fair Value Measurement and Fair Value of Financial Instruments and Note 7 — Derivatives to the Consolidated Financial Statements.

Critical Accounting Policies and Estimates

Significant accounting policies (see Note 1 — Summary of Significant Accounting Policies to the Consolidated Financial Statements and Item 7. MD&A — Critical Accounting Policies and Estimates of the Company's 2016 Form 10-K) are fundamental to understanding the Company's reported results. Some accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. In addition, some accounting policies require significant judgment in applying complex accounting principles to individual transactions to determine the most appropriate treatment. The Company has procedures and processes in place to facilitate making these judgments.

Certain accounting policies are considered to have a critical effect on the Company's Financial Statements in the Company's judgment. In each area, the Company has identified the most important variables in the estimation process. The Company has used the best information available to make the estimations necessary for the related assets and liabilities. Actual results could differ from the Company's estimates, and future changes in the key variables could change future valuations and impact the results of operations. The following is a list of the more judgmental and complex accounting estimates and principles:

- fair value of financial instruments;
- available-for-sale investment securities;
- PCI loans;

- allowance for credit losses;
- goodwill impairment; and
- income taxes.

Recently Issued Accounting Standards

For detailed discussion and disclosure on new accounting pronouncements adopted and recent accounting pronouncements issued, see Note 2 — Current Accounting Developments to the Consolidated Financial Statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For quantitative and qualitative disclosures regarding market risk in the Company's portfolio, see Item 1. Consolidated Financial Statements — Note 7 — Derivatives and Item 2. MD&A — Asset Liability and Market Risk Management in Part I of this report.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of June 30, 2017, pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Company conducted an evaluation, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act). Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2017.

The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the U.S. Securities and Exchange Commission. The Company's disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that the Company files under the Exchange Act is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Change in Internal Control over Financial Reporting

There has been no change in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the quarter ended June 30, 2017, that has materially affected or is reasonably likely to materially affect the Company's internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 11 — Commitments and Contingencies — Litigation, in Part I of this report, incorporated herein by reference.

ITEM 1A. RISK FACTORS

The Company's 2016 Form 10-K contains disclosure regarding the risks and uncertainties related to the Company's business under the heading Item 1A. Risk Factors. There has been no material change to the Company's risk factors as presented in the Company's 2016 Form 10-K.

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

There were no unregistered sales of equity securities or repurchase activities during the three months ended June 30, 2017.

ITEM 6. EXHIBITS

The following exhibit index lists Exhibits filed, or in the case of Exhibits 32.1 and 32.2, furnished with this report:

Exhibit No.	Exhibit Description
10.1	East West Bancorp, Inc. 2017 Performance-Based Bonus Plan, as amended. [Incorporated by reference to Exhibit A to the Registrant's Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on April 19, 2017.]
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

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

GLOSSARY OF ACRONYMS

ALCO	Asset/Liability Committee
AML	Anti-Money Laundering
AOCI	Accumulated other comprehensive loss
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
BSA	Bank Secrecy Act
BP	Basis Point
C&I	Commercial and industrial
CET1	Common Equity Tier 1
CRA	Community Reinvestment Act
CRE	Commercial real estate
DBO	California Department of Business Oversight
EPS	Earnings per share
EVE	Economic value of equity
FASB	Financial Accounting Standards Board
FHLB	Federal Home Loan Bank of San Francisco
FRB	Federal Reserve Bank of San Francisco
HELOCs	Home equity lines of credit
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
MOU	Memorandum of Understanding
Non-PCI	Non-purchased credit impaired
Non-GAAP	Non-Generally Accepted Accounting Principles
OREO	Other real estate owned
OTTI	Other-than-temporary impairment
PCI	Purchased credit impaired
RPAs	Credit risk participation agreements
RSAs	Restricted stock awards
RSUs	Restricted stock units
SBLCs	Standby letters of credit
TDRs	Troubled debt restructurings
U.S.	United States
U.S. GAAP	United States Generally Accepted Accounting Principles
USD	U.S. Dollar

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 8, 2017

EAST WEST
BANCORP, INC.
(Registrant)

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

EXHIBIT INDEX

The following exhibit index lists Exhibits filed, or in the case of Exhibits 32.1 and 32.2, furnished with this report:

Exhibit No.	Exhibit Description
10.1	East West Bancorp, Inc. 2017 Performance-Based Bonus Plan, as amended. [Incorporated by reference to Exhibit A to the Registrant's Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on April 19, 2017.]
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

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