EAST WEST BANCORP INC
Form 10-Q
May 09, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Mark One

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

For the quarterly period ended March 31, 2013

or

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

For the transition period from to

Commission file number 000-24939

EAST WEST BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices) (Zip Code)

(626) 768-6000

(Registrant s telephone number, including area code)

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

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

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

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

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

Number of shares outstanding of the issuer s common stock on the latest practicable date: 136,174,881 shares of common stock as of April 30, 2013.

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Forward-Looking Statements

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

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

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

- fluctuations of our stock price;
- success and timing of our business strategies;
- impact of reputational risk created by these developments on such matters as business generation and retention, funding and liquidity;
- impact of the European debt crisis;
- impact of potential federal tax increases and spending cuts;
- impact of adverse judgments or settlements in litigation against the Company;
- changes in our ability to receive dividends from our subsidiaries; and
- political developments, wars or other hostilities may disrupt or increase volatility in securities or otherwise affect economic conditions.

For a more detailed discussion of some of the factors that might cause such differences, see the Company s 2012 Form 10-K under the heading ITEM 1A. RISK FACTORS and the information set forth under RISK FACTORS in this Form 10-Q. The Company does not undertake, and specifically disclaims any obligation to update any forward-looking statements to reflect the occurrence of events or circumstances after the date of such statements except as required by law.

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PART I FINANCIAL INFORMATION

EAST WEST BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

(Unaudited)

	March 31, 2013	December 31, 2012
ASSETS		
Cash and cash equivalents	$ 1,736,865	$ 1,323,106
Short-term investments	379,029	366,378
Securities purchased under resale agreements	1,400,000	1,450,000
Investment securities available-for-sale, at fair value (with amortized cost of $2,578,384 at March 31, 2013 and $2,599,018 at December 31, 2012)	2,588,993	2,607,029
Loans held for sale	226,635	174,317
Loans receivable, excluding covered loans (net of allowance for loan losses of $228,796 at March 31, 2013 and $229,382 at December 31, 2012)	12,119,903	11,710,190
Covered loans (net of allowance for loan losses of $10,110 at March 31, 2013 and $5,153 at December 31, 2012)	2,752,269	2,935,595
Total loans receivable, net	14,872,172	14,645,785
FDIC indemnification asset	276,834	316,313
Other real estate owned, net	32,324	32,911
Other real estate owned covered, net	28,567	26,808
Total other real estate owned	60,891	59,719
Investment in Federal Home Loan Bank stock, at cost	96,795	107,275
Investment in Federal Reserve Bank stock, at cost	48,036	48,003
Investment in affordable housing partnerships	181,928	185,645
Premises and equipment, net	109,485	107,517
Accrued interest receivable	103,392	94,837
Due from customers on acceptances	22,662	28,612
Premiums on deposits acquired, net	53,875	56,285
Goodwill	337,438	337,438
Cash surrender value of life insurance policies	110,860	110,133
Other assets	496,065	517,718
TOTAL	**$ 23,101,955**	**$ 22,536,110**
LIABILITIES AND STOCKHOLDERS EQUITY		
Customer deposit accounts:		
Noninterest-bearing	$ 4,838,523	$ 4,535,877
Interest-bearing	14,097,179	13,773,477
Total deposits	18,935,702	18,309,354
Federal Home Loan Bank advances	313,494	312,975
Securities sold under repurchase agreements	995,000	995,000
Other borrowings		20,000
Bank acceptances outstanding	22,662	28,612
Long-term debt	137,178	137,178

Accrued expenses and other liabilities		354,800		350,869
Total liabilities		20,758,836		20,153,988
COMMITMENTS AND CONTINGENCIES (Note 12)				
STOCKHOLDERS EQUITY				
Preferred stock, $0.001 par value, 5,000,000 shares authorized; Series A, non-cumulative convertible, 200,000 shares issued and 85,710 shares outstanding in 2013 and 2012		83,027		83,027
Common stock, $0.001 par value, 200,000,000 shares authorized; 157,354,024 and 157,160,193 shares issued in 2013 and 2012, respectively; 136,578,350 and 140,294,092 shares outstanding in 2013 and 2012, respectively		157		157
Additional paid in capital		1,470,674		1,464,739
Retained earnings		1,201,126		1,151,828
Treasury stock, at cost 20,775,674 shares in 2013 and 16,866,101 shares in 2012		(418,050)		(322,298)
Accumulated other comprehensive income, net of tax		6,185		4,669
Total stockholders equity		2,343,119		2,382,122
TOTAL	**$**	**23,101,955**	**$**	**22,536,110**

See accompanying notes to condensed consolidated financial statements.

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EAST WEST BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

(Unaudited)

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
INTEREST AND DIVIDEND INCOME		
Loans receivable, including fees	$ 217,159	$ 221,039
Investment securities	10,210	21,232
Securities purchased under resale agreements	5,529	4,314
Investment in Federal Home Loan Bank stock	529	220
Investment in Federal Reserve Bank stock	720	713
Due from banks and short-term investments	4,276	6,532
Total interest and dividend income	238,423	254,050
INTEREST EXPENSE		
Customer deposit accounts	16,854	20,164
Federal funds purchased		2
Federal Home Loan Bank advances	1,039	2,142
Securities sold under repurchase agreements	10,529	11,722
Long-term debt	710	1,102
Total interest expense	29,132	35,132
Net interest income before provision for loan losses	209,291	218,918
(Reversal of) provision for loan losses, excluding covered loans	(762)	16,479
Provision for loan losses on covered loans	5,089	1,621
Net interest income after provision for loan losses	204,964	200,818
NONINTEREST (LOSS) INCOME		
Impairment loss on investment securities		(5,165)
Less: Noncredit-related impairment loss recorded in other comprehensive income		5,066
Net impairment loss on investment securities recognized in earnings		(99)
Decrease in FDIC indemnification asset and receivable	(31,899)	(5,418)
Branch fees	7,654	7,662
Net gain on sales of investment securities	5,577	483
Letters of credit fees and commissions	5,062	4,275
Foreign exchange income	2,336	1,796
Ancillary loan fees	2,052	2,008
Income from life insurance policies	968	990
Net gain on sales of loans	94	5,179
Other operating income	6,057	4,864
Total noninterest (loss) income	(2,099)	21,740
NONINTEREST EXPENSE		

Compensation and employee benefits		45,731		46,409
Occupancy and equipment expense		13,808		13,518
Amortization of investments in affordable housing partnerships and other investments		4,283		4,466
Amortization of premiums on deposits acquired		2,409		2,873
Deposit insurance premiums and regulatory assessments		3,782		3,992
Loan related expenses		3,584		4,481
Other real estate owned (gain on sale) expense		(984)		10,865
Legal expense		4,444		7,173
Prepayment penalty for FHLB advances				1,321
Data processing		2,437		2,464
Deposit related expenses		1,574		1,427
Consulting expense		454		1,467
Other operating expenses		14,833		14,307
Total noninterest expense		96,355		114,763
INCOME BEFORE PROVISION FOR INCOME TAXES		106,510		107,795
PROVISION FOR INCOME TAXES		34,419		39,712
NET INCOME		**72,091**		**68,083**
PREFERRED STOCK DIVIDENDS		1,714		1,714
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	**$**	**70,377**	**$**	**66,369**
EARNINGS PER SHARE AVAILABLE TO COMMON STOCKHOLDERS				
BASIC	$	0.51	$	0.46
DILUTED	$	0.50	$	0.45
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING				
BASIC		137,648		145,347
DILUTED		143,519		151,996
DIVIDENDS DECLARED PER COMMON SHARE	$	0.15	$	0.10

See accompanying notes to condensed consolidated financial statements.

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EAST WEST BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2013	**2012**
Net income	$ 72,091	$ 68,083
Other comprehensive income, net of tax:		
Unrealized gain on investment securities available-for-sale:		
Unrealized holding gains arising during period	4,741	20,270
Reclassification adjustment for net gains included in net income	(3,235)	(280)
Noncredit-related impairment loss on securities		(2,938)
Unrealized gains on other investments	10	10
Reclassification adjustment for net gains included in net income		
Other comprehensive income	1,516	17,062
COMPREHENSIVE INCOME	**$ 73,607**	**$ 85,145**

See accompanying notes to condensed consolidated financial statements.

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EAST WEST BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(In thousands, except share data)

(Unaudited)

	Preferred Stock	Additional Paid In Capital Preferred Stock	Common Stock	Additional Paid In Capital Common Stock	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss), Net of Tax	Total Stockholders Equity
BALANCE, JANAURY 1, 2012	**$**	**$ 83,027**	**$ 157**	**$ 1,443,883**	**$ 934,617**	**$ (116,001)**	**$ (33,940)**	**$ 2,311,743**
Net income					68,083			68,083
Other comprehensive income							17,062	17,062
Stock compensation costs				3,637				3,637
Tax benefit from stock compensation plans, net				29				29
Issuance of 205,103 shares of common stock pursuant to various stock compensation plans and agreements				1,539				1,539
Cancellation of 47,489 shares of common stock due to forfeitures of issued restricted stock				883		(883)		
60,073 shares of restricted stock surrendered due to employee tax liability						(1,313)		(1,313)
Preferred stock dividends					(1,714)			(1,714)
Common stock dividends					(14,791)			(14,791)
Purchase of 4,554,827 shares of treasury stock pursuant to the Stock Repurchase Program						(100,978)		(100,978)
BALANCE, MARCH 31, 2012	**$**	**$ 83,027**	**$ 157**	**$ 1,449,971**	**$ 986,195**	**$ (219,175)**	**$ (16,878)**	**$ 2,283,297**
BALANCE, JANAURY 1, 2013	**$**	**$ 83,027**	**$ 157**	**$ 1,464,739**	**$ 1,151,828**	**$ (322,298)**	**$ 4,669**	**$ 2,382,122**
Net income					72,091			72,091
Other comprehensive income							1,516	1,516
Stock compensation costs				2,504				2,504
Tax benefit from stock compensation plans, net				2,602				2,602
Issuance of 193,831 shares of common stock pursuant to various stock compensation plans and agreements				442				442
Cancellation of 22,050 shares of common stock due to forfeitures of issued restricted stock				387		(387)		
344,423 shares of restricted stock surrendered due to employee tax liability						(8,365)		(8,365)
Preferred stock dividends					(1,714)			(1,714)

Common stock dividends					(21,079)			(21,079)
Purchase of 3,543,100 shares of treasury stock pursuant to the Stock Repurchase Program						(87,000)		(87,000)
BALANCE, MARCH 31, 2013	**$**	**$ 83,027**	**$ 157**	**$ 1,470,674**	**$ 1,201,126**	**$ (418,050)**	**$ 6,185**	**$ 2,343,119**

See accompanying notes to condensed consolidated financial statements.

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EAST WEST BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended March 31, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 72,091	$ 68,083
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	23,908	19,459
(Accretion) of discount and amortization of premiums, net	(48,390)	(34,660)
Decrease in FDIC indemnification asset and receivable	31,899	5,418
Stock compensation costs	2,504	3,637
Deferred tax expense (benefit)	312	(20,159)
Provision for loan losses	4,327	18,100
Impairment on other real estate owned	1,321	7,389
Net gain on sales of investment securities, loans and other assets	(8,592)	(7,014)
Prepayment penalty for Federal Home Loan Bank advances, net		1,321
Originations and purchases of loans held for sale	(43,604)	(15,782)
Proceeds from sales of loans held for sale	6,272	
Net proceeds from FDIC shared-loss agreements	33,890	39,358
Net change in accrued interest receivable and other assets	(12,525)	(27,165)
Net change in accrued expenses and other liabilities	20,557	40,427
Other net operating activities	(3,570)	(713)
Total adjustments	8,309	29,616
Net cash provided by operating activities	80,400	97,699
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (increase) decrease in:		
Loans	(147,933)	68,532
Short-term investments	(12,651)	(115,742)
Federal funds sold		(30,000)
Purchases of:		
Securities purchased under resale agreements	(250,000)	
Investment securities available-for-sale	(267,882)	(8,018)
Loans receivable	(106,206)	(116,486)
Investments in affordable housing partnerships	(8,386)	(17,850)
Proceeds from sale of:		
Investment securities available-for-sale	196,853	260,261
Loans receivable	22,566	27,639
Loans held for sale originated for investment		52,559
Other real estate owned	22,313	22,791
Repayments, maturities and redemptions of investment securities available-for-sale	87,889	138,650
Paydowns, maturities and termination of securities purchased under resale agreements	300,000	136,434
Redemption of Federal Home Loan Bank stock	10,480	6,391
Other net investing activities	(4,929)	(832)

Net cash (used in) provided by investing activities		(157,886)		424,329
CASH FLOWS FROM FINANCING ACTIVITIES				
Net increase (decrease) in:				
Deposits		626,348		(113,801)
Short-term borrowings		(20,000)		(25,208)
Proceeds from:				
Issuance of common stock pursuant to various stock plans and agreements		442		1,539
Payment for:				
Repayment of FHLB advances				(23,003)
Modification of Federal Home Loan Bank advances				(37,678)
Repurchase of shares of treasury stock pursuant to the Stock Repurchase Plan		(87,000)		(100,978)
Cash dividends		(22,782)		(16,495)
Other net financing activities		(5,763)		(1,284)
Net cash provided by (used in) financing activities		491,245		(316,908)
Effect of exchange rate changes on cash and cash equivalents				(451)
NET INCREASE IN CASH AND CASH EQUIVALENTS		413,759		204,669
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		1,323,106		1,431,185
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	1,736,865	$	1,635,854
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash paid during the period for:				
Interest	$	28,885	$	34,140
Income tax payments, net of refunds		1,716		23,422
Noncash investing and financing activities:				
Loans transferred to loans held for sale, net		21,855		40,800
Transfers to other real estate owned		23,230		39,572
Loans to facilitate sales of other real estate owned and short sales				400

See accompanying notes to condensed consolidated financial statements.

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EAST WEST BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 BASIS OF PRESENTATION

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

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

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

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Standards

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

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

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

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

NOTE 3 FAIR VALUE

Fair value is defined as the price that would be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various methods including market and income approaches. Based on these approaches, the Company utilizes certain assumptions that market participants would use in pricing the asset or liability. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Company is required to provide the following information according to the fair value hierarchy noted below. The hierarchy is based on the quality and reliability of the information used to determine fair values. The hierarchy gives the highest priority to quoted prices available in active markets and the lowest priority to data lacking transparency. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

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

- Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable and can be corroborated by market data. Level 2 financial instruments typically include U.S. Government debt and agency mortgage-backed securities, municipal securities, corporate debt securities, single issuer trust preferred securities, equity swap agreements, foreign exchange options, interest rate swaps, impaired loans and other real estate owned (OREO).

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

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

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

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	Assets (Liabilities) Measured at Fair Value on a Recurring Basis as of March 31, 2013			
	Fair Value Measurements March 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
Investment securities available-for-sale:				
U.S. Treasury securities	$ 470,764	$ 470,764	$	$
U.S. Government agency and U.S. Government sponsored enterprise debt securities	197,537		197,537	
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	145,044		145,044	
Residential mortgage-backed securities	1,035,415		1,035,415	
Municipal securities	206,758		206,758	
Other commercial mortgage-backed securities:				
Investment grade	51,359		51,359	
Corporate debt securities:				
Investment grade	453,323		453,323	
Non-investment grade	18,000		12,716	5,284
Other securities	10,793		10,793	
Total investment securities available-for-sale	$ 2,588,993	$ 470,764	$ 2,112,945	$ 5,284
Foreign exchange options	$ 5,340	$	$ 5,340	$
Interest rate swaps	34,192		34,192	
Short-term foreign exchange contracts	1,303		1,303	
Derivative liabilities	(41,024)		(37,791)	(3,233)

	Assets (Liabilities) Measured at Fair Value on a Recurring Basis as of December 31, 2012			
	Fair Value Measurements December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
Investment securities available-for-sale:				
U.S. Treasury securities	$ 460,677	$ 460,677	$	$
U.S. Government agency and U.S. Government sponsored enterprise debt securities	197,855		197,855	
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	180,665		180,665	
Residential mortgage-backed securities	1,144,085		1,144,085	
Municipal securities	167,093		167,093	
Other commercial mortgage-backed securities:				
Investment grade	17,084		17,084	
Corporate debt securities:				
Investment grade	411,983		411,983	
Non-investment grade	17,417		12,617	4,800

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

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	Assets Measured at Fair Value on a Non-Recurring Basis as of and for the Three Months Ended March 31, 2013				
	Fair Value Measurements March 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2) (In thousands)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses) for the Three Months Ended March 31, 2013
Non-covered impaired loans:					
Total residential	$ 12,969	$	$ 12,969	$	$ (440)
Total commercial real estate	23,382		23,382		(2,115)
Total commercial and industrial	2,566		1,432	1,134	(2,258)
Total consumer	665		665		(116)
Total non-covered impaired loans	$ 39,582	$	$ 38,448	$ 1,134	$ (4,929)
Non-covered OREO	$ 13,227	$	$ 13,227	$	$ (1,385)
Covered OREO *(1)*	$ 3,720	$	$ 3,720	$	$ (126)

	Assets Measured at Fair Value on a Non-Recurring Basis as of and for the Three Months Ended March 31, 2012				
	Fair Value Measurements March 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2) (In thousands)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses) for the Three Months Ended March 31, 2012
Non-covered impaired loans:					
Total residential	$ 5,564	$	$ 5,564	$	$ (1,903)
Total commercial real estate	21,073		21,073		(1,343)
Total commercial and industrial	3,316			3,316	(984)
Total consumer	7		7		(57)
Total non-covered impaired loans	$ 29,960	$	$ 26,644	$ 3,316	$ (4,287)
Non-covered OREO	$ 8,195	$	$ 8,195	$	$ (855)
Covered OREO *(1)*	$ 25,585	$	$ 25,585	$	$ (6,449)
Loans held for sale	$ 4,600	$	$ 4,600	$	$ (4,730)

(1) Covered OREO results from the WFIB and UCB FDIC-assisted acquisitions for which the Company entered into shared-loss agreements with the FDIC whereby the FDIC will reimburse the Company for 80% of eligible losses. As such, the Company s liability for losses is 20% of the $126 thousand in losses, or $25 thousand, and 20% of the $6.4 million in losses, or $1.3 million, for the three months ended March 31, 2013 and 2012, respectively.

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At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. The following tables provide a reconciliation of the beginning and ending balances for major asset and liability categories measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2013 and 2012:

	Investment Securities Available-for-Sale Corporate Debt Securities Non-Investment Grade	Derivatives Payable
	(In thousands)	
Opening balance, January 1, 2013	$ 4,800	$ (3,052)
Total gains or (losses) for the period: *(1)*		
Included in earnings		(181)
Included in other comprehensive income (unrealized) *(2)*	549	
Purchases, issues, sales, settlements *(3)*		
Purchases		
Issues		
Sales		
Settlements	(65)	
Transfer from investment grade to non-investment grade		
Transfers in and/or out of Level 3		
Closing balance, March 31, 2013	$ 5,284	$ (3,233)
Changes in unrealized losses included in earnings relating to assets and liabilities held at the end of March 31, 2013	$	$ 181

	Investment Securities Available-for-Sale Corporate Debt Securities Non-Investment Grade	Derivatives Payable
	(In thousands)	
Opening balance, January 1, 2012	$ 2,235	$ (2,634)
Total gains or (losses) for the period: *(1)*		
Included in earnings	(99)	(488)
Included in other comprehensive loss (unrealized) *(2)*	225	
Purchases, issues, sales, settlements *(3)*		
Purchases		
Issues		
Sales		
Settlements	(114)	
Transfer from investment grade to non-investment grade		
Transfers in and/or out of Level 3		
Closing balance, March 31, 2012	$ 2,247	$ (3,122)
Changes in unrealized losses included in earnings relating to assets and liabilities held at the end of March 31, 2012	$ 99	$ 488

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

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

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

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Valuation Methodologies

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

The Company s Level 3 available-for-sale securities include four pooled trust preferred securities. The fair values of these investment securities represent less than 1% of the total available-for-sale investment securities. The fair values of the pooled trust preferred securities have traditionally been based on the average of at least two quoted market prices obtained from independent external brokers since broker quotes in an active market are given the highest priority. As a result of the continued illiquidity in the pooled trust preferred securities market, it is the Company s view that current broker prices (which are typically non-binding) on certain pooled trust preferred securities are based on forced liquidation or distressed sale values in very inactive markets that are not representative of the fair value of these securities. As such, the Company considered what weight, if any, to place on transactions that are not orderly when estimating fair value.

For the pooled trust preferred securities, the fair value was derived based on discounted cash flow analyses (the income method) prepared by management. In order to determine the appropriate discount rate used in calculating fair values derived from the income method for the pooled trust preferred securities, the Company has made assumptions using an exit price approach related to the implied rate of return which have been adjusted for general changes in market rates, estimated changes in credit risk and liquidity risk premium, specific nonperformance, and default experience in the collateral underlying the securities. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for credit risk and liquidity risk. The actual Level 3 unobservable assumption rates used as of March 31, 2013 include: a constant prepayment rate of 0% for year 1-5 and 1% thereafter, a constant default rate of 1.2% for year 1-5 and 0.75% thereafter, and a recovery assumption of 0% for existing deferrals/defaults and 15% for future deferrals with a recovery lag of 60 months. Losses arising during the period, if any, are recognized in noninterest income.

Derivative Liabilities The Company s derivative liabilities include derivatives payable that fall within Level 3 and all other derivative liabilities which fall within Level 2. The derivatives payable are recorded in conjunction with certain certificates of deposit (host instrument). These CDs pay interest based on changes in either the Chinese currency Renminbi (RMB) or the Hang Seng China Enterprises Index (HSCEI), as designated, and are included in interest-bearing deposits on the condensed consolidated balance sheets. CDs paying interest based on changes in the HSCEI matured during the fourth quarter of 2012. The fair value of these embedded derivatives is based on the income approach. The payable is divided by the portion under FDIC insurance coverage and the non-insured portion. For the FDIC insured portion the Company applied a risk premium comparable to an agency security risk premium. For the non-insured portion, the Company considered its own credit risk in determining the valuation by applying a risk premium based on our institutional credit rating, which resulted in a nominal adjustment to the valuation of the derivative liabilities for the three months ended March 31, 2013. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. The valuation of the derivatives payable falls within Level 3 of the fair value hierarchy since the significant inputs used in deriving the fair value of these derivative contracts are not directly observable. The actual Level 3 unobservable input used as of March 31, 2013 was a credit risk adjustment with a range of 1.17% to 1.25%. The Level 2 derivative liabilities are mostly comprised of the offsetting interest rate swaps with other counterparties. Refer to ***Interest Rate Swaps*** within this footnote for complete discussion.

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Equity Swap Agreements The Company has entered into equity swap agreements to hedge against market fluctuations in a promotional equity index certificate of deposit product offered to bank customers. This deposit product, which has a term of 5 years, which matured during the fourth quarter of 2012, and paid interest based on the performance of the HSCEI. The fair value of these equity swap agreements is based on the income approach. The fair value is based on the change in the value of the HSCEI and the volatility of the call option over the life of the individual swap agreement. The option value is derived based on the volatility, the interest rate and the time remaining to maturity of the call option. The valuation of equity swap agreements falls within Level 2 of the fair value hierarchy due to the observable nature of the inputs used in deriving the fair value of these derivative contracts. The fair value of the derivative contracts is provided by a third party.

Foreign Exchange Options The Company has entered into foreign exchange option contracts with major investment firms. The settlement amount is determined based upon the performance of the Chinese currency RMB relative to the U.S. Dollar (USD) over the 5-year term of the contract. The performance amount is computed based on the average quarterly value of the RMB per the USD as compared to the initial value. The fair value of the derivative contract is provided by third parties and is determined based on the change in the RMB and the volatility of the option over the life of the agreement. The option value is derived based on the volatility of the option, interest rate, currency rate and time remaining to maturity. The Company s consideration of the counterparty s credit risk resulted in a nominal adjustment the valuation of the foreign exchange options for the three months ended March 31, 2013. The valuation of the option contract falls within Level 2 of the fair value hierarchy due to the observable nature of the inputs used in deriving the fair value of this derivative contract.

Interest Rate Swaps The Company has entered into pay-fixed, receive-variable swap contracts with institutional counterparties to hedge against interest rate swap products offered to bank customers. This product allows borrowers to lock in attractive intermediate and long-term interest rates by entering into a pay-fixed, receive-variable swap contract with the Company, resulting in the customer obtaining a synthetic fixed rate loan. The Company has also entered into pay-variable, receive-fixed swap contracts with institutional counterparties to hedge against certificates of deposit issued. This product allows the Company to lock in attractive floating rate funding. The fair value of the interest rate swap contracts is based on a discounted cash flow approach. The Company s consideration of the counterparty s credit risk resulted in a $0.4 million adjustment to the valuation of the interest rate swaps for the three months ended March 31, 2013. The valuation of the interest rate swap falls within Level 2 of the fair value hierarchy due to the observable nature of the inputs used in deriving the fair value of this derivative contract.

Short-term Foreign Exchange Contracts The Company entered into short-term foreign exchange contracts to purchase/sell foreign currencies at set rates in the future. These contracts economically hedge against foreign exchange rate fluctuations. The Company enters into contracts with institutional counterparties to hedge against foreign exchange products offered to bank customers. These products allow customers to hedge the foreign exchange risk of their deposits and loans denominated in foreign currencies. The Company does not assume any foreign exchange rate risk as the contract with the customer and the contract with the institutional party mirror each other. The fair value is determined at each reporting period based on the change in the foreign exchange rate. Given the short-term nature of the contracts, the counterparties credit risks are considered nominal and resulted in no adjustments to the valuation of the short-term foreign exchange contracts for the three months ended March 31, 2013. The valuation of the contract falls within Level 2 of the fair value hierarchy due to the observable nature of the inputs used in deriving the fair value of this derivative contract.

Impaired Loans The Company s impaired loans are generally measured using the fair value of the underlying collateral, which is determined based on the most recent valuation information received. The fair values may be adjusted as needed based on factors such as the Company s historical knowledge and changes in market conditions from the time of valuation. Impaired loans fall within Level 2 or Level 3 of the fair value hierarchy as appropriate. Level 2 values are measured at fair value based on the most recent valuation information received on the underlying collateral. Level 3 values, additionally include adjustments by the Company for historical knowledge and for changes in market conditions.

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Other Real Estate Owned The Company s OREO represents properties acquired through foreclosure or through full or partial satisfaction of loans and are recorded at estimated fair value less cost to sell at the time of foreclosure and at the lower of cost or estimated fair value less cost to sell subsequent to acquisition. The fair values of OREO properties are based on third party appraisals, broker price opinions or accepted written offers. These valuations are reviewed and approved by the Company s appraisal department, credit review department, or OREO department. OREO properties are classified as Level 2 assets in the fair value hierarchy.

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

Fair Value of Financial Instruments

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

	March 31, 2013		December 31, 2012	
	Carrying Amount or Notional Amount	Estimated Fair Value	Carrying Amount or Notional Amount	Estimated Fair Value
	(In thousands)			
Financial Assets:				
Cash and cash equivalents	$ 1,736,865	$ 1,736,865	$ 1,323,106	$ 1,323,106
Short-term investments	379,029	379,029	366,378	366,378
Securities purchased under resale agreements	1,400,000	1,392,927	1,450,000	1,442,302
Investment securities available-for-sale	2,588,993	2,588,993	2,607,029	2,607,029
Loans held for sale	226,635	233,843	174,317	180,349
Loans receivable, net	14,872,172	14,818,860	14,645,785	14,743,218
Investment in Federal Home Loan Bank stock	96,795	96,795	107,275	107,275
Investment in Federal Reserve Bank stock	48,036	48,036	48,003	48,003
Accrued interest receivable	103,392	103,392	94,837	94,837
Foreign exchange options	85,614	5,340	85,614	5,011
Interest rate swaps	1,244,393	34,192	1,190,793	36,943
Short-term foreign exchange contracts	138,940	1,303	112,459	896
Financial Liabilities:				
Customer deposit accounts:				
Demand, savings and money market deposits	12,901,076	12,901,076	12,187,740	12,187,740
Time deposits	6,034,626	6,016,426	6,121,614	6,115,530
Federal Home Loan Bank advances	313,494	326,527	312,975	333,060
Securities sold under repurchase agreements	995,000	1,174,984	995,000	1,173,830
Other borrowings			20,000	20,000
Accrued interest payable	11,103	11,103	10,855	10,855
Long-term debt	137,178	88,379	137,178	83,762
Derivative liabilities	1,576,769	41,024	1,392,494	42,060

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

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	March 31, 2013			
	Estimated Fair Value Measurements	Level 1	Level 2	Level 3
	(In thousands)			
Financial Assets:				
Cash and cash equivalents	$ 1,736,865	$ 1,736,865	$	$
Short-term investments	379,029		379,029	
Securities purchased under resale agreements	1,392,927		1,392,927	
Loans held for sale	233,843		233,843	
Loans receivable, net	14,818,860			14,818,860
Investment in Federal Home Loan Bank stock	96,795		96,795	
Investment in Federal Reserve Bank stock	48,036		48,036	
Accrued interest receivable	103,392		103,392	
Financial Liabilities:				
Customer deposit accounts:				
Demand, savings and money market deposits	12,901,076		12,901,076	
Time deposits	6,016,426			6,016,426
Federal Home Loan Bank advances	326,527		326,527	
Securities sold under repurchase agreements	1,174,984		1,174,984	
Other borrowings				
Accrued interest payable	11,103		11,103	
Long-term debt	88,379		88,379	

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

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

Cash and Cash Equivalents The carrying amounts approximate fair values due to the short-term nature of these instruments. Due to the short-term nature, the estimated fair value is considered to be within Level 1 of the fair value hierarchy.

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

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

Investment Securities Available-for-Sale The fair values of the investment securities available-for-sale are generally determined by reference to the average of at least two quoted market prices obtained from independent external brokers or independent external pricing service providers who have experience in valuing these securities. In obtaining such valuation information from third parties, the Company has reviewed the methodologies used to develop the resulting fair values. For pooled trust preferred securities, fair values are based on discounted cash flow analyses. Due to the unobservable inputs used within the discounted cash flow analysis, the estimate for pooled trust preferred securities is considered to be within Level 3 of the fair value hierarchy. The remainder of the portfolio is classified within Level 1 and Level 2, as discussed earlier in this footnote.

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

Loans Receivable, net (includes covered and non-covered loans) The fair value of loans is determined based on a discounted cash flow approach considered for an entry price value. The discount rate is derived from the associated yield curve plus spreads, and reflects the offering rates in the market for loans with similar financial characteristics. No adjustments have been made for changes in credit within any of the loan portfolios. It is management s opinion that the allowance for loan losses pertaining to performing and nonperforming loans results in a fair valuation of credit for such loans. Due to the unobservable nature of the inputs used in deriving the estimated fair value of these instruments, the estimate is considered to be within Level 3 of the fair value hierarchy.

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

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

Equity Swap Agreements Equity swap agreements matured during the fourth quarter of 2012. The fair value of the derivative contracts is provided by a third party and is determined based on the change in value of the HSCEI and the volatility of the call option over the life of the individual swap agreement. The option value is derived based on the volatility of the option, interest rate, and time remaining to maturity. We also considered the counterparty s credit risk in determining the fair value. Due to the observable nature of the inputs used in deriving the estimated fair value of these instruments, the estimate is considered to be within Level 2 of the fair value hierarchy.

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

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

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

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

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

Securities Sold Under Repurchase Agreements For securities sold under repurchase agreements with original maturities of 90 days or less, the carrying amounts approximate fair values due to the short-term nature of these instruments. At March 31, 2013 and December 31, 2012, most of the securities sold under repurchase agreements are long-term in nature and the fair values of securities sold under repurchase agreements are calculated by discounting future cash flows based on expected maturities or repricing dates, utilizing estimated market discount rates, and taking into consideration the call features of each instrument. Due to the observable nature of the inputs used in deriving the estimated fair value of these instruments, the estimate is considered to be within Level 2 of the fair value hierarchy.

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

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

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Long-Term Debt The fair values of long-term debt are estimated by discounting the cash flows through maturity based on current market rates the Bank would pay for new issuances. Due to the observable nature of the inputs used in deriving the estimated fair value of these instruments, the estimate is considered to be within Level 2 of the fair value hierarchy.

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

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

NOTE 4 STOCK-BASED COMPENSATION

During the three months ended March 31, 2013, total compensation expense recognized in the condensed consolidated statements of income related to both stock options and restricted stock awards reduced income before taxes by $2.5 million and net income by $1.5 million.

During the three months ended March 31, 2012, total compensation expense recognized in the condensed consolidated statements of income related to both stock options and restricted stock awards reduced income before taxes by $3.6 million and net income by $2.1 million.

The Company received $442 thousand and $1.5 million during the three months ended March 31, 2013 and March 31, 2012, respectively, in cash proceeds from stock option exercises. The net tax benefit recognized in equity for stock compensation plans was $2.6 million and $29 thousand for the three months ended, March 31, 2013 and March 31, 2012, respectively.

As of March 31, 2013, there are 4,115,745 shares available to be issued, subject to the Company s current 1998 Stock Incentive Plan, as amended.

Stock Options

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

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A summary of activity for the Company s stock options as of and for the three months ended March 31, 2013 is presented below:

	Shares		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term		Aggregate Intrinsic Value (In thousands)
Outstanding at beginning of period	677,708	$	28.41			
Granted						
Exercised	(23,584)		18.73			
Expired	(141,291)		36.90			
Outstanding at end of period	512,833	$	26.52	1.56 years	$	1,786
Vested or expected to vest at end of period	512,833	$	26.52	1.56 years	$	1,786
Exercisable at end of period	512,833	$	26.52	1.56 years	$	1,786

A summary of changes in unvested stock options and related information for the three months ended March 31, 2013 is presented below:

	Shares		Weighted Average Grant Date Fair Value (per share)
Unvested at January 1, 2013	14,502	$	3.00
Granted			
Vested	(14,502)		3.00
Forfeited			
Unvested at March 31, 2013		$	

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions: 1) the expected term (estimated period of time outstanding) of stock options granted is estimated using the historical exercise behavior of employees; 2) the expected volatility is based on historical volatility for a period equal to the stock option s expected term; 3) the expected dividend yield is based on the Company s prevailing dividend rate at the time of grant; and 4) the risk-free rate is based on the U.S. Treasury strips in effect at the time of grant equal to the stock option s expected term. The Company did not issue any stock options during the three months ended March 31, 2013 and 2012.

During the three months ended March 31, 2013 and 2012, information related to stock options is presented as follows:

	Three Months Ended March 31,			
		2013		2012
Weighted average grant date fair value of stock options granted during the period *(1)*		N/A		N/A
Total intrinsic value of options exercised (in thousands)	$	127	$	575

Total fair value of options vested (in thousands)	$	363	$	3,001

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(1) The Company did not issue any stock options during the three months ended March 31, 2013 and 2012.

As of March 31, 2013, all stock options are fully vested and all compensation cost related to stock options have been recognized.

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Restricted Stock Awards

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

A summary of the activity for the Company s time-based and performance-based restricted stock awards as of March 31, 2013, including changes during the three months then ended, is presented below:

	March 31, 2013 Restricted Stock Awards			
	Time-Based		Performance-Based	
	Shares	Weighted Average Price	Shares	Weighted Average Price
Outstanding at beginning of period	1,512,396	$ 16.30	694,838	$ 22.43
Granted	11,432	22.31	477,165	25.25
Vested	(677,815)	15.66	(170,427)	22.58
Forfeited	(20,262)	17.54	(6,419)	22.65
Outstanding at end of period	825,751	$ 16.87	995,157	$ 23.75

Restricted stock awards are valued at the closing price of the Company s stock on the date of award. The weighted average fair values of time-based restricted stock awards granted during the period ended March 31, 2013 and 2012 were $22.31 and $20.98, respectively. The weighted average fair value of performance-based restricted stock awards granted during the period ended March 31, 2013 and 2012 were $25.25 and $22.05, respectively. The total fair value of time-based restricted stock awards vested for the three months ended March 31, 2013 and 2012 was $16.3 million and $1.8 million, respectively. The total fair value of performance-based restricted stock awards vested during the three months ended March 31, 2013 and 2012 was $4.3 million and $1.9 million, respectively.

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As of March 31, 2013, total unrecognized compensation cost related to time-based and performance-based restricted stock awards amounted to $6.7 million and $20.7 million, respectively. This cost is expected to be recognized over a weighted average period of 1.4 years and 2.4 years, respectively.

NOTE 5 INVESTMENT SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(In thousands)		
As of March 31, 2013				
Investment securities available-for-sale:				
U.S. Treasury securities	$ 469,747	$ 1,048	$ (31)	$ 470,764
U.S. Government agency and U.S. Government sponsored enterprise debt securities	197,137	520	(120)	197,537
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	142,050	3,405	(411)	145,044
Residential mortgage-backed securities	1,018,638	18,078	(1,301)	1,035,415
Municipal securities	206,113	3,284	(2,639)	206,758
Other commercial mortgage-backed securities:				
Investment grade	50,998	361		51,359
Corporate debt securities:				
Investment grade	458,534	1,554	(6,765)	453,323
Non-investment grade *(1)*	24,534	200	(6,734)	18,000
Other securities	10,633	160		10,793
Total investment securities available-for-sale	$ 2,578,384	$ 28,610	$ (18,001)	$ 2,588,993
As of December 31, 2012				
Investment securities available-for-sale:				
U.S. Treasury securities	$ 459,613	$ 1,135	$ (71)	$ 460,677
U.S. Government agency and U.S. Government sponsored enterprise debt securities	197,264	673	(82)	197,855
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	174,036	6,665	(36)	180,665
Residential mortgage-backed securities	1,123,880	20,883	(678)	1,144,085
Municipal securities	163,333	4,491	(731)	167,093
Other commercial mortgage-backed securities:				
Investment grade	16,999	85		17,084
Corporate debt securities:				
Investment grade	429,318	237	(17,572)	411,983

Non-investment grade *(1)*		24,620		355		(7,558)		17,417
Other securities		9,955		215				10,170
Total investment securities available-for-sale	$	2,599,018	$	34,739	$	(26,728)	$	2,607,029

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

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

The fair values of investment securities are generally determined by reference to the average of at least two quoted market prices obtained from independent external brokers or prices obtained from independent external pricing service providers who have experience in valuing these securities. The Company performs a monthly analysis on the pricing service quotes and the broker quotes received from third parties to ensure that the prices represent a reasonable estimate of fair value. The procedures include, but are not limited to, initial and ongoing review of third party pricing methodologies, review of pricing trends, and monitoring of trading volumes. The Company assesses whether the prices received from independent brokers represent a reasonable estimate of fair value through the use of internal and external cash flow models developed that are based on spreads and, when available, market indices. As a result of this analysis, if the Company determines there is a more appropriate fair value based upon available market data, the price received from third parties is adjusted accordingly.

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Prices from third party pricing services are often unavailable for securities that are rarely traded or are traded only in privately negotiated transactions. As a result, certain securities are priced via independent broker quotations that utilize inputs that may be difficult to corroborate with observable market based data. Additionally, the majority of these independent broker quotations are non-binding.

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

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

	Three Months Ended March 31,	
	2013	2012
	(In thousands)	
Beginning balance, January 1,	$ 115,511	$ 115,412
Addition of other-than-temporary impairment that was not previously recognized		
Additional increases to the amount related to the credit loss for which an other-than-temporary impairment was previously recognized		99
Reduction for securities sold		
Ending balance	$ 115,511	$ 115,511

During the three months ended March 31, 2013, the Company recorded $5.6 million of gross gains and no gross losses resulting in a net income statement impact of $5.6 million of gain on sale of investment securities. During the three months ended March 31, 2012, the Company recorded $1.7 million of gross gains and $1.2 million of gross losses resulting in a net income statement impact of $483 thousand of gain on sale of investment securities. The tax expense on the sale of investment securities available-for-sale amounted to $2.3 million and $203 thousand for the three months ended March 31, 2013 and 2012, respectively. Total net proceeds for these sales were $196.9 million and $260.3 million for the three months ended March 31, 2013 and 2012, respectively.

The following tables show the Company s investment portfolio s gross unrealized losses and related fair values, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of March 31, 2013 and December 31, 2012:

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	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
As of March 31, 2013						
Investment securities available-for-sale:						
U.S. Treasury securities	$ 52,587	$ (31)	$	$	$ 52,587	$ (31)
U.S. Government agency and U.S. Government sponsored enterprise debt securities	24,874	(120)			24,874	(120)
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:						
Commercial mortgage-backed securities	44,066	(411)			44,066	(411)
Residential mortgage-backed securities	203,984	(1,301)			203,984	(1,301)
Municipal securities	120,187	(2,639)			120,187	(2,639)
Corporate debt securities:						
Investment grade	94,204	(2,044)	105,279	(4,721)	199,483	(6,765)
Non-investment grade	2,078	(53)	13,386	(6,681)	15,464	(6,734)
Other securities						
Total investment securities available-for-sale	$ 541,980	$ (6,599)	$ 118,665	$ (11,402)	$ 660,645	$ (18,001)

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
As of December 31, 2012						
Investment securities available-for-sale:						
U.S. Treasury securities	$ 95,232	$ (71)	$	$	$ 95,232	$ (71)
U.S. Government agency and U.S. Government sponsored enterprise debt securities	24,912	(82)			24,912	(82)
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:						
Commercial mortgage-backed securities	10,013	(36)			10,013	(36)
Residential mortgage-backed securities	215,826	(678)			215,826	(678)
Municipal securities	48,363	(731)			48,363	(731)
Corporate debt securities:						
Investment grade	225,819	(5,391)	182,697	(12,181)	408,516	(17,572)
Non-investment grade			12,574	(7,558)	12,574	(7,558)
Other securities						
Total investment securities available-for-sale	$ 620,165	$ (6,989)	$ 195,271	$ (19,739)	$ 815,436	$ (26,728)

Unrealized Losses

The majority of the unrealized losses related to securities that have been in a continuous loss position for less than twelve months are related to municipal and investment grade corporate debt securities. As of March 31, 2013, the Company had $206.8 million of municipal securities and $453.3 million of investment grade corporate debt securities available-for-sale, representing 8% and 18% of the total investment securities available-for-sale portfolio, respectively. As of December 31, 2012, the Company had $167.1 million of municipal securities and $412.0 million of investment grade corporate debt securities available-for-sale, representing 6% and 16% of the total investment securities available-for-sale portfolio, respectively.

As of March 31, 2013, there were 10 individual securities that have been in a continuous unrealized loss position for twelve months or more. These securities are comprised of 5 positions in non-investment grade trust preferred securities with a total fair value of $13.4 million and 5 investment grade corporate debt securities with a fair value of $105.3 million. The unrealized losses on these securities are primarily attributed to the market impact of the sovereign debt crisis in Europe. The Company does not have direct holdings of European sovereign debt. However, the bank is indirectly affected through the overall impact to the market and especially to corporate debt securities pricing. The issuers of these securities have not, to our knowledge, established any cause for default on these securities. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated. The Company does not intend to sell these securities and it is not more likely than not that the company will be required to sell these securities before recovery of their current amortized cost basis.

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As of March 31, 2013, there were also 117 securities, not including the 10 securities above, which have been in a continuous unrealized loss position for less than twelve months. The securities in an unrealized loss position for less than twelve months include 68 municipal securities, 31 residential agency mortgage-backed securities, 7 commercial agency mortgage-backed securities, 5 U.S. Treasury securities, 4 investment grade corporate debt securities, 1 government sponsored debt security, and 1 non-investment grade corporate debt security. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated. The Company does not intend to sell these securities and it is not more likely than not that the company will be required to sell these securities before recovery of their current amortized cost basis. As such, the Company does not deem any of the securities as of March 31, 2013 to be other-than-temporarily impaired.

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

Corporate Debt Securities

As of March 31, 2013, there was one non-investment grade corporate debt security with an estimated fair value of $2.1 million that was in a continuous unrealized loss position for twelve months or less. The unrealized losses related to securities that have been in a continuous loss position of twelve months or longer are related to 5 positions in non-investment grade trust preferred debt securities and 5 investment grade corporate debt securities. As of March 31, 2013, these 5 positions in trust preferred securities had an estimated fair value of $13.4 million, representing approximately 1% of the total investment securities available-for-sale portfolio. As of March 31, 2013, these non-investment grade trust preferred debt securities had gross unrealized losses amounting to $6.7 million, or 33% of the total amortized cost basis of these securities. We did not record an impairment loss on our portfolio of pooled trust preferred securities during the first three months of 2013. In comparison, as of March 31, 2012, we had $5.6 million in unrealized losses on securities that are not other-than-temporarily impaired and $5.1 million in noncredit-related impairment losses on securities that are other-than-temporarily impaired as of March 31, 2012 pursuant to the provisions of ASC 320-10-65. We recorded an impairment loss of $99 thousand on our portfolio of pooled trust preferred securities during the first three months of 2012 for additional increases to the amount related to the credit loss for which an other-than-temporary impairment was previously recognized.

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The scheduled maturities of investment securities at March 31, 2013 are presented as follows:

	Amortized Cost	Estimated Fair Value
	(In thousands)	
Due within one year	$ 212,365	$ 209,039
Due after one year through five years	538,229	539,827
Due after five years through ten years	602,372	598,904
Due after ten years	1,225,418	1,241,223
Total investment securities available-for-sale	$ 2,578,384	$ 2,588,993

NOTE 6 DERIVATIVE FINANCIAL INSTRUMENTS AND BALANCE SHEET OFFSETTING

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

	Fair Values of Derivative Instruments					
	March 31, 2013			December 31, 2012		
	Notional Amount	Derivative Assets (1)	Derivative Liabilities (1)	Notional Amount	Derivative Assets (1)	Derivative Liabilities (1)
	(In thousands)					
Derivatives designated as hedging instruments:						
Interest rate swaps on certificates of deposit fair value	$ 70,000	$	$ 2,821	$ 50,000	$	$ 1,521
Total derivatives designated as hedging instruments	$ 70,000	$	$ 2,821	$ 50,000	$	$ 1,521
Derivatives not designated as hedging instruments:						
Foreign exchange options	$ 85,614	$ 5,340	$ 3,233	$ 85,614	$ 5,011	$ 3,052
Interest rate swaps	1,244,393	34,192	33,832	1,190,793	36,943	36,799
Short-term foreign exchange contracts	138,940	1,303	1,138	112,459	896	688
Total derivatives not designated as hedging instruments	$ 1,468,947	$ 40,835	$ 38,203	$ 1,388,866	$ 42,850	$ 40,539

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

Derivatives Designated as Hedging Instruments

Interest Rate Swaps on Certificates of Deposit The Company is exposed to changes in the fair value of certain of its fixed rate certificates of deposit due to changes in the benchmark interest rate, LIBOR. In the first quarter of 2013, the Company entered into two receive-fixed, pay-variable interest rate swaps with major brokerage firms, with a total notional amount of $20.0 million, as a fair value hedge of two fixed rate certificates of deposit, for a total amount of $20.0 million, with the same maturity dates. Interest rate swaps designated as fair value hedges involve the receipt of fixed rate amounts from a counterparty in exchange for the Company making variable-rate payments over the life of the agreements without the exchange of the underlying notional amount.

As of March 31, 2013 and December 31, 2012 the total notional amount of the interest rate swaps on the certificates of deposit was $70.0 million and $50.0 million, respectively. The fair value of the interest rate swaps amounted to a $2.8 million and $1.5 million liability, respectively, as of March 31, 2013 and December 31, 2012. During the three months ended March 31, 2013 and 2012, the Company recognized a net reduction of $87 thousand and $848 thousand, respectively, in expense related to hedge ineffectiveness. The Company also recognized a net reduction to interest expense of $385 thousand and $1.5 million, respectively, for the three months ended March 31, 2013 and 2012 related to net settlements on the derivatives.

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Derivatives Not Designated as Hedging Instruments

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

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

As of March 31, 2013 and December 31, 2012, the notional amount of the foreign exchange options totaled $85.6 million and $85.6 million, respectively. The fair values of the foreign exchange options and embedded derivative liability for these contracts amounted to a $5.3 million asset and a $3.2 million liability, respectively, as of March 31, 2013. The fair values of the foreign exchange options and embedded derivative liability for these contracts amounted to a $5.0 million asset and a $3.1 million liability, respectively, as of December 31, 2012. The Company delivered collateral, in the form of securities to counterparty institutions, valued at $689 thousand and $940 thousand, respectively, for foreign exchange option contracts that were in a net liability position as of March 31, 2013 and December 31, 2012.

Interest Rate Swaps Since the fourth quarter of 2010, the Company has entered into pay-fixed, receive-variable swap contracts with institutional counterparties to economically hedge against interest rate swap products offered to bank customers. This product allows borrowers to lock in attractive intermediate and long-term interest rates by entering into a pay-fixed, receive-variable swap contract with the Company, resulting in the customer obtaining a synthetic fixed rate loan. The Company does not assume any interest rate risk since the swap agreements mirror each other. As of March 31, 2013 and December 31, 2012, the notional amount of the interest rate swaps with the institutional counterparties totaled $1.24 billion and $1.19 billion, respectively. The interest rate swap agreements are marked-to-market each reporting period with resulting changes in fair value reported in the condensed consolidated statements of income.

The fair values of the interest rate swap contracts with the institutional counterparty and the Bank customers amounted to a $34.2 million asset and a $33.8 million liability, respectively, as of March 31, 2013. The fair values of the interest rate swap contracts with the institutional counterparty and the Bank customers amounted to a $36.9 million asset and a $36.8 million liability, respectively, as of December 31, 2012.

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Short-term Foreign Exchange Contracts The Company also enters into short-term forward foreign exchange contracts on a regular basis to economically hedge against foreign exchange rate fluctuations. As of March 31, 2013 and December 31, 2012 the notional amount of the foreign exchange contracts totaled $138.9 million and $112.5 million, respectively. The fair values of the foreign exchange contracts amounted to a $1.3 million asset and a $1.1 million liability, respectively, as of March 31, 2013. The fair values of the foreign exchange contracts amounted to a $896 thousand asset and a $688 thousand liability, respectively, as of December 31, 2012. As of March 31, 2013 and December 31, 2012 the gross aggregate value of assets and liabilities was $461 thousand and $495 thousand, respectively.

The table below presents the effect of the change in fair value for the Company s derivative financial instruments on the condensed consolidated statements of income for the three months ended March 31, 2013 and 2012:

	Location in Condensed Consolidated Statements of Income	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
		(In thousands)	
Derivatives designated as hedging instruments			
Interest rate swaps on certificates of deposit fair value	Interest expense	$ (905)	$ (703)
	Total net (expense) income	$ (905)	$ (703)
Derivatives not designated as hedging instruments			
Equity swap agreements	Noninterest expense	$	$ 2
Foreign exchange options	Noninterest income	140	253
Foreign exchange options	Noninterest expense	8	55
Interest rate swaps	Noninterest income	216	115
Short-term foreign exchange contracts	Noninterest income	(43)	48
	Total net income (expense)	$ 321	$ 473

The Company delivered collateral, in the form of securities to counterparty institutions, for derivatives that were in a net liability position as of March 31, 2013 and December 31, 2012. As of March 31, 2013 and December 31, 2012, the Company did not receive or pledge cash collateral and there were no net asset positions with respect to collateral.

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

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

Balance Sheet Offsetting The Company has entered into agreements with all counterparty financial institutions, which include master netting agreements. However, the Company elects to account for all derivatives with counterparty institutions on a gross basis. As the foreign exchange options are not under agreements that include master netting terms, they are not included in the table below. The Company has also entered into

securities purchased under resale agreements (resale agreements), and securities sold under agreements to repurchase (repurchase agreements) which have master netting agreements that allow for the netting of collateral positions. These repurchase and resale agreements of securities are not eligible for offset in the consolidated balance sheet.

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

(In thousands)

Assets As of March 31, 2013	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Condensed Consolidated Balance Sheets	Net Amounts of Assets presented in the Condensed Consolidated Balance Sheets	Gross Amounts Not Offset in the Condensed Consolidated Balance Sheets		Net Amount
				Financial Instruments	Collateral Received	
Derivatives	$ 1,327	$	$ 1,327	$ (778)	$ (549)	$
Resale Agreements	$ 1,675,000	$	$ 1,675,000	$ (545,000)	$ (1,130,000)	$

Liabilities As of March 31, 2013	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Condensed Consolidated Balance Sheets	Net Amounts of Liabilities presented in the Condensed Consolidated Balance Sheets	Gross Amounts Not Offset in the Condensed Consolidated Balance Sheets		Net Amount
				Financial Instruments	Collateral Posted	
Derivatives	$ 37,304	$	$ 37,304	$ (778)	$ (36,526)	$
Repurchase Agreements	$ 995,000	$	$ 995,000	$ (545,000)	$ (450,000)	$

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

Liabilities As of December 31, 2012	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Condensed Consolidated Balance Sheets	Net Amounts of Liabilities presented in the Condensed Consolidated Balance Sheets	Gross Amounts Not Offset in the Condensed Consolidated Balance Sheets		Net Amount
				Financial Instruments	Collateral Posted	
Derivatives	$ 38,513	$	$ 38,513	$ (366)	$ (38,147)	$
Repurchase Agreements	$ 995,000	$	$ 995,000	$ (545,000)	$ (450,000)	$

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NOTE 7 COVERED ASSETS AND FDIC INDEMNIFICATION ASSET

Covered Assets

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

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

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

Forty-five days following the 10th anniversary of the respective acquisition date, the Company will be required to pay to the FDIC a calculated amount, based on the specific thresholds of losses not being reached. The calculation of this potential liability as stated in the shared-loss agreements is 50% of the excess, if any of (i) 20% of the Intrinsic Loss Estimate and (ii) the sum of (A) 25% of the asset discount plus (B) 25% of the Cumulative Shared-Loss Payments plus (C) the Cumulative Servicing Amount if net losses on covered loans subject to the stated threshold is not reached. As of March 31, 2013 and December 31, 2012, the Company s recorded estimate in the balance sheet, for this liability to the FDIC for WFIB and UCB was $35.3 million and $27.7 million, respectively.

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

between the undiscounted contractual cash flows and the undiscounted expected cash flows is the nonaccretable difference. The nonaccretable difference represents our estimate of the credit losses expected and was considered in determining the fair value of the loans as of the acquisition date. The amount by which the undiscounted expected cash flows exceed the estimated fair value (the accretable yield) is accreted into interest income over the life of the loans. The Company has elected to account for all covered loans acquired in the FDIC-assisted acquisitions under ASC 310-30.

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

	March 31, 2013	December 31, 2012
	(In thousands)	
Real estate loans:		
Residential single-family	$ 341,946	$ 362,345
Residential multifamily	587,409	647,440
Commercial and industrial real estate	1,279,779	1,348,556
Construction and land	385,109	417,631
Total real estate loans	2,594,243	2,775,972
Other loans:		
Commercial business	539,481	587,333
Other consumer	83,617	87,651
Total other loans	623,098	674,984
Total principal balance	3,217,341	3,450,956
Covered discount	(454,962)	(510,208)
Net valuation of loans	2,762,379	2,940,748
Allowance on covered loans	(10,110)	(5,153)
Total covered loans, net	$ 2,752,269	$ 2,935,595

Credit Quality Indicators At each respective acquisition date, the covered loans were grouped into pools of loans with similar characteristics and risk factors per ASC 310-30. The pools were first developed based on loan categories and performance status. As of March 31, 2013, UCB covered loans represent approximately 94% of total covered loans. For the UCB acquisition, the loans were further segregated among the former UCB domestic, Hong Kong, and China portfolios, representing the three general geographic regions. In addition, the Company evaluated the make-up of geographic regions within the construction, land, and multifamily loan portfolios and further segregated these pools into distressed and non-distressed regions based on our historical experience of real estate loans within the non-covered portfolio. As of the date of acquisition 64% of the UCB portfolio was located in California, 10% was located in Hong Kong and 11% was located in New York. This assessment was factored into the day one valuation and discount applied to the loans. As such, geographic concentration risk is considered in the covered loan discount.

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

The Company reduced the nonaccretable difference due to the performance of the portfolio and expectation for the inherent losses in the portfolio in the fourth quarter of 2010. By lowering the nonaccretable discount, the overall accretable yield will increase thus increasing the interest income recognized over the remaining life of the loans. This reduction was primarily calculated based on the risk ratings of the loans.

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The company acquired UCB and WFIB almost 3.5 and 3 years ago, respectively. The majority of the covered loan portfolio accounted for under ASC 310-30, is still performing as expected from the day one valuation or better than expected. However, the company has experienced some concentrated credit deterioration in certain loan pools. Thus, in the first quarter of 2013, due to the concentrated credit deterioration beyond the respective acquisition date fair value of these covered loans under ASC 310-30, a provision for credit losses was recorded through earnings. As of March 31, 2013, there was an allowance of $2.0 million for these loans under ASC 310-30 due to credit deterioration, which resulted from a provision of $2.0 million for the three months ended March 31, 2013. This $2.0 million in allowance is allocated entirely to the portfolio s commercial real estate segment.

As of the acquisition date, WFIB s and UCB s loan portfolios included unfunded commitments for commercial lines of credit, construction draws and other lending activity. The total commitment outstanding as of the acquisition date is covered under the shared-loss agreements. However, any additional advances on these loans subsequent to acquisition date are not accounted for under ASC 310-30. Included in the table below are $408.9 million and $431.7 million of additional advances under the shared-loss agreements which are not accounted for under ASC 310-30 at March 31, 2013 and December 31, 2012, respectively. The Bank has considered these additional advances on commitments covered under the shared-loss agreements in the allowance for loan losses calculation. These additional advances are within our loan segments as follows: $284.1 million of commercial and industrial loans, $81.2 million of commercial real estate loans, $33.0 million of consumer loans and $10.6 million of residential loans. In comparison, at December 31, 2012, these additional advances were within our loan segments as follows: $302.3 million of commercial and industrial loans, $83.4 million of commercial real estate loans, $34.5 million of consumer loans and $11.5 million of residential loans. During the three months ended March 31, 2013, the Company recorded $132 thousand of charge-offs on loans outside of the scope of ASC 310-30. There were no charge-offs during the three months ended March 31, 2012. The resulting provision on covered loans outside the scope of ASC 310-30 was $3.1 million and $1.6 million for the three months ended March 31, 2013 and 2012, respectively. Refer to Note 8 for additional discussion of these covered charge-offs. As of March 31, 2013, $8.1 million, or 3.4%, of the total allowance is allocated to these additional advances on loans covered under the shared-loss agreements. This $8.1 million in allowance is allocated within our loan segments as follows: $4.8 million for commercial and industrial loans, $2.8 million for commercial real estate loans, $407 thousand for consumer loans, and $160 thousand for residential loans. At December 31, 2012, $5.2 million, or 2.2% of the total allowance was allocated within our loan segments as follows: $2.5 million for commercial real estate loans, $2.4 million for commercial and industrial loans, $194 thousand for consumer loans and $87 thousand for residential loans. The $2.0 million allowance for loans under ASC 310-30 discussed above and the $8.1 million in allowance for loans outside the scope of ASC 310-30 together comprise the total covered allowance of $10.1 million or 4.2% of total allowance as of March 31, 2013.

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

	Pass/Watch	Special Mention	Substandard (In thousands)	Doubtful	Total
March 31, 2013					
Real estate loans:					
Residential single-family	$ 325,397	$ 903	$ 15,646	$	$ 341,946
Residential multifamily	526,181	6,262	54,966		587,409
Commercial and industrial real estate	934,102	9,343	329,607	6,727	1,279,779
Construction and land	156,013	14,792	213,132	1,172	385,109
Total real estate loans	1,941,693	31,300	613,351	7,899	2,594,243
Other loans:					
Commercial business	401,191	24,793	113,302	195	539,481
Other consumer	81,797	279	1,541		83,617
Total other loans	482,988	25,072	114,843	195	623,098
Total principal balance	$ 2,424,681	$ 56,372	$ 728,194	$ 8,094	$ 3,217,341

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

As of March 31, 2013 and December 31, 2012, $207.7 million and $204.3 million, respectively, of the ASC 310-30 credit impaired loans were considered to be nonaccrual loans in accordance with the contractual terms of the individual loans.

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

	March 31, 2013		December 31, 2012	
	(In thousands)			
Covered nonaccrual loans*(1) (2) (3)*	$	207,683	$	204,310
Covered loans past due 90 days or more but not on nonaccrual				
Total nonperforming loans		207,683		204,310
Other real estate owned covered, net		28,567		26,808
Total covered nonperforming assets	$	236,250	$	231,118

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

(2) Represents principal balance net of discount.

(3) Includes $37.0 million and $29.6 million of loans at March 31, 2013 and December 31, 2012, respectively, accounted for under ASC 310-10, of which some loans have additional partial balances accounted for under ASC 310-30.

As of March 31, 2013, we had 30 covered OREO properties with a combined aggregate carrying value of $28.6 million. Approximately 60% and 14% of covered OREO properties as of March 31, 2013 were located in California and Texas, respectively. As of December 31, 2012, we had 37 covered OREO properties with an aggregate carrying value of $26.8 million. During the first three months of 2013, 8 properties with an aggregate carrying value of $14.9 million were added through foreclosure. The carrying value at March 31, 2013 is net of adjustments on covered OREO of $64 thousand. During the first three months of 2013, we sold 15 covered OREO properties for total proceeds of $16.0 million resulting in a total net gain on sale of $2.8 million.

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

	Three Months Ended March 31,			
	2013		2012	
	(In thousands)			
Balance at beginning of period	$	556,986	$	785,165
Additions				
Accretion		(46,146)		(25,606)
Changes in expected cash flows		(7,364)		(62,893)
Balance at end of period	$	503,476	$	696,666

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

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

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

- indices for acquired loans with variable rates of interest.

From December 31, 2012 to March 31, 2013, excluding scheduled principal payments, a total of $172.3 million of loans were removed from the covered loans accounted for under ASC 310-30 due to loans being paid in full, sold, transferred to covered OREO or charged-off. Interest income was adjusted by $32.7 million related to payoffs and removals offset by charge-offs.

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From December 31, 2011 to March 31, 2012, excluding scheduled principal payments, a total of $219.6 million of loans were removed from the covered loans accounted for under ASC 310-30 due to loans being paid in full, sold, transferred to covered OREO or charged-off. Interest income was adjusted by $4.1 million related to payoffs and removals offset by charge-offs.

FDIC Indemnification Asset

Due to the fourth quarter 2010 reduction of the nonaccretable difference on the UCB covered loan portfolio, the expected reimbursement from the FDIC under the loss-sharing agreement decreased. As such, the Company is amortizing the difference between the recorded amount of the FDIC indemnification asset and the expected reimbursement from the FDIC over the life of the indemnification asset, in line with the improved accretable yield as discussed above. For the three months ended March 31, 2013, the Company recorded $8.7 million of amortization against income, compared to $10.1 million of amortization for the three months ended March 31, 2012. For the three months ended March 31, 2013, the Company also recorded a reduction to the FDIC indemnification asset resulting from paydowns, payoffs, loan sales and charge-offs of $23.2 million. For the three months ended March 31, 2012, the Company recorded reductions of $41.0 million.

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

	Three Months Ended March 31,	
	2013	**2012**
	(In thousands)	
Balance at beginning of period	$ 316,313	$ 511,135
(Amortization)	(8,686)	(10,071)
Reductions *(1)*	(23,235)	(40,968)
Estimate of FDIC repayment *(2)*	(7,558)	(2,831)
Balance at end of period	$ 276,834	$ 457,265

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

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

FDIC Receivable

As of March 31, 2013, the FDIC loss-sharing receivable was $46.8 million as compared to $73.1 million as of December 31, 2012. This receivable represents 80% of reimbursable amounts from the FDIC, under the FDIC loss-sharing agreements that have not yet been received. These reimbursable amounts include net charge-offs, loan related expenses and OREO-related expenses. 100% of the loan related and OREO expenses are recorded as noninterest expense, 80% of any reimbursable expense is recorded as noninterest income, netting to the 20% of actual expense paid by the Company. The FDIC also shares in 80% of recoveries received. Thus, the FDIC receivable is reduced when we receive

payment from the FDIC as well as when recoveries occur. The FDIC loss-sharing receivable is included in other assets on the condensed consolidated balance sheet.

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NOTE 8 NON-COVERED LOANS AND ALLOWANCE FOR LOAN LOSSES

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

	March 31, 2013	December 31, 2012
	(In thousands)	
Residential:		
Single-family	$ 2,334,913	$ 2,187,323
Multifamily	919,220	900,708
Total residential	3,254,133	3,088,031
Commercial Real Estate (CRE):		
Income producing	3,754,434	3,644,035
Construction	129,881	121,589
Land	111,997	129,071
Total CRE	3,996,312	3,894,695
Commercial and Industrial (C&I):		
Commercial business	3,588,228	3,569,388
Trade finance	692,561	661,877
Total C&I	4,280,789	4,231,265
Consumer:		
Student loans	562,819	475,799
Other consumer	280,975	269,083
Total consumer	843,794	744,882
Total gross loans receivable, excluding covered loans	12,375,028	11,958,873
Unearned fees, premiums, and discounts, net	(26,329)	(19,301)
Allowance for loan losses, excluding covered loans	(228,796)	(229,382)
Loans receivable, excluding covered loans, net	$ 12,119,903	$ 11,710,190

Accrued interest on covered and non-covered loans receivable amounted to $84.2 million and $76.8 million at March 31, 2013 and December 31, 2012, respectively.

At March 31, 2013 and December 31, 2012, covered and non-covered loans receivable totaling $9.01 billion and $8.88 billion, respectively, were pledged to secure borrowings from the FHLB and the Federal Reserve Bank.

The Bank offers both fixed and adjustable rate (ARM) first mortgage loans secured by one-to-four unit residential properties located in its primary lending areas. The Bank originated $263.1 million and $220.4 million in new residential single-family loans during the three months ended March 31, 2013 and 2012, respectively.

The Bank also offers both fixed and ARM residential multifamily loan programs. For the three months ended March 31, 2013 and 2012, the Bank originated $50.3 million and $17.2 million, respectively, in multifamily residential loans. The Bank primarily offers ARM multifamily loan programs that have six-month, three-year, or five-year initial fixed periods. The Bank originates single-family residential loans where the underwriting criteria is heavily based on a maximum loan to value ratio (generally of 65%) and no or limited verification or documentation of a borrower s income is obtained. The Bank considers all of the single-family and multifamily loans originated to be prime loans and the underwriting criteria include maximum loan-to-value ratios and minimum debt coverage ratios, as applicable. The Bank has single-family loans with interest-only features which represents approximately less than 1% of total single-family loans at both March 31, 2013 and December 31, 2012. Additionally, the Bank owns residential loans that were purchased several years ago that permit different repayment options. For these loans, there is the potential for negative amortization if the borrower so chooses. These residential loans that permit different repayment options represents approximately less than 1%, of total residential loans at both March 31, 2013 and December 31, 2012. None of these loans were negatively amortizing as of March 31, 2013 and December 31, 2012.

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

All of the loans that the Bank originates are subject to its underwriting guidelines and loan origination standards. Management believes that the Bank s underwriting criteria and procedures adequately consider the unique risks which may come from these products. The Bank conducts a variety of quality control procedures and periodic audits to ensure compliance with its origination standards, including criteria for lending and legal requirements.

Credit Risk and Concentrations The bank has a concentration of real estate loans in California, including the areas of Los Angeles, Riverside, San Bernardino, and Orange counties. As of March 31, 2013, the Company had $4.00 billion in non-covered commercial real estate loans and $3.25 billion in non-covered residential loans, of which approximately 88% are secured by real properties located in California. Potential further deterioration in the real estate market generally and residential building in particular could result in additional loan charge-offs and provisions for loan losses in the future, which could have a material adverse effect on the Company s financial condition, net income and capital. In addition, although most of the Company s trade finance loans relate to trade with Asian countries, the majority of our loans are made to companies domiciled in the United States. A substantial portion of this business involves California based customers engaged in import activities as well as some export activities. We also offer export-import financing to various domestic and foreign customers. Certain trade finance loans may be guaranteed by the Export-Import Bank of the United States or the Export-Import Bank of China.

Purchased Loans During the first three months of 2013, the Company purchased loans with an unpaid principal balance of $151.8 million and a carrying amount of $143.5 million. Approximately, 98% of these loans are student loans which are mostly guaranteed by the U.S. Department of Education and pose limited credit risk.

Loans Held for Sale Loans held for sale totaled $226.6 million and $174.3 million as of March 31, 2013 and December 31, 2012, respectively. Loans held for sale are recorded at the lower of cost or fair market value. Fair market value, if lower than cost, is determined based on valuations obtained from market participants or the value of the underlying collateral. As of March 31, 2013, approximately 89% of these loans were student loans, the majority of which are guaranteed by the U.S. Department of Education. During the first three months of 2013, in total, net loans receivable of $21.9 million were reclassified to loans held for sale. Some of these loans were purchased by the Company with the intent to be held for investment; however, subsequent to their purchase, the Company s intent for these loans changed and they were consequently reclassified to loans held for sale. Proceeds from sales of loans held for sale were $6.3 million in the first three months of 2013, resulting in net gains on sale of $1 thousand. Proceeds from sales of loans held for sale were $52.6 million in the first three months of 2012 with $4.6 million net gains on sale.

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

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

	Pass/Watch	Special Mention	Substandard (In thousands)	Doubtful	Total
March 31, 2013					
Residential:					
Single-family	$ 2,310,623	$ 6,278	$ 18,012	$	$ 2,334,913
Multifamily	823,560	11,782	83,878		919,220
CRE:					
Income producing	3,522,732	54,457	177,245		3,754,434
Construction	69,511	16,836	43,534		129,881
Land	62,383	13,139	36,475		111,997
C&I:					
Commercial business	3,378,070	94,628	115,530		3,588,228
Trade finance	676,601	8,849	7,111		692,561
Consumer:					
Student loans	562,752	67			562,819
Other consumer	274,307	1,328	5,340		280,975
Total	$ 11,680,539	$ 207,364	$ 487,125	$	$ 12,375,028

	Pass/Watch	Special Mention	Substandard (In thousands)	Doubtful	Total
December 31, 2012					
Residential:					
Single-family	$ 2,163,918	$ 5,131	$ 18,274	$	$ 2,187,323
Multifamily	781,552	13,510	105,646		900,708
CRE:					
Income producing	3,416,142	42,222	185,671		3,644,035
Construction	63,008	16,885	41,696		121,589
Land	79,085	13,232	36,754		129,071

C&I:					
Commercial business	3,380,212	69,687	119,489		3,569,388
Trade finance	632,617	24,778	4,482		661,877
Consumer:					
Student loans	475,799				475,799
Other consumer	261,136	1,115	6,832		269,083
Total	$ 11,253,469	$ 186,560	$ 518,844	$	$ 11,958,873

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

	Accruing Loans 30-59 Days Past Due	Accruing Loans 60-89 Days Past Due	Total Accruing Past Due Loans	Nonaccrual Loans Less Than 90 Days Past Due	Nonaccrual Loans 90 or More Days Past Due	Total Nonaccrual Past Due Loans	Current Loans	Total
					(In thousands)			
March 31, 2013								
Residential:								
Single-family	$ 5,939	$ 1,861	$ 7,800	$ 497	$ 9,097	$ 9,594	$ 2,317,519	$ 2,334,913
Multifamily	4,306	238	4,544	9,593	4,961	14,554	900,122	919,220
CRE:								
Income producing	16,489	2,689	19,178	10,533	8,718	19,251	3,716,005	3,754,434
Construction					27,044	27,044	102,837	129,881
Land	11,770		11,770	305	4,321	4,626	95,601	111,997
C&I:								
Commercial business	2,333	229	2,562	7,406	14,714	22,120	3,563,546	3,588,228
Trade finance				373	2,419	2,792	689,769	692,561
Consumer:								
Student loans	295	67	362				562,457	562,819
Other consumer	376	3	379		1,345	1,345	279,251	280,975
Loans held for sale					25,837	25,837	200,798	226,635
Total	$ 41,508	$ 5,087	$ 46,595	$ 28,707	$ 98,456	$ 127,163	$ 12,427,905	12,601,663
Unearned fees, premiums and discounts, net								(26,329)
Total recorded investment in non-covered loans and loans held for sale								$ 12,575,334

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

Total	$ 34,414	$ 9,183	$ 43,597	$ 27,207	$ 80,902	$ 108,109	$ 11,981,484	12,133,190
Unearned fees, premiums and discounts, net								(19,301)
Total recorded investment in non-covered loans and loans held for sale								$ 12,113,889

Generally, loans 90 or more days past due are placed on nonaccrual status, at which point interest accrual is discontinued and all unpaid accrued interest is reversed against interest income. Additionally, loans that are not 90 or more days past due but have identified deficiencies, including delinquent troubled debt restructurings, are also placed on nonaccrual status. Nonaccrual loans totaled $127.2 million and $108.1 million at March 31, 2013 and December 31, 2012, respectively. Loans not 90 or more days past due totaled $28.7 million and $27.2 million as of March 31, 2013 and December 31, 2012, respectively, and were included in non-covered nonaccrual loans.

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

	For the Three Months Ended March 31,	
	2013	2012
	(In thousands)	
Interest income that would have been recognized had nonaccrual loans performed in accordance with their original terms	$ 1,656	$ 1,730
Less: Interest income recognized on nonaccrual loans on a cash basis	(606)	(701)
Interest income foregone on nonaccrual loans	$ 1,050	$ 1,029

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

TDRs may be designated as performing or nonperforming. A TDR may be designated as performing if the loan has demonstrated sustained performance under the modified terms. The period of sustained performance may include the periods prior to modification if prior performance met or exceeded the modified terms. For nonperforming restructured loans, the loan will remain on nonaccrual status until the borrower demonstrates a sustained period of performance, generally six consecutive months of payments. The Company had $57.0 million and $94.6 million in total performing restructured loans as of March 31, 2013 and December 31, 2012, respectively. Nonperforming restructured loans were $9.0 million and $10.0 million at March 31, 2013 and December 31, 2012, respectively. Included as TDRs were $2.4 million and $34.8 million of performing A/B notes as of March 31, 2013 and December 31, 2012, respectively. All TDRs are included in the balance of impaired loans.

The following table provides information on loans modified as of March 31, 2013 and 2012 that were modified as TDRs during the three months ended March 31, 2013 and 2012:

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	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment (1)	Financial Impact (2)
	Loans Modified as TDRs During the Three Months Ended March 31, 2013 (Dollars in thousands)			
Residential:				
Single-family		$	$	$
Multifamily		$	$	$
CRE:				
Income producing		$	$	$
Construction		$	$	$
Land		$	$	$
C&I:				
Commercial business	1	$ 42	$ 41	$
Trade finance		$	$	$
Consumer:				
Student loans		$	$	$
Other consumer	1	$ 651	$ 651	$

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment (1)	Financial Impact (2)
	Loans Modified as TDRs During the Three Months Ended March 31, 2012 (Dollars in thousands)			
Residential:				
Single-family	1	$ 302	$ 206	$ 95
Multifamily	1	$ 399	$ 390	$
CRE:				
Income producing	4	$ 4,103	$ 3,683	$ 561
Construction		$	$	$
Land	1	$ 432	$ 70	$ 77
C&I:				
Commercial business	6	$ 2,525	$ 2,489	$ 297
Trade finance		$	$	$
Consumer:				
Student loans		$	$	$
Other consumer		$	$	$

(1) Includes subsequent payments after modification and reflects the balance as of March 31, 2013 and 2012.

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

Potential TDRs are individually evaluated and the type of restructuring is selected based on the loan type and the circumstances of the borrower s financial difficulty in order to maximize the bank s recovery. As of March 31, 2013, modifications of commercial and industrial TDRs, including commercial business and trade finance loans, were restructured through principal and interest reduction with an impact of both a reduction of interest collected over the life of the loan and/or an extended time period for collection of principal and interest, for a total of $41 thousand as of March 31, 2013. Consumer TDRs, including student loans and other consumer loans, were restructured through maturity extensions, for a total of $651 thousand as of March 31, 2013.

As of March 31, 2012 residential TDRs modified using principal and interest deferment and/or A/B note splits totaled $596 thousand, as of March 31, 2012. Commercial real estate TDRs, including income producing, construction and land loans, were primarily modified through A/B note splits, maturity extensions, forbearance payments, principal and interest deferment and/or non-market interest rate changes with an impact of a partial chargeoff or loss for the bank and reduction of interest collected over the life of the loan. Commercial real estate TDRs modified through A/B note splits and/or maturity extensions totaled $1.7 million as of March 31, 2012. Commercial real estate TDRs modified through forbearance payments, principal and interest deferment and/or non-market interest changes totaled $2.0 million as of March 31, 2012. Commercial and industrial TDRs, including commercial business and trade finance loans, were restructured in various ways, including forbearance payments, principal deferment and/or maturity extensions with an impact of both a reduction of interest collected over the life of the loan and/or an extended time period for collection of principal and interest, for a total of $2.5 million as of March 31, 2012.

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Performing TDRs at March 31, 2013 were comprised of $28.2 million in residential loans, $24.6 million in commercial real estate loans, $3.4 million in commercial and industrial loans and $759 thousand in consumer loans. Performing TDRs at December 31, 2012 were comprised of $43.5 million in residential loans, $47.4 million in commercial real estate loans, $3.6 million in commercial and industrial loans and $108 thousand in consumer loans. Nonperforming TDRs at March 31, 2013 were comprised of $4.3 million in residential loans, $2.0 million in commercial real estate loans and $2.7 million in commercial and industrial loans. Nonperforming TDRs at December 31, 2012 were comprised of $5.1 million in residential loans, $1.9 million in commercial real estate loans and $3.0 million in commercial and industrial loans.

Subsequent to restructuring, a TDR that becomes delinquent, generally beyond 30 days for commercial and industrial, commercial real estate and consumer loans, and beyond 90 days for residential loans, becomes nonaccrual and is considered to have defaulted. The following table provides information for loans modified as TDRs within the previous 12 months that have subsequently defaulted as of March 31, 2013 for the three months ended March 31, 2013.

	Loans Modified as TDRs that Subsequently Defaulted During the Three Months Ended March 31,			
	2013		2012	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)			
Residential:				
Single-family	2	$ 2,830		$
Multifamily		$	2	$ 1,109
CRE:				
Income producing		$		$
Construction		$	1	$ 1,509
Land		$		$
C&I:				
Commercial business	4	$ 817	2	$ 227
Trade finance		$		$
Consumer:				
Student loans		$		$
Other consumer		$		$

All TDRs are included in the impaired loan quarterly valuation allowance process. See the sections below *Impaired Loans* and *Allowance for Loan Losse*s for the complete discussion. All portfolio segments of TDRs are reviewed for necessary specific reserves in the same manner as impaired loans of the same portfolio segment which have not been identified as TDRs. The modification of the terms of each TDR is considered in the current impairment analysis of the respective TDR. For all portfolio segments of delinquent TDRs and when the restructured loan is less than the recorded investment in the loan, the deficiency is charged-off against the allowance for loan losses. If the loan is a performing TDR the deficiency is included in the specific allowance, as appropriate. As of March 31, 2013, the allowance for loan losses associated with TDRs was $7.4 million for performing TDRs and $366 thousand for nonperforming TDRs. As of December 31, 2012, the allowance for loan losses associated with TDRs was $8.7 million for performing TDRs and $203 thousand for nonperforming TDRs, respectively.

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Impaired Loans A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all scheduled payments of principal or interest due according to the original contractual terms of the loan agreement. Impaired loans include non-covered loans held for investment on nonaccrual status, regardless of the collateral coverage, and loans modified in a TDR.

The Bank s loans are grouped into heterogeneous and homogeneous (mostly consumer loans) categories. Classified loans (graded Substandard or Doubtful) in the heterogeneous category are selected and evaluated for impairment on an individual basis. The Bank considers loans individually reviewed to be impaired if, based on current information and events, it is probable the Bank will not be able to collect all amounts due according to the original contractual terms of the loan agreement. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan s effective interest rate or, as an expedient, at the loan s observable market price or the fair value of the collateral if the loan is collateral dependent, less costs to sell. When the value of an impaired loan is less than the recorded investment in the loan and the loan is classified as nonperforming, the deficiency is charged-off against the allowance for loan losses.

At March 31, 2013 and December 31, 2012, impaired non-covered loans totaled $156.1 million and $200.5 million, respectively. Impaired non-covered loans as of March 31, 2013 and December 31, 2012 are set forth in the following tables. The interest income recognized on impaired loans, excluding performing TDRs, is recognized on a cash basis when received.

	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment (2) (In thousands)	Related Allowance	Average Recorded Investment	Interest Income Recognized (1)
As of and for the three months ended March 31, 2013							
Residential:							
Single-family	$ 14,583	$ 11,591	$ 2,036	$ 13,627	$ 408	$ 13,988	$ 84
Multifamily	40,932	27,730	10,946	38,676	629	38,894	150
CRE:							
Income producing	40,836	19,466	15,519	34,985	2,703	35,591	230
Construction	30,298	25,530	1,515	27,045	148	27,042	
Land	18,731	2,310	11,211	13,521	4,007	13,579	12
C&I:							
Commercial business	37,120	17,611	5,448	23,059	4,234	23,636	112
Trade finance	4,649	2,592	500	3,092	500	3,120	16
Consumer:							
Student loans							
Other consumer	2,486	1,732	372	2,104	4	2,166	2
Total	$ 189,635	$ 108,562	$ 47,547	$ 156,109	$ 12,633	$ 158,016	$ 606

	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment (2) (In thousands)	Related Allowance	Average Recorded Investment	Interest Income Recognized (1)
As of and for the year ended December 31, 2012							
Residential:							
Single-family	$ 19,318	$ 15,610	$ 2,598	$ 18,208	$ 721	$ 19,094	$ 88
Multifamily	57,464	45,511	8,756	54,267	2,410	54,707	403
CRE:							

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

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(1) Excludes interest from performing TDRs.

(2) Excludes $37.0 million and $29.6 million of covered non-accrual loans at March 31, 2013 and December 31, 2012, respectively, accounted for under ASC 310-10, of which some loans have additional partial balances accounted for under ASC 310-30.

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Allowance for Loan Losses

The allowance consists of specific reserves and a general reserve. The Bank s loans fall into heterogeneous and homogeneous (mostly consumer loans) categories. Impaired loans are subject to specific reserves. Loans in the homogeneous category, as well as non-impaired loans in the heterogeneous category, are evaluated as part of the general reserve. The general reserve is calculated by utilizing both quantitative and qualitative factors. There are different qualitative risks for the loans in each portfolio segment. As of March 31, 2013, the Residential and CRE segments predominant risk characteristic is the collateral and the geographic location of the property collateralizing the loan. The risk is qualitatively assessed based on the change in the real estate market in those geographic areas. The C&I segment s predominant risk characteristics are the global cash flows of the borrowers and guarantors, if any and economic and market conditions. Consumer loans, excluding the student loan portfolio guaranteed by the U.S. Department of Education, are largely comprised of home equity lines of credit, for which the predominant risk characteristic is the real estate collateral securing the loans.

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

Covered Loans The Company acquired UCB and WFIB almost 3.5 and 3 years ago, respectively. The majority of the covered loan portfolio accounted for under ASC 310-30, is still performing as expected from the day one valuation or better than expected. However, the company has experienced some concentrated credit deterioration in certain pools. Thus, in the first quarter of 2013, due to the concentrated credit deterioration beyond the respective acquisition date fair value of these covered loans under ASC 310-30, a provision for credit losses has been recorded through earnings. As of March 31, 2013, there was an allowance of $2.0 million for these loans under ASC 310-30 due to credit deterioration, which resulted from a provision of $2.0 million for the three months ended March 31, 2013. This $2.0 million of allowance for loan losses is allocated entirely to the portfolio s commercial real estate segment.

As of the respective acquisition dates, WFIB s and UCB s loan portfolios included unfunded commitments for commercial lines of credit, construction draws and other lending activity. The total commitment outstanding as of the respective acquisition dates is covered under the shared-loss agreements. However, any additional advances on these loans subsequent to acquisition date are not accounted for under ASC 310-30. As additional advances on these commitments have occurred, the Bank has considered these amounts in the allowance for loan losses calculation. As of March 31, 2013 and December 31, 2012, $8.1 million, or 3.4% and $5.2 million, or 2.2%, respectively, of the total allowance is allocated to the allowance for loan losses on covered loans. The covered loans acquired are, and will continue to be, subject to the Bank s internal and external credit review and monitoring. The $2.0 million allowance for loans under ASC 310-30 discussed above and the $8.1 million in allowance for loans outside the scope of ASC 310-30 amount to $10.1 million or 4.2% of total allowance as of March 31, 2013.

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During the three months ended March 31, 2013, the Company recorded $132 thousand of charge-offs within our commercial and industrial loan segment on several covered loans outside of the scope of ASC 310-30. The resulting provision on covered loans for the three months ended March 31, 2013 was $3.1 million. As these loans are covered under loss-sharing agreements with the FDIC, the Company recorded income of $106 thousand or 80% of the charge-off amount of $132 thousand in noninterest income as a net increase in the FDIC receivable, resulting in a net impact to earnings for the first quarter of $26 thousand. There were no charge-offs for covered loans outside the scope of ASC 310-30 during the three months ended March 31, 2012.

The Company recorded $4.3 million in total loan loss provisions for the three months ended March 31, 2013, as compared to $18.1 million for the three months ended March 31, 2012. When determined uncollectable, it is the Company s policy to promptly charge-off the amount of impairment on a loan which represents the difference in the outstanding loan balance and the fair value of the collateral. Recoveries are recorded when payment is received on loans that were previously charged-off through the allowance for loan losses. For the three months ended March 31, 2013, the Company recorded $672 thousand in total net charge-offs in comparison to $10.3 million for the three months ended March 31, 2012. The following tables detail activity in the allowance for loan losses, for both non-covered and covered loans, by portfolio segment for the three months ended March 31, 2013, and the year ended December 31, 2012. Allocation of a portion of the allowance to one segment of the loan portfolio does not preclude its availability to absorb losses in other segments.

	Residential	CRE	C&I	Consumer	Covered Loans under ASC 310-10 Subject to Allowance for Loan Losses (1)	Covered Loans under ASC 310-30 Subject to Allowance for Loan Losses	Unallocated	Total
				(In thousands)				
Three Months Ended March 31, 2013								
Beginning balance	$ 49,349	$ 69,856	$ 105,376	$ 4,801	$ 5,153	$	$	$ 234,535
Provision for loan losses	(2,926)	3,818	(2,300)	1,362	3,097	1,992	(716)	4,327
Allowance for unfunded loan commitments and letters of credit							716	716
Charge-offs	(311)	(1,005)	(1,261)	(346)	(132)			(3,055)
Recoveries	768	289	531	795				2,383
Net charge-offs	457	(716)	(730)	449	(132)			(672)
Ending balance	$ 46,880	$ 72,958	$ 102,346	$ 6,612	$ 8,118	$ 1,992	$	$ 238,906
Ending balance allocated to:								
Loans individually evaluated for impairment	$ 1,037	$ 6,858	$ 4,734	$ 4	$	$	$	$ 12,633
Loans collectively evaluated for impairment	45,843	66,100	97,612	6,608	8,118			224,281
Covered loans acquired with deteriorated credit quality*(2)*						1,992		1,992
Ending balance	$ 46,880	$ 72,958	$ 102,346	$ 6,612	$ 8,118	$ 1,992	$	$ 238,906

	Residential	CRE	C&I	Consumer	Covered Loans under ASC 310-10 Subject to Allowance for Loan Losses (1)	Covered Loans under ASC 310-30 Subject to Allowance for Loan Losses	Unallocated	Total
				(In thousands)				
Year Ended December 31, 2012								

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

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

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

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

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	Residential	CRE	C&I	Consumer	Covered Loans under ASC 310-10 Subject to Allowance for Loan Losses	Covered Loans under ASC 310-30 Subject to Allowance for Loan Losses	Total
				(In thousands)			
March 31, 2013							
Loans individually evaluated for impairment	$ 52,303	$ 75,551	$ 26,151	$ 2,104	$	$	$ 156,109
Covered loans individually evaluated for impairment *(2)*					5,237		5,237
Loans collectively evaluated for impairment	3,201,830	3,920,761	4,254,638	841,690	403,621		12,622,540
Covered loans acquired with deteriorated credit quality *(1)*	899,754	1,531,686	229,856	50,894		96,293	2,808,483
Ending balance	$ 4,153,887	$ 5,527,998	$ 4,510,645	$ 894,688	$ 408,858	$ 96,293	$ 15,592,369

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

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

(2) Excludes $37.0 million and $29.6 million of covered non-accrual loans at March 31,2013 and December 31, 2012, respectively, accounted for under ASC 310-10, of which some loans have additional partial balances accounted for under ASC 310-30.

Allowance for Unfunded Loan Commitments, Off-Balance Sheet Credit Exposures and Recourse Provisions The allowance for unfunded loan commitments, off-balance sheet credit exposures, and recourse provisions is maintained at a level believed by management to be sufficient to absorb estimated probable losses related to these unfunded credit facilities. The determination of the adequacy of the allowance is based on periodic evaluations of the unfunded credit facilities including an assessment of the probability of commitment usage, credit risk factors for loans outstanding to these same customers, and the terms and expiration dates of the unfunded credit facilities. As of March 31, 2013 and December 31, 2012, the allowance for unfunded loan commitments, off-balance sheet credit exposures, and recourse provisions amounted to $8.7 million and $9.4 million, respectively. Net adjustments to the allowance for unfunded loan commitments, off-balance sheet credit exposures, and recourse provisions are included in the provision for loan losses.

Loans serviced for others amounted to $1.55 billion and $1.65 billion at March 31, 2013 and December 31, 2012, respectively. These represent loans that have either been sold or securitized for which the Bank continues to provide servicing or has limited recourse. The majority of these loans are residential and CRE at March 31, 2013 and December 31, 2012. Of the total allowance for unfunded loan commitments, off-balance sheet credit exposures, and recourse provisions, $4.3 million and $4.8 million pertain to these loans as of March 31, 2013 and December 31, 2012, respectively. These loans are maintained off-balance sheet and are not included in the loans receivable balance.

NOTE 9 AFFORDABLE HOUSING PARTNERSHIPS AND OTHER INVESTMENTS

The Company invests in certain limited partnerships that are formed to develop and operate apartment complexes designed as high-quality affordable housing for lower income tenants throughout the United States. The Company s ownership amount in each limited partnership varies. Each of the partnerships must meet the regulatory requirements for affordable housing for a minimum 15-year compliance period to fully utilize the tax credits. The Company is not the primary beneficiary and, therefore, not required to consolidate these entities. Depending on the ownership percentage and the influence the Company has on the limited partnership, the Company uses either the equity method or cost method of accounting. If the partnerships cease to qualify during the compliance period, the credits may be denied for any period in which the projects are not in compliance and a portion of the credits previously taken may be subject to recapture with interest. The balance of the investments in these entities was $181.9 million and $185.6 million at March 31, 2013 and December 31, 2012, respectively.

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The Company also invests in certain limited partnerships that qualify for Community Reinvestment Act (CRA) credits or that qualify for other types of tax credits. The Community Reinvestment Act encourages banks to meet the credit needs of their communities for housing and other purposes, particularly in neighborhoods with low or moderate incomes. The balance of CRA and other investments was $47.9 million and $45.9 million at March 31, 2013 and December 31, 2012, respectively, and is included in other assets in the condensed consolidated balance sheets.

The Company has unfunded commitments related to the affordable housing and other investments that are payable on demand. Total unfunded commitments for these investments were $78.8 million and $84.6 million at March 31, 2013 and December 31, 2012, respectively, and are recorded in accrued expenses and other liabilities in the condensed consolidated balance sheets.

NOTE 10 PREMISES AND EQUIPMENT

At March 31, 2013, total premises and equipment was $176.7 million with accumulated depreciation and amortization of $67.2 million and a net value of $109.5 million. At December 31, 2012, total premises and equipment was $171.7 million with accumulated depreciation and amortization of $64.2 million and a net value of $107.5 million.

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

NOTE 11 GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The carrying amount of goodwill remained at $337.4 million as of March 31, 2013 and December 31, 2012. Goodwill is tested for impairment on an annual basis as of December 31, or more frequently as events occur, or as current circumstances and conditions warrant. The Company records impairment write-downs as charges to noninterest expense and adjustments to the carrying value of goodwill. Subsequent reversals of goodwill impairment are prohibited.

As of March 31, 2013, the Company s market capitalization based on total outstanding common and preferred shares was $3.65 billion and its total stockholders equity was $2.34 billion. The Company performed its annual impairment test as of December 31, 2012 to determine whether and to what extent, if any, recorded goodwill was impaired. The analysis compared the fair value of each of the reporting units, including goodwill, to the respective carrying amounts. If the carrying amount of the reporting unit, including goodwill, exceeds the fair value of that reporting unit, then further testing for goodwill impairment is performed.

Premiums on Acquired Deposits

The Company also has premiums on acquired deposits, which represent the intangible value of depositor relationships resulting from deposit liabilities assumed in various acquisitions. These intangibles are tested for impairment on an annual basis, or more frequently as events occur, or as current circumstances and conditions warrant. As of March 31, 2013 and December 31, 2012, the gross carrying amount of premiums on acquired deposits remains at $100.2 million, and the related accumulated amortization totaled $46.3 million and $43.9 million, respectively.

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The Company amortizes premiums on acquired deposits based on the projected useful lives of the related deposits. Amortization expense of premiums on acquired deposits was $2.4 million and $2.9 million for the three months ended March 31, 2013 and 2012, respectively.

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

		Amount (In thousands)
Estimated Amortization Expense of Premiums on Acquired Deposits		
Nine Months Ending December 31, 2013	$	6,955
Year Ending December 31, 2014		8,454
Year Ending December 31, 2015		7,543
Year Ending December 31, 2016		6,634
Year Ending December 31, 2017		5,722
Thereafter		18,567
Total	$	53,875

NOTE 12 COMMITMENTS AND CONTINGENCIES

Credit Extensions In the normal course of business, the Company has various outstanding commitments to extend credit that are not reflected in the accompanying condensed consolidated financial statements. As of March 31, 2013 and December 31, 2012, undisbursed loan commitments amounted to $2.75 billion and $2.61 billion, respectively. Commercial and standby letters of credit amounted to $994.4 million and $998.7 million as of March 31, 2013 and December 31, 2012, respectively.

Guarantees From time to time, the Company sells or securitizes loans with recourse in the ordinary course of business. For loans that have been sold or securitized with recourse, the recourse component is considered a guarantee. When the Company sells or securitizes a loan with recourse, it commits to stand ready to perform if the loan defaults and to make payments to remedy the default. As of March 31, 2013, total loans sold or securitized with recourse amounted to $421.5 million and were comprised of $46.8 million in single-family loans with full recourse and $374.7 million in multifamily loans with limited recourse. In comparison, total loans sold or securitized with recourse amounted to $461.8 million at December 31, 2012 comprised of $48.4 million in single-family loans with full recourse and $413.4 million in multifamily loans with limited recourse. The recourse provision on multifamily loans varies by loan sale and is limited to 4% of the top loss on the underlying loans. The Company s recourse reserve related to loan sales and securitizations totaled $4.3 million as of March 31, 2013 and $4.8 million as of December 31, 2012, and is included in accrued expenses and other liabilities in the accompanying condensed consolidated balance sheets. Despite the challenging conditions in the real estate market, the Company continues to experience minimal losses from the single-family and multifamily loan portfolios.

The Company also sells or securitizes loans without recourse that may have to be subsequently repurchased if a defect that occurred during the loan origination process results in a violation of a representation or warranty made in connection with the securitization or sale of the loan. When a loan sold or securitized to an investor without recourse fails to perform according to its contractual terms, the investor will typically review the loan file to determine whether defects in the origination process occurred and if such defects give rise to a violation of a representation or warranty made to the investor in connection with the sale or securitization. If such a defect is identified, the Company may be required to either repurchase the loan or indemnify the investor for losses sustained. If there are no such defects, the Company has no commitment to repurchase

the loan. As of March 31, 2013 and December 31, 2012, the amount of loans sold without recourse totaled $901.8 million and $953.2 million, respectively. Total loans securitized without recourse amounted to $227.4 million and $235.8 million, respectively, at March 31, 2013 and December 31, 2012. The loans sold or securitized without recourse represent the unpaid principal balance of the Company s loans serviced for others portfolio.

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Litigation Neither the Company nor the Bank is involved in any material legal proceedings at March 31, 2013. Certain lawsuits and claims arising in the ordinary course of business have been filed or are pending against us or our affiliates. Where appropriate, we establish reserves in accordance with ASC 450, *Contingencies*. The outcome of litigation and other legal and regulatory matters is inherently uncertain, however, and it is possible that one or more of the legal or regulatory matters, if any, currently pending or threatened could have a material adverse effect on our liquidity, consolidated financial position, and/or results of operations.

Other Commitments The Company has commitments to invest in affordable housing funds, and other investments qualifying for community reinvestment tax credits. These commitments are payable on demand. As of March 31, 2013 and December 31, 2012 these commitments were $78.8 million and $84.6 million, respectively. These commitments are recorded in accrued expenses and other liabilities in the condensed consolidated balance sheet.

NOTE 13 STOCKHOLDERS EQUITY

Series A Preferred Stock Offering In April 2008, the Company issued 200,000 shares of 8% Non-Cumulative Perpetual Convertible Preferred Stock, Series A (Series A), with a liquidation preference of $1,000 per share. The Company received $194.1 million of additional Tier 1 qualifying capital, after deducting stock issuance costs. The holders of the Series A preferred stock have the right at any time to convert each share of Series A preferred shares into 64.9942 shares of the Company s common stock, plus cash in lieu of fractional shares. This represents an initial conversion price of approximately $15.39 per share of common stock or a 22.5% conversion premium based on the closing price of the Company s common stock on April 23, 2008 of $12.56 per share. On or after May 1, 2013, the Company will have the right, under certain circumstances, to cause the Series A preferred shares to be converted into shares of the Company s common stock. Dividends on the Series A preferred shares, if declared, will accrue and be payable quarterly in arrears at a rate per annum equal to 8% on the liquidation preference of $1,000 per share. The proceeds from this offering were used to augment the Company s liquidity and capital positions and reduce its borrowings. As of March 31, 2013, 85,710 shares were outstanding.

Stock Repurchase Program On January 23, 2013, the Company s Board of Directors authorized a stock repurchase program to buy back up to $200.0 million of the Company s common stock. As of March 31, 2013, the Company repurchased 3,543,100 shares at a weighted average price of $24.53 per share and a total cost of $87.0 million, in comparison, the Company repurchased 4,554,827 shares at a weighted average price of $22.14 per share and a total cost of $101.0 million during the three months ended March 31, 2012.

Quarterly Dividends In January 2013, the Company declared the payment of first quarter dividends of $20.00 per share on the Company s Series A preferred stock, payable on or about February 1, 2013 to shareholders of record as of January 15, 2013. Total cash dividends paid in conjunction with the Company s Series A preferred stock amounted to $1.7 million during the three months ended March 31, 2013, respectively.

In January 2013, the Company s Board of Directors also declared quarterly common stock cash dividends of $0.15 per share payable on or about February 22, 2013 to shareholders on record on February 8, 2013. Cash dividends totaling $21.1 million were paid to the Company s common shareholders during the three months ended March 31, 2013.

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Earnings Per Share (EPS) The number of shares outstanding at March 31, 2013 was 136,578,350. The Company applies the two-class method of computing basic EPS. Under the two-class method, EPS is determined for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings. The Company s restricted stocks, which receive dividends as declared, qualify as participating securities. Restricted stock units issued by the Company are not considered participating securities, as they do not have dividend distribution rights during the vesting period. Diluted EPS is calculated on the basis of the weighted average number of shares outstanding during the period plus potential dilutive shares.

The following table sets forth earnings per share calculations for the three months ended March 31, 2013 and 2012:

	Three Months Ended March 31, 2013		
	Net Income	**Number of Shares**	**Per Share Amounts**
	(In thousands, except per share data)		
Net income	$ 72,091		
Less:			
Preferred stock dividends	(1,714)		
Earnings allocated to participating securities	(584)		
Basic EPS income allocated to common stockholders *(1)*	$ 69,793	137,648	$ 0.51
Effect of dilutive securities:			
Stock options		51	
Restricted stock units	36	242	
Convertible preferred stock	1,714	5,578	
Diluted EPS income allocated to common stockholders *(1)*	$ 71,543	143,519	$ 0.50

	Three Months Ended March 31, 2012		
	Net Income	**Number of Shares**	**Per Share Amounts**
	(In thousands, except per share data)		
Net income	$ 68,083		
Less:			
Preferred stock dividends	(1,714)		
Basic EPS income available to common stockholders	$ 66,369	145,347	$ 0.46
Effect of dilutive securities:			
Stock options		48	
Restricted stock awards	103	1,030	
Convertible preferred stock	1,714	5,571	
Diluted EPS income available to common stockholders	$ 68,186	151,996	$ 0.45

The following outstanding stock options, and restricted stock awards for the three months ended March 31, 2013 and 2012, respectively, were excluded from the computation of diluted EPS because including them would have had an antidilutive effect.

Three Months Ended

	March 31,	
	2013	2012
	(In thousands)	
Stock options	270	396
Restricted stock awards(1)	133	3

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(1) On April 1, 2012, the Company revised its calculation of earnings per share to account for participating securities under the two-class method. This revision to the earnings per share calculation does not have an impact to previous periods as the amounts are immaterial.

Accumulated Other Comprehensive Income (Loss) As of March 31, 2013, total accumulated other comprehensive income was $6.2 million which includes the following components: net unrealized gain on securities available for sale of $6.1 million and unrealized gain on other asset investment of $36 thousand. As of December 31, 2012, total accumulated other comprehensive income was $4.7 million which includes the following components: net unrealized gain on securities available for sale of $4.6 million and unrealized gain on other asset investment of $26 thousand.

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Activity in accumulated other comprehensive income (loss), net of tax, for the three months ended March 31, 2013 and 2012, was as follows:

	Unrealized (loss) gain on investment securities available-for-sale	Foreign currency translation adjustments	Unrealized gain on other asset investment	Total
		(In thousands)		
Balance, December 31, 2011	$ (34,848)	$ 900	$ 8	$ (33,940)
Period Change	17,052		10	17,062
Balance, March 31, 2012	$ (17,796)	$ 900	$ 18	$ (16,878)
Balance, December 31, 2012	$ 4,643	$	$ 26	$ 4,669
Other comprehensive income before reclassifications	4,741		10	4,751
Amounts reclassified from AOCI	(3,235)			(3,235)
Net current period other comprehensive income	1,506		10	1,516
Balance, March 31, 2013	$ 6,149	$	$ 36	$ 6,185

Reclassifications out of accumulated other comprehensive income for the three months ended March 31, 2013 were as follows:

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income (In thousands)	Affected Line Item in the Statement Where Net Income is Presented
Three Months Ended March 31, 2013		
Investment securities available for sale		
Realized net gains on sale of securities	$ 5,577	Net gain on sales of investment securities
	5,577	
	(2,342)	Tax expense
Total reclassifications	$ 3,235	

The following table sets forth the tax effects allocated to each component of other comprehensive income for the three months ended March 31, 2013 and 2012:

	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount

	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
		(In thousands)	
Three Months Ended March 31, 2013			
Unrealized gain on investment securities available-for-sale:			
Unrealized holding gains arising during period	$ 8,174	$ (3,433)	$ 4,741
Less: reclassification adjustment for gains included in income	(5,577)	2,342	(3,235)
Net unrealized gains	2,597	(1,091)	1,506
Noncredit-related impairment loss on securities			
Unrealized gain on other asset investment	17	(7)	10
Less: reclassification adjustment for gains included in income			
Other comprehensive income	$ 2,614	$ (1,098)	$ 1,516

	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
		(In thousands)	
Three Months Ended March 31, 2012			
Unrealized loss on investment securities available-for-sale:			
Unrealized holding gains arising during period	$ 34,948	$ (14,678)	$ 20,270
Less: reclassification adjustment for gains included in income	(483)	203	(280)
Net unrealized loss	34,465	(14,475)	19,990
Noncredit-related impairment loss on securities	(5,066)	2,128	(2,938)
Foreign currency translation adjustments			
Unrealized gain on other asset investment	17	(7)	10
Less: reclassification adjustment for gains included in income			
Other comprehensive income	$ 29,416	$ (12,354)	$ 17,062

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NOTE 14 FEDERAL HOME LOAN BANK ADVANCES

Total outstanding Federal Home Loan Bank (FHLB) advances amounted to $313.5 million and $313.0 million at March 31, 2013 and December 31, 2012, respectively. There was no prepayment of FHLB advances during the first three months of 2013. In comparison, during the first three months of 2012, FHLB advances totaling $20.0 million were prepaid, with additional prepayment penalties of $1.3 million. Also, during the first three months of 2012, the Company modified $300.0 million of fixed rate FHLB advances into adjustable rate advances, reducing the effective interest rate on these borrowings from 2.27% to 1.36%. As a result of the modification the Company incurred a $37.7 million modification cost which was deferred and treated as a discount on the corresponding debt.

NOTE 15 BUSINESS SEGMENTS

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

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

The Company s funds transfer pricing assumptions are intended to promote core deposit growth and to reflect the current risk profiles of various loan categories within the credit portfolio. Transfer pricing assumptions and methodologies are reviewed at least annually to ensure that the Company s process is reflective of current market conditions. The transfer pricing process is formulated with the goal of incenting loan and deposit growth that is consistent with the Company s overall growth objectives as well as to provide a reasonable and consistent basis for the measurement of the Company s business segments and product net interest margins. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Operating segment results are based on the Company s internal management reporting process, which reflects assignments and allocations of capital, certain operating and administrative costs, and the provision for loan losses. Net interest income is based on the Company s internal funds transfer pricing system, which assigns a cost of funds or a credit for funds to assets or liabilities based on their type, maturity or repricing characteristics. Noninterest income and noninterest expense, including depreciation and amortization, directly attributable to a segment are assigned to that business. Indirect costs, including overhead expense, are allocated to the segments based on several factors, including, but not limited to, full-time equivalent employees, loan volume, and deposit volume. The provision for credit losses is allocated based on actual charge-offs for the period as well as average loan balances for each segment during the period. The Company evaluates overall performance based on profit or loss from operations before income taxes excluding nonrecurring gains and losses.

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

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The following tables present the operating results and other key financial measures for the individual operating segments for the three months ended March 31, 2013 and 2012:

	Three Months Ended March 31, 2013			
	Retail Banking	Commercial Banking	Other	Total
	(In thousands)			
Interest income	$ 82,839	$ 140,060	$ 15,524	$ 238,423
Charge for funds used	(19,983)	(28,073)	9,273	(38,783)
Interest spread on funds used	62,856	111,987	24,797	199,640
Interest expense	(12,644)	(4,378)	(12,110)	(29,132)
Credit on funds provided	32,395	3,623	2,765	38,783
Interest spread on funds provided	19,751	(755)	(9,345)	9,651
Net interest income	$ 82,607	$ 111,232	$ 15,452	$ 209,291
Provision for loan losses	$ 3,680	$ 647	$	$ 4,327
Depreciation, amortization and accretion	2,420	(2,819)	15,396	14,997
Goodwill	320,566	16,872		337,438
Segment pre-tax profit	18,927	66,681	20,902	106,510
Segment assets	6,665,478	10,464,086	5,972,391	23,101,955

	Three Months Ended March 31, 2012			
	Retail Banking	Commercial Banking	Other	Total
	(In thousands)			
Interest income	$ 86,252	$ 142,966	$ 24,832	$ 254,050
Charge for funds used	(22,260)	(29,749)	8,920	(43,089)
Interest spread on funds used	63,992	113,217	33,752	210,961
Interest expense	(15,548)	(7,066)	(12,518)	(35,132)
Credit on funds provided	35,040	3,124	4,925	43,089
Interest spread on funds provided	19,492	(3,942)	(7,593)	7,957
Net interest income	$ 83,484	$ 109,275	$ 26,159	$ 218,918
Provision for loan losses	$ 6,914	$ 11,186	$	$ 18,100
Depreciation, amortization and accretion	11,933	17,133	9,603	38,669
Goodwill	320,566	16,872		337,438
Segment pre-tax profit	21,759	60,428	25,608	107,795
Segment assets	6,638,241	10,079,411	5,032,130	21,749,782

NOTE 16 SUBSEQUENT EVENTS

Dividend Payout and Capital Action

In April 2013, the Company s Board of Directors approved the payment of second quarter dividends of $20.00 per share on the Company s Series A preferred stock. The dividend is payable on or about May 1, 2013 to shareholders of record as of April 15, 2013. The Board declared a quarterly dividend of $0.15 per share on the Company s common stock payable on or about May 13, 2013 to shareholders of record as of April 26, 2013. Additionally, on May 1, 2013, at the option of the Company, all outstanding Series A Preferred Stock were converted into 5.6 million shares of common stock.

Stock Repurchase

Subsequent to March 31, 2013, the Company repurchased approximately $27.1 million worth of common stock, pursuant to the Stock Repurchase Plan approved in January 2013.

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

The following discussion provides information about the consolidated results of operations, financial condition, liquidity, and capital resources of East West Bancorp, Inc. and its subsidiaries. This information is intended to facilitate the understanding and assessment of significant changes and trends related to our financial condition and the results of our operations. This discussion and analysis should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2012, and the condensed consolidated financial statements and accompanying notes presented elsewhere in this report.

Critical Accounting Policies

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and general practices within the banking industry. The financial information contained within these statements is, to a significant extent, based on approximate measures of the financial effects of transactions and events that have already occurred. Various elements of our accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions, and other subjective assessments. In addition, certain accounting policies require significant judgment in applying complex accounting principles to individual transactions to determine the most appropriate treatment. We have established procedures and processes to facilitate making the judgments necessary to prepare financial statements.

The following is a summary of the more judgmental and complex accounting estimates and principles. In each area, we have identified the variables most important in the estimation process. We have used the best information available to make the estimations necessary to value the related assets and liabilities. Actual performance that differs from our estimates and future changes in the key variables could change future valuations and impact the results of operations.

- fair valuation of financial instruments;
- investment securities;
- acquired loans;
- covered loans;
- covered other real estate owned;

- FDIC indemnification asset;
- allowance for loan losses;
- other real estate owned;
- loan, OREO, and note sales;
- goodwill impairment; and
- share-based compensation.

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

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Overview

For the first quarter of 2013, net income was $72.1 million or $.50 per dilutive share. Net income increased by $191 thousand from the fourth quarter of 2012 and $4.0 million or 6% from the first quarter of 2012. Earnings per dilutive share grew $0.01 or 2% from the fourth quarter of 2012 and $0.05 or 11% from the first quarter of 2012.

At March 31, 2013, total assets increased to $23.10 billion compared to $22.54 billion at December 31, 2012. The increase in total assets during the first quarter was primarily attributable to an increase in cash and cash equivalents and non-covered loans with a partial offsetting decrease in covered loans.

Total loans receivable at March 31, 2013 equaled $15.35 billion, compared to $15.07 billion as of December 31, 2012. During the first quarter total loans (including both covered and non-covered loans) grew $285.1 million to a record $15.35 billion as of March 31, 2013. This growth was largely due to increases in non-covered single-family real estate loans, non-covered commercial real estate loans and non-covered commercial and industrial loans, which grew 7% or $147.6 million, 3% or $110.4 million, and 1% or $49.5 million, respectively. This growth in non-covered loans was partially offset by a decrease in loans covered under loss-share agreements.

Covered loans, net totaled $2.75 billion as of March 31, 2013, a decrease of 6% or $183.3 million from December 31, 2012. The decrease in the covered loan portfolio was primarily due to payoffs and paydown activity, as well as charge-offs.

At March 31, 2013, total deposits totaled a record $18.94 billion, an increase of 3% or $626.3 million from $18.31 billion at December 31, 2012. In the first quarter of 2013, the Company continued to execute its strategy to grow low-cost, commercial deposits while reducing its reliance on time deposits. Core deposits increased to a record $12.90 billion at March 31, 2013, or an increase of 6% or $713.3 million from December 31, 2012. The strong increase in core deposits during the first quarter of 2013 was largely driven by an increase in noninterest-bearing demand deposits which increased by 7% or $302.6 million to a record $4.84 billion. Time deposits decreased by 1% or $87.0 million from December 31, 2012 to $6.03 billion at March 31, 2013.

Credit Quality

Non-covered Loans

For the first quarter of 2013, there was a reversal of provision for loan losses for non-covered loans of $762 thousand. This compares to a provision for loan losses of $13.8 million for the fourth quarter of 2012, and $16.5 million for the first quarter of 2012. Total net charge-offs on non-covered loans decreased to $540 thousand for the first quarter of 2013, down from $9.6 million in the fourth quarter of 2012. The allowance for non-covered loan losses was $228.8 million or 1.85% of non-covered loans receivable at March 31, 2013. This compares to an allowance for non-covered loan losses of $229.4 million or 1.92% of non-covered loans at December 31, 2012 and $214.3 million or 2.04% of non-covered loans at March 31, 2012.

Covered Loans

During the first quarter of 2013, the Company recorded a provision for loan losses of $3.1 million, on covered loans outside of the scope of ASC 310-30 and $2.0 million on covered loans within the scope of ASC 310-30. As these loans are covered under loss-sharing agreements with the FDIC, for any charge-offs, the Company records income of 80% of the charge-off amount in noninterest income as a net increase in the FDIC receivable, resulting in a net impact to earnings of 20% of the charge-off amount.

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Capital Strength

The capital ratios remain strong. As of March 31, 2013, the Company s: Tier 1 leverage capital ratio totaled 9.2%, Tier 1 risk-based capital ratio totaled 14.1% and total risk-based capital ratio totaled 15.6%.

The Company is focused on active capital management and is committed to maintaining strong capital levels that exceed regulatory requirements while also supporting balance sheet growth and providing a strong return to our shareholders. During the first quarter of 2013, the Company repurchased 3.5 million shares of common stock at an average price of $24.53 per share or $87.0 million in total cost. Under the stock repurchase program authorized by East West s Board of Directors earlier in the year, management has the authority to repurchase up to a total of $200.0 million of the Company s common stock.

The Company s Board of Directors approved the payment of second quarter dividends on the common stock and Series A Preferred Stock. The common stock cash dividend of $0.15 is payable on or about May 13, 2013 to shareholders of record on April 26, 2013. The dividend on the Series A Preferred Stock of $20.00 per share is payable on May 1, 2013 to shareholders of record on April 15, 2013.

Results of Operations

Net income for the first quarter of 2013 totaled $72.1 million, compared with $68.1 million for the first quarter of 2012. Diluted earnings per share was $0.50 and $0.45 for the first quarters of 2013 and 2012, respectively. Our annualized return on average total assets increased to 1.30% for the quarter ended March 31, 2013, from 1.26% for the same period in 2012. The annualized return on average common stockholders equity increased to 12.45% for the first quarter of 2013, compared with 12.01% for the first quarter of 2012.

Components of Net Income

	Three Months Ended March 31,	
	2013	2012
	(In millions)	
Net interest income	$ 209.3	$ 218.9
Reversal of (provision for) loan losses, excluding covered loans	0.8	(16.5)
(Provision) for loan losses on covered loans	(5.1)	(1.6)
Noninterest (loss) income	(2.1)	21.7
Noninterest expense	(96.4)	(114.7)
Provision for income taxes	(34.4)	(39.7)
Net income	$ 72.1	$ 68.1
Annualized return on average total assets	1.30%	1.26%
Annualized return on average common equity	12.45%	12.01%

Annualized return on average total equity	12.30%	11.88%

Net Interest Income

Our primary source of revenue is net interest income which is the difference between interest earned on loans, investment securities, and other earning assets less the interest expense on deposits, borrowings, and other interest-bearing liabilities. Net interest income for the first quarter of 2013 totaled $209.3 million, a 4% decrease over net interest income of $218.9 million for the same period in 2012.

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Net interest margin, defined as net interest income divided by average earning assets, decreased by 41 basis points to 4.10% during the first quarter of 2013, from 4.51% during the first quarter of 2012. During the three months ended March 31, 2013 and 2012, our covered loan yield was positively impacted by the accretion from the covered loans accounted for under ASC 310-30. The decrease in net interest margin during the first quarter 2013 resulted primarily from the continued downward repricing of the investment securities and loan portfolios and the additional deposit growth, and resulting excess liquidity.

The following table presents the net interest spread, net interest margin, average balances, interest income and expense, and the average rates by asset and liability component for the three months ended March 31, 2013 and 2012:

	Three Months Ended March 31,					
	2013			2012		
	Average Balance	Interest	Average Rate (1)	Average Balance	Interest	Average Rate (1)
	(Dollars in thousands)					
ASSETS						
Interest-earning assets:						
Due from banks and short-term investments						