EAST WEST BANCORP INC
Form 10-Q
November 10, 2008
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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 September 30, 2008

or

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

For the transition period from to .

Commission file number 000-24939

EAST WEST BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**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 is a large accelerated filer, an accelerated filed, a non-accelerated filer or a smaller reporting company. See definition of large accelerated filer and accelerated filer in Rule 12b-2 of the Exchange Act.

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

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

Number of shares outstanding of the issuer s common stock on the latest practicable date: 63,667,222 shares of common stock as of October 31, 2008.

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Forward-Looking Statements

Certain matters discussed in this report may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the 1933 Act) and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), and as such, may involve risks and uncertainties. These forward-looking statements relate to, among other things, expectations of the environment in which the Company operates and projections of future performance including future earnings, operating results, financial condition, and cash flows. The Company s actual results, performance, or achievements may differ significantly from the results, performance, or achievements expected or implied in such forward-looking statements as a result of the effect of interest rate and currency exchange fluctuations; competition in the financial services market for both loans and deposits; our ability to incorporate acquisitions into our operations; the effect of regulatory and legislative action; and regional and general economic conditions. Such risk and uncertainties and other factors include, but are not limited to, adverse developments or conditions related to or arising from:

- changes in our borrowers performance on loans;
- changes in the commercial and consumer real estate markets;
- changes in our costs of operation, compliance and expansion;
- changes in the economy, including inflation;
- changes in government interest rate policies;
- changes in laws or the regulatory environment;
- changes in accounting policies or procedures;
- changes in the equity and debt securities markets;
- changes in competitive pressures on financial institutions;

- effect of additional provision for loan losses;
- effect of any goodwill impairment;
- fluctuations in our stock price;
- success and timing of our business strategies;
- changes in our ability to receive dividends from our subsidiaries; and
- political developments, wars, acts of terrorism or natural disasters such as earthquakes or floods.

For a more detailed discussion of some of the factors that might cause such differences, see the Company s 2007 Form 10-K under the heading ITEM 1A. RISK FACTORS. The Company does not undertake, and specifically disclaims any obligation to update any forward-looking statements to reflect the occurrence of events or circumstances after the date of such statements except as required by law.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

EAST WEST BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

(Unaudited)

	September 30, 2008	December 31, 2007
ASSETS		
Cash and cash equivalents	$ 527,474	$ 160,347
Short-term investments	495	
Securities purchased under resale agreements	50,000	150,000
Investment securities available-for-sale, at fair value (with amortized cost of $2,172,519 in 2008 and $1,954,140 in 2007)	2,047,244	1,887,136
Loans receivable, net of allowance for loan losses of $177,155 at September 30, 2008 and $88,407 at December 31, 2007	8,111,231	8,750,921
Investment in Federal Home Loan Bank stock, at cost	86,153	84,976
Investment in Federal Reserve Bank stock, at cost	27,589	21,685
Other real estate owned, net	17,607	1,500
Investment in affordable housing partnerships	41,819	44,206
Premises and equipment, net	61,674	64,943
Due from customers on acceptances	8,123	15,941
Premiums on deposits acquired, net	22,314	28,459
Goodwill	337,331	335,366
Cash surrender value of life insurance policies	93,836	88,658
Deferred tax assets	175,591	66,410
Accrued interest receivable and other assets	113,835	151,664
TOTAL	**$ 11,722,316**	**$ 11,852,212**
LIABILITIES AND STOCKHOLDERS EQUITY		
Customer deposit accounts:		
Noninterest-bearing	$ 1,393,480	$ 1,431,730
Interest-bearing	6,142,869	5,847,184
Total customer deposits	7,536,349	7,278,914
Federal funds purchased	30,443	222,275
Federal Home Loan Bank advances	1,538,350	1,808,419
Securities sold under repurchase agreements	999,467	1,001,955
Notes payable	12,150	16,242
Long-term debt	235,570	235,570
Bank acceptances outstanding	8,123	15,941
Accrued interest payable, accrued expenses and other liabilities	96,983	101,073
Total liabilities	10,457,435	10,680,389
COMMITMENTS AND CONTINGENCIES (Note 8)		
STOCKHOLDERS EQUITY		

Preferred stock (par value of $0.001 per share)				
Authorized 5,000,000 shares				
Issued 200,000 shares in Series A, convertible preferred stock in 2008 and none in 2007				
Outstanding 197,400 shares in 2008 and none in 2007				
Common stock (par value of $0.001 per share)				
Authorized 200,000,000 shares				
Issued 70,223,189 shares in 2008 and 69,634,811 shares in 2007				
Outstanding 63,623,131 shares in 2008 and 63,137,221 shares in 2007		70		70
Additional paid in capital		858,020		652,297
Retained earnings		581,561		657,183
Treasury stock, at cost 6,600,058 shares in 2008 and 6,497,590 shares in 2007		(102,171)		(98,925)
Accumulated other comprehensive loss, net of tax		(72,599)		(38,802)
Total stockholders equity		1,264,881		1,171,823
TOTAL	**$**	**11,722,316**	**$**	**11,852,212**

See accompanying notes to condensed consolidated financial statements.

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EAST WEST BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
INTEREST AND DIVIDEND INCOME				
Loans receivable, including fees	$ 131,682	$ 167,066	$ 425,113	$ 484,073
Investment securities available-for-sale	23,143	26,235	75,923	72,505
Securities purchased under resale agreements	1,277	4,013	5,094	11,742
Investment in Federal Home Loan Bank stock	1,390	828	4,153	2,457
Short-term investments	1,957	347	3,546	564
Investment in Federal Reserve Bank stock	413	279	1,122	818
Total interest and dividend income	159,862	198,768	514,951	572,159
INTEREST EXPENSE				
Customer deposit accounts	40,757	62,058	136,546	182,144
Federal Home Loan Bank advances	17,140	16,175	54,363	43,555
Securities sold under repurchase agreements	12,063	10,263	33,881	27,675
Long-term debt	2,957	4,101	9,675	11,235
Federal funds purchased	430	2,317	2,176	6,164
Total interest expense	73,347	94,914	236,641	270,773
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	86,515	103,854	278,310	301,386
PROVISION FOR LOAN LOSSES	43,000	3,000	183,000	3,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	43,515	100,854	95,310	298,386
NONINTEREST (LOSS) INCOME				
Impairment writedown on investment securities	(53,567)	(405)	(63,512)	(405)
Branch fees	4,285	3,836	12,725	10,667
Net gain on sale of investment securities available-for-sale		2,772	7,767	5,218
Letters of credit fees and commissions	2,319	2,702	7,472	7,688
Ancillary loan fees	1,783	1,397	3,908	4,164
Income from life insurance policies	1,029	1,132	3,081	3,164
Net gain on sale of loans	144	272	2,272	1,296
Net gain on disposal of fixed assets	44	1,261	221	1,573
Other operating income	413	621	1,867	2,176
Total noninterest (loss) income	(43,550)	13,588	(24,199)	35,541
NONINTEREST EXPENSE				
Compensation and employee benefits	17,520	22,081	66,578	63,511
Occupancy and equipment expense	6,817	6,656	20,364	18,583
Amortization and impairment writedowns of premiums on deposits acquired	1,581	1,767	6,145	4,824
Loan related expense	2,361	708	5,967	1,937
	1,886	1,017	5,521	3,521

Amortization of investments in affordable housing partnerships				
Deposit insurance premiums and regulatory assessments	1,678	350	5,191	1,021
Legal expense	855	653	3,890	1,258
Consulting expense	1,254	992	3,788	2,337
Other real estate owned expense (income)	2,123		3,520	(1,247)
Deposit-related expenses	1,231	1,687	3,416	5,236
Data processing	1,055	1,351	3,386	3,403
Impairment writedown on goodwill	272		858	
Other operating expenses	9,893	9,476	28,447	26,591
Total noninterest expense	48,526	46,738	157,071	130,975
(LOSS) INCOME BEFORE (BENEFIT) PROVISION FOR INCOME TAXES	(48,561)	67,704	(85,960)	202,952
(BENEFIT) PROVISION FOR INCOME TAXES	(17,355)	26,368	(33,911)	79,030
NET (LOSS) INCOME	**(31,206)**	**41,336**	**(52,049)**	**123,922**
PREFERRED STOCK DIVIDENDS	4,089		4,089	
NET (LOSS) INCOME AVAILABLE TO COMMON STOCKHOLDERS	**$ (35,295)**	**$ 41,336**	**$ (56,138)**	**$ 123,922**
(LOSS) EARNINGS PER SHARE AVAILABLE TO COMMON STOCKHOLDERS				
BASIC	$ (0.56)	$ 0.68	$ (0.90)	$ 2.04
DILUTED	$ (0.56)	$ 0.67	$ (0.90)	$ 2.01
DIVIDENDS DECLARED PER COMMON SHARE	$ 0.10	$ 0.10	$ 0.30	$ 0.30
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING				
BASIC	62,675	61,232	62,586	60,754
DILUTED	62,675	62,088	62,586	61,712

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	Common Stock	Additional Paid In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss, Net of Tax	Comprehensive Income (Loss)	Total Stockholders Equity
BALANCE, JANUARY 1, 2007	**$**	**$ 66**	**$ 544,469**	**$ 525,247**	**$ (40,305)**	**$ (10,087)**		**$ 1,019,390**
Comprehensive income								
Net income for the period				123,922			$ 123,922	123,922
Net unrealized loss on investment securities available-for-sale						(895)	(895)	(895)
Total comprehensive income							$ 123,027	
Cumulative effect of change in accounting principle pursuant to adoption of FIN 48				(4,628)				(4,628)
Stock compensation costs			4,891					4,891
Tax benefit from stock option exercises			7,177					7,177
Tax benefit from vested restricted stock			192					192
Issuance of 947,388 shares pursuant to various stock plans and agreements		1	10,056					10,057
Issuance of 5,880 shares pursuant to Director retainer fee			219					219
Issuance of 2,032,816 shares pursuant to Desert Community Bank acquisition		2	78,484					78,486
Cancellation of 71,001 shares due to forfeitures of issued restricted stock			2,591		(2,591)			
Purchase of 22,267 shares of treasury stock due to the vesting of restricted stock					(814)			(814)
Purchase of 1,375,000 shares of treasury stock pursuant to the Stock Repurchase Program					(53,142)			(53,142)
Dividends paid on common stock				(18,300)				(18,300)

BALANCE, SEPTEMBER 30, 2007	**$**	**$ 69**	**$ 648,079**	**$ 626,241**	**$ (96,852)**	**$ (10,982)**		**$ 1,166,555**
BALANCE, JANUARY 1, 2008	**$**	**$ 70**	**$ 652,297**	**$ 657,183**	**$ (98,925)**	**$ (38,802)**		**$ 1,171,823**
Comprehensive loss								
Net loss for the period				(52,049)			$ (52,049)	(52,049)
Net unrealized loss on investment securities available-for-sale						(33,797)	(33,797)	(33,797)
Total comprehensive loss							$ (85,846)	
Cumulative effect of change in accounting principle pursuant to adoption of EITF 06-4				(479)				(479)
Stock compensation costs			4,515					4,515
Tax benefit from stock option exercises			159					159
Tax provision from vested restricted stock			(397)					(397)
Issuance of 200,000 shares Series A convertible preferred stock, net of stock issuance costs			194,068					194,068
Conversion of 2,600 shares of Preferred Stock			(2,523)					(2,523)
Issuance of 168,983 shares of Common Stock from converted 2,600 shares of Preferred Stock			2,523					2,523
Issuance of 400,834 shares pursuant to various stock plans and agreements			1,623					1,623
Issuance of 18,361 shares pursuant to Director retainer fee			219					219
Cancellation of 102,058 shares due to forfeitures of issued restricted stock			3,238		(3,238)			
Purchase accounting adjustment pursuant to DCB Acquisition			2,298					2,298
Purchase of 410 shares of treasury stock due to the vesting of restricted stock					(8)			(8)
Dividends paid on preferred stock				(4,089)				(4,089)
Dividends paid on common stock				(19,005)				(19,005)
BALANCE, SEPTEMBER 30, 2008	**$**	**$ 70**	**$ 858,020**	**$ 581,561**	**$ (102,171)**	**$ (72,599)**		**$ 1,264,881**

	Nine Months Ended September 30, 2008	**2007**
	(In thousands)	
Disclosure of reclassification amounts:		
Unrealized holding (loss) gain on securities arising during the period, net of tax (benefit) expense of $(47,887) in 2008 and $1,544 in 2007	$ (66,129)	$ 2,131
	32,332	(3,026)

Less: Reclassification adjustment for loss (gain) included in net income, net of tax (benefit) expense of \$(23,413) in 2008 and \$2,192 in 2007				
Net unrealized loss on securities, net of tax benefit of \$24,474 in 2008 and \$648 in 2007	\$	(33,797)	\$	(895)

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)

	Nine Months Ended September 30, 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	$ (52,049)	$ 123,922
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	12,754	9,915
Impairment writedown on goodwill	858	
Impairment writedown of investment securities	63,512	405
Stock compensation costs	4,515	4,891
Deferred tax benefit	(78,929)	(15,531)
Provision for loan losses	183,000	3,000
Provision for loss on other real estate owned	2,121	
Net gain on sales of investment securities, loans and other assets	(8,570)	(8,725)
Federal Home Loan Bank stock dividends	(3,777)	(2,691)
Originations of loans held for sale	(42,100)	(29,796)
Proceeds from sale of loans held for sale	42,458	29,806
Tax benefit from stock options exercised	(159)	(7,177)
Tax provision (benefit) from vested restricted stock	397	(192)
Net change in accrued interest receivable and other assets	25,755	32,583
Net change in accrued interest payable, accrued expenses and other liabilities	(5,485)	20,319
Total adjustments	196,350	36,807
Net cash provided by operating activities	144,301	160,729
CASH FLOWS FROM INVESTING ACTIVITIES		
Net loan decrease (increase)	265,375	(964,301)
Purchases of:		
Short term investments	(495)	
Securities purchased under resale agreements		(150,000)
Investment securities available-for-sale	(1,657,219)	(646,750)
Federal Home Loan Bank stock	(9,400)	(23,163)
Federal Reserve Bank stock	(5,904)	(600)
Premises and equipment	(3,173)	(10,812)
Proceeds from sale of:		
Investment securities available-for-sale	376,148	423,738
Securities purchased under resale agreements	100,000	100,000
Loans receivable	148,254	19,612
Real estate owned	28,084	4,130
Premises and equipment	85	6,710
Maturity of interest-bearing deposits in other banks		1,205
Repayments, maturity and redemption of investment securities available-for-sale	1,011,854	971,971
Redemption of Federal Home Loan Bank stock	12,000	31,767
Acquisitions, net of cash acquired	(1,158)	(7,341)
Net cash provided by (used in) investing activities	264,451	(243,834)
CASH FLOWS FROM FINANCING ACTIVITIES		

Net increase (decrease) in deposits	257,435	(263,508)
Net (decrease) increase in federal funds purchased	(191,832)	14,910
Net (decrease) increase in Federal Home Loan Bank advances	(270,000)	291,500
(Repayment) purchases of of securities sold under repurchase agreements	(2,488)	25,837
Repayment of notes payable on affordable housing investments	(7,091)	(6,081)
Proceeds from issuance of long-term debt		50,000
Proceeds from issuance of common stock pursuant to various stock plans and agreements	1,623	10,057
Proceeds from issuance of convertible preferred stock, net of stock issuance costs	194,068	
Tax benefit from stock options exercised	159	7,177
Tax (provision) benefit from vested restricted stock	(397)	192
Dividends paid on preferred stock and common stock	(23,094)	(18,300)
Purchase of treasury shares pursuant to stock repurchase program and vesting of restricted stock	(8)	(53,956)
Net cash (used in) provided by financing activities	(41,625)	57,828
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	367,127	(25,277)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	160,347	192,559
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 527,474	$ 167,282
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 231,717	$ 273,217
Income tax payments, net of refunds	39,743	86,605
Noncash investing and financing activities:		
Real estate acquired through foreclosure	46,614	622
Affordable housing investment financed through notes payable	3,000	9,613
Purchase accounting adjustment in connection with acquisition	2,298	
Issuance of common stock in lieu of Board of Director retainer fees	219	219
Guaranteed mortgage loan securitizations		1,067,309
Issuance of common stock in connection with acquisition		78,486
Equity interests in East West Capital Trusts		1,547

See accompanying notes to condensed consolidated financial statements.

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EAST WEST BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2008 and 2007

(Unaudited)

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 (the Bank) and East West Insurance Services, Inc. Intercompany transactions and accounts have been eliminated in consolidation. East West also has nine wholly-owned subsidiaries that are statutory business trusts (the Trusts). In accordance with Financial Accounting Standards Board Interpretation No. 46(R), *Consolidation of Variable Interest Entities*, 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 which, 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 nine months ended September 30, 2008 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. 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, 2007.

Certain items in the condensed consolidated statements of operations for the three and nine months ended 2008 and 2007 were reclassified to conform to the year-to-date 2008 presentation. These reclassifications did not affect previously reported net income. In June 2008, the Company reclassified net gain on sale of other real estate owned (OREO) from the caption Noninterest Income to Noninterest Expense in order to present all OREO activity in a single line item. As a result, $1.3 million for the three and nine months ended September 30, 2007, previously included under the caption Noninterest Income was reclassified to OREO expense (income), which is a component of Noninterest Expense. Additionally, during the third quarter of 2008, the Company reclassified impairment writedowns on investment securities from the caption Noninterest Expense to Noninterest Income. As a result, $9.9 million and $405 thousand in other-than-temporary impairment (OTTI) charges recorded during the first six months of 2008 and first nine months ended 2007, respectively, were reclassified from the caption Noninterest Expense to Noninterest Income.

2. SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Standards

In September 2006, the Emerging Issues Task Force (EITF) issued EITF 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements,* which requires employers to recognize an obligation associated with endorsement split-dollar

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life insurance arrangements that extend into the employee s postretirement period. EITF 06-4 is effective for financial statements issued for fiscal years beginning after December 31, 2007. Upon adoption of EITF 06-4, the Company recorded a net decrease to retained earnings of $479 thousand, net of tax.

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

In September 2006, the FASB issued SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS 158), which amends SFAS No. 87, *Employers Accounting for Pensions;* SFAS No. 88, *Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits;* SFAS No. 106, *Employers Accounting for Postretirement Benefits Other Than Pensions;* and SFAS No. 132(R), *Employers Disclosures about Pensions and Other Postretirement Benefits* (revised 2003). This Statement requires companies to recognize an asset or liability for the overfunded or underfunded status of their benefit plans in their financial statements. The asset or liability is the offset to other accumulated comprehensive income, consisting of previously unrecognized prior service costs and credits, actuarial gains or losses, and accumulated transition obligations and assets. SFAS 158 also requires the measurement date for plan assets and liabilities to coincide with the sponsor s year-end. The standard provides two transition alternatives for companies to make the measurement-date provisions. The Company adopted the recognition and disclosure elements of SFAS 158, effective January 1, 2008, which did not have a material effect on its financial position, results of operations, or cash flows.

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

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS 141(R)), which replaces FASB Statement No. 141, *Business Combinations*. SFAS 141(R) establishes principles and requirements for how an acquiring company (1) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree, (2) recognizes and measures the goodwill acquired in the business combination

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or a gain from a bargain purchase, and (3) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for business combinations occurring on or after the beginning of the fiscal year beginning on or after December 15, 2008. SFAS 141(R), effective for the Company on January 1, 2009, and applies to all transactions or other events in which the Company obtains control in one or more businesses. Management will assess each transaction on a case-by-case basis as they occur.

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

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

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

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

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS 162). SFAS 162 identifies a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles for nongovernmental entities (the Hierarchy). The

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Hierarchy within SFAS 162 is consistent with that previously defined in the AICPA Statement on Auditing Standards No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles* (SAS 69). SFAS 162 is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.* The Company does not expect this guidance to have a material effect on its financial condition, results of operations, or cash flows.

In June 2008, the FASB issued FSP EITF 03-06-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities.* FSP EITF 03-06-1 requires all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends to be considered participating securities and requires entities to apply the two-class method of computing basic and diluted earnings per share. This FSP is effective for fiscal years beginning after December 31, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The Company is currently evaluating the impact that this FSP will have on the Company s consolidated financial statements.

In October 2008, the FASB issued FSP SFAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*. FSP SFAS 157 157-3 clarified the application of SFAS 157 in an inactive market. It demonstrated how the fair value of a financial asset is determined when the market for that financial asset is inactive. FSP SFAS 157-3 was effective upon issuance, including prior periods for which financial statements had not been issued as of September 30, 2008. The adoption of this guidance did not have a material effect on the Company s financial condition, results of operations, or cash flows.

3. FAIR VALUE MEASUREMENT

The Company adopted SFAS 157 and SFAS 159, effective January 1, 2008. SFAS 157 provides a framework for measuring fair value under GAAP. This standard applies to all financial assets and liabilities that are being measured and reported at fair value on a recurring and non-recurring basis. For the Company, this includes the investment securities available-for-sale (AFS) portfolio, equity swap agreements, derivatives payable, mortgage servicing assets, and impaired loans**.**

As defined in SFAS 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various methods including market and income approaches. Based on these approaches, the Company often utilizes certain assumptions that market participants would use in pricing the asset or liability. These inputs can be readily observable, market corroborated, or generally unobservable firm inputs. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Company is required to provide the following information according to the fair value hierarchy. The hierarchy ranks the quality and reliability of the information used to determine fair values. The hierarchy gives the highest priority to quoted prices available in 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.

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- Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable and can be corroborated by market data. Level 2 financial instruments typically include U.S. Government and agency mortgage-backed securities, U.S. Government sponsored enterprise preferred stock securities, trust preferred securities, and equity swap agreements.

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

In determining the appropriate levels, the Company performs a detailed analysis of assets and liabilities that are subject to SFAS 157. The following table presents financial assets and liabilities that are measured at fair value on a recurring and non-recurring basis. These assets and liabilities are reported on the condensed consolidated balance sheets at their fair values as of September 30, 2008. As required by SFAS 157, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to their fair value measurement.

Assets (Liabilities) Measured at Fair Value on a Recurring Basis as of September 30, 2008

	Fair Value Measurements September 30, 2008	Quoted Prices in Active Markets for Identifical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In Thousands)			
Investment Securities (AFS)	$ 2,047,244	$ 5,083	$ 1,349,070	$ 693,091
Equity Swap Agreements	14,979		14,979	
Derivatives Payable	(15,093)			(15,093)

Assets Measured at Fair Value on a Non-Recurring Basis as of September 30, 2008

	Fair Value Measurements September 30, 2008	Quoted Prices in Active Markets for Identifical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In Thousands)			
Mortgage Servicing Assets	$ 18,782	$	$	$ 18,782
Impaired Loans	174,864			174,864

At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. The following table provides a reconciliation of the beginning and ending balances for asset categories measured at fair value using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2008:

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	Investment Securities Available for Sale	Mortgage Servicing Assets	Impaired Loans	Derivatives Payable
	(In Thousands)			
Beginning balance, July 1, 2008	$ 607,484	$ 19,391	$ 157,461	$
Total gains or losses (1)				
Included in earnings (realized)	952	(667)	22,821	
Included in other comprehensive loss (unrealized) (2)	31,340			
Purchases, issuances, sales, settlements (3)	(27,469)	58		
Transfers in and/or out of Level 3 (4)	80,784		(5,418)	(15,093)
Ending balance September 30, 2008	$ 693,091	$ 18,782	$ 174,864	$ (15,093)
Changes in unrealized losses included in earnings relating to assets and liabilities still held at September 30, 2008 (4)	$ (6,618)	$	$	$

	Investment Securities Available for Sale	Mortgage Servicing Assets	Impaired Loans	Derivatives Payable
	(In Thousands)			
Beginning balance, January 1, 2008	$ 700,434	$ 21,558	$ 107,544	$
Total gains or losses (1)				
Included in earnings (realized)	4,423	(3,699)	(16,587)	
Included in other comprehensive loss (unrealized) (2)	(4,625)			
Purchases, issuances, sales, settlements (3)	(87,925)	923		
Transfers in and/or out of Level 3 (4)	80,784		83,907	(15,093
Ending balance September 30, 2008	$ 693,091	$ 18,782	$ 174,864	$ (15,093
Changes in unrealized losses included in earnings relating to assets and liabilities still held at September 30, 2008 (4)	$ (8,192)	$	$	$

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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 operations.

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

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

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

Valuation Methodologies

Investment Securities Available-for-Sale The fair values of available-for-sale investment securities are generally determined by reference to the average of at least two quoted market prices obtained from independent external brokers or prices obtained from independent external pricing service

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providers who have experience in valuing these securities. In obtaining such valuation information from third parties, the Company has reviewed the methodologies used to develop the resulting fair values.

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

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

Equity Swap Agreements The Company has entered into several equity swap agreements with a major investment brokerage firm to hedge against market fluctuations in a promotional equity index certificate of deposit product offered to bank customers. This deposit product, which has a term of 5 years or 5½ years, pays interest based on the performance of the Hang Seng China Enterprises Index (HSCEI). The fair value of these equity swap agreements is based on the income approach. The fair value is based on the change in the value of the HSCEI and the volatility of the call option over the life of the individual swap agreement. The option value is derived based on the volatility, the interest rate and the time remaining to maturity of the call option. The Company s consideration of its counterparty s credit risk resulted in a $547 thousand adjustment to the valuation of the equity swap agreements. The valuation of equity swap agreements falls within Level 2 of the fair value hierarchy due to the observable nature of the inputs used in deriving the fair value of these derivative contracts.

Derivatives Payable The Company s derivatives payable are recorded in conjunction with the certificate of deposits (host instrument) that pays interest based on changes in the HSCEI and are included in interest-bearing deposits on the consolidated balance sheets. The fair value of these embedded derivatives is based on the income approach. **The Company s consideration of its own credit risk resulted in a $433 thousand adjustment to the valuation of the derivative liabilities, and a net loss of $114 thousand was recognized in noninterest expense as the net difference between the valuation of the equity swap agreements and derivatives payable for the quarter ended September 30, 2008.** The

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valuation of the derivatives payable falls within Level 3 of the fair value hierarchy since the significant inputs used in deriving the fair value of these derivative contracts are not directly observable.

Mortgage Servicing Assets (MSAs) The Company records MSAs in conjunction with its loan sale and securitization activities since the servicing of the underlying loans is retained by the Bank. MSAs are initially measured at fair value using an income approach. The initial fair value of MSAs is determined based on the present value of estimated net future cash flows related to contractually specified servicing fees. The valuation for MSAs falls within Level 3 of the fair value hierarchy since there are no quoted prices for MSAs and the significant inputs used to determine fair value are not directly observable. The valuation of MSAs is determined using a discounted cash flow approach utilizing the appropriate yield curve and several market-derived assumptions including prepayment speeds, servicing cost, delinquency and foreclosure costs and behavior, and float earnings rate, to name a few. Net cash flows are present valued using a market-derived discount rate. The resulting fair value is then compared to recently observed bulk market transactions with similar characteristics. The fair value is adjusted accordingly to be better aligned with current observed market trends and activity.

Impaired Loans In accordance with SFAS No. 114, *Accounting by Creditors for Impairment of a Loan, an Amendment of FASB Statements No. 5 and 15,* the Company s impaired loans are generally measured using the fair value of the underlying collateral, which is determined based on the most recent valuation information received, which may be adjusted based on factors such as the Company s historical knowledge and changes in market conditions from the time of valuation. As of September 30, 2008, the impaired loan balance, net of the specific reserve, was $174.9 million. Impaired loans fall within Level 3 of the fair value hierarchy since they were measured at fair value based on appraisals of the underlying collateral.

4. STOCK-BASED COMPENSATION

The Company issues stock-based compensation to certain employees, officers and directors under share-based compensation plans. The Company adopted SFAS No. 123(R), *Share-Based Payment* on January 1, 2006 using the modified prospective method. Under this method, the provisions of SFAS No. 123(R) are applied to new awards and to awards modified, repurchased or canceled after December 31, 2005 and to awards outstanding on December 31, 2005 for which requisite service has not yet been rendered. SFAS No. 123(R) requires companies to account for stock options using the fair value method, which generally results in compensation expense recognition. Prior to the adoption of SFAS No. 123(R), the Company applied APB No. 25 to account for its stock based awards.

During the three and nine months ended September 30, 2008, total compensation cost recognized in the consolidated statements of operations related to stock options and restricted stock awards amounted to $1.5 million and $4.5 million, respectively, with related tax benefits of $630 thousand and $1.9 million, respectively. During the three and nine months ended September 30, 2007, total compensation cost recognized in the consolidated statements of operations related to stock options and restricted stock awards amounted to $1.7 million and $4.9 million, respectively, with related tax benefits of $731 thousand and $2.1 million, respectively.

Stock Options

The Company issues fixed stock options to certain employees, officers, and directors. Stock options are issued at the current market price on the date of grant with a three-year or four-year vesting

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period and contractual terms of 7 years. Stock options issued prior to July 2002 had contractual terms of 10 years. The Company issues new shares upon the exercise of stock options.

A summary of activity for the Company s stock options as of and for the nine months ended September 30, 2008 is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (In thousands) (1)
Outstanding at beginning of period	2,099,120	$ 21.71		
Granted	721,499	18.71		
Exercised	(59,298)	10.15		
Forfeited	(106,518)	32.39		
Outstanding at end of period	2,654,803	$ 20.73	3.57 years	$ 1,094
Vested or expected to vest	2,581,949	$ 20.60	3.51 years	$ 1,091
Exercisable at end of period	1,592,401	$ 17.68	2.03 years	$ 1,062

(1) The aggregate intrinsic value excludes shares of 1,859,563 weighted average options outstanding as of and for the nine months ended September 30, 2008, for which the exercise price exceeded the average market price of the Company s common stock during these periods.

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:

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Expected term (1)	(5)	4 years	4 years	4 years
Expected volatility (2)	(5)	23.8%	27.9%	24.1%
Expected dividend yield (3)	(5)	1.1%	1.2%	1.1%
Risk-free interest rate (4)	(5)	4.0%	2.6%	4.5%

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

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

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

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

(5) The Company did not issue any stock options during the third quarter of 2008.

During the three and nine months ended September 30, 2008 and 2007, information related to stock options is presented as follows:

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	Three Months Ended September 30, 2008		Three Months Ended September 30, 2007		Nine Months Ended September 30, 2008		Nine Months Ended September 30, 2007	
Weighted average fair value of stock options granted during the period	$	(1)	$	8.13	$	4.27	$	9.20
Total intrinsic value of options exercised (in thousands)	$	43	$	2,630	$	380	$	17,070
Total fair value of options vested (in thousands)	$	103	$	66	$	1,325	$	734

(1) The Company did not issue any stock options during the third quarter of 2008.

As of September 30, 2008, total unrecognized compensation cost related to stock options amounted to $4.2 million. The cost is expected to be recognized over a weighted average period of 3.4 years.

Restricted Stock

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

A summary of the activity for restricted stock as of September 30, 2008, including changes during the nine months then ended, is presented below:

	Shares		Weighted Average Price
Outstanding at beginning of period	683,336	$	34.48
Granted	277,608		19.66
Vested	(49,891)		36.18
Forfeited	(102,058)		31.71
Outstanding at end of period	808,995	$	29.64

The weighted average fair values of restricted stock awards granted during the nine months ended September 30, 2008 and 2007 were $19.66 and $38.45, respectively.

As of September 30, 2008, total unrecognized compensation cost related to restricted stock awards amounted to $13.6 million. This cost is expected to be recognized over a weighted average period of 2.8 years.

The Company also grants performance restricted stock with a two-year cliff vesting to an executive officer. The number of shares that the executive will receive under these stock awards will ultimately depend on the Company s achievement of specified performance targets over the specified performance periods. At the end of each performance period, the number of stock awards issued will be determined by adjusting upward or downward from the target amount of shares in a range approximately between 25% and 125%. The final performance percentages on which the payouts will be based, considering performance metrics established for the performance periods, will be determined by the Board of Directors or a committee of the Board. If the Company performs below its performance targets, the Board or the committee may, at its discretion, choose not to award any shares. Shares of stock, if any, will be issued following the end of each performance period. Compensation costs are accrued over the service period and are based on the probable outcome of the performance condition. The maximum number of shares subject to these stock awards varies for each grant representing a maximum total of 140,767 shares as of September 30, 2008.

5. INVESTMENTS AVAILABLE-FOR-SALE

In September 2008, sustained liquidity and credit concerns led the U.S. Federal Government to assume a conservatorship role in Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac) and to cease the payment of dividends on these government-sponsored entities preferred and common stock. These developments have further adversely impacted the ratings and fair values of Fannie Mae and Freddie Mac preferred stock. In accordance with SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*, and FSP FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments,* the Company recorded $47.0 million in other-than-temporary impairment (OTTI) charges on these preferred stock securities during the third quarter of 2008. Total impairment charges recorded on Fannie Mae and Freddie Mac preferred stock amounted to $55.3 million for the nine months ended September 30, 2008. As of September 30, 2008, the total fair value of Fannie Mae and Freddie Mac preferred securities have been reduced to $3.3 million.

During the third quarter of 2008, the Company also recorded impairment charges on certain pooled trust preferred debt and equity securities amounting to $6.6 million in accordance with the provisions of SFAS 115, FSP FAS 115-1 and FAS 124-1, and EITF 99-20, *Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets*. For the nine months ended September 30, 2008, total impairment charges recorded on pooled trust preferred debt and equity securities amounted to $8.2 million.

6. GOODWILL AND OTHER INTANGIBLE ASSETS

The carrying amount of goodwill amounted to $337.3 million and $335.4 million at September 30, 2008 and December 31, 2007, respectively. Goodwill is tested for impairment on an annual basis, or more frequently as events occur, or as current circumstances and conditions warrant. The Company records impairment writedowns as charges to noninterest expense and adjustments to the carrying value of goodwill. Subsequent reversals of goodwill impairment are prohibited.

During the third quarter of 2008, both the U.S. and global financial markets continued to experience volatility and the effect of such volatility continued to unfavorably impact the market prices of banking stocks, including the Company s. As of September 30, 2008, the Company s market capitalization based on total outstanding common and preferred shares was $1.05 billion and its total stockholders equity was $1.26 billion. As a result, the Company performed an impairment analysis as of September 30, 2008 to determine whether and to what extent, if any, recorded goodwill was impaired. The valuation analysis compared the fair value of each of the reporting units, including goodwill, to the respective carrying amounts. If the carrying amount of the reporting unit, including goodwill exceeds the fair value of that reporting unit, then further testing for goodwill impairment is performed.

As a result of this analysis, it was determined that there was further deterioration in the fair value of the Company s insurance agency reporting unit, East West Insurance Services, Inc. The Company

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recorded additional goodwill impairment of $272 thousand as a charge to earnings during the third quarter of 2008. This amount represents the remaining goodwill balance for this reporting unit. Total goodwill impairment charges recorded for East West Insurance Services, Inc. amounted to $858 thousand for the nine months ended September 30, 2008. These impairment charges had no effect on the Company s cash balances or liquidity. In addition, because goodwill and other intangible assets are not included in the calculation of regulatory capital, the Company s well capitalized regulatory ratios are not affected by this non-cash expense. No assurance can be given that goodwill will not be written down further in future periods. The Company did not record any goodwill impairment writedowns during the first nine months of 2007.

The Company also has premiums on acquired deposits which represent the intangible value of depositor relationships resulting from deposit liabilities assumed from various acquisitions. The gross carrying amount of deposit premiums totaled $43.0 million and $46.9 million, respectively, with related accumulated amortization amounting to $19.9 million and $18.5 million, respectively, at September 30, 2008 and December 31, 2007. During the first quarter of 2008, the Company recorded an $855 thousand impairment writedown on deposit premiums initially recorded for the Desert Community Bank (DCB) acquisition due to higher than anticipated runoffs in certain deposit categories. The Company did not record any impairment writedowns on deposit premiums during 2007.

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7. ALLOWANCE FOR LOAN LOSSES

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

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
	(Dollars in thousands)		(Dollars in thousands)	
Allowance balance, beginning of period	$ 168,413	$ 77,280	$ 88,407	$ 78,201
Allowance from acquisition		4,125		4,125
Allowance for unfunded loan commitments and letters of credit	5,437	1,013	5,669	824
Provision for loan losses	43,000	3,000	183,000	3,000
Chargeoffs:				
Single family real estate	1,023		1,732	
Multifamily real estate	1,006		1,442	
Commercial and industrial real estate	21,690		43,108	
Construction	16,138	516	40,429	516
Commercial business	4,401	392	18,136	1,437
Automobile	63	1	226	1
Other consumer	34		74	11
Total chargeoffs	44,355	909	105,147	1,965
Recoveries:				
Single family real estate	1		3	
Commercial and industrial real estate	1,899	18	1,905	18
Construction	2,581		2,581	
Commercial business	177	25	714	348
Automobile	2	13	23	14
Total recoveries	4,660	56	5,226	380
Net chargeoffs	39,695	853	99,921	1,585
Allowance balance, end of period	$ 177,155	$ 84,565	$ 177,155	$ 84,565
Average loans outstanding	$ 8,451,517	$ 8,433,268	$ 8,725,596	$ 8,236,948
Total gross loans outstanding, end of period	$ 8,289,433	$ 8,558,314	$ 8,289,433	$ 8,558,314
Annualized net chargeoffs to average loans	1.88%	0.04%	1.53%	0.03%
Allowance for loan losses to total gross loans, end of period	2.14%	0.99%	2.14%	0.99%

At September 30, 2008, the allowance for loan losses amounted to $177.2 million, or 2.14% of total loans, compared with $88.4 million, or 1.00% of total loans, at December 31, 2007, and $84.6 million, or 0.99% of total loans, at September 30, 2007. The increase in the allowance for loan losses is primarily due to the $183.0 million in provisions for loan losses recorded during the nine months ended September 30, 2008. In comparison, $3.0 million in loss provisions were recorded during same period in 2007. In response to the unprecedented downturn in the real estate and housing markets, the Company performed an extensive evaluation of certain sectors of its loan portfolio during the second and third quarters of 2008 to identify and mitigate potential losses in loan categories that were especially hard hit by current market conditions. As part of this evaluation process, the Company ordered new appraisals for land, residential construction, and commercial construction loans and also engaged the services of an independent third party to make a current assessment as to the financial strength of the borrowers. The significant increase in loan loss provisions recorded during the first nine months of 2008, relative to the

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same period in 2007, reflects the findings and results from the Company s comprehensive loan review efforts.

During the nine months ended September 30, 2008, we recorded $99.9 million in net chargeoffs, compared to $1.6 million in net chargeoffs recorded during the first nine months of 2007. Of the $99.9 million in net chargeoffs recorded during the first nine months of 2008, 78% or $78.4 million were related to land and residential constructions loans. Moreover, the volume of delinquent and nonperforming loans also increased significantly in 2008 relative to 2007 as a result of the deterioration in the real estate and housing markets.

8. 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 interim condensed consolidated financial statements. As of September 30, 2008 and December 31, 2007, respectively, undisbursed loan commitments amounted to $1.71 billion and $2.72 billion, respectively. Commercial and standby letters of credit amounted to $559.3 million and $619.9 million as of September 30, 2008 and December 31, 2007, respectively.

Guarantees From time to time, the Company securitizes loans with recourse in the ordinary course of business. For loans that have been securitized with recourse, the recourse component is considered a guarantee. When the Company 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 September 30, 2008, total loans securitized with recourse amounted to $566.0 million and were comprised of $63.8 million in single family loans with full recourse and $502.2 million in multifamily loans with limited recourse. In comparison, total loans securitized with recourse amounted to $650.2 million at December 31, 2007, comprised of $72.7 million in single family loans with full recourse and $577.5 million in multifamily loans with limited recourse. The recourse provision on multifamily loans is limited to 2.5% of the top loss on the underlying loans. All of these transactions represent securitizations with Fannie Mae. The Company s recourse reserve related to loan securitizations totaled $1.2 million and $3.0 million as of September 30, 2008 and December 31, 2007, respectively, 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 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 September 30, 2008 and December 31, 2007, the amount of loans sold without recourse totaled $790.9 million and $606.5 million, respectively. Total loans securitized without recourse amounted to $1.06 billion and $1.19 billion, respectively, at September 30, 2008 and December 31, 2007. 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 September 30, 2008. The Bank, from time to time, is a party to litigation which arises in the ordinary course of business, such as claims to enforce liens, claims involving the origination and servicing of loans, and other issues related to the business of the Bank. After taking into consideration information furnished by counsel to the Company and the Bank, management believes that the resolution of such issues will not have a material adverse impact on the financial position, results of operations, or liquidity of the Company or the Bank.

9. INCOME TAXES

Deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year-end, based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. In conjunction with the $47.0 million OTTI charges recorded on the Fannie Mae and Freddie Mac preferred stock during the third quarter of 2008, the Company concluded that the related deferred tax asset of $5.7 million will not more likely than not be utilized, and a $5.7 million valuation allowance was provided against the entire net deferred tax asset. However, due to the passage of the Emergency Economic Stabilization Act (EESA) in October 2008, this legislation provided banks with tax relief by treating OTTI losses on Fannie Mae and Freddie Mac preferred stock as ordinary losses, instead of capital losses. As a result of this law change, the Company anticipates an additional $5.7 million in tax benefit related to these OTTI charges to be recognized during the fourth quarter of 2008.

The income tax benefit for the three months ended September 30, 2008 amounted to $17.4 million representing an effective tax rate of 35.7% for the period. In comparison, the provision for income taxes of $26.4 million for the three months ended September 30, 2007 represented an effective tax rate of 38.9% for the quarter. The income tax benefit for the third quarter of 2008 reflects the utilization of affordable housing tax credits totaling $2.0 million, compared to $1.3 million in tax credits utilized during the third quarter of 2007.

For the first nine months of 2008, the income tax benefit totaled $33.9 million representing an effective tax rate of 39.4%. This compares to $79.0 million income tax expense, representing a 38.9% effective tax rate, recorded for the first nine months of 2007. For the first nine months of 2008, the income tax benefit reflects the utilization of $5.3 million in tax credits, compared to $3.8 million in tax credits utilized during the same period in 2007. The $858 thousand goodwill impairment charge recorded during the first nine months of 2008 is not deductible for tax purposes. Due to the high degree of variability of the estimated annual effective tax rate when considering the range of projected income for the remainder of the year, the Company has determined that the actual year-to-date effective tax rate is the best estimate of the annual effective tax rate.

10. STOCKHOLDERS EQUITY

Earnings (Loss) Per Share (EPS) The actual number of shares outstanding at September 30, 2008 was 63,623,131. Basic EPS excludes dilution and is computed by dividing income or loss available to common stockholders by the weighted-average number of shares outstanding during the period. Diluted EPS is calculated on the basis of the weighted average number of shares outstanding during the period plus restricted stock and shares issuable upon the assumed exercise of outstanding convertible

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preferred stock, common stock options and warrants, unless they have an antidilutive effect. In accordance with SFAS No. 128, *Earnings Per Share*, due to the net loss recorded during the three and nine months ended September 30, 2008, incremental shares resulting from the assumed conversion, exercise, or contingent issuance of securities are not included as their effect on earnings or loss per share would be antidilutive.

The following table sets forth (loss) earnings per share calculations for the three and nine months ended September 30, 2008 and 2007:

	Three Months Ended September 30,					
	2008			2007		
	Net (loss) available to common stockholders	Number of Shares	Per Share Amounts	Net income available to common stockholders	Number of Shares	Per Share Amounts
	(In thousands, except per share data)					
Net (loss) income as reported	$ (31,206)		$	$ 41,336		$
Less: Preferred stock dividends	(4,089)					
Basic (loss) earnings per share	$ (35,295)	62,675	$ (0.56)	$ 41,336	61,232	$ 0.68
Effect of dilutive securities:						
Stock options					620	(0.01)
Restricted stock					207	
Stock warrants					29	
Diluted (loss) earnings per share	$ (35,295)	62,675	$ (0.56)	$ 41,336	62,088	$ 0.67

	Nine Months Ended September 30,					
	2008			2007		
	Net (loss) available to common stockholders	Number of Shares	Per Share Amounts	Net income available to common stockholders	Number of Shares	Per Share Amounts
	(In thousands, except per share data)					
Net (loss) income as reported	$ (52,049)		$	$ 123,922		$
Less: Preferred stock dividends	(4,089)					
Basic (loss) earnings per share	$ (56,138)	62,586	$ (0.90)	$ 123,922	60,754	$ 2.04
Effect of dilutive securities:						
Stock options					720	(0.03)
Restricted stock					198	
Stock warrants					40	
Diluted (loss) earnings per share	$ (56,138)	62,586	$ (0.90)	$ 123,922	61,712	$ 2.01

The following outstanding convertible preferred stock, stock options, restricted stock and stock warrants for the three and nine months ended September 30, 2008 and 2007, respectively, were excluded from the computation of diluted EPS because including them would have had an antidilutive effect.

		(In thousands)		
Convertible preferred stock	12,955		7,617	
Stock options	2,435	539	1,995	192
Restricted stock	710		651	

Convertible Preferred Stock Offering - In April 2008, the Company issued 200,000 shares of 8% Non-Cumulative Perpetual Convertible Preferred Stock, Series A (Preferred Stock). The Company received net proceeds of approximately $194.1 million after deducting underwriting discounts,

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commissions and offering expenses. The holders of the Preferred Stock will have the right at any time to convert each share of Preferred Stock 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 Preferred Stock to be converted into shares of the Company s common stock. Dividends on the Preferred Stock, 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, commencing on August 1, 2008. The proceeds from this offering were used to augment the Company s liquidity and capital positions and reduce its borrowings.

Stock Repurchase Program During 2007, the Company s Board of Directors authorized a new stock repurchase program to buy back up to $80.0 million of the Company s common stock. The Company did not repurchase any shares during the nine months ended September 30, 2008 in connection with this stock repurchase program.

Quarterly Dividends The Company s Board of Directors declared and paid quarterly preferred stock cash dividends of $20.00 per share payable on or about August 1, 2008 to shareholders of record on July 15, 2008. Cash dividends totaling $4.1 million were paid to the Company s preferred stock shareholders during the three and nine months ended September 30, 2008.

The Company s Board of Directors also declared and paid quarterly common stock cash dividends of $0.10 per share payable on or about August 19, 2008 to shareholders of record on August 6, 2008. Cash dividends totaling $6.3 million and $19.0 million were paid to the Company s common shareholders during the three and nine months ended September 30, 2008, respectively.

11. BUSINESS SEGMENTS

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

The accounting policies of the segments are the same as those described in the summary of significant accounting policies described in Note 1 of the Company s annual report on Form 10-K for the year ended December 31, 2007. 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

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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 chargeoffs for the period as well as average loan volume 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.

Commencing in the second quarter of 2008, the Company revised the allocation of certain investment securities and related revenues and expenses previously included in the Treasury segment. Specifically, investment securities that have resulted from the Company s in-house securitization activities have been allocated to the operating segments (i.e. retail banking, commercial lending, and residential lending) that initially originated the underlying loans. Interest income, related premium amortizations and discount accretions, as well as any gains or losses from the sale of these investment securities have also been allocated to the appropriate operating segments. As a result of these changes, the Company has revised its results for the comparable periods in 2007 to reflect the current allocation methodology between the treasury segment and the other operating segments.

The following tables present the operating results and other key financial measures for the individual operating segments for the three and nine months ended September 30, 2008 and 2007:

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	Three Months Ended September 30, 2008					
	Retail Banking	Commercial Lending	Treasury	Residential Lending	Other	Total
	(In thousands)					
Interest income	$ 43,484	$ 79,833	$ 19,359	$ 16,808	$ 378	$ 159,862
Charge for funds used	(20,567)	(35,898)	(37,888)	(7,655)		(102,008)
Interest spread on funds used	22,917	43,935	(18,529)	9,153	378	57,854
Interest expense	(32,494)	(3,454)	(37,399)			(73,347)
Credit on funds provided	49,598	3,867	48,543			102,008
Interest spread on funds provided	17,104	413	11,144			28,661
Net interest income (expense)	$ 40,021	$ 44,348	$ (7,385)	$ 9,153	$ 378	$ 86,515
Depreciation, amortization and accretion	$ 2,818	$ 192	$ (2,987)	$ (237)	$ 2,867	$ 2,653
Goodwill	269,865	16,867		50,599		337,331
Segment pretax profit (loss)	(8,282)	9,622	(63,518)	165	13,452	(48,561)
Segment assets	2,949,210	5,228,985	1,855,655	1,077,864	610,602	11,722,316

	Three Months Ended September 30, 2007					
	Retail Banking	Commercial Lending	Treasury	Residential Lending	Other	Total
	(In thousands)					
Interest income	$ 71,788	$ 88,930	$ 17,860	$ 19,204	$ 986	$ 198,768
Charge for funds used	(48,304)	(59,277)	(21,010)	(13,657)		(142,248)
Interest spread on funds used	23,484	29,653	(3,150)	5,547	986	56,520
Interest expense	(47,120)	(5,119)	(42,675)			(94,914)
Credit on funds provided	84,826	8,683	48,739			142,248
Interest spread on funds provided	37,706	3,564	6,064			47,334
Net interest income	$ 61,190	$ 33,217	$ 2,914	$ 5,547	$ 986	$ 103,854
Depreciation, amortization and accretion	$ 2,852	$ 223	$ (1,030)	$ (17)	$ 1,300	$ 3,328
Goodwill	250,507	16,700		66,802	858	334,867
Segment pretax profit (loss)	39,646	25,832	2,176	5,575	(5,525)	67,704
Segment assets	4,086,396	4,516,308	1,335,395	1,138,951	563,113	11,640,163

	Nine Months Ended September 30, 2008					
	Retail Banking	Commercial Lending	Treasury	Residential Lending	Other	Total
	(In thousands)					
Interest income	$ 151,658	$ 253,950	$ 53,546	$ 53,593	$ 2,204	$ 514,951
Charge for funds used	(76,828)	(123,884)	(79,163)	(27,863)		(307,738)
Interest spread on funds used	74,830	130,066	(25,617)	25,730	2,204	207,213
Interest expense	(109,582)	(10,813)	(116,246)			(236,641)

Credit on funds provided		167,118		13,748		126,872						307,738
Interest spread on funds provided		57,536		2,935		10,626						71,097
Net interest income (expense)	$	132,366	$	133,001	$	(14,991)	$	25,730	$	2,204	$	278,310
Depreciation, amortization and accretion	$	9,906	$	613	$	(4,966)	$	(255)	$	7,456	$	12,754
Goodwill		269,865		16,867				50,599				337,331
Segment pretax (loss) profit		(12,660)		(11,995)		(83,898)		12,898		9,695		(85,960)
Segment assets		2,949,210		5,228,985		1,855,655		1,077,864		610,602		11,722,316

	Nine Months Ended September 30, 2007											
		Retail Banking		Commercial Lending		Treasury		Residential Lending		Other		Total
	(In thousands)											
Interest income	$	206,574	$	251,668	$	50,759	$	59,350	$	3,808	$	572,159
Charge for funds used		(142,159)		(170,644)		(57,920)		(42,632)				(413,355)
Interest spread on funds used		64,415		81,024		(7,161)		16,718		3,808		158,804
Interest expense		(133,382)		(16,002)		(121,389)						(270,773)
Credit on funds provided		243,980		25,656		143,719						413,355
Interest spread on funds provided		110,598		9,654		22,330						142,582
Net interest income	$	175,013	$	90,678	$	15,169	$	16,718	$	3,808	$	301,386
Depreciation, amortization and accretion	$	7,807	$	574	$	(1,979)	$	(25)	$	3,538	$	9,915
Goodwill		250,507		16,700				66,802		858		334,867
Segment pretax profit (loss)		119,611		77,118		14,483		15,880		(24,140)		202,952
Segment assets		4,086,396		4,516,308		1,335,395		1,138,951		563,113		11,640,163

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12. SUBSEQUENT EVENTS

On October 14, 2008, the U.S. Department of Treasury announced the Treasury Capital Purchase Program under the EESA, pursuant to which the Treasury intends to make senior preferred stock investments in participating financial institutions that will qualify as Tier I capital. The Company has applied for the maximum amount of additional capital allowed under the program based on the Company s level of total risk-weighted assets as of June 30, 2008. The Company s application to participate in the program is subject to approval from the U.S. Department of Treasury.

On October 27, 2008, the Company announced that its Board of Directors has authorized the payment of dividends on both its preferred and common stock for the fourth quarter of 2008. The $20.00 per share cash dividend on the preferred stock is payable on or about November 3, 2008 to shareholders of record as of October 15, 2008. The common stock cash dividend of $0.10 per share will be payable on or about November 24, 2008 to shareholders of record on November 10, 2008.

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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 results of operations, financial condition, liquidity, cash flows 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, 2007, and the accompanying interim unaudited consolidated financial statements and notes hereto.

Critical Accounting Policies

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make a number of judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses in our consolidated financial statements and accompanying notes. We believe that the judgments, estimates and assumptions used in the preparation of our consolidated financial statements are appropriate given the factual circumstances as of September 30, 2008.

Various elements of our accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. In particular, we have identified five accounting policies that, due to judgments, estimates and assumptions inherent in those policies, are critical to an understanding of our consolidated financial statements. These policies relate to the following areas:

- classification, valuation and OTTI review of investment securities;
- allowance for loan losses;
- valuation of retained interests and mortgage servicing assets related to securitizations and sales of loans;
- goodwill impairment; and
- share-based compensation

In each area, we have identified the variables most important in the estimation process. We have used the best information available to make the estimations necessary to value the related assets and liabilities. Actual performance that differs from our estimates and future changes in the key variables could change future valuations and impact net income.

Our significant accounting policies are described in greater detail in our 2007 Annual Report on Form 10-K in the Critical Accounting Policies section of Management s Discussion and Analysis and in Note 1 to the Consolidated Financial Statements Significant Accounting Policies which are essential to understanding Management s Discussion and Analysis of Results of Operations and Financial Condition.

Recent Developments

There have been significant disruptions in the U.S. and international financial system during the period covered by this report. As a result, available credit has been reduced or ceased to exist. The reduction in availability of credit, loss of confidence in the financial sector, and volatility in financial markets adversely affects the Company, the Bank and the performance of the Company s stock. The U.S. government, the governments of other countries, and multinational institutions has provided vast

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amounts of liquidity and capital into the banking system. In addition, as discussed below, the Company s results of operations have been impacted by the federal government s conservatorship of Fannie Mae and Freddie Mac, which led to the recording of significant charges on investment securities during the quarter ended September 30, 2008.

In response to the financial crises affecting the overall banking system and financial markets in the United States, on October 3, 2008, the Emergency Economic Stabilization Act of 2008 (EESA) was enacted. Under the EESA, the United States Treasury Department (Treasury) has authority, among other things, to purchase mortgages, mortgage backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets.

On October 3, 2008, the Troubled Asset Relief Program (TARP) was signed into law. TARP gave the Treasury authority to deploy up to $750 billion into the financial system with an objective of improving liquidity in capital markets. On October 24, 2008, Treasury announced plans to direct $250 billion of this authority into preferred stock investments in banks. The general terms of this preferred stock program include:

- dividends on the Treasury s preferred stock at a rate of 5% for the first five years and 9% dividends thereafter;
- common stock dividends cannot be increased for three years while Treasury is an investor unless preferred stock is redeemed or consent from Treasury is received;
- the Treasury preferred stock cannot be redeemed for three years unless the participating bank raises qualifying private capital;
- Treasury s must consent to any buy back of other stock (common or other preferred);
- Treasury receives warrants equal to 15% of Treasury s total investment in the participating institution; and participating institution s executives must agree to certain compensation restrictions, and
- restrictions on the amount of executive compensation which is tax deductible.

The term of this Treasury preferred stock program could reduce investment returns to participating banks shareholders by restricting dividends to common shareholders, diluting existing shareholders interests, and restricting capital management practices. Although both the Company and its banking subsidiary meet all applicable regulatory capital requirements and remain well capitalized, the Company currently has applied for the maximum in additional capital as part of the TARP capital purchase program.

Federal and state governments could pass additional legislation responsive to current credit conditions. As an example, the Company could experience higher credit losses because of federal or state legislation or regulatory action that reduces the principal amount or interest rate under existing loan contracts. Also, the Company could experience higher credit losses because of federal or state legislation or regulatory action that limits the Bank s ability to foreclose on property or other collateral or makes foreclosure less economically feasible.

The Federal Deposit Insurance Corporation (FDIC) insures deposits at FDIC insured financial institutions up to certain limits. The FDIC charges insured financial institutions premiums to maintain the Deposit Insurance Fund. Current economic conditions have increased expectations for bank failures, in which case the FDIC would take control of failed banks and ensure payment of deposits up to insured limits using the resources of the Deposit Insurance Fund. In such case, the FDIC may increase premium assessments to maintain adequate funding of the Deposit Insurance Fund, including requiring riskier institutions to pay a larger share of the premiums. An increase in premium assessments would increase

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the Company s expenses. The EESA included a provision for an increase in the amount of deposits insured by FDIC to $250,000 until December 2009. On October 14, 2008, the FDIC announced a new program the Temporary Liquidity Guarantee Program that provides unlimited deposit insurance on funds in noninterest-bearing transaction deposit accounts not otherwise covered by the existing deposit insurance limit of $250,000. All eligible institutions will be covered under the program for the first 30 days without incurring any costs. After the initial period, participating institutions will be assessed an annualized 10 basis point surcharge on the additional insured deposits. The behavior of depositors in regard to the level of FDIC insurance could cause the Bank s existing customers to reduce the amount of deposits held at the Bank, and or could cause new customers to open deposit accounts at the Bank. The level and composition of the Bank s deposit portfolio directly impacts the Bank s funding cost and net interest margin. As a result of these measures, it is likely that the premiums the Bank pays for FDIC insurance will increase, which would adversely affect net income. The impact of such measures cannot be assessed at this time.

The actions described above, together with additional actions announced by the Treasury and other regulatory agencies continue to develop. It is not clear at this time what impact EESA, TARP, other liquidity and funding initiatives of the Treasury and other bank regulatory agencies that have been previously announced, and any additional programs that may be initiated in the future will have on the financial markets and the financial services industry. The extreme levels of volatility and limited credit availability currently being experienced could continue to effect the U.S. banking industry and the broader U.S. and global economies, which will have an affect on all financial institutions, including the Company.

Overview

During the third quarter of 2008, the turbulence and uncertainty in the U.S. financial markets have adversely impacted credit markets on a global scale. Liquidity concerns and credit issues have resulted in the U.S. government s conservatorship of Fannie Mae and Freddie Mac as well as the failure and insolvency of several large financial companies. Although we continued to face unprecedented economic challenges, we maintained our focus on strengthening our balance sheet by stabilizing our problem loans, reducing our credit risk exposures, and improving both our capital and liquidity positions.

Our capital position remains strong. As of September 30, 2008, our total risk-based capital ratio was 13.12% or $318.5 million more than the 10.00% regulatory requirement for well-capitalized banks. Our Tier 1 risk-based capital ratio of 11.12% and our Tier 1 leverage ratio of 9.84% as of September 30, 2008 also significantly exceeded regulatory guidelines for well-capitalized banks.

Our liquidity position remains strong. During the third quarter of 2008, we further strengthened our liquidity position by obtaining additional borrowing capacity from the Federal Reserve discount window of almost $900.0 million. As of September 30, 2008, we had $527.5 million in cash and cash equivalents and approximately $2.29 billion in available borrowing capacity from various sources including the Federal Home Loan Bank (FHLB), the Federal Reserve Bank (FRB) and federal funds facilities with several financial institutions. Despite volatile and challenging market conditions, we experienced a 4% or $257.4 million deposit growth during the first nine months ended September 30, 2008, with total deposits increasing to $7.54 billion as of September 30, 2008, compared with $7.28 billion as of December 31, 2007. Our ongoing efforts to deleverage our balance sheet have resulted in a lower loan to deposit ratio of 110% at September 30, 2008, compared to 115% at June 30, 2008 and 122% at December 31, 2007. We believe that our liquidity position is more than sufficient to meet our operating expenses, borrowing needs and other obligations.

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Our nonperforming asset and delinquency trends have stabilized. Nonperforming assets totaled $200.6 million representing 1.71% of total assets at September 30, 2008. This compares to $193.1 million or 1.64% of total assets at June 30, 2008 and $67.5 million or 0.57% of total assets at December 31, 2007. Nonperforming assets as of September 30, 2008 are comprised of nonaccrual loans totaling $177.3 million, other real estate owned (OREO) totaling $17.6 million, and loans modified or restructured amounting to $5.7 million. Included in nonaccrual loans as of September 30, 2008 are seventeen loans totaling $27.3 million which were not 90 days past due as of September 30, 2008, but have been classified as nonaccrual due to concerns surrounding collateral values and future collectibility. Nonaccrual loans continued to be impacted by the deterioration in the residential construction and land portfolios, which comprised $119.1 million or 67% of total nonaccrual loans. Our delinquency trends have improved relative to the previous quarter, with notable improvements coming from the 30-59 days and 60-89 days delinquent categories. Total delinquent loans decreased to $315.7 million as of September 30, 2008 compared to $368.7 million as of June 30, 2008.

At September 30, 2008, the allowance for loan losses amounted to $177.2 million or 2.14% of total gross loans, compared to $168.4 million or 1.95% as of June 30, 2008. We recorded $43.0 million in loan loss provisions during the third quarter of 2008, compared to $85.0 million in the second quarter of 2008 and $55.0 million in the first quarter of 2008. Total net chargeoffs amounted to $39.7 million during the third quarter of 2008, compared to $34.8 million during the second quarter of 2008. Approximately 82%, or $32.7 million, of the total net chargeoffs recorded during the third quarter of 2008 were related to land and residential construction loans of which 70% were located in the Inland Empire.

Our core operating earnings remain profitable. In addition to $43.0 million in loan loss provisions, the $31.2 million, or $(0.56) per share, net loss that we recorded during the third quarter of 2008 includes $53.6 million in other than temporary impairment (OTTI) charges on investment securities. A large portion of the non-cash OTTI charges, approximately $47.0 million, was related to preferred stock issued by Fannie Mae and Freddie Mac. The fair values of these preferred stock securities were adversely impacted by the federal government s conservatorship of these entities in September 2008. The tax benefit recognized from the impairment of these preferred stock securities was limited during the third quarter of 2008 due to the accounting treatment of these losses as a capital loss. The passage of the Emergency Economic Stabilization Act (EESA) in October 2008 provided banks with tax relief by treating OTTI losses on Fannie Mae and Freddie Mac preferred securities as ordinary losses. As a result of this law change, we will be able to recognize an additional $5.7 million or $0.09 per share tax benefit in the fourth quarter of 2008. The remaining $6.6 million in OTTI charges recorded during the third quarter of 2008 were related to certain pooled trust preferred debt and equity securities. Excluding loan loss provisions and non-cash OTTI charges on investment securities, our core pretax operating income amounted to $48.0 million, $0.77 per share, during the third quarter of 2008.

Net interest income decreased to $86.5 million during the quarter ended September 30, 2008, compared with $103.9 million during the same quarter in 2007. Our net interest margin decreased 85 basis points to 3.10% during the third quarter of 2008. This compares with 3.95% during the same period in 2007 and 3.33% during the second quarter 2008. Relative to the third quarter of 2007 and the second quarter of 2008, our net interest margin during the quarter ended September 30, 2008 was adversely impacted by the sharp decline in interest rates prompted by several recent consecutive Federal Reserve rate cuts, by the reversal of interest from nonaccrual loans, and by the reinvestment of loan payoffs into lower yielding Treasury securities and other short-term investments. We anticipate net interest margin pressures to continue throughout the remainder of 2008.

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Excluding the non-cash OTTI charges on investment securities amounting to $53.6 million, total noninterest income decreased 28% to $10.0 million during the third quarter of 2008, compared with $14.0 million for the corresponding quarter in 2007. This decrease is attributable primarily to higher net gain on sales of investment securities and higher net gain on disposal of fixed assets in the third quarter of 2007. These decreases were partially offset by higher branch-related revenues and loan fees earned during the third quarter of 2008. Core noninterest income, which excludes the impact of non-cash OTTI charges, as well as net gains on sales of investment securities, loans and other assets, remained stable at $9.8 million during the third quarter of 2008, compared to $9.7 million during the same period last year.

Total noninterest expense increased 4% to $48.5 million during the third quarter of 2008, compared with $46.7 million for the same period in 2007, and decreased 13% relative to second quarter of 2008 total noninterest expenses of $55.7 million. The increase in total noninterest expense during the third quarter of 2008, relative to the same quarter in 2007, can be attributed predominantly to higher deposit insurance premiums and regulatory assessments, higher other real estate owned (OREO) expenses and higher other credit cycle related expenses. These increases were partially offset by lower compensation expenses due to lower staffing levels and a reduction in related benefits and incentive program expenses which were fully realized in the third quarter of 2008. Relative to the second quarter of 2008, total noninterest expense decreased 13% during the third quarter of 2008 primarily due to lower compensation and related employee benefits. Our efficiency ratio, which represents noninterest expense (excluding amortization and impairment writedowns on intangible assets and amortization of investments in affordable housing partnerships) divided by the aggregate of net interest income before provision for loan losses and noninterest income, was 46.40% during the third quarter of 2008 compared with 48.6% during the second quarter of 2008 and 37.64% for the third quarter in 2007. We anticipate noninterest expense for the remainder of 2008 to trend favorably as our expense management efforts continue.

Total consolidated assets at September 30, 2008 slightly decreased to $11.72 billion, compared with $11.85 billion at December 31, 2007. The net decrease in total assets is comprised predominantly of decreases in net loans receivable of $639.7 million and securities purchased under resale agreements amounting to $100.0 million. These decreases were partially offset by increases in cash and cash equivalents of $367.1 million, available-for-sale investment securities totaling $160.1 million, deferred tax assets totaling $109.2 million, and OREO, net amounting to $16.1 million. Total liabilities decreased 2% to $10.46 billion as of September 30, 2008, compared to $10.68 billion as of December 31, 2007. The net decrease in liabilities is primarily due to decreases in FHLB advances of $270.1 million and federal funds purchased of $191.8 million, partially offset by an increase in total deposits of $257.4 million.

Total average assets increased 5% to $11.71 billion during the third quarter of 2008, compared to $11.20 billion for the same quarter in 2007, due primarily to growth in average available-for-sale securities. Total average investment securities increased 23% to $2.13 billion during the quarter ended September 30, 2008 primarily due to $112.9 million in multifamily loan securitizations since the third quarter of 2007. Total average deposits rose 2% during the third quarter of 2008 to $7.47 billion, compared to $7.35 billion for the same quarter in 2007, with increases coming from time deposits, noninterest bearing demand deposits, and savings accounts.

As of September 30, 2008, we updated our goodwill impairment analysis to determine whether and to what extent our goodwill asset was impaired. As a result of this updated analysis, we recorded a $272 thousand goodwill impairment charge, which represents the remaining goodwill balance related to East West Insurance Services, Inc. This impairment writedown had no effect on our cash balances, liquidity or regulatory capital ratios.

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Results of Operations

We reported a net loss for the third quarter of 2008 of ($31.2) million, or ($0.56) per basic and diluted share, compared with net income of $41.3 million, representing $0.68 per basic and $0.67 per diluted share, reported during the third quarter of 2007. During the third quarter of 2008, our operating results were significantly impacted by $53.6 million in non-cash OTTI charges related predominantly to Fannie Mae and Freddie Mac preferred stock and $43.0 million in provision for loan losses recorded during the period. In comparison, we recorded only $405 thousand in OTTI charges and $3.0 million in loan loss provisions during the same period in 2007. Our annualized return on average total assets decreased to (1.07%) for the quarter ended September 30, 2008, compared to 1.48% for the same period in 2007. The annualized return on average stockholders equity decreased to (10.06%) for the third quarter of 2008, compared with 15.19% for the third quarter of 2007.

We incurred a net loss for the nine months ended September 30, 2008 of ($52.0) million, or $(0.90) per basic and diluted share, compared with net income of $123.9 million, or $2.04 per basic and $2.01 per diluted share, reported during the corresponding period in 2007. The net loss reported during the first nine months of 2008 was primarily due to the $63.5 million in total OTTI charges and $183.0 million in loan loss provisions recorded during the first nine months of 2008. In comparison, we recorded $405 thousand in OTTI charges and $3.0 million in loan loss provisions during the first nine months in 2007. Our annualized return on average total assets decreased to (0.59%) for the nine months ended September 30, 2008, compared to 1.52% for the same period in 2007. The annualized return on average stockholders equity decreased to (5.75%) for the first nine months of 2008, compared with 15.71% for the same period in 2007.

Components of Net (Loss) Income

	Three Months Ended September 30, 2008	2007	Nine Months Ended September 30, 2008	2007
	(In millions)		(In millions)	
Net interest income	$ 86.5	$ 103.9	$ 278.3	$ 301.4
Provision for loan losses	(43.0)	(3.0)	(183.0)	(3.0)
Noninterest (loss) income	(43.6)	13.6	(24.2)	35.5
Noninterest expense	(48.5)	(46.7)	(157.1)	(131.0)
Benefit (provision) for income taxes	17.4	(26.5)	34.0	(79.0)
Net (loss) income	$ (31.2)	$ 41.3	$ (52.0)	$ 123.9
Annualized return on average total assets	-1.07%	1.48%	-0.59%	1.52%
Annualized return on average stockholders equity	-10.06%	15.19%	-5.75%	15.71%

Net Interest Income

Our primary source of revenue is net interest income, which is the difference between interest income on earning assets and interest expense on interest-bearing liabilities. Net interest income for the third quarter of 2008 totaled $86.5 million, a 17% decrease over net interest income of $103.9 million recorded for the same period in 2007. For the first nine months of 2008, net interest income decreased 8% to $278.3 million, compared to $301.4 million for the same period in 2007.

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Net interest margin, defined as taxable equivalent net interest income divided by average earning assets, decreased 85 basis points to 3.10% during the third quarter of 2008, compared with 3.95% during the third quarter of 2007. Similarly, the net interest margin for the first nine months of 2008 decreased 61 basis points to 3.35%, compared with 3.96% during the same period in 2007. The decline in the net interest margin for both periods reflects the steep decrease in the federal funds target rate, a notable increase in the overall level of nonaccrual loans, and the reinvestment of net loan payoffs into lower yielding investment securities and short-term investments.

The following table presents the net interest spread, net interest margin, average balances, interest income and expense, and the average yields and rates by asset and liability component for the three months ended September 30, 2008 and 2007:

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	Three Months Ended September 30, 2008			2007		
	Average Volume	Interest	Average Yield/ Rate (1)	Average Volume	Interest	Average Yield/ Rate (1)
	(Dollars in thousands)					
ASSETS						
Interest-earning assets:						
Short-term investments (2)	$ 340,723	$ 1,957	2.28%	$ 27,154	$ 347	5.07%
Securities purchased under resale agreements (term)	50,000	1,277	10.13%	188,043	4,013	8.47%
Investment securities available-for-sale (3) (4)						
Taxable	2,077,097	22,685	4.33%	1,698,017	25,759	6.02%
Tax-exempt (5)	49,797	630	5.06%	33,419	657	7.86%
Loans receivable (3) (6)	8,451,517	131,682	6.18%	8,433,268	167,066	7.86%
FHLB and FRB stock	114,281	1,803	6.26%	81,671	1,107	5.38%
Total interest-earning assets	11,083,415	160,034	5.73%	10,461,572	198,949	7.54%
Noninterest-earning assets:						
Cash and due from banks	136,018			155,699		
Allowance for loan losses	(171,025)			(80,321)		
Other assets	660,736			660,279		
Total assets	$ 11,709,144			$ 11,197,229		
LIABILITIES AND STOCKHOLDERS EQUITY						
Interest-bearing liabilities:						
Checking accounts	$ 399,866	$ 659	0.65%	$ 404,418	$ 1,615	1.58%
Money market accounts	1,046,721	5,664	2.15%	1,287,573	13,322	4.10%
Savings deposits	449,687	929	0.82%	424,039	1,198	1.12%
Time deposits less than $100,000	1,151,876	7,932	2.73%	931,961	9,688	4.12%
Time deposits $100,000 or greater	3,045,325	25,573	3.33%	2,961,353	36,235	4.85%
Federal funds purchased	87,606	430	1.95%	172,064	2,317	5.34%
FHLB Advances	1,541,799	17,140	4.41%	1,257,199	16,175	5.10%
Securities sold under repurchase agreements	1,000,273	12,063	4.78%	962,458		