EAST WEST BANCORP INC
Form 10-Q
May 08, 2015

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

FORM 10-Q

Mark One

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

For the quarterly period ended March 31, 2015
or

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

For the transition period from to

Commission file number 000-24939

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

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

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

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

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

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

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

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

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

Number of shares outstanding of the issuer's common stock on the latest practicable date: 143,846,255 shares of common stock as of April 30, 2015.

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Forward-Looking Statements

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

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

- changes in our borrowers' performance on loans;
- changes in the commercial and consumer real estate markets;
- changes in our costs of operation, compliance and expansion;
- changes in the U.S. economy, including inflation;
- changes in government interest rate policies;
- changes in laws or the regulatory environment including regulatory reform initiatives;
- changes in the economy of and monetary policy in the People's Republic of China;
- changes in critical accounting policies and judgments;
- changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or other regulatory agencies;
- changes in the equity and debt securities markets;
- changes in competitive pressures on financial institutions;
- future credit quality and performance, including our expectations regarding future loan losses and allowance levels;
- effect of government budget cuts and government shut down;
- fluctuations of our stock price;
- success and timing of our business strategies;
- impact of reputational risk created by these developments on matters such as business generation and retention, funding and liquidity;
- impact of potential federal tax increases and spending cuts;
- impact of adverse judgments or settlements in litigation against the Company;
- changes in our ability to receive dividends from our subsidiaries;
- impact of political developments, wars or other hostilities may disrupt or increase volatility in securities or otherwise affect economic conditions; and
- our capital requirements (including under regulatory capital standards, such as the Basel III capital standards) and our ability to generate capital internally or raise capital on favorable terms.

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

PART I — FINANCIAL INFORMATION

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

	March 31, 2015	December 31, 2014
ASSETS		
Cash and cash equivalents	$1,886,199	$1,039,885
Short-term investments	325,350	338,714
Securities purchased under resale agreements	1,550,000	1,225,000
Available-for-sale investment securities, at fair value	2,841,085	2,626,365
Loans held for sale	196,111	45,950
Loans (net of allowance for loan losses of $257,738 in 2015 and $261,679 in 2014)	21,116,931	21,468,270
Other real estate owned, net	32,692	32,111
Investment in Federal Home Loan Bank stock, at cost	28,603	31,239
Investment in Federal Reserve Bank stock, at cost	54,556	54,451
Investment in qualified affordable housing partnerships, net (1)	182,719	178,962
Premises and equipment (net of accumulated depreciation of $88,826 in 2015 and $85,409 in 2014)	176,438	180,900
Goodwill	469,433	469,433
Other assets (1)	1,046,718	1,052,312
TOTAL (1)	$29,906,835	$28,743,592
LIABILITIES		
Customer deposits:		
Noninterest-bearing	$8,120,644	$7,381,030
Interest-bearing	17,042,189	16,627,744
Total deposits	25,162,833	24,008,774
Federal Home Loan Bank advances	317,777	317,241
Securities sold under repurchase agreements	695,000	795,000
Long-term debt	220,905	225,848
Accrued expenses and other liabilities	571,557	540,618
Total liabilities	26,968,072	25,887,481
COMMITMENTS AND CONTINGENCIES (Note 12)		
STOCKHOLDERS' EQUITY		
Common stock, $0.001 par value, 200,000,000 shares authorized; 164,151,409 and 163,772,218 shares issued in 2015 and 2014, respectively; 143,820,549 and 143,582,229 shares outstanding in 2015 and 2014, respectively.	164	164
Additional paid in capital	1,685,699	1,677,767
Retained earnings (1)	1,675,234	1,604,141
Treasury stock at cost—20,330,860 shares in 2015 and 20,189,989 shares in 2014.	(435,889)	(430,198)
Accumulated other comprehensive income, net of tax	13,555	4,237
Total stockholders' equity(1)	2,938,763	2,856,111
TOTAL (1)	$29,906,835	$28,743,592

(1) Prior periods were restated to reflect the retrospective application of adopting the new accounting guidance related to the Company’s investments in qualified affordable housing projects Accounting Standard Update ("ASU") 2014-01. See Note 10 of the Notes to Consolidated Financial Statements for additional information.

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2015	2014
INTEREST AND DIVIDEND INCOME		
Loans receivable, including fees	$241,566	$261,571
Available-for-sale investment securities	10,184	12,276
Securities purchased under resale agreements	4,849	4,853
Investment in Federal Home Loan Bank and Federal Reserve Bank stock	1,236	1,871
Due from banks and short-term investments	5,426	5,602
Total interest and dividend income	263,261	286,173
INTEREST EXPENSE		
Customer deposits	16,963	15,882
Federal Home Loan Bank advances	1,033	1,045
Securities sold under repurchase agreements	8,406	10,078
Long-term debt	1,142	1,202
Total interest expense	27,544	28,207
Net interest income before provision for loan losses	235,717	257,966
Provision for loan losses	4,987	6,933
Net interest income after provision for loan losses	230,730	251,033
NONINTEREST INCOME (LOSS)		
Branch fees	9,384	9,446
Letters of credit fees and foreign exchange income	8,706	6,856
Ancillary loan fees	2,656	2,472
Wealth management fees	5,179	3,028
Derivative commission fee income	5,306	2,760
Changes in FDIC indemnification asset and receivable/payable	(8,422)	(53,634)
Net gains on sales of loans	9,551	6,196
Net gains on sales of available-for-sale investment securities	4,404	3,418
Other operating income	7,362	4,542
Total noninterest income (loss)	44,126	(14,916)
NONINTEREST EXPENSE		
Compensation and employee benefits	64,253	59,277
Occupancy and equipment expense	15,443	15,851
Amortization of tax credit and other investments (1)	6,299	1,492
Amortization of premiums on deposits acquired	2,391	2,500
Deposit insurance premiums and regulatory assessments	5,656	5,702
Loan related expenses	2,340	2,575
Other real estate owned (income) expense	(1,026)	1,334
Legal expense	6,870	3,799
Data processing	2,617	8,200
Other operating expenses	23,187	19,224
Total noninterest expense (1)	128,030	119,954
INCOME BEFORE INCOME TAXES (1)	146,826	116,163
INCOME TAX EXPENSE (1)	46,799	41,992
NET INCOME (1)	$100,027	$74,171

EARNINGS PER SHARE [1]		
BASIC [1]	$0.70	$0.52
DILUTED [1]	$0.69	$0.52
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING		
BASIC	143,655	141,962
DILUTED	144,349	142,632
DIVIDENDS DECLARED PER COMMON SHARE	$0.20	$0.18

(1) Prior periods were restated to reflect the retrospective application of adopting the new accounting guidance related to the Company's investments in qualified affordable housing projects ASU 2014-01. See Note 10 of the Notes to Consolidated Financial Statements for additional information.

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2015	2014
Net income [1]	$100,027	$74,171
Other comprehensive income, net of tax:		
Net change in unrealized gains on available-for-sale investment securities	9,325	13,439
Net change in unrealized losses on other investments	(7)	(17)
Other comprehensive income	9,318	13,422
COMPREHENSIVE INCOME [1]	$109,345	$87,593

(1) Prior periods were restated to reflect the retrospective application of adopting the new accounting guidance related to the Company’s investments in qualified affordable housing projects ASU 2014-01. See Note 10 of the Notes to Consolidated Financial Statements for additional information.

See accompanying notes to consolidated financial statements.

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

	Common Stock	Additional Paid In Capital Common Stock	Retained Earnings [1]	Treasury Stock	Accumulated Other Comprehensive (Loss) Income, Net of Tax	Total Stockholders' Equity
BALANCE, JANUARY 1, 2014 [1]	$163	$1,571,670	$1,362,278	$(537,279)	$ (30,459)	$2,366,373
Net income [1]	—	—	74,171	—	—	74,171
Other comprehensive income	—	—	—	—	13,422	13,422
Stock compensation costs	—	3,180	—	—	—	3,180
Tax benefit from stock compensation plans, net	—	3,708	—	—	—	3,708
Issuance of 356,187 shares of common stock pursuant to various stock compensation plans and agreements	—	283	—	—	—	283
Cancellation of 7,233 shares of common stock due to forfeitures of issued restricted stock	—	127	—	(127)	—	—
195,291 shares of restricted stock surrendered due to employee tax liability	—	—	—	(7,074)	—	(7,074)
Common stock dividends	—	—	(25,950)	—	—	(25,950)
Issuance of 5,583,093 shares pursuant to MetroCorp acquisition	—	73,044	—	117,786	—	190,830
Warrant acquired pursuant to MetroCorp acquisition	—	4,855	—	—	—	4,855
BALANCE, MARCH 31, 2014 [1]	$163	$1,656,867	$1,410,499	$(426,694)	$ (17,037)	$2,623,798
BALANCE, JANUARY 1, 2015 [1]	$164	$1,677,767	$1,604,141	$(430,198)	$ 4,237	$2,856,111
Net income	—	—	100,027	—	—	100,027
Other comprehensive income	—	—	—	—	9,318	9,318
Stock compensation costs	—	3,954	—	—	—	3,954
Tax benefit from stock compensation plans, net	—	3,145	—	—	—	3,145
Issuance of 379,191 shares of common stock pursuant to various stock compensation plans and agreements	—	833	—	—	—	833
140,871 shares of restricted stock surrendered due to employee tax liability	—	—	—	(5,691)	—	(5,691)
Common stock dividends	—	—	(28,934)	—	—	(28,934)
BALANCE, MARCH 31, 2015	$164	$1,685,699	$1,675,234	$(435,889)	$ 13,555	$2,938,763

(1) Prior periods were restated to reflect the retrospective application of adopting the new accounting guidance related to the Company’s investments in qualified affordable housing projects ASU 2014-01. See Note 10 of the Notes to Consolidated Financial Statements for additional information.

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income [(1)]	$100,027	$74,171
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization [(1)]	17,422	17,420
(Accretion) of discount and amortization of premiums, net	(18,600)	(56,020)
Changes in FDIC indemnification asset and receivable/payable	8,422	53,634
Stock compensation costs	3,954	3,180
Tax benefit from stock compensation plans, net	(3,145)	(3,708)
Provision for loan losses	4,987	6,933
Net gain on sales of available-for-sale investment securities, loans and other assets	(17,788)	(10,458)
Originations and purchases of loans held for sale	—	(60,492)
Proceeds from sales and paydowns/payoffs in loans held for sale	457	40,781
Net (payments to) proceeds from FDIC shared-loss agreements	(1,810)	4,139
Net change in accrued interest receivable and other assets [(1)]	5,980	41,713
Net change in accrued expenses and other liabilities	26,413	(63,610)
Other net operating activities	(781)	203
Total adjustments [(1)]	25,511	(26,285)
Net cash provided by operating activities	125,538	47,886
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions, net of cash paid	—	138,465
Net (increase) decrease in:		
Loans	(454,194)	(734,560)
Short-term investments	13,364	(65,793)
Securities purchased under resale agreements	(425,000)	100,000
Purchases of:		
Available-for-sale investment securities	(517,477)	(138,149)
Loans receivable	(1,609)	(974)
Premises and equipment	(1,741)	—
Investments in qualified affordable housing partnerships, tax credit and other investments	(20,861)	(27,510)
Proceeds from sale of:		
Available-for-sale investment securities	180,501	330,231
Loans receivable	679,775	134,150
Other real estate owned	4,513	4,986
Premises and equipment	4,345	—
Repayments, maturities and redemptions of available-for-sale investment securities	138,422	151,358
Redemption of Federal Home Loan Bank stock	2,636	12,930
Surrender of life insurance policies	156	14,769
Other net investing activities	(105)	(5,512)
Net cash used in investing activities	(397,275)	(85,609)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in:		
Deposits	1,154,059	1,096,290

Securities sold under repurchase agreements	—	(15,000)
Proceeds from:		
Issuance of common stock pursuant to various stock plans and agreements	833	283
Payment for:		
Repayment of Federal Home Loan Bank advances	—	(10,000)
Repayment of long-term debt	(5,000)	(15,310)
Repurchase of vested shares due to employee tax liability	(5,691)	(7,074)
Cash dividends	(29,295)	(26,139)
Tax benefit from stock compensation plans, net	3,145	3,708
Net cash provided by financing activities	1,118,051	1,026,758
NET INCREASE IN CASH AND CASH EQUIVALENTS	846,314	989,035
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	1,039,885	895,820
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	$1,886,199	$1,884,855
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$26,707	$27,803
Income tax payments, net of refunds	$18,458	$70,723
Noncash investing and financing activities:		
Loans transferred to loans held for sale, net	$820,473	$478,982
Transfers to other real estate owned	$3,828	$15,628
Issuance of stock related to acquisition	$—	$190,830

(1) Prior periods were restated to reflect the retrospective application of adopting the new accounting guidance related to the Company’s investments in qualified affordable housing projects ASU 2014-01. See Note 10 of the Notes to Consolidated Financial Statements for additional information.

See accompanying notes to consolidated financial statements.

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

NOTE 1 — BASIS OF PRESENTATION

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

The interim consolidated financial statements, presented in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and general practices within the banking industry, are unaudited and reflect all adjustments that, in the opinion of management, are necessary for a fair statement of financial statements for the interim periods. Certain prior year balances and notes have been reclassified to conform to current period presentation. The Company restated prior period financial statements to reflect the impact of the retrospective application of Accounting Standards Update (“ASU”) 2014-01, Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects. See Note 10 to the Company’s consolidated financial statements for details. The current period’s results of operations are not necessarily indicative of results that may be expected for any other interim period or for the year as a whole. Events subsequent to the consolidated balance sheet date have been evaluated through the date the financial statements are issued for inclusion in the accompanying financial statements. The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in the Company’s 2014 Annual Report.

NOTE 2 — CURRENT ACCOUNTING DEVELOPMENTS

New Accounting Pronouncements Adopted

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

In January 2014, the FASB issued ASU 2014-04, Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. ASU 2014-04 clarifies when an in substance repossession or foreclosure occurs that would require a transfer of mortgage loans collateralized by residential real estate properties to other real estate owned (“OREO”). The guidance also requires disclosure of the amount of foreclosed residential real estate property held by the creditor and the recorded investment in residential real estate mortgage loans that are in process of foreclosure. The Company adopted this guidance in the first quarter 2015 with prospective application. The adoption of this guidance did not have a material impact on the

Company’s consolidated financial statements as this guidance was consistent with our prior practice. See Note 9 for details regarding this adoption.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The new guidance replaces existing revenue recognition guidance for contracts to provide goods or services to customers and amends existing guidance related to recognition of gains and losses on the sale of certain nonfinancial assets such as real estate. ASU 2014-09 establishes a principles-based approach to recognizing revenue that applies to all contracts other than those covered by other authoritative GAAP guidance. Quantitative and qualitative disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows are also required. ASU 2014-09 is effective for interim and annual periods beginning after December 15, 2016 and is applied on either a modified retrospective or full retrospective basis. Early adoption is not permitted. The Company is currently evaluating the impact on its consolidated financial statements.

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

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

NOTE 3 — BUSINESS COMBINATION

There were no business combinations during the quarter ended March 31, 2015.

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

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

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

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

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

In determining the appropriate hierarchy levels, the Company performs an analysis of the assets and liabilities that are subject to fair value disclosure. These assets and liabilities are reported on the consolidated balance sheets at their fair values as of March 31, 2015 and December 31, 2014. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to their fair value measurement.

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

	Assets (Liabilities) Measured at Fair Value on a Recurring Basis as of March 31, 2015			
($ in thousands)	Fair Value Measurements March 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale investment securities:				
U.S. Treasury securities	$1,172,226	$ 1,172,226	$—	$—
U.S. government agency and U.S. government sponsored enterprise debt securities	411,966	—	411,966	—
U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	95,235	—	95,235	—
Residential mortgage-backed securities	727,356	—	727,356	—
Municipal securities	191,246	—	191,246	—
Other residential mortgage-backed securities:				
Investment grade	51,501	—	51,501	—
Corporate debt securities:				
Investment grade	140,401	—	140,401	—
Non-investment grade	9,501	—	9,501	—
Other securities	41,653	32,477	9,176	—
Total available-for-sale investment securities	$2,841,085	$ 1,204,703	$1,636,382	$—
Derivative assets:				
Foreign exchange options	$3,683	$ —	$3,683	$—
Interest rate swaps and caps	$66,060	$ —	$66,060	$—
Foreign exchange contracts	$13,340	$ —	$13,340	$—
Derivative liabilities:				
Interest rate swaps on certificates of deposits	$(6,370)	$ —	$(6,370)	$—
Interest rate swaps and caps	$(66,914)	$ —	$(66,914)	$—
Foreign exchange contracts	$(13,080)	$ —	$(13,080)	$—
Embedded derivative liabilities	$(3,412)	$ —	$—	$(3,412)

($ in thousands)	Assets (Liabilities) Measured at Fair Value on a Recurring Basis as of December 31, 2014			
	Fair Value Measurements December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale investment securities:				
U.S. Treasury securities	$873,435	$ 873,435	$—	$—
U.S. government agency and U.S. government sponsored enterprise debt securities	311,024	—	311,024	—
U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	141,420	—	141,420	—
Residential mortgage-backed securities	791,088	—	791,088	—
Municipal securities	250,448	—	250,448	—
Other residential mortgage-backed securities:				
Investment grade	53,918	—	53,918	—
Other commercial mortgage-backed securities:				
Investment grade	34,053	—	34,053	—
Corporate debt securities:				
Investment grade	115,182	—	115,182	—
Non-investment grade	14,681	—	8,153	6,528
Other securities	41,116	32,105	9,011	—
Total available-for-sale investment securities	$2,626,365	$ 905,540	$1,714,297	$6,528
Derivative assets:				
Foreign exchange options	$6,136	$ —	$6,136	$—
Interest rate swaps and caps	$41,534	$ —	$41,534	$—
Foreign exchange contracts	$8,123	$ —	$8,123	$—
Derivative liabilities:				
Interest rate swaps on certificates of deposits	$(9,922)	$ —	$(9,922)	$—
Interest rate swaps and caps	$(41,779)	$ —	$(41,779)	$—
Foreign exchange contracts	$(9,171)	$ —	$(9,171)	$—
Embedded derivative liabilities	$(3,392)	$ —	$—	$(3,392)

Transfers into or out of fair value hierarchy classifications are made if the significant inputs used in the financial models measuring the fair values of the assets and liabilities became unobservable or observable, respectively, in the current marketplace. The Company's policy with respect to transfers between levels of the fair value hierarchy is to recognize transfers into and out of each level as of the end of the reporting period. During the three months ended March 31, 2015, the Company transferred $1.1 million of assets measured on a recurring basis out of Level 3 into Level 2 due to increased market liquidity and price observability on certain pooled trust preferred securities. There were no transfers of assets measured on a recurring basis in and out of Level 1, Level 2 or Level 3 during the three months ended March 31, 2014.

At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. The following tables present a reconciliation of the beginning and ending balances for major asset and liability categories measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2015 and 2014:

($ in thousands)	2015 Corporate Debt Securities: Non-Investment Grade	2015 Embedded Derivatives Liabilities	2014 Corporate Debt Securities: Non-Investment Grade	2014 Embedded Derivatives Liabilities
Beginning balance, January 1	$6,528	$(3,392)	$6,371	$(3,655)
Total gains or (losses) for the period:				
Included in earnings [1]	960	(20)	—	257
Included in other comprehensive income (unrealized)[2]	922	—	434	—
Purchases, issues, sales, settlements:				
Purchases	—	—	—	—
Issues	—	—	—	—
Sales	(7,219)	—	—	—
Settlements	(98)	—	(88)	—
Transfer from investment grade to non-investment grade	—	—	—	—
Transfers in and/or out of Level 3	(1,093)	—	—	—
Ending balance, March 31	$—	$(3,412)	$6,717	$(3,398)
Changes in unrealized losses included in earnings relating to assets and liabilities held at the end of March 31	$—	$20	$—	$(257)

(1) Realized gains or losses of corporate debt securities and embedded derivative liabilities are included in net gains on sales of investment securities and other operating expense, respectively, in the consolidated statements of income.
(2) Unrealized gains or losses on available-for-sale investment securities are reported in other comprehensive income, net of tax, in the consolidated statements of comprehensive income.

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

($ in thousands)	Fair Value Measurements (Level 3)	Valuation Technique(s)	Unobservable Input(s)	Range of Inputs	Weighted Average
March 31, 2015					
Embedded derivative liabilities	$(3,412)	Discounted cash flow	Credit risk	0.03% - 0.07%	0.06%

December 31, 2014					
Available-for-sale investment securities:					
Corporate debt securities:					
Non-investment grade	$ 6,528	Discounted cash flow	Constant prepayment rate	0.00% - 1.00%	0.73%
			Constant default rate	0.75% - 1.20%	0.87%
			Loss severity	85.00%	85.00%
			Discount margin	4.50% - 7.50%	6.94%
Embedded derivative liabilities	$ (3,392)	Discounted cash flow	Credit risk	0.12% - 0.14%	0.13%

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Assets measured at fair value on a nonrecurring basis using significant unobservable inputs include certain non-purchased credit impaired loans (“Non-PCI loans”) and OREO. The inputs and assumptions for nonrecurring Level 3 fair value measurements include adjustments to external and internal appraisals for changes in the market, assumptions by appraiser embedded into appraisals, probability weighting of broker price opinions, and management’s adjustments for other relevant factors and market trends. See Note 9 for a detailed discussion of non-PCI loans.

The following tables present assets measured at fair value on a nonrecurring basis as of March 31, 2015 and December 31, 2014:

	Assets Measured at Fair Value on a Nonrecurring Basis as of March 31, 2015			
($ in thousands)	Fair Value Measurements	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Non-PCI impaired loans:				
Commercial Real Estate (“CRE”)	$ 13,648	$ —	$—	$ 13,648
Commercial and Industrial (“C&I”)	11,356	—	—	11,356
Residential	14,306	—	—	14,306
Consumer	107	—	—	107
Total non-PCI impaired loans	$ 39,417	$ —	$—	$ 39,417
OREO	$ 1,676	$ —	$—	$ 1,676

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

The following table presents fair value adjustments of certain assets measured on a nonrecurring basis recognized during the three months ended and still held as of March 31, 2015 and 2014:

	Three Months Ended March 31,	
($ in thousands)	2015	2014
Non-PCI impaired loans:		
CRE	$ 841	$ (464)

C&I	(2,470)	(6,530)
Residential	(239)	(365)
Consumer	—	—
Total non-PCI impaired loans	$(1,868)	$(7,359)
OREO	$(277)	$(526)

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

($ in thousands)	Fair Value Measurements (Level 3)	Valuation Technique(s)	Unobservable Input(s)	Range of Inputs	Weighted Average
March 31, 2015					
Non-PCI impaired loans	$3,578	Discounted cash flow	Discount rate	0% - 86%	58%
	$35,839	Market comparables	Discount rate (1)	0% - 100%	7%
OREO	$1,676	Appraisal	Selling cost	8%	8%
December 31, 2014					
Non-PCI impaired loans	$11,499	Discounted cash flow	Discount rate	0% - 81%	49%
	$56,312	Market comparables	Discount rate (1)	0% - 100%	4%
OREO	$17,521	Appraisal	Selling cost	8%	8%

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

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

($ in thousands)	March 31, 2015 Carrying Amount	Level 1	Level 2	Level 3	Estimated Fair Value
Financial Assets:					
Cash and cash equivalents	$1,886,199	$1,886,199	$—	$—	$1,886,199
Short-term investments	$325,350	$—	$325,350	$—	$325,350
Securities purchased under resale agreements	$1,550,000	$—	$1,597,101	$—	$1,597,101
Loans held for sale	$196,111	$—	$196,111	$—	$196,111
Loans receivable, net	$21,116,931	$—	$—	$20,905,743	$20,905,743
Investment in Federal Home Loan Bank stock	$28,603	$—	$28,603	$—	$28,603
Investment in Federal Reserve Bank stock	$54,556	$—	$54,556	$—	$54,556
Accrued interest receivable	$86,186	$—	$86,186	$—	$86,186
Financial Liabilities:					
Customer deposit accounts:					
Demand, savings and money market deposits	$18,786,462	$—	$18,786,462	$—	$18,786,462
Time deposits	$6,376,371	$—	$—	$6,358,260	$6,358,260
Federal Home Loan Bank advances	$317,777	$—	$334,286	$—	$334,286
Securities sold under repurchase agreements	$695,000	$—	$751,270	$—	$751,270
Accrued interest payable	$12,141	$—	$12,141	$—	$12,141

Long-term debt	$220,905	$—	$207,906	$—	$207,906

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

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

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

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

Securities purchased under resale agreements (“Resale Agreements”) — Resale agreements with original maturities of 90 days or less are included in cash and cash equivalents. The fair value of securities purchased under resale agreements with original maturities of more than 90 days is estimated by discounting the cash flows based on expected maturities or repricing dates utilizing estimated market discount rates. Due to the observable nature of the inputs used in deriving the estimated fair values, these instruments are classified as Level 2.

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

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

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

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

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

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

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

Foreign Exchange Options — The Company entered into foreign exchange option contracts with major investment firms in 2010. The settlement amount is determined based upon the performance of the Chinese currency Renminbi (“RMB”) relative to the U.S. Dollar (“USD”) over the 5-year term of the contracts. The performance amount is computed based on the average quarterly value of the RMB compared to the USD as compared to the initial value. The fair value of these derivative contracts is provided by third parties and is determined based on the change in the RMB and the volatility of the option over the life of the agreement. The option value is derived based on the volatility of the option, interest rate, currency rate and time remaining to maturity. The Company’s consideration of the counterparty’s credit risk resulted in a nominal adjustment to the valuation of the foreign exchange options as of March 31, 2015 and December 31, 2014. Due to the observable nature of the inputs used in deriving the fair value of these derivative contracts, the valuation of the option contracts is classified as Level 2.

Interest Rate Swaps and Caps — The Company enters into interest rate swap and cap contracts with institutional counterparties to hedge against interest rate swap and cap products offered to bank customers. These products allow borrowers to lock in attractive intermediate and long-term interest rates by entering into an interest rate swap or cap contract with the Company, resulting in the customer obtaining a synthetic fixed rate loan. The Company also enters into interest rate swap contracts with institutional counterparties to hedge against certificates of deposit issued. This product allows the Company to lock in attractive floating rate funding. The fair value of interest rate swap and cap contracts is based on a discounted cash flow approach. The counterparty's credit risk is considered in the valuation of interest rate swaps and caps as of March 31, 2015 and December 31, 2014. Due to the observable nature of the inputs used in deriving the fair value of these derivative contracts, the valuation of interest rate swaps and caps is classified as Level 2.

Foreign Exchange Contracts — The Company enters into short-term foreign exchange contracts to purchase/sell foreign currencies at set rates in the future. These contracts economically hedge against foreign exchange rate fluctuations. The Company also enters into contracts with institutional counterparties to hedge against foreign exchange products offered to bank customers. These products allow customers to hedge the foreign exchange risk of their deposits and loans denominated in foreign currencies. The Company assumes minimal foreign exchange rate risk as the contract with the customer and the contract with the institutional party mirror each other. The fair value is determined at each reporting period based on the change in the foreign exchange rate. Given the short-term nature of the contracts, the counterparties' credit risks are considered nominal and resulted in no adjustments to the valuation of the short-term foreign exchange contracts as of March 31, 2015 and December 31, 2014. The valuation of these contracts is classified as Level 2 due to the observable nature of the inputs used in deriving the fair value.

Customer Deposits — The carrying amount approximates fair value for demand and interest checking deposits, savings deposits, and certain money market deposits as the amounts are payable on demand as of the balance sheet date. Due to the observable nature of the inputs used in deriving the estimated fair value, these instruments are classified as Level 2. For time deposits, the fair value is based on the discounted value of contractual cash flows using the rates offered by the Company. Due to the unobservable nature of the inputs used in deriving the estimated fair values, time deposits are classified as Level 3.

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

Securities under repurchase agreements ("Repurchase Agreements") — For repurchase agreements with original maturities of 90 days or less, the carrying amount approximates fair value due to the short-term nature of these instruments. As of March 31, 2015 and December 31, 2014, all of the repurchase agreements were long-term in nature and the fair values of the repurchase agreements were calculated by discounting future cash flows based on expected maturities or repricing dates, utilizing estimated market discount rates, and taking into consideration the call features of each instrument. Due to the observable nature of the inputs used in deriving the estimated fair values, these instruments are classified as Level 2.

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

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

Embedded Derivative Liabilities — During 2010, the Company entered into foreign exchange option contracts with major brokerage firms to economically hedge against foreign exchange fluctuations in certain certificates of deposits available to its customers. These certificates of deposits have a term of 5 years and pay interest based on the performance of the RMB relative to the USD. Under ASC 815, a certificate of deposit that pays interest based on changes in foreign exchange rates is a hybrid instrument with an embedded derivative that must be accounted for separately from the host contract (i.e., the certificate of deposit). The fair value of these embedded derivatives is based on the discounted cash flow approach. The liabilities are divided between the portion under FDIC insurance coverage and the non-insured portion. For the FDIC insured portion, the Company applied a risk premium comparable to an agency security risk premium. For the non-insured portion, the Company considered its own credit risk in determining the valuation by applying a risk premium based on the Company's institutional credit rating. Total credit valuation adjustments on derivative liabilities were nominal as of March 31, 2015 and December 31, 2014. Increases (decreases), if any, of those inputs in isolation would result in a lower (higher) fair value measurement. The valuation of the embedded derivative liabilities falls within Level 3 of the fair value hierarchy since the significant inputs used in deriving the fair value of these derivative contracts are not directly observable.

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

NOTE 5 — STOCK-BASED COMPENSATION

The Company issues stock options and restricted stock awards to employees under share-based compensation plans. During the three months ended March 31, 2015 and 2014, total compensation expense related to restricted stock awards reduced income before taxes by $4.0 million and $3.2 million, respectively. The net tax benefit recognized in equity for stock compensation plans was $3.1 million and $3.7 million for the three months ended March 31, 2015 and 2014, respectively.

As of March 31, 2015, there were 3,050,063 shares available to be issued, subject to the Company’s current 1998 Stock Incentive Plan, as amended.

Stock Options — The Company issues fixed stock options to certain employees, officers, and directors. Stock options are issued at the current market price on the date of grant with a four-year vesting period and contractual term of seven years. The Company issues new shares upon the exercise of stock options. The Company did not issue any stock options during the three months ended March 31, 2015 and 2014.

The following table presents the activity for the Company’s stock options as of and for the three months ended March 31, 2015:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (In thousands)
Outstanding at beginning of period	42,116	$20.75	—	$—
Granted	—	—	—	—
Exercised	(39,751)	21.09	—	—
Expired	—	—	—	—
Outstanding at end of period	2,365	$14.95	0.77 years	$60
Vested or expected to vest at end of period	2,365	$14.95	0.77 years	$60
Exercisable at end of period	2,365	$14.95	0.77 years	$60

The Company received $838 thousand and $283 thousand during the three months ended March 31, 2015 and 2014, respectively, in cash proceeds from stock option exercises. The intrinsic value of the options exercised was $693 thousand and $194 thousand for the three months ended March 31, 2015 and 2014, respectively. The net tax benefit recognized from stock option exercises was $291 thousand for the three months ended March 31, 2015 compared to $82 thousand for the three months ended March 31, 2014.

As of March 31, 2015, all stock options are fully vested and all compensation cost related to stock options has been recognized.

Restricted Stock Awards — In addition to stock options, the Company also grants restricted stock awards to directors, officers and employees. The restricted stock awards vest ratably in three years or cliff vest in three or five years of continued employment from the date of grant. Additionally, some of the restricted stock awards include a Company financial performance requirement for vesting. The Company becomes entitled to an income tax deduction in an amount equal to the taxable income reported by the holders of the restricted stock when the restrictions are released and the shares are issued. Restricted stock awards are forfeited if officers and employees terminate employment prior to the lapsing of restrictions or if established financial goals are not achieved. The Company records forfeitures of issued restricted stock as treasury share repurchases.

The following table presents a summary of the activity for the Company’s time-based and performance-based restricted stock awards as of March 31, 2015, including changes during the three months ended March 31, 2015:

	March 31, 2015			
	Restricted Stock Awards			
	Time-Based		Performance-Based	
	Shares	Weighted Average Price	Shares	Weighted Average Price
Outstanding at beginning of period	751,020	$30.61	518,553	$29.64
Granted	411,802	38.85	149,284	39.95
Vested	(207,495)	23.27	(144,445)	22.05
Forfeited	(13,119)	34.05	—	—
Outstanding at end of period	942,208	$35.78	523,392	$35.64

There were no restricted stock grants to outside directors during the three months ended March 31, 2015 and 2014.

Restricted stock awards are valued at the closing price of the Company’s stock on the date of award. The weighted average fair values of time-based restricted stock awards granted during the three months ended March 31, 2015 and 2014 were $38.85 and $36.83, respectively. The weighted average fair value of performance-based restricted stock awards granted during the three months ended March 31, 2015 and 2014 were $39.95 and $36.85, respectively. The total fair value of time-based restricted stock awards vested during the three months ended March 31, 2015 and 2014 was $8.4 million and $14.6 million, respectively. The total fair value of performance-based restricted stock awards vested during the three months ended March 31, 2015 and 2014 were $5.8 million and $2.7 million, respectively.

As of March 31, 2015, total unrecognized compensation cost related to time-based and performance-based restricted stock awards amounted to $29.3 million and $12.3 million, respectively. This cost is expected to be recognized over a weighted average period of 2.41 years and 2.29 years, respectively.

NOTE 6 — SECURITIES PURCHASED UNDER RESALE AGREEMENTS AND SOLD UNDER REPURCHASE AGREEMENTS

Resale agreements

Resale agreements are recorded at the amounts at which the securities were acquired. The market values of the underlying securities collateralizing the related receivable of the resale agreements, including accrued interest, are monitored. Additional collateral may be requested by the Company from the counterparty when deemed appropriate. Gross resale agreements were $1.85 billion and $1.43 billion as of March 31, 2015 and December 31, 2014, respectively. The weighted average interest rates were 1.42% and 1.55% as of March 31, 2015 and December 31, 2014, respectively.

Repurchase agreements

Long-term repurchase agreements are accounted for as collateralized financing transactions and recorded at the amounts at which the securities were sold. The collaterals for these agreements are mainly comprised of U.S. government agency and U.S. government sponsored enterprise debt and mortgage-backed securities. The Company may have to provide additional collateral for the repurchase agreements, as necessary. Gross repurchase agreements were $995.0 million as of March 31, 2015 and December 31, 2014. The weighted average interest rate was 3.70% as of March 31, 2015 and December 31, 2014.

Balance Sheet Offsetting

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

($ in thousands)	As of March 31, 2015					
				Gross Amounts Not Offset on the Consolidated Balance Sheet		
Assets	Gross Amounts of Recognized Assets	Gross Amounts Offset on the Consolidated Balance Sheet	Net Amounts of Assets Presented on the Consolidated Balance Sheet	Financial Instruments	Collateral Received	Net Amount
Resale agreements	$1,850,000	$(300,000)	$1,550,000	$(350,000) (1)	$(1,195,203) (2)	$4,797
				Gross Amounts Not Offset on the Consolidated Balance Sheet		
Liabilities	Gross Amounts of Recognized Liabilities	Gross Amounts Offset on the Consolidated Balance Sheet	Net Amounts of Liabilities Presented on the Consolidated Balance Sheet	Financial Instruments	Collateral Posted	Net Amount
Repurchase agreements	$995,000	$(300,000)	$695,000	$(350,000) (1)	$(345,000) (3)	$—

($ in thousands)	As of December 31, 2014					
				Gross Amounts Not Offset on the Consolidated Balance Sheet		
Assets	Gross Amounts of Recognized Assets	Gross Amounts Offset on the Consolidated Balance Sheet	Net Amounts of Assets Presented on the Consolidated Balance Sheet	Financial Instruments	Collateral Received	Net Amount
Resale agreements	$1,425,000	$(200,000)	$1,225,000	$(425,000) (1)	$(797,172) (2)	$2,828
				Gross Amounts Not Offset on the Consolidated Balance Sheet		
Liabilities	Gross Amounts of Recognized	Gross Amounts Offset on the Consolidated	Net Amounts of Liabilities Presented			Net Amount

	Liabilities	Balance Sheet	on the Consolidated Balance Sheet	Financial Instruments	Collateral Posted	
Repurchase agreements	$995,000	$(200,000)	$795,000	$(425,000) [(1)]	$(370,000) [(3)]	$—

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

(2) Represents the fair value of securities the Company has received under resale agreements, limited for table presentation purposes to the amount of the recognized asset due from each counterparty.

(3) Represents the fair value of securities the Company has pledged under repurchase agreements, limited for table presentation purposes to the amount of the recognized liability owed to each counterparty.

NOTE 7 – AVAILABLE-FOR-SALE INVESTMENT SECURITIES

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

($ in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2015				
Available-for-sale investment securities:				
U.S. Treasury securities	$1,162,801	$9,586	$(161)	$1,172,226
U.S. government agency and U.S. government sponsored enterprise debt securities	411,275	1,143	(452)	411,966
U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	94,330	1,242	(337)	95,235
Residential mortgage-backed securities	717,693	11,274	(1,611)	727,356
Municipal securities	187,244	4,800	(798)	191,246
Other residential mortgage-backed securities:				
Investment grade (1)	50,297	1,310	(106)	51,501
Corporate debt securities:				
Investment grade (1)	141,140	—	(739)	140,401
Non-investment grade (1)	11,524	—	(2,023)	9,501
Other securities	41,543	436	(326)	41,653
Total available-for-sale investment securities	$2,817,847	$29,791	$(6,553)	$2,841,085
December 31, 2014				
Available-for-sale investment securities:				
U.S. Treasury securities	$873,101	$1,971	$(1,637)	$873,435
U.S. government agency and U.S. government sponsored enterprise debt securities	311,927	490	(1,393)	311,024
U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	140,957	1,056	(593)	141,420
Residential mortgage-backed securities	785,412	9,754	(4,078)	791,088
Municipal securities	245,408	6,202	(1,162)	250,448
Other residential mortgage-backed securities:				
Investment grade (1)	52,694	1,359	(135)	53,918
Other commercial mortgage-backed securities:				
Investment grade (1)	34,000	53	—	34,053
Corporate debt securities:				
Investment grade (1)	116,236	—	(1,054)	115,182
Non-investment grade (1)	17,881	—	(3,200)	14,681
Other securities	41,589	243	(716)	41,116
Total available-for-sale investment securities	$2,619,205	$21,128	$(13,968)	$2,626,365

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

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Realized Gains and Losses

The following table presents the proceeds, gross realized gains, and gross realized losses related to the sales of available-for-sale investment securities for the three months ended March 31, 2015 and 2014:

($ in thousands)	Three Months Ended March 31, 2015	2014	
Proceeds from sales	$180,501	$330,231	
Gross realized gains	$4,404	$3,545	
Gross realized losses	$—	$127	(1)
Related tax expense	$1,850	$1,436	

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

Declines in the fair value of securities below their cost that are deemed to be an other-than-temporary impairment (“OTTI”) are recognized in earnings to the extent the impairment is related to credit losses. The following table presents a rollforward of the amounts related to the OTTI credit losses recognized in earnings for the three months ended March 31, 2015 and 2014:

($ in thousands)	Three Months Ended March 31, 2015	2014
Beginning balance	$112,338	$115,511
Addition of OTTI that was not previously recognized	—	—
Additional increases to the amount related to the credit loss for which an OTTI was previously recognized	—	—
Reduction for securities sold	(5,650)	—
Ending balance	$106,688	$115,511

The Company believes that it is not more likely than not that the Company will be required to sell the securities above before recovery of their amortized cost basis. No OTTI credit losses were recognized for the three months ended March 31, 2015 and 2014. For the three months ended March 31, 2015, the Company realized a gain of $960 thousand from the sale of a non-investment grade corporate debt security with previously recognized OTTI credit losses of $5.7 million. There were no sale transactions related to non-investment grade investment securities with previously recognized OTTI credit losses for the three months ended March 31, 2014.

Unrealized Losses

The following tables present the Company's investment portfolio's gross unrealized losses and related fair values, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of March 31, 2015 and December 31, 2014:

($ in thousands)	Less Than 12 Months Fair Value	Less Than 12 Months Unrealized Losses	12 Months or More Fair Value	12 Months or More Unrealized Losses	Total Fair Value	Total Unrealized Losses
March 31, 2015						
Available-for-sale investment securities:						
U.S. Treasury securities	$61,684	$(37)	$50,860	$(124)	$112,544	$(161)
U.S. government agency and U.S. government sponsored enterprise debt securities	144,114	(383)	24,927	(69)	169,041	(452)
U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities:						
Commercial mortgage-backed securities	14,119	(141)	13,541	(196)	27,660	(337)
Residential mortgage-backed securities	40,969	(97)	103,488	(1,514)	144,457	(1,611)
Municipal securities	26,905	(335)	15,783	(463)	42,688	(798)
Other residential mortgage-backed securities:						
Investment grade	—	—	6,985	(106)	6,985	(106)
Corporate debt securities:						
Investment grade	—	—	90,401	(739)	90,401	(739)
Non-investment grade	—	—	9,501	(2,023)	9,501	(2,023)
Other securities	8,674	(326)	—	—	8,674	(326)
Total available-for-sale investment securities	$296,465	$(1,319)	$315,486	$(5,234)	$611,951	$(6,553)

($ in thousands)	Less Than 12 Months Fair Value	Less Than 12 Months Unrealized Losses	12 Months or More Fair Value	12 Months or More Unrealized Losses	Total Fair Value	Total Unrealized Losses
December 31, 2014						
Available-for-sale investment securities:						
U.S. Treasury securities	$170,260	$(266)	$163,800	$(1,371)	$334,060	$(1,637)
U.S. government agency and U.S. government sponsored enterprise debt securities	69,438	(504)	124,104	(889)	193,542	(1,393)
U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities:						
	45,405	(257)	16,169	(336)	61,574	(593)

Commercial mortgage-backed securities						
Residential mortgage-backed securities	81,927	(270)	241,047	(3,808)	322,974	(4,078)
Municipal securities	6,391	(26)	61,107	(1,136)	67,498	(1,162)
Other residential mortgage-backed securities:						
Investment grade	—	—	7,217	(135)	7,217	(135)
Corporate debt securities:						
Investment grade	25,084	(12)	90,098	(1,042)	115,182	(1,054)
Non-investment grade	—	—	14,681	(3,200)	14,681	(3,200)
Other securities	15,885	(716)	—	—	15,885	(716)
Total available-for-sale investment securities	$414,390	$(2,051)	$718,223	$(11,917)	$1,132,613	$(13,968)

At each reporting date, the Company examines all individual securities that are in an unrealized loss position for OTTI. Specific investment related factors, such as the nature of the investments, the severity and duration of the loss, the probability of collecting all amounts due, the analysis of the issuers of the securities and whether there has been any cause for default on the securities and any change in the rating of the securities by various rating agencies, are examined to assess impairment. Additionally, the Company evaluates whether the creditworthiness of the issuer calls the realization of contractual cash flows into question. The Company takes into consideration the financial resources, intent and its overall ability to hold the securities and not be required to sell them until their fair values recover.

The majority of the total unrealized losses related to securities are related to non-investment grade corporate debt securities, residential agency mortgage-backed securities, and municipal securities. As of March 31, 2015, non-investment grade corporate debt securities, residential agency mortgage-backed securities, and municipal securities represented less than 1%, 26%, and 7%, respectively, of the total available-for-sale investment securities portfolio. As of December 31, 2014, non-investment grade corporate debt securities, residential agency mortgage-backed securities, and municipal securities represented 1%, 30%, and 10%, respectively, of the total available-for-sale investment securities portfolio. The unrealized losses on these securities were primarily attributed to yield curve movement, together with the widened liquidity spread and credit spread. The issuers of these securities have not, to the Company's knowledge, established any cause for default on these securities. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated.

Management believes the impairments detailed in the tables of gross unrealized losses above are temporary and are not impaired due to reasons of credit quality. Accordingly, no impairment loss has been recorded in the Company’s consolidated statements of income for the three months ended March 31, 2015 and 2014.

Available-for-Sale Investment Securities Maturities

The following table presents the scheduled maturities of available-for-sale investment securities as of March 31, 2015:

($ in thousands)	Amortized Cost	Fair Value
Due within one year	$435,764	$434,493
Due after one year through five years	1,275,954	1,289,312
Due after five years through ten years	311,367	311,157
Due after ten years	794,762	806,123
Total available-for-sale investment securities	$2,817,847	$2,841,085

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

Available-for-sale investment securities with a par value of $1.88 billion and $1.93 billion were pledged to secure public deposits, FHLB advances, repurchase agreements, the Federal Reserve Bank's discount window, or for other purposes required or permitted by law as of March 31, 2015 and December 31, 2014, respectively.

NOTE 8 — DERIVATIVE FINANCIAL INSTRUMENTS

The following table presents the total notional and fair values of the Company's derivatives as of March 31, 2015 and December 31, 2014:

	Fair Values of Derivative Instruments					
	March 31, 2015			December 31, 2014		
($ in thousands)	Notional Amount	Fair Value Derivative Assets [1]	Derivative Liabilities [1]	Notional Amount	Fair Value Derivative Assets [1]	Derivative Liabilities [1]
Derivatives designated as hedging instruments:						
Interest rate swaps on certificates of deposit	$129,096	$—	$6,370	$132,667	$—	$9,922
Total derivatives designated as hedging instruments	$129,096	$—	$6,370	$132,667	$—	$9,922
Derivatives not designated as hedging instruments:						
Foreign exchange options	$50,000	$3,683	$—	$85,614	$6,136	$—
Embedded derivative liabilities	47,794	—	3,412	47,838	—	3,392
Interest rate swaps and caps	5,204,760	66,060	66,914	4,858,391	41,534	41,779
Foreign exchange contracts	1,037,967	13,340	13,080	680,629	8,123	9,171
Total derivatives not designated as hedging instruments	$6,340,521	$83,083	$83,406	$5,672,472	$55,793	$54,342

(1) Derivative assets are included in Other Assets. Derivative liabilities are included in Accrued Expenses and Other liabilities, and Deposits.

Derivatives Designated as Hedging Instruments

Interest Rate Swaps on Certificates of Deposits — The Company is exposed to changes in the fair value of certain fixed rate certificates of deposits due to changes in the benchmark interest rate, London Interbank Offering Rate ("LIBOR"). Interest rate swaps designated as fair value hedges involve the receipt of fixed rate amounts from a counterparty in exchange for the Company making variable-rate payments over the life of the agreements without the exchange of the underlying notional amount. The interest rate swaps and the related certificates of deposits have the same maturity dates.

In the first quarter of 2015, the Company terminated $3.6 million of interest rate swaps on certificates of deposits, as a result of certificate of deposit repurchases. As of March 31, 2015 and December 31, 2014, the total notional amounts of interest rate swaps on certificates of deposits were $129.1 million and $132.7 million, respectively. The fair value liabilities of the interest rate swaps were $6.4 million and $9.9 million as of March 31, 2015 and December 31, 2014, respectively.

The following table presents the net gains (losses) recognized in the consolidated statements of income for the three months ended March 31, 2015 and 2014:

Three Months Ended
March 31,

($ in thousands)	2015	2014
Gains (losses) recorded in interest expense		
Recognized on interest rate swaps	$3,048	$2,704
Recognized on certificates of deposits	(2,695)	(2,937)
Net amount recognized on fair value hedges (ineffective portion)	$353	$(233)
Reduction in interest expense recognized on interest rate swaps	$920	$1,824

Derivatives Not Designated as Hedging Instruments

Foreign Exchange Options — During 2010, the Company entered into foreign exchange option contracts with major brokerage firms to economically hedge against foreign exchange fluctuations in certain certificates of deposits available to its customers. These certificates of deposits have a term of 5 years and pay interest based on the performance of the RMB relative to the USD. Under ASC 815, a certificate of deposit that pays interest based on changes in foreign exchange rates is a hybrid instrument with an embedded derivative that must be accounted for separately from the host contract (i.e., the certificate of deposit). In accordance with ASC 815, both the embedded derivative instruments and the freestanding foreign exchange option contracts are recorded at fair value.

As of March 31, 2015 and December 31, 2014, the notional amounts of the foreign exchange options were $50.0 million and $85.6 million, respectively. As of both March 31, 2015 and December 31, 2014, the notional amounts of the embedded derivative liabilities were $47.8 million. The fair values of the foreign exchange options and the embedded derivative liabilities amounted to a $3.7 million asset and a $3.4 million liability, respectively, as of March 31, 2015. The fair values of the foreign exchange options and embedded derivative liabilities amounted to a $6.1 million asset and a $3.4 million liability, respectively, as of December 31, 2014.

Interest Rate Swaps and Caps — The Company enters into interest rate derivatives including interest rate swaps and caps with its customers to allow them to hedge against the risk of rising interest rates on their variable rate loans. To economically hedge against the interest rate risks in the products offered to its customers, the Company enters into mirror interest rate contracts with institutional counterparties. As of March 31, 2015, the total notional amounts of interest rate swaps and caps, including mirror transactions with institutional counterparties and the Company’s customers totaled $2.60 billion each for derivatives that were in an asset and a liability valuation position. As of December 31, 2014, the total notional amounts of interest rate swaps and caps, including mirror transactions with institutional counterparties and the Company’s customers totaled $2.45 billion for derivatives that were in an asset valuation position and $2.40 billion for derivatives that were in a liability valuation position.

The fair values of interest rate swap and cap contracts with institutional counterparties and the Company’s customers amounted to a $66.1 million asset and a $66.9 million liability as of March 31, 2015. The fair values of interest rate swap and cap contracts with institutional counterparties and the Company’s customers amounted to a $41.5 million asset and a $41.8 million liability as of December 31, 2014.

Foreign Exchange Contracts — The Company enters into short-term foreign exchange forward contracts on a regular basis to economically hedge against foreign exchange rate fluctuations. As of March 31, 2015 and December 31, 2014, the notional amounts of short-term foreign exchange contracts were $1.04 billion and $680.6 million, respectively. The fair values of the short-term foreign exchange contracts recorded were a $13.3 million asset and a $13.1 million liability as of March 31, 2015. The fair values of short-term foreign exchange contracts recorded were an $8.1 million asset and a $9.2 million liability as of December 31, 2014.

The following table presents the net gains (losses) recognized on the Company’s consolidated statements of income related to derivatives not designated as hedging instruments:

($ in thousands)	Location in Consolidated Statements of Income	Three Months Ended March 31, 2015	2014
Derivatives not designated as hedging instruments:			
Foreign exchange options	Foreign exchange income	$ 199	$ (119)
Foreign exchange options with embedded derivatives		(141)	1

	Other operating expense		
Interest rate swaps and caps	Other operating income	(594)	(936)
Foreign exchange contracts	Foreign exchange income	1,308	(2,129)
Total net gains (losses)		$772	$(3,183)

Credit-Risk-Related Contingent Features — Certain over-the-counter ("OTC") derivative contracts of the Company contain early termination provisions that may require the Company to settle any outstanding balances upon the occurrence of a specified credit-risk-related event. These events, which are defined by the existing derivative contracts, primarily relate to downgrades in the credit rating of East West Bank to below investment grade. In the event that East West Bank's credit rating is downgraded to below investment grade, no additional collateral would be required to be posted since the liabilities related to such contracts were fully collateralized as of March 31, 2015 and December 31, 2014.

Offsetting of Derivatives

The Company has entered into agreements with counterparty financial institutions, which include master netting agreements. However, the Company has elected to account for all derivatives with counterparty institutions on a gross basis. The following tables present gross derivatives in the consolidated balance sheets and the respective collaterals received or pledged in the form of other financial instruments, which are generally marketable securities and/or cash. The collateral amounts in these tables are limited to the outstanding balances of the related asset or liability (after netting is applied); thus instances of overcollateralization are not shown:

($ in thousands)	As of March 31, 2015					
				Gross Amounts Not Offset on the Consolidated Balance Sheet		
Assets	Gross Amounts of Recognized Assets	Gross Amounts Offset on the Consolidated Balance Sheet	Net Amounts of Assets Presented on the Consolidated Balance Sheet	Financial Instruments	Collateral Received	Net Amount
Derivatives	$13,564	$—	$13,564	$(6,002) (1)	$(6,480) (2)	$1,082
Liabilities	Gross Amounts of Recognized Liabilities	Gross Amounts Offset on the Consolidated Balance Sheet	Net Amounts of Liabilities Presented on the Consolidated Balance Sheet	Financial Instruments	Collateral Posted	Net Amount
Derivatives	$79,890	$—	$79,890	$(6,002) (1)	$(72,018) (3)	$1,870

($ in thousands)	As of December 31, 2014					
				Gross Amounts Not Offset on the Consolidated Balance Sheet		
Assets	Gross Amounts of Recognized Assets	Gross Amounts Offset on the Consolidated Balance Sheet	Net Amounts of Assets Presented on the Consolidated Balance Sheet	Financial Instruments	Collateral Received	Net Amount
Derivatives	$12,396	$—	$12,396	$(5,725) (1)	$(3,463) (2)	$3,208
Liabilities	Gross Amounts of Recognized Liabilities	Gross Amounts Offset on the Consolidated Balance Sheet	Net Amounts of Liabilities Presented on the Consolidated	Financial Instruments	Collateral Posted	Net Amount

			Balance Sheet		
Derivatives	$56,505	$—	$56,505	$(5,725) [(1)]	$(49,951) [(3)]	$829

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

(2) Represents $6.5 million and $3.5 million of cash collateral received against derivative assets with the same counterparty that are subject to enforceable master netting arrangements as of March 31, 2015 and December 31, 2014, respectively.

(3) Represents cash and securities pledged against derivative liabilities with the same counterparty that are subject to enforceable master netting arrangements. Includes approximately $19.0 million and $12.8 million of cash collateral posted as of March 31, 2015 and December 31, 2014, respectively.

Refer to Note 4 for fair value measurement disclosures on derivatives.

NOTE 9 — LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

The Company's loan portfolio includes originated and purchased loans. Originated and purchased loans, for which there was no evidence of credit deterioration at their acquisition date, are referred to collectively as Non-PCI loans. PCI loans are accounted for in accordance with ASC Subtopic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. A purchased loan is deemed to be credit impaired when there is evidence of credit deterioration since its origination and it is probable at the acquisition date that the Company would be unable to collect all contractually required payments. PCI loans consist of loans acquired with deteriorated quality from the United Commercial Bank ("UCB") FDIC assisted acquisition on November 6, 2009, the Washington First International Bank ("WFIB") FDIC assisted acquisition on June 11, 2010 and, to a lesser extent, a small portion of loans acquired from the MetroCorp acquisition on January 17, 2014. Refer to Note 3 — Business Combination, included in this report, for further details on the MetroCorp acquisition and Note 8 — Covered Assets and FDIC Indemnification Asset of the Company's 2014 Form 10-K for additional details related to the WFIB and UCB acquisitions.

The following table presents the composition of the Company's non-PCI and PCI loans as of March 31, 2015 and December 31, 2014:

	March 31, 2015			December 31, 2014		
($ in thousands)	Non-PCI Loans	PCI Loans (1)	Total (1)	Non-PCI Loans	PCI Loans (1)	Total (1)
CRE:						
Income Producing	$5,802,931	$652,246	$6,455,177	$5,568,046	$688,013	$6,256,059
Construction	358,118	9,342	367,460	319,843	12,444	332,287
Land	209,992	12,792	222,784	214,327	16,840	231,167
Total CRE	6,371,041	674,380	7,045,421	6,102,216	717,297	6,819,513
C&I:						
Commercial business	6,799,149	72,301	6,871,450	7,097,853	83,336	7,181,189
Trade finance	844,090	5,224	849,314	889,728	6,284	896,012
Total C&I	7,643,239	77,525	7,720,764	7,987,581	89,620	8,077,201
Residential:						
Single-family	3,298,775	214,019	3,512,794	3,647,262	219,519	3,866,781
Multifamily	1,240,359	244,066	1,484,425	1,184,017	265,891	1,449,908
Total residential	4,539,134	458,085	4,997,219	4,831,279	485,410	5,316,689
Consumer	1,584,168	27,996	1,612,164	1,483,956	29,786	1,513,742
Total loans	$20,137,582	$1,237,986	$21,375,568	$20,405,032	$1,322,113	$21,727,145
Unearned fees, premiums, and discounts, net	(899)	—	(899)	2,804	—	2,804
Allowance for loan losses	(257,095)	(643)	(257,738)	(260,965)	(714)	(261,679)
Loans, net	$19,879,588	$1,237,343	$21,116,931	$20,146,871	$1,321,399	$21,468,270

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

The Company's CRE lending activities include loans to finance income-producing properties, construction and land loans. The Company's C&I lending activities include commercial business financing for small and middle-market businesses in a wide spectrum of industries. Included in commercial business loans are loans for working capital, accounts receivable lines, inventory lines, Small Business Administration loans and lease financing. The Company also offers a variety of international trade finance services and products, including letters of credit, revolving lines of credit, import loans, bankers' acceptances, working capital lines, domestic purchase financing and pre-export financing.

The Company's residential single-family loans are primarily comprised of adjustable rate ("ARM") first mortgage loans secured by one-to-four unit residential properties. The Company's ARM residential single-family loan programs generally have a one-year or three-year initial fixed period. The Company's residential multifamily loans are primarily comprised of variable rate loans that have a six-month or three-year initial fixed period. As of March 31, 2015 and December 31, 2014, consumer loans were primarily composed of home equity lines of credit ("HELOCs").

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

As of March 31, 2015 and December 31, 2014, loans totaling $14.79 billion and $14.66 billion, respectively, were pledged to secure borrowings and to provide additional borrowing capacity from the FHLB and the Federal Reserve Bank.

Credit Quality Indicators

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

Pass and Watch loans are generally considered to have sufficient sources of repayment in order to repay the loan in full in accordance with all terms and conditions. These borrowers may have some credit risks that require monitoring, but full repayments are expected. Special Mention loans are considered to have potential weaknesses that warrant closer attention by management. Special Mention is considered a transitory grade. If any potential weaknesses are resolved, the loan is upgraded to a Pass or Watch grade. If negative trends in the borrower’s financial status or other information indicates that the repayment sources may become inadequate, the loan is downgraded to a Substandard grade. Substandard loans are considered to have well-defined weaknesses that jeopardize the full and timely repayment of the loan. Substandard loans have a distinct possibility of loss if the deficiencies are not corrected. Additionally, when management has assessed a potential for loss but a distinct possibility of loss is not recognizable, the loan is still classified as Substandard. Doubtful loans have insufficient sources of repayment and a high probability of loss. Loss loans are considered to be uncollectible and of such little value that they are no longer considered bankable assets. These internal risk ratings are reviewed routinely and adjusted due to changes in the borrowers' status and likelihood of loan repayment.

The following tables present the credit risk rating for non-PCI loans by portfolio segment as of March 31, 2015 and December 31, 2014:

($ in thousands)	Pass/Watch	Special Mention	Substandard	Doubtful	Loss	Total Non-PCI Loans
March 31, 2015						
CRE:						
Income producing	$5,488,698	$56,245	$257,988	$—	$—	$5,802,931
Construction	353,799	703	3,616	—	—	358,118
Land	187,364	5,701	16,927	—	—	209,992
C&I:						
Commercial business	6,573,081	93,302	132,286	426	54	6,799,149
Trade finance	788,864	19,726	35,500	—	—	844,090
Residential:						
Single-family	3,277,085	3,595	18,095	—	—	3,298,775
Multifamily	1,162,798	4,906	72,655	—	—	1,240,359
Consumer	1,581,116	336	2,716	—	—	1,584,168
Total	$19,412,805	$184,514	$539,783	$426	$54	$20,137,582

($ in thousands)	Pass/Watch	Special Mention	Substandard	Doubtful	Loss	Total Non-PCI Loans
December 31, 2014						
CRE:						
Income producing	$5,243,640	$54,673	$269,733	$—	$—	$5,568,046
Construction	310,259	11	9,573	—	—	319,843
Land	185,220	5,701	23,406	—	—	214,327
C&I:						
Commercial business	6,836,914	130,319	130,032	533	55	7,097,853
Trade finance	845,889	13,031	30,808	—	—	889,728
Residential:						
Single-family	3,627,491	3,143	16,628	—	—	3,647,262
Multifamily	1,095,982	5,124	82,911	—	—	1,184,017
Consumer	1,480,208	1,005	2,743	—	—	1,483,956
Total	$19,625,603	$213,007	$565,834	$533	$55	$20,405,032

The following tables present the credit risk rating for PCI loans by portfolio segment as of March 31, 2015 and December 31, 2014:

($ in thousands)	Pass/Watch	Special Mention	Substandard	Doubtful	Total PCI Loans
March 31, 2015					
CRE:					
Income producing	$517,827	$6,164	$128,255	$—	$652,246
Construction	585	1,739	7,018	—	9,342
Land	5,080	5,433	2,279	—	12,792
C&I:					
Commercial business	62,858	997	8,446	—	72,301
Trade finance	3,535	—	1,689	—	5,224
Residential:					
Single-family	208,238	745	5,036	—	214,019
Multifamily	211,060	—	33,006	—	244,066
Consumer	27,330	115	551	—	27,996
Total (1)	$1,036,513	$15,193	$186,280	$—	$1,237,986

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

($ in thousands)	Pass/Watch	Special Mention	Substandard	Doubtful	Total PCI Loans
December 31, 2014					
CRE:					
Income producing	$534,015	$9,960	$144,038	$—	$688,013
Construction	589	1,744	10,111	—	12,444
Land	7,012	5,391	4,437	—	16,840
C&I:					
Commercial business	70,586	1,103	11,647	—	83,336
Trade finance	4,620	—	1,664	—	6,284
Residential:					
Single-family	213,829	374	5,316	—	219,519
Multifamily	230,049	—	35,842	—	265,891
Consumer	29,026	116	644	—	29,786
Total (1)	$1,089,726	$18,688	$213,699	$—	$1,322,113

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

Nonaccrual and Past Due Loans

The following tables present the aging analysis on non-PCI loans as of March 31, 2015 and December 31, 2014:

($ in thousands)	Accruing Loans 30-59 Days Past Due	Accruing Loans 60-89 Days Past Due	Total Accruing Past Due Loans	Nonaccrual Loans Less Than 90 Days Past Due	Nonaccrual Loans 90 or More Days Past Due	Total Nonaccrual Loans	Current Accruing Loans	Total Non-PCI Loans
March 31, 2015								
CRE:								
Income producing	$ 9,699	$ 1,860	$ 11,559	$ 18,739	$ 11,011	$ 29,750	$ 5,761,622	$ 5,802,931
Construction	—	—	—	14	917	931	357,187	358,118
Land	—	—	—	214	2,386	2,600	207,392	209,992
C&I:								
Commercial business	11,227	902	12,129	5,988	25,436	31,424	6,755,596	6,799,149
Trade finance	—	600	600	37	—	37	843,453	844,090
Residential:								
Single-family	7,239	2,402	9,641	4,731	4,406	9,137	3,279,997	3,298,775
Multifamily	2,611	376	2,987	12,216	1,145	13,361	1,224,011	1,240,359
Consumer	883	2	885	166	374	540	1,582,743	1,584,168
Total	$ 31,659	$ 6,142	$ 37,801	$ 42,105	$ 45,675	$ 87,780	$ 20,012,001	$ 20,137,582
Unearned fees, premiums and discounts, net								(899)
Total recorded investment in non-PCI loans								$ 20,136,683

($ in thousands)	Accruing Loans 30-59 Days Past Due	Accruing Loans 60-89 Days Past Due	Total Accruing Past Due Loans	Nonaccrual Loans Less Than 90 Days Past Due	Nonaccrual Loans 90 or More Days Past Due	Total Nonaccrual Loans	Current Accruing Loans	Total Non-PCI Loans
December 31, 2014								
CRE:								
Income producing	$ 14,171	$ 3,593	$ 17,764	$ 19,348	$ 9,165	$ 28,513	$ 5,521,769	$ 5,568,046
Construction	—	—	—	15	6,898	6,913	312,930	319,843
Land	—	—	—	221	2,502	2,723	211,604	214,327
C&I:								
Commercial business	3,187	4,361	7,548	6,623	21,813	28,436	7,061,869	7,097,853
Trade finance	—	—	—	73	292	365	889,363	889,728
Residential:								
Single-family	6,381	1,294	7,675	2,861	5,764	8,625	3,630,962	3,647,262
Multifamily	4,425	507	4,932	12,460	8,359	20,819	1,158,266	1,184,017
Consumer	2,154	162	2,316	169	3,699	3,868	1,477,772	1,483,956
Total	$ 30,318	$ 9,917	$ 40,235	$ 41,770	$ 58,492	$ 100,262	$ 20,264,535	$ 20,405,032
Unearned fees, premiums and discounts, net								2,804
Total recorded investment in non-PCI loans								$ 20,407,836

Non-PCI loans that are 90 or more days past due are generally placed on nonaccrual status, at which point interest accrual is discontinued and all unpaid accrued interest is reversed against interest income. Additionally, non-PCI loans that are not 90 or more days past due but have identified deficiencies are also placed on nonaccrual status. Interest payments received on nonaccrual loans are reflected as a reduction of principal and not as interest income. A loan is returned to accrual status when the borrower has demonstrated a satisfactory payment trend subject to management's assessment of the borrower’s ability to repay the loan.

PCI loans are excluded from the above aging analysis table as such loans continue to earn interest from accretable yield, independent of performance in accordance with their contractual terms. $53.4 million and $63.4 million of PCI loans were on nonaccrual status as of March 31, 2015 and December 31, 2014, respectively.

Loans in Process of Foreclosure

As of March 31, 2015 and December 31, 2014, the Company had $16.7 million and $16.9 million, respectively, of recorded investment of consumer mortgage loans secured by residential real estate properties, for which formal foreclosure proceedings were in process according to local requirements of the applicable jurisdiction, which were not included in OREO. Foreclosed residential real estate properties with carrying amount of $4.1 million were included in total net OREO of $32.7 million as of March 31, 2015. In comparison, foreclosed residential real estate properties with carrying amount of $3.5 million were included in total net OREO of $32.1 million as of December 31, 2014.

Troubled Debt Restructurings

A troubled debt restructuring ("TDR") is a modification of the terms of a loan when the lender, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower. The concessions may be granted in various forms, including a below-market change in the stated interest rate, reduction in the loan balance or accrued interest, extension of the maturity date with a stated interest rate lower than the current market rate or note splits referred to as A/B notes. In A/B note restructurings, the original note is bifurcated into two notes where the A note represents the portion of the original loan which allows for acceptable loan-to-value and debt coverage on the collateral and is expected to be collected in full and the B note represents the portion of the original loan where there is a shortfall in value and is fully charged off. The A/B note balance is comprised of the A note balance only. A notes are not disclosed as TDRs in subsequent years after the year of restructuring if the restructuring agreement specifies an interest rate equal to or greater than the rate that the Company was willing to accept at the time of the restructuring for a new loan with comparable risk, the loan is not impaired based on the terms specified by the restructuring agreement and has demonstrated a period of sustained performance under the modified terms. The Company had $2.3 million and $2.9 million of performing A/B notes as of March 31, 2015 and December 31, 2014, respectively.

Potential TDRs are individually evaluated and the type of restructuring is selected based on the loan type and the circumstances of the borrower's financial difficulty in order to maximize the Company's recovery. During the three months ended March 31, 2015, the Company restructured $833 thousand of CRE loans through principal and interest deferments, $164 thousand of C&I loans through principal deferments and $281 thousand of residential loans through principal deferments. During the three months ended March 31, 2014, the Company restructured $1.7 million of C&I loans through extensions, principal deferments, and other modified terms and $5.8 million of residential loans through extensions, rate reductions, principal deferments and other modified terms.

The following table presents the additions to non-PCI troubled debt restructurings during the three months ended March 31, 2015 and 2014:

	Loans Modified as TDRs During the Three Months Ended March 31,							
	2015				2014			
($ in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment (1)	Financial Impact (2)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment (1)	Financial Impact (2)
CRE:								
Income producing	1	$ 828	$ 833	$—	—	$ —	$ —	$—
C&I:								
Commercial business	1	$ 167	$ 164	$(32)	5	$ 1,721	$ 1,691	$1,248
Residential:								

Single-family	1	$ 281	$ 281	$(2)	3	$ 5,823	$ 5,804	$—

(1) Includes subsequent payments after modification and reflects the balance as of March 31, 2015 and 2014.
(2) The financial impact includes charge-offs and specific reserves recorded at modification date.

Subsequent to restructuring, a TDR that becomes delinquent, generally beyond 90 days, is considered to have defaulted. There were no subsequent defaults during the three months ended March 31, 2015 for non-PCI loans that were modified as TDRs within the previous 12 months. Non-PCI loans that were modified as TDRs within the previous 12 months that have subsequently defaulted during the three months ended March 31, 2014 consisted of one CRE TDR contract with a recorded investment of $2.7 million and one C&I TDR contract with a recorded investment of $570 thousand.

TDRs may be designated as performing or nonperforming. A TDR may be designated as performing if the loan has demonstrated sustained performance under the modified terms. The period of sustained performance may include the periods prior to modification if prior performance has met or exceeded the modified terms. A loan will remain on nonaccrual status until the borrower demonstrates a sustained period of performance, generally six consecutive months of payments.

TDRs are included in the impaired loan quarterly valuation allowance process. See Allowance for Loan Losses and Impaired Loans sections below for complete discussion. All portfolio segments of TDRs are reviewed for necessary specific reserves in the same manner as impaired loans of the same portfolio segment which have not been identified as TDRs. The modification of the terms of each TDR is considered in the current impairment analysis of the respective TDR. For all portfolio segments of nonperforming TDRs, when the restructured loan is deemed to be uncollectible under modified terms and its fair value is less than the recorded investment in the loan, the deficiency is charged off against the allowance for loan losses. If the loan is a performing TDR, the deficiency is included in the specific reserves of the allowance for loan losses, as appropriate. The amount of additional funds committed to lend to borrowers whose terms have been modified was immaterial as of March 31, 2015 and December 31, 2014.

Impaired Loans

Impaired loans include non-PCI loans held for investment on nonaccrual status, regardless of the collateral coverage, and all non-PCI TDR loans. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all scheduled payments of principal or interest due according to the original contractual terms of the loan agreement. The Company’s loans are grouped into heterogeneous and homogeneous (mostly consumer loans) categories. Classified loans in the heterogeneous category are identified and evaluated for impairment on an individual basis. The Company considers loans individually reviewed to be impaired if, based on current information and events, it is probable the Company will not be able to collect all amounts due according to the original contractual terms of the loan agreement. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan’s effective interest rate or, as an expedient, at the loan’s observable market price or the fair value of the collateral if the loan is collateral dependent, less costs to sell. When the value of an impaired loan is less than the recorded investment in the loan and the loan is classified as nonperforming and uncollectible, the deficiency is charged-off against the allowance for loan losses. Impaired loans exclude the homogenous consumer loan portfolio which is evaluated collectively for impairment.

The following tables present the non-PCI impaired loans as of March 31, 2015 and December 31, 2014:

($ in thousands)	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
March 31, 2015					
CRE:					
Income producing	$50,389	$28,186	$15,001	$43,187	$1,399
Construction	916	916	—	916	—
Land	8,234	2,826	543	3,369	175
C&I:					
Commercial business	43,289	10,815	28,186	39,001	17,886
Trade finance	223	—	216	216	20
Residential:					
Single-family	16,767	7,007	8,404	15,411	413
Multifamily	29,262	20,200	6,594	26,794	