EAST WEST BANCORP INC
Form 10-Q
May 09, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Mark One

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

For the quarterly period ended March 31, 2014

or

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

For the transition period from to

Commission file number 000-24939

EAST WEST BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices) (Zip Code)

(626) 768-6000

(Registrant s telephone number, including area code)

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

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

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

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

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

Number of shares outstanding of the issuer s common stock on the latest practicable date: 143,390,858 shares of common stock as of April 30, 2014.

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Forward-Looking Statements

Certain matters discussed in this Quarterly Report contain or incorporate statements that we believe are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, 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 our financial condition, results of operations, plans, objectives, future performance or business. They usually can be identified by the use of forward-looking language, such as will likely result, may, are expected to, is anticipated, estimate, forecast, projected, intends to, or may include oth words or phrases, such as believes, plans, trend, objective, continue, remain, or similar expressions, or future or conditional verbs, such a would, should, could, might, can, or similar verbs. You should not place undue reliance on these statements, as they are subject to risks and uncertainties, including, but not limited to, those described in the documents incorporated by reference. When considering these forward-looking statements, you should keep in mind these risks and uncertainties, as well as any cautionary statements we 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 us.

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

- our ability to integrate the former MetroCorp Bancshares, Inc. (MetroCorp) operations and to achieve the projected synergies of this acquisition;
- our ability to manage the loan portfolios acquired from Federal Deposit Insurance Corporation (FDIC)-assisted acquisitions within the limits of the loss protection provided by the FDIC;
- changes in our borrowers performance on loans;
- changes in the commercial and consumer real estate markets;
- changes in our costs of operation, compliance and expansion;
- changes in the U.S. economy, including inflation;
- changes in government interest rate policies;
- changes in laws or the regulatory environment;
- changes in the economy of and monetary policy in the People s Republic of China;
- changes in critical accounting policies and judgments;
- changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or other regulatory agencies;
- changes in the equity and debt securities markets;
- changes in competitive pressures on financial institutions;

- effect of additional provision for loan losses;
- 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 such matters 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; and
- political developments, wars or other hostilities may disrupt or increase volatility in securities or otherwise affect economic conditions.

For a more detailed discussion of some of the factors that might cause such differences, see the Company s 2013 Form 10-K under the heading ITEM 1A. RISK FACTORS and the information set forth under RISK FACTORS in this Form 10-Q. The Company does not undertake, and specifically disclaims any obligation to update any forward-looking statements to reflect the occurrence of events or circumstances after the date of such statements except as required by law.

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PART I FINANCIAL INFORMATION

EAST WEST BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

(Unaudited)

	March 31, 2014	December 31, 2013
ASSETS		
Cash and cash equivalents	$ 1,884,855	$ 895,820
Short-term investments	323,266	257,473
Securities purchased under resale agreements	1,200,000	1,300,000
Investment securities available-for-sale, at fair value (with amortized cost of $2,504,755 at March 31, 2014 and $2,786,490 at December 31, 2013)	2,474,744	2,733,797
Loans held for sale	577,353	204,970
Loans receivable, excluding covered loans (net of allowance for loan losses of $245,618 at March 31, 2014 and $241,930 at December 31, 2013)	17,053,444	15,412,715
Covered loans (net of allowance for loan losses of $6,518 at March 31, 2014 and $7,745 at December 31, 2013)	2,028,806	2,187,898
Total loans receivable, net	19,082,250	17,600,613
FDIC indemnification asset	27,552	74,708
Other real estate owned, net	28,421	18,900
Other real estate owned covered, net	30,610	21,373
Total other real estate owned	59,031	40,273
Investment in Federal Home Loan Bank stock, at cost	52,110	62,330
Investment in Federal Reserve Bank stock, at cost	50,370	48,333
Investment in affordable housing partnerships	189,303	164,776
Premises and equipment, net	185,214	177,710
Accrued interest receivable	102,802	116,314
Due from customers on acceptances	22,407	21,236
Premiums on deposits acquired, net	53,013	46,920
Goodwill	458,467	337,438
Cash surrender value of life insurance policies	128,772	112,650
Other assets	529,517	534,707
TOTAL	**$ 27,401,026**	**$ 24,730,068**
LIABILITIES AND STOCKHOLDERS EQUITY		
Customer deposit accounts:		
Noninterest-bearing	$ 6,636,874	$ 5,821,899
Interest-bearing	16,191,183	14,591,019
Total deposits	22,828,057	20,412,918
Federal Home Loan Bank advances	315,620	315,092
Securities sold under repurchase agreements	1,005,316	995,000
Bank acceptances outstanding	22,407	21,236
Long-term debt	240,675	226,868
Accrued expenses and other liabilities	364,731	394,729
Total liabilities	24,776,806	22,365,843
COMMITMENTS AND CONTINGENCIES (Note 13)		

STOCKHOLDERS EQUITY				
Common stock, $0.001 par value, 200,000,000 shares authorized; 163,454,195 and 163,098,008 shares issued in 2014 and 2013, respectively; 143,367,652 and 137,630,896 shares outstanding in 2014 and 2013, respectively		163		163
Additional paid in capital		1,656,867		1,571,670
Retained earnings		1,410,921		1,360,130
Treasury stock, at cost 20,086,543 shares in 2014 and 25,467,112 shares in 2013		(426,694)		(537,279)
Accumulated other comprehensive loss, net of tax		(17,037)		(30,459)
Total stockholders equity		2,624,220		2,364,225
TOTAL	**$**	**27,401,026**	**$**	**24,730,068**

See accompanying notes to condensed consolidated financial statements.

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EAST WEST BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

(Unaudited)

	Three Months Ended March 31, 2014	2013
INTEREST AND DIVIDEND INCOME		
Loans receivable, including fees	$ 261,571	$ 217,159
Investment securities	12,276	10,210
Securities purchased under resale agreements	4,853	5,529
Investment in Federal Home Loan Bank stock	1,123	529
Investment in Federal Reserve Bank stock	748	720
Due from banks and short-term investments	5,602	4,276
Total interest and dividend income	286,173	238,423
INTEREST EXPENSE		
Customer deposit accounts	15,882	16,854
Federal Home Loan Bank advances	1,045	1,039
Securities sold under repurchase agreements	10,078	10,529
Long-term debt	1,202	710
Total interest expense	28,207	29,132
Net interest income before provision for loan losses	257,966	209,291
Provision for (reversal of) loan losses, excluding covered loans	7,954	(762)
(Reversal of) provision for loan losses on covered loans	(1,021)	5,089
Net interest income after provision for loan losses	251,033	204,964
NONINTEREST LOSS		
Decrease in FDIC indemnification asset and receivable	(53,634)	(31,899)
Branch fees	9,446	7,654
Net gain on sales of investment securities	3,418	5,577
Letters of credit fees and commissions	6,167	5,062
Foreign exchange income	689	2,336
Ancillary loan fees	2,472	2,052
Income from life insurance policies	1,151	968
Net gain on sales of loans	6,196	94
Other operating income	9,179	6,057
Total noninterest loss	(14,916)	(2,099)
NONINTEREST EXPENSE		
Compensation and employee benefits	59,277	45,731
Occupancy and equipment expense	15,851	13,808
Amortization of investments in affordable housing partnerships and other investments	5,964	4,283
Amortization of premiums on deposits acquired	2,500	2,409
Deposit insurance premiums and regulatory assessments	5,702	3,782
Loan related expenses	2,575	3,584
Other real estate owned expense (gain on sale)	1,334	(984)
Legal expense	3,799	4,444
Data processing	8,200	2,437
Deposit related expenses	1,704	1,574
Consulting expense	1,049	454
Other operating expenses	16,472	14,833

Total noninterest expense		124,427		96,355
INCOME BEFORE PROVISION FOR INCOME TAXES		111,690		106,510
PROVISION FOR INCOME TAXES		34,949		34,419
NET INCOME	**$**	**76,741**	**$**	**72,091**
PREFERRED STOCK DIVIDENDS				1,714
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	**$**	**76,741**	**$**	**70,377**
EARNINGS PER SHARE AVAILABLE TO COMMON STOCKHOLDERS				
BASIC	$	0.54	$	0.51
DILUTED	$	0.54	$	0.50
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING				
BASIC		141,962		137,648
DILUTED		142,632		143,519
DIVIDENDS DECLARED PER COMMON SHARE	$	0.18	$	0.15

See accompanying notes to condensed consolidated financial statements.

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EAST WEST BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Net income	$ 76,741	$ 72,091
Other comprehensive income, net of tax:		
Unrealized gain on investment securities available-for-sale:		
Unrealized holding gains arising during period	15,422	4,741
Reclassification adjustment for net gains included in net income	(1,983)	(3,235)
Unrealized (losses) gains on other investments	(17)	10
Reclassification adjustment for net gains included in net income		
Other comprehensive income	13,422	1,516
COMPREHENSIVE INCOME	**$ 90,163**	**$ 73,607**

See accompanying notes to condensed consolidated financial statements.

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EAST WEST BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(In thousands, except share data)

(Unaudited)

	Preferred Stock	Additional Paid In Capital Preferred Stock	Common Stock	Additional Paid In Capital Common Stock	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss), Net of Tax	Total Stockholders Equity
BALANCE, JANAURY 1, 2013	**$**	**$ 83,027**	**$ 157**	**$ 1,464,739**	**$ 1,151,828**	**$ (322,298)**	**$ 4,669**	**$ 2,382,122**
Net income					72,091			72,091
Other comprehensive income							1,516	1,516
Stock compensation costs				2,504				2,504
Tax benefit from stock compensation plans, net				2,602				2,602
Issuance of 193,831 shares of common stock pursuant to various stock compensation plans and agreements				442				442
Cancellation of 22,050 shares of common stock due to forfeitures of issued restricted stock				387		(387)		
344,423 shares of restricted stock surrendered due to employee tax liability						(8,365)		(8,365)
Preferred stock dividends					(1,714)			(1,714)
Common stock dividends					(21,079)			(21,079)
Purchase of 3,543,100 shares of treasury stock pursuant to the Stock Repurchase Program						(87,000)		(87,000)
BALANCE, MARCH 31, 2013	**$**	**$ 83,027**	**$ 157**	**$ 1,470,674**	**$ 1,201,126**	**$ (418,050)**	**$ 6,185**	**$ 2,343,119**
BALANCE, JANAURY 1, 2014	**$**	**$**	**$ 163**	**$ 1,571,670**	**$ 1,360,130**	**$ (537,279)**	**$ (30,459)**	**$ 2,364,225**
Net income					76,741			76,741
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				73,044		117,786		190,830

acquisition								
Warrant acquired pursuant to MetroCorp acquisition				4,855				4,855
BALANCE, MARCH 31, 2014	**$**	**$**	**$ 163**	**$ 1,656,867**	**$ 1,410,921**	**$ (426,694)**	**$ (17,037)**	**$ 2,624,220**

See accompanying notes to condensed consolidated financial statements.

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EAST WEST BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended March 31, 2014		Three Months Ended March 31, 2013	
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	$	76,741	$	72,091
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization		21,892		23,908
(Accretion) of discount and amortization of premiums, net		(56,020)		(48,390)
Decrease in FDIC indemnification asset and receivable		53,634		31,899
Stock compensation costs		3,180		2,504
Tax benefit from stock compensation plans, net		(3,708)		(2,602)
Provision for loan losses		6,933		4,327
Impairment on other real estate owned		490		1,321
Net gain on sales of investment securities, loans and other assets		(10,458)		(8,592)
Originations and purchases of loans held for sale		(60,492)		(43,604)
Proceeds from sales of loans held for sale		38,050		6,272
Net proceeds from FDIC shared-loss agreements		4,139		33,890
Net change in accrued interest receivable and other assets		25,984		(12,525)
Net change in accrued expenses and other liabilities		(63,610)		20,557
Other net operating activities		(287)		(656)
Total adjustments		(40,273)		8,309
Net cash provided by operating activities		36,468		80,400
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions, net of cash paid		138,465		
Net increase in:				
Loans		(734,560)		(147,933)
Short-term investments		(65,793)		(12,651)
Purchases of:				
Securities purchased under resale agreements				(250,000)
Investment securities available-for-sale		(138,149)		(267,882)
Loans receivable		(974)		(106,206)
Investments in affordable housing partnerships and other investments		(27,510)		(8,386)
Proceeds from sale of:				
Investment securities available-for-sale		330,231		196,853
Loans receivable		47,852		22,566
Loans held for sale originated for investment		97,716		
Other real estate owned		4,986		22,313
Repayments, maturities and redemptions of investment securities available-for-sale		151,358		87,889
Paydowns, maturities and termination of securities purchased under resale agreements		100,000		300,000
Redemption of Federal Home Loan Bank stock		12,930		10,480
Surrender of life insurance policies		14,769		
Other net investing activities		(5,512)		(4,929)
Net cash used in investing activities		(74,191)		(157,886)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net increase (decrease) in:				

Deposits		1,096,290		626,348
Short-term borrowings				(20,000)
Proceeds from:				
Issuance of common stock pursuant to various stock plans and agreements		283		442
Payment for:				
Termination of securities purchased under resale agreements		(15,000)		
Repayment of FHLB advances		(10,000)		
Repayment of long-term debt		(15,310)		
Repurchase of vested shares due to employee tax liability		(7,074)		(8,365)
Repurchase of shares of treasury stock pursuant to the Stock Repurchase Plan				(87,000)
Cash dividends		(26,139)		(22,782)
Tax benefit from stock compensation plans, net		3,708		2,602
Net cash provided by financing activities		1,026,758		491,245
NET INCREASE IN CASH AND CASH EQUIVALENTS		989,035		413,759
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		895,820		1,323,106
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	1,884,855	$	1,736,865
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash paid during the period for:				
Interest	$	27,803	$	28,885
Income tax payments, net of refunds		70,723		1,716
Noncash investing and financing activities:				
Loans transferred to loans held for sale, net		433,841		21,855
Transfers to other real estate owned		15,628		23,230
Issuance of stock related to acquisition		190,830		

See accompanying notes to condensed consolidated financial statements.

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EAST WEST BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 BASIS OF PRESENTATION

The condensed consolidated financial statements include the accounts of East West Bancorp, Inc. (referred to herein on an unconsolidated basis as East West and on a consolidated basis as the Company) and its wholly-owned subsidiaries, East West Bank and subsidiaries (East West Bank or the Bank) and East West Insurance Services, Inc. Intercompany transactions and accounts have been eliminated in consolidation. East West also has six wholly-owned subsidiaries that are statutory business trusts (the Trusts), one of which was the result of the acquisition of MetroCorp Bancshares, Inc. during the first quarter of 2014 which is discussed at Note 3 to the Company s condensed consolidated financial statements. In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 810, the Trusts are not consolidated into the accounts of East West Bancorp, Inc.

The interim condensed consolidated financial statements, presented in accordance with accounting principles generally accepted in the United States of America (GAAP), are unaudited and reflect all adjustments that, in the opinion of management, are necessary for a fair statement of financial condition and results of operations for the interim periods. All adjustments are of a normal and recurring nature. Results for the three months ended March 31, 2014 are not necessarily indicative of results that may be expected for any other interim period or for the year as a whole. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted. Events subsequent to the condensed consolidated balance sheet date have been evaluated through the date the financial statements are issued for inclusion in the accompanying financial statements. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2013.

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

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Standards

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 2014-10 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, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). ASU 2014-01 is effective for interim and annual periods beginning after December 15, 2014 and if elected, should be applied retrospectively to all periods presented. Early adoption is permitted. The Company is currently evaluating the impact of this guidance on its condensed consolidated financial statements.

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 creditors should reclassify mortgage loans collateralized by residential real estate properties from the loan portfolio to other real estate owned. ASU 2014-04 is effective for interim and annual periods beginning after December 15, 2014. Early adoption is permitted. The Company does not expect the adoption of this guidance to have a material effect on its condensed consolidated financial statements.

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NOTE 3 BUSINESS COMBINATION

On January 17, 2014, the Company completed the acquisition of MetroCorp Bancshares, Inc. (MetroCorp) parent of MetroBank, N.A. and Metro United Bank. MetroCorp, headquartered in Houston, Texas operated 19 branch locations within Texas and California under its two banks. The Company acquired MetroCorp to further expand its presence, primarily in the State of Texas, within the markets of Houston and Dallas, and in California, within the San Diego market. The purchase consideration was satisfied with two thirds in East West Bancorp stock and one third in 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 Bancorp 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 Bank.

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. As a result of the business combination, the Company recorded goodwill of $121.0 million.

The total fair value of assets acquired was $1.70 billion, which included $230.3 million in cash and cash due from banks, $64.3 million in investment securities available for sale, $2.7 million FHLB stock, $1.19 billion in loans receivable, $8.6 million in fixed assets, $8.6 million in premiums on deposits acquired, $9.4 million in other real estate owned (OREO), $30.0 million in bank owned life insurance, $13.0 million in deferred tax assets and $16.7 million in other assets. The total fair value of liabilities acquired was $1.41 billion, which included $1.32 billion in deposits, $10.0 million in FHLB advances, $25.9 million in repurchase agreements, $29.1 million in junior subordinated debt and $22.7 million in other liabilities. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the January 17, 2014 acquisition date. The assets acquired and liabilities assumed have been accounted for under the acquisition method of accounting. We have included the financial results of the business combinations in the condensed consolidated statement of income beginning on the acquisition date.

NOTE 4 FAIR VALUE

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

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

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

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- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value is not solely based on observable market inputs and requires management judgment or estimation. This category typically includes pooled trust preferred securities, loans with a fair value measurement, OREO and derivatives payable.

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

In determining the appropriate hierarchy levels, the Company performs a detailed analysis of assets and liabilities that are subject to fair value disclosure. The following tables present both financial and nonfinancial assets and liabilities that are measured at fair value on a recurring and nonrecurring basis. These assets and liabilities are reported on the condensed consolidated balance sheets at their fair values as of March 31, 2014 and December 31, 2013. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to their fair value measurement. There were no transfers for assets measured on a recurring basis in and out of Level 1, Level 2 or Level 3 during the first three months of 2014 and 2013.

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	Assets (Liabilities) Measured at Fair Value on a Recurring Basis as of March 31, 2014			
	Fair Value Measurements March 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
Investment securities available-for-sale:				
U.S. Treasury securities	$ 428,253	$ 428,253	$	$
U.S. Government agency and U.S. Government sponsored enterprise debt securities	384,685		384,685	
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	119,107		119,107	
Residential mortgage-backed securities	824,105		824,105	
Municipal securities	283,897		283,897	
Other residential mortgage-backed securities:				
Investment grade	57,007		57,007	
Other commercial mortgage-backed securities:				
Investment grade	51,419		51,419	
Corporate debt securities:				
Investment grade	209,691		209,691	
Non-investment grade	15,512		8,795	6,717
Other securities	101,068		101,068	
Total investment securities available-for-sale	$ 2,474,744	$ 428,253	$ 2,039,774	$ 6,717
Foreign exchange options	$ 5,915	$	$ 5,915	$
Interest rate swaps	26,293		26,293	
Foreign exchange contracts	4,378		4,378	
Derivative liabilities	(46,778)		(43,380)	(3,398)

	Assets (Liabilities) Measured at Fair Value on a Recurring Basis as of December 31, 2013			
	Fair Value Measurements December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
Investment securities available-for-sale:				
U.S. Treasury securities	$ 491,632	$ 491,632	$	$
U.S. Government agency and U.S. Government sponsored enterprise debt securities	394,323		394,323	
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	178,870		178,870	
Residential mortgage-backed securities	885,237		885,237	
Municipal securities	280,979		280,979	
Other residential mortgage-backed securities:				
Investment grade	46,327		46,327	
Other commercial mortgage-backed securities:				
Investment grade	51,617		51,617	
Corporate debt securities:				

Investment grade	309,995		309,995	
Non-investment grade	15,101		8,730	6,371
Other securities	79,716		79,716	
Total investment securities available-for-sale	$ 2,733,797	$ 491,632	$ 2,235,794	$ 6,371
Foreign exchange options	$ 6,290	$	$ 6,290	$
Interest rate swaps	28,078		28,078	
Foreign exchange contracts	6,181		6,181	
Derivative liabilities	(50,262)		(46,607)	(3,655)

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Assets measured at fair value on a nonrecurring basis using significant unobservable inputs include certain loans and OREO. The inputs and assumptions for nonrecurring Level 3 fair value measurements for certain loans and OREO include adjustments to external and internal appraisals for change in the market, assumptions by appraiser embedded into appraisals, probability weighting of brokered price opinions, and management s adjustments for other relevant factors and market trends.

	Assets Measured at Fair Value on a Non-Recurring Basis as of and for the Three Months Ended March 31, 2014				
	Fair Value Measurements March 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses) for the Three Months Ended March 31, 2014
	(In thousands)				
Non-covered loans:					
Total residential	$ 17,132	$	$	$ 17,132	$ (365)
Total commercial real estate	25,888			25,888	(464)
Total commercial and industrial	13,272			13,272	(6,530)
Total consumer					
Total non-covered loans	$ 56,292	$	$	$ 56,292	$ (7,359)
Non-covered OREO	$ 745	$	$	$ 745	$ (74)
Covered OREO *(1)*	$ 899	$	$	$ 899	$ (452)

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

(1) Covered OREO results from the WFIB and UCB FDIC-assisted acquisitions for which the Company entered into shared-loss agreements with the FDIC whereby the FDIC will reimburse the Company for 80% of eligible losses. As such, the Company s liability for losses is 20% of the $452 thousand in losses, or $90 thousand, and 20% of the $126 thousand in losses, or $25 thousand, for the three months ended March 31, 2014 and 2013, respectively.

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At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. The following tables provide a reconciliation of the beginning and ending balances for major asset and liability categories measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2014 and 2013:

	Investment Securities Available-for-Sale Corporate Debt Securities Non-Investment Grade	Derivatives Payable
	(In thousands)	
Opening balance, January 1, 2014	$ 6,371	$ (3,655)
Total gains or (losses) for the period: *(1)*		
Included in earnings		257
Included in other comprehensive income (unrealized) *(2)*	434	
Purchases, issues, sales, settlements *(3)*		
Purchases		
Issues		
Sales		
Settlements	(88)	
Transfer from investment grade to non-investment grade		
Transfers in and/or out of Level 3		
Closing balance, March 31, 2014	$ 6,717	$ (3,398)
Changes in unrealized losses included in earnings relating to assets and liabilities held at the end of March 31, 2014	$	$ (257)

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

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

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

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

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Valuation Methodologies

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

For the pooled trust preferred securities, the fair value was derived based on discounted cash flow analyses (the income method) prepared by management. In order to determine the appropriate discount rate used in calculating fair values derived from the income method for the pooled trust preferred securities, the Company has made assumptions using an exit price approach related to the implied rate of return which have been adjusted for general changes in market rates, estimated changes in credit risk and liquidity risk premium, specific nonperformance, and default experience in the collateral underlying the securities. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for credit risk and liquidity risk. The actual Level 3 unobservable assumption rates used as of March 31, 2014 include: a constant prepayment rate of 0% for year 1-5 and 1% thereafter, a constant default rate of 1.2% for year 1-5 and 0.75% thereafter, and a recovery assumption of 0% for existing deferrals/defaults and 15% for future deferrals with a recovery lag of 60 months. Losses arising during the period, if any, are recognized in noninterest income.

Derivative Liabilities The Company s derivative liabilities include derivatives payable that fall within Level 3 and all other derivative liabilities which fall within Level 2. The derivatives payable are recorded in conjunction with certain certificates of deposit (host instrument). These CDs pay interest based on changes in the Chinese currency Renminbi (RMB), and are included in interest-bearing deposits on the condensed consolidated balance sheets. The fair value of these embedded derivatives is based on the income approach. The payable is divided by the portion under FDIC insurance coverage and the non-insured portion. For the FDIC insured portion the Company applied a risk premium comparable to an agency security risk premium. For the non-insured portion, the Company considered its own credit risk in determining the valuation by applying a risk premium based on our institutional credit rating, which resulted in an adjustment of $945 thousand to the valuation of the derivative liabilities for the three months ended March 31, 2014. Significant increases (decreases), if any, of those inputs in isolation would result in a significantly lower (higher) fair value measurement. The valuation of the derivatives payable falls within Level 3 of the fair value hierarchy since the significant inputs used in deriving the fair value of these derivative contracts are not directly observable. The actual Level 3 unobservable input used as of March 31, 2014 was a credit risk adjustment with a range of 0.71% to 0.75%. The Level 2 derivative liabilities are mostly comprised of the offsetting interest rate swaps with other counterparties. Refer to ***Interest Rate Swaps*** within this footnote for complete discussion.

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

Interest Rate Swaps The Company entered into interest rate swap contracts with institutional counterparties to hedge against interest rate swap products offered to bank customers. This product allows borrowers to lock in attractive intermediate and long-term interest rates by entering into an interest rate swap contract with the Company, resulting in the customer obtaining a synthetic fixed rate loan. The Company has also entered interest rate swap contracts with institutional counterparties to hedge against certificates of deposit issued. This product allows the Company to lock in attractive floating rate funding. The fair value of the interest rate swap contracts is based on a discounted cash flow approach. The Company s consideration of the counterparty s credit risk resulted in a nominal adjustment to the valuation of the interest rate swaps for the period ended March 31, 2014. The valuation of the interest rate swap falls within Level 2 of the fair value hierarchy due to the observable nature of the inputs used in deriving the fair value of this derivative contract.

Foreign Exchange Contracts The Company entered into short-term foreign exchange contracts to purchase/sell foreign currencies at set rates in the future. These contracts economically hedge against foreign exchange rate fluctuations. The Company enters into contracts with institutional counterparties to hedge against foreign exchange products offered to bank customers. These products allow customers to hedge the foreign exchange risk of their deposits and loans denominated in foreign currencies. The Company does not assume any foreign exchange rate risk as the contract with the customer and the contract with the institutional party mirror each other. The fair value is determined at each reporting period based on the change in the foreign exchange rate. Given the short-term nature of the contracts, the counterparties credit risks are considered nominal and resulted in no adjustments to the valuation of the short-term foreign exchange contracts for the three months ended March 31, 2014. The valuation of the contract falls within Level 2 of the fair value hierarchy due to the observable nature of the inputs used in deriving the fair value of this derivative contract.

The Company also entered into long-term foreign exchange contracts to purchase/sell foreign currencies at set rates in the future. The fair value is determined at each reporting period based on the change in the foreign exchange rate. The Company s consideration of the counterparty s credit risk resulted in a nominal adjustment to the valuation of the long-term foreign exchange contract for the three months ended March 31, 2014. The valuation of the contract falls within Level 2 of the fair value hierarchy due to the observable nature of the inputs used in deriving the fair value of this derivative contract.

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Loans The Company evaluates loan impairment according to the provisions of ASC 310-10-35, *Receivables-Overall-Subsequent Measurement*, for all portfolios other than the homogenous consumer portfolio. Under ASC 310-10-35, loans are considered impaired when it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement, including scheduled interest payments. 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. If the measure of the 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. Also, in accordance with ASC 310-10-35, loans that are considered impaired are specifically excluded from the quarterly migration analysis when determining the amount of the general valuation allowance for loan losses required for the period.

The Company s impaired loans are generally measured using the fair value of the underlying collateral, which is determined based on the most recent valuation information received. Appraisals are obtained from third party appraisers and reviewed by management. Evaluations are obtained from third-parties or prepared internally and are also reviewed by management. Similarly, updated appraisals and evaluations are obtained on a regular basis or as necessary. Further, 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. In calculating the discount to be applied to an appraisal or evaluation, if necessary, the Company considers the location of collateral, the property type, and third party comparable sales. If it is assessed by management that the current value is not appropriate, adjustments to the carrying value will be calculated and a charge-off or a specific valuation allowance may be recorded to reduce the loan to the appropriate adjusted carrying value. The fair values may be adjusted as needed based on factors such as the Company s historical knowledge and changes in market conditions from the time of valuation. Impaired loans and consumer homogenous loans with a fair value measurement are classified as Level 3 assets in the fair value hierarchy.

Other Real Estate Owned 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 cost to sell at the time of foreclosure and at the lower of cost or estimated fair value less cost to sell subsequent to acquisition. The fair values of OREO properties are based on third party appraisals, broker price opinions or accepted written offers. These valuations are reviewed and approved by the Company s appraisal department, credit review department, or OREO department. Updated appraisals and evaluations are obtained on a regular basis or at least annually. Further, 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. In calculating the discount to be applied to an appraisal or evaluation, if necessary, the Company considers the location of collateral, the property type, and third party comparable sales. If it is assessed by management that the current value is not appropriate, adjustments to the carrying value will be calculated and a charge-off may be taken to reduce the OREO to the appropriate adjusted carrying value. The fair values may be adjusted as needed based on factors such as the Company s historical knowledge and changes in market conditions from the time of valuation. OREO properties are classified as Level 3 assets in the fair value hierarchy.

Loans Held for Sale The Company s loans held for sale are carried at the lower of cost or market value. These loans are currently comprised of 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 assets in the fair value hierarchy.

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Fair Value of Financial Instruments

The carrying amounts and fair values of the Company s financial instruments as of March 31, 2014 and December 31, 2013 were as follows:

	March 31, 2014		December 31, 2013	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In thousands)			
Financial Assets:				
Cash and cash equivalents	$ 1,884,855	$ 1,884,855	$ 895,820	$ 895,820
Short-term investments	323,266	323,266	257,473	257,473
Securities purchased under resale agreements	1,200,000	1,186,314	1,300,000	1,279,406
Investment securities available-for-sale	2,474,744	2,474,744	2,733,797	2,733,797
Loans held for sale	577,353	592,769	204,970	212,469
Loans receivable, net	19,082,250	18,494,494	17,600,613	16,741,674
Investment in Federal Home Loan Bank stock	52,110	52,110	62,330	62,330
Investment in Federal Reserve Bank stock	50,370	50,370	48,333	48,333
Accrued interest receivable	102,802	102,802	116,314	116,314
Foreign exchange options	5,915	5,915	6,290	6,290
Interest rate swaps	26,293	26,293	28,078	28,078
Foreign exchange contracts	4,378	4,378	6,181	6,181
Financial Liabilities:				
Customer deposit accounts:				
Demand, savings and money market deposits	16,444,764	16,444,764	14,588,570	14,588,570
Time deposits	6,383,293	6,355,318	5,824,348	5,791,659
Federal Home Loan Bank advances	315,620	333,835	315,092	308,521
Securities sold under repurchase agreements	1,005,316	1,134,817	995,000	1,134,774
Accrued interest payable	11,582	11,582	11,178	11,178
Long-term debt	240,675	205,012	226,868	184,415
Derivative liabilities	46,778	46,778	50,262	50,262

The following table shows the level in the fair value hierarchy for the estimated fair values of only financial instruments that are not already on the condensed consolidated balance sheets at fair value at March 31, 2014 and December 31, 2013.

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	March 31, 2014			
	Estimated Fair Value Measurements	Level 1	Level 2	Level 3
		(In thousands)		
Financial Assets:				
Cash and cash equivalents	$ 1,884,855	$ 1,884,855	$	$
Short-term investments	323,266		323,266	
Securities purchased under resale agreements	1,186,314		1,186,314	
Loans held for sale	592,769		592,769	
Loans receivable, net	18,494,494			18,494,494
Investment in Federal Home Loan Bank stock	52,110		52,110	
Investment in Federal Reserve Bank stock	50,370		50,370	
Accrued interest receivable	102,802		102,802	
Financial Liabilities:				
Customer deposit accounts:				
Demand, savings and money market deposits	16,444,764		16,444,764	
Time deposits	6,355,318			6,355,318
Federal Home Loan Bank advances	333,835		333,835	
Securities sold under repurchase agreements	1,134,817		1,134,817	
Accrued interest payable	11,582		11,582	
Long-term debt	205,012		205,012	

	December 31, 2013			
	Estimated Fair Value Measurements	Level 1	Level 2	Level 3
		(In thousands)		
Financial Assets:				
Cash and cash equivalents	$ 895,820	$ 895,820	$	$
Short-term investments	257,473		257,473	
Securities purchased under resale agreements	1,279,406		1,279,406	
Loans held for sale	212,469		212,469	
Loans receivable, net	16,741,674			16,741,674
Investment in Federal Home Loan Bank stock	62,330		62,330	
Investment in Federal Reserve Bank stock	48,333		48,333	
Accrued interest receivable	116,314		116,314	
Financial Liabilities:				
Customer deposit accounts:				
Demand, savings and money market deposits	14,588,570		14,588,570	
Time deposits	5,791,659			5,791,659
Federal Home Loan Bank advances	308,521		308,521	
Securities sold under repurchase agreements	1,134,774		1,134,774	
Accrued interest payable	11,178		11,178	
Long-term debt	184,415		184,415	

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

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

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

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

Investment Securities Available-for-Sale The fair values of the investment securities are generally determined by independent external pricing service providers who have experience in valuing these securities and by comparison to and/or 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. For pooled trust preferred securities, fair values are based on discounted cash flow analyses. Due to the unobservable inputs used within the discounted cash flow analysis, the estimate for pooled trust preferred securities is considered to be within Level 3 of the fair value hierarchy. The remainder of the portfolio is classified within Level 1 and Level 2, as discussed earlier in this footnote.

Loans Held for Sale The fair value of loans held for sale is derived from current market prices and comparative current sales. Due to the observable nature of the inputs used in deriving the estimated fair value of these instruments, the estimate is considered to be within Level 2 of the fair value hierarchy.

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

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

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

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

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

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

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

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

Securities Sold Under Repurchase Agreements For securities sold under repurchase agreements with original maturities of 90 days or less, the carrying amounts approximate fair values due to the short-term nature of these instruments. At March 31, 2014 and December 31, 2013, most of the securities sold under repurchase agreements are long-term in nature and the fair values of securities sold under repurchase agreements are calculated by discounting future cash flows based on expected maturities or repricing dates, utilizing estimated market discount rates, and taking into consideration the call features of each instrument. Due to the observable nature of the inputs used in deriving the estimated fair value of these instruments, the estimate is considered to be within Level 2 of the fair value hierarchy.

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

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

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

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

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NOTE 5 STOCK-BASED COMPENSATION

During the three months ended March 31, 2014, total compensation expense recognized in the condensed consolidated statements of income related to restricted stock awards reduced income before taxes by $3.2 million and net income by $1.8 million.

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

The Company received $283 thousand and $442 thousand during the three months ended March 31, 2014 and March 31, 2013, respectively, in cash proceeds from stock option exercises. The net tax benefit recognized in equity for stock compensation plans was $3.7 million and $2.6 million for the three months ended, March 31, 2014 and March 31, 2013, respectively.

As of March 31, 2014, there are 3,711,650 shares available to be issued, subject to the Company s current 1998 Stock Incentive Plan, as amended.

Stock Options

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

A summary of activity for the Company s stock options as of and for the three months ended March 31, 2014 is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (In thousands)
Outstanding at beginning of period	406,731	$ 26.72		
Granted				
Exercised	(13,415)	21.09		
Expired	(130,514)	38.76		
Outstanding at end of period	262,802	$ 21.03	0.90 years	$ 4,064
Vested or expected to vest at end of period	262,802	$ 21.03	0.90 years	$ 4,064
Exercisable at end of period	262,802	$ 21.03	0.90 years	$ 4,064

All outstanding stock options were vested prior to December 31, 2013.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions: 1) the expected term (estimated period of time outstanding) of stock options granted is estimated using the historical exercise behavior of employees; 2) the expected volatility is based on historical volatility for a period equal to the stock option s expected term; 3) the expected dividend yield is based on the Company s prevailing dividend rate at the time of grant; and 4) the risk-free rate is based on the U.S. Treasury strips in effect at the time of grant equal to the stock option s expected term. The Company did not issue any stock options during the three months ended March 31, 2014 and 2013.

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During the three months ended March 31, 2014 and 2013, information related to stock options is presented as follows:

	Three Months Ended March 31, 2014		Three Months Ended March 31, 2013	
Weighted average grant date fair value of stock options granted during the period *(1)*		N/A		N/A
Total intrinsic value of options exercised (in thousands)	$	194	$	127
Total fair value of options vested (in thousands) *(2)*		N/A	$	363

(1) The Company did not issue any stock options during the three months ended March 31, 2014 and 2013.

(2) Stock options were fully vested during the first quarter of 2013.

As of March 31, 2013, all stock options are fully vested and all compensation cost related to stock options have 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 fully vest after one to five years of continued employment from the date of grant; some of the awards are also subject to achievement of certain established financial goals. The Company becomes entitled to an income tax deduction in an amount equal to the taxable income reported by the holders of the restricted stock when the restrictions are released and the shares are issued. Restricted stock awards are forfeited if officers and employees terminate prior to the lapsing of restrictions or if established financial goals are not achieved. The Company records forfeitures of issued restricted stock as treasury share repurchases.

A summary of the activity for the Company s time-based and performance-based restricted stock awards as of March 31, 2014, including changes during the three months then ended, is presented below:

	March 31, 2014 Restricted Stock Awards					
	Time-Based			Performance-Based		
	Shares		Weighted Average Price	Shares		Weighted Average Price
Outstanding at beginning of period	438,508	$	17.79	956,707	$	23.74
Granted	6,655		29.30	603,697		36.85
Vested	(136,381)		9.80	(340,781)		23.52
Forfeited	(10,488)		19.75	(18,332)		23.95

Outstanding at end of period	298,294	$	21.63	1,201,291	$	30.38

Restricted stock awards are valued at the closing price of the Company s stock on the date of award. The weighted average fair values of time-based restricted stock awards granted during the period ended March 31, 2014 and 2013 were $29.30 and $22.31, respectively. The weighted average fair values of performance-based restricted stock awards granted during the three months ended March 31, 2014 and 2013 were $36.85 and $25.25, respectively. The total fair value of time-based restricted stock awards vested for the three months ended March 31, 2014 and 2013 was $4.7 million and $16.3 million, respectively. The total fair value of performance-based restricted stock awards vested during the three months ended March 31, 2014 and 2013 was $12.6 million and $4.3 million, respectively.

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As of March 31, 2014, total unrecognized compensation cost related to time-based and performance-based restricted stock awards amounted to $3.1 million and $32.1 million, respectively. This cost is expected to be recognized over a weighted average period of 2.7 years and 2.5 years, respectively.

NOTE 6 INVESTMENT SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(In thousands)		
As of March 31, 2014				
Investment securities available-for-sale:				
U.S. Treasury securities	$ 431,307	$ 91	$ (3,145)	$ 428,253
U.S. Government agency and U.S. Government sponsored enterprise debt securities	391,470	763	(7,548)	384,685
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	120,999	769	(2,661)	119,107
Residential mortgage-backed securities	829,005	7,331	(12,231)	824,105
Municipal securities	290,241	3,197	(9,541)	283,897
Other residential mortgage-backed securities:				
Investment grade	58,450		(1,443)	57,007
Other commercial mortgage-backed securities:				
Investment grade	50,999	420		51,419
Corporate debt securities:				
Investment grade	212,593	60	(2,962)	209,691
Non-investment grade *(1)*	20,577	28	(5,093)	15,512
Other securities	99,114	2,573	(619)	101,068
Total investment securities available-for-sale	$ 2,504,755	$ 15,232	$ (45,243)	$ 2,474,744
As of December 31, 2013				
Investment securities available-for-sale:				
U.S. Treasury securities	$ 495,053	$ 201	$ (3,622)	$ 491,632
U.S. Government agency and U.S. Government sponsored enterprise debt securities	406,807	242	(12,726)	394,323
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	182,257	1,062	(4,449)	178,870
Residential mortgage-backed securities	892,435	7,729	(14,927)	885,237
Municipal securities	297,390	1,122	(17,533)	280,979
Other residential mortgage-backed securities:				
Investment grade	48,129		(1,802)	46,327
Other commercial mortgage-backed securities:				
Investment grade	51,000	617		51,617

Corporate debt securities:								
Investment grade		312,726		613		(3,344)		309,995
Non-investment grade *(1)*		20,668		62		(5,629)		15,101
Other securities		80,025		555		(864)		79,716
Total investment securities available-for-sale	$	2,786,490	$	12,203	$	(64,896)	$	2,733,797

(1) For the three months ended March 31, 2014 and the year ended December 31, 2013, the Company did not record any OTTI.

The Company did not have any investment securities held-to-maturity as of March 31, 2014 and December 31, 2013.

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

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

The market for the pooled trust preferred securities continues to have minimal activity or distressed transactions. It is the Company s view that current broker prices (which are typically non-binding) on these securities are based on forced liquidation or distressed sale values in very inactive markets that are not representative of the fair value of these securities. As such, the Company considered what weight, if any, to place on transactions that are not orderly when estimating fair value. For the pooled trust preferred securities the Company determined their fair values using the methodologies set forth in Note 4 to the Company s condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2014	**2013**
	(In thousands)	
Beginning balance, January 1,	$ 115,511	$ 115,511
Addition of other-than-temporary impairment that was not previously recognized		
Additional increases to the amount related to the credit loss for which an other-than-temporary impairment was previously recognized		
Reduction for securities sold		
Ending balance	$ 115,511	$ 115,511

During the three months ended March 31, 2014, the Company recorded $3.5 million of gross gains and $127 thousand of gross losses resulting in a net income statement impact of $3.4 million of net gain on sale of investment securities. The gross $127 thousand of losses resulted from the securities acquired from MetroCorp which were sold immediately after the acquisition closed, and the net income statement impact from these securities was a net gain of $41 thousand. During the three months ended March 31, 2013, the Company recorded $5.6 million of gross gains and no gross losses resulting in a net income statement impact of $5.6 million of gain on sale of investment securities. The tax expense on the sale of investment securities available-for-sale amounted to $1.4 million and $2.3 million for the three months ended March 31, 2014 and 2013, respectively. Total net proceeds for these sales were $330.2 million and $196.9 million for the three months ended March 31, 2014 and 2013, respectively.

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The following tables show the Company s investment portfolio s gross unrealized losses and related fair values, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of March 31, 2014 and December 31, 2013:

[redacted]						
As of March 31, 2014						
[redacted]						
U.S. Treasury securities	$ 346,069	$ (3,145)	$	$	$ 346,069	$ (3,145)
[redacted]						
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:						
[redacted]						
Residential mortgage-backed securities	417,992	(7,447)	119,255	(4,784)	537,247	(12,231)
[redacted]						
Other residential mortgage-backed securities:						
[redacted]						
Corporate debt securities:						
[redacted]						
Non-investment grade			14,869	(5,093)	14,869	(5,093)
[redacted]						
Total investment securities available-for-sale	$ 1,412,651	$ (27,692)	$ 294,599	$ (17,551)	$ 1,707,250	$ (45,243)

[redacted]						
As of December 31, 2013						
[redacted]						
U.S. Treasury securities	$ 337,248	$ (3,622)	$	$	$ 337,248	$ (3,622)
[redacted]						
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:						
[redacted]						
Residential mortgage-backed securities	502,285	(10,570)	92,540	(4,357)	594,825	(14,927)
[redacted]						

Other residential mortgage-backed securities:						
[redacted]						
Corporate debt securities:						
[redacted]						
Non-investment grade			14,422	(5,629)	14,422	(5,629)
[redacted]						
Total investment securities available-for-sale	$ 1,803,074	$ (45,167)	$ 250,361	$ (19,729)	$ 2,053,435	$ (64,896)

Unrealized Losses

The majority of the unrealized losses related to securities that have been in a continuous loss position for less than twelve months are related to government sponsored debt securities, residential agency mortgage-backed and municipal securities. As of March 31, 2014, government sponsored debt securities, residential agency mortgage-backed securities and municipal securities, represented 16%, 33% and 11% of the total investment securities available-for-sale portfolio, respectively. As of December 31, 2013, government sponsored debt securities, municipal securities and residential agency mortgage-backed securities, represented approximately 14%, 10% and 32% of the total investment securities available-for-sale portfolio, respectively.

As of March 31, 2014, there were 75 individual securities that have been in a continuous unrealized loss position for twelve months or more. These securities are comprised of 40 municipal securities with a total fair value of $64.8 million, 23 residential agency mortgage-backed securities with a fair value of $119.3 million, 5 non-investment grade trust preferred securities with a total fair value of $14.9 million, 4 investment grade corporate debt securities with a fair value of $79.6 million and 3 commercial agency mortgage-backed securities with a fair value of $16.1 million. The unrealized losses on these securities are primarily attributed to the rise in interest rates, together with the widened liquidity spread and credit spread. The issuers of these securities have not, to our knowledge, established any cause for default on these securities. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated. The Company does not intend to sell these securities and it is not more likely than not that the company will be required to sell these securities before recovery of their current amortized cost basis.

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As of March 31, 2014, there were also 179 securities, not including the 75 securities above, which have been in a continuous unrealized loss position for less than twelve months. The securities in an unrealized loss position for less than twelve months include 62 municipal securities, 47 residential agency mortgage-backed securities, 34 U.S. Treasury securities, 13 commercial agency mortgage-backed securities, 9 government sponsored debt securities, 6 other residential mortgage-backed securities, 5 investment grade corporate debt securities and 3 other securities. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated and as long-term rates increased. The Company does not intend to sell these securities and it is not more likely than not that the Company will be required to sell these securities before recovery of their current amortized cost basis. As such, the Company does not deem any of the securities as of March 31, 2014 to be other-than-temporarily impaired.

As of December 31, 2013 there were 65 securities which have been in a continuous unrealized loss position for twelve months or more. These securities are comprised of 32 municipal securities with a total fair value of $47.9 million, 21 residential agency mortgage-backed securities with a total fair value of $92.5 million, 5 trust preferred securities with a total fair value of $14.4 million, 4 investment grade corporate debt securities with a total fair value of $79.4 million and 3 commercial agency mortgage-backed securities with a total fair value of $16.1 million. As of December 31, 2013 there were also 239 securities, not including the 65 securities above, which have been in a continuous unrealized loss position for less than twelve months. The securities in an unrealized loss position for less than twelve months include 94 municipal securities, 55 residential agency mortgage-backed securities, 33 U.S. Treasury securities, 19 commercial agency mortgage-backed securities, 16 government sponsored debt securities, 8 investment grade corporate debt securities, 5 other residential mortgage-backed securities and 9 other securities. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated and as long-term rates increased. The Company does not intend to sell these securities and it is not more likely than not that the Company will be required to sell the investments before recovery of their current amortized cost basis. As such, the Company does not deem these securities, to be other-than-temporarily impaired as of December 31, 2013.

Corporate Debt Securities

As of March 31, 2014, the majority of unrealized losses related to securities that have been in a continuous loss position of twelve months or longer are due to 5 trust preferred securities, 40 municipal securities and 23 residential agency mortgage-backed securities. As of March 31, 2014, these 5 trust preferred securities had an estimated fair value of $14.9 million, representing approximately 1% of the total investment securities available-for-sale portfolio. As of March 31, 2014, these trust preferred debt securities had gross unrealized losses amounting to $5.1 million, or 26% of the total amortized cost basis of these securities. We did not record an impairment loss on our portfolio of pooled trust preferred as of March 31, 2014 and December 31, 2013.

Investment Securities Maturities

The scheduled maturities of investment securities at March 31, 2014 are presented as follows:

	Amortized Cost	Estimated Fair Value
	(In thousands)	
Due within one year	$ 395,151	$ 384,287
Due after one year through five years	505,195	501,542
Due after five years through ten years	608,053	602,553
Due after ten years	996,356	986,362

Total investment securities available-for-sale	$	2,504,755	$	2,474,744

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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.

NOTE 7 DERIVATIVE FINANCIAL INSTRUMENTS AND BALANCE SHEET OFFSETTING

The following table summarizes the fair value and balance sheet classification of derivative instruments as of March 31, 2014 and December 31, 2013. The notional amount of the contract is not recorded on the condensed consolidated balance sheets, but is used as the basis for determining the amount of interest payments to be exchanged between the counterparties. If the counterparty fails to perform, the Company s counterparty credit risk is equal to the amount reported as a derivative asset. The valuation methodology of derivative instruments is disclosed in Note 4 to the Company s condensed consolidated financial statements.

	Fair Values of Derivative Instruments					
	March 31, 2014			December 31, 2013		
	Notional Amount	Derivative Assets (1)	Derivative Liabilities (1)	Notional Amount	Derivative Assets (1)	Derivative Liabilities (1)
	(In thousands)					
Derivatives designated as hedging instruments:						
Interest rate swaps on certificates of deposit fair value	$ 135,000	$	$ 14,202	$ 135,000	$	$ 16,906
Total derivatives designated as hedging instruments	$ 135,000	$	$ 14,202	$ 135,000	$	$ 16,906
Derivatives not designated as hedging instruments:						
Foreign exchange options	$ 85,614	$ 5,915	$ 3,398	$ 85,614	$ 6,290	$ 3,655
Interest rate swaps	2,024,211	26,293	25,503	1,915,474	28,078	26,352
Foreign exchange contracts	486,669	4,378	3,675	440,848	6,181	3,349
Total derivatives not designated as hedging instruments	$ 2,596,494	$ 36,586	$ 32,576	$ 2,441,936	$ 40,549	$ 33,356

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

Derivatives Designated as Hedging Instruments

Interest Rate Swaps on Certificates of Deposit The Company is exposed to changes in the fair value of certain fixed rate certificates of deposit due to changes in the benchmark interest 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 associated certificates of deposits have the same maturity dates.

As of March 31, 2014 and December 31, 2013, the total notional amount of the interest rate swaps on the certificates of deposit was $135.0 million. The fair value of the interest rate swaps amounted to a $14.2 million and $16.9 million liability, respectively, as of March 31, 2014 and December 31, 2013. During the three months ended March 31, 2014 and 2013, the Company recognized a net reduction of $199 thousand and $87 thousand, respectively, in expense related to hedge ineffectiveness. The Company also recognized a net reduction to interest expense of $2.0 million and $385 thousand, for the three months ended March 31, 2014 and 2013, respectively, related to net settlements on the derivatives.

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

As of March 31, 2014 and December 31, 2013 the notional amount of the foreign exchange options totaled $85.6 million, respectively. The fair values of the foreign exchange options and embedded derivative liability for these contracts amounted to a $5.9 million asset and a $3.4 million liability as of March 31, 2014. The fair values of the foreign exchange options and embedded derivative liability for these contracts amounted to a $6.3 million asset and a $3.7 million liability as of December 31, 2013. The Company did not deliver collateral, in the form of securities to counterparty institutions as of March 31, 2014 and December 31, 2013.

Interest Rate Swaps The Company enters into interest rate swap contracts with institutional counterparties to economically hedge against interest rate swap products offered to bank customers. This product allows borrowers to lock in attractive intermediate and long-term interest rates by entering into a interest rate swap contract with the Company, resulting in the customer obtaining a synthetic fixed rate loan. The Company does not assume any interest rate risk since the swap agreements mirror each other. As of March 31, 2014, the total notional amount of the interest rate swaps, including mirror transactions, with the institutional counterparties and the bank customers totaled a $2.02 billion asset and a $2.01 billion liability. In comparison, as of December 31, 2013, the total notional amount of the interest rate swaps, including mirror transactions, with the institutional counterparties and the bank customers totaled a $1.92 billion asset and a $1.92 billion liability. The interest rate swap agreements are marked-to-market each reporting period with resulting changes in fair value reported in the condensed consolidated statements of income.

The fair values of the interest rate swap contracts with the institutional counterparties and the bank customers amounted to a $26.3 million asset and a $25.5 million liability, as of March 31, 2014. The fair values of the interest rate swap contracts with the institutional counterparty and the bank customers amounted to a $28.1 million asset and a $26.4 million liability, as of December 31, 2013.

Foreign Exchange Contracts The Company enters into short-term forward foreign exchange contracts on a regular basis to economically hedge against foreign exchange rate fluctuations. As of March 31, 2014 and December 31, 2013 the notional amount of the short-term foreign exchange contracts totaled $472.2 million and $426.0 million, respectively. The fair values of the short-term foreign exchange contracts amounted to a $4.1 million asset and a $3.4 million liability, as of March 31, 2014. The fair values of the short-term foreign exchange contracts amounted to a $6.0 million asset and a $3.2 million liability, as of December 31, 2013. The gross aggregate value of the short-term foreign exchange contracts by counterparty was a liability of $547 thousand as of March 31, 2014 and an asset of $1.5 million as of December 31, 2013.

The Company also entered into long-term foreign exchange contracts to purchase/sell foreign currencies at set rates in the future. As of March 31, 2014 and December 31, 2013 the notional amount of the long-term foreign exchange contracts totaled $14.5 million and $14.8 million, respectively. The fair values of the long-term foreign exchange contracts amounted to a $249 thousand asset and a $230 thousand liability, as of March 31, 2014. The fair values of the long-term foreign exchange contracts amounted to a $200 thousand asset and a $183 thousand liability, as of December 31, 2013.

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The table below presents the effect of the Company s derivative financial instruments on the condensed consolidated statements of income for the three months ended March 31, 2014 and 2013:

[redacted]					
Derivatives designated as hedging instruments					
[redacted]					
	Total net income (expense)	$	2,704	$	(905)
[redacted]					
Foreign exchange options	Noninterest income		(119)		140
[redacted]					
Interest rate swaps	Noninterest income		(936)		216
[redacted]					
	Total net (expense) income	$	(3,183)	$	321

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

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

Balance Sheet Offsetting The Company has entered into agreements with all counterparty financial institutions, which include master netting agreements. However, the Company elects to account for all derivatives with counterparty institutions on a gross basis, excluding the foreign exchange options which are not under agreements that include master netting terms. The Company has also entered into securities purchased under resale agreements (resale agreements), and securities sold under agreements to repurchase (repurchase agreements) which have master netting agreements that allow for the netting of collateral positions. These repurchase and resale agreements of securities are not eligible for offset in the condensed consolidated balance sheet.

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

The Company delivered collateral, in the form of securities to counterparty institutions, for derivatives that were in a net liability position as of March 31, 2014 and December 31, 2013 (refer to the table below). Under the Dodd-Frank legislation, as of June 10, 2013, the Company must clear all LIBOR interest rate swaps through a clearing house. As such the Company is required to pledge cash collateral for the margin. As of March 31, 2014 and December 31, 2013 the Company posted $3.9 million and $187 thousand of cash collateral, respectively.

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[redacted]

Derivatives	$ 10,370	$	$ 10,370	$ (8,203)	$ (2,167)	$
Resale Agreements	$ 1,200,000	$	$ 1,200,000	$ (400,000)	$ (800,000)	$

Liabilities	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Condensed Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Condensed Consolidated Balance Sheets	Gross Amounts Not Offset in the Condensed Consolidated Balance Sheets Financial Instruments	Collateral Posted	Net Amount
Derivatives	$ 35,574	$	$ 35,574	$ (8,203)	$ (27,371)	$
Repurchase Agreements	$ 1,005,000	$	$ 1,005,000	$ (400,000)	$ (605,000)	$

As of December 31, 2013
(In thousands)

Assets	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Condensed Consolidated Balance Sheets	Net Amounts of Assets Presented in the Condensed Consolidated Balance Sheets	Gross Amounts Not Offset in the Condensed Consolidated Balance Sheets Financial Instruments	Collateral Received	Net Amount
Derivatives	$ 16,043	$	$ 16,043	$ (11,363)	$ (4,680)	$
Resale Agreements	$ 1,400,000	$	$ 1,400,000	$ (495,000)	$ (905,000)	$

Liabilities	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Condensed Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Condensed Consolidated Balance Sheets	Gross Amounts Not Offset in the Condensed Consolidated Balance Sheets Financial Instruments	Collateral Posted	Net Amount
Derivatives	$ 33,849	$	$ 33,849	$ (11,363)	$ (22,486)	$
Repurchase Agreements	$ 995,000	$	$ 995,000	$ (495,000)	$ (500,000)	$

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NOTE 8 COVERED ASSETS AND FDIC INDEMNIFICATION ASSET

Covered Assets

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

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

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

Forty-five days following the 10th anniversary of the respective acquisition date, the Company will be required to pay to the FDIC a calculated amount, based on the specific thresholds of losses not being reached. The calculation of this potential liability as stated in the shared-loss agreements is 50% of the excess, if any of (i) 20% of the Intrinsic Loss Estimate and (ii) the sum of (A) 25% of the asset discount plus (B) 25% of the Cumulative Shared-Loss Payments plus (C) the Cumulative Servicing Amount if net losses on covered loans subject to the stated threshold is not reached. As of March 31, 2014 and December 31, 2013, the Company s recorded estimate in the balance sheet, for this liability to the FDIC for WFIB and UCB was $81.6 million and $74.7 million, respectively.

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

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The carrying amounts and the composition of the covered loans as of March 31, 2014 and December 31, 2013 are as follows:

[redacted]				
Real estate loans:				
[redacted]				
Residential multifamily		374,252		403,508
[redacted]				
Construction and land		110,130		163,833
[redacted]				
Other loans:				
[redacted]				
Other consumer		72,368		73,973
[redacted]				
Total principal balance		2,259,959		2,461,560
[redacted]				
Net valuation of loans		2,035,324		2,195,643
[redacted]				
Total covered loans, net	$	2,028,806	$	2,187,898

Credit Quality Indicators The covered loans acquired are and will continue to be subject to the Bank s internal and external credit review and monitoring. The same credit quality indicators are reviewed for the covered portfolio as the non-covered portfolio, to enable the monitoring of the borrower s credit and the likelihood of repayment.

Loans are risk rated based on analysis of the current state of the borrower s credit quality. The analysis of credit quality includes review of all sources of repayment, the borrower s current financial and liquidity status and all other relevant information. The Company utilizes an eight grade risk rating system, where a higher grade represents a higher level of credit risk. The eight grade risk rating system can be generally classified by the following categories: Pass or Watch, Special Mention, Substandard, Doubtful and Loss. The risk ratings reflect the relative strength of the sources of repayment. Refer to Note 9 for full discussion of risk ratings.

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

The Company acquired WFIB and UCB in 2010 and 2009, respectively. The majority of the covered loan portfolio accounted for under ASC 310-30, is still performing better than or as expected from the day one valuation. However, the Company has experienced some concentrated credit deterioration in certain loan pools. As of March 31, 2014 and December 31, 2013, there was an allowance of $2.2 million and $2.2 million respectively, for these loans under ASC 310-30. This $2.2 million in allowance is allocated mainly to the portfolio s commercial real estate segment.

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As of the acquisition date, UCB s and WFIB s loan portfolios included unfunded commitments for commercial lines of credit, construction draws and other lending activity. The total commitment outstanding as of the acquisition date is covered under the shared-loss agreements. However, any additional advances on these loans subsequent to acquisition date are not accounted for under ASC 310-30. Included in the following credit quality table are $281.9 million and $320.2 million of additional advances under the shared-loss agreements which are not accounted for under ASC 310-30 at March 31, 2014 and December 31, 2013, respectively. The Bank has considered these additional advances on commitments covered under the shared-loss agreements in the allowance for loan losses calculation. These additional advances are within our loan segments as follows: $219.1 million of commercial and industrial loans, $21.0 million of commercial real estate loans, $30.7 million of consumer loans and $11.1 million of residential loans. In comparison, at December 31, 2013, these additional advances were within our loan segments as follows: $230.6 million of commercial and industrial loans, $46.7 million of commercial real estate loans, $30.9 million of consumer loans and $12.0 million of residential loans.

During the three months ended March 31, 2014, the Company recorded $206 thousand of charge-offs on covered loans outside of the scope of ASC 310-30. In comparison, the Company recorded $132 thousand of charge-offs during the three months ended March 31, 2013. For the three months ended March 31, 2014, the company reported a reversal of provision of $954 thousand. In comparison, the Company recorded a provision on covered loans outside the scope of ASC 310-30 of $3.1 million for the three months ended March 31, 2013. Refer to Note 9 for additional discussion of these covered charge-offs. As of March 31, 2014, $4.3 million, or 1.7%, of the total allowance is allocated to these additional advances on loans covered under the shared-loss agreements. This $4.3 million in allowance is allocated within our loan segments as follows: $2.9 million for commercial and industrial loans, $887 thousand for commercial real estate loans, $305 thousand for consumer loans and $169 thousand for residential loans. At December 31, 2013, $5.5 million, or 2.2% of the total allowance was allocated within our loan segments as follows: $3.2 million for commercial and industrial loans, $1.8 million for commercial real estate loans, $341 thousand for consumer loans and $176 thousand for residential loans. The $2.2 million allowance for loans under ASC 310-30 discussed above and the $4.3 million in allowance for loans outside the scope of ASC 310-30 together comprise the total covered allowance of $6.5 million or 2.6% of total allowance as of March 31, 2014.

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The tables below present the covered loan portfolio by credit quality indicator as of March 31, 2014 and December 31, 2013.

	Pass/Watch	Special Mention	Substandard	Doubtful	Total
			(In thousands)		
March 31, 2014					
Real estate loans:					
Residential single-family	$ 268,006	$ 380	$ 7,944	$	$ 276,330
Residential multifamily	349,242	785	24,225		374,252
Commercial and industrial real estate	807,815	27,432	189,446	6,468	1,031,161
Construction and land	22,685	9,431	77,119	895	110,130
Total real estate loans	1,447,748	38,028	298,734	7,363	1,791,873
Other loans:					
Commercial business	349,330	6,914	39,445	29	395,718
Other consumer	70,599	150	1,619		72,368
Total other loans	419,929	7,064	41,064	29	468,086
Total principal balance	$ 1,867,677	$ 45,092	$ 339,798	$ 7,392	$ 2,259,959

	Pass/Watch	Special Mention	Substandard	Doubtful	Total
			(In thousands)		
December 31, 2013					
Real estate loans:					
Residential single-family	$ 281,246	$ 733	$ 8,116	$	$ 290,095
Residential multifamily	373,024	785	29,699		403,508
Commercial and industrial real estate	857,376	27,851	211,835	6,468	1,103,530
Construction and land	41,847	9,472	111,616	898	163,833
Total real estate loans	1,553,493	38,841	361,266	7,366	1,960,966
Other loans:					
Commercial business	378,086	4,635	43,797	103	426,621
Other consumer	72,053	128	1,792		73,973
Total other loans	450,139	4,763	45,589	103	500,594
Total principal balance	$ 2,003,632	$ 43,604	$ 406,855	$ 7,469	$ 2,461,560

Credit Risk and Concentrations At each respective acquisition date, the covered loans were grouped into pools of loans with similar characteristics and risk factors per ASC 310-30. The pools were first developed based on loan categories and performance status. As of March 31, 2014 UCB covered loans represent approximately 94% of total covered loans. For the UCB acquisition, the loans were further segregated among the former UCB domestic, Hong Kong, and China portfolios, representing the three general geographic regions. In addition, the Company evaluated the make-up of geographic regions within the construction, land, and multi-family loan portfolios and further segregated these pools into distressed and non-distressed regions based on our historical experience of real estate loans within the non-covered portfolio. As of the date of acquisition 64% of the UCB portfolio was located in California, 10% was located in Hong Kong and 11% was located in New York. This assessment was factored into the day one valuation and discount applied to the loans. As such, geographic concentration risk is considered in the covered loan discount.

At March 31, 2014 and December 31, 2013, $125.0 million and $126.9 million, respectively, of the covered ASC 310-30 credit impaired loans were considered to be nonaccrual loans in accordance with the contractual terms of the individual loans.

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

	March 31, 2014	December 31, 2013
	(In thousands)	
Covered nonaccrual loans *(1) (2) (3)*	$ 125,021	$ 126,895
Covered loans past due 90 days or more but not on nonaccrual		
Total nonperforming loans	125,021	126,895
Other real estate owned covered, net	30,610	21,373
Total covered nonperforming assets	$ 155,631	$ 148,268

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

(2) Represents principal balance net of discount.

(3) Includes $12.8 million and $17.7 million of loans at March 31, 2014 and December 31, 2013, respectively, accounted for under ASC 310-10, of which some loans have additional partial balances accounted for under ASC 310-30.

The following table shows covered TDR loan activity for the three months ended March 31, 2014 and 2013:

	Three Months Ended March 31, 2014	2013
	(In thousands)	
Balance at beginning of period	$ 116,007	$ 157,736
Additions	83	22,084
Sales		
Transfers to covered OREO	(1,230)	
Charge-offs	(824)	(3,704)
Paydowns/ Reductions	(40,802)	(34,193)
Balance at end of period	$ 73,234	$ 141,923

As of March 31, 2014, we had covered OREO properties with a combined aggregate carrying value of $30.6 million. Approximately 54% and 21% of covered OREO properties as of March 31, 2014 were located in California and Massachusetts, respectively. As of December 31, 2013, we had covered OREO properties with an aggregate carrying value of $21.4 million. During the first three months of 2014, 2 properties with an aggregate carrying value of $11.7 million were added through foreclosure. The carrying value at March 31, 2014 is net of adjustments on covered OREO of $416 thousand. During the first three months of 2014, we sold 4 covered OREO properties for total proceeds of $2.2 million resulting in a total net gain on sale of $119 thousand.

Changes in the accretable yield for the covered loans for the three months ended March 31, 2014 and 2013 is as follows:

Three Months Ended
March 31,

	2014	2013
	(In thousands)	
Balance at beginning of period	$ 461,545	$ 556,986
Additions		
Accretion	(61,190)	(81,627)
Changes in expected cash flows	23,650	28,117
Balance at end of period	$ 424,005	$ 503,476

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

- estimate of the remaining life of acquired loans which may change the amount of future interest income;
- estimate of the amount of contractually required principal and interest payments over the estimated life that will not be collected (the nonaccretable difference); and
- indices for acquired loans with variable rates of interest.

During the first quarter 2014, the estimate of the amount of contractually required principal and interest payments over the estimated life that will not be collected (the nonaccretable difference) was reduced as the loss on certain loan pools was evaluated and determined to be lower than expected. As a result of the reduction in the nonaccretable yield, the accretable yield increased, as did the amortization of the FDIC indemnification asset. Consequently, $19.0 million was reclassified from non-accretable yield to accretable yield due to changes in loss rate assumptions, for the three months ended March 31, 2014. In comparison, $13.5 million was reclassified from non-accretable yield to accretable yield due to changes in loss rate assumptions, for the three months ended March 31, 2013. Due to the greater expected collectability on the remaining covered loans, the accrued liability to the FDIC also increased during the first quarter 2014.

From December 31, 2013 to March 31, 2014, excluding scheduled principal payments, a total of $135.5 million of loans were removed from the covered loans accounted for under ASC 310-30 due to loans being paid in full, sold, transferred to covered OREO or charged-off. Interest income was adjusted by $21.9 million related to payoffs and removals offset by charge-offs.

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

FDIC Indemnification Asset

Due to the reductions of the nonaccretable difference on the UCB covered loan portfolio, the expected reimbursement from the FDIC under the loss-sharing agreement decreased. As such, the Company is amortizing the difference between the recorded amount of the FDIC indemnification asset and the expected reimbursement from the FDIC over the life of the indemnification asset, in line with the improved accretable yield as discussed above. For the three months ended March 31, 2014, the Company recorded $28.5 million of amortization against income, compared to $8.7 million for the three months ended March 31, 2013. For the three months ended March 31, 2014, the Company recorded reductions of $11.8 million. In comparison, the Company recorded reductions of $23.2 million for the three months ended March 31, 2013.

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

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
	(In thousands)	
Balance at beginning of period	$ 74,708	$ 316,313
Amortization	(28,490)	(8,686)
Reductions *(1)*	(11,842)	(23,235)
Estimate of FDIC repayment *(2)*	(6,824)	(7,558)
Balance at end of period	$ 27,552	$ 276,834

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

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

FDIC Receivable

As of March 31, 2014, the FDIC loss-sharing receivable was $19.6 million as compared to $30.3 million as of December 31, 2013. This receivable represents current reimbursable amounts from the FDIC, under the FDIC loss-sharing agreements that have not yet been received. These reimbursable amounts include net charge-offs, loan related expenses and OREO-related expenses. Consequently, 100% of the loan related and OREO expenses are recorded as noninterest expense, 80% of any reimbursable expense is recorded as noninterest income, netting to the 20% of actual expense paid by the Company. The FDIC also shares in 80% of recoveries received. Thus, the FDIC receivable is reduced when we receive payment from the FDIC as well as when recoveries occur. The FDIC loss-sharing receivable is included in other assets on the condensed consolidated balance sheet.

The table below shows FDIC receivable activity for the periods shown:

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
	(In thousands)	
Balance at beginning of period	$ 30,261	$ 73,091
Net (reduction) addition due to recovery or eligible expense/loss	(6,478)	7,561
Payment received from the FDIC	(4,139)	(33,890)
Balance at end of period	$ 19,644	$ 46,762

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NOTE 9 NON-COVERED LOANS AND ALLOWANCE FOR LOAN LOSSES

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

	March 31, 2014	December 31, 2013
	(In thousands)	
Residential:		
Single-family	$ 3,238,298	$ 3,192,875
Multifamily	1,111,188	992,434
Total residential	4,349,486	4,185,309
Commercial Real Estate (CRE):		
Income producing	5,118,377	4,301,030
Construction	197,628	140,186
Land	203,915	143,861
Total CRE	5,519,920	4,585,077
Commercial and Industrial (C&I):		
Commercial business	5,533,379	4,637,056
Trade finance	667,704	723,137
Total C&I	6,201,083	5,360,193
Consumer:		
Student loans	184,900	679,220
Other consumer	1,053,022	868,518
Total consumer	1,237,922	1,547,738
Total loans receivable, excluding covered loans (1)	17,308,411	15,678,317
Unearned fees, premiums, and discounts, net	(9,349)	(23,672)
Allowance for loan losses, excluding covered loans	(245,618)	(241,930)
Loans receivable, excluding covered loans, net	$ 17,053,444	$ 15,412,715

(1) Loans net of ASC 310-30 discount

Accrued interest on covered and non-covered loans receivable amounted to $83.7 million and $94.5 million at March 31, 2014 and December 31, 2013, respectively.

At March 31, 2014 and December 31, 2013, covered and non-covered loans receivable totaling $11.26 billion and $10.57 billion, respectively, were pledged to secure borrowings from the FHLB and the Federal Reserve Bank.

The Bank offers adjustable rate (ARM) first mortgage loans secured by one-to-four unit residential properties located in its primary lending areas. The Bank originated $181.7 million and $263.1 million in new residential single-family loans during the three months ended March 31, 2014 and 2013, respectively.

The Bank also offers ARM residential multifamily loan programs. The Bank originated $95.3 million and $50.3 million in new multifamily residential loans during the three months ended March 31, 2014 and 2013, respectively. The Bank primarily offers ARM multifamily loan programs that have six-month, three-year, or five-year initial fixed periods and ARM single-family loan programs that have one-year or three-year initial fixed periods. The Bank originates single-family residential loans where the underwriting criteria are heavily based on a maximum loan to value ratio (generally of 60%) and no or limited verification or documentation of the borrower s assets is obtained. The Bank considers all of the single-family and multifamily loans originated to be prime loans and the underwriting criteria include maximum loan-to-value ratios and minimum debt coverage ratios, as applicable.

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

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

Credit Risk and Concentrations The Company has a concentration of real estate loans in California. As of March 31, 2014, the Company had $5.52 billion in non-covered commercial real estate loans and $4.35 billion in non-covered residential loans, of which approximately 81% are secured by real properties located in California. Deterioration in the real estate market generally including residential and commercial real estate could result in additional loan charge-offs and provisions for loan losses in the future, which could have a material adverse effect on the Company s financial condition, net income and capital. In addition, although most of the Company s trade finance loans relate to trade with Asian countries, the majority of our loans are made to companies domiciled in the United States. A substantial portion of this business involves California based customers engaged in import activities as well as some export activities. We also offer export-import financing to various domestic and foreign customers. Certain trade finance loans may be guaranteed by the Export-Import Bank of the United States or the Export-Import Bank of China.

Purchased Loans During the three months ended March 31, 2014, the Company purchased loans with an unpaid principal balance of $61.7 million and a carrying amount of $60.5 million. The purchased loans are student loans which are guaranteed by the U.S. Department of Education.

Acquired Loans During the three months ended March 31, 2014, the Company acquired $1.19 billion of loans through its acquisition of MetroCorp, as discussed in further detail at Note 3 of the Company s condensed consolidated financial statements. As of the acquisition date, 94% of these loans are being accounted for under ASC 310-10 and the remaining 6% are being accounted for under ASC 310-30 due to credit impairment.

Loans Held for Sale Loans held for sale totaled $577.4 million and $205.0 million as of March 31, 2014 and December 31, 2013, respectively. Loans held for sale are recorded at the lower of cost or fair value. Fair value, if lower than cost, is determined based on valuations obtained from market participants or the value of the underlying collateral. As of March 31, 2014, all of the loans held for sale were student loans, which are guaranteed by the U.S. Department of Education. During the first three months of 2014, net loans receivable of $433.8 million were reclassified to loans held for sale. These loans were purchased by the Company with the intent to be held for investment; however, subsequent to their purchase, the Company s intent for these loans changed and they were consequently reclassified to loans held for sale. Proceeds from sales of loans held for sale were $135.8 million in the first three months of 2014, resulting in net gains on sale of $3.5 million. Proceeds from sales of loans held for sale were $6.3 million in the first three months of 2013 with $1 thousand net gains on sale.

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Credit Quality Indicators Loans are risk rated based on analysis of the current state of the borrower s credit quality. The analysis of credit quality includes review of all sources of repayment, the borrower s current payment performance/delinquency, the borrower s current financial and liquidity status, and all other relevant information. For single family residential loans payment performance/delinquency is the driving indicator for the risk ratings. 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 sources of repayment.

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 risk that requires monitoring, but full repayment is expected. Special Mention loans are considered to have potential weaknesses that warrant closer attention by management. Special Mention is considered a transitory grade. If any potential weaknesses are resolved, the loan is upgraded to a Pass or Watch grade. If negative trends in the borrower s financial status or other information is presented that indicates the repayment sources may become inadequate, the loan is downgraded to a Substandard grade. Substandard loans are considered to have well-defined weaknesses that jeopardize the full and timely repayment of the loan. Substandard loans have a distinct possibility of loss if the deficiencies are not corrected. Additionally, when management has assessed a potential for loss but a distinct possibility of loss is not recognizable, the loan is still classified as Substandard. Doubtful loans have insufficient sources of repayment and a high probability of loss. Loss loans are considered to be uncollectible and of such little value that they are no longer considered bankable assets. These internal risk ratings are reviewed routinely and adjusted due to changes in borrower status and likelihood of loan repayment. The tables below present the non-covered loan portfolio by credit quality indicator as of March 31, 2014 and December 31, 2013. Substandard grade loans were $524.8 million as of March 31, 2014. Doubtful or Loss grade loans were $1.1 million as of March 31, 2014. There were no Doubtful or Loss grade loans as of December 31, 2013.

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	Pass/Watch	Special Mention	Substandard (In thousands)	Doubtful	Total
March 31, 2014					
Residential:					
Single-family	$ 3,214,552	$ 7,591	$ 16,155	$	$ 3,238,298
Multifamily	1,048,621	1,295	61,272		1,111,188
CRE:					
Income producing	4,813,286	81,582	223,509		5,118,377
Construction	184,580	6,160	6,888		197,628
Land	170,601	6,298	27,016		203,915
C&I:					
Commercial business	5,264,264	100,897	167,112	1,106	5,533,379
Trade finance	617,185	31,775	18,744		667,704
Consumer:					
Student loans	183,062	148	1,690		184,900
Other consumer	1,050,210	347	2,465		1,053,022
Total	$ 16,546,361	$ 236,093	$ 524,851	$ 1,106	$ 17,308,411

	Pass/Watch	Special Mention	Substandard (In thousands)	Doubtful	Total
December 31, 2013					
Residential:					
Single-family	$ 3,167,337	$ 8,331	$ 17,207	$	$ 3,192,875
Multifamily	923,697	1,634	67,103		992,434
CRE:					
Income producing	4,032,269	56,752	212,009		4,301,030
Construction	127,138	6,160	6,888		140,186
Land	116,000	9,304	18,557		143,861
C&I:					
Commercial business	4,400,847	92,315	143,894		4,637,056
Trade finance	681,345	22,099	19,693		723,137
Consumer:					
Student loans	677,094	445	1,681		679,220
Other consumer	865,752	244	2,522		868,518
Total	$ 14,991,479	$ 197,284	$ 489,554	$	$ 15,678,317

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Nonaccrual and Past Due Loans Loans are tracked by the number of days borrower payments are past due. The tables below present an aging analysis of nonaccrual loans, past due non-covered loans and loans held for sale, segregated by class of loans, as of March 31, 2014 and December 31, 2013:

	Accruing Loans 30-59 Days Past Due	Accruing Loans 60-89 Days Past Due	Total Accruing Past Due Loans	Nonaccrual Loans Less Than 90 Days Past Due	Nonaccrual Loans 90 or More Days Past Due	Total Nonaccrual Past Due Loans	Current Accruing Loans	Total
				(In thousands)				
March 31, 2014								
Residential:								
Single-family	$ 7,530	$ 3,373	$ 10,903	$ 3,999	$ 10,069	$ 14,068	$ 3,213,327	$ 3,238,298
Multifamily	3,519	2,947	6,466	11,105	11,585	22,690	1,082,032	1,111,188
CRE:								
Income producing	25,702	8,280	33,982	23,402	24,354	47,756	5,036,639	5,118,377
Construction					6,888	6,888	190,740	197,628
Land		2,871	2,871	1,708	9,330	11,038	190,006	203,915
C&I:								
Commercial business	3,654	2,906	6,560	4,682	21,777	26,459	5,500,360	5,533,379
Trade finance				500	116	616	667,088	667,704
Consumer:								
Student loans	1,215	148	1,363		1,690	1,690	181,847	184,900
Other consumer	491	347	838		1,321	1,321	1,050,863	1,053,022
Loans held for sale							577,353	577,353
Total	$ 42,111	$ 20,872	$ 62,983	$ 45,396	$ 87,130	$ 132,526	$ 17,690,255	17,885,764
Unearned fees, premiums and discounts, net								(9,349)
Total recorded investment in non-covered loans and loans held for sale								$ 17,876,415

	Accruing Loans 30-59 Days Past Due	Accruing Loans 60-89 Days Past Due	Total Accruing Past Due Loans	Nonaccrual Loans Less Than 90 Days Past Due	Nonaccrual Loans 90 or More Days Past Due	Total Nonaccrual Past Due Loans	Current Accruing Loans	Total
				(In thousands)				
December 31, 2013								
Residential:								
Single-family	$ 4,694	$ 922	$ 5,616	$	$ 11,218	$ 11,218	$ 3,176,041	$ 3,192,875
Multifamily	8,580	531	9,111	19,661	7,972	27,633	955,690	992,434
CRE:								
Income producing	12,746	1,798	14,544	13,924	22,549	36,473	4,250,013	4,301,030
Construction					6,888	6,888	133,298	140,186
Land				265	3,223	3,488	140,373	143,861
C&I:								
Commercial business	3,428	6,259	9,687	6,437	15,486	21,923	4,605,446	4,637,056
Trade finance					909	909	722,228	723,137
Consumer:								
Student loans	541	445	986		1,681	1,681	676,553	679,220
Other consumer	293	1	294	175	1,263	1,438	866,786	868,518
Loans held for sale							204,970	204,970
Total	$ 30,282	$ 9,956	$ 40,238	$ 40,462	$ 71,189	$ 111,651	$ 15,731,398	15,883,287
Unearned fees, premiums and discounts, net								(23,672)
Total recorded investment in non-covered loans and loans held for sale								$ 15,859,615

Generally, loans 90 or more days past due are placed on nonaccrual status, at which point interest accrual is discontinued and all unpaid accrued interest is reversed against interest income. Additionally, loans that are not 90 or more days past due but have identified deficiencies, including delinquent troubled debt restructurings, are also placed on nonaccrual status. Nonaccrual loans totaled $132.5 million and $111.7 million at March 31, 2014 and December 31, 2013, respectively. Nonaccrual loans not 90 or more days past due totaled $45.4 million and $40.5 million as of March 31, 2014 and December 31, 2013, respectively, and were included in non-covered nonaccrual loans.

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

	For the Three Months Ended March 31, 2014	For the Three Months Ended March 31, 2013
	(In thousands)	
Interest income that would have been recognized had nonaccrual loans performed in accordance with their original terms	$ 2,026	$ 1,656
Less: Interest income recognized on nonaccrual loans on a cash basis	(769)	(606)
Interest income foregone on nonaccrual loans	$ 1,257	$ 1,050

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

TDRs may be designated as performing or nonperforming. A TDR may be designated as performing if the loan has demonstrated sustained performance under the modified terms. The period of sustained performance may include the periods prior to modification if prior performance met or exceeded the modified terms. For nonperforming restructured loans, the loan will remain on nonaccrual status until the borrower demonstrates a sustained period of performance, generally six consecutive months of payments. The Company had $71.3 million and $71.8 million in total performing restructured loans as of March 31, 2014 and December 31, 2013, respectively. Nonperforming restructured loans were $13.7 million and $11.1 million as of March 31, 2014 and December 31, 2013, respectively. Included as TDRs were $3.4 million and $4.3 million of performing A/B notes as of March 31, 2014 and December 31, 2013, respectively. All TDRs are included in the balance of impaired loans.

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The following table provides information on loans modified as of March 31, 2014 that were modified as TDRs during the three months ended March 31, 2014 and 2013:

	Loans Modified as TDRs During the Three Months Ended March 31, 2014			
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment (1)	Financial Impact (2)
	(Dollars in thousands)			
Residential:				
Single-family	3	$ 5,823	$ 5,804	$
Multifamily		$	$	$
CRE:				
Income producing		$	$	$
Construction		$	$	$
Land		$	$	$
C&I:				
Commercial business	5	$ 1,721	$ 1,691	$ 1,248
Trade finance		$	$	$
Consumer:				
Student loans		$	$	$
Other consumer		$	$	$

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

(1) Includes subsequent payments after modification and reflects the balance as of March 31, 2014 and March 31, 2013.

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

Potential TDRs are individually evaluated and the type of restructuring is selected based on the loan type and the circumstances of the borrower s financial difficulty in order to maximize the Bank s recovery. As of March 31, 2014, residential TDRs, including single and multi-family loans, were restructured through extensions, rate reductions, principal deferments, and other modified terms with an impact of both a reduction of interest collected over the life of the loan and/or an extended time period for collection of principal and interest, for a total of $5.8 million as of March 31, 2014. As of March 31, 2014, commercial and industrial TDRs, including commercial business and trade finance loans, were restructured through extensions, principal deferment, and other modified terms with an impact on extended time period for collection of principal and interest, for a total of $1.7 million as of March 31, 2014.

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As of March 31, 2013, commercial and industrial TDRs, including commercial business and trade finance loans, were restructured through principal and interest reductions with an impact of both a reduction of interest collected over the life of the loan and/or an extended time period for collection of principal and interest, for a total of $41 thousand as of March 31, 2013. Consumer TDRs, including student loans and other consumer loans, were restructured through maturity extensions, for a total of $651 thousand as of March 31, 2013.

Performing TDRs at March 31, 2014 were comprised of $18.5 million in residential loans, $36.0 million in commercial real estate loans, $16.7 million in commercial and industrial loans and $108 thousand in consumer loans. Performing TDRs at December 31, 2013 were comprised of $37.6 million in commercial real estate loans, $17.4 million in residential loans, $16.7 million in commercial and industrial loans and $108 thousand in consumer loans. Nonperforming TDRs at March 31, 2014 were comprised of $5.7 million in residential loans, $3.3 million in commercial real estate loans, $4.1 million in commercial and industrial loans and $634 thousand in consumer loans. Nonperforming TDRs at December 31, 2013 were comprised of $3.6 million in residential loans, $3.4 million in commercial real estate loans, $3.5 million in commercial and industrial loans and $639 thousand in consumer loans.

Subsequent to restructuring, a TDR that becomes delinquent, generally beyond 90 days is considered to have defaulted. The following table provides information for loans modified as TDRs within the previous 12 months that have subsequently defaulted as of March 31, 2014 and March 31, 2013 and for the three months ended March 31, 2014 and March 31, 2013.

	Loans Modified as TDRs that Subsequently Defaulted During the Three Months Ended March 31,			
	2014		2013	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)			
Residential:				
Single-family		$	2	$ 2,830
Multifamily		$		$
CRE:				
Income producing	1	$ 2,730		$
Construction		$		$
Land		$		$
C&I:				
Commercial business	1	$ 570	4	$ 817
Trade finance		$		$
Consumer:				
Student loans		$		$
Other consumer		$		$

All TDRs are included in the impaired loan quarterly valuation allowance process. See the sections below *Impaired Loans* and *Allowance for Loan Losse*s for the complete discussion. All portfolio segments of TDRs are reviewed for necessary specific reserves in the same manner as impaired loans of the same portfolio segment which have not been identified as TDRs. The modification of the terms of each TDR is considered in the current impairment analysis of the respective TDR. For all portfolio segments of delinquent TDRs, when the restructured loan is uncollectible and less than the recorded investment in the loan, the deficiency is charged-off against the allowance for loan losses. If the loan is a performing TDR, the deficiency is included in the specific allowance, as appropriate. As of March 31, 2014, the allowance for loan losses associated with TDRs was $14.0 million for performing TDRs and $1.2 million for nonperforming TDRs. As of December 31, 2013, the allowance for loan losses associated with TDRs was $13.0 million for performing TDRs and $836 thousand for nonperforming TDRs.

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

At March 31, 2014 and December 31, 2013, impaired non-covered loans totaled $184.3 million and $183.5 million, respectively. Impaired non-covered loans as of March 31, 2014 and December 31, 2013 are set forth in the following tables. The interest income recognized on impaired loans, excluding performing TDRs, is recognized on a cash basis when received.

	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment (2) (In thousands)	Related Allowance	Average Recorded Investment	Interest Income Recognized (1)
As of and for the three months ended March 31, 2014							
Residential:							
Single-family	$ 19,649	$ 17,485	$ 1,581	$ 19,066	$ 200	$ 17,100	$ 21
Multifamily	38,908	18,568	17,521	36,089	1,653	36,370	164
CRE:							
Income producing	75,138	39,216	27,314	66,530	6,317	67,153	382
Construction	6,888	6,888		6,888		6,888	
Land	17,306	4,291	7,884	12,175	2,058	12,227	21
C&I:							
Commercial business	53,884	11,282	30,622	41,904	16,197	43,726	174
Trade finance	877	584	293	877	293	637	3
Consumer:							
Other consumer	746	742		742		744	2
Total	$ 213,396	$ 99,056	$ 85,215	$ 184,271	$ 26,718	$ 184,845	$ 767

	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment (2) (In thousands)	Related Allowance	Average Recorded Investment	Interest Income Recognized (1)
As of and for the year ended December 31, 2013							
Residential:							
Single-family	$ 15,814	$ 13,585	$ 1,588	$ 15,173	$ 207	$ 15,322	$ 222
Multifamily	43,821	30,899	10,215	41,114	1,339	35,799	543
CRE:							
Income producing	73,777	39,745	25,523	65,268	5,976	71,856	872
Construction	6,888	6,888		6,888		6,888	61

Land	17,390	4,372	7,908	12,280	2,082	12,453	42
C&I:							
Commercial business	48,482	10,850	27,487	38,337	13,787	38,294	520
Trade finance	2,771	438	752	1,190	752	1,603	42
Consumer:							
Student loans	1,749	1,681		1,681		1,664	1
Other consumer	1,945	1,546		1,546		1,561	16
Total	$ 212,637	$ 110,004	$ 73,473	$ 183,477	$ 24,143	$ 185,440	$ 2,319

(1) Excludes interest from performing TDRs.

(2) Excludes $12.8 million and $17.7 million of covered non-accrual loans at March 31, 2014 and December 31, 2013, respectively, accounted for under ASC 310-10, of which some loans have additional partial balances accounted for under ASC 310-30.

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Allowance for Loan Losses The allowance consists of specific reserves and a general reserve. The Bank s loans fall into heterogeneous and homogeneous (mostly consumer loans) categories. Impaired loans are subject to specific reserves. Loans in the homogeneous category, as well as non-impaired loans in the heterogeneous category, are evaluated as part of the general reserve. The general reserve is calculated by utilizing both quantitative and qualitative factors. There are different qualitative risks for the loans in each portfolio segment. As of March 31, 2014, the Residential and CRE segments predominant risk characteristic is the collateral and the geographic location of the property collateralizing the loan. The risk is qualitatively assessed based on the change in the real estate market in those geographic areas. The C&I segment s predominant risk characteristics are the global cash flows of the borrowers and guarantors, and economic and market conditions. Consumer loans, excluding the student loan portfolio guaranteed by the U.S. Department of Education, are largely comprised of home equity lines of credit, for which the predominant risk characteristic is the real estate collateral securing the loans.

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

Covered Loans The Company acquired UCB and WFIB in 2009 and 2010, respectively. The majority of the covered loan portfolio accounted for under ASC 310-30, is still performing as expected from the day one valuation or better than expected. However, the Company has experienced some concentrated credit deterioration in certain pools. As of March 31, 2014 and December 31, 2013, there was an allowance of $2.2 million for these loans under ASC 310-30 due to credit deterioration. This $2.2 million of allowance for loan losses is allocated mainly to the portfolio s commercial real estate segment.

As of the respective acquisition dates, UCB s and WFIB s loan portfolios included unfunded commitments for commercial lines of credit, construction draws and other lending activity. The total commitment outstanding as of the respective acquisition dates is covered under the shared-loss agreements. However, any additional advances on these loans subsequent to acquisition date are not accounted for under ASC 310-30. As additional advances on these commitments have occurred, the Bank has considered these amounts in the allowance for loan losses calculation. As of March 31, 2014 and December 31, 2013, $4.3 million, or 1.7% and $5.5 million, or 2.2%, respectively, of the total allowance is allocated to the allowance for loan losses on covered loans accounted outside the scope of ASC 310-30. The covered loans acquired are, and will continue to be, subject to the Bank s internal and external credit review and monitoringThe $2.2 million allowance for loans under ASC 310-30 discussed above and the $4.3 million in allowance for loans outside the scope of ASC 310-30 amount to $6.5 million or 2.6% of total allowance as of March 31, 2014.

During the three months ended March 31, 2014, the Company recorded $206 thousand of charge-offs on a few covered loans outside of the scope of ASC 310-30 in the commercial and industrial loan segment. As these loans are covered under loss-sharing agreements with the FDIC, the Company recorded income of $165 thousand or 80% of the charge-off amount of $206 thousand in noninterest income as a net increase in the FDIC receivable, resulting in a net impact to earnings for the first three months of 2014 of $41 thousand. In comparison, the Company recorded $132 thousand of charge-offs within our commercial and industrial loan segment on a covered loan outside the scope of ASC 310-30 during the three months ended March 31, 2013. The Company recorded income of $106 thousand or 80% of the charge-off amount of $132 thousand in noninterest income as a net increase in the FDIC receivable, resulting in a net impact to earnings for the first quarter of 2013 of $26 thousand.

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The Company recorded $6.9 million in total loan loss provisions for the three months ended March 31, 2014, as compared to $4.3 million for the three months ended March 31, 2013. When determined uncollectible, it is the Company s policy to promptly charge-off the difference in the outstanding loan balance and the fair value of the collateral. Recoveries are recorded when payment is received on loans that were previously charged-off through the allowance for loan losses. For the three months ended March 31, 2014, the Company recorded $4.3 million in total net charge-offs in comparison to $672 thousand for the three months ended March 31, 2013. The following tables detail activity in the allowance for loan losses, for both non-covered and covered loans, by portfolio segment for the three months ended March 31, 2014, and the year ended December 31, 2013. Allocation of a portion of the allowance to one segment of the loan portfolio does not preclude its availability to absorb losses in other segments.

	Residential	CRE	C&I	Consumer	Covered Loans under ASC 310-10 Subject to Allowance for Loan Losses (1)	Covered Loans under ASC 310-30 Subject to Allowance for Loan Losses	Unallocated	Total
					(In thousands)			
Three months ended March 31, 2014								
Beginning balance	$ 50,717	$ 64,677	$ 115,184	$ 11,352	$ 5,476	$ 2,269	$	$ 249,675
Provision for loan losses	(2,744)	(2,447)	13,431	(501)	(954)	(67)	215	6,933
Provision allocation for unfunded loan commitments and letters of credit							(215)	(215)
Charge-offs	(282)	(320)	(5,325)	(3)	(206)			(6,136)
Recoveries	136	829	911	3				1,879
Net (charge-offs)/recoveries	(146)	509	(4,414)		(206)			(4,257)
Ending balance	$ 47,827	$ 62,739	$ 124,201	$ 10,851	$ 4,316	$ 2,202	$	$ 252,136
Ending balance allocated to:								
Loans individually evaluated for impairment	$ 1,853	$ 8,375	$ 16,490	$	$	$	$	$ 26,718
Loans collectively evaluated for impairment	45,974	54,364	107,711	10,851	4,316			223,216
Covered loans acquired with deteriorated credit quality*(2)*						2,202		2,202
Ending balance	$ 47,827	$ 62,739	$ 124,201	$ 10,851	$ 4,316	$ 2,202	$	$ 252,136

	Residential	CRE	C&I	Consumer	Covered Loans under ASC 310-10 Subject to Allowance for Loan Losses (1)	Covered Loans under ASC 310-30 Subject to Allowance for Loan Losses	Unallocated	Total
					(In thousands)			
Year ended December 31, 2013								
Beginning balance	$ 49,349	$ 69,856	$ 105,376	$ 4,801	$ 5,153	$	$	$ 234,535
Provision for loan losses	1,918	(6,615)	12,821	8,055	1,759	2,269	2,157	22,364
Provision allocation for unfunded loan commitments and letters of credit							(2,157)	(2,157)
Charge-offs	(3,197)	(3,357)	(7,405)	(2,385)	(1,436)			(17,780)
Recoveries	2,647	4,793	4,392	881				12,713
Net (charge-offs)/recoveries	(550)	1,436	(3,013)	(1,504)	(1,436)			(5,067)
Ending balance	$ 50,717	$ 64,677	$ 115,184	$ 11,352	$ 5,476	$ 2,269	$	$ 249,675
Ending balance allocated to:								
Loans individually evaluated for impairment	$ 1,546	$ 8,058	$ 14,539	$	$	$	$	$ 24,143
Loans collectively evaluated for impairment	49,171	56,619	100,645	11,352	5,476			223,263
Covered loans acquired with deteriorated credit quality*(2)*						2,269		2,269

Ending balance	$	50,717	$	64,677	$	115,184	$	11,352	$	5,476	$	2,269	$	$ 249,675

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

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

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The Company s recorded investment in total loans receivable as of March 31, 2014 and December 31, 2013 related to each balance in the allowance for loan losses by portfolio segment and disaggregated on the basis of the Company s impairment methodology is as follows:

	Residential	CRE	C&I	Consumer (In thousands)	Covered Loans under ASC 310-10 Subject to Allowance for Loan Losses	Covered Loans under ASC 310-30 Subject to Allowance for Loan Losses	Total
March 31, 2014							
Loans individually evaluated for impairment	$ 55,155	$ 85,593	$ 42,781	$ 742	$	$	$ 184,271
Covered loans individually evaluated for impairment *(2)*					112		112
Loans collectively evaluated for impairment	4,292,913	5,366,973	6,152,534	1,237,180	281,822		17,331,422
Covered loans acquired with deteriorated credit quality *(1)*	639,460	1,043,912	128,730	41,659		124,264	1,978,025
MetroCorp loans acquired with deteriorated credit quality	1,417	67,353	5,770				74,540
Ending balance	$ 4,988,945	$ 6,563,831	$ 6,329,815	$ 1,279,581	$ 281,934	$ 124,264	$ 19,568,370

	Residential	CRE	C&I	Consumer (In thousands)	Covered Loans under ASC 310-10 Subject to Allowance for Loan Losses	Covered Loans under ASC 310-30 Subject to Allowance for Loan Losses	Total
December 31, 2013							
Loans individually evaluated for impairment	$ 56,287	$ 84,436	$ 39,527	$ 3,227	$	$	$ 183,477
Covered loans individually evaluated for impairment*(2)*					2,824		2,824
Loans collectively evaluated for impairment	4,129,022	4,500,641	5,320,666	1,544,511	317,361		15,812,201
Covered loans acquired with deteriorated credit quality *(1)*	681,608	1,140,432	146,538	43,136		129,661	2,141,375
Ending balance	$ 4,866,917	$ 5,725,509	$ 5,506,731	$ 1,590,874	$ 320,185	$ 129,661	$ 18,139,877

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

(2) Excludes $12.8 million and $17.7 million of covered non-accrual loans at March 31, 2014 and December 31, 2013, respectively, accounted for under ASC 310-10, of which some loans have additional partial balances accounted for under ASC 310-30.

Allowance for Unfunded Loan Commitments, Off-Balance Sheet Credit Exposures and Recourse Provisions The allowance for unfunded loan commitments, off-balance sheet credit exposures, and recourse provisions is maintained at a level believed by management to be sufficient to absorb estimated probable losses related to these unfunded credit facilities. The determination of the adequacy of the allowance is based on periodic evaluations of the unfunded credit facilities including an assessment of the probability of commitment usage, credit risk factors for loans outstanding to these same customers, and the terms and expiration dates of the unfunded credit facilities. As of March 31, 2014 and December 31, 2013, the allowance for unfunded loan commitments, off-balance sheet credit exposures, and recourse provisions amounted to $11.5 million and $11.3 million, respectively. The increase to this allowance during the first quarter 2014 was reflective of additional reserve allocated for unfunded construction loan commitments. Net adjustments to the allowance for unfunded loan commitments, off-balance sheet credit exposures, and recourse provisions are included in the provision for loan losses.

Loans serviced for others amounted to $1.27 billion and $1.35 billion at March 31, 2014 and December 31, 2013, respectively. These represent loans that have either been sold or securitized for which the Bank continues to provide servicing or has limited recourse. The majority of these loans are residential and CRE at March 31, 2014 and December 31, 2013. Of the total allowance for unfunded loan commitments, off-balance sheet credit exposures, and recourse provisions, $2.9 million and $3.2 million pertain to these loans as of March 31, 2014 and December 31, 2013, respectively. These loans are maintained off-balance sheet and are not included in the loans receivable balance.

NOTE 10 AFFORDABLE HOUSING PARTNERSHIPS AND OTHER INVESTMENTS

The Company invests in certain limited partnerships that are formed to develop and operate apartment complexes designed as high-quality affordable housing for lower income tenants throughout the United States. The Company s ownership amount in each limited partnership varies. Each of the partnerships must meet the regulatory requirements for affordable housing for a minimum 15-year compliance period to fully utilize the tax credits. The Company is not the primary beneficiary and, therefore, not required to consolidate these entities. Depending on the ownership percentage and the influence the Company has on the limited partnership, the Company uses either the equity method or cost method of accounting. If the partnerships cease to qualify during the compliance period, the credits may be denied for any period in which the projects are not in compliance and a portion of the credits previously taken may be subject to recapture with interest. The balance of the investments in these entities was $189.3 million and $164.8 million at March 31, 2014 and December 31, 2013, respectively.

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The Company also invests in certain limited partnerships that qualify for Community Reinvestment Act (CRA) credits or that qualify for other types of tax credits. The Community Reinvestment Act encourages banks to meet the credit needs of their communities for housing and other purposes, particularly in neighborhoods with low or moderate incomes. The balance of CRA and other investments was $78.8 million and $70.2 million at March 31, 2014 and December 31, 2013, respectively, and is included in other assets in the condensed consolidated balance sheets.

The Company has unfunded commitments related to the affordable housing and other investments that are payable on demand. Total unfunded commitments for these investments were $84.7 million and $73.1 million at March 31, 2014 and December 31, 2013, respectively, and are recorded in accrued expenses and other liabilities in the condensed consolidated balance sheets.

NOTE 11 PREMISES AND EQUIPMENT

At March 31, 2014, total premises and equipment was $258.9 million with accumulated depreciation and amortization of $73.7 million and a net value of $185.2 million. At December 31, 2013, total premises and equipment was $247.5 million with accumulated depreciation and amortization of $69.8 million and a net value of $177.7 million. The net increase in premises and equipment of $7.5 million during the three months ended March 31, 2014, was primarily due to the acquisition of MetroCorp on January 17, 2014 discussed in further detail at Note 3 to the Company s condensed consolidated financial statements.

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

NOTE 12 GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The carrying amount of goodwill as of March 31, 2014 and December 31, 2013 was $458.5 million and $337.4 million, respectively. Goodwill increased by $121.0 million as a result of the acquisition of MetroCorp on January 17, 2014 as discussed at Note 3 to the Company s condensed consolidated financial statements.

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

As of March 31, 2014, the Company s market capitalization based on total outstanding common shares was $5.23 billion and its total stockholders equity was $2.62 billion. The Company performed its annual impairment test as of December 31, 2013 to determine whether and to what extent, if any, recorded goodwill was impaired. The analysis compared the fair value of each of the reporting units, including goodwill, to the respective carrying amounts. If the carrying amount of the reporting unit, including goodwill, exceeds the fair value of that reporting unit, then further testing for goodwill impairment is performed.

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Premiums on Acquired Deposits

Premiums on acquired deposits represent the intangible value of depositor relationships resulting from deposit liabilities assumed in various acquisitions. These intangibles are tested for impairment on an annual basis, or more frequently as events occur, or as current circumstances and conditions warrant. As of March 31, 2014 and December 31, 2013, the gross carrying amount of premiums on acquired deposits was $108.8 million and $100.2 million, respectively. A premium on acquired deposits of $8.6 million was recorded due to the acquisition of MetroCorp as discussed in further detail at Note 3 to the Company s condensed consolidated financial statements. As of March 31, 2014 and December 31, 2013, the related accumulated amortization totaled $55.8 million and $53.3 million, respectively.

The Company amortizes premiums on acquired deposits based on the projected useful lives of the related deposits. Amortization expense of premiums on acquired deposits was $2.5 million and $2.4 million for the three months ended March 31, 2014 and 2013, respectively.

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

		Amount (In thousands)
Estimated Amortization Expense of Premiums on Acquired Deposits		
Nine Months Ending December 31, 2014	$	7,704
Year Ending December 31, 2015		9,234
Year Ending December 31, 2016		8,086
Year Ending December 31, 2017		6,935
Year Ending December 31, 2018		5,883
Thereafter		15,171
Total	$	53,013

NOTE 13 COMMITMENTS AND CONTINGENCIES

Credit Extensions In the normal course of business, the Company has various outstanding commitments to extend credit that are not reflected in the accompanying condensed consolidated financial statements. As of March 31, 2014 and December 31, 2013, undisbursed loan commitments amounted to $4.34 billion and $4.02 billion, respectively. Commercial and standby letters of credit amounted to $1.17 billion and $1.16 billion as of March 31, 2014 and December 31, 2013, respectively.

Guarantees From time to time, the Company sells or securitizes loans with recourse in the ordinary course of business. For loans that have been sold or securitized with recourse, the recourse component is considered a guarantee. When the Company sells or securitizes a loan with recourse, it commits to stand ready to perform if the loan defaults and to make payments to remedy the default. As of March 31, 2014, total loans sold or securitized with recourse amounted to $313.2 million and were comprised of $39.8 million in single-family loans with full recourse and $273.4 million in multifamily loans with limited recourse. In comparison, total loans sold or securitized with recourse amounted to $338.8 million at December 31, 2013, which comprised of $42.2 million in single-family loans with full recourse and $296.6 million in multifamily loans with limited recourse. The recourse provision on multifamily loans varies by loan sale and is limited to 4% of the top loss on the underlying loans.

The Company s recourse reserve related to loan sales and securitizations totaled $2.9 million as of March 31, 2014 and $3.2 million as of December 31, 2013, and is included in accrued expenses and other liabilities in the accompanying condensed consolidated balance sheets. The Company continues to experience minimal losses from the single-family and multifamily loan portfolios.

The Company also sells or securitizes loans without recourse that may have to be subsequently repurchased if a defect that occurred during the loan origination process results in a violation of a representation or warranty made in connection with the securitization or sale of the loan. When a loan is sold or securitized to an investor without recourse fails to perform according to its contractual terms, the investor will typically review the loan file to determine whether defects in the origination process occurred and if such defects give rise to a violation of a representation or warranty made to the investor in connection with the sale or securitization. If such a defect is identified, the Company may be required to either repurchase the loan or indemnify the investor for losses sustained. If there are no such defects, the Company has no commitment to repurchase the loan. As of March 31, 2014 and December 31, 2013, the amount of loans sold without recourse totaled $775.5 million and $818.2 million, respectively. Total loans securitized without recourse amounted to $186.0 million and $193.8 million, at March 31, 2014 and December 31, 2013, respectively. The loans sold or securitized without recourse represent the unpaid principal balance of the Company s loans serviced for others portfolio.

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Litigation Neither the Company nor the Bank is involved in any material legal proceedings at March 31, 2014. Certain lawsuits and claims arising in the ordinary course of business have been filed or are pending against us or our affiliates. Where appropriate, we establish reserves in accordance with ASC 450, *Contingencies*. The outcome of litigation and other legal and regulatory matters is inherently uncertain, and it is possible that one or more of the legal or regulatory matters, if any, currently pending or threatened could have a material adverse effect on our liquidity, consolidated financial position, and/or results of operations.

Other Commitments The Company has commitments to invest in affordable housing funds, and other investments qualifying for community reinvestment credits and other tax credits. These commitments are payable on demand. As of March 31, 2014 and December 31, 2013, these commitments were $84.7 million and $73.1 million, respectively. These commitments are recorded in accrued expenses and other liabilities in the condensed consolidated balance sheet.

NOTE 14 STOCKHOLDERS EQUITY AND EARNINGS PER SHARE

Series A Preferred Stock Offering In April 2008, the Company issued 200,000 shares of 8% Non-Cumulative Perpetual Convertible Preferred Stock, Series A (Series A), with a liquidation preference of $1,000 per share. The Company received $194.1 million of additional Tier 1 qualifying capital, after deducting stock issuance costs. On May 1, 2013, the Company exercised its mandatory conversion right related to all the outstanding shares of its Series A preferred stock. At the conversion date, the remaining 85,710 shares of outstanding Series A Preferred Stock were converted to 5,594,080 shares of common stock.

MetroCorp Acquisition On January 17, 2014, the Company completed the acquisition of MetroCorp. The final consideration included 5,583,093 shares of East West common stock and $89.4 million of cash. Under the terms of the merger, the Company assumed the obligation of MetroCorp s unexercised warrant, which is equivalent to 230,282 units of East West common stock.

Stock Repurchase Program On July 17, 2013, the Company s Board of Directors authorized a new stock repurchase program to buy back up to $100.0 million of its common stock. The Company did not repurchase any shares under this program during the period ended March 31, 2014. In comparison, the Company repurchased 3,543,100 shares at a weighted average price of $24.53 per share and a total cost of $87.0 million during the three months ended March 31, 2013.

Quarterly Dividends In January 2014, the Company s Board of Directors declared quarterly common stock cash dividends of $0.18 per share payable on or about February 18, 2014 to shareholders of record on February 3, 2014. Cash dividends totaling $25.9 million were paid to the Company s common shareholders during the three months ended March 31, 2014.

Earnings Per Share (EPS) The number of shares outstanding at March 31, 2014 was 143,367,652. The Company applies the two-class method of computing basic EPS. Under the two-class method, EPS is determined for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings. The Company s restricted stocks, which receive dividends as declared, qualify as participating securities. Restricted stock units granted by the Company are not considered participating securities, as they do not have dividend distribution rights during the vesting period. Diluted EPS is calculated on the basis of the weighted average number of shares outstanding during the period plus potential dilutive shares.

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The following table sets forth earnings per share calculations for the three months ended March 31, 2014 and 2013:

	Three Months Ended March 31, 2014		
	Net Income	Number of Shares	Per Share Amounts
	(In thousands, except per share data)		
Net income	$ 76,741		
Less:			
Preferred stock dividends			
Earnings allocated to participating securities	(166)		
Basic EPS income allocated to common stockholders	$ 76,575	141,962	$ 0.54
Effect of dilutive securities:			
Stock options		79	
Restricted stock units	80	447	
Warrants		144	
Diluted EPS income allocated to common stockholders	$ 76,655	142,632	$ 0.54

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

The following average outstanding stock options and restricted stock units for the three months ended March 31, 2014 and 2013, respectively, were excluded from the computation of diluted EPS because including them would have had an antidilutive effect.

	Three Months Ended March 31,	
	2014	2013
	(In thousands)	
Stock options	81	270
Restricted stock units	168	133

Accumulated Other Comprehensive (Loss) Income As of March 31, 2014, total accumulated other comprehensive loss was ($17.0) million which includes the following components: net unrealized loss on securities available for sale of ($17.1) million and unrealized gain on other investments of $62 thousand. As of December 31, 2013, total accumulated other comprehensive loss was ($30.5) million which includes the following components: net unrealized loss on securities available for sale of ($30.5) million and unrealized gain on other asset investment of $79 thousand.

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Activity in accumulated other comprehensive (loss) income, net of tax, for the three months ended March 31, 2014 and 2013, was as follows:

	Unrealized gain (loss) on investment securities available-for-sale	Unrealized gain on other investments (In thousands)	Total
Balance, December 31, 2012	$ 4,643	$ 26	$ 4,669
Other comprehensive income before reclassifications	4,741	10	4,751
Amounts reclassified from AOCI	(3,235)		(3,235)
Net current period other comprehensive income	1,506	10	1,516
Balance, March 31, 2013	$ 6,149	$ 36	$ 6,185
Balance, December 31, 2013	$ (30,538)	$ 79	$ (30,459)
Other comprehensive income before reclassifications	15,422	(17)	15,405
Amounts reclassified from AOCI	(1,983)		(1,983)
Net current period other comprehensive income	13,439	(17)	13,422
Balance, March 31, 2014	$ (17,099)	$ 62	$ (17,037)

Reclassifications out of accumulated other comprehensive income for the three months ended March 31, 2014 was as follows:

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income (In thousands)	Affected Line Item in the Statement Where Net Income is Presented
Three Month Ended March 31, 2014		
Investment securities available for sale		
Realized net gains on sale of securities	$ 3,418	Net gain on sales of investment securities
	3,418	
	(1,435)	Tax expense
Total reclassifications	$ 1,983	Net of tax
Three Months Ended March 31, 2013		
Investment securities available for sale		
Realized net gains on sale of securities	$ 5,577	Net gain on sales of investment securities
	5,577	
	(2,342)	Tax expense
Total reclassifications	$ 3,235	Net of tax

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The following table sets forth the tax effects allocated to each component of other comprehensive income for the three months ended March 31, 2014 and 2013:

	Before-Tax Amount	Tax Expense or Benefit (In thousands)	Net-of-Tax Amount
Three Months Ended March 31, 2014			
Unrealized gain on investment securities available-for-sale:			
Unrealized holding gains arising during period	$ 26,590	$ (11,168)	$ 15,422
Less: reclassification adjustment for gains included in income	(3,418)	1,435	(1,983)
Net unrealized gain	23,172	(9,733)	13,439
Unrealized loss on other investments	(29)	12	(17)
Less: reclassification adjustment for gains included in income			
Other comprehensive income	$ 23,143	$ (9,721)	$ 13,422

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

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NOTE 15 BUSINESS SEGMENTS

The Company utilizes an internal reporting system to measure the performance of various operating segments within the Bank and the Company overall. We have identified three operating segments for purposes of management reporting: 1) Retail Banking; 2) Commercial Banking; and 3) Other. These three business divisions meet the criteria of an operating segment: the segment engages in business activities from which it earns revenues and incurs expenses, and whose operating results are regularly reviewed by the Company s chief operating decision-maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. The acquisition of MetroCorp has been reflected in the three business operating segments as applicable, as of March 31, 2014.

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

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

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

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The following tables present the operating results and other key financial measures for the individual operating segments for the three months ended March 31, 2014 and 2013:

	Three Months Ended March 31, 2014			
	Retail Banking	Commercial Banking	Other	Total
	(In thousands)			
Interest income	$ 98,724	$ 169,076	$ 18,373	$ 286,173
Charge for funds used	(16,045)	(21,328)	(23,123)	(60,496)
Interest spread on funds used	82,679	147,748	(4,750)	225,677
Interest expense	(11,711)	(3,280)	(13,216)	(28,207)
Credit on funds provided	48,193	8,436	3,867	60,496
Interest spread on funds provided	36,482	5,156	(9,349)	32,289
Net interest income	$ 119,161	$ 152,904	$ (14,099)	$ 257,966
Provision for loan losses	$ 2,652	$ 4,281	$	$ 6,933
Depreciation, amortization and accretion	2,571	(3,328)	14,293	13,536
Goodwill	354,163	104,304		458,467
Segment pre-tax profit (loss)	50,084	84,735	(23,129)	111,690
Segment assets	7,877,996	13,661,149	5,861,881	27,401,026

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

NOTE 16 SUBSEQUENT EVENTS

Dividend Payout

In April 2014, the Company s Board of Directors declared a quarterly dividend of $0.18 per share on the Company s common stock payable on or about May 19, 2014 to shareholders of record as of May 2, 2014.