EAST WEST BANCORP INC
Form 10-Q
August 08, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Mark One

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

For the quarterly period ended June 30, 2008

or

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

For the transition period from to .

Commission file number 000-24939

EAST WEST BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices) (Zip Code)

(626) 768-6000

(Registrant s telephone number, including area code)

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

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

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

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

Number of shares outstanding of the issuer s common stock on the latest practicable date: 63,468,321 shares of common stock as of July 31, 2008.

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Forward-Looking Statements

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

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

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

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

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

EAST WEST BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

(Unaudited)

		June 30, 2008		December 31, 2007
ASSETS				
Cash and cash equivalents	$	424,058	$	160,347
Short term investments		880		
Securities purchased under resale agreements		50,000		150,000
Investment securities available-for-sale, at fair value (with amortized cost of $2,009,573 in 2008 and $1,954,140 in 2007)		1,828,181		1,887,136
Loans receivable, net of allowance for loan losses of $168,413 at June 30, 2008 and $88,407 at December 31, 2007		8,483,124		8,750,921
Investment in Federal Home Loan Bank stock, at cost		90,683		84,976
Investment in Federal Reserve Bank stock, at cost		27,589		21,685
Other real estate owned, net		17,490		1,500
Investment in affordable housing partnerships		43,640		44,206
Premises and equipment, net		62,402		64,943
Due from customers on acceptances		9,538		15,941
Premiums on deposits acquired, net		23,896		28,459
Goodwill		337,574		335,366
Cash surrender value of life insurance policies		90,408		88,658
Accrued interest receivable and other assets		125,938		151,664
Deferred tax assets		169,499		66,410
TOTAL	**$**	**11,784,900**	**$**	**11,852,212**
LIABILITIES AND STOCKHOLDERS EQUITY				
Customer deposit accounts:				
Noninterest-bearing	$	1,419,183	$	1,431,730
Interest-bearing		6,099,819		5,847,184
Total customer deposits		7,519,002		7,278,914
Federal funds purchased		86,149		222,275
Federal Home Loan Bank advances		1,543,389		1,808,419
Securities sold under repurchase agreements		1,000,812		1,001,955
Notes payable		13,533		16,242
Long-term debt		235,570		235,570
Bank acceptances outstanding		9,538		15,941
Accrued interest payable, accrued expenses and other liabilities		104,707		101,073
Total liabilities		10,512,700		10,680,389
COMMITMENTS AND CONTINGENCIES (Note 8)				
STOCKHOLDERS EQUITY				

Preferred stock (par value of $0.001 per share)				
Authorized 5,000,000 shares				
Issued and outstanding 200,000 shares of Series A, convertible preferred stock, in 2008 and none in 2007				
Common stock (par value of $0.001 per share)				
Authorized 200,000,000 shares				
Issued 70,002,157 shares in 2008 and 69,634,811 shares in 2007				
Outstanding 63,438,596 shares in 2008 and 63,137,221 shares in 2007		70		70
Additional paid in capital		855,082		652,297
Retained earnings		623,202		657,183
Treasury stock, at cost 6,563,561 shares in 2008 and 6,497,590 shares in 2007		(101,029)		(98,925)
Accumulated other comprehensive loss, net of tax		(105,125)		(38,802)
Total stockholders equity		1,272,200		1,171,823
TOTAL	**$**	**11,784,900**	**$**	**11,852,212**

See accompanying notes to condensed consolidated financial statements.

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EAST WEST BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
INTEREST AND DIVIDEND INCOME				
Loans receivable, including fees	$ 137,997	$ 158,844	$ 293,431	$ 317,007
Investment securities available-for-sale	25,730	23,370	52,780	46,270
Securities purchased under resale agreements	1,264	3,943	3,817	7,729
Investment in Federal Home Loan Bank stock	1,479	668	2,763	1,629
Short-term investments	1,051	117	1,589	217
Investment in Federal Reserve Bank stock	384	272	709	539
Total interest and dividend income	167,905	187,214	355,089	373,391
INTEREST EXPENSE				
Customer deposit accounts	43,536	61,124	95,789	120,086
Federal Home Loan Bank advances	17,541	12,514	37,223	27,380
Securities sold under repurchase agreements	11,290	9,018	21,819	17,412
Long-term debt	2,994	3,752	6,717	7,134
Federal funds purchased	368	1,877	1,746	3,847
Total interest expense	75,729	88,285	163,294	175,859
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	92,176	98,929	191,795	197,532
PROVISION FOR LOAN LOSSES	85,000		140,000	
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	7,176	98,929	51,795	197,532
NONINTEREST INCOME				
Branch fees	4,339	3,404	8,440	6,831
Net gain on sale of investment securities available-for-sale	3,433	918	7,767	2,446
Letters of credit fees and commissions	2,476	2,633	5,153	4,986
Net gain on sale of loans	273	86	2,128	1,024
Ancillary loan fees	984	1,487	2,125	2,767
Income from life insurance policies	1,024	1,058	2,052	2,032
Other operating income	854	1,216	1,631	1,867
Total noninterest income	13,383	10,802	29,296	21,953
NONINTEREST EXPENSE				
Compensation and employee benefits	25,790	20,648	49,058	41,430
Occupancy and equipment expense	6,539	6,046	13,547	11,927
Impairment writedown on investment securities	9,945		9,945	
Amortization and impairment writedowns of premiums on deposits acquired	1,827	1,525	4,564	3,057
Amortization of investments in affordable housing partnerships	1,920	1,236	3,635	2,504
Deposit insurance premiums and regulatory assessments	2,321	324	3,513	671
Legal expense	1,135	344	3,035	605

Data processing	1,135	1,070	2,331	2,052
Deposit-related expenses	1,237	1,862	2,185	3,549
Other real estate owned expense (income)	508	(2)	1,397	(1,247)
Impairment writedown on goodwill	586		586	
Other operating expenses	12,657	10,210	24,694	19,689
Total noninterest expense	65,600	43,263	118,490	84,237
(LOSS) INCOME BEFORE (BENEFIT) PROVISION FOR INCOME TAXES	(45,041)	66,468	(37,399)	135,248
(BENEFIT) PROVISION FOR INCOME TAXES	(19,154)	25,978	(16,556)	52,662
NET (LOSS) INCOME	**$ (25,887)**	**$ 40,490**	**$ (20,843)**	**$ 82,586**
(LOSS) EARNINGS PER SHARE				
BASIC	$ (0.41)	$ 0.67	$ (0.33)	$ 1.36
DILUTED	$ (0.41)	$ 0.66	$ (0.33)	$ 1.34
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING				
BASIC	62,599	60,381	62,542	60,515
DILUTED	62,599	61,346	62,542	61,523

See accompanying notes to condensed consolidated financial statements.

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EAST WEST BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(In thousands, except share data)

(Unaudited)

	Preferred Stock	Common Stock	Additional Paid In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss), Net of Tax	Comprehensive Income (Loss)	Total Stockholders Equity
BALANCE, JANUARY 1, 2007	**$**	**$ 66**	**$ 544,469**	**$ 525,247**	**$ (40,305)**	**$ (10,087)**		**$ 1,019,390**
Comprehensive income								
Net income for the period				82,586			$ 82,586	82,586
Net unrealized gain on investment securities available-for-sale						1,549	1,549	1,549
Total comprehensive income							$ 84,135	
Cumulative effect of change in accounting principle pursuant to adoption of FIN 48				(4,628)				(4,628)
Stock compensation costs			3,150					3,150
Tax benefit from stock option exercises			6,071					6,071
Tax benefit from vested restricted stock			184					184
Issuance of 668,392 shares pursuant to various stock plans and agreements		1	5,708					5,709
Cancellation of 54,980 shares due to forfeitures of issued restricted stock			2,013		(2,013)			
Purchase of 21,747 shares of treasury stock due to the vesting of restricted stock					(795)			(795)
Purchase of 1,175,000 shares of treasury stock pursuant to the Stock Repurchase Program					(45,815)			(45,815)
Dividends paid on common stock				(12,230)				(12,230)
BALANCE, JUNE 30, 2007	**$**	**$ 67**	**$ 561,595**	**$ 590,975**	**$ (88,928)**	**$ (8,538)**		**$ 1,055,171**
BALANCE, JANUARY 1, 2008	**$**	**$ 70**	**$ 652,297**	**$ 657,183**	**$ (98,925)**	**$ (38,802)**		**$ 1,171,823**
Comprehensive (loss) income								
Net (loss) for the period				(20,843)			$ (20,843)	(20,843)
Net unrealized loss on investment securities available-for-sale						(66,323)	(66,323)	(66,323)
Total comprehensive (loss)							$ (87,166)	
Cumulative effect of change in accounting principle pursuant to adoption of EITF 06-4				(479)				(479)
Stock compensation costs			3,016					3,016
			141					141

Tax benefit from stock option exercises								
Tax provision from vested restricted stock			(370)					(370)
Issuance of 200,000 shares Series A convertible preferred stock, net of stock issuance costs			194,075					194,075
Issuance of 367,146 shares pursuant to various stock plans and agreements			1,529					1,529
Cancellation of 65,561 shares due to forfeitures of issued restricted stock			2,096		(2,096)			
Purchase accounting adjustment pursuant to DCB Acquisition			2,298					2,298
Purchase of 410 shares of treasury stock due to the vesting of restricted stock					(8)			(8)
Dividends paid on common stock				(12,659)				(12,659)
BALANCE, JUNE 30, 2008	**$**	**$ 70**	**$ 855,082**	**$ 623,202**	**$ (101,029)**	**$ (105,125)**		**$ 1,272,200**

	Six Months Ended June 30, 2008	2007
	(In thousands)	
Disclosure of reclassification amounts:		
Unrealized holding (loss) gain on securities arising during the period, net of tax benefit (expense) of $48,942 in 2008 and $(2,149) in 2007	$ (67,586)	$ 2,968
Less: Reclassification adjustment for loss (gain) included in net income, net of tax expense (benefit) of $(915) in 2008 and $1,027 in 2007	1,263	(1,419)
Net unrealized (loss) gain on securities, net of tax benefit (expense) of $48,027 in 2008 and $(1,122) in 2007	$ (66,323)	$ 1,549

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)

	Six Months Ended June 30, 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	$ (20,843)	$ 82,586
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	10,103	8,430
Impairment writedown on goodwill	586	
Impairment writedown of investment securities	9,945	
Stock compensation costs	3,016	3,150
Deferred tax (benefit) provision	(49,444)	(5,751)
Provision for loan losses	140,000	
Net gain on sales of investment securities, loans and other assets	(8,682)	(4,191)
Federal Home Loan Bank stock dividends	(2,362)	(1,962)
Originations of loans held for sale	(34,330)	(21,938)
Proceeds from sale of loans held for sale	34,655	21,939
Tax benefit from stock options exercised	(141)	(6,071)
Tax provision (benefit) from vested restricted stock	370	(184)
Net change in accrued interest receivable and other assets	26,408	(17,952)
Net change in accrued interest payable, accrued expenses and other liabilities	(6,583)	2,823
Total adjustments	123,541	(21,707)
Net cash provided by operating activities	102,698	60,879
CASH FLOWS FROM INVESTING ACTIVITIES		
Net loan originations	(41,862)	(502,123)
Purchases of:		
Short term investments	(880)	(1,537)
Securities purchased under resale agreements		(100,000)
Investment securities available-for-sale	(820,430)	(394,758)
Federal Home Loan Bank stock	(9,400)	(8,243)
Federal Reserve Bank stock	(5,904)	(600)
Premises and equipment	(1,742)	(5,340)
Proceeds from sale of:		
Investment securities available-for-sale	376,148	206,987
Securities purchased under resale agreements	100,000	
Loans receivable	146,556	16,057
Real estate owned	9,949	4,130
Premises and equipment		1,212
Repayments, maturity and redemption of investment securities available-for-sale	388,627	773,455
Redemption of Federal Home Loan Bank stock	6,054	31,767
Acquisitions, net of cash acquired	(924)	
Net cash provided by investing activities	146,192	21,007
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposits	240,091	(87,990)
Net (decrease) increase in federal funds purchased	(136,126)	8,000

Net (decrease) increase in Federal Home Loan Bank advances		(265,000)		28,000
Repayment of securities sold under repurchase agreements		(1,143)		
Repayment of notes payable on affordable housing investments		(5,709)		(5,041)
Proceeds from issuance of long-term debt				20,000
Proceeds from issuance of common stock pursuant to various stock plans and agreements		1,529		5,709
Proceeds from issuance of convertible preferred stock, net of stock issuance costs		194,075		
Tax benefit from stock options exercised		141		6,071
Tax (provision) benefit from vested restricted stock		(370)		184
Dividends paid on common stock		(12,659)		(12,230)
Purchase of treasury shares pursuant to stock repurchase program and vesting of restricted stock		(8)		(46,610)
Net cash provided by (used in) financing activities		14,821		(83,907)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		263,711		(2,021)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		160,347		192,559
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	424,058	$	190,538
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash paid during the period for:				
Interest	$	159,084	$	178,728
Income tax payments, net of refunds		36,477		59,803
Noncash investing and financing activities:				
Guaranteed mortgage loan securitizations				721,787
Affordable housing investment financed through notes payable		3,000		9,613
Equity interests in East West Capital Trusts				619
Real estate acquired through foreclosure		26,009		622

See accompanying notes to condensed consolidated financial statements.

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EAST WEST BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2008 and 2007

(Unaudited)

1. BASIS OF PRESENTATION

The condensed consolidated financial statements include the accounts of East West Bancorp, Inc. (referred to herein on an unconsolidated basis as East West and on a consolidated basis as the Company) and its wholly-owned subsidiaries, East West Bank and subsidiaries (the Bank) and East West Insurance Services, Inc. Intercompany transactions and accounts have been eliminated in consolidation. East West also has nine wholly-owned subsidiaries that are statutory business trusts (the Trusts). In accordance with Financial Accounting Standards Board Interpretation No. 46R, *Consolidation of Variable Interest Entities*, the Trusts are not consolidated into the accounts of East West Bancorp, Inc.

The interim condensed consolidated financial statements, presented in accordance with accounting principles generally accepted in the United States of America (GAAP), are unaudited and reflect all adjustments which, in the opinion of management, are necessary for a fair statement of financial condition and results of operations for the interim periods. All adjustments are of a normal and recurring nature. Results for the six months ended June 30, 2008 are not necessarily indicative of results that may be expected for any other interim period or for the year as a whole. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in the Company s annual report on Form 10-K for the year ended December 31, 2007.

Certain items in the condensed consolidated statements of operations for the three and six months ended 2008 and 2007 were reclassified to conform to the year-to-date 2008 presentation. These reclassifications did not affect previously reported net income. In June 2008, the Company reclassified net gain on sale of other real estate owned (OREO) of $1.3 million for the six months ended June 30, 2007, previously included under the caption Noninterest Income to OREO expenses (income), which is a component of Noninterest Expense, in order to present all OREO activity in a single line item.

2. SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Standards

In September 2006, the Emerging Issues Task Force (EITF) issued EITF 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements,* which requires employers to recognize an obligation associated with endorsement split-dollar life insurance arrangements that extend into the employee s postretirement period. EITF 06-4 is effective for financial statements issued for fiscal years beginning after December 31, 2007. Upon adoption of EITF 06-4, the Company recorded a net decrease to retained earnings of $479 thousand, net of tax.

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

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

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

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS 141(R)), which replaces FASB Statement No. 141, *Business Combinations*. SFAS 141(R) establishes principles and requirements for how an acquiring company (1) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree, (2) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (3) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for business combinations occurring on or after the beginning of the fiscal year

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beginning on or after December 15, 2008. SFAS 141(R), effective for the Company on January 1, 2009, and applies to all transactions or other events in which the Company obtains control in one or more businesses. Management will assess each transaction on a case-by-case basis as they occur.

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

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

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

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

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS 162). SFAS 162 identifies a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles for nongovernmental entities (the Hierarchy). The Hierarchy within SFAS 162 is consistent with that previously defined in the AICPA Statement on Auditing Standards No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles* (SAS 69). SFAS 162 is effective 60 days following the SEC s approval of the

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Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.* The Company does not expect this guidance to have a material effect on its financial condition, results of operations, or cash flows.

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

3. FAIR VALUE MEASUREMENT

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

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

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

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

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

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includes mortgage servicing assets, impaired loans, private label mortgage-backed securities, retained residual interests in securitizations, and pooled trust preferred securities.

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

	Assets (Liabilities) Measured at Fair Value on a Recurring Basis as of June 30, 2008 (In Thousands)			
	Fair Value Measurements June 30, 2008	Quoted Prices in Active Markets for Identifical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment Securities (AFS)	$ 1,828,181	$ 5,030	$ 1,215,667	$ 607,484
Equity Swap Agreements	17,806		17,806	
Derivatives Payable	(17,806)		(17,806)	

	Assets Measured at Fair Value on a Non-Recurring Basis as of June 30, 2008 (In Thousands)			
	Fair Value Measurements June 30, 2008	Quoted Prices in Active Markets for Identifical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mortgage Servicing Assets	$ 19,391	$	$	$ 19,391
Impaired Loans	157,461			157,461

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

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	Investment Securities Available for Sale	Mortgage Servicing Assets (In Thousands)	Impaired Loans
Beginning balance, March 31, 2008	$ 572,371	$ 20,886	$ 158,446
Total gains or losses (1)			
Included in earnings (realized)	1,097	(1,563)	(39,470)
Included in other comprehensive loss (unrealized) (2)	64,258		
Purchases, issuances, sales, settlements (3)	(30,242)	68	
Transfers in and/or out of Level 3 (4)			38,485
Ending balance June 30, 2008	$ 607,484	$ 19,391	$ 157,461
Changes in unrealized losses included in earnings relating to assets and liabilities still held at June 30, 2008 (4)	$ (1,574)	$	$

	Investment Securities Available for Sale	Mortgage Servicing Assets (In Thousands)	Impaired Loans
Beginning balance, January 1, 2008	$ 700,434	$ 21,558	$ 107,544
Total gains or losses (1)			
Included in earnings (realized)	3,471	(3,031)	(39,408)
Included in other comprehensive loss (unrealized) (2)	(35,965)		
Purchases, issuances, sales, settlements (3)	(60,456)	864	
Transfers in and/or out of Level 3 (4)			89,325
Ending balance June 30, 2008	$ 607,484	$ 19,391	$ 157,461
Changes in unrealized losses included in earnings relating to assets and liabilities still held at June 30, 2008 (4)	$ (1,574)	$	$

(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 changes in stockholders equity.

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

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

Valuation Methodologies

Investment Securities Available-for-Sale The fair values of available-for-sale investment securities are generally determined by reference to the average of at least two quoted market prices obtained from independent external brokers or prices obtained from independent external pricing service providers who have experience in valuing these securities. In obtaining such valuation information from third parties, the Company has reviewed the methodologies used to develop the resulting fair values. For those securities for which the Company is unable to obtain more than one outside quoted market price, the Company evaluates the broker s valuation methodology for reasonableness and obtains an independent validation of the market price received from another broker who has experience with such investments.

The Company s Level 3 available-for-sale securities include private label mortgage-backed securities, and residual securities that have been retained by the Company in connection with loan securitization activities, as well as pooled trust preferred securities. The fair values of private label mortgage-backed securities and pooled trust preferred securities are generally based on the average of two quoted market prices obtained from independent external brokers. The valuation of residual securities is based on a discounted cash flow approach utilizing several assumption factors. Assumptions related to prepayment speeds, forward yield curves, financial characteristics of the underlying assets, delinquency trends, and other factors are taken into consideration in determining the discount margin on residual securities. Furthermore, the liquidity of the market for similar securities is also incorporated in the valuation analysis to better determine the fair value of residual securities.

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

Derivatives Payable The Company s derivatives payable are recorded in conjunction with the certificate of deposits (host instrument) that pays interest based on changes in the HSCEI and are included in interest-bearing deposits on the condensed consolidated balance sheets. The fair value of these embedded derivatives is based on the income approach. The Company considered its own credit risk in determining the valuation. The valuation of the derivatives payable falls within Level 2 of the fair value hierarchy due to the observable nature of the inputs used in deriving the fair value of these derivative contracts.

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

Impaired Loans In accordance with SFAS No. 114, *Accounting by Creditors for Impairment of a Loan, an Amendment of FASB Statements No. 5 and 15,* the Company s impaired loans are generally measured using the fair value of the underlying collateral, which is determined based on the most recent appraisal information received, less costs to sell. Appraised values may be adjusted based on factors such as the Company s historical knowledge and changes in market conditions from the time of valuation. As of June 30, 2008, the impaired loan balance, net of the specific reserve, was $157.5

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million. Impaired loans fall within Level 3 of the fair value hierarchy since they were measured at fair value based on appraisals of the underlying collateral.

4. STOCK-BASED COMPENSATION

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

During the three and six months ended June 30, 2008, total compensation cost recognized in the consolidated statements of income related to stock options and restricted stock awards amounted to $1.5 million and $3.0 million, respectively, with related tax benefits of $613 thousand and $1.3 million, respectively. During the three and six months ended June 30, 2007, total compensation cost recognized in the consolidated statements of income related to stock options and restricted stock awards amounted to $1.7 million and $3.1 million, respectively, with related tax benefits of $698 thousand and $1.3 million, respectively.

Stock Options

The Company issues fixed stock options to certain employees, officers, and directors. Stock options are issued at the current market price on the date of grant with a three-year or four-year vesting period and contractual terms of 7 years. Stock options issued prior to July 2002 had contractual terms of 10 years. The Company issues new shares upon the exercise of stock options.

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

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (In thousands) (1)
Outstanding at beginning of period	2,099,120	$ 21.71		
Granted	721,499	18.71		
Exercised	(49,116)	10.36		
Forfeited	(44,364)	33.22		
Outstanding at end of period	2,727,139	$ 20.94	3.84 years	$ 37
Vested or expected to vest	2,647,620	$ 20.79	3.77 years	$ 37
Exercisable at end of period	1,598,087	$ 17.56	2.31 years	$ 37

(1) The aggregate intrinsic value excludes shares of 1,051,929 weighted average options outstanding for the six months ended June 30, 2008, respectively, as well as 176,036 weighted average options outstanding for the six months ended June 30, 2007, respectively, for which the exercise price exceeded the average market price of the Company s common stock during these periods.

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The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Expected term (1)	4 years	4 years	4 years	4 years
Expected volatility (2)	28.9%	23.8%	27.9%	24.1%
Expected dividend yield (3)	1.3%	1.1%	1.2%	1.1%
Risk-free interest rate (4)	3.0%	4.8%	2.6%	4.5%

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

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

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Weighted average fair value of stock options granted during the period	$ 3.59	$ 9.21	$ 4.27	$ 9.27
Total intrinsic value of options exercised (in thousands)	$ 170	$ 8,113	$ 337	$ 14,439
Total fair value of options vested (in thousands)	$ 116	$ 41	$ 1,222	$ 662

As of June 30, 2008, total unrecognized compensation cost related to stock options amounted to $5.2 million. The cost is expected to be recognized over a weighted average period of 3.2 years.

Restricted Stock

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

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

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	Shares	Weighted Average Price
Outstanding at beginning of period	683,336	$ 34.48
Granted	254,102	20.38
Vested	(46,956)	36.32
Forfeited	(65,561)	31.94
Outstanding at end of period	824,921	$ 30.23

The weighted average fair values of restricted stock awards granted during the six months ended June 30, 2008 and 2007 were $20.38 and $38.71, respectively.

As of June 30, 2008, total unrecognized compensation cost related to restricted stock awards amounted to $15.5 million. This cost is expected to be recognized over a weighted average period of 3.0 years.

The Company also grants performance restricted stock with a two-year cliff vesting to an executive officer. The number of shares that the executive will receive under these stock awards will ultimately depend on the Company s achievement of specified performance targets over the specified performance periods. At the end of each performance period, the number of stock awards issued will be determined by adjusting upward or downward from the target amount of shares in a range approximately between 25% and 125%. The final performance percentages on which the payouts will be based, considering performance metrics established for the performance periods, will be determined by the Board of Directors or a committee of the Board. If the Company performs below its performance targets, the Board or the committee may, at its discretion, choose not to award any shares. Shares of stock, if any, will be issued following the end of each performance period. Compensation costs are accrued over the service period and are based on the probable outcome of the performance condition. The maximum number of shares subject to these stock awards varies for each grant representing a maximum total of 99,767 shares as of June 30, 2008.

5. INVESTMENTS AVAILABLE FOR SALE

As a result of periodic reviews for impairment in accordance with SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*, and FSP FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* , the Company recorded $9.9 million in other-than-temporary impairment charges on certain available-for-sale securities during the second quarter of 2008. Of the $9.9 million in total impairment charges, $8.4 million related to certain Fannie Mae and Freddie Mac preferred securities. These preferred securities are perpetual in nature and, as a result, are treated similar to equity securities for purposes of impairment analysis. Both Fannie Mae and Freddie Mac preferred securities had investment grade ratings at the time of purchase and they maintained their investment grade status as of June 30, 2008.

The remaining $1.5 million in impairment charges were related to pooled trust preferred securities that were determined to be other than temporarily impaired in accordance with EITF 99-20, *Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets*.

6. GOODWILL AND OTHER INTANGIBLE ASSETS

The carrying amount of goodwill amounted to $337.6 million and $335.4 million at June 30, 2008 and December 31, 2007, respectively. Goodwill is tested for impairment on an annual basis, or more frequently, as events occur or as current circumstances and conditions warrant. The Company records impairment writedowns as charges to noninterest expense and adjustments to the carrying value of goodwill. Subsequent reversals of goodwill impairment are prohibited.

During the second quarter of 2008, the banking industry continued to experience volatility and the effect of such volatility unfavorably impacted the market prices of banking stocks, including the Company s. As such, the Company has deemed it prudent to perform a goodwill impairment test on an interim basis. As of June 30, 2008, the Company s market capitalization based on total outstanding common and preferred shares was $605.9 million and its total stockholders equity was $1.27 billion. As a result, the Company performed an impairment analysis as of June 30, 2008 to determine whether and to what extent, if any, recorded goodwill was impaired. The valuation analysis compared the fair value of each of the reporting units, including goodwill, to the respective carrying amounts. If the carrying amount of the reporting unit, including goodwill exceeds the fair value of that reporting unit, then further testing for goodwill impairment is performed.

As a result of this analysis, it was determined that the fair value of the Company s insurance agency reporting unit, East West Insurance Services, Inc., was less than its carrying value and that goodwill was impaired. The Company recorded goodwill impairment of $586 thousand as a charge to earnings. This impairment charge had no effect on the Company s cash balances or liquidity. In addition, because goodwill and other intangible assets are not included in the calculation of regulatory capital, the Company s well capitalized regulatory ratios are not affected by this non-cash expense. No assurance can be given that goodwill will not be written down further in future periods. The Company did not record any goodwill impairment writedowns during the first half of 2007.

The Company also has premiums on acquired deposits which represent the intangible value of depositor relationships resulting from deposit liabilities assumed from various acquisitions. The gross carrying amount of deposit premiums totaled $43.0 million and $46.9 million, respectively, with related accumulated amortization amounting to $18.3 million and $18.5 million, respectively, at June 30, 2008 and December 31, 2007. During the first quarter of 2008, the Company recorded an $855 thousand impairment writedown on deposit premiums initially recorded for the Desert Community Bank (DCB) acquisition due to higher than anticipated runoffs in certain deposit categories. The Company did not record any impairment writedowns on deposit premiums during 2007.

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7. ALLOWANCE FOR LOAN LOSSES

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

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
	(Dollars in thousands)		(Dollars in thousands)	
Allowance balance, beginning of period	$ 117,120	$ 75,970	$ 88,407	$ 78,201
Allowance for unfunded loan commitments and letters of credit	1,136	1,886	232	(189)
Provision for loan losses	85,000		140,000	
Chargeoffs:				
Single family real estate	634		709	
Multifamily real estate	436		436	
Commercial and industrial real estate	16,337		21,418	
Construction	15,726		24,291	
Commercial business	1,919	865	13,735	1,045
Automobile	134		163	
Other consumer	23		40	11
Total chargeoffs	35,209	865	60,792	1,056
Recoveries:				
Single family real estate	2		2	
Commercial and industrial real estate	3		6	
Commercial business	357	289	537	323
Automobile	4		21	1
Total recoveries	366	289	566	324
Net chargeoffs	34,843	576	60,226	732
Allowance balance, end of period	$ 168,413	$ 77,280	$ 168,413	$ 77,280
Average loans outstanding	$ 8,773,028	$ 8,097,386	$ 8,864,142	$ 8,137,161
Total gross loans outstanding, end of period	$ 8,656,427	$ 8,030,111	$ 8,656,427	$ 8,030,111
Annualized net chargeoffs to average loans	1.59%	0.03%	1.36%	0.02%
Allowance for loan losses to total gross loans, end of period	1.95%	0.96%	1.95%	0.96%

At June 30, 2008, the allowance for loan losses amounted to $168.4 million, or 1.95% of total loans, compared with $88.4 million, or 1.00% of total loans, at December 31, 2007, and $77.3 million, or 0.96% of total loans, at June 30, 2007. The increase in the allowance for loan losses is primarily due to the $140.0 million in provisions for loan losses recorded during the first half of 2008. In comparison, no loss provisions were recorded during the first half of 2007. In response to the unprecedented downturn in the real estate and housing markets, the Company performed an extensive evaluation of certain sectors of its credit portfolio during the second quarter of 2008 to identify and mitigate potential losses in loan categories that were especially hard hit by current market conditions. As part of this evaluation process, the Company ordered new appraisals for land and residential construction loans and also engaged the services of an independent third party to make a current assessment as to the financial strength of the borrowers. The significant increase in loss provisions recorded during the second quarter reflects the findings and results from the Company s comprehensive loan review efforts. During the first half of 2008, the Company recorded $60.2 million in net chargeoffs, compared to $732 thousand in net chargeoffs recorded during the first half of 2007. Moreover, the volume of delinquent and

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nonperforming loans also increased significantly in 2008 relative to 2007 as a result of the deterioration in the real estate and housing markets.

The Company is currently undergoing a similar evaluation process for other sectors of its loan portfolio to proactively manage potential loss exposures in other loan categories. Although the Company expects to record additional loss provisions for the remainder of the year due to the challenging market and ongoing decline in the credit markets, the Company anticipates these additional provisions to be at lower levels than those recorded during the first half of 2008.

8. COMMITMENTS AND CONTINGENCIES

Credit Extensions - In the normal course of business, the Company has various outstanding commitments to extend credit that are not reflected in the accompanying interim condensed consolidated financial statements. As of June 30, 2008 and December 31, 2007, respectively, undisbursed loan commitments amounted to $2.13 billion and $2.72 billion, respectively. Commercial and standby letters of credit amounted to $602.2 million and $619.9 million as of June 30, 2008 and December 31, 2007, respectively.

Guarantees From time to time, the Company securitizes loans with recourse in the ordinary course of business. For loans that have been securitized with recourse, the recourse component is considered a guarantee. When the Company securitizes a loan with recourse, it commits to stand ready to perform if the loan defaults, and to make payments to remedy the default. As of June 30, 2008, total loans securitized with recourse amounted to $593.9 million and were comprised of $67.2 million in single family loans with full recourse and $526.6 million in multifamily loans with limited recourse. In comparison, total loans securitized with recourse amounted to $650.2 million at December 31, 2007, comprised of $72.7 million in single family loans with full recourse and $577.5 million in multifamily loans with limited recourse. The recourse provision on multifamily loans is limited to 2.5% of the top loss on the underlying loans. All of these transactions represent securitizations with Fannie Mae. The Company s recourse reserve related to these loan securitizations totaled $1.3 million and $3.0 million as of June 30, 2008 and December 31, 2007, respectively, and is included in accrued expenses and other liabilities in the accompanying condensed consolidated balance sheets. Despite the challenging conditions in the real estate market, the Company continues to experience minimal losses from single family and multifamily loan portfolios.

The Company also sells or securitizes loans without recourse that may have to be subsequently repurchased if a defect that occurred during the loan origination process results in a violation of a representation or warranty made in connection with the securitization or sale of the loan. When a loan sold or securitized to an investor without recourse fails to perform according to its contractual terms, the investor will typically review the loan file to determine whether defects in the origination process occurred and if such defects give rise to a violation of a representation or warranty made to the investor in connection with the sale or securitization. If such a defect is identified, the Company may be required to either repurchase the loan or indemnify the investor for losses sustained. If there are no such defects, the Company has no commitment to repurchase the loan. As of June 30, 2008 and December 31, 2007, the amount of loans sold without recourse totaled $769.0 million and $606.5 million, respectively. Total loans securitized without recourse amounted to $1.12 billion and $1.19 billion, respectively, at June 30, 2008 and December 31, 2007. The loans sold or securitized without recourse represent the unpaid principal balance of the Company s loans serviced for others portfolio.

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Litigation - Neither the Company nor the Bank is involved in any material legal proceedings at June 30, 2008. The Bank, from time to time, is a party to litigation which arises in the ordinary course of business, such as claims to enforce liens, claims involving the origination and servicing of loans, and other issues related to the business of the Bank. After taking into consideration information furnished by counsel to the Company and the Bank, management believes that the resolution of such issues will not have a material adverse impact on the financial position, results of operations, or liquidity of the Company or the Bank.

Regulated Investment Company (RIC) On December 31, 2003**, the California Franchise Tax Board (FTB) announced that it is taking the position that certain tax deductions relating to regulated investment companies will be disallowed pursuant to California Senate Bill 614 and California Assembly Bill 1601, which were signed into law in the fourth quarter of 2003.** East West Securities Company, Inc. (the Fund), a RIC formed and funded in July 2000 to raise capital in an efficient and economical manner was dissolved on December 30, 2002 as a result of, among other reasons, proposed legislation to change the tax treatments of RICs. The Fund provided state tax benefits beginning in 2000 until the end of 2002, when the RIC was officially dissolved. While the Company s management continues to believe that the tax benefits realized in previous years were appropriate and fully defensible under the existing tax codes at that time, the Company has deemed it prudent to participate in the voluntary compliance initiative, or VCI offered by the State of California to avoid certain potential penalties should the FTB choose to litigate its announced position about the tax treatment of RICs for periods prior to enactment of the legislation described above and should the FTB be successful in that litigation.

Pursuant to the VCI program, the Company filed amended California income tax returns on April 15, 2004 for all affected years and paid the resulting taxes and interest due to the FTB. This amounted to an aggregate payment of $14.2 million for tax years 2000, 2001, and 2002. As the Company s management believes that the tax deductions were appropriate, refund claims were filed for the amounts paid with the amended returns. These refund claims were reflected as assets in the Company s consolidated financial statements. As a result of these actions amending the Company s California income tax returns and subsequent related filing of refund claims the Company retains its potential exposure for assertion of an accuracy-related penalty should the FTB prevail in its position. The Company s potential exposure to all other penalties, however, has been eliminated through this course of action.

Management has considered this claim as part of its evaluation of the Company s uncertain tax positions in accordance with the provisions of FIN 48. Pursuant to the adoption of FIN 48 on January 1, 2007, the Company increased its existing unrecognized tax benefits by $7.1 million in connection with these refund claims. During the second quarter of 2008, the Company received notification from the FTB that refund claims for tax years 2000 through 2002 have been denied. Accordingly, the Company has deemed it prudent to write off the remaining $7.1 million tax receivable as a charge against the provision for income taxes during the second quarter of 2008. The Company will continue to appeal and pursue these claims.

9. STOCKHOLDERS EQUITY

Earnings (Loss) Per Share (EPS) The actual number of shares outstanding at June 30, 2008 was 63,438,596. Basic EPS excludes dilution and is computed by dividing income or loss available to common stockholders by the weighted-average number of shares outstanding during the period. Diluted EPS is calculated on the basis of the weighted average number of shares outstanding during the period plus restricted stock and shares issuable upon the assumed exercise of outstanding convertible preferred

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

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

	Three Months Ended June 30, 2008			2007		
	Net (Loss) Income	Number of Shares	Per Share Amounts	Net Income	Number of Shares	Per Share Amounts
	(In thousands, except per share data)					
Basic (loss) earnings per share	$ (25,887)	62,599	$ (0.41)	$ 40,490	60,381	$ 0.67
Effect of dilutive securities:						
Convertible preferred stock						
Stock options					724	(0.01)
Restricted stock					195	
Stock warrants					46	
Diluted (loss) earnings per share	$ (25,887)	62,599	$ (0.41)	$ 40,490	61,346	$ 0.66

	Six Months Ended June 30, 2008			2007		
	Net (Loss) Income	Number of Shares	Per Share Amounts	Net Income	Number of Shares	Per Share Amounts
	(In thousands, except per share data)					
Basic (loss) earnings per share	$ (20,843)	62,542	$ (0.33)	$ 82,586	60,515	$ 1.36
Effect of dilutive securities:						
Convertible preferred stock						
Stock options					769	(0.02)
Restricted stock					193	
Stock warrants					46	
Diluted (loss) earnings per share	$ (20,843)	62,542	$ (0.33)	$ 82,586	61,523	$ 1.34

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

	For the Three Months Ended June 30, 2008	2007	For the Six Months Ended June 30, 2008	2007
	(In thousands)			
Convertible preferred stock	9,838		4,919	
Stock options	2,113	26	1,234	176
Restricted stock	58		97	

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

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

Quarterly Dividends The Company s Board of Directors declared and paid quarterly common stock cash dividends of $0.10 per share payable on or about May 14, 2008 to shareholders of record on April 30, 2008. Cash dividends totaling $6.3 million and $12.7 million were paid to the Company s shareholders during the second quarter and first half of 2008, respectively.

10. BUSINESS SEGMENTS

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

The accounting policies of the segments are the same as those described in the summary of significant accounting policies described in Note 1 of the Company s annual report on Form 10-K for the year ended December 31, 2007. Operating segment results are based on the Company s internal management reporting process, which reflects assignments and allocations of capital, certain operating and administrative costs and the provision for loan losses. Net interest income is based on the Company s internal funds transfer pricing system which assigns a cost of funds or a credit for funds to 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 losses incurred and an allocation of the remaining provision based on new loan origination volume for the period. The Company evaluates overall performance based on profit or loss from operations before income taxes excluding nonrecurring gains and losses.

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

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

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	Three Months Ended June 30, 2008 (In thousands)					
	Retail Banking	Commercial Lending	Treasury	Residential Lending	Other	Total
Interest income	$ 51,316	$ 81,067	$ 17,078	$ 17,597	$ 847	$ 167,905
Charge for funds used	(23,206)	(36,189)	(31,414)	(8,294)		(99,103)
Interest spread on funds used	28,110	44,878	(14,336)	9,303	847	68,802
Interest expense	(32,681)	(5,668)	(37,380)			(75,729)
Credit on funds provided	49,219	7,933	41,951			99,103
Interest spread on funds provided	16,538	2,265	4,571			23,374
Net interest income (expense)	$ 44,648	$ 47,143	$ (9,765)	$ 9,303	$ 847	$ 92,176
Depreciation, amortization and accretion	$ 3,929	$ 205	$ (1,592)	$ (118)	$ 2,399	$ 4,823
Goodwill	269,841	16,865		50,595	273	337,574
Segment pretax profit (loss)	35	(27,609)	(21,975)	5,970	(1,462)	(45,041)
Segment assets	3,481,179	5,126,660	1,462,164	1,086,918	627,979	11,784,900

	Three Months Ended June 30, 2007 (In thousands)					
	Retail Banking	Commercial Lending	Treasury	Residential Lending	Other	Total
Interest income	$ 67,507	$ 82,937	$ 14,750	$ 20,653	$ 1,367	$ 187,214
Charge for funds used	(47,092)	(56,711)	(17,670)	(15,047)		(136,520)
Interest spread on funds used	20,415	26,226	(2,920)	5,606	1,367	50,694
Interest expense	(40,955)	(9,004)	(38,326)			(88,285)
Credit on funds provided	74,471	14,426	47,623			136,520
Interest spread on funds provided	33,516	5,422	9,297			48,235
Net interest income	$ 53,931	$ 31,648	$ 6,377	$ 5,606	$ 1,367	$ 98,929
Depreciation, amortization and accretion	$ 2,551	$ 136	$ (99)	$ (51)	$ 1,254	$ 3,791
Goodwill	181,910	12,127		48,509	1,717	244,263
Segment pretax profit (loss)	35,476	28,154	6,498	5,028	(8,688)	66,468
Segment assets	3,716,324	4,296,370	959,965	1,343,389	513,309	10,829,357

	Six Months Ended June 30, 2008 (In thousands)					
	Retail Banking	Commercial Lending	Treasury	Residential Lending	Other	Total
Interest income	$ 108,174	$ 174,117	$ 34,186	$ 36,785	$ 1,827	$ 355,089
Charge for funds used	(56,261)	(87,985)	(41,276)	(20,208)		(205,730)
Interest spread on funds used	51,913	86,132	(7,090)	16,577	1,827	149,359
Interest expense	(72,459)	(11,988)	(78,847)			(163,294)
Credit on funds provided	110,378	17,024	78,328			205,730
	37,919	5,036	(519)			42,436

	Retail Banking	Commercial Lending	Treasury	Residential Lending	Other	Total
Interest spread on funds provided						
Net interest income (expense)	$ 89,832	$ 91,168	$ (7,609)	$ 16,577	$ 1,827	$ 191,795
Depreciation, amortization and accretion	$ 7,088	$ 422	$ (1,978)	$ (18)	$ 4,589	$ 10,103
Goodwill	269,841	16,865		50,595	273	337,574
Segment pretax (loss) profit	(6,891)	(19,104)	(20,380)	12,733	(3,757)	(37,399)
Segment assets	3,481,179	5,126,660	1,462,164	1,086,918	627,979	11,784,900

	Six Months Ended June 30, 2007					
	Retail Banking	Commercial Lending	Treasury	Residential Lending	Other	Total
	(In thousands)					
Interest income	$ 133,755	$ 162,085	$ 32,899	$ 41,830	$ 2,822	$ 373,391
Charge for funds used	(93,203)	(110,955)	(36,910)	(30,040)		(271,108)
Interest spread on funds used	40,552	51,130	(4,011)	11,790	2,822	102,283
Interest expense	(80,042)	(17,102)	(78,715)			(175,859)
Credit on funds provided	148,242	27,884	94,982			271,108
Interest spread on funds provided	68,200	10,782	16,267			95,249
Net interest income	$ 108,752	$ 61,912	$ 12,256	$ 11,790	$ 2,822	$ 197,532
Depreciation, amortization and accretion	$ 4,956	$ 351	$ (949)	$ (8)	$ 2,238	$ 6,588
Goodwill	181,910	12,127		48,509	1,717	244,263
Segment pretax profit (loss)	74,786	55,670	12,307	11,100	(18,615)	135,248
Segment assets	3,716,324	4,296,370	959,965	1,343,389	513,309	10,829,357

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11. SUBSEQUENT EVENTS

On July 17, 2008, the Company announced that its Board of Directors has authorized dividends on its 8% non-cumulative perpetual convertible preferred stock, Series A. A regular quarterly cash dividend of $20.00 per share on the preferred stock is payable on August 1, 2008 to shareholders of record as of July 15, 2008.

On July 22, 2008, the Company announced that its Board of Directors declared a quarterly common stock cash dividend of $0.10 per share for the third quarter of 2008. The dividend will be payable on or about August 19, 2008 to shareholders of record on August 6, 2008.

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

The following discussion provides information about the results of operations, financial condition, liquidity, cash flows and capital resources of East West Bancorp, Inc. and its subsidiaries. This information is intended to facilitate the understanding and assessment of significant changes and trends related to our financial condition and the results of our operations. This discussion and analysis should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2007, and the accompanying interim unaudited consolidated financial statements and notes hereto.

Critical Accounting Policies

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

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

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

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

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

Overview

During the second quarter of 2008, we continued to manage adversities posed by the downturn of the real estate housing market and volatility in the overall banking industry. In response to the challenging economic environment, we undertook several initiatives during the second quarter of 2008 to further strengthen our balance sheet by increasing capital, liquidity and our allowance for loan losses.

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As previously reported, we raised $194.1 million in additional capital, net of underwriting discounts, commissions and offering expenses, during April 2008 through the issuance of 200,000 shares of non-cumulative, perpetual convertible preferred stock. The proceeds from this offering were used to reduce our borrowings, enhance our liquidity position, and boost our already strong capital levels. As of June 30, 2008, our total risk-based capital ratio is 13.01% or $317.4 million more than the 10.00% regulatory requirement for well-capitalized banks. Our Tier 1 risk-based capital ratio of 11.04% and our Tier 1 leverage ratio of 10.01% as of June 30, 2008 exceeded the regulatory guidelines for well-capitalized banks. In July 2008, the Board of Directors approved the payment of dividends on both our common and preferred stock which affirms our financial strength and our solid commitment to our shareholders.

In addition to strengthening our capital position, the convertible preferred stock offering completed in April 2008 also augmented our overall liquidity position. As of June 30, 2008, we have $424.0 million in cash and cash equivalents and approximately $1.29 billion in excess borrowing capacity from various sources including the Federal Home Loan Bank (FHLB), the Federal Reserve Bank (FRB) and federal funds facilities with several financial institutions. Despite volatile and challenging market conditions, we experienced a 3% or $240.1 million deposit growth during the first half of 2008, with total deposits increasing to $7.52 billion as of June 30, 2008, compared with $7.28 billion as of December 31, 2007. We believe that our liquidity position is strong and is more than sufficient to meet our operating expenses, borrowing needs and other obligations.

During the second quarter of 2008, we performed a comprehensive review of our loan portfolio to identify existing and potential weaknesses. As part of this extensive review process, we ordered new appraisals for our land and residential construction loans to quantify our potential loss exposures in these sectors of our credit portfolio that are especially impacted by the downturn in the real estate market. Additionally, we also engaged the services of a third party to make a current assessment of the financial strength of these borrowers. As a consequence of this comprehensive review process, we sustained higher chargeoff levels and recorded higher loss provisions during the second quarter of 2008. Specifically, net chargeoffs totaled $34.8 million during the second quarter of 2008, representing an annualized 1.59% of average loans for the quarter. This compares with $576 thousand in net chargeoffs, or an annualized 0.03% of average loans, during the same quarter in 2007. Approximately 91%, or $32.1 million, of the $35.2 million in gross chargeoffs during the second quarter of 2008 were related to land and residential construction loans.

Total nonperforming assets also increased to $193.1 million, or 1.64% of total assets at June 30, 2008, compared with $74.5 million or 0.63% of total assets at March 31, 2008, and $67.5 million or 0.57% of total assets at December 31, 2007. Nonperforming assets as of June 30, 2008 is comprised of nonaccrual loans totaling $170.9 million, other real estate owned (OREO) totaling $17.5 million and loans modified or restructured amounting to $4.7 million. The increase in nonperforming assets is primarily due to a considerable increase in nonaccrual loans resulting from our comprehensive loan review. Included in nonaccrual loans as of June 30, 2008 are twenty loans totaling $40.4 million which were not 90 days past as of June 30, 2008, but have been proactively classified as nonaccrual due to concerns surrounding collateral values and future collectibility. As a result of our extensive loan review measures as well as our higher chargeoff and nonperforming asset levels, we recorded $85.0 million in loan loss provisions during the second quarter of 2008, increasing our allowance for loan losses to $168.4 million, or 1.95% of total gross loans as of June 30, 2008. This compares to $88.4 million, or 1.00% of outstanding total loans at December 31, 2007.

Due to the substantial increase in loss provisions recorded during the second quarter of 2008, we reported a quarterly net loss for the first time in nearly three decades. Total net loss amounted to $25.9

million, or $(0.41) per basic and diluted share, for the second quarter of 2008. This compares with $40.5 million, or $0.67 per basic share and $0.66 per diluted share, reported during the second quarter of 2007. The annualized return on average assets during the second quarter of 2008 was (0.88%), compared with 1.52% for the same quarter in 2007. The annualized return on average equity was (8.48%) during the second quarter of 2008, compared to 15.53% during the same period in 2007.

The $25.9 million net loss reported for the second quarter of 2008 reflects several charges to income that fall outside the Company s normal operating activities. In addition to the significant loss provisions totaling $85.0 million recorded during the second quarter of 2008, we recorded $9.9 million in other-than-temporary impairment (OTTI) on certain investment securities. Of the total OTTI amount recorded during the second quarter of 2008, $8.4 million was related to certain Fannie Mae and Freddie Mac preferred stock and the remaining $1.5 million was related to certain pooled trust preferred securities. Moreover, we also deemed it appropriate to write off the remaining $7.1 million tax receivable related to our dissolved registered investment company, East West Securities Company, Inc. During the second quarter of 2008, the California Franchise Tax Board denied our tax refund claim related to the RIC prompting our decision to write off the remaining $7.1 million tax receivable from our balance sheet. Management will continue to appeal and pursue this refund claim in the legal system. Excluding the collective impact of these items, our core pre-tax operating income remained solid and amounted to $49.9 million for the second quarter of 2008.

Net interest income decreased to $92.2 million during the quarter ended June 30, 2008, compared with $98.9 million during the same quarter in 2007. Our net interest margin decreased 64 basis points to 3.33% during the second quarter of 2008. This compares with 3.97% during the same period in 2007 and 3.63% during the first quarter 2008. Relative to the second quarter of 2007 and the first quarter of 2008, our net interest margin during the quarter ended June 30, 2008 was adversely impacted by the sharp decline in interest rates prompted by several recent consecutive Federal Reserve rate cuts, the reversal of interest from nonaccrual loans, and the reinvestment of loan payoffs into lower yielding investment securities and other short-term investments. We anticipate net interest margin pressures to continue throughout the remainder of 2008 and we estimate our net margin to be in the range of 3.28% to 3.32% for the full year of 2008.

Total noninterest income increased 24% to $13.4 million during the second quarter of 2008, compared with $10.8 million for the corresponding quarter in 2007. This increase is attributable primarily to higher net gain on sales of investment securities and higher branch-related fee income, partially offset by lower ancillary loan fees. Core noninterest income, excluding the impact of gains on sales of investment securities, loans and other assets, remained stable at $9.6 million, decreasing only 2% from the same period last year.

Total noninterest expense increased 52% to $65.6 million during the second quarter of 2008, compared with $43.3 million for the same period in 2007. Excluding the impact of the $9.9 million in OTTI writedowns on investment securities, the rise in total operating expenses can be attributed predominantly to $3.8 million in higher compensation expenses that are directly correlated to reduced deferred loan origination costs, $3.2 million in increased credit-related cycle costs including legal, appraisal, consulting, and OREO expenses, $3.0 million in compensation, occupancy and other operating expenses related to the acquisition of Desert Community Bank (DCB) consummated in August 2007, and $2.0 million in higher deposit insurance premiums and regulatory assessments. Our efficiency ratio, which represents noninterest expense (excluding amortization and impairment writedowns on intangible assets, impairment writedowns on investment securities, and amortization of investments in affordable housing partnerships) divided by the aggregate of net interest income before provision for loan losses and noninterest income, increased to 48.62% during the second quarter of 2008 compared with 36.91% for

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the same period in 2007. We anticipate noninterest expense for the remainder of 2008 to trend down from the first half of the year as we continue to monitor all expenditures.

Total consolidated assets at June 30, 2008 decreased marginally to $11.78 billion, compared with $11.85 billion at December 31, 2007. The net decrease in total consolidated assets is primarily comprised of decreases in net loans of $267.8 million, securities purchased under resale agreements of $100.0 million and available-for-sale investment securities of $59.0 million, partially offset by increases in cash and cash equivalents of $263.7 million, deferred tax assets of $103.1 million and OREO, net of $16.0 million. Total liabilities decreased 2% to $10.51 billion as of June 30, 2008, compared to $10.68 billion as of December 31, 2007. The net decrease in liabilities is primarily due to decreases in FHLB advances of $265.0 million and federal funds purchased of $136.1 million, partially offset by an increase in total deposits of $240.1 million.

Total average assets increased 10% to $11.77 billion during the second quarter of 2008, compared to $10.65 billion for the same quarter in 2007, due primarily to growth in average loans and available-for-sale securities. Total average loans grew 8% to $8.77 billion during the quarter ended June 30, 2008, with double-digit increases in all major loan sectors, except for multifamily real estate loans due to $390.6 million in multifamily loan securitizations since the second quarter of 2007. Total average investment securities increased 22% to $1.99 billion during the quarter ended June 30, 2008 primarily due to $458.4 million in both single family and multifamily loan securitizations since the second quarter of 2007. Total average deposits rose 5% during the second quarter of 2008 to $7.50 billion, compared to $7.17 billion for the same quarter in 2007. Except for money market deposits and time deposits less than $100 thousand, all average deposit categories grew during the second quarter of 2008, with the largest dollar impact coming from time deposits $100 thousand or greater, noninterest bearing demand deposits, and savings accounts.

As of June 30, 2008, the Company s market capitalization based on total outstanding common and preferred shares was $605.9 million compared to total stockholders equity of $1.27 billion. As a result, management updated its valuation analysis to determine whether and to what extent our goodwill asset was impaired. As a result of this updated analysis, we recorded a $586 thousand goodwill impairment charge related to East West Insurance Services, Inc. This impairment writedown had no effect on our cash balances, liquidity or regulatory capital ratios.

Results of Operations

We reported a net loss for the second quarter 2008 of $25.9 million, or $(0.41) per basic and diluted share, compared with net income of $40.5 million, representing $0.67 per basic and $0.66 per diluted share, reported during the second quarter of 2007. During the second quarter of 2008, our operating results were significantly impacted by the $85.0 million in provision for loan losses recorded during the period. In comparison, we did not record any provision for loan losses during the same period in 2007. Our annualized return on average total assets decreased to (0.88%) for the quarter ended June 30, 2008, compared to 1.52% for the same period in 2007. The annualized return on average stockholders equity decreased to (8.48%) for the second quarter of 2008, compared with 15.53% for the second quarter of 2007.

We incurred a net loss for the six months ended June 30, 2008 of $20.8 million, or $(0.33) per basic and diluted share, compared with net income of $82.6 million, or $1.36 per basic and $1.34 per diluted share, reported during the corresponding period in 2007. The net loss reported during the first half of 2008 was primarily due to the $140.0 million in loan loss provisions recorded during the first half

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of 2008. In comparison, we did not record any provision for loan losses during the same period in 2007. Our annualized return on average total assets decreased to (0.35%) for the six months ended June 30, 2008, compared to 1.54% for the same period in 2007. The annualized return on average stockholders equity decreased to (3.51%) for the first half of 2008, compared with 16.00% for the same period in 2007.

Components of Net (Loss) Income

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In millions)		(In millions)	
Net interest income	$ 92.2	$ 98.9	$ 191.8	$ 197.5
Provision for loan losses	(85.0)		(140.0)	
Noninterest income	13.4	10.8	29.3	22.0
Noninterest expense	(65.6)	(43.2)	(118.5)	(84.2)
Benefit (provision) for income taxes				