EAST WEST BANCORP INC
Form 10-K
February 26, 2016

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

FORM 10-K

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

For the fiscal year ended December 31, 2015

Commission file number 000-24939

EAST WEST BANCORP, INC. (Exact name of registrant as specified in its charter)	
Delaware (State or other jurisdiction of incorporation or organization)	95-4703316 (I.R.S. Employer Identification No.)
135 North Los Robles Ave., 7th Floor, Pasadena, California (Address of principal executive offices)	91101 (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.001 Par Value	NASDAQ "Global Select Market"

Securities registered pursuant to Section 12(g) of the Act:
NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K. x

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 definitions of "large accelerated filer, "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

The aggregate market value of the registrant's common stock held by non-affiliates was approximately $6,382,812,659 (based on the June 30, 2015 closing price of Common Stock of $44.82 per share).

As of January 31, 2016, 143,917,846 shares of East West Bancorp, Inc. Common Stock were outstanding.

DOCUMENT INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement relating to its 2016 Annual Meeting of Stockholders are incorporated by reference into Part III.

EAST WEST BANCORP, INC.
2015 ANNUAL REPORT ON FORM 10-K
TABLE OF CONTENTS

PART I

Forward-Looking Statements

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

There are a number of important factors that could cause future results to differ materially from historical performance and these forward-looking statements. Factors that might cause such differences, some of which are beyond the Company’s control, include, but are not limited to:

- the Company’s ability to compete effectively against other financial institutions in its banking markets;
- changes in the commercial and consumer real estate markets;
- changes in the Company’s costs of operation, compliance and expansion;
- changes in the U.S. economy, including inflation, employment levels, rate of growth and general business conditions;
- changes in government interest rate policies;
- changes in laws or the regulatory environment including regulatory reform initiatives and policies of the U.S. Department of Treasury, the Board of Governors of the Federal Reserve Board (“Federal Reserve”) System, the Federal Deposit Insurance Corporation (“FDIC”), the U.S. Securities and Exchange Commission (“SEC”) and the Consumer Financial Protection Bureau (“CFPB”);
- changes in the economy of and monetary policy in the People’s Republic of China;
- changes in accounting standards as may be required by the Financial Accounting Standards Board (“FASB”) or other regulatory agencies and their impact on critical accounting policies and assumptions;
- changes in the equity and debt securities markets;
- future credit quality and performance, including our expectations regarding future credit losses and allowance levels;
- fluctuations of the Company’s stock price;
- fluctuations in foreign currency exchange rates;
- success and timing of the Company’s business strategies;
- impact of reputational risk from negative publicity, fines and penalties and other negative consequences from regulatory violations and legal actions;
- impact of potential federal tax increases and spending cuts;
- impact of adverse judgments or settlements in litigation;
- impact of regulatory enforcement actions;
- changes in the Company’s ability to receive dividends from its subsidiaries;
- impact of political developments, wars or other hostilities that may disrupt or increase volatility in securities or otherwise affect economic conditions;
- impact of natural or man-made disasters or calamities or conflicts;
- continuing consolidation in the financial services industry;
- the Company’s capital requirements and its ability to generate capital internally or raise capital on favorable terms;

- impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) on the Company’s business, business practices and cost of operations;
- impact of adverse changes to the Company’s credit ratings from the major credit rating agencies;
- impact of failure in, or breach of, the Company’s operational or security systems or infrastructure, or those of third parties with whom the Company does business, including as a result of cyber attacks; and other similar matters;
- adequacy of the Company’s risk management framework, disclosure controls and procedures and internal control over financial reporting;

- the effect of the current low interest rate environment or changes in interest rates on our net interest income and net interest margin;
- the effect of changes in the level of checking or savings account deposits on the Company’s funding costs and net interest margin; and
- a recurrence of significant turbulence or disruption in the capital or financial markets, which could result in, among other things, a reduction in the availability of funding or increased funding costs, reduced investor demand for mortgage loans and declines in asset values and/or recognition of other-than-temporary impairment on securities held in the Company’s available-for-sale investment securities portfolio.

For a more detailed discussion of some of the factors that might cause such differences, see Item 1A. Risk Factors presented elsewhere in this report. 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.

ITEM 1. BUSINESS

Organization

East West is a bank holding company incorporated in Delaware on August 26, 1998 and registered under the Bank Holding Company Act of 1956, as amended (“BHCA”). The Company commenced business on December 30, 1998 when, pursuant to a reorganization, it acquired all of the voting stock of East West Bank, or the “Bank.” The Bank is the Company’s principal asset. In addition to the Bank, East West has six other subsidiaries established as statutory business trusts (the “Trusts”) as of December 31, 2015 and one subsidiary - East West Insurance Services, Inc. (the “Agency”) that provides business and consumer insurance services. The Trusts were set up for the purpose of issuing junior subordinated debt to third party investors.

East West’s principal business is to serve as a holding company for the Bank and other banking or banking-related subsidiaries which East West may establish or acquire. As a legal entity separate and distinct from its subsidiaries, East West’s principal source of funds is, and will continue to be, dividends that may be paid by its subsidiaries. East West’s other sources of funds include proceeds from the issuance of its common stock in connection with stock option and employee stock purchase plans. As of December 31, 2015, the Company had $32.35 billion in total assets, $23.41 billion in total loans (net of allowance), $27.48 billion in total deposits and $3.12 billion in stockholders’ equity.

As of December 31, 2015, the Bank has three wholly owned subsidiaries. The first subsidiary, E-W Services, Inc., is a California corporation organized by the Bank in 1977. E-W Services, Inc. holds properties used by the Bank in its operations. The second subsidiary, East-West Investments, Inc., primarily acts as a trustee in connection with real estate secured loans. The remaining subsidiary is East West Bank (China) Limited.

On November 6, 2009, the Bank acquired United Commercial Bank (“UCB”), a California state-chartered bank headquartered in San Francisco, California. Under the terms of the UCB Purchase and Assumption Agreement, the Bank acquired certain assets of UCB with a fair value of approximately $9.86 billion and assumed liabilities with a fair value of approximately $9.57 billion. On June 11, 2010, the Bank acquired certain assets and assumed certain liabilities of Washington First International Bank (“WFIB”), a Washington state-chartered bank headquartered in Seattle, Washington. Under the terms of the WFIB Purchase and Assumption Agreement, the Bank acquired certain assets of WFIB with a fair value of approximately $492.6 million and liabilities with a fair value of approximately $481.3 million were assumed. Both of these transactions were FDIC-assisted acquisitions. On January 17, 2014, the Bank completed the acquisition of MetroCorp Bancshares, Inc., (“MetroCorp”) parent of MetroBank, N.A. and Metro United Bank. MetroCorp, headquartered in Houston, Texas, operated 19 branch locations within Texas and California under its two banks. The Bank acquired MetroCorp to further expand its presence, primarily in Texas within the markets of Houston and Dallas, and in California within the San Diego market. Approximately $1.70 billion of assets were acquired and $1.41 billion of liabilities were assumed.

The Bank continues to develop its international banking capabilities. The Bank’s presence includes five full-service branches in Greater China, located in Hong Kong, two in Shanghai including one in the Shanghai Pilot Free Trade Zone, Shantou and Shenzhen. The Bank also has five representative offices in Greater China located in Beijing, Chongqing, Guangzhou, Taipei, and Xiamen. In addition to facilitating traditional letters of credit and trade finance to businesses, these representative offices allow the Bank to assist existing clients, as well as develop new business relationships. Through these offices, the Bank is focused on growing its export-import lending volume by aiding U.S. exporters in identifying and developing new sales opportunities to China-based customers, as well as capturing additional letters of credit business generated from China-based exporters through broader correspondent banking relationships.

The Bank continues to explore opportunities to establish other foreign offices, subsidiaries or strategic investments and partnerships to expand its international banking capabilities and to capitalize on the growing international trade business between the United States and Greater China.

Banking Services

As of December 31, 2015, East West Bank was the fourth largest independent commercial bank headquartered in California based on total assets. East West Bank is the largest bank in the United States that focuses on the financial services needs of individuals and businesses which operate both in the United States and Greater China, as well as having a strong focus on the Chinese American community. Through its network of banking locations in the United States and Greater China, the Bank provides a wide range of personal and commercial banking services to small and medium-sized businesses, business executives, professionals, and other individuals. The Bank offers multilingual services to its customers in English, Cantonese, Mandarin, Vietnamese and Spanish. The Bank also offers a variety of deposit products which includes the traditional range of personal and business checking and savings accounts, time deposits and individual retirement accounts, travelers' checks, safe deposit boxes, and MasterCard® and Visa® merchant deposit services. The Bank's lending activities include commercial and residential real estate, construction, trade finance, and commercial business, including accounts receivable, small business administration, inventory and working capital loans. The Bank generally provides commercial business loans to small and medium-sized businesses. The Bank's commercial borrowers are engaged in a wide variety of manufacturing, wholesale trade and service businesses. In addition, the Bank is focused on providing financing to clients needing a financial bridge that facilitates their business transactions between the United States and Greater China.

The Bank's three operating segments: Retail Banking, Commercial Banking and Other are based on the Bank's core strategy. The Retail Banking segment focuses primarily on retail operations through the Bank's branch network. The Commercial Banking segment primarily generates commercial and industrial loans, and commercial real estate ("CRE") loans through the domestic commercial lending offices located in California, New York, Texas, Washington, Massachusetts, Nevada and Georgia, and through the foreign commercial lending offices located in China and Hong Kong. Furthermore, the Commercial Banking segment also offers a wide variety of international finance and trade services and products. The remaining centralized functions, including the treasury operations of the Company and eliminations of intersegment amounts have been aggregated and included in "Other." For complete discussion and disclosure, please see the information in Item 7. Management's Discussion and Analysis of the Financial Condition and Results of Operations ("MD&A") — Operating Segment Results and Note 20 — Business Segments to the Consolidated Financial Statements for additional information.

Market Area and Competition

The banking and financial services industry in California generally, and in the Bank's market areas specifically, is highly competitive. The increasingly competitive environment is primarily a result of changes in laws and regulations, changes in technology and product delivery systems, as well as continuing consolidation among financial services providers. The Bank competes for loans, deposits, and customers with other commercial banks, other financial services institutions and other companies that offer banking services. Some of these competitors are larger in total assets and capitalization and offer a broader range of financial services than the Bank.

The Bank concentrates on marketing its services in the greater Los Angeles metropolitan area and the greater San Francisco Bay area as Greater China and other Pacific Rim countries continue to grow as California's top trading partners. This provides the Bank with an important competitive advantage to its customers participating in the Asia Pacific marketplace. The Bank believes that its customers benefit from the Bank's understanding of Asian markets through its physical presence in Greater China, the Bank's corporate and organizational ties throughout Asia, as well as the Bank's international banking products and services. The Bank believes that this approach, combined with the extensive ties of the Bank's management and Board of Directors (the " Board") to growing Asian business opportunities, as well as the Chinese-American communities, provides the Bank with an advantage in competing for customers in the Bank's market area.

Supervision and Regulation

General

East West and the Bank are extensively regulated under both federal and state laws. Regulation and supervision by the federal and state banking agencies are intended primarily for the protection of depositors and the Deposit Insurance Fund (“DIF”) administered by the FDIC and not for the protection of our stockholders. As a bank holding company, East West is subject to primary inspection, supervision, regulation and examination by the Board of Governors of the Federal Reserve under the BHCA. The Bank, as a California state-chartered bank and a member of the Federal Reserve System, is subject to primary supervision and examination by the Federal Reserve, as well as the California Department of Business Oversight (“DBO”) - Division of Financial Institutions. The Company is also subject to regulation by certain foreign regulatory agencies where we conduct business.

The Company is also subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Exchange Act as administered by the SEC. Our common stock is listed on the NASDAQ Global Select Market (“NASDAQ”) under the trading symbol “EWBC” and is subject to NASDAQ rules for listed companies. The Company is also subject to the accounting oversight and corporate governance of the Sarbanes-Oxley Act of 2002.

Described below are material elements of selected laws and regulations applicable to East West and the Bank. The descriptions are not intended to be complete and are qualified in their entirety by reference to the full text of the statutes and regulations described. A change in applicable statutes, regulations or regulatory policy may have a material effect on the Company’s business.

East West

East West is subject to regulation and examination by the Federal Reserve under the BHCA and its authority to, among other things:

- require periodic reports and such additional information as the Federal Reserve may require;
- require the Company to maintain certain levels of capital and, under the Dodd-Frank Act, limit the ability of bank holding companies to pay dividends or bonuses unless their capital levels exceed the capital conservation buffer (please see Item 1. Business — Supervision and Regulation — Capital Requirements);
- require bank holding companies to serve as a source of financial and managerial strength to subsidiary banks and commit resources, as necessary, to support each subsidiary bank. A bank holding company’s failure to meet its obligations to serve as a source of strength to its subsidiary banks will generally be considered by the Federal Reserve to be an unsafe and unsound banking practice or a violation of Federal Reserve regulations or both;
- restrict the receipt and the payment of dividends;
- terminate an activity or terminate control of or liquidate or divest certain subsidiaries, affiliates or investments if the Federal Reserve believes that the activity or the control of the subsidiary or affiliate constitutes a significant risk to the financial safety, soundness or stability of any bank subsidiary;
- regulate provisions of certain bank holding company debt, including the authority to impose interest ceilings and reserve requirements on such debt and require prior approval to purchase or redeem the Company’s securities in certain situations;
- require the prior approval of senior executive officer or director changes and prohibit golden parachute payments, including change in control agreements, or new employment agreements with such payment terms, which are contingent upon termination;
- approve acquisitions and mergers with banks and consider certain competitive, management, financial and other factors in granting these approvals. DBO approvals may also be required for certain mergers and acquisitions.

As a bank holding company within the meaning of the California Financial Code, East West is subject to examination by, and may be required to file reports with the DBO.

7

The Bank and its subsidiaries

East West Bank is a California state-chartered bank, a member and stockholder of the Federal Reserve and a member of the FDIC. The Bank is subject to primary supervision, periodic examination, and regulation by the CFPB, DBO, and the Federal Reserve, as the Bank's primary federal regulator. The Federal Reserve and the DBO also regulate the Bank's foreign operations. These operations are subject to the supervisory authorities of the host countries in which the Bank's overseas offices reside. Specific federal and state laws and regulations which are applicable to banks regulate, among other things, the scope of their business, their investments, their reserves against deposits, the timing of the availability of deposited funds, and the nature and amount of collateral for certain loans. The regulatory structure also gives the bank regulatory agencies extensive discretion in connection with their supervisory and enforcement activities and examination policies. California law permits state chartered commercial banks to engage in any activity permissible for national banks, unless such activity is expressly prohibited by state law. Therefore, the Bank may form subsidiaries to engage in the many so-called "closely related to banking" or "nonbanking" activities commonly conducted by national banks in operating subsidiaries, and further, pursuant to the Gramm Leach Bliley Act, the Bank may conduct certain "financial" activities in a subsidiary to the same extent permitted for a national bank, provided the Bank is and remains "well-capitalized," "well-managed" and in satisfactory compliance with the Community Reinvestment Act ("CRA").

Regulation of Subsidiaries/Branches

Foreign-based subsidiaries, including East West Bank China (Limited), are subject to applicable foreign laws and regulations, such as those implemented by the China Banking Regulatory Commission. Nonbank subsidiaries are subject to additional or separate regulation and supervision by other state, federal and self-regulatory bodies. The Agency is subject to the licensing and supervisory authority of the California Department of Insurance. The East West Hong Kong branch is subject to applicable foreign laws and regulations, such as those implemented by the Hong Kong Monetary Authority.

Dodd-Frank Act

The Dodd-Frank Act, which was enacted in July 2010, comprehensively reformed the regulation of financial institutions and their products and services. The Dodd-Frank Act also significantly revised and expanded the rulemaking, supervisory and enforcement authority of the federal bank regulatory agencies. Among other things, the Dodd-Frank Act established the CFPB to be responsible for consumer protection in the financial services industry; provided for new capital standards that eliminate the treatment of trust preferred securities as Tier 1 regulatory capital; required that deposit insurance assessments be calculated based on an insured depository institution's assets rather than its insured deposits; raised the minimum Designated Reserve Ratio to 1.35%; established a comprehensive regulatory regime for the derivatives activities of financial institutions; established new compensation restrictions and standards regarding the time, manner and form of compensation given to key executives and other personnel receiving incentive compensation; prohibited banking entities, after a transition period, from engaging in certain types of proprietary trading, as well as having investments in, sponsoring, and maintaining certain types of relationships with hedge funds and private equity funds (through provisions commonly referred to as the "Volcker Rule"); placed limitations on the interchange fees charged for debit card transactions; and established new minimum mortgage underwriting standards for residential mortgages.

The Dodd-Frank Act impacts many aspects of the financial industry and will impact larger and smaller financial institutions and community banks differently over time. Many of the key provisions of the Dodd-Frank Act affecting the financial industry are either in effect or are in the proposed rules or implementation stages.

8

CFPB Supervision

The Dodd-Frank Act centralized responsibility for consumer financial protection by creating a new agency, the CFPB, and giving it responsibility for implementing, examining and enforcing compliance with federal consumer financial laws. Depository institutions with assets exceeding $10 billion (such as the Bank), their affiliates, and certain non-banks in the markets for consumer financial services (as determined by the CFPB) are subject to direct supervision by the CFPB, including any applicable examination, enforcement and reporting requirements the CFPB may establish. The CFPB is focused on:

- risks to consumers and compliance with the Federal consumer financial laws, when it evaluates the policies and practices of a financial institution;
- unfair, deceptive, or abusive acts on practices, which the Dodd-Frank Act empowers the agency to prevent through rulemaking, enforcement and examination;
- rulemaking to implement various federal consumer statutes such as the Home Mortgage Disclosure Act, Truth in Lending Act, Real Estate Settlement Procedures Act and Electronic Fund Transfer Act;
- the markets in which firms operate and risks to consumers posed by activities in those markets; and
- with respect to the indirect auto business, holding lenders accountable for discriminatory dealer markups.

The statutes and regulations that the CFPB enforces mandate certain disclosure and other requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans, collecting loans, and providing other services. In addition, the Department of Justice enforces the Servicemembers Civil Relief Act, which provides protection for military servicemembers and their family including a limitation on the ability to retake collateral in the event of default and a statutory interest rate cap for certain debts. Failure to comply with these laws can subject the Bank to various penalties, including, but not limited, to enforcement actions, injunctions, fines or criminal penalties, punitive damages or restitution to consumers, and the loss of certain contractual rights. The Bank and the Company are also subject to federal and state laws prohibiting unfair or fraudulent business practices, untrue or misleading advertising and unfair competition.

Federal Home Loan Bank (“FHLB”) and Federal Reserve

The Bank is a member of the FHLB of San Francisco. As an FHLB member, the Bank is required to own a certain amount of capital stock in the FHLB. The Bank may also access FHLB for both short-term and long-term secured borrowing sources. The Federal Reserve requires all depository institutions to maintain interest-earning reserves at specified levels against their transaction accounts. As of December 31, 2015, the Bank was in compliance with these requirements. As a member bank, the Bank is also required to own capital stock in the Federal Reserve.

Dividends and Other Transfers of Funds

Dividends from the Bank constitute the principal source of income to East West. The Bank is subject to various statutory and regulatory restrictions on its ability to pay dividends. In addition, the banking agencies have the authority to prohibit or limit the Bank from paying dividends, depending upon the Bank’s financial condition, if such payment is deemed to constitute an unsafe or unsound practice. Furthermore, under the federal prompt corrective action (“PCA”) regulations, the Federal Reserve or FDIC may prohibit a bank holding company from paying any dividends if the holding company’s bank subsidiary is classified as “undercapitalized.” For more information, please see Capital Requirements below.

It is the Federal Reserve’s policy that bank holding companies should generally pay dividends on common stock only out of income available over the past years and only if prospective earnings retention is consistent with the organization’s expected future needs and financial condition. It is also the Federal Reserve’s policy that bank holding companies should not maintain dividend levels that undermine the company’s ability to be a source of strength to its banking subsidiaries. Additionally, in consideration of the current financial and economic environment, the Federal

Reserve has stated that bank holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels, unless both asset quality and capital are very strong.

Transactions with Affiliates

Federal laws strictly limit the ability of banks to engage in transactions with their affiliates, including their bank holding companies. Regulations promulgated by the Federal Reserve limit the types and amounts of these transactions that may take place and generally require those transactions to be on an arm's length basis. In general, these regulations require that “covered transactions” between a subsidiary bank and its parent company or the nonbank subsidiaries of the bank holding company are limited to 10% of the bank subsidiary's capital and surplus and, with respect to such parent company and all such nonbank subsidiaries, to an aggregate of 20% of the bank subsidiary's capital and surplus. Further, these restrictions, contained in the Federal Reserve’s Regulation W, prevent East West and other affiliates from borrowing from, or entering into other credit transactions with, the Bank or its operating subsidiaries, unless the loans or other credit transactions are secured by specified amounts of collateral. Federal law also limits a bank's authority to extend credit to its directors, executive officers and 10% shareholders, as well as to entities controlled by such persons. Among other things, extensions of credit to insiders are required to be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons. The terms of such extensions of credit may not involve more than the normal risk of repayment or present other unfavorable features and may not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the bank's capital. The Dodd-Frank Act treats derivative transactions resulting in credit exposure to an affiliate as covered transactions. It expands the transactions for which collateral is required to be maintained, and for all such transactions, it requires collateral to be maintained at all times. In addition, the Volcker Rule under the Dodd-Frank Act establishes certain prohibitions, restrictions and requirements (known as “Super 23A” and “Super 23B”) on transactions between a covered fund and a banking entity that serves as an investment manager, investment adviser, organizer and offeror, or sponsor with respect to that covered fund, regardless of whether the banking entity has an ownership interest in the fund.

Stress Testing for Banks with Assets of $10 Billion to $50 Billion

The Dodd-Frank Act requires stress testing of bank holding companies and banks that have more than $10 billion but less than $50 billion of consolidated assets (“$10 - $50 billion companies”). Additional stress testing is required for banking organizations having $50 billion or more of assets. $10 - $50 billion companies, including the Company and the Bank, are required to conduct annual company-run stress tests under rules the federal bank regulatory agencies issued in October 2012. Stress tests assess the potential impact of scenarios on the consolidated earnings, balance sheet and capital of a bank holding company or bank over a designated planning horizon of nine quarters, taking into account the organization’s current condition, risks, exposures, strategies, activities and such factors as the regulators may request of a specific organization. Each banking organization’s Board and senior management are required to review and approve the policies and procedures of their stress testing processes as frequently as economic conditions or the condition of the organization may warrant, and at least annually. They are also required to consider the results of the stress test in the normal course of business, including the banking organization’s capital planning (including dividends and share buybacks), assessment of capital adequacy and maintaining capital consistent with its risks, and risk management practices. The results of the stress tests are provided to the applicable federal banking agencies. The final rule requirement for public disclosure of a summary of the stress testing results for the $10 - $50 billion companies has been implemented starting with the 2014 stress test, with the disclosure requirements effective in June 2015.

CRA

Under the CRA as implemented by FDIC regulations, an institution has a continuing and affirmative obligation to help serve the credit needs of its communities, including extending credit to low- and moderate-income neighborhoods. The CRA requires public disclosure of the Bank’s CRA rating. Should the Bank fail to serve the community adequately, potential penalties may include regulatory denials of applications to expand branches, relocate, add subsidiaries and affiliates, expand into new financial activities and merge with or purchase other financial institutions.

FDIC Deposit Insurance Assessments

The FDIC insures the Bank's customer deposits through the DIF of the FDIC up to prescribed limits for each depositor. The Bank is subject to deposit insurance assessments as determined by the FDIC. The Dodd-Frank Act increased the minimum target DIF ratio from 1.15% of estimated insured deposits to 1.35% of estimated insured deposits. The FDIC must seek to achieve the 1.35% ratio by September 30, 2020. Insured institutions with assets of $10 billion or more, such as the Bank are responsible for funding the increase. For additional information regarding deposit insurance, see Item 1A. Risk Factors. The FDIC may terminate a depository institution's deposit insurance upon a finding that the institution's financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices that pose a risk to the DIF or that may prejudice the interest of the bank's depositors. The termination of deposit insurance for the Bank would also result in the revocation of the Bank's charter by the DBO.

Anti-Money Laundering ("AML") and Office of Foreign Assets Control ("OFAC") Regulation

A major focus of governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The Bank Secrecy Act ("BSA") and its implementing regulations and parallel requirements of the federal banking regulators require the Bank to maintain a risk-based AML program reasonably designed to prevent and detect money laundering and terrorist financing and to comply with the recordkeeping and reporting requirements of the BSA, including the requirement to report suspicious activity. There is an expectation by the Bank's regulators that there will be an effective governance structure for the program which includes effective oversight by our Board and management. The program must include, at a minimum, a designated compliance officer, written policies, procedures and internal controls, training of appropriate personnel and independent testing of the program, and a customer identification program. The United States Department of Treasury's Financial Crimes Enforcement Network ("FinCEN") and the federal banking agencies continue to issue regulations and guidance with respect to the application and requirements of the BSA and their expectations for effective AML programs. Banking regulators also examine banks for compliance with the economic sanctions regulations administered by the OFAC. Failure of a financial institution to maintain and implement adequate BSA/AML and OFAC programs, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution.

Capital Requirements

The federal banking agencies have risk-based capital adequacy guidelines intended to provide a measure of capital adequacy that reflects the degree of risk associated with a banking organization's operations both for transactions reported on the balance sheet as assets and for transactions, such as letters of credit and recourse arrangements, that are recorded as off-balance sheet items. Prior to January 1, 2015, these guidelines were based upon the 1988 capital accord ("Basel I") of the Basel Committee on Banking Supervision (the "Basel Committee"). In 2013, the Federal Reserve, FDIC, and Office of the Comptroller of the Currency issued final rules (the "Basel III Capital Rules") establishing a new comprehensive capital framework for U.S. banking organizations. The rules implement the Basel Committee's December 2010 framework, commonly referred to as Basel III, for strengthening international capital standards, as well as implementing certain provisions of the Dodd-Frank Act.

The Basel III Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions, including the Company and the Bank, compared to the previous U.S. risk-based capital rules. The Basel III Capital Rules became effective for the Company and the Bank on January 1, 2015 (subject to phase-in periods for some of their components). The Basel III Capital Rules: (i) introduce a new capital measure called Common Equity Tier 1 ("CET1") and a related regulatory capital ratio of CET1 to risk-weighted assets; (ii) specify that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments, which are instruments treated as Tier 1 instruments under the prior capital rules that meet certain revised requirements; (iii) mandate that most deductions or adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expand the scope of the deductions from and adjustments to capital, as compared to existing regulations. Under the Basel III Capital Rules, for most banking organizations, the most common form of Additional Tier 1 capital is noncumulative perpetual preferred stock and the most common form of Tier 2 capital is subordinated notes and a portion of the allowance for loan and lease losses, in each case, subject to the Basel III Capital Rules’ specific requirements.

Under the Basel III Capital Rules, the following are the initial minimum capital ratios applicable to the Company and the Bank as of January 1, 2015:

- 4.5% CET1 to risk-weighted assets;
- 6.0% Tier 1 capital (that is, CET1 plus Additional Tier 1 capital) to risk-weighted assets;
- 8.0% total capital (that is, Tier 1 capital plus Tier 2 capital) to risk-weighted assets; and
- 4.0% Tier 1 leverage ratio.

The Basel III Capital Rules also introduce a new “capital conservation buffer,” composed entirely of CET1, on top of these minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. The implementation of the capital conservation buffer began on January 1, 2016 at 0.625% and will be phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019). Thus, when fully phased-in on January 1, 2019, the Company and the Bank will be required to maintain this additional capital conservation buffer of 2.5% of CET1, resulting in the following minimum capital ratios:

- 4.5% CET1 to risk-weighted assets, plus the capital conservation buffer, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7%;
- 6.0% Tier 1 capital to risk-weighted assets, plus the capital conservation buffer, effectively resulting in a minimum Tier 1 capital ratio of at least 8.5%;
- 8.0% total capital to risk-weighted assets, plus the capital conservation buffer, effectively resulting in a minimum total capital ratio of at least 10.5%; and
- 4.0% Tier 1 leverage ratio.

The Basel III Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that (i) mortgage servicing rights, (ii) deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks and (iii) significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such items, in the aggregate, exceed 15% of CET1. Implementation of the deductions and other adjustments to CET1 began on January 1, 2015 and will be phased-in over a four-year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter). Under the Basel III Capital Rules, the effects of certain accumulated other comprehensive income or loss items are not excluded for the purposes of determining regulatory capital ratios; however, non-advanced approaches banking organizations (i.e., banking organizations with less than $250 billion in total consolidated assets or with less than $10 billion of on-balance sheet foreign exposures), including the Company and the Bank, may make a one-time permanent election to exclude these items. This election must be made concurrently with the first filing of certain of the Company and the Bank’s periodic regulatory reports in the beginning of 2015. The Company and the Bank have made this election in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of its available-for-sale securities portfolio.

The Basel III Capital Rules prescribe a new standardized approach for risk weightings that expand the risk weighting categories from the previous four Basel I-derived categories (0%, 20%, 50% and 100%) to a larger and more risk-sensitive number of categories, generally ranging from 0% for U.S. Government and agency securities, to 600% for certain equity exposures, depending on the nature of the assets. The new capital rules generally result in higher risk weights for a variety of asset classes, including certain CRE mortgages. Additional aspects of the Basel III Capital Rules that are relevant to the Company and the Bank include:

- consistent with the Basel I risk-based capital rules, assigning exposures secured by single family residential properties to either a 50% risk weight for first-lien mortgages that meet prudential underwriting standards or a 100% risk weight category for all other mortgages;
- providing for a 20% credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable (set at 0% under the Basel I risk based capital rules);
- assigning a 150% risk weight to all exposures that are nonaccrual or 90 days or more past due (set at 100% under the Basel I risk-based capital rules), except for those secured by single family residential properties, which will be assigned a 100% risk weight, consistent with the Basel I risk-based capital rules;
- applying a 150% risk weight instead of a 100% risk weight for certain high volatility CRE acquisition, development and construction loans; and
- applying a 250% risk weight to the portion of mortgage servicing rights and deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks that are not deducted from CET1 capital (set at 100% under the Basel I risk-based capital rules).

As of December 31, 2015, the Company’s and the Bank’s capital ratios exceeded the minimum capital adequacy guideline percentage requirements of the federal banking agencies for “well capitalized” institutions under the Basel III capital rules on a fully phased-in basis. For complete discussion and disclosure please see Item 7. MD&A — Regulatory Capital and Ratios and Note 19 — Regulatory Requirements and Matters to the Consolidated Financial Statements for additional information.

With respect to the Bank, the Basel III Capital Rules also revise the PCA regulations pursuant to Section 38 of the Federal Deposit Insurance Act, as discussed below under “PCA.”

PCA

The Federal Deposit Insurance Act, as amended (“FDIA”), requires federal banking agencies to take PCA in respect of depository institutions that do not meet minimum capital requirements. The FDIA includes the following five capital tiers: “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized” and “critically undercapitalized.” A depository institution’s capital tier will depend upon how its capital levels compare with various relevant capital measures and certain other factors, as established by regulation. The Basel III Capital Rules, as promulgated by the Federal Reserve, revised the PCA requirements effective January 1, 2015. Under the revised PCA provisions of the FDIA, an insured depository institution generally will be classified in the following categories based on the capital measures indicated:

PCA Category	Total risk-based capital ratio	Tier 1 risk-based capital ratio	CET1 risk-based ratio	Tier 1 leverage ratio
Well capitalized	10%	8%	6.5%	5%
Adequately capitalized	8%	6%	4.5%	4%
Undercapitalized	< 8%	< 6%	< 4.5%	< 4%
Significantly undercapitalized	< 6%	< 4%	< 3%	< 3%
Critically undercapitalized	Tangible Equity/Total Assets ≤ 2%			

An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios, if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. A bank’s capital category is determined solely for the purpose of applying PCA regulations and the capital category may not constitute an accurate representation of the bank’s overall financial condition or prospects for other purposes.

The FDIA generally prohibits a depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company, if the depository institution would thereafter be "undercapitalized." "Undercapitalized" institutions are subject to growth limitations and are required to submit a capital restoration plan. If a depository institution fails to submit an acceptable plan, it is treated as if it is "significantly undercapitalized." "Significantly undercapitalized" depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become "adequately capitalized," requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. "Critically undercapitalized" institutions are subject to the appointment of a receiver or conservator.

Future Legislation and Regulation

Considering the recent conditions in the global financial markets and economy, legislators, presidential candidates and regulators have continued to increase their focus on regulation of the financial services industry. Proposals to further increase regulation of the financial services industry have been and are expected to continue to be introduced in the U.S. Congress, in state legislatures and abroad. In addition, not all regulations authorized or required under the Dodd-Frank Act have been proposed or finalized by federal regulators. Further legislative changes and additional regulations may change our operating environment in substantial and unpredictable ways. Such legislation and regulations could increase the cost of conducting the Company's business, affect the Company's compensation structure and restrict or expand the activities in which the Company may engage among other financial institutions. The Company cannot predict whether future legislative proposals will be enacted and, if enacted, the effect from implementing such regulations would have on the Company's business, results of operations or financial condition. The same uncertainty exists with respect to regulations authorized or required under the Dodd-Frank Act but that have not yet been proposed or finalized.

Employees

At December 31, 2015, the Company had approximately 2,833 employees. None of the Company's employees are subject to any collective bargaining agreements.

Available Information

The Company's annual reports on Form 10-K, the proxy statements, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13 (a) or 15 (d) of the Exchange Act are available for free at www.eastwestbank.com as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to SEC. These reports are also available for free on the SEC's website at http://www.sec.gov. Also, these reports can be found and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549, or by calling the SEC at 1-800-SEC-0330.

ITEM 1A. RISK FACTORS

In the course of conducting the Company's business, the Company is exposed to a variety of risks, some of which are inherent in the financial services industry and others of which are more specific to the Company's business. The following discussion sets forth what management currently believes could be the most significant factors, of which we are currently aware that could affect our businesses, results of operations and financial condition. Additional factors that could affect our businesses, results of operations and financial condition are discussed in Forward-Looking Statements. Other factors not discussed below or elsewhere in this Annual Report on Form 10-K could also adversely affect the Company's businesses, results of operations and financial condition. Therefore, the risk factors below should not be considered a complete discussion of all of the risk and uncertainties the Company may face.

Regulatory, Compliance and Legal Risks

Changes in law, regulation or oversight may adversely affect the Company's operations. EWBC is subject to extensive regulation under federal and state laws, as well as supervision and examination by the DBO, FDIC, Federal Reserve, SEC, the CFPB, and other regulatory bodies. Congress and federal agencies have significantly increased their focus on the regulation of the financial services industry. The Dodd-Frank Act, enacted in July 2010, instituted major changes to the banking and financial institutions regulatory regimes, many parts of which are now in effect. The Federal Reserve has adopted regulations implementing the Basel III framework on bank capital adequacy, stress testing, and market liquidity risk in the U.S. These regulations affect our lending practices, capital structure, investment practices, dividend policy and growth, among other things. Regulation of the financial services industry continues to undergo major changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies could affect EWBC in substantial and unpredictable ways. In addition, such changes could also subject us to additional costs and limit the types of financial services and products we may offer. Failure to comply with laws, regulations or policies could result in civil or criminal sanctions by state and federal agencies, the loss of FDIC insurance, the revocation of our banking charter, civil money penalties and/or reputation damage, which could have a material adverse impact on the Company's businesses, results of operations and financial condition. The effects of such legislation and regulatory actions on EWBC cannot be reliably determined at this time. See Item 1. Business — Supervision and Regulation for more information about the regulations to which we are subject.

The CFPB is in the process of reshaping the consumer financial laws through rulemaking and enforcement of such laws against unfair, deceptive and abusive acts or practices. Compliance with any such change may impact the business operations of depository institutions offering consumer financial products or services, including the Bank. The CFPB has broad rulemaking authority to administer and carry out the provisions of the Dodd-Frank Act with respect to financial institutions that offer covered financial products and services to consumers. The CFPB has also been directed to write rules identifying practices or acts that are unfair, deceptive or abusive in connection with any transaction with a consumer for a consumer financial product or service, or the offering of a consumer financial product or service. The prohibition on "abusive" acts or practices was created by the Dodd-Frank Act and did not previously exist in federal law. The meaning of the prohibition is being clarified each year by CFPB enforcement actions and opinions from courts and administrative proceedings. Moreover, the Bank will be examined by the CFPB for compliance with the CFPB's laws and policies. The CFPB has further issued a series of final rules to implement provisions in the Dodd-Frank Act related to mortgage origination and servicing that may increase the cost of originating and servicing residential mortgage loans, which went into effect in January 2014. While it is difficult to quantify the increase in our regulatory compliance burden, we do believe that costs associated with regulatory compliance, including the need to hire additional compliance personnel, may continue to increase.

We face risk of noncompliance and enforcement actions under the BSA and other AML statutes and regulations. The BSA requires banks and other financial institutions to, among other things, develop and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports as appropriate. The FinCEN has delegated examination authority for compliance by banks with the BSA to the federal bank regulators, including to the Board of Governors of the Federal Reserve (the "Board of Governors") for state licensed member banks. Under parallel authority of the bank regulators, the federal bank regulators and certain state regulators have authority to bring enforcement actions related to BSA compliance which may include compliance undertakings, a written agreement, a cease and desist order, and/or civil money penalties. FinCEN may also impose civil money penalties based on BSA violations that are deemed willful, and willful violations also could result in criminal BSA fine or forfeitures. The banking regulators also examine compliance with the rules enforced by the OFAC. Banks are under enhanced scrutiny for both BSA and OFAC compliance. Consequently, if our policies, procedures and internal controls are deemed deficient, we could face money penalties as well as serious reputational consequences that could materially and adversely affect our business, financial condition or operations.

The Bank is subject to supervision pursuant to a written agreement with the Federal Reserve Bank of San Francisco(the “FRB”) and a memorandum of understanding with the DBO, which could result in additional actions taken against the Bank and will increase the Bank’s operating costs and could adversely affect the Bank’s results of operations.

Our good standing with our regulators is of fundamental importance to the continuation and growth of our business given that banks operate in an extensively regulated environment under state and federal law. The Bank is subject to supervision and regulation by regulators, including the FRB and the DBO. Federal and state regulators, in the performance of their supervisory and enforcement duties, have significant discretion and power to initiate enforcement actions for violations of laws and regulations and unsafe and unsound practices. The enforcement powers available to federal banking regulators include, among others, the ability to assess civil monetary penalties, to issue cease and desist or removal orders, to require written agreements and to initiate injunctive actions. The Bank entered into a Written Agreement, dated November 9, 2015 with the FRB (the “Written Agreement”), and a related memorandum of understanding (“MOU”) with the DBO, relating to certain deficiencies identified in the Bank’s BSA/AML compliance program, as described in further detail in Item 7. MD&A — Regulatory Matters. If additional compliance issues are identified or if the regulators conclude that the Bank has not satisfactorily complied with the Written Agreement, the DBO or the FRB could take further action with respect to the Bank, and if any such further action were taken, such action could have a material adverse effect on our business, financial condition or operations. The operating and other conditions of the Written Agreement could lead to an increased risk of being subject to additional regulatory actions by the DBO and FRB or other government agencies, as well as additional actions resulting from future regular annual soundness and compliance examinations by federal and state regulators.

We anticipate that we will need to continue to dedicate significant resources to our efforts to comply with the Written Agreement and related MOU, which are expected to increase our operational costs and adversely affect the amount of time our management has to conduct our business. The additional operating costs to comply with, and the restrictions under, the Written Agreement and MOU will adversely affect the Bank’s results of operations.

Increased deposit insurance costs and changes in deposit regulation may adversely affect the Company’s results of operations. The FDIC insures deposit accounts at insured banks and financial institutions, including East West Bank. The FDIC charges the insured financial institutions premiums to maintain the DIF at a certain level. During 2008 and 2009, there were higher levels of bank failures, which dramatically increased resolution costs of the FDIC and depleted the DIF. The FDIC collected a special assessment in 2009 to replenish the DIF and also required a prepayment of an estimated amount of future deposit insurance premiums. In accordance with the Dodd-Frank Act, the FDIC adopted new rules that redefined how deposit insurance assessments are calculated. The new rate schedule and other revisions to the assessment rules became effective April 1, 2011, and had the effect of reducing the assessment that we would otherwise pay. As the new assessment rules currently stand, we expect the rules will have a continued positive impact on our future FDIC deposit insurance assessment fees compared to the assessment rules in effect prior to the changes. However, the FDIC’s rules could be subject to future changes, especially if there are additional bank or financial institution failures or the government or FDIC develop new regulatory goals with respect to the banking sector. Increases in assessment fees or required prepayments of FDIC insurance premiums may have an adverse effect on our results of operations.

The Company’s interest expense may increase following the repeal of the federal prohibition on payment of interest on demand deposits. The federal prohibition on the ability of financial institutions to pay interest on demand deposit accounts was repealed as part of the Dodd-Frank Act beginning on July 21, 2011. As a result, financial institutions could commence offering interest on demand deposits to compete for clients. Currently, market interest rates are low. We cannot predict what interest rates other banks may offer as market interest rates increase in the future. The Bank has started offering interest on demand deposits to attract additional customers or to maintain current customers. If market interest rates increase, the Company’s interest expense will increase and net interest margin will decrease which could have a material adverse effect on the Company's financial condition, results of operations and cash flows. Changes in accounting standards or inaccurate estimates or assumptions in applying accounting policies could materially impact the Company's financial statements. From time to time, the FASB or the SEC may change the financial accounting and reporting standards that govern the preparation of the Company's financial statements. In addition, the FASB, SEC, banking regulators and the Company's independent registered public accounting firm may also amend or even reverse their previous interpretations or positions on how various standards should be applied. These changes may be difficult to predict and could impact how we prepare and report the Company's financial statements. In some cases, we could be required to apply a new or revised standard retroactively, resulting in the Company revising and republishing prior-period financial statements.

Capital and Liquidity Risks

As a regulated entity, we are subject to capital and liquidity requirements, and a failure to meet these standards could affect our financial condition. The Company and the Bank are subject to certain capital and liquidity guidelines, qualitative judgments by regulators about components, risk weightings and other factors. New regulatory capital and liquidity requirements may limit or otherwise restrict how we utilize our capital, including common stock dividends and stock repurchases, and may require us to increase our regulatory capital, or increase regulatory capital ratios or liquidity. The capital requirements applicable to the Company and the Bank under the recently adopted Basel III rules are in the process of being phased-in by the Federal Reserve. We are required to satisfy more stringent capital adequacy and liquidity standards than we have in the past. In addition, we may be required to increase our capital levels, even in the absence of actual adverse economic conditions or forecasts, as a result of stress testing and capital planning based on the hypothetical future adverse economic scenarios. We expect to meet the requirements of the Basel III rules, including the capital conservation buffer, as phased in by the Federal Reserve. Compliance with these capital requirements, including leverage ratios, may limit operations that require intensive use of capital. This could adversely affect our ability to expand or maintain present business levels, which may adversely affect our financial results. Additional information on the regulatory capital requirements applicable to the Company and the Bank is set forth in Item 1. Business — Supervision and Regulation — Capital Requirements.

The Company's ability to pay dividends. East West is dependent on the Bank for dividends, distributions and other payments. Our principal source of cash flow, including cash flow to pay dividends to our stockholders and principal and interest on our outstanding debt, is dividends from the Bank. The ability of the Bank to pay dividends to East West is limited by Federal and California law. Subject to the Bank meeting or exceeding regulatory capital requirements, the primary approval of the Federal Reserve is required, if the total of all dividends declared by the Bank in any calendar year would exceed the sum of the Bank's net profits for that year and its retained net profits for the preceding two years. Federal law also prohibits the Bank from paying dividends that would be greater than its undivided profits. In addition, Federal Reserve guidance sets forth the supervisory expectation that bank holding companies will inform and consult with the Federal Reserve in advance of issuing a dividend that exceeds earnings for the quarter and should not pay dividends in a rolling four quarter period in an amount that exceeds net income for the period.

The Company is subject to liquidity risk, which could negatively affect the Company's funding levels. Market conditions or other events could negatively affect the level of or cost of funding, which in turn could affect the Company's ongoing ability to accommodate liability maturities and deposit withdrawals, meet contractual obligations, or fund asset growth and new business initiatives at a reasonable cost, in a timely manner and without adverse consequences. Although the Company has implemented strategies to maintain sufficient and diverse sources of funding to accommodate planned, as well as unanticipated changes in assets, liabilities, and off-balance sheet commitments under various economic conditions, a substantial, unexpected or prolonged change in the level or cost of liquidity could have a material adverse effect on the Company. If the cost effectiveness or the availability of supply in the credit markets is reduced for a prolonged period of time, the Company's funding needs may require the Company to access funding and manage liquidity by other means. These alternatives may include generating client deposits, securitizing or selling loans and further managing loan growth and investment opportunities. These alternative means of funding may not be available under stressed conditions.

Market Risks

General economic, political or industry conditions may be less favorable than expected. Our businesses and results of operations are affected by the financial markets and general economic conditions in the U.S. and China, including factors such as the level and volatility of short term and long-term interest rates, inflation, home prices, unemployment and under-employment levels, bankruptcies, household income, consumer spending, fluctuations in both debt and equity capital markets and currencies, liquidity of the global financial markets, the availability and cost of capital and credit, investor sentiment and confidence in the financial markets, the sustainability of economic growth in the U.S. and China. The deterioration of any of these conditions could adversely affect our consumer and commercial businesses, our securities and derivatives portfolios, our level of charge-offs and provision for credit losses, the carrying value of our deferred tax assets, our capital levels and liquidity and our results of operations. Because the

Company's operations and the collateral securing its loan portfolio are concentrated primarily in Northern and Southern California, the Company may be particularly susceptible to the adverse economic conditions in the state of California.

Despite improving labor markets and declines in energy costs, an elevated level of underemployment and household debt and prolonged low interest rates pose challenges for the domestic economic performance and the financial services industry. Home sales continue to show signs of improvement but the improvement in the housing market remains modest in certain areas. Mortgage delinquency and foreclosure rates continue to decline. Any unfavorable changes in the economic and market conditions would lead to the following risks:

- The process the Company uses to estimate losses inherent in the Company's credit exposure requires difficult, subjective and complex judgments, including forecasts of economic conditions and how these economic conditions might impair the ability of the borrowers to repay their loans. The level of uncertainty concerning economic conditions may adversely affect the accuracy of the Company's estimates which may, in turn, impact the reliability of the process.
- The Company's commercial and residential borrowers may be unable to make timely repayments of their loans, or the decrease in value of real estate collateral securing the payment of such loans could result in credit losses, delinquencies, foreclosures and customer bankruptcies, any of which could have a material adverse effect on the Company's operating results.
- A decrease in the demand for loans and other products and services offered by us.
- A decrease in deposit balances due to overall reductions in customers' accounts.
- The value of the portfolio of available-for-sale investment securities that the Company holds may be adversely affected by defaults by debtors.
- Future disruptions in the capital markets or other events, including actions by rating agencies and deteriorating investor expectations, may result in an inability to borrow on favorable terms or at all from other financial institutions.

A portion of the Company's loan portfolio is secured by real estate and thus the Company has a higher degree of risk from a downturn in real estate markets. As discussed in the "General economic, political or industry conditions may be less favorable than expected" section above, a decline in real estate markets could hurt the Company's business because many of the Company's loans are secured by real estate. Real estate values and real estate markets are generally affected by changes in national, regional or local economic conditions, fluctuations in interest rates and the availability of loans to potential purchasers, changes in tax laws and other governmental statutes, regulations and policies and acts of nature and national disasters, such as earthquakes which are particular to California. A significant portion of the Company's real estate collateral is located in California. If real estate values decline, the value of real estate collateral securing the Company's loans could be significantly reduced. The Company's ability to recover on defaulted loans by foreclosing and selling the real estate collateral would then be diminished and the Company would be more likely to suffer losses on defaulted loans. Furthermore, CRE and multifamily loans typically involve large balances to single borrowers or groups of related borrowers. Since payments on these loans are often dependent on the successful operation or management of the properties, as well as the business and financial condition of the borrower, repayment of such loans may be subject to adverse conditions in the real estate market, adverse economic conditions or changes in applicable government regulations. Borrowers' inability to repay such loans may have an adverse effect on the Company's business.

The Company's business is subject to interest rate risk and variations in interest rates may negatively affect the Company's financial performance. Our financial results depend substantially on net interest income, which is the difference between the interest income we earn on interest-earning assets and the interest expense we pay on interest-bearing liabilities. Interest-earning assets primarily include loans extended, securities held in our investment portfolio and excess cash held to manage short-term liquidity. We fund our assets using deposits and borrowings. While we offer interest-bearing deposit products, a portion of our deposit balances are from noninterest-bearing products. Overall, the interest rates we receive on our interest-earning assets and pay on our interest-bearing liabilities could be affected by a variety of factors, including market interest rate changes, competition, regulatory requirements and a change in the product mix. Changes in key variable market interest rates such as the Federal Funds, National Prime, the London Interbank Offered Rate ("LIBOR") or Treasury rates generally impact our interest rate spread. In addition, changes in interest rates could also affect the average life of our loans and mortgage related securities where decreases in interest rates resulting from actions taken by the Federal Reserve has caused an increase in prepayments of loans and mortgage related securities, as borrowers refinance to reduce borrowing costs. In addition, because of the differences in the maturities and repricing characteristics of the Company’s interest-earning assets and interest-bearing liabilities, changes in interest rates do not produce equivalent changes in interest income earned on interest-earning assets and interest paid on interest-bearing liabilities. Overall, interest rates have been at historically low levels for an unprecedented long period of time. Continued low interest rates, possibly compounded by a flat yield curve, may challenge the bank’s interest margin.

We face risks associated with international operations. A substantial number of our customers have economic and cultural ties to Asia and China. The Bank's presence includes five full-service branches in Greater China, located in Hong Kong, two in Shanghai including one in the Shanghai Free Trade Zone, Shantou and Shenzhen. The Bank also has five representative offices in Greater China located in Beijing, Chongqing, Guangzhou, Xiamen and Taipei, Taiwan. Our efforts to expand our business in Asia and China carry certain risks, including risks arising from the uncertainty regarding our ability to generate revenues from foreign operations, risks associated with leveraging and business on an international basis, including among others, legal, regulatory and tax requirements and restrictions, uncertainties regarding liability, trade barriers, difficulties in staffing and managing foreign operations, political and economic risks, financial risks including currency and payment risks. Further, volatility in the Shanghai and Hong Kong stock exchanges and/or a potential dramatic fall in real estate prices in China, among other things, may negatively impact asset values and the profitability and liquidity of the Company's customers who operate in this region. These risks could adversely affect the success of our international operations and could have a material adverse effect on our overall business, results of operations and financial condition. In addition, we face risks that our employees and affiliates may fail to comply with applicable laws and regulations governing our international operations, including the U.S. Foreign Corrupt Practices Act, anti-corruption laws, and other foreign laws and regulations. Failure to comply with such laws and regulations could, among other things, result in enforcement actions and fines against us, as well as limitations on our conduct, any of which could have a material adverse effect on our business and results of operations.

The Company is subject to fluctuations in foreign currency exchange rates. The Company's foreign translation exposure relates to its China subsidiary that has its functional currency denominated in Chinese Renminbi (RMB). In addition, as the Company continues to expand its business in China and Hong Kong, certain transactions are conducted in currencies other than the U.S. Dollar ("USD"). Although the Company has entered into derivative instruments to offset the impact the foreign exchange fluctuations, given the volatility of exchange rates, there is no assurance that the Company will be able to effectively manage foreign currency translation risk. Fluctuations in foreign currency exchange rates could have a material adverse effect on the Company's results of operations and financial condition.

Credit Risks

The Company's allowance for credit losses level may not be adequate to cover actual losses. In accordance with United States Generally Accepted Accounting Principles ("U.S. GAAP"), we maintain an allowance for loan losses to provide for loan defaults and non-performance, and an allowance for unfunded credit reserves, which, when combined, are referred to as the allowance for credit losses. Our allowance for loan losses is based on our evaluation of risks associated with our loan held for investment portfolio, including historical loss experience, expected loss calculations, delinquencies, performing status, the size and composition of the loan portfolio, economic conditions, and concentrations within the portfolio. The allowance estimation process requires subjective and complex judgments, including analysis of economic conditions and how these economic conditions might impair the ability of our borrowers to repay their loans. Current economic conditions in the U.S. and in international markets could deteriorate, which could result in, among other things, greater than expected deterioration in credit quality of our loan portfolio or in the value of collateral securing these loans. Our allowance for loan losses may not be adequate to cover probable loan losses, and future provisions for loan losses could materially and adversely affect our financial condition and results of operations. Additionally, in order to maximize the collection of loan balances, we sometimes modify loan terms when there is a reasonable chance that an appropriate modification would allow our client to continue servicing the debt. If such modifications ultimately are less effective at mitigating loan losses than we expect, we may incur losses in excess of the specific amount of allowance for loan losses associated with a modified loan, and this would result in additional provision for loan losses. In addition, we establish a reserve for losses associated with our unfunded credit reserves. The level of the allowance for unfunded credit reserves is determined by following a methodology similar to that used to establish our allowance for loan losses in our loan held for investment portfolio. There can be no assurance that our allowance for unfunded credit reserves will be adequate to provide for the actual losses associated with our unfunded credit commitments. An increase in the allowance for unfunded credit reserves in any period may result in a charge to earnings.

In 2012, the FASB issued for public comment a proposed Accounting Standard Update, Financial Instruments Credit Losses (Subtopic 825-15), that would substantially change the accounting for credit losses under U.S. GAAP. Under U.S. GAAP's current standards, credit losses are not reflected in the financial statements until it is probable that the credit loss has been incurred. Under the Credit Loss Proposal, an entity would reflect in its financial statements its current estimate of credit losses on financial assets over the expected life of each financial asset. The Credit Loss Proposal, if adopted as proposed, may have a negative impact on our reported earnings, capital, regulatory capital ratios, as well as on regulatory limits which are based on capital, since it would accelerate the recognition of estimated credit losses.

We may be subject to increased credit risk and higher credit losses to the extent that our loans are concentrated by loan type, industry segment, borrower type, or location of the borrower or collateral. Our credit risk and credit losses can increase if our loans are concentrated in borrowers engaged in the same or similar economic conditions in those markets or elsewhere, which could result in materially higher credit losses. A deterioration in economic conditions, housing conditions, or real estate values in the markets in which we operate could result in materially higher credit losses. The Bank has a concentration of real estate loans in California. Potential deterioration in the real estate market could result in additional loan charge-offs and provision for loan losses, which could have a material adverse effect on the Company's financial condition, results of operations and capital.

Operational Risks

A failure in or breach of our operational or security systems or infrastructure, or those of third parties, could disrupt our businesses, and adversely impact our results of operations, cash flows, liquidity and financial condition, as well as cause reputational harm. The potential for operational risk exposure exists throughout our organization and from our interactions with third parties. Our operational and security systems, infrastructure, including our computer systems, network infrastructure, data management and internal processes, as well as those of third parties, are integral to our performance. In addition, we rely on our employees and third parties in our ongoing operations, who may, as a result of human error or malfeasance or failure or breach of third-party systems or infrastructure, expose us to risk. We have taken measures to implement backup systems and safeguards to support our operations, but our ability to conduct business may be adversely affected by any significant disruptions to us or to the third parties with whom we interact. In addition, our ability to implement backup systems and other safeguards with respect to third-party systems is more limited than with respect to our own systems. Our financial, accounting, data processing, backup or other operating or security systems and infrastructure may fail to operate properly or may become disabled or damaged as a result of a number of factors including events that are wholly or partially beyond our control which could adversely affect our ability to process these transactions or provide certain services. There could be electrical, telecommunications or other major physical infrastructure outages, natural disasters such as earthquakes, tornadoes, hurricanes and floods, disease pandemics, and events arising from local or larger scale political or social matters, including terrorist acts. We continuously update these systems to support our operations and growth and this entails significant costs and creates risks associated with implementing new systems and integrating them with existing ones. Operational risk exposures could adversely impact our results of operations, cash flows, liquidity and financial condition, loss of confidence, significant litigation exposure and harm to our reputation.

A cyber attack, information or security breach, or a technology failure of ours or of a third party could adversely affect our ability to conduct our business, manage our exposure to risk or expand our businesses, result in the disclosure or misuse of confidential or proprietary information, increase our costs to maintain and update our operational and security systems and infrastructure, and adversely impact our results of operations, cash flows, liquidity and financial condition, as well as cause reputational harm. The Company offers various Internet-based services to its clients, including online banking services. The secure transmission of confidential information over the Internet is essential to maintain the clients' confidence in the Company's online services. In addition, our business is highly dependent on the security and efficacy of our infrastructure, computer and data management systems, as well as those of third parties with whom we interact. Cyber security risks for financial institutions have significantly increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties. Our business relies on the secure processing, transmission, storage and retrieval of confidential, proprietary and other information in our computer and data management systems and networks, and in the computer and data management systems and networks of third parties. We rely on digital technologies, computer, database and email systems, software and networks. Although the Company has developed systems and processes that are designed to prevent security breaches and periodically test the Company's security, failure to mitigate breaches of security could adversely affect the Company's ability to offer and grow the online services, result in violations of applicable privacy and other laws, costly litigation and loss of customer relationships and could have an adverse effect on the Company’s business.

Failure to keep pace with technological change could adversely affect the Company’s business. The Company may face risks associated with the ability to utilize information technology systems to support our operations effectively. The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. The Company’s future success depends, in part, upon its ability to address the needs of its customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in the Company’s operations. Many of the Company’ competitors have substantially greater resources to invest in technological improvements. The Company may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to its customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on the Company’s business and, in turn, the Company’s financial condition and results of operations. In addition, if we do not implement systems effectively or if our outsourcing business partners do not perform their functions properly, there could be an adverse effect on us. There can be no assurance that we will be able to effectively maintain or improve our systems and processes, or utilize outsourced talent, to meet our business needs efficiently. Any failure of such could adversely affect our operations, financial condition, and results of operations or reputation.

Natural disasters and geopolitical events beyond the Company’s control could adversely affect the Company. Natural disasters such as earthquakes, wildfires, extreme weather conditions, hurricanes, floods, and other acts of nature and geopolitical events involving terrorism or military conflict could adversely affect the Company’s business operations and those of the Company’s customers and cause substantial damage and loss to real and personal property. These natural disasters and geopolitical events could impair the borrowers’ ability to service their loans, decrease the level and duration of deposits by customers, erode the value of loan collateral, and result in an increase in the amount of the nonperforming loans and a higher level of nonperforming assets (including real estate owned), net charge-offs, and provision for loan losses, which could adversely affect the Company’s earnings.

The actions and soundness of other financial institutions could affect the Company. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. The Company executes transactions with various counterparties in the financial industry, including brokers and dealers, commercial banks and investment banks. Defaults by financial services institutions and uncertainty in the financial services industry in general could lead to market wide liquidity problems and may expose the Company to credit risk in the event of default of its counterparty or client. Further, the Company’s credit risk may increase when the underlying collateral held cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due to the Company. Any such losses could materially and adversely affect the Company’s results of operations.

The Company’s controls and procedures could fail or be circumvented. Management regularly reviews and updates the Company’s internal controls, disclosure controls and procedures and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, but not absolute, assurances of the effectiveness of these systems and controls, and that the objectives of these controls have been met. Any failure or circumvention of the Company’s controls and procedures, and any failure to comply with regulations related to controls and procedures could adversely affect the Company’s business, results of operations and financial condition.

The Company is dependent on key personnel and the loss of one or more of those key personnel may materially and adversely affect the Company’s prospects. Competition for qualified employees and personnel in the banking industry is intense and there is a limited number of qualified persons with knowledge of, and experience in, the regional banking industry, especially in the West Coast market. The process of recruiting personnel with the combination of skills and attributes required to carry out the Company’s strategies is often lengthy. The Company’s success depends, to a significant degree, upon its ability to attract and retain qualified management, loan origination, finance, administrative, marketing and technical personnel, as well as upon the continued contributions of its management and personnel. In particular, the Company’s success has been and continues to be highly dependent upon the abilities of certain key executives.

We face strong competition in the financial services industry and we could lose business or suffer margin declines as a result. The Company's financial performance and profitability also depend on the Company's ability to compete with financial services companies and other companies that offer banking services. The Company conducts the majority of its operations in California. The banking and financial services businesses in California are highly competitive and increased competition in the Company's primary market area may adversely impact the level of loans and deposits. Ultimately, the Company may not be able to compete successfully against current and future competitors. These competitors include national banks, regional banks and other community banks. The Company also faces competition from many other types of financial institutions, including savings and loan associations, finance companies, brokerage firms, insurance companies, credit unions, mortgage banks and other financial intermediaries. In particular, the Company's competitors include major financial companies whose greater resources may afford them a marketplace advantage by enabling them to maintain numerous locations and mount extensive promotional and advertising campaigns. Areas of competition include interest rates for loans and deposits, efforts to obtain loan and deposit customers and a range in quality of products and services provided, including new technology-driven products and services. If the Company is unable to attract and retain banking customers, the Company may be unable to continue its loan growth and level of deposits.

The Company has engaged in and may continue to engage in further expansion through acquisitions, which could negatively affect the Company's business and earnings. There are risks associated with expansion through acquisitions. These risks include, among others, incorrectly assessing the asset quality of a bank acquired in a particular transaction, encountering greater than anticipated costs in integrating acquired businesses, facing resistance from customers or employees, and being unable to profitably deploy assets acquired in the transaction. Additional country- and region-specific risks are associated with transactions outside the United States, including in China. To the extent the Company issues capital stock in connection with additional transactions, these transactions and related stock issuances may have a dilutive effect on earnings per share and share ownership.

Other Risks

Anti-takeover provisions could negatively impact the Company's stockholders. Provisions of Delaware law and of the Company's certificate of incorporation, as amended, and bylaws could make it more difficult for a third party to acquire control of the Company or could have the effect of discouraging a third party from attempting to acquire control of the Company, even if an acquisition might be in the best interest of the stockholders. For example, the Company's certificate of incorporation requires the approval of the holders of at least two-thirds of the outstanding shares of voting stock to approve certain business combinations. The Company is also subject to Section 203 of the Delaware General Corporation Law, which would make it more difficult for another party to acquire the Company without the approval of the Board. Additionally, the Company's certificate of incorporation, as amended, authorizes the Board to issue preferred stock and preferred stock could be issued as a defensive measure in response to a takeover proposal. These and other provisions could make it more difficult for a third party to acquire the Company, even if an acquisition might be in the best interest of the stockholders.

Managing reputational risk is important to attracting and maintaining customers, investors and employees. Threats to the Company's reputation can come from many sources, including unethical practices, employee misconduct, failure to deliver minimum standards of service or quality, compliance deficiencies, and questionable or fraudulent activities of the Company's customers. The Company has policies and procedures in place to protect its reputation and promote ethical conduct, but these policies and procedures may not be fully effective. Negative publicity regarding the Company's business, employees or customers, with or without merit, may result in the loss of customers, investors and employees, costly litigation, a decline in revenues and increased governmental regulation.

The price of the Company's common stock may be volatile or may decline. The trading price of the Company's common stock may fluctuate as a result of a number of factors, many of which are outside the Company's control. In addition, the stock market is subject to fluctuations in the share prices and trading volumes that affect the market prices of the shares of many companies. These broad market fluctuations could adversely affect the market price of the Company's common stock. Among the factors that could affect the Company's stock price are:

- actual or anticipated quarterly fluctuations in the Company's operating results and financial condition;
- changes in revenue or earnings estimates or publication of research reports and recommendations by financial analysts;
- failure to meet analysts' revenue or earnings estimates;
- speculation in the press or investment community;
- strategic actions by the Company or its competitors, such as acquisitions or restructurings;
- actions by institutional stockholders;
- fluctuations in the stock price and operating results of the Company's competitors;
- general market conditions and, in particular, developments related to market conditions for the financial services industry;
- proposed or adopted regulatory changes or developments;
- anticipated or pending investigations, proceedings or litigation that involve or affect the Company; or
- domestic and international economic factors unrelated to the Company's performance.

The stock market and, in particular, the market for financial institution stocks, has experienced significant volatility in the previous years. As a result, the market price of the Company's common stock may be volatile. In addition, the trading volume in the Company's common stock may fluctuate more than usual and cause significant price variations to occur. The trading price of the shares of the Company's common stock and the value of other securities will depend on many factors, which may change from time to time, including, without limitation, the financial condition, performance, creditworthiness and prospects, and future sales of the equity or equity-related securities. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers' underlying financial strength. A significant decline in the Company's stock price could result in substantial losses for individual stockholders and could lead to costly and disruptive securities litigation.

If the Company's goodwill were determined to be impaired, it would result in a charge against earnings and thus a reduction in stockholders' equity. The Company tests goodwill for impairment on an annual basis, or more frequently, if necessary. Quoted market prices in active markets are the best evidence of fair value and are to be used as the basis for measuring impairment, when available. Other acceptable valuation methods include present-value measurements based on multiples of earnings or revenues, or similar performance measures. If the Company were to determine that the carrying amount of the goodwill exceeded its implied fair value, the Company would be required to write down the value of the goodwill on the balance sheet, adversely affecting earnings as well as capital.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company operates over 130 locations worldwide, including in the United States' markets of California, Georgia, Massachusetts, Nevada, New York, Texas and Washington. In Greater China, East West's presence includes full service branches in Hong Kong, Shanghai, Shantou and Shenzhen, and representative offices in Beijing, Chongqing, Guangzhou, Taipei and Xiamen.

23

East West currently neither owns nor leases any real or personal property. East West uses the premises, equipment, and furniture of the Bank. The Agency also currently conducts its operations in one of the administrative offices of the Bank and reimburses the Bank for its use of this facility. East West's headquarters is located at 135 North Los Robles Avenue, Pasadena, California, an eight-story office building owned by the Bank.

As of December 31, 2015, the Bank owns the buildings and land at approximately 35 of its retail branches and offices located in the United States. All international and other domestic branch and administrative locations are leased by the Bank, with lease expiration dates ranging from 2016 to 2032, exclusive of renewal options. All properties occupied by the Bank are used across all business segments and for corporate purposes. Please see Note 20 - Business Segments to the Consolidated Financial Statements for details on each segment. The Bank also owns leasehold improvements, equipment, furniture, and fixtures at our offices, all of which are used in our business activities.

The Company believes that its existing facilities are in good condition and suitable for the conduct of its business and operations. On an ongoing basis, the Company evaluates its current and planned projected space requirements and, from time to time, it may determine that certain premises or facilities are no longer necessary for its operations. The Company believes that, if necessary, it could secure alternative facilities on similar terms without adversely affecting its operations.

ITEM 3. LEGAL PROCEEDINGS

Please see Litigation in Note 14 — Commitments, Contingencies and Related Party Transactions to the Consolidated Financial Statements, which is incorporated herein by reference.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II