EAST WEST BANCORP INC
Form 8-K/A
August 27, 2010

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

FORM 8-K/A

CURRENT REPORT
Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported)	June 11, 2010

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

Delaware	000-24939	95-4703316
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification Number)

135 North Los Robles Avenue, 7th Floor Pasadena, California	91101
(Address of principal executive offices)	(Zip Code)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

EXPLANATORY NOTE

On June 14, 2010, East West Bancorp, Inc (the "Company") filed a Current Report on Form 8-K to report that its wholly owned subsidiary, East West Bank (the "Bank") , had entered into a definitive agreement with the Federal Deposit Insurance Corporation (the "FDIC") on June 11, 2010, pursuant to which East West Bank acquired certain assets and assumed certain liabilities of Washington First International Bank ("WFIB"), a Washington state-chartered bank based in the Seattle, Washington area (the "WFIB Acquisition"). This amendment is being filed to update the disclosures in Item 2.01 and to provide financial information required by Item 9.01.

In accordance with the guidance provided in Staff Accounting Bulletin ("SAB") Topic 1:K, "Financial Statements of Acquired Troubled Financial Institutions" ("SAB 1:K") and a request for relief submitted to the Securities and Exchange Commission, the Company has omitted certain financial information of WFIB required by Rule 3-05 of Regulation S-X. SAB 1:K provides relief from the requirements of Rule 3-05 of Regulation S-X under certain circumstances, including a transaction such as the WFIB Acquisition, in which the registrant engages in an acquisition of a troubled financial institution for which audited financial statements are not reasonably available and in which federal assistance is an essential and significant part of the transaction.

Item 2.01 Completion of Acquisition or Disposition of Assets

Effective June 11, 2010, the Bank acquired certain assets and assumed certain liabilities of WFIB from the FDIC as receiver for WFIB, pursuant to the terms of a purchase and assumption agreement entered into by the Bank and the FDIC on June 11, 2010 (the "Purchase and Assumption Agreement").

Under the terms of the Purchase and Assumption Agreement, the Bank acquired certain assets of WFIB with an estimated fair value of $492.6 million and assumed liabilities with an estimated fair value including tax liability of $481.3 million. A summary of the estimated fair value of assets acquired and liabilities assumed from the FDIC is as follows:

		June 11, 2010 (In thousands)
ASSETS ACQUIRED:		
Cash and Cash Equivalents	$	67,186
Investment Securities		37,532
Loans Covered By FDIC Loss Sharing (Gross Balance of $395,156; Net of Discount of $84,174)		310,982
Loans Not Covered By FDIC Loss Sharing		2,869
Core Deposit Intangible		3,065
FDIC Indemnification Asset		41,131
Other Real Estate Owned Covered, Net		23,443
Other Assets		6,380
Total Assets Acquired		492,588
LIABILITIES ASSUMED:		
Deposits		395,910
Federal Home Loan Bank Advances		65,348
Securities Sold Under Repurchase Agreements		1,937

Deferred Tax Liability		8,189
Other Liabilities		9,917
Total Liabilities Assumed		481,301
NET ASSETS ACQUIRED (AFTER-TAX GAIN)	$	11,287

1

The net gain represents the excess of the estimated fair value of the assets acquired over the estimated fair value of the liabilities assumed and is influenced significantly by the FDIC-assisted transaction process. Under the FDIC-assisted transaction process, only certain assets and liabilities are transferred to the acquirer and, depending on the nature and amount of the acquirer's bid, the FDIC may be required to make a cash payment to the acquirer. The Bank received a cash payment from the FDIC for $51.4 million. In the WFIB acquisition, the book value of gross assets transferred to the Bank was $486.3 million. The pre-tax gain of $19.5 million or the after-tax gain of $11.3 million recognized by the Company is considered a bargain purchase transaction under Financial Accounting Standards Board ("FASB") Accounting Standards Codification™ ("ASC") Topic 805, "Business Combinations," since the total acquisition-date fair value of the identifiable net assets acquired exceeded the fair value of the consideration transferred. The gain was recognized as non-interest income in the Company's unaudited condensed consolidated statements of operations for the three and six months ended June 30, 2010.

The fair values of the assets acquired and liabilities assumed were determined based on the requirements of FASB ASC Topic 820, "Fair Value Measurements and Disclosures." The Statement of Assets Acquired and Liabilities Assumed by the Bank, dated as of June 11, 2010, and the accompanying notes thereto, are attached hereto as Exhibit 99.1 and incorporated herein by reference (the "Audited Statement"). The foregoing fair value amounts are subject to change for up to one year after the closing date of the acquisition as additional information relative to closing date fair values becomes available. The amounts are also subject to adjustments based upon final settlement with the FDIC. Management does not believe these would have a material impact on the fair value. In addition, the tax treatment of FDIC-assisted acquisitions is complex and subject to interpretations that may result in future adjustments of deferred taxes as of the acquisition date. The terms of the Purchase and Assumption Agreement provide for the FDIC to indemnify the Bank against claims with respect to liabilities of WFIB not assumed by the Bank and certain other types of claims listed in the Purchase and Assumption Agreement. The disclosures set forth in this Item 2.01 reflect the status of these items to the best of management's knowledge as of August 27, 2010.

As part of the Purchase and Assumption Agreement, the Bank and the FDIC entered into shared-loss agreements, whereby the FDIC will cover 80% of any future losses on loans (and related unfunded loan commitments), other real estate owned ("OREO ") and accrued interest on loans for up to 90 days. We refer to the acquired loans and OREO subject to the shared-loss agreements collectively as "covered assets." Under the terms of the shared-loss agreements, the FDIC will absorb 80% of losses and share in 80% of loss recoveries on covered assets. The shared-loss agreements for commercial and single family residential mortgage loans are in effect for 5 years and 10 years, respectively, from the June 11, 2010 acquisition date and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from the acquisition date.

Forty-five days following the tenth anniversary of the WFIB Acquisition date, the Company is required to pay to the FDIC 50% of the excess, if any of (i) 20% of the Intrinsic Loss Estimate over (ii) the sum of (A) 25% of the asset discount plus (B) 25% of the Cumulative Shared-Loss Payments plus (C) the Cumulative Servicing Amount if net losses on covered loans subject to the stated threshold is not reached. As of June 11, 2010, the estimate of this liability for WFIB was $7.0 million. This estimated liability of $7.0 million is included in other liabilities on the Audited Statement.

The Bank is subject to certain servicing procedures as specified in the shared-loss agreements with the FDIC. The expected net reimbursements under the shared-loss agreements were recorded at their estimated fair value of $41.1 million on the acquisition date.

The Bank did not immediately acquire all the real estate, banking facilities, furniture or equipment of WFIB as part of the Purchase and Assumption Agreement. However, the Bank has the option to purchase or lease the real estate and furniture and equipment from the FDIC. The term of these options expires 90 days after June 11, 2010, unless extended by the FDIC. Acquisition costs of the real estate and furniture and equipment will be based on current appraisals and determined at a later date. Currently all banking facilities and equipment are being leased from the FDIC on a month-to-month basis.

The foregoing summary of the Purchase and Assumption Agreement, including the shared-loss agreements, is not complete and is qualified in its entirety by reference to the full text of the Purchase and Assumption Agreement and certain exhibits attached thereto, a copy of which is filed as Exhibit 2.1 to this Amendment and is incorporated herein by reference.

Item 9.01 Financial Statement and Exhibits

(a) Financial Statements of Businesses Acquired and Exhibits

Discussion

As set forth in Item 2.01 above, on June 11, 2010, the Bank acquired certain assets and assumed substantially all of the deposits and certain liabilities of WFIB pursuant to the Purchase and Assumption Agreement with the FDIC. A narrative description of the anticipated effects of the acquisition on the Company's financial condition, liquidity, capital resources and operating results is presented below. This discussion should be read in conjunction with the historical financial statements and the related notes of the Company, which have been filed with the Securities and Exchange Commission, and the Audited Statement, which is attached hereto as Exhibit 99.1.

The WFIB Acquisition increased the Bank's total assets and total deposits, which are expected to positively affect the Bank's operating results, to the extent the Bank earns more from interest earned on its assets than it pays in interest on deposits and other borrowings. The ability of the Bank to successfully collect interest and principal on loans acquired will also affect the Bank's cash flows and operating results.

The Company has determined that the acquisition of the net assets of WFIB constitutes a business acquisition as defined by FASB ASC Topic 805. Accordingly, the assets acquired and liabilities assumed as of June 11, 2010 are presented at their fair values in the table below as required by that topic. In many cases, the determination of these fair values required management to make estimates about discount rates, future expected cash flows, market conditions and other future events that are highly subjective in nature and subject to change. These fair value estimates are subject to change for up to one year after the closing date of the WFIB Acquisition as additional information relative to closing date fair values becomes available. The Bank and the FDIC are engaged in ongoing discussions that may affect which assets and liabilities are ultimately acquired or assumed by the Bank. Management does not believe these would have a material impact on the fair value.

Financial Condition

In the WFIB Acquisition, the Bank purchased $311.0 million in loans covered by the loss-share agreements at estimated fair value, net of an $84.2 million discount. The Bank also purchased $2.9 million of consumer loans that are not covered under the loss-share agreements. These amounts represent approximately 2.3% of the Company's total loans receivable (net of the allowance for loan losses) as of June 30, 2010. Other real estate acquired was $23.4 million at estimated fair value. The Bank recorded an $11.3 million net after-tax gain, an FDIC indemnification asset of $41.1 million and a $3.1 million core deposit intangible in connection with this transaction.

3

The Bank acquired $67.2 million in cash and cash equivalents, which included a cash payment from the FDIC for $51.4 million. Also acquired was $37.5 million in investment securities at estimated fair value.

Investment Portfolio

The Bank acquired $37.5 million of investment securities at estimated fair value in the WFIB Acquisition. The acquired securities were predominantly municipal securities, U.S. Government agency and U.S. Government sponsored enterprise debt securities, corporate debt securities, U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities, U.S. Treasury securities and debt issued by foreign governments.

The following table present the composition of the investment securities portfolio acquired as of June 11, 2010:

	June 11, 2010 (In thousands)
Municipal securities	$ 14,595
U.S. Government agency and U.S. Government sponsored enterprise debt securities	8,061
Corporate debt securities	6,858
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities	3,401
U.S Treasury securities	2,017
Debt issued by foreign governments	1,540
Other securities	1,060
Total investment securities	$ 37,532

In addition, the Company also acquired $2.7 million in Federal Home Loan Bank (“FHLB”) stock.

Investment securities have contractual terms to maturity and require periodic payments to reduce principal. In addition, expected maturities may differ from contractual maturities because obligors and/or issuers may have the right to call or prepay obligations with or without call or prepayment penalties. The estimated fair value of investment securities as of June 11, 2010 is shown below by contractual maturity:

	June 11, 2010 (In thousands)
Due within one year	$ 6,542
Due after one year but within five years	18,312
Due after five years but within ten years	6,289
Due after ten years	6,389
Total investment securities	$ 37,532

4

Subsequent to June 11, 2010, $26.1 million of investment securities were sold with a net loss of $47 thousand.

Loans

The following table presents the balance of each major category of loans acquired in the WFIB Acquisition as of June 11, 2010:

	June 11, 2010			
		Amount	% of Total Loans Covered by FDIC Loss Sharing	
	(Dollars in thousands)			
Real estate loans:				
Residential single-family	$	23,148	5.9	%
Residential multifamily		29,449	7.5	%
Commercial and industrial business		147,181	37.2	%
Construction		80,136	20.2	%
Total real estate loans		279,914	70.8	%
Other loans:				
Commercial business		109,222	27.6	%
Other consumer		6,020	1.6	%
Total other loans		115,242	29.2	%
Total loans covered by FDIC loss sharing, gross		395,156	100.0	%
Total discount resulting from acquisition date fair value		(84,174)		
Total loans covered by FDIC loss sharing, net	$	310,982		

The Bank also acquired other real estate owned with a fair value of $23.4 million. The Bank refers to the loans and other real estate owned acquired in the WFIB Acquisition as “covered assets” as the Bank will be reimbursed by the FDIC for a substantial portion of any future losses on them under the terms of the shared-loss agreements. Additionally, $2.9 million of non-impaired consumer loans were acquired that are not subject to the shared-loss agreements.

At the June 11, 2010 acquisition date, the Bank estimated the fair value of the WFIB Acquisition loan portfolio at $313.9 million, which represents the expected discounted cash flows from the portfolio. In estimating such fair value, the Bank (a) calculated the contractual amount and timing of undiscounted principal and interest payments (the “undiscounted contractual cash flows”) and (b) estimated the amount and timing of undiscounted expected principal and interest payments (the “undiscounted expected cash flows”). The amount by which the undiscounted expected cash flows exceed the estimated fair value (the “accretable yield”) is accreted into interest income over the estimated life of the loans using the effective-yield method. The difference between the undiscounted contractual cash flows and the undiscounted expected cash flows represents the non-accretable difference.

The non-accretable difference represents an estimate of the credit risk in the WFIB Acquisition loan portfolio at the acquisition date. The credit risk is not reflected in the allowance for loan losses.

As part of the loan portfolio fair value estimation, the Bank established the FDIC indemnification asset, which represents the present value of the estimated losses on covered loans to be reimbursed by the FDIC. The FDIC indemnification asset will be reduced as losses are recognized on covered loans and loss-sharing payments are received from the FDIC. Realized losses in excess of acquisition date estimates will increase the FDIC indemnification asset. Conversely, if realized losses are less than acquisition date estimates, the FDIC indemnification asset will be reduced by a charge to earnings.

Covered loans under the shared-loss agreements with the FDIC are reported in loans exclusive of the estimated FDIC indemnification asset. The covered loans acquired in the WFIB Acquisition transaction are and will continue to be subject to the Bank's internal credit review. As a result, if and when credit deterioration is noted subsequent to the June 11, 2010 acquisition date, such deterioration will be measured through the Bank's loss reserving methodology and a provision for loan losses will be charged to earnings with a partially offsetting noninterest income item reflecting the increase to the FDIC indemnification asset.

A summary of the covered loans (excluding OREO) acquired in the WFIB Acquisition as of June 11, 2010 and the related discount is as follows:

	June 11, 2010		
	Credit Impaired Loans	Other Loans	Total
		(In thousands)	
Real estate loans:			
Residential single-family			