Section 1: 10-Q (10-Q)

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

FORM 10-Q

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

For the quarterly period ended June 30, 2019

OR

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

For the transition period from to

Commission file number 000-24939

EAST WEST BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware
(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 91101
(Address of principal executive offices) (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	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.001 Par Value	EWBC	The Nasdaq Global Select Market

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

Yes ☒ No ☐

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

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☐
	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

Number of shares outstanding of the issuer’s common stock on the latest practicable date: 145,546,642 shares as of July 31, 2019.

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PART I — FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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

	June 30, 2019 *(Unaudited)*	December 31, 2018
ASSETS		
Cash and due from banks	$ 425,949	$ 516,291
Interest-bearing cash with banks	3,195,665	2,485,086
Cash and cash equivalents	3,621,614	3,001,377
Interest-bearing deposits with banks	150,273	371,000
Securities purchased under resale agreements (“resale agreements”)	1,010,000	1,035,000
Securities:		
Available-for-sale investment securities, at fair value (includes assets pledged as collateral of $493,693 in 2019 and $435,833 in 2018)	2,592,913	2,741,847
Restricted equity securities, at cost	78,093	74,069
Loans held-for-sale	3,879	275
Loans held-for-investment (net of allowance for loan losses of $330,625 in 2019 and $311,322 in 2018; includes assets pledged as collateral of $21,056,804 in 2019 and $20,590,035 in 2018)	33,399,752	32,073,867
Investments in qualified affordable housing partnerships, net	198,466	184,873
Investments in tax credit and other investments, net	210,387	231,635
Premises and equipment (net of accumulated depreciation of $125,887 in 2019 and $118,547 in 2018)	121,498	119,180
Goodwill	465,697	465,547
Operating lease right-of-use assets	109,032	—
Other assets	930,754	743,686
TOTAL	**$ 42,892,358**	**$ 41,042,356**
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 10,599,088	$ 11,377,009
Interest-bearing	25,878,454	24,062,619
Total deposits	36,477,542	35,439,628
Short-term borrowings	19,972	57,638
Federal Home Loan Bank (“FHLB”) advances	745,074	326,172
Securities sold under repurchase agreements (“repurchase agreements”)	50,000	50,000
Long-term debt and finance lease liabilities	152,506	146,835
Operating lease liabilities	117,448	—
Accrued expenses and other liabilities	595,223	598,109
Total liabilities	38,157,765	36,618,382
COMMITMENTS AND CONTINGENCIES (Note 12)		
STOCKHOLDERS’ EQUITY		
Common stock, $0.001 par value, 200,000,000 shares authorized; 166,532,188 and 165,867,587 shares issued in 2019 and 2018, respectively	166	166
Additional paid-in capital	1,808,896	1,789,811
Retained earnings	3,414,901	3,160,132
Treasury stock, at cost — 20,985,619 shares in 2019 and 20,906,224 shares in 2018	(479,398)	(467,961)
Accumulated other comprehensive loss (“AOCI”), net of tax	(9,972)	(58,174)
Total stockholders’ equity	4,734,593	4,423,974
TOTAL	**$ 42,892,358**	**$ 41,042,356**

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
INTEREST AND DIVIDEND INCOME				
Loans receivable, including fees	$ 434,450	$ 365,555	$ 857,984	$ 703,459
Available-for-sale investment securities	15,685	15,059	31,433	30,515
Resale agreements	7,343	7,182	15,189	14,116
Restricted equity securities	505	800	1,218	1,434
Interest-bearing cash and deposits with banks	16,861	11,715	32,331	22,660
Total interest and dividend income	474,844	400,311	938,155	772,184
INTEREST EXPENSE				
Deposits	97,964	51,265	189,969	90,401
Federal funds purchased and other short-term borrowings	361	124	977	131
FHLB advances	4,011	2,552	6,990	4,812
Repurchase agreements	3,469	3,042	6,961	5,348
Long-term debt and finance lease liabilities	1,713	1,649	3,471	3,120
Total interest expense	107,518	58,632	208,368	103,812
Net interest income before provision for credit losses	367,326	341,679	729,787	668,372
Provision for credit losses	19,245	15,536	41,824	35,754
Net interest income after provision for credit losses	348,081	326,143	687,963	632,618
NONINTEREST INCOME				
Lending fees	16,242	14,692	31,038	28,705
Deposit account fees	9,788	10,140	19,429	20,570
Foreign exchange income	7,286	6,822	12,301	7,992
Wealth management fees	3,800	4,501	7,612	7,454
Interest rate contracts and other derivative income	10,398	6,570	13,614	13,260
Net gains on sales of loans	15	2,354	930	3,936
Net gains on sales of available-for-sale investment securities	1,447	210	3,008	2,339
Net gain on sale of business	—	—	—	31,470
Other income	3,783	2,979	6,958	6,986
Total noninterest income	52,759	48,268	94,890	122,712
NONINTEREST EXPENSE				
Compensation and employee benefits	100,531	93,865	202,830	189,099
Occupancy and equipment expense	17,362	16,707	34,680	33,587
Deposit insurance premiums and regulatory assessments	2,919	5,832	6,007	12,105
Legal expense	2,355	2,837	4,580	5,092
Data processing	3,460	3,327	6,617	6,728
Consulting expense	2,069	5,120	4,128	7,472
Deposit related expense	3,338	2,922	6,842	5,601
Computer software expense	6,211	5,549	12,289	10,603
Other operating expense	22,679	20,779	44,968	38,386
Amortization of tax credit and other investments	16,739	20,481	41,644	37,881
Total noninterest expense	177,663	177,419	364,585	346,554
INCOME BEFORE INCOME TAXES	223,177	196,992	418,268	408,776
INCOME TAX EXPENSE	72,797	24,643	103,864	49,395
NET INCOME	**$ 150,380**	**$ 172,349**	**$ 314,404**	**$ 359,381**
EARNINGS PER SHARE ("EPS")				
BASIC	$ 1.03	$ 1.19	$ 2.16	$ 2.48
DILUTED	$ 1.03	$ 1.18	$ 2.15	$ 2.46

WEIGHTED-AVERAGE NUMBER OF SHARES OUTSTANDING				
BASIC	145,546	144,899	145,402	144,782
DILUTED	146,052	146,091	146,016	146,046

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
Net income	$ 150,380	$ 172,349	$ 314,404	$ 359,381
Other comprehensive income (loss), net of tax:				
Net changes in unrealized gains (losses) on available-for-sale investment securities	29,027	(8,841)	51,038	(27,653)
Foreign currency translation adjustments	(6,016)	(6,822)	(2,836)	(24)
Other comprehensive income (loss)	23,011	(15,663)	48,202	(27,677)
COMPREHENSIVE INCOME	**$ 173,391**	**$ 156,686**	**$ 362,606**	**$ 331,704**

See accompanying Notes to Consolidated Financial Statements.

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

	Common Stock and Additional Paid-in Capital						
	Shares	Amount	Retained Earnings	Treasury Stock	AOCI, Net of Tax	Total Stockholders' Equity
BALANCE, APRIL 1, 2018	**144,872,525**	**$ 1,761,653**	**$ 2,740,179**	**$ (467,273)**	**$ (55,804)**	**$ 3,978,755**
Net income	—	—	172,349	—	—	172,349
Other comprehensive loss	—	—	—	—	(15,663)	(15,663)
Net activity of common stock pursuant to various stock compensation plans and agreements	32,104	8,385	—	(215)	—	8,170
Cash dividends on common stock ($0.20 per share)	—	—	(29,327)	—	—	(29,327)
BALANCE, JUNE 30, 2018	**144,904,629**	**$ 1,770,038**	**$ 2,883,201**	**$ (467,488)**	**$ (71,467)**	**$ 4,114,284**
BALANCE, APRIL 1, 2019	**145,501,301**	**$ 1,799,124**	**$ 3,305,054**	**$ (479,265)**	**$ (32,983)**	**$ 4,591,930**
Net income	—	—	150,380	—	—	150,380
Other comprehensive income	—	—	—	—	23,011	23,011
Net activity of common stock pursuant to various stock compensation plans and agreements	45,268	9,938	—	(133)	—	9,805
Cash dividends on common stock ($0.275 per share)	—	—	(40,533)	—	—	(40,533)
BALANCE, JUNE 30, 2019	**145,546,569**	**$ 1,809,062**	**$ 3,414,901**	**$ (479,398)**	**$ (9,972)**	**$ 4,734,593**

	Common Stock and Additional Paid-in Capital					
	Shares	Amount	Retained Earnings	Treasury Stock	AOCI, Net of Tax	Total Stockholders' Equity
BALANCE, JANUARY 1, 2018	**144,543,060**	**$ 1,755,495**	**$ 2,576,302**	**$ (452,327)**	**$ (37,519)**	**$ 3,841,951**
Cumulative effect of change in accounting principle related to marketable equity securities [(1)]	—	—	(545)	—	385	(160)
Reclassification of tax effects in AOCI resulting from the new federal corporate income tax rate [(2)]	—	—	6,656	—	(6,656)	—
Net income	—	—	359,381	—	—	359,381
Other comprehensive loss	—	—	—	—	(27,677)	(27,677)
Net activity of common stock pursuant to various stock compensation plans and agreements	361,569	14,543	—	(15,161)	—	(618)
Cash dividends on common stock ($0.40 per share)	—	—	(58,593)	—	—	(58,593)
BALANCE, JUNE 30, 2018	**144,904,629**	**$ 1,770,038**	**$ 2,883,201**	**$ (467,488)**	**$ (71,467)**	**$ 4,114,284**
BALANCE, JANUARY 1, 2019	**144,961,363**	**$ 1,789,977**	**$ 3,160,132**	**$ (467,961)**	**$ (58,174)**	**$ 4,423,974**
Cumulative effect of change in accounting principle related to leases [(3)]	—	—	14,668	—	—	14,668
Net income	—	—	314,404	—	—	314,404
Other comprehensive income	—	—	—	—	48,202	48,202
Warrants exercised	180,226	1,711	—	2,732	—	4,443
Net activity of common stock pursuant to various stock compensation plans and agreements	404,980	17,374	—	(14,169)	—	3,205
Cash dividends on common stock ($0.505 per share)	—	—	(74,303)	—	—	(74,303)
BALANCE, JUNE 30, 2019	**145,546,569**	**$ 1,809,062**	**$ 3,414,901**	**$ (479,398)**	**$ (9,972)**	**$ 4,734,593**

(1) Represents the impact of the adoption of Accounting Standards Update ("ASU") 2016-01, *Financial Instruments — Overall* (Subtopic 825-10): *Recognition and Measurement of Financial Assets and Financial Liabilities* in the first quarter of 2018.

(2) Represents amounts reclassified from AOCI to retained earnings due to the early adoption of ASU 2018-02, *Income Statement — Reporting Comprehensive Income* (Topic 220)*: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* in the first quarter of 2018.

(3) Represents the impact of the adoption of ASU 2016-02, *Leases* (Topic 842) and subsequent related ASUs in the first quarter of 2019. Refer to *Note 2 — Current Accounting Developments* and *Note 11 — Leases* to the Consolidated Financial Statements in this Form 10-Q for additional information.

See accompanying Notes to Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2019	**2018**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 314,404	$ 359,381
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	72,113	62,329
Accretion of discount and amortization of premiums, net	(9,817)	(9,910)
Stock compensation costs	15,525	13,215
Deferred income tax (benefit) expense	(2,110)	1,320
Provision for credit losses	41,824	35,754
Net gains on sales of loans	(930)	(3,936)
Net gains on sales of available-for-sale investment securities	(3,008)	(2,339)
Net gains on sales of fixed assets	—	(2,200)
Net gain on sale of business	—	(31,470)
Loans held-for-sale:		
Originations and purchases	(3,339)	(11,547)
Proceeds from sales and paydowns/payoffs of loans originally classified as held-for-sale	3,632	10,759
Proceeds from distributions received from equity method investees	1,538	1,814
Net change in accrued interest receivable and other assets	(150,154)	(32,226)
Net change in accrued expenses and other liabilities	10,320	44,016
Other net operating activities	3	(93)
Total adjustments	(24,403)	75,486
Net cash provided by operating activities	**290,001**	**434,867**
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (increase) decrease in:		
Investments in qualified affordable housing partnerships, tax credit and other investments	(61,555)	(41,444)
Interest-bearing deposits with banks	222,387	28,525
Resale agreements:		
Proceeds from paydowns and maturities	50,000	175,000
Purchases	(25,000)	(100,000)
Available-for-sale investment securities:		
Proceeds from sales	375,102	256,875
Proceeds from repayments, maturities and redemptions	117,325	211,303
Purchases	(316,740)	(235,360)
Loans held-for-investment:		
Proceeds from sales of loans originally classified as held-for-investment	170,174	274,785
Purchases	(326,456)	(389,912)
Other changes in loans held-for-investment, net	(1,196,094)	(1,147,156)
Premises and equipment:		
Purchases	(4,414)	(7,612)
Payment on sale of business, net of cash transferred	—	(503,687)
Proceeds from sales of other real estate owned (“OREO”)	—	3,595
Proceeds from distributions received from equity method investees	3,636	1,725
Other net investing activities	(5,516)	(2,200)
Net cash used in investing activities	**(997,151)**	**(1,475,563)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	1,035,650	1,195,796
Net (decrease) increase in short-term borrowings	(38,107)	59,895
FHLB advances:		

Proceeds	1,500,000	—
Repayment	(1,082,000)	—
Repayment of long-term debt and finance lease liabilities	(435)	(10,000)
Common stock:		
Proceeds from issuance pursuant to various stock compensation plans and agreements	1,894	1,328
Stock tendered for payment of withholding taxes	(14,169)	(15,161)
Cash dividends paid	(74,949)	(59,243)
Net cash provided by financing activities	**1,327,884**	**1,172,615**
Effect of exchange rate changes on cash and cash equivalents	(497)	(9,040)
NET INCREASE IN CASH AND CASH EQUIVALENTS	620,237	122,879
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	3,001,377	2,174,592
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ 3,621,614**	**$ 2,297,471**

See accompanying Notes to Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2019	**2018**
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	$ 203,577	$ 99,176
Income taxes, net	$ 76,153	$ 67,431
Noncash investing and financing activities:		
Loans transferred from held-for-investment to held-for-sale	$ 173,394	$ 285,631

See accompanying Notes to Consolidated Financial Statements.

Note 1 — Basis of Presentation

East West Bancorp, Inc. (referred to herein on an unconsolidated basis as “East West” and on a consolidated basis as the “Company”) is a registered bank holding company that offers a full range of banking services to individuals and businesses through its subsidiary bank, East West Bank and its subsidiaries (“East West Bank” or the “Bank”). The unaudited interim Consolidated Financial Statements in this Form 10-Q include the accounts of East West, East West Bank and East West’s subsidiaries. Intercompany transactions and accounts have been eliminated in consolidation. As of June 30, 2019, East West also has six wholly-owned subsidiaries that are statutory business trusts (the “Trusts”). In accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 810, *Consolidation*, the Trusts are not included on the Consolidated Financial Statements. East West also owns East West Insurance Services, Inc. (“EWIS”). In the third quarter of 2017, the Company sold the insurance brokerage business of EWIS, which remains a subsidiary of East West and continues to maintain its insurance broker license. In the first quarter of 2019, the Company acquired Enstream Capital Markets, LLC, a non-public broker dealer entity, as a wholly-owned subsidiary of the Company.

The unaudited interim Consolidated Financial Statements are presented in accordance with United States generally accepted accounting principles (“GAAP”), applicable guidelines prescribed by regulatory authorities, and general practices in the banking industry. They reflect all adjustments that, in the opinion of management, are necessary for fair statement of the interim period Consolidated Financial Statements. Certain items on the Consolidated Financial Statements and notes for the prior periods have been reclassified to conform to the current period presentation.

The current period’s results of operations are not necessarily indicative of results that may be expected for any other interim period or for the year as a whole. Events subsequent to the Consolidated Balance Sheet date have been evaluated through the date the Consolidated Financial Statements are issued for inclusion in the accompanying Consolidated Financial Statements. The unaudited interim Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and notes thereto, included in the Company’s annual report on Form 10-K for the year ended December 31, 2018, filed with the United States Securities and Exchange Commission on February 27, 2019 (the “Company’s 2018 Form 10-K”).

Note 2 — Current Accounting Developments

New Accounting Pronouncements Adopted

Standard	Required Date of Adoption	Description	Effect on Financial Statements
Standards Adopted in 2019			
ASU 2016-02, *Leases* (Topic 842) and subsequent related ASUs	January 1, 2019 for leases standards other than ASU 2019-01. January 1, 2020 for ASU 2019-01 Early adoption is permitted.	ASC Topic 842, *Leases*, supersedes ASC Topic 840, *Leases*. This ASU requires lessees to recognize right-of-use assets and related lease liabilities for all leases with lease terms of more than 12 months on the Consolidated Balance Sheet, and provide quantitative and qualitative disclosures regarding key information about the leasing arrangements. For short-term leases with a term of 12 months or less, lessees can make a policy election not to recognize lease assets and lease liabilities. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. Lessee accounting for finance leases, as well as lessor accounting are largely unchanged. The standard may be adopted using a modified retrospective approach through a cumulative-effect adjustment. In addition, the FASB issued ASU 2018-11, *Leases* (Topic 842) *Targeted Improvements*, which provides companies the option to continue to apply the legacy guidance in ASC 840, *Leases*, including its disclosure requirements, in the comparative periods presented in the year they adopt ASU 2016-02. Companies that elect this transition option can recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption rather than in the earliest period presented.	The Company adopted all the new lease standards on January 1, 2019 using the alternative transition method, which allows the adoption of the accounting standard prospectively without revising comparable prior periods' financial information. On January 1, 2019, the Company recognized \$109.1 million and \$117.7 million increase in right-of-use assets and associated lease liabilities, respectively, based on the present value of the expected remaining operating lease payments. In addition, the Company also recognized a cumulative-effect adjustment of \$14.7 million to increase beginning balance of retained earnings as of January 1, 2019 related to the deferred gains on our prior sale and leaseback transactions that occurred prior to the date of adoption. The adoption of the new leases standards did not have a material impact on the Company's Consolidated Statement of Income. Disclosures related to leases are included in *Note 11 — Leases* to the Consolidated Financial Statements in this Form 10-Q.
ASU 2018-16, *Derivatives and Hedging* (Topic 815): *Inclusion of the Secured Overnight Financing Rate ("SOFR") Overnight Index Swap ("OIS") Rate as a Benchmark Interest Rate for Hedge Accounting Purposes*	January 1, 2019 Early adoption (including adoption in an interim period) is permitted for entities that already adopted ASU 2017-12.	This ASU amends ASC Topic 815, *Derivatives and Hedging*, by adding the OIS rate based on SOFR to the list of United States ("U.S.") benchmark interest rates that are eligible to be hedged to facilitate the London Interbank Offered Rate to SOFR transition. The guidance should be applied prospectively for qualifying new or redesignated hedging relationships entered into on or after the date of adoption.	The Company adopted ASU 2018-16 prospectively on January 1, 2019. The adoption of this guidance did not impact existing hedges but may impact new hedge relationships that are benchmarked against the SOFR OIS rate.

Recent Accounting Pronouncements

Standard	Required Date of Adoption	Description	Effect on Financial Statements
Standards Not Yet Adopted			
ASU 2016-13, *Financial Instruments — Credit Losses* (Topic 326): *Measurement of Credit Losses on Financial Instruments* and subsequent related ASUs	January 1, 2020 Early adoption is permitted on January 1, 2019.	The ASU introduces a new current expected credit loss ("CECL") impairment model that applies to most financial assets measured at amortized cost and certain other instruments, including trade and other receivables, loan receivables, available-for-sale and held-to-maturity debt securities, net investments in leases and off-balance sheet credit exposures. The CECL model utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses at the time the financial asset is originated or acquired. The expected credit losses are adjusted in each period for changes in expected lifetime credit losses. This ASU also expands the disclosure requirements regarding an entity's assumptions, models and methods for estimating the allowance for loan and lease losses, and requires disclosure of the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination (i.e., by vintage year). The guidance should be applied using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. In April 2019, the FASB issued ASU 2019-04, *Codification Improvements to* Topic 326, *Financial Instruments-Credit Losses,* Topic 815, *Derivatives and Hedging,* and Topic 825, *Financial Instruments*, which clarifies certain aspects of accounting for credit losses, hedging activities, and financial instruments. The amendments related to credit losses (addressed by ASU 2016-13) clarify the scope of the credit losses standard and address issues related to accrued interest receivable balances, recoveries, variable interest rates, prepayments and contractual extensions and renewals, among other things. In May 2019, the FASB issued ASU 2019-05, *Financial Instruments-Credit Losses* (Topic 326), which amends ASU 2016-13 to allow companies to irrevocably elect, upon adoption of ASU 2016-13, the fair value option on financial instruments that were previously recorded at amortized cost and are within the scope of ASC 326-20 if the instruments are eligible for the fair value option under ASC 825-10.	The Company's implementation efforts include, but are not limited to, identifying and evaluating key interpretive issues, assessing, and modifying system and process requirements against the new guidance. The Company has completed model development and is undergoing validation and implementation. Additionally, the Company has started to analyze model results, review qualitative factors and update the allowance documentation. The Company will continue to address any gaps from recently issued interpretations and in data and operational processes arising from internal reviews, model validation and parallel runs during the second half of 2019. The Company expects to adopt this ASU on January 1, 2020 without electing the fair value option on eligible financial instruments. While the Company is still evaluating the impact on its Consolidated Financial Statements, the Company expects that this ASU may result in an increase in the allowance for credit losses due to the following factors: 1) the allowance for credit losses provides for expected credit losses over the remaining expected life of the loan portfolio and 2) the nonaccretable difference on the purchased credit-impaired ("PCI") loans will be recognized as an allowance, offset by an increase in the carrying value of the PCI loans. The ultimate effect of this ASU will also depend on the composition and credit quality of the portfolio and economic conditions at the time of adoption.
ASU 2017-04, *Intangibles — Goodwill and Other* (Topic 350)*: Simplifying the Test for Goodwill Impairment*	January 1, 2020 Early adoption is permitted for interim or annual goodwill impairment tests with measurement dates after January 1, 2017.	The ASU simplifies the accounting for goodwill impairment. Under this guidance, an entity will no longer perform a hypothetical purchase price allocation to measure goodwill impairment. Instead, an impairment loss will be recognized when the carrying amount of a reporting unit exceeds its fair value. The guidance also eliminates the requirement to perform a qualitative assessment for any reporting units with a zero or negative carrying amount. This guidance should be applied prospectively.	The Company does not expect the adoption of this guidance to have a material impact on the Company's Consolidated Financial Statements. The Company expects to adopt this ASU on January 1, 2020.
ASU 2018-15, *Intangibles — Goodwill and Other — Internal-Use Software* (Subtopic 350-40) *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*	January 1, 2020 Early adoption is permitted.	The ASU amends ASC Topic 350-40 to align the accounting for costs incurred in a cloud computing arrangement with the guidance on developing internal use software. Specifically, if a cloud computing arrangement is deemed to be a service contract, certain implementation costs are eligible for capitalization. The new guidance prescribes the balance sheet and income statement presentation and cash flow classification for the capitalized costs and related amortization expense. The amendments in this ASU should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption.	The Company does not expect the adoption of this guidance to have a material impact on the Company's Consolidated Financial Statements. The Company expects to adopt this ASU on January 1, 2020.

Note 3 — Dispositions

On March 17, 2018, the Bank completed the sale of its eight Desert Community Bank ("DCB") branches located in the High Desert area of Southern California to Flagstar Bank, a wholly-owned subsidiary of Flagstar Bancorp, Inc. The assets and liabilities of the DCB branches that were sold in this transaction primarily consisted of $613.7 million of deposits, $59.1 million of loans, $9.0 million of cash and cash equivalents and $7.9 million of premises and equipment. The transaction resulted in a net cash payment of $499.9 million by the Company to Flagstar Bank. After transaction costs, the sale resulted in a pre-tax gain of $31.5 million for the six months ended June 30, 2018, which was reported as *Net gain on sale of business* on the Consolidated Statement of Income.

Note 4 — Fair Value Measurement and Fair Value of Financial Instruments

Fair Value Determination

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

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

The classification of assets and liabilities within the hierarchy is based on whether inputs to the valuation methodology used are observable or unobservable, and the significance of those inputs in the fair value measurement. The Company's assets and liabilities are classified in their entirety based on the lowest level of input that is significant to their fair value measurements.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following section describes the valuation methodologies used by the Company to measure financial assets and liabilities on a recurring basis, as well as the general classification of these instruments pursuant to the fair value hierarchy.

Available-for-Sale Investment Securities — When available, the Company uses quoted market prices to determine the fair value of available-for-sale investment securities, which are classified as Level 1. Level 1 available-for-sale investment securities are primarily comprised of U.S. Treasury securities. The fair value of other available-for-sale investment securities is generally determined by independent external pricing service providers who have experience in valuing these securities or by the average quoted market prices obtained from independent external brokers. The valuations provided by the third-party pricing service providers are based on observable market inputs, which include benchmark yields, reported trades, issuer spreads, benchmark securities, bids, offers, prepayment expectation and reference data obtained from market research publications. Inputs used by the third-party pricing service in valuing collateralized mortgage obligations and other securitization structures also include new issue data, monthly payment information, whole loan collateral performance, tranche evaluation and "To Be Announced" prices. In valuations of securities issued by state and political subdivisions, inputs used by the third-party pricing service providers also include material event notices.

On a monthly basis, the Company validates the pricing provided by the third-party pricing service to ensure that the fair value determination is consistent with the applicable accounting guidance and the assets are properly classified in the fair value hierarchy. To perform this validation, the Company evaluates the fair values of securities by comparing the fair values provided by the third-party pricing service to prices from other available independent sources for the same securities. When variances in prices are identified, the Company further compares inputs used by different sources to ascertain the reliability of these sources. On a quarterly basis, the Company reviews documentation received from the third-party pricing service regarding the valuation inputs and methodology used for each category of securities.

The third-party pricing service providers may not provide pricing for all securities. Under such circumstances, the Company requests market quotes from various independent external brokers and utilizes the average market quotes. These are viewed as observable inputs in the current marketplace and are classified as Level 2. The Company periodically communicates with the independent external brokers to validate their pricing methodology. Information such as pricing sources, pricing assumptions, data inputs and valuation technique are reviewed.

Equity Securities — Equity securities were comprised of mutual funds as of both June 30, 2019 and December 31, 2018. The Company uses net asset value ("NAV") information to determine the fair value of these equity securities. When NAV is available periodically and the equity securities can be put back to the transfer agents at the publicly available NAV, the fair value of the equity securities is classified as Level 1. When NAV is available periodically but the equity securities may not be readily marketable at its periodic NAV in the secondary market, the fair value of these equity securities is classified as Level 2.

Interest Rate Contracts — The Company enters into interest rate swap and option contracts with its borrowers to lock in attractive intermediate and long-term interest rates, resulting in the customer obtaining a synthetic fixed rate loan. To economically hedge against the interest rate risks in the products offered to its customers, the Company enters into mirrored offsetting interest rate contracts with third-party financial institutions. The Company also enters into interest rate swap contracts with institutional counterparties to hedge against certificates of deposit issued. The fair value of the interest rate swaps is determined using the market standard methodology of netting the discounted future fixed cash payments (or receipts) and the discounted expected variable cash receipts (or payments). The fair value of the interest rate options, which consist of floors and caps, is determined using the market standard methodology of discounting the future expected cash receipts that would occur if variable interest rates fall below (rise above) the strike rate of the floors (caps). In addition, to comply with the provisions of ASC 820, *Fair Value Measurement*, the Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements of its derivatives. The credit valuation adjustments associated with the Company's derivatives utilize model-derived credit spreads, which are Level 3 inputs. As of June 30, 2019 and December 31, 2018, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of these interest rate contracts and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivative portfolios. As a result, the Company classifies these derivative instruments as Level 2 due to the observable nature of the significant inputs utilized.

Foreign Exchange Contracts — The Company enters into foreign exchange contracts to accommodate the business needs of its customers. For a majority of the foreign exchange contracts entered into with its customers, the Company entered into offsetting foreign exchange contracts with third-party financial institutions to manage its exposure. The Company also utilizes foreign exchange contracts that are not designated as hedging instruments to mitigate the economic effect of fluctuations in certain foreign currency on-balance sheet assets and liabilities, primarily foreign currency denominated deposits that it offers to its customers. The fair value is determined at each reporting period based on changes in the foreign exchange rates. These are over-the-counter contracts where quoted market prices are not readily available. Valuation is measured using conventional valuation methodologies with observable market data. Due to the short-term nature of the majority of these contracts, the counterparties' credit risks are considered nominal and result in no adjustments to the valuation of the foreign exchange contracts. Due to the observable nature of the inputs used in deriving the fair value of these contracts, the valuation of foreign exchange contracts are classified as Level 2. The Company held foreign currency non-deliverable forward contracts as of June 30, 2019 and held foreign swap contracts as of December 31, 2018 to hedge its net investment in its China subsidiary, East West Bank (China) Limited, a non-U.S. dollar ("USD") functional currency subsidiary in China. These foreign currency non-deliverable forward and swap contracts were designated as net investment hedges. The fair value of foreign currency contracts is valued by comparing the contracted foreign exchange rate to the current market foreign exchange rate. Key inputs of the current market exchange rate include spot rates and forward rates of the contractual currencies. Foreign exchange forward curves are used to determine which forward rate pertains to a specific maturity. Due to the observable nature of the inputs used in deriving the estimated fair value, these instruments are classified as Level 2.

***Credit Contracts* —** The Company may periodically enter into credit risk participation agreements ("RPAs") to manage the credit exposure on interest rate contracts associated with syndicated loans. The Company may enter into protection sold or protection purchased RPAs with institutional counterparties. The fair value of RPAs is calculated by determining the total expected asset or liability exposure of the derivatives to the borrowers and applying the borrowers' credit spread to that exposure. Total expected exposure incorporates both the current and potential future exposure of the derivatives, derived from using observable inputs, such as yield curves and volatilities. The majority of the inputs used to value the RPAs are observable. Accordingly, RPAs fall within Level 2.

Equity Contracts — The Company obtains equity warrants to purchase preferred and common stock of technology and life sciences companies, as part of the loan origination process. As of June 30, 2019 and December 31, 2018, the warrants included on the Consolidated Financial Statements were from both public and private companies. The Company values these warrants based on the Black-Scholes option pricing model. For equity warrants from public companies, the model uses the underlying stock price, stated strike price, warrant expiration date, risk-free interest rate based on a duration-matched U.S. Treasury rate and market-observable company-specific option volatility as inputs to value the warrants. Due to the observable nature of the inputs used in deriving the estimated fair value, warrants from public companies are classified as Level 2. For warrants from private companies, the model uses inputs such as the offering price observed in the most recent round of funding, stated strike price, warrant expiration date, risk-free interest rate based on duration-matched U.S. Treasury rate and option volatility. The Company applies proxy volatilities based on the industry sectors of the private companies. The model values are then adjusted for a general lack of liquidity due to the private nature of the underlying companies. Due to the unobservable nature of the option volatility and liquidity discount assumptions used in deriving the estimated fair value, warrants from private companies are classified as Level 3. Since both option volatility and liquidity discount assumptions are subject to management judgment, measurement uncertainty is inherent in the valuation of private companies' equity warrants. Given that the Company holds long positions in all equity warrants, an increase in volatility assumption would generally result in an increase in fair value measurement. A higher liquidity discount would result in a decrease in fair value measurement. On a quarterly basis, the changes in the fair value of warrants from private companies are reviewed for reasonableness, and a measurement uncertainty analysis on the option volatility and liquidity discount assumptions is performed.

***Commodity Contracts* —** The Company enters into energy commodity contracts in the form of swaps and options with its commercial loan customers to allow them to hedge against the risk of fluctuation in energy commodity prices. The fair value of the commodity option contracts is determined using the Black's model and assumptions that include expectations of future commodity price and volatility. The future commodity contract price is derived from observable inputs such as the market price of the commodity. Commodity swaps are structured as an exchange of fixed cash flows for floating cash flows. The fixed cash flows are predetermined based on the known volumes and fixed price as specified in the swap agreement. The floating cash flows are correlated with the change of forward commodity prices, which is derived from market corroborated futures settlement prices. The fair value of the commodity swaps is determined using the market standard methodology of netting the discounted future fixed cash payments (or receipts) and the discounted expected variable cash receipts (or payments) based on the market prices of the commodity. As a result, the Company classifies these derivative instruments as Level 2 due to the observable nature of the significant inputs utilized.

The following tables present financial assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2019 and December 31, 2018:

	Assets and Liabilities Measured at Fair Value on a Recurring Basis as of June 30, 2019			
($ in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Available-for-sale investment securities:				
U.S. Treasury securities	$ 326,535	$ —	$ —	$ 326,535
U.S. government agency and U.S. government sponsored enterprise debt securities	—	241,967	—	241,967
U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	—	474,832	—	474,832
Residential mortgage-backed securities	—	843,574	—	843,574
Municipal securities	—	87,529	—	87,529
Non-agency mortgage-backed securities:				
Commercial mortgage-backed securities	—	70,549	—	70,549
Residential mortgage-backed securities	—	24,539	—	24,539
Corporate debt securities	—	11,156	—	11,156
Foreign bonds	—	484,416	—	484,416
Asset-backed securities	—	27,816	—	27,816
Total available-for-sale investment securities	**$ 326,535**	**$ 2,266,378**	**$ —**	**$ 2,592,913**
Investments in tax credit and other investments:				
Equity securities [1]	$ 21,466	$ 9,957	$ —	$ 31,423
Total investments in tax credit and other investments	**$ 21,466**	**$ 9,957**	**$ —**	**$ 31,423**
Derivative assets:				
Interest rate contracts	$ —	$ 190,388	$ —	$ 190,388
Foreign exchange contracts	—	27,849	—	27,849
Credit contracts	—	3	—	3
Equity contracts	—	1,593	392	1,985
Commodity contracts	—	22,651	—	22,651
Gross derivative assets	**$ —**	**$ 242,484**	**$ 392**	**$ 242,876**
Netting adjustments [2]	$ —	$ (44,203)	$ —	$ (44,203)
Net derivative assets	**$ —**	**$ 198,281**	**$ 392**	**$ 198,673**
Derivative liabilities:				
Interest rate contracts	$ —	$ 124,371	$ —	$ 124,371
Foreign exchange contracts	—	22,528	—	22,528
Credit contracts	—	118	—	118
Commodity contracts	—	25,906	—	25,906
Gross derivative liabilities	**$ —**	**$ 172,923**	**$ —**	**$ 172,923**
Netting adjustments [2]	$ —	$ (74,494)	$ —	$ (74,494)
Net derivative liabilities	**$ —**	**$ 98,429**	**$ —**	**$ 98,429**

(1) Equity securities were comprised of mutual funds with readily determinable fair values.

(2) Represents balance sheet netting of derivative assets and liabilities and related cash collateral under master netting agreements or similar agreements. See *Note 7 — Derivatives* to the Consolidated Financial Statements in this Form 10-Q for additional information.

($ in thousands)	Assets and Liabilities Measured at Fair Value on a Recurring Basis as of December 31, 2018			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Available-for-sale investment securities:				
U.S. Treasury securities	$ 564,815	$ —	$ —	$ 564,815
U.S. government agency and U.S. government sponsored enterprise debt securities	—	217,173	—	217,173
U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	—	408,603	—	408,603
Residential mortgage-backed securities	—	946,693	—	946,693
Municipal securities	—	82,020	—	82,020
Non-agency mortgage-backed securities:				
Commercial mortgage-backed securities	—	26,052	—	26,052
Residential mortgage-backed securities	—	9,931	—	9,931
Corporate debt securities	—	10,869	—	10,869
Foreign bonds	—	463,048	—	463,048
Asset-backed securities	—	12,643	—	12,643
Total available-for-sale investment securities	**$ 564,815**	**$ 2,177,032**	**$ —**	**$ 2,741,847**
Investment in tax credit and other investments:				
Equity securities (1)	$ 20,678	$ 10,531	$ —	$ 31,209
Total investments in tax credit and other investments	**$ 20,678**	**$ 10,531**	**$ —**	**$ 31,209**
Derivative assets:				
Interest rate contracts	$ —	$ 69,818	$ —	$ 69,818
Foreign exchange contracts	—	21,624	—	21,624
Credit contracts	—	1	—	1
Equity contracts	—	1,278	673	1,951
Commodity contracts	—	14,422	—	14,422
Gross derivative assets	**$ —**	**$ 107,143**	**$ 673**	**$ 107,816**
Netting adjustments (2)	$ —	$ (45,146)	$ —	$ (45,146)
Net derivative assets	**$ —**	**$ 61,997**	**$ 673**	**$ 62,670**
Derivative liabilities:				
Interest rate contracts	$ —	$ 75,133	$ —	$ 75,133
Foreign exchange contracts	—	19,940	—	19,940
Credit contracts	—	164	—	164
Commodity contracts	—	23,068	—	23,068
Gross derivative liabilities	**$ —**	**$ 118,305**	**$ —**	**$ 118,305**
Netting adjustments (2)	$ —	$ (38,402)	$ —	$ (38,402)
Net derivative liabilities	**$ —**	**$ 79,903**	**$ —**	**$ 79,903**

(1) Equity securities were comprised of mutual funds with readily determinable fair values.

(2) Represents balance sheet netting of derivative assets and liabilities and related cash collateral under master netting agreements or similar agreements. See *Note 7 — Derivatives* to the Consolidated Financial Statements in this Form 10-Q for additional information.

At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. As of June 30, 2019 and December 31, 2018, the only assets measured on a recurring basis that were classified as Level 3 were equity warrants issued by private companies. The following table presents a reconciliation of the beginning and ending balances of these warrants for the three and six months ended June 30, 2019 and 2018:

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in thousands)	2019	2018	2019	2018
Equity warrants				
Beginning balance	$ 442	$ 931	$ 673	$ 679
Total gains (losses) included in earnings [(1)]	769	(76)	538	168
Issuances	28	26	28	34
Settlements	(847)	(233)	(847)	(233)
Ending balance	**$ 392**	**$ 648**	**$ 392**	**$ 648**

(1) Includes unrealized (losses) gains of $(4) thousand and $(13) thousand for the three months ended June 30, 2019 and 2018, respectively, and $(235) thousand and $231 thousand for the six months ended June 30, 2019 and 2018, respectively. The realized/unrealized gains (losses) of equity warrants are included in *Lending fees* on the Consolidated Statement of Income.

The following table presents quantitative information about the significant unobservable inputs used in the valuation of assets measured on a recurring basis classified as Level 3 as of June 30, 2019. The significant unobservable inputs presented in the table below are those that the Company considers significant to the fair value of the Level 3 assets. The Company considers unobservable inputs to be significant if, by their exclusion, the fair value of the Level 3 assets would be impacted by a predetermined percentage change.

($ in thousands)	Fair Value Measurements (Level 3)	Valuation Technique	Unobservable Inputs	Range of Inputs	Weighted-Average [(1)]
Derivative assets:					
Equity warrants	$ 392	Black-Scholes option pricing model	Equity volatility	43% — 51%	49%
			Liquidity discount	47%	47%

(1) Weighted-average is calculated based on fair value of equity warrants as of June 30, 2019.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

From time to time, the Company may be required to measure certain assets at fair value on a nonrecurring basis in accordance with GAAP. The adjustments to fair value generally require the assets to be recorded at the lower of cost or fair value, or assessed for impairment.

Assets measured at fair value on a nonrecurring basis include certain non-PCI loans, investments in qualified affordable housing partnerships, tax credit and other investments, OREO, and loans held-for-sale. Nonrecurring fair value adjustments result from impairment on certain non-PCI loans and investments in qualified affordable housing partnerships, tax credit and other investments, write-downs of OREO, or application of lower of cost or fair value on loans held-for-sale.

Non-PCI Impaired Loans — The Company typically adjusts the carrying amount of impaired loans when there is evidence of probable loss and when the expected fair value of the loan is less than its carrying amount. Impaired loans with specific reserves are classified as Level 3 assets. The following two methods are used to derive the fair value of impaired loans:

- Discounted cash flows valuation techniques that consist of developing an expected stream of cash flows over the life of the loans and then valuing the loans at the present value by discounting the expected cash flows at a designated discount rate.
- A specific reserve is established for an impaired loan based on the fair value of the underlying collateral, which may take the form of real estate, inventory, equipment, contracts or guarantees. The fair value of the underlying collateral is generally based on third-party appraisals, or an internal evaluation if a third-party appraisal is not required by regulations, which utilize one or more valuation techniques such as income, market and/or cost approaches.

Investments in Qualified Affordable Housing Partnerships, Tax Credit and Other Investments, Net — As part of the Company's monitoring process, the Company conducts ongoing due diligence on the Company's investments in its qualified affordable housing partnerships, tax credit and other investments after the initial investment date and prior to the being placed in service date. After these investments are either acquired or placed into service, periodic monitoring is performed, which includes the quarterly review of the financial statements of the tax credit investment entity and the annual review of the financial statements of the guarantor (if any), as well as the review of the annual tax returns of the tax credit investment entity; and comparison of the actual cash distributions received against the financial projections prepared at the time when the investment was made. The Company assesses its tax credit investments for possible other-than-temporary impairment ("OTTI") on an annual basis or when events or circumstances suggest that the carrying amount of the tax credit investments may not be realizable. These circumstances can include, but are not limited to the following factors:

- The current fair value of the tax credit investment based upon the expected future cash flows is less than the carrying amount;
- Change in the economic, market or technological environment that could adversely affect the investee's operations; and
- Other factors that raise doubt about the investee's ability to continue as a going concern, such as negative cash flows from operations and the continuing prospects of the underlying operations of the investment.

All available evidence is considered in assessing whether a decline in value is other-than-temporary. Generally, none of the aforementioned factors are individually conclusive and the relative importance placed on individual facts may vary depending on the situation. In accordance with ASC 323-10-35-32, an impairment charge would only be recognized in earnings for a decline in value that is determined to be other-than-temporary.

Other Real Estate Owned — The Company's OREO represents properties acquired through foreclosure, or through full or partial satisfaction of loans held-for-investment. These OREO properties are recorded at estimated fair value less the costs to sell at the time of foreclosure or at the lower of cost or estimated fair value less the costs to sell subsequent to acquisition. On a monthly basis, the current fair market value of each OREO property is reviewed to ensure that the current carrying value is appropriate. OREO properties are classified as Level 3.

The following tables present the carrying amounts of assets included on the Consolidated Balance Sheet that had fair value changes measured on a nonrecurring basis as of June 30, 2019 and December 31, 2018:

($ in thousands)	Assets Measured at Fair Value on a Nonrecurring Basis as of June 30, 2019			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Fair Value Measurements**
Non-PCI impaired loans:				
Commercial:				
Commercial and industrial ("C&I")	$ —	$ —	$ 38,412	$ 38,412
Commercial real estate ("CRE")	—	—	774	774
Total non-PCI impaired loans	**$ —**	**$ —**	**$ 39,186**	**$ 39,186**
OREO	**$ —**	**$ —**	**$ 130**	**$ 130**

($ in thousands)	Assets Measured at Fair Value on a Nonrecurring Basis as of December 31, 2018 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Measurements
Non-PCI impaired loans:				
Commercial:				
C&I	$ —	$ —	$ 26,873	$ 26,873
CRE	—	—	3,434	3,434
Consumer:				
Single-family residential	—	—	2,551	2,551
Total non-PCI impaired loans	**$ —**	**$ —**	**$ 32,858**	**$ 32,858**

The following table presents the increase (decrease) in value of assets for which a fair value adjustment has been included on the Consolidated Statement of Income for the three and six months ended June 30, 2019 and 2018:

($ in thousands)	Three Months Ended June 30, 2019	2018	Six Months Ended June 30, 2019	2018
Non-PCI impaired loans:				
Commercial:				
C&I	$ (24,001)	$ 4,544	$ (25,823)	$ 595
CRE	2	66	4	(23)
Consumer:				
Single-family residential	—	—	—	15
Home equity lines of credit (“HELOCs”)	—	(73)	—	(73)
Total non-PCI impaired loans	**$ (23,999)**	**$ 4,537**	**$ (25,819)**	**$ 514**
OREO	**$ (3)**	**$ —**	**$ (3)**	**$ —**
Investments in tax credit and other investments, net	**$ (2,892)**	**$ —**	**$ (9,870)**	**$ —**

The following table presents the quantitative information about the significant unobservable inputs used in the valuation of assets measured on a nonrecurring basis classified as Level 3 as of June 30, 2019 and December 31, 2018:

($ in thousands)	Fair Value Measurements (Level 3)	Valuation Technique(s)	Unobservable Input(s)	Range of Input(s)	Weighted-Average [(1)]
June 30, 2019					
Non-PCI impaired loans	$ 9,595	Discounted cash flows	Discount	4% — 14%	9%
	$ 26,798	Fair value of collateral	Discount	20% — 55%	37%
	$ 2,793	Fair value of collateral	Contract value	NM	NM
OREO	$ 130	Fair value of property	Selling cost	8%	8%
Investments in tax credit and other investments, net	$ —	Individual analysis of each investment	Expected future tax benefits and distributions	NM	NM
December 31, 2018					
Non-PCI impaired loans	$ 16,921	Discounted cash flows	Discount	4% — 7%	6%
	$ 1,687	Fair value of property	Selling cost	8%	8%
	$ 2,751	Fair value of collateral	Discount	15% — 50%	21%
	$ 11,499	Fair value of collateral	Contract value	NM	NM

NM — Not meaningful.

(1) Weighted-average is based on the relative fair value of the respective assets as of June 30, 2019 and December 31, 2018.

Disclosures about Fair Value of Financial Instruments

The following tables present the fair value estimates for financial instruments as of June 30, 2019 and December 31, 2018, excluding financial instruments recorded at fair value on a recurring basis as they are included in the tables presented elsewhere in this Note. The carrying amounts in the following tables are recorded on the Consolidated Balance Sheet under the indicated captions, except for accrued interest receivable and mortgage servicing rights that are included in *Other assets*, and accrued interest payable that is included in *Accrued expenses and other liabilities*. These financial assets and liabilities are measured at amortized cost basis on the Company's Consolidated Balance Sheet.

	June 30, 2019				
($ in thousands)	**Carrying Amount**	**Level 1**	**Level 2**	**Level 3**	**Estimated Fair Value**
Financial assets:					
Cash and cash equivalents	$ 3,621,614	$ 3,621,614	$ —	$ —	$ 3,621,614
Interest-bearing deposits with banks	$ 150,273	$ —	$ 150,273	$ —	$ 150,273
Resale agreements (1)	$ 1,010,000	$ —	$ 1,009,457	$ —	$ 1,009,457
Restricted equity securities, at cost	$ 78,093	$ —	$ 78,093	$ —	$ 78,093
Loans held-for-sale	$ 3,879	$ —	$ 3,879	$ —	$ 3,879
Loans held-for-investment, net	$ 33,399,752	$ —	$ —	$ 33,605,951	$ 33,605,951
Mortgage servicing rights	$ 6,749	$ —	$ —	$ 9,379	$ 9,379
Accrued interest receivable	$ 151,700	$ —	$ 151,700	$ —	$ 151,700
Financial liabilities:					
Demand, checking, savings and money market deposits	$ 25,880,826	$ —	$ 25,880,826	$ —	$ 25,880,826
Time deposits	$ 10,596,716	$ —	$ 10,626,897	$ —	$ 10,626,897
Short-term borrowings	$ 19,972	$ —	$ 19,972	$ —	$ 19,972
FHLB advances	$ 745,074	$ —	$ 754,240	$ —	$ 754,240
Repurchase agreements (1)	$ 50,000	$ —	$ 109,525	$ —	$ 109,525
Long-term debt	$ 146,966	$ —	$ 152,478	$ —	$ 152,478
Accrued interest payable	$ 27,684	$ —	$ 27,684	$ —	$ 27,684

	December 31, 2018				
($ in thousands)	**Carrying Amount**	**Level 1**	**Level 2**	**Level 3**	**Estimated Fair Value**
Financial assets:					
Cash and cash equivalents	$ 3,001,377	$ 3,001,377	$ —	$ —	$ 3,001,377
Interest-bearing deposits with banks	$ 371,000	$ —	$ 371,000	$ —	$ 371,000
Resale agreements (1)	$ 1,035,000	$ —	$ 1,016,724	$ —	$ 1,016,724
Restricted equity securities, at cost	$ 74,069	$ —	$ 74,069	$ —	$ 74,069
Loans held-for-sale	$ 275	$ —	$ 275	$ —	$ 275
Loans held-for-investment, net	$ 32,073,867	$ —	$ —	$ 32,273,157	$ 32,273,157
Mortgage servicing rights	$ 7,836	$ —	$ —	$ 11,427	$ 11,427
Accrued interest receivable	$ 146,262	$ —	$ 146,262	$ —	$ 146,262
Financial liabilities:					
Demand, checking, savings and money market deposits	$ 26,370,562	$ —	$ 26,370,562	$ —	$ 26,370,562
Time deposits	$ 9,069,066	$ —	$ 9,084,597	$ —	$ 9,084,597
Short-term borrowings	$ 57,638	$ —	$ 57,638	$ —	$ 57,638
FHLB advances	$ 326,172	$ —	$ 334,793	$ —	$ 334,793
Repurchase agreements (1)	$ 50,000	$ —	$ 87,668	$ —	$ 87,668
Long-term debt	$ 146,835	$ —	$ 152,556	$ —	$ 152,556
Accrued interest payable	$ 22,893	$ —	$ 22,893	$ —	$ 22,893

(1) Resale and repurchase agreements are reported net pursuant to ASC 210-20-45-11, *Balance Sheet Offsetting: Repurchase and Reverse Repurchase Agreements*. As of both June 30, 2019 and December 31, 2018, $400.0 million out of $450.0 million of gross repurchase agreements were eligible for netting against gross resale agreements.

Note 5 — Securities Purchased under Resale Agreements and Sold under Repurchase Agreements

Resale Agreements

Resale agreements are recorded as receivables for the cash paid based on the values at which the securities are acquired. The market values of the underlying securities collateralizing the related receivables of the resale agreements, including accrued interest, are monitored. Additional collateral may be requested by the Company from the counterparties or excess collateral may be returned by the Company to the counterparties when deemed appropriate. Gross resale agreements were $1.41 billion and $1.44 billion as of June 30, 2019 and December 31, 2018, respectively. The weighted-average yields were 2.70% and 2.63% for the three months ended June 30, 2019 and 2018, respectively, and 2.75% and 2.57% for the six months ended June 30, 2019 and 2018, respectively.

Repurchase Agreements

Long-term repurchase agreements are accounted for as collateralized financing transactions and recorded as liabilities based on the values at which the securities are sold. As of June 30, 2019, the collateral for the repurchase agreements was comprised of U.S. Treasury securities and U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities. The Company may have to provide additional collateral to the counterparties, or the counterparties may return excess collateral to the Company, for the repurchase agreements when deemed appropriate. Gross repurchase agreements were $450.0 million as of both June 30, 2019 and December 31, 2018. The weighted-average interest rates were 4.93% and 4.48% for the three months ended June 30, 2019 and 2018, respectively, and 4.97% and 4.21% for the six months ended June 30, 2019 and 2018, respectively.

The following table presents the gross repurchase agreements as of June 30, 2019 that will mature in the next five years and thereafter:

($ in thousands)	Repurchase Agreements
Remainder of 2019	$ —
2020	—
2021	—
2022	150,000
2023	300,000
Thereafter	—
Total	**$ 450,000**

Balance Sheet Offsetting

The Company's resale and repurchase agreements are transacted under legally enforceable master repurchase agreements that provide the Company, in the event of default by the counterparty, the right to liquidate securities held and to offset receivables and payables with the same counterparty. The Company nets resale and repurchase transactions with the same counterparty on the Consolidated Balance Sheet when it has a legally enforceable master netting agreement and the transactions are eligible for netting under ASC 210-20-45-11, *Balance Sheet Offsetting: Repurchase and Reverse Repurchase Agreements*. Collateral received includes securities that are not recognized on the Consolidated Balance Sheet. Collateral pledged consists of securities that are not netted on the Consolidated Balance Sheet against the related collateralized liability. Collateral received or pledged in resale and repurchase agreements with other financial institutions may also be sold or re-pledged by the secured party, but is usually delivered to and held by the third-party trustees. The collateral amounts received/pledged are limited for presentation purposes to the related recognized asset/liability balance for each counterparty, and accordingly, do not include excess collateral received/pledged.

The following tables present the resale and repurchase agreements included on the Consolidated Balance Sheet as of June 30, 2019 and December 31, 2018:

($ in thousands)	June 30, 2019				
	Gross Amounts of Recognized Assets	Gross Amounts Offset on the Consolidated Balance Sheet	Net Amounts of Assets Presented on the Consolidated Balance Sheet	Gross Amounts Not Offset on the Consolidated Balance Sheet	Net Amount
Assets				Collateral Received	
Resale agreements	$ 1,410,000	$ (400,000)	$ 1,010,000	$ (1,010,000) (1)	$ —
	Gross Amounts of Recognized Liabilities	Gross Amounts Offset on the Consolidated Balance Sheet	Net Amounts of Liabilities Presented on the Consolidated Balance Sheet	Gross Amounts Not Offset on the Consolidated Balance Sheet	Net Amount
Liabilities				Collateral Pledged	
Repurchase agreements	$ 450,000	$ (400,000)	$ 50,000	$ (50,000) (2)	$ —

($ in thousands)	December 31, 2018				
	Gross Amounts of Recognized Assets	Gross Amounts Offset on the Consolidated Balance Sheet	Net Amounts of Assets Presented on the Consolidated Balance Sheet	Gross Amounts Not Offset on the Consolidated Balance Sheet	Net Amount
Assets				Collateral Received	
Resale agreements	$ 1,435,000	$ (400,000)	$ 1,035,000	$ (1,025,066) (1)	$ 9,934
	Gross Amounts of Recognized Liabilities	Gross Amounts Offset on the Consolidated Balance Sheet	Net Amounts of Liabilities Presented on the Consolidated Balance Sheet	Gross Amounts Not Offset on the Consolidated Balance Sheet	Net Amount
Liabilities				Collateral Pledged	
Repurchase agreements	$ 450,000	$ (400,000)	$ 50,000	$ (50,000) (2)	$ —

(1) Represents the fair value of securities the Company has received under resale agreements, limited for table presentation purposes to the amount of the recognized asset due from each counterparty. The application of collateral cannot reduce the net position below zero. Therefore, excess collateral, if any, is not reflected above.

(2) Represents the fair value of securities the Company has pledged under repurchase agreements, limited for table presentation purposes to the amount of the recognized liability due to each counterparty. The application of collateral cannot reduce the net position below zero. Therefore, excess collateral, if any, is not reflected above.

In addition to the amounts included in the tables above, the Company also has balance sheet netting related to derivatives. Refer to *Note 7 — Derivatives* to the Consolidated Financial Statements in this Form 10-Q for additional information.

Note 6 — Securities

The following tables present the amortized cost, gross unrealized gains and losses, and fair value by major categories of available-for-sale investment securities as of June 30, 2019 and December 31, 2018:

	June 30, 2019			
($ in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale investment securities:				
U.S. Treasury securities	$ 329,209	$ —	$ (2,674)	$ 326,535
U.S. government agency and U.S. government sponsored enterprise debt securities	239,732	2,252	(17)	241,967
U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	471,189	7,956	(4,313)	474,832
Residential mortgage-backed securities	836,757	8,222	(1,405)	843,574
Municipal securities	86,776	791	(38)	87,529
Non-agency mortgage-backed securities:				
Commercial mortgage-backed securities	68,675	1,878	(4)	70,549
Residential mortgage-backed securities	24,534	19	(14)	24,539
Corporate debt securities	11,250	—	(94)	11,156
Foreign bonds	489,392	111	(5,087)	484,416
Asset-backed securities	27,991	—	(175)	27,816
Total available-for-sale investment securities	**$ 2,585,505**	**$ 21,229**	**$ (13,821)**	**$ 2,592,913**

	December 31, 2018			
($ in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale investment securities:				
U.S. Treasury securities	$ 577,561	$ 153	$ (12,899)	$ 564,815
U.S. government agency and U.S. government sponsored enterprise debt securities	219,485	382	(2,694)	217,173
U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	420,486	811	(12,694)	408,603
Residential mortgage-backed securities	957,219	4,026	(14,552)	946,693
Municipal securities	82,965	87	(1,032)	82,020
Non-agency mortgage-backed securities:				
Commercial mortgage-backed securities	25,826	226	—	26,052
Residential mortgage-backed securities	10,109	7	(185)	9,931
Corporate debt securities	11,250	—	(381)	10,869
Foreign bonds	489,378	—	(26,330)	463,048
Asset-backed securities	12,621	22	—	12,643
Total available-for-sale investment securities	**$ 2,806,900**	**$ 5,714**	**$ (70,767)**	**$ 2,741,847**

Unrealized Losses

The following tables present the fair value and the associated gross unrealized losses of the Company's available-for-sale investment securities, aggregated by investment category and the length of time that the securities have been in a continuous unrealized loss position, as of June 30, 2019 and December 31, 2018:

	June 30, 2019					
	Less Than 12 Months		12 Months or More		Total	
($ in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale investment securities:						
U.S. Treasury securities	$ —	$ —	$ 326,535	$ (2,674)	$ 326,535	$ (2,674)
U.S. government agency and U.S. government sponsored enterprise debt securities	22,442	(17)	—	—	22,442	(17)
U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities:						
Commercial mortgage-backed securities	10,210	(81)	208,330	(4,232)	218,540	(4,313)
Residential mortgage-backed securities	11,679	(123)	145,595	(1,282)	157,274	(1,405)
Municipal securities	4,890	(10)	9,950	(28)	14,840	(38)
Non-agency mortgage-backed securities:						
Commercial mortgage-backed securities	7,916	(4)	—	—	7,916	(4)
Residential mortgage-backed securities	—	—	3,917	(14)	3,917	(14)
Corporate debt securities	1,244	(6)	9,912	(88)	11,156	(94)
Foreign bonds	14,349	(94)	369,956	(4,993)	384,305	(5,087)
Asset-backed securities	27,816	(175)	—	—	27,816	(175)
Total available-for-sale investment securities	**$ 100,546**	**$ (510)**	**$ 1,074,195**	**$ (13,311)**	**$ 1,174,741**	**$ (13,821)**

	December 31, 2018					
	Less Than 12 Months		12 Months or More		Total	
($ in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale investment securities:						
U.S. Treasury securities	$ —	$ —	$ 516,520	$ (12,899)	$ 516,520	$ (12,899)
U.S. government agency and U.S. government sponsored enterprise debt securities	22,755	(238)	159,814	(2,456)	182,569	(2,694)
U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities:						
Commercial mortgage-backed securities	26,886	(245)	274,666	(12,449)	301,552	(12,694)
Residential mortgage-backed securities	75,675	(491)	653,660	(14,061)	729,335	(14,552)
Municipal securities	9,458	(104)	30,295	(928)	39,753	(1,032)
Non-agency mortgage-backed securities:						
Residential mortgage-backed securities	3,067	(19)	3,949	(166)	7,016	(185)
Corporate debt securities	10,869	(381)	—	—	10,869	(381)
Foreign bonds	14,418	(40)	448,630	(26,290)	463,048	(26,330)
Total available-for-sale investment securities	**$ 163,128**	**$ (1,518)**	**$ 2,087,534**	**$ (69,249)**	**$ 2,250,662**	**$ (70,767)**

Other-Than-Temporary Impairment

For each reporting period, the Company assesses individual securities that are in an unrealized loss position for OTTI. For a discussion of the factors and criteria the Company uses in analyzing securities for OTTI, see *Note 1 — Summary of Significant Accounting Policies — Securities* to the Consolidated Financial Statements of the Company's 2018 Form 10-K.

The unrealized losses were primarily attributable to the movement in the yield curve, in addition to widened liquidity and credit spreads. The issuers of these securities have not, to the Company's knowledge, established any cause for default on these securities. These securities have fluctuated in value since their purchase dates because of changes in market interest rates. The Company believes that the gross unrealized losses presented in the previous tables are temporary and no credit losses are expected. As a result, the Company expects to recover the entire amortized cost basis of these securities. The Company has the intent to hold these securities through the anticipated recovery period and it is not more-likely-than-not that the Company will have to sell these securities before recovery of their amortized cost. As of June 30, 2019, the Company had 76 available-for-sale investment securities in a gross unrealized loss position with no credit impairment, primarily consisting of 40 U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities, 11 foreign bonds, and 12 U.S. Treasury securities. In comparison, as of December 31, 2018, the Company had 184 available-for-sale investment securities in a gross unrealized loss position with no credit impairment, primarily consisting of 108 U.S. government agency and U.S. government sponsored enterprise mortgage-backed securities, 16 foreign bonds, and 19 U.S. Treasury securities. There were no OTTI credit losses recognized in earnings for each of the three and six months ended June 30, 2019 and 2018.

Realized Gains and Losses

The following table presents the proceeds, gross realized gains and tax expense related to the sales of available-for-sale investment securities for the three and six months ended June 30, 2019 and 2018:

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in thousands)	**2019**	**2018**	**2019**	**2018**
Proceeds from sales	$ 223,763	$ 42,085	$ 375,102	$ 256,875
Gross realized gains	$ 1,447	$ 210	$ 3,008	$ 2,339
Related tax expense	$ 428	$ 62	$ 889	$ 690

Contractual Maturities of Investment Securities

The following table presents the contractual maturities of available-for-sale investment securities as of June 30, 2019:

($ in thousands)	Amortized Cost	Fair Value
Due within one year	$ 586,072	$ 581,305
Due after one year through five years	432,912	430,486
Due after five years through ten years	193,117	196,457
Due after ten years	1,373,404	1,384,665
Total available-for-sale investment securities	**$ 2,585,505**	**$ 2,592,913**

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

As of June 30, 2019 and December 31, 2018, available-for-sale investment securities with fair value of $493.7 million and $435.8 million, respectively, were pledged to secure public deposits, interest rate contracts, repurchase agreements and for other purposes required or permitted by law.

Restricted Equity Securities

Restricted equity securities include the Federal Reserve Bank of San Francisco ("FRB") and the FHLB stock. Restricted equity securities are carried at cost as these securities do not have a readily determinable fair value. The following table presents the restricted equity securities as of June 30, 2019 and December 31, 2018:

($ in thousands)	June 30, 2019	December 31, 2018
FRB stock	$ 57,843	$ 56,819
FHLB stock	20,250	17,250
Total restricted equity securities	**$ 78,093**	**$ 74,069**

Note 7 — Derivatives

The Company uses derivatives to manage exposure to market risk, primarily interest rate risk and foreign currency risk, and to assist customers with their risk management objectives. The Company's goal is to manage interest rate sensitivity and volatility so that movements in interest rates are not significant to earnings or capital. The Company also uses foreign exchange contracts to manage the foreign exchange rate risk associated with certain foreign currency-denominated assets and liabilities, as well as the Company's investment in its China subsidiary, East West Bank (China) Limited. The Company recognizes all derivatives on the Consolidated Balance Sheet at fair value. While the Company designates certain derivatives as hedging instruments in a qualifying hedge accounting relationship, other derivatives consist of economic hedges. For additional information on the Company's derivatives and hedging activities, see *Note 1 — Summary of Significant Accounting Policies — Derivatives* to the Consolidated Financial Statements of the Company's 2018 Form 10-K.

The following table presents the total notional amounts and gross fair values of the Company's derivatives, as well as the balance sheet netting adjustments on an aggregate basis as of June 30, 2019 and December 31, 2018. The derivative assets and liabilities are presented on a gross basis prior to the application of bilateral collateral and master netting agreements, but after the variation margin payments with central clearing organizations have been applied as settlement, as applicable. Total derivative assets and liabilities are adjusted to take into consideration the effects of legally enforceable master netting agreements and cash collateral received or paid as of June 30, 2019 and December 31, 2018. The resulting net derivative asset and liability fair values are included in *Other assets* and *Accrued expenses and other liabilities*, respectively, on the Consolidated Balance Sheet.

	June 30, 2019			December 31, 2018		
		Fair Value			Fair Value	
($ in thousands)	**Notional Amount**	**Derivative Assets**	**Derivative Liabilities**	**Notional Amount**	**Derivative Assets**	**Derivative Liabilities**
Derivatives designated as hedging instruments:						
Fair value hedges:						
Interest rate contracts	$ 31,026	$ —	$ 3,019	$ 35,811	$ —	$ 5,866
Net investment hedges:						
Foreign exchange contracts	160,007	52	—	90,245	—	611
Total derivatives designated as hedging instruments	**$ 191,033**	**$ 52**	**$ 3,019**	**$ 126,056**	**$ —**	**$ 6,477**
Derivatives not designated as hedging instruments:						
Interest rate contracts	$ 13,469,821	$ 190,388	$ 121,352	$ 11,695,499	$ 69,818	$ 69,267
Foreign exchange contracts	3,425,107	27,797	22,528	3,407,522	21,624	19,329
Credit contracts	91,856	3	118	119,320	1	164
Equity contracts	— (1)	1,985	—	— (1)	1,951	—
Commodity contracts	— (2)	22,651	25,906	— (2)	14,422	23,068
Total derivatives not designated as hedging instruments	**$ 16,986,784**	**$ 242,824**	**$ 169,904**	**$ 15,222,341**	**$ 107,816**	**$ 111,828**
Gross derivative assets/liabilities		**$ 242,876**	**$ 172,923**		**$ 107,816**	**$ 118,305**
Less: Master netting agreements		(40,372)	(40,372)		(31,569)	(31,569)
Less: Cash collateral received/paid		(3,831)	(34,122)		(13,577)	(6,833)
Net derivative assets/liabilities		**$ 198,673**	**$ 98,429**		**$ 62,670**	**$ 79,903**

(1) The Company held equity contracts in three public companies and 17 private companies as of June 30, 2019. In comparison, the Company held equity contracts in four public companies and 18 private companies as of December 31, 2018.

(2) The notional amount of the Company's commodity contracts entered with its customers totaled 5,646 thousand barrels of oil and 30,775 thousand units of natural gas, measured in million British thermal units ("MMBTUs") as of June 30, 2019. In comparison, the notional amount of the Company's commodity contracts entered with its customers totaled 2,507 thousand barrels of oil and 14,722 thousand MMBTUs of natural gas as of December 31, 2018. The Company entered into the same notional amounts of commodity contracts with mirrored terms with third-party financial institutions.

Derivatives Designated as Hedging Instruments

Fair Value Hedges — The Company is exposed to changes in the fair value of certain certificates of deposit due to changes in the benchmark interest rates. The Company enters into interest rate swaps, which are designated as fair value hedges. The interest rate swaps involve the exchange of variable rate payments over the life of the agreements without the exchange of the underlying notional amounts.

The following table presents the net gains (losses) recognized on the Consolidated Statement of Income related to the derivatives designated as fair value hedges for the three and six months ended June 30, 2019 and 2018:

($ in thousands)	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Gains (losses) recorded in interest expense:				
Recognized on interest rate swaps	$ 1,634	$ (396)	$ 2,854	$ (1,848)
Recognized on certificates of deposit	$ (1,434)	$ 440	$ (2,695)	$ 1,719

The following table presents the carrying amount and associated cumulative basis adjustment related to the application of fair value hedge accounting that was included in the carrying amount of the hedged certificates of deposit as of June 30, 2019 and December 31, 2018:

	Carrying Value (1)		Cumulative Fair Value Adjustment (2)	
($ in thousands)	June 30, 2019	December 31, 2018	June 30, 2019	December 31, 2018
Certificates of deposit	$ (29,238)	$ (26,877)	$ 1,446	$ 4,141

(1) Represents the full carrying amount of the hedged certificates of deposit.

(2) For liabilities, decrease to carrying value.

Net Investment Hedges — ASC 830-20, *Foreign Currency Matters — Foreign Currency Transactions*, and ASC 815, *Derivatives and Hedging*, allow hedging of the foreign currency risk of a net investment in a foreign operation. The Company enters into foreign currency contracts to hedge a portion of its investment in East West Bank (China) Limited, a non-USD functional currency subsidiary in China. The hedging instruments designated as net investment hedges, involve hedging the risk of changes in the USD equivalent value of a designated monetary amount of the Company's net investment in East West Bank (China) Limited, against the risk of adverse changes in the foreign currency exchange rate of the Chinese Renminbi. The Company may de-designate the net investment hedges when the Company expects the hedge will cease to be highly effective. During the second quarter of 2019, the Company increased the notional amount of the new foreign currency forward contracts that were designated as net investment hedges to better mitigate its Chinese Renminbi exposure in its investment in East West Bank (China) Limited. The notional and fair value amounts of the net investment hedges, made up of foreign exchange forwards, were $160.0 million and a $52 thousand asset, respectively, as of June 30, 2019. In comparison, the notional and fair value amounts of the net investment hedges, made up of foreign exchange swaps, were $90.2 million and a $611 thousand liability, respectively, as of December 31, 2018.

The following table presents the (losses) gains recognized in AOCI on net investment hedges for the three and six months ended June 30, 2019 and 2018:

($ in thousands)	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
(Losses) gains recognized in AOCI	$ (598)	$ 4,938	$ (2,603)	$ 3,785

Derivatives Not Designated as Hedging Instruments

Interest Rate Contracts — The Company enters into interest rate contracts, which include interest rate swaps and options with its customers to allow customers to hedge against the risk of rising interest rates on their variable rate loans. To economically hedge against the interest rate risks in the products offered to its customers, the Company enters into mirrored offsetting interest rate contracts with third-party financial institutions, including central clearing organizations. Beginning in January 2018, the London Clearing House ("LCH") amended its rulebook to legally characterize variation margin payments made to and received from LCH as settlements of derivatives, and not as collateral against derivatives. Included in the total notional amount of $6.74 billion of interest rates contracts entered into with financial counterparties as of June 30, 2019, was a notional amount of $2.08 billion of interest rate swaps that cleared through LCH. In comparison, included in the total notional amount of $5.85 billion of interest rates contracts entered into with financial counterparties as of December 31, 2018, was a notional amount of $1.66 billion of interest rate swaps that cleared through LCH. Applying variation margin payments as settlement to LCH cleared derivative transactions resulted in a reduction in derivative asset fair value of $1.5 million and liability fair value of $73.5 million, as of June 30, 2019. In comparison, applying variation margin payments as settlement to LCH cleared derivative transactions resulted in a reduction in derivative asset fair value of $16.4 million and liability fair value of $16.0 million as of December 31, 2018.

The following tables present the notional amounts and the gross fair values of interest rate derivative contracts outstanding as of June 30, 2019 and December 31, 2018:

	June 30, 2019						
	Customer Counterparty				Financial Counterparty		
($ in thousands)	Notional Amount	Fair Value Assets	Fair Value Liabilities	($ in thousands)	Notional Amount	Fair Value Assets	Fair Value Liabilities
Written options	$ 975,369	$ —	$ 62	Purchased options	$ 975,369	$ 64	$ —
Sold collars and corridors	549,305	3,277	15	Collars and corridors	549,305	15	3,326
Swaps	5,207,158	183,626	4,795	Swaps	5,213,315	3,406	113,154
Total	**$ 6,731,832**	**$ 186,903**	**$ 4,872**	**Total**	**$ 6,737,989**	**$ 3,485**	**$ 116,480**

	December 31, 2018						
	Customer Counterparty				Financial Counterparty		
($ in thousands)	Notional Amount	Fair Value Assets	Fair Value Liabilities	($ in thousands)	Notional Amount	Fair Value Assets	Fair Value Liabilities
Written options	$ 931,601	$ —	$ 492	Purchased options	$ 931,601	$ 503	$ —
Sold collars and corridors	429,879	1,121	305	Collars and corridors	429,879	308	1,140
Swaps	4,482,881	41,457	41,545	Swaps	4,489,658	26,429	25,785
Total	**$ 5,844,361**	**$ 42,578**	**$ 42,342**	**Total**	**$ 5,851,138**	**$ 27,240**	**$ 26,925**

Foreign Exchange Contracts **—** The Company enters into foreign exchange contracts with its customers, consisting of forwards, spot, swap and option contracts to accommodate the business needs of its customers. For a portion of the foreign exchange contracts entered into with its customers, the Company enters into offsetting foreign exchange contracts with third-party financial institutions to manage its exposure. The Company also utilizes foreign exchange contracts, which are not designated as hedging instruments to mitigate the economic effect of currency fluctuations on certain foreign currency-denominated on-balance sheet assets and liabilities, primarily for foreign currency-denominated deposits offered to customers. A majority of the foreign exchange contracts have original maturities of one year or less as of June 30, 2019 and December 31, 2018.

The following tables present the notional amounts and the gross fair values of foreign exchange derivative contracts outstanding as of June 30, 2019 and December 31, 2018:

	June 30, 2019						
	Customer Counterparty			Financial Counterparty			
		Fair Value				Fair Value	
($ in thousands)	Notional Amount	Assets	Liabilities	($ in thousands)	Notional Amount	Assets	Liabilities
Forwards and spot	$ 2,036,792	$ 18,941	$ 16,358	Forwards and spot	$ 246,962	$ 2,671	$ 454
Swaps	17,348	374	101	Swaps	768,763	4,676	4,480
Written options	88,758	422	—	Purchased options	88,758	—	422
Collars	88,863	288	425	Collars	88,863	425	288
Total	**$ 2,231,761**	**$ 20,025**	**$ 16,884** <div style="text-align:l				