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EWBC - East West Bancorp Inc at BancAnalysts Association of Boston Conference

EVENT DATE/TIME: NOVEMBER 07, 2019 / 8:30PM GMT

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PRESENTATION

Unidentified Analyst

Hello. We're going to get going here, the last presentation of the day. Up next, we have East West Bancorp. East West is international trade, headquartered in Pasadena, California. The bank has a particular focus on the Asian American community and operates through over 130 branches in major U.S. metro markets. It also has about 10 offices across China, Taiwan and Hong Kong. At September 30, they had assets of about $41 billion.

Presenting today for East West is Julianna Balicka, and she joined in 2016, East West, and prior to that, she had a career on the sell-side, covering regional banks for KBW.

So with that, please join me in welcoming Julianna.

Julianna Balicka - *East West Bancorp, Inc. - Director of Strategy & Corporate Development*

Thank you. It's a pleasure to be here. Thank you, everybody. I understand I'm what's keeping you from cocktail hour. So I'll try to keep this brief, efficient and to the point. And I very much appreciate you taking the time to listen to what we have to say.

So the theme of this conference, as far as I was led to understand was: How do we as regional banks compete against the big national banks nationwide, especially with the advent of technology making it easier for consumers to switch accounts and have less loyalty to the community banks? Well, the answer for East West from this perspective is slightly different. Our model is differentiatedly focused on the Asian American sector. And at $43 billion in assets, we are the largest Asian American bank and the largest Chinese American bank focused in the U.S.

Not only do we have a U.S. presence where our footprint follows the Chinese American bank population, we also have a license to operate commercially -- to do commercial banking in Mainland China. And we have locations in Greater China, in Mainland China and in Hong Kong. So what that means is that our niche of customers who we call Chinese affinity has moved beyond the Chinese American as the Chinese population and folks have become more global citizens, we have more and more commercial customers with business operations in both sides of the Pacific.

Our customer base banks with East West for the affinity reasons and for the value-added that we provide in understanding business flows between the 2 countries rather than particularly because we have a nifty technology. So in some ways, that helps us compete against the national banks just because we are in our own specialized niche lane.

And that also does mean that from the perspective of some of the answers some of the other banks have given is it's less incumbent on us to have the niftiest, latest technology and it is more important for us to be able to serve all aspects of our customer base, on the consumer and the commercial side, from small to larger banking side and less all about the latest technology fixes.

So just to kind of step back and take a look at East West's history over time to illustrate the point that I'm making here. We went public 20 years ago in 1998 -- a little over 20 years ago. We celebrated our 20th anniversary last year. And at that point in time, we were $2 billion in assets, L.A.-based and very much a Chinese American bank, providing home mortgages and small business loans to our core customer base in Chinatown and adjacent communities in L.A. It took us a number of years to even cross $10 billion in assets as you can see in 2006. And we did that through the traditional way of growing for a community bank, through acquisitions of peer banks in our space. And at that point in time, other than the fact that our customer base was Chinese American and our products were tailored to helping immigrants do well in the U.S. and assimilate into the U.S., we were very much a community bank, walked and talked like any other community bank in many ways.

We crossed $10 billion in 2006. And then in 2009, we jumped to $20 billion with the acquisition of our peer bank UCBH Holdings through the FDIC. The bank did not make it through the credit crisis, but it did position us for the next stage of growth where we are today, which is to pursue cross-border business between the U.S. and China. UCBH, as you know, was also a Chinese American bank. And importantly, it gave us a license to operate commercial banking -- gave us a commercial banking license to operate in local currency in China.

So from then on out, you can see from that curve, it was a much faster growth trajectory. We got to $30 billion much more quickly than it took us to get through the first $20 billion. And from $30 billion to $40 billion was just 3 short years. And today, we are at $43 billion in assets.

So how does that allow us to -- here you go. Here are some of the big banks. You can see there's a number of banks of our size and then the big boys. And in California, our marketplace is very much with the consumer banks dominated by JPMorgan, Bank of America, Citigroup and Wells, and then with a handful of larger regional banks.

So with our particular portfolio -- let me just switch over to the side -- we stand out from other regional banks through the fact that we have a good balance of commercial and consumer customers in our balance sheet.

On the loan side, you can see that 1/4 of our book is single-family mortgage and HELOCs, which we self-originate and which we keep for our portfolio in our core customer base of Chinese Americans, but then we also, importantly, have 36% of our book is in commercial C&I business. And the C&I business has moved from just simply being small business, Chinese American business, into middle market -- small to middle market business, corporate business for customers that are all stripes and sizes, from small Chinese American local banks to wholesale trade importers/exporters to manufacturers to specialized industry customers in business areas that have a lot of cross-border capital flows between the U.S. and China.

Furthermore, on the deposit side, one way that we do stand out from some other regional banks of our size in other regions is we do have a good mix of consumer deposits in our deposit mix, where $13 billion of our deposits are consumer branches with our core customer base. And that customer base has been very sticky over time, has been with us for years. And in some ways, while we do worry about the digitization of the consumer business in the U.S., these customers are less digitized than others, and they often come to the branch for a lot of socialization, for their favorite branch manager, good old-fashioned relationship banking, which works very well for us.

That being said, we are not immune to the changing industry, and we have been investing in a digital banking platform on the consumer bank, about $20 million to $30 million a year, for the last couple of years that we will be rolling out in the coming year that you'll hear more about it. But the point is we do recognize that we have to keep up with the platform to be as good or close enough to Wells Fargo or BofA. But the customer does not choose us because our application is more nifty. The customer chooses us because we help them feel more at home in the U.S. and we -- because we understand their particular business needs, language needs, cultural needs, because we have some amount of understanding between the U.S. and China that we can provide value-added services, too.

And on the commercial side, it's a little bit more competitive, just straight up against other national or regional banks. And there, we have been, over the last several years, investing in the platforms and treasury management services to where at this point in time, we can go head-to-head against any other bank. And it really is about driving growth from a relationship basis.

So that is basically East West's positioning in terms of how do we think about competing against the national banks in the coming environment. And the rest of the slides focus on our more recent results and our expectation for the rest of the year and our more traditional financial slide deck that you might find yourself looking at through in any other conference. So maybe with these remarks, given the conference theme, maybe we can jump into Q&A, so that I just don't rehash the conference -- earnings conference call that we just had a couple of weeks ago.

Though I'm sure that is incredibly exciting for everybody to listen to.

QUESTIONS AND ANSWERS

Unidentified Analyst

Okay. We'll open it up now to Q&A, if anyone has any questions out there?

Unidentified Analyst

Just with regards to the tensions, trade tensions, right, between U.S. and China. So how is that affecting you guys and (inaudible)?

Julianna Balicka - *East West Bancorp, Inc. - Director of Strategy & Corporate Development*

Yes. So for our customers, the trade tensions, I think, are manifesting themselves in a couple of different ways. One, it does impact the growth appetite of our commercial borrowers. But I don't necessarily think that, that's unique to East West in the sense that I think commercial customers across the U.S. are probably reacting -- commercial businesses, I mean -- are reacting to the geopolitical and macroeconomic volatility more so than trade tensions directly. But for us, we do think that it is a question of growth foregone. You can see from our numbers that year-to-date, our C&I loan growth has been slower this year than it has been in other years.

The fourth quarter will be an important quarter for us to kind of measure that as a yard stick because our wholesale trade portfolio tends to be strongest growth seasonally weighted towards the fourth quarter. And last year, that grew at 6% to 10% year-over-year. So come January, we'll see how that has grown. That's about 10% of our C&I portfolio. So it's 1 slice. However, broadly speaking, throughout C&I, there is a sense from customers that given the volatility, they're less inclined to invest in their business, which then translates back to us.

Also, another way where we are seeing the impact of the trade tensions, or rather the political tensions, is entertainment lending. It's a cross-border vertical that we have developed over the last few years. It's been a great growth area for us, especially as money from China has flowed into investing in the U.S. entertainment industry and vice versa. Because of politics, that money has not been flowing in this year.

So there is definitely a lack of growth in certain areas that -- due to politics.

Unidentified Analyst

I mean, just going on that, Julianna, so if you think about the loan growth guidance was 10%. Then it was lowered down to 7%. You had a number of factors, one being what you call the political issues, the trade tariffs with China. And then you also have elevated prepays in your book as well as just kind of what the overall underlying demand is from your domestic borrowers. Like how would you allocate that? Like when you think about whatever -- that reduction, how would you prioritize that or allocate that into the buckets?

Julianna Balicka - *East West Bancorp, Inc. - Director of Strategy & Corporate Development*

Well, I would say that for the September reduction in the outlook for the year, a key reason -- some of those factors were obviously not new to the third quarter. They've been kind of percolating in throughout the year. Geopolitical volatility, tensions and all that. So what really kind of moved us from 10% to that 7% number come September really was -- I will prioritize within all those factors that you mentioned. There was a higher level of paydowns that we experienced in September, that we were not necessarily expecting, say, in July with second quarter earnings. Our growth trends from July to August had strengthened, and it looked like we were still kind of in the neighborhood of that approximately 10% for the full year.

However, come September, a number of loans prepaid early part of -- in commercial real estate as well because of rates having to drop. Also in September, we had some paydowns in entertainment. And we knew the projects were ending, but then there was not a replacement of new loans that had been in the pipeline, that didn't materialize. So one could say that, that was related to kind of the politics of kind of the changing environment.

And then also, I would say that there were some loans that should have closed in the third quarter, spilled over into fourth quarter. And so net-net, when we ended September, we weren't going to hit the 10% for the year. But that being said, our guidance does imply strengthening in the fourth quarter, reflecting kind of -- some of this typical annual seasonality we see in the fourth quarter. But also, I would say, as of October, we were up $200 million already in loans. Of course, there's paydowns and payoffs that will happen later in the quarter, but the point is it's a strong start to the quarter.

Unidentified Analyst

All right. Okay.

Unidentified Analyst

I guess, sticking with the China theme, like let's say we get phase 1 signed, let's say we sort of (inaudible) tariffs on both sides. Like is that -- when we see that, I would say I think East West is going to benefit the most from sort of reduction in trade tensions. But from your perspective, does that actually truly drive -- I mean would you actually see stronger loan growth? I mean we've got improved sentiment, but what does drive better loan growth in East West? I mean what do we need to see, like full reduction? Or is it just -- in tariffs or -- I'm trying to think how is it correlated.

Julianna Balicka - *East West Bancorp, Inc. - Director of Strategy & Corporate Development*

Well, I think the improved sentiment will help a lot, because that will help commercial customers feel more comfortable growing their business. So that will have an impact. But I think at the end of the day, the most important driver for our growth is still the U.S. consumer. So to the extent that the outlook for the U.S. economy is stable or good, we will be able to do well.

And when it comes to growth for us, part of the reason why we're able to grow more strongly than other peer banks is because we have a well-diversified loan portfolio. So for example, with the share that we have in commercial real estate and the share that we have in single-family mortgage, and single-family mortgage for us has been growing in the mid-teens digits year-to-date, if you pull back C&I loan growth to be low single digits, you are still -- and you kept -- just mathematically, given the kind of balance of our balance sheet, if you grew CRE and SFR between 5% to 10% range, which is robust, and if you grew C&I in the low single digits, you're still net-net growing above 5% for the total loan portfolio.

So net-net, that's still a pretty good loan growth rate compared to most banks. So what would drive C&I loan growth higher from where it is today would be 2 things. One -- or what would -- in any given point, not from today, but at any given point in time, what would drive more robust C&I loan growth would come probably from 2 areas: one, a feeling that the U.S. consumer will continue to feel good and be robust and buy products, which will then drive improved sentiment from our commercial customers, especially our smaller wholesale trade customers, manufacturing customers. And also improved geopolitical situation between the U.S. and China, where there is more capital flow coming in from China into the U.S., for example, like in entertainment.

So sentiment will help a lot. Now whether or not that will change pipelines within a quarter or 2, or will that take more like over the course of a year? We shall see. I mean, next year, we are going to be going through an election year, so I'm not sure whether that will contribute to sentiment volatility or not.

Unidentified Analyst

And just on prepays, just as you're talking about that, have they relented at all? And I get it. It's usually back-end weighted. But I'm just curious what the signs are.

Julianna Balicka - *East West Bancorp, Inc. - Director of Strategy & Corporate Development*

It's back-end weighted. I mean as we said, at the end of October, we're up net $200 million, it's seeming to be okay. But ask me in a couple of more weeks when I've got November numbers.

Unidentified Analyst

Is it mostly the shadow banking market that you're seeing...?

Julianna Balicka - *East West Bancorp, Inc. - Director of Strategy & Corporate Development*

No. No. It's other banks being more competitive on rates, which is what I would say, actually, we have mentioned that overall, given where kind of the environment is today, especially with the uncertainty around C&I. Of course, that changes week to week. But with the uncertainty in the economy and the macro economy in general, we have said that we are more comfortable growing in commercial real estate, where we have continued to underwrite at a 65% LTV or lower.

I can actually flip to the slide that illustrates this point -- here we go. Our average LTV on our CRE portfolio is 50%. We started at 60% to 65% LTV to begin with. This is not a bad time -- from a credit risk perspective, this is a very strong portfolio. We were a little bit more conscientious -- we were a little less inclined to grow in CRE when you had a lot of C&I loan growth because that was higher yielding. However, at this point in time, it's still an excellent loan with not a bad price. And with a low interest rate environment, we are more comfortable and maybe doing a little bit more growth in that area.

Unidentified Analyst

Commercial real estate, okay.

Julianna Balicka - *East West Bancorp, Inc. - Director of Strategy & Corporate Development*

So to your question about paydowns and payoffs, maybe we will let fewer loans pay off.

Unidentified Analyst

Right. Okay.

Unidentified Analyst

Maybe on the credit side. Over the past quarter, you note that you were in previous -- previously mentioned (inaudible) get there and how long did it take you to get to (inaudible)?

Julianna Balicka - *East West Bancorp, Inc. - Director of Strategy & Corporate Development*

So as we said at the earnings conference call, in our energy portfolio, we reviewed it during the second quarter. As we noted, we had the charge-offs that you saw in our third quarter results, we have 4 loans that are on nonaccrual, 2 of which we had taken the charge-offs on. So substandard, doubtful and loss is 3% of our loan portfolio. We have 2 more loans, $25 million, on special mention. So that's 5% of our energy portfolio, which is $1.29 billion that is on special mention, substandard, doubtful loss, so criticized and classified. We're continuing to -- so we feel that at this point in time, we have appropriately marked our energy loans in the whole book, including these particular loans that are the problem loans, I mean or trouble loans, right?

The resolution of these loans is continuing. So this coming quarter, there'll be some incremental charge-offs. Obviously, not at the same magnitude that you saw in the third quarter, just because the full process of resolving them isn't completely finished. I will say that the loss content on those 2 particular loans was much greater than expected, and it was out of line with the underlying collateral.

The previous presenter spoke very eloquently about the issues that our -- that these particular -- the particular industry faced. And I think those are similar issues that we faced as well, in terms of the collateral valuation versus the productivity of fracking and the new technologies.

So we're continuing to work through that portfolio, and we're continuing to reduce the risk. And we feel that given the review that we've done, we're comfortable with where the reserves are for that portfolio today. And all else equal, assuming that the industry doesn't worsen because of these several bad companies, then this is where we are. But if there happens to be a broader weakening in energy that spills over into good performers, then we'd be having another conversation. Lana?

Lana Chan - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

So East West has (inaudible) the strongest capital ratio (inaudible) and given you have the slower loan growth expectations for this year, what are your sort of your thoughts about capital allocation?

Julianna Balicka - *East West Bancorp, Inc. - Director of Strategy & Corporate Development*

Well, for the -- loan growth expectations for this year were dialed back, but when we think about our capital allocation, we do think about it on a multiyear basis. And when we think about kind of, do we feel that our multiyear loan growth profile, organic loan growth profile, has substantially changed? No, we do not think so, albeit there's some volatility and uncertainty around C&I, but, a, we have the real estate portfolios that can pull forward; and b, while there's uncertainty today, this does present an opportunity for us to provide more value-added to our customers to help them interpret and understand the certainty.

So we do not -- we are not in any way, shape or form saying that our growth profile is changing in a material way. Therefore, from that perspective, we continue to believe that organic growth is the best use of capital. Given our returns in the mid-teens, our strong and consistently strong ROA and ROEs, we feel that our returns profile is not sufficiently changing and our growth profile is not sufficiently changing, where buybacks become compelling, especially given the fact that in a couple of years from now, it will be -- we'll have -- we think we'll have opportunity to use that capital more proactively, hopefully.

Unidentified Analyst

Are you talking M&A when you say that? Or are you just talking about...

Julianna Balicka - *East West Bancorp, Inc. - Director of Strategy & Corporate Development*

Generally speaking.

Unidentified Analyst

Yes. Generally speaking. All right.

Julianna Balicka - *East West Bancorp, Inc. - Director of Strategy & Corporate Development*

M&A is not instigated by the buyers. It's instigated by the seller.

Unidentified Analyst

Right. I'm going to throw another one, because I was speaking with Mike Selfridge earlier today, and just talking about like there has been a lot of movement at different teams. The most recent being JPMorgan hired away a team from Silicon Valley Bank, like venture capital private equity team. It's an attractive business with an attractive risk profile that comes with high-quality deposits. So it seems like more and more people are coming into the game. So I'm just curious how you guys view the competitive dynamic? How it's changed, and if you've seen any difference and if you're reacting at all?

Julianna Balicka - *East West Bancorp, Inc. - Director of Strategy & Corporate Development*

Well, I mean -- from the perspective of whether or not JPMorgan and Wells Fargo are competitors -- or Chase at the branch-based level, are competitors for us in the Chinese American bank space, very much so. I mean when you go and look at our branch footprint, across the street, there oftentimes is a Wells. There's oftentimes a Chase branch through Washington Mutual.

So from a Chinese American banking perspective, they've always been present, but they -- and -- but -- and they've tried over time to have more direct initiatives to kind of penetrating the Asian American sector, but because they're national banks, sometimes they mess up a little. Like they sell the wrong festival with the wrong symbols in the local newspaper, which then works to our benefit.

Unidentified Analyst

Right.

Julianna Balicka - *East West Bancorp, Inc. - Director of Strategy & Corporate Development*

But nevertheless, it's not that they're not present in our space, but in order for them to -- and at the cross-border level, JPMorgan corporate bank and Citibank have licenses in China. They're big gorillas over there. But at the end of the day, the customer base that we serve, they're too small to be given the white glove treatment by the national banks. So we feel there is definitely a lot of space for us to run in. And it's -- and we continue to compete against the HSBCs in the U.S., Standard Chartered in China. So there's not a substantial change to the competition. Whereas, from what you mentioned about Silicon Valley Bank, it seems like JPMorgan is deciding to spend a little bit more attention to a great niche, but we'll see whether or not they're successful or if they advertise the wrong symbols with the wrong festival, as they did with -- well, that wasn't JPMorgan, that might have been Wells. But anyway, the point is.

Unidentified Analyst

Yes. Let me ask it a different way. When you look at -- you guys are very specialized. Aside from the Asian American focus, you have a lot of different niches, specialized verticals. Are any -- has there been any shift in the competitive dynamic that makes any of those niches less attractive, more attractive, that you guys are seeing?

Julianna Balicka - *East West Bancorp, Inc. - Director of Strategy & Corporate Development*

Yes. So we select our niches based on our perception of where the cross-border business flows will be, right? And so from time to time, we do become more competitive from other banks. Like, for example, private equity lending. We've been doing that for a number of years. And of course, more recently, a lot of banks have started up teams, hired away teams from other banks that are starting verticals in the space. It's a great space.

But for us, the differentiating factor there isn't to compete head-to-head against other regional banks, it is to try to find a cross-border niche there. So funds that are based in Hong Kong and want to invest in properties, companies in the U.S., we can definitely help facilitate that and win that business over, say, name a bank that recently started a private equity -- Signature Bank -- private equity team.

For a Hong Kong-based fund, do you pick East West or do you pick Signature Bank? So we find the niche for ourselves in these industry verticals. And that's how we selected them. Entertainment, that was a great example of the cross-border business that flowed both ways and it's a component of our China balance sheet.

Private equity has its niche area where we can focus on. Life sciences and technology, competing against Silicon Valley Bank head-to-head, they are the dominant player in this space. But nevertheless, within technology and life sciences, there are a lot of companies that have an Asia or China strategy to their business, whether it's in the supply chain, whether it's in engineering, somewhere or another. So by providing an understanding of that, we can compete without necessarily having to compete on price and covenants.

And since you built up -- brought up this question, I should also mention that in the last couple of years, what we've done was not just rely on these specialized industry verticals to drive cross-border growth, we've set up a team at the bank that is a cross-border kind of product team, like a matrix structure, where we've pulled out bankers from all of our C&I industries, including kind of general C&I, where they are the specialist in cross-border banking. We've moved some of them over to China. They sit both in the U.S. and China. They work together. And their mandate is to go through our existing loan portfolio and expand the cross-border market share -- wallet share of our commercial customers and consumer customers and also to find new businesses or, say, subsidiaries of Chinese companies in the U.S.

There's no reason why we shouldn't be banking a lot of those. And our market share on those is very small. So a more targeted systematized approach is where we are ready to do that now that we have, over the last decade or so, we've established banking capabilities of being a regional bank. So now we need to more systematically apply that to winning cross-border business.

Unidentified Analyst

Okay. (inaudible)

Unidentified Analyst

A question about HSBC and the competitive dynamics within the U.S. with them. Because while obviously, they're a huge bank, their U.S. operations aren't particularly profitable. And there's (inaudible) they've restructured the HSBC business, they're still sort of (inaudible). Have the dynamics of the competition with HSBC changed in the last several years?

Julianna Balicka - *East West Bancorp, Inc. - Director of Strategy & Corporate Development*

I think the dynamics at the enterprise and corporate level of HSBC do not necessarily translate into changing dynamics at the branch level. So our RMs, when they're competing for business against a banker from HSBC, that continues to be very much part and parcel of the game. There's less impact than one would think from the corporate level on down at these levels. There continue to be very competitive-priced deposits from there.

Unidentified Analyst

If they were to exit from the U.S., would there be an opportunity for you to like...?

Julianna Balicka - *East West Bancorp, Inc. - Director of Strategy & Corporate Development*

Win some business?

Unidentified Analyst

Yes.

Julianna Balicka - *East West Bancorp, Inc. - Director of Strategy & Corporate Development*

Certainly.

Unidentified Analyst

Or even acquire some of their operations.

Julianna Balicka - *East West Bancorp, Inc. - Director of Strategy & Corporate Development*

There would be certainly opportunity for us to capitalize on their retrenchment.

Unidentified Analyst

Well, on the fee income side it was actually (inaudible) a step-up (inaudible) $50 million (inaudible). But how much of that is due to the change in interest rates, is it more temporary and (inaudible) structural initiatives (inaudible)?

Julianna Balicka - *East West Bancorp, Inc. - Director of Strategy & Corporate Development*

I think a good amount of that is related to interest rates. I think if you look at where the step-up has come, it really has come from derivatives and swap income. In the current interest rate environment, the demand for swap products has really increased. So if you look at the customer base, in that table on the bottom right-hand side of the slide, our customer base revenue derivative has now been running at over $11 million a quarter. So that's a response to the current interest rate environment compared to, in the Q3 2018 at $4 million. So that is environmental. We have broadened kind of the product set that we do offer through our IRC group. But nevertheless, that is a reflection of interest rates.

And the same thing, improved volume from FX does come from a little bit, reflecting market volatility. There has not been a substantial change in our verticals that we've put in that would drive that kind of an increase outside of the market forces.

Unidentified Analyst

Maybe we can talk -- I mean especially given your balance sheet, the importance of it is paramount in preserving the NIM, but you guys did do a very good job with deposit cost during the quarter on a spot rate basis. The loan book is what it is in terms of the percent that's based off LIBOR. What -- like, maybe you could talk about like kind of the competition and maybe the differences in the different markets that you're seeing and kind of the strategies that you're employing to get the deposit cost down?

Julianna Balicka - *East West Bancorp, Inc. - Director of Strategy & Corporate Development*

Yes. So we did do -- thank you for that compliment. We did manage to reduce our deposit costs nicely this quarter. We started the deposit cost reduction efforts back in the second quarter ahead of Fed funds cutting the rates. And then, of course, the momentum continued through the third quarter, is continuing through the fourth quarter.

In terms of kind of the dynamics driving that, it's less about regional-based pricing competition as much as it's about -- for one, we are more proactively reducing some of our higher-cost deposits in our mix, what the previous presenter called network deposits. Those are priced at 2% or higher. And so just reducing that in the mix will help a lot.

Second, we across the board by deposit type, we have been working on reducing pricing, particularly exception pricing. In the runup to a rising rate environment, you control deposit costs through exception pricing rather than moving posted rates. So you can reduce that fairly quickly, but it just takes time and iterations, calling a customer and reducing the rate, calling the customer and reducing the rate. So maybe the first Fed funds cut, you reduce by 10 bps. Or the next Fed funds cut, you can do 15 or 25, kind of customer-specific.

And thirdly, we -- given the kind of changing interest rate environment and the outlook for declining rates, and also, frankly, the outlook for slower loan growth, we are more comfortable operating maybe closer to 95% loan-to-deposit ratio. We have said over time that we're comfortable operating 90% to 95%. And we've typically been closer to the 90%, because you want to have excess liquidity, especially when growth is going to surprise you on the upside, as it has over the years.

But given this year's growth dynamics, being a little closer to 95% we feel is appropriate. And so that gives us an opportunity to kind of control the overall deposit costs. And then lastly, it's come from branch-based DDA campaigns focused on the small business demand accounts. And that's really going to help to contribute and control deposit costs we get, allowing us to run off and exit higher-cost relationships, but it really hasn't been regional pricing driven.

And as far as the competitive pricing dynamics, while we're anecdotally getting less and less questions about exception pricing and approvals for exception pricing, so that's improved a little bit. Our customers -- with each incremental rate hike, our customers are becoming more receptive to lower rates. So that's also -- the sentiment is also improving there. But nevertheless, the competition at the branch level remains acute. So when other banks start to also price a little lower, I think we'll all benefit.

Unidentified Analyst

Great. Okay. I actually just -- so if the Fed stopped, and say we're done now, like when would you anticipate stabilization of your net interest margin, given what you're seeing in the marketplace now, all else being equal?

Julianna Balicka - *East West Bancorp, Inc. - Director of Strategy & Corporate Development*

All else equal, it will probably take the second quarter after rates stop. Because with a 70% variable rate loan portfolio, it takes about a quarter for most of the loans to renew and reprice. So if the Fed stops raising in quarter 1, quarter 2 we finish the loan repricing. And in quarter 3, margins should, all else equal, stabilize.

We will continue to have several quarters of benefit still from the maturity of CDs. In the fourth quarter of this year, first quarter of next year and second quarter of next year, where we have $2 billion or more of CDs maturing each of those quarters are close to 2% rates. The CD rate in October was 1.36%, which is a blend of higher-cost commercial CDs and our consumer CDs rate in October, new money originations and renewals, was 1.11%. So CDs maturing $2 billion plus for the next 3 quarters will help.

So kind of depending on when the Fed stops, like if it stops now, then we still have a little bit of a lag on the deposit costs beyond when the loan portfolio reprice. But of course, then you get into the dynamics of where are the new loan yields coming in? Are they lower than your blended portfolio yields? A little bit or a lot, depending on what the growth is. I mean in our SFR mortgage product, that's a high-yielding product for us, right? So if that's a growth grower, that might be net-net a good thing. So at least stabilization within the second quarter after rates cut stop.

Unidentified Analyst

Any other questions out there? We're actually -- yes, almost out of time anyway.

Julianna Balicka - *East West Bancorp, Inc. - Director of Strategy & Corporate Development*

My goodness.

Unidentified Analyst

Yes. Thank you. Thank you. Well, we have, actually, there is a cocktail -- I don't know if it's a half hour or hour, right next door. And then at, I guess it's a half an hour, because I think at 5:30 down in the lobby, there will be buses to bring you to the BofA dinner. But thank you, Julianna. That was great.

Julianna Balicka - *East West Bancorp, Inc. - Director of Strategy & Corporate Development*

Thank you very much. Thank you, everybody. See you at the cocktail half hour.
