KENTUCKY UTILITIES CO
Form 8-K
December 16, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): December 15, 2011

Commission File Number	Registrant; State of Incorporation; Address and Telephone Number	IRS Employer Identification No.
1-11459	PPL Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
333-173665	LG&E and KU Energy LLC (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	20-0523163
1-2893	Louisville Gas and Electric Company (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	61-0264150
1-3464	Kentucky Utilities Company (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, KY 40507-1462 (502) 627-2000	61-0247570

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

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

Section 8 - Other Events

Item 8.01 Other Events

On December 15, 2011, Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU" and, collectively with LG&E, the "Companies") received Kentucky Public Service Commission ("KPSC") approval in their proceedings before the KPSC relating to environmental cost recovery ("ECR") plans. The KPSC order approves the terms of the previously announced Settlement Agreement, dated November 9, 2011, entered into between the Companies and the parties to the current proceedings ("Settlement Agreement"). The KPSC order authorizes the installation of environmental upgrades at certain of the Companies' plants during 2012-2016 representing approximate capital costs of $1.4 billion at LG&E and $896 million at KU.

In connection with the approved projects, the KPSC order allows recovery through the ECR rate mechanism of the capital costs and operating expenses of the projects and grants Certificates of Public Convenience and Necessity for their construction. The KPSC order also confirms an existing 10.63% authorized return on equity for projects remaining from earlier ECR plans of the Companies and provides for an authorized return on equity of 10.10% for the approved projects in their 2011 ECR proceedings.

The KPSC order notes KU's consent in the Settlement Agreement to defer requested approval for certain environmental upgrades at its E.W. Brown plant, which represented an estimated $218 million in capital costs. KU retains the right to operate and dispatch the E.W. Brown plant in accordance with applicable environmental standards and the right to request approval of the deferred projects in future regulatory proceedings.

Under the terms of the KPSC order, the Companies will increase funding levels for certain heating assistance programs for low-income customers.

Statements in this report and the accompanying press release, including statements with respect to future events and their timing, including the proposed transactions contemplated in the Companies' regulatory filing, such as the new environmental facilities construction, the eventual operation of such facilities, the actual capital costs and operating expenses associated therewith and the rate recovery or returns on equity ultimately achieved, as well as other statements as to future costs or expenses, regulation, corporate strategy and performance, are "forward-looking statements" within the meaning of the federal securities laws. Although the Companies believe that the expectations and assumptions reflected in these forward-looking statements are reasonable, these expectations, assumptions and statements are subject to a number of risks and uncertainties, and actual results may differ materially from the results discussed in the statements. The following are among the important factors that could cause actual results to differ materially from the forward-looking statements:, receipt of any remaining necessary government permits, approvals, subsequent phases of rate relief and regulatory cost recovery; market demand and prices for electricity; political, regulatory or economic conditions in states, regions or countries where the Companies conduct business; and new state, federal or foreign legislation, including new tax or environmental legislation or regulation. Any such forward-looking statements should be considered in light of such important factors and in conjunction with PPL Corporation's Form 10-K, each Company's respective Form S-4 registration statement and other reports on file with the Securities and Exchange Commission.

Section 9 - Financial Statements and Exhibits

Item 9.01 Financial Statements and Exhibits

(d) Exhibits

99.1 - Press Release dated December 15, 2011 of Louisville Gas and Electric Company and Kentucky Utilities Company.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned hereunto duly authorized.

PPL CORPORATION

By: /s/ Vincent Sorgi
Vincent Sorgi
Vice President and Controller

LG&E AND KU ENERGY LLC

By: /s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer

LOUISVILLE GAS AND ELECTRIC COMPANY

By: /s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer

KENTUCKY UTILITIES COMPANY

By: /s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer

Dated: December 16, 2011
al law, unless the director or officer had reasonable cause to believe that his or her conduct was lawful or no reasonable cause to believe that his or her conduct was unlawful; (iii) a transaction from which the director or officer derived an improper personal profit; or (iv) willful misconduct. Section 180.0858 provides that the indemnification provided does not preclude any additional right to indemnification that a director or officer may have under the articles of incorporation or bylaws of the corporation, a written agreement with the corporation, a resolution of the board of directors or by a majority vote of shares issued and outstanding after notice.

The articles of incorporation for CDW Technologies, Inc. provides for indemnification of all current and former directors and officers to the fullest extent of the WBCL.

ITEM 21. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

Exhibits.

The attached Exhibit Index is incorporated herein by reference.

Financial Statement Schedules.

The following financial statement schedule is included herein at page F-43 of this Registration Statement:

Schedule II Valuation and Qualifying Accounts

All other schedules for which provision is made in the applicable accounting regulations of the SEC are not required under the related instructions, are inapplicable or not material, or the information called for thereby is otherwise included in the financial statements and therefore has been omitted.

ITEM 22. UNDERTAKINGS.

(a) Each of the undersigned hereby undertakes:

(i) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(A) To include any prospectus required by Section 10(a)(3) of the Securities Act;

(B) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the SEC pursuant to Rule 424(b) if, in the aggregate, the change in volume and price represent no more than 20% change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement.;

(C) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(ii) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(iii) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(b) That, for the purpose of determining liability under the Securities Act to any purchaser, if the registrants are subject to Rule 430C, each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness; provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

(c) That, for the purpose of determining liability of the registrant under the Securities Act to any purchaser in the initial distribution of the securities, the undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424;

(ii) any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;

(iii) the portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and

(iv) any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

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(d) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrants pursuant to the foregoing provisions, or otherwise, the registrants have been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrants of expenses incurred or paid by a director, officer or controlling person of such registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrants will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(e) Each of the undersigned hereby undertakes to respond to requests for information that is incorporated by reference into the prospectus pursuant to Items 4, 10(b), 11 or 13 of Form S-4, within one business day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means. This includes information contained in documents filed subsequent to the date of the registration statement through the date of responding to the request.

(f) Each of the undersigned hereby undertakes to supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the registration statement when it became effective.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, CDW Corporation, a Delaware corporation, has duly caused this Amendment No. 4 to Registration Statement on Form S-4 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Vernon Hills, State of Illinois, on November 14, 2011.

CDW CORPORATION

By: /s/ Robert J. Welyki
Name: Robert J. Welyki
Title: Vice President and Treasurer

Pursuant to the requirements of the Securities Act of 1933, this Amendment No. 4 to Registration Statement on Form S-4 has been signed by the following persons in the capacities and on the dates indicated on November 14, 2011.

Signature	Title
* Thomas E. Richards	President and Chief Executive Officer (principal executive officer) and Director
* Ann E. Ziegler	Senior Vice President and Chief Financial Officer (principal financial officer)
* Virginia L. Seggerman	Vice President and Controller (principal accounting officer)
*	Director

	2,184.7	2,038.9
Total liabilities and shareholders equity	$26,084.8	$24,575.3

See accompanying notes to unaudited interim condensed consolidated financial statements.

THE MONY GROUP INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
For the Three-month Periods Ended June 30, 2001 and 2000

	2001	2000
	($ in millions, except share data and per share amounts)	
Revenues:		
Premiums	$ 173.4	$ 176.5
Universal life and investment-type product policy fees	52.3	55.9

Net investment income	189.5	229.5
Net realized gains (losses) on investments	3.0	(8.9)
Group Pension Profits (Note 5)	9.3	8.1
Retail Brokerage and Investment Banking revenues	99.8	16.0
Other income	41.7	46.1
	569.0	523.2
Benefits and Expenses:		
Benefits to policyholders	194.5	202.4
Interest credited to policyholders account balances	27.0	25.8
Amortization of deferred policy acquisition costs	28.3	37.2
Dividends to policyholders	60.6	52.7
Other operating costs and expenses	226.8	133.6
	537.2	451.7
Income before income taxes and extraordinary item	31.8	71.5
Income tax expense	9.5	23.4
Net income	22.3	48.1
Other comprehensive (loss), net	(23.2)	(10.9)
Comprehensive income	$ (0.9)	$ 37.2
Per Share Data:		
Net Income:		
Basic earnings per share	$ 0.45	$ 1.03
Diluted earnings per share	$ 0.44	$ 1.01
Share Data:		
Weighted-average shares used in basic per share calculation	49,363,512	46,528,902
Plus: incremental shares from assumed conversion of dilutive securities	1,549,587	1,020,958
Weighted-average shares used in diluted per share calculations	50,913,099	47,549,860

See accompanying notes to unaudited interim condensed consolidated financial statements.

THE MONY GROUP INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
For the Six-month Periods Ended June 30, 2001 and 2000

	2001	2000
	($ in millions, except share data and per share amounts)	
Revenues:		
Premiums	$ 338.5	$ 341.5

Universal life and investment-type product policy fees	102.0	105.8
Net investment income	373.2	581.3
Net realized gains on investments	5.5	9.7
Group Pension Profits (Note 5)	19.2	18.2
Retail Brokerage and Investment Banking revenues	170.9	34.4
Other income	72.0	87.3
	1,081.3	1,178.2
Benefits and Expenses:		
Benefits to policyholders	392.2	383.1
Interest credited to policyholders account balances	55.3	54.2
Amortization of deferred policy acquisition costs	65.5	74.7
Dividends to policyholders	115.2	109.9
Other operating costs and expenses	401.0	272.6
	1,029.2	894.5
Income before income taxes and extraordinary item	52.1	283.7
Income tax expense	16.5	97.7
Income before extraordinary item	35.6	186.0
Extraordinary loss, net of tax		36.7
Net income	35.6	149.3
Other comprehensive (loss), net	(4.1)	(25.8)
Comprehensive income	$ 31.5	$ 123.5
Per Share Data:		
Income before extraordinary items:		
Basic earnings per share	$ 0.73	$ 3.97
Diluted earnings per share	$ 0.70	$ 3.91
Net Income:		
Basic earnings per share	$ 0.73	$ 3.19
Diluted earnings per share	$ 0.70	$ 3.14
Share Data:		
Weighted-average shares used in basic per share calculation	49,044,496	46,812,447
Plus: incremental shares from assumed conversion of dilutive securities	1,580,133	783,395
Weighted-average shares used in diluted per share calculations	50,624,629	47,595,842

See accompanying notes to Unaudited interim condensed consolidated financial statements.

THE MONY GROUP INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY
Six-month Period Ended June 30, 2001

	Common Stock	Capital In Excess of Par	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Unamortized Restricted Stock Compensation	Total Shareholders Equity
				($ in millions)			
Balance, December 31, 2000	$0.5	$1,616.3	$(33.0)	$442.2	$13.0	$(0.1)	$2,038.9
Issuance of Shares		144.1					144.1
Purchases of treasury stock, at cost			(28.0)				(28.0)
Unamortized restricted stock compensation						(1.8)	(1.8)
Comprehensive income:							
Net income				35.6			35.6
Other comprehensive income(1)					(4.1)		(4.1)
Comprehensive income							31.5
Balance, June 30, 2001	$0.5	$1,760.4	$(61.0)	$477.8	$ 8.9	$(1.9)	$2,184.7

(1) Represents unrealized gains on investments (net of unrealized losses, the effect of unrealized gains on deferred acquisition costs and dividends to policyholders), reclassification adjustments, minimum pension liability and taxes.

See accompanying notes to unaudited interim condensed consolidated financial statements.

THE MONY GROUP INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Six-month Periods Ended June 30, 2001 and 2000

	2001	2000
	($ in millions)	
Net cash (used in)/provided by operating activities	$ (52.8)	$ (29.6)
Cash flows from investing activities:		
Sales, maturities or repayment of:		
Fixed maturities securities	749.0	566.4
Equity securities	34.2	243.8
Mortgage loans on real estate	129.5	86.1
Real estate	7.7	5.0
Other invested assets	2.6	1.6
Acquisitions of investments:		
Fixed maturities securities	(554.9)	(485.9)
Equity securities	10.5	(70.9)
Mortgage loans on real estate	(135.3)	(238.8)
Real estate	(60.7)	(26.8)

Other invested assets	(44.0)	(17.6)
Policy loans, net	12.1	8.2
Other, net		(150.0)
Property, plant and equipment, net	(12.0)	(15.8)
Acquisition of subsidiaries, net of cash acquired	(208.0)	
Net cash provided by/(used in) investing activities	$ (69.3)	$ (94.7)
Cash flows from financing activities:		
Issuance of debt		296.6
Repayments of debt	(0.1)	(286.3)
Receipts from annuity and universal life policies creditedto policyholder s account balances	571.1	1,326.1
Return of policyholder account balances on annuity and universal life policies	(530.5)	(1,336.0)
Treasury stock repurchases	(27.8)	(31.1)
Other	0.5	
Net cash (used in) financing activities	13.2	(30.7)
Net (decrease)/increase in cash and cash equivalents	(108.9)	(155.0)
Cash and cash equivalents, beginning of period	869.6	377.2
Cash and cash equivalents, end of period	$760.7	$ 222.2

See accompanying notes to unaudited interim condensed consolidated financial statements

THE MONY GROUP INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Description of Business:

On November 16, 1998, pursuant to its Plan of Reorganization (the Plan) which was approved by the New York Superintendent of Insurance on the same day (the Plan Effective Date), The Mutual Life Insurance Company of New York (MONY) converted from a mutual life insurance company to a stock life insurance company (the Demutualization) and became a wholly owned subsidiary of The MONY Group Inc. (MONY Group), a Delaware corporation organized on June 24, 1997. In connection with the Plan, MONY established a closed block (Closed Block) to fund the guaranteed benefits and dividends of certain participating insurance policies, and eligible policyholders received cash, policy credits, or shares of common stock of the MONY Group in exchange for their membership interests in MONY. Also, on November 16, 1998, the MONY Group consummated an initial public offering (the Offering) of approximately 12.9 million shares of its common stock and MONY changed its name to MONY Life Insurance Company. The shares of common stock issued in the Offering are in addition to approximately 34.3 million shares of common stock of the MONY Group distributed to the aforementioned policyholders. As used in these financial statements, the Company shall be a reference to MONY Group and its direct and indirect subsidiaries; MONY Life shall be a reference to MONY Life Insurance Company and its direct and indirect subsidiaries and the Transaction shall be a collective reference to the Plan and Offerings.

The Company is primarily engaged in the business of providing a wide range of life insurance, annuity, and investment products and services to higher income individuals, particularly family builders, pre-retirees, and small business owners. In addition, as a result of the acquisitions of Advest Group Inc. (Advest) and Matrix Capital Markets Group Inc. and Matrix Private Equities, Inc. (referred to together as Matrix) during the first quarter of 2001 (see Note 2), the Company provides trading, investment banking and trust services, and has significantly enhanced its asset management services and securities brokerage offerings.

The Company distributes its products and services primarily through its career agency sales force, Advest financial advisors and various complementary distribution channels. Complementary distribution includes: (i) sales of mutual funds by Enterprise Capital Management, a Company subsidiary, through third-party broker dealers, (ii) sales of Protection Products sold by U.S. Financial Life Insurance Company (USFL), also a Company subsidiary, through brokerage general agencies, (iii) sales of corporate-owned life insurance (COLI) products by the Company s corporate marketing team and (iv) sales of a variety of financial products and services through the Company s Trusted Securities

Advisors Corp. subsidiary. The Company primarily sells its products in all 50 of the United States, the District of Columbia and the Commonwealth of Puerto Rico.

2. Acquisitions:

On January 31, 2001, the Company completed a merger in which it acquired all of the outstanding capital stock of Advest in exchange for approximately $308.2 million of consideration (including transaction and other acquisition related expenses of approximately $15.0 million) consisting of cash of approximately $165.9 million and 3.9 million shares of common stock of the MONY Group with a fair value of approximately $142.3 million. As a result of the merger, Advest became a wholly owned subsidiary of MONY Group Inc. Advest, through its principal operating subsidiaries Advest Inc., a securities broker-dealer, and Advest Bank and Trust Company, a federal savings bank, provides diversified financial services including, securities brokerage, trading, investment banking, trust and asset management services. The transaction was accounted for under the purchase method of accounting. Goodwill recorded in connection with the transaction approximated $157.2 million and is being amortized on a straight line basis over 20 years. Goodwill was increased by $22.2 million during the second quarter primarily reflecting cost incurred in connection with the outsourcing of Advest s clearing operations which was contemplated at the date of acquisition. In connection with the transaction, a retention program was established for certain Advest personnel, which is expected to cost, on a present value basis, approximately $45.0 million over the five-year period commencing from the date the transaction was consummated. Pursuant to the terms of this retention program the Company expects to record a charge of $7.5 million in each of the two 12 month periods following the date the transaction was consummated and $10.0 million in each of the three succeeding 12 month periods. In addition, a separate retention program was established for certain of Advest s key management personnel that could result in total costs of approximately $15.0 million, depending upon the achievement of specified performance goals, over the two year period following the date the Advest Acquisition was consummated.

Effective January 1, 2001, the Company acquired 100% of the equity of Matrix for $12.1 million in cash, plus the obligation to make certain contingent payments in the event that Matrix achieves certain profit goals. Matrix primarily provides investment banking services to middle market companies. The transaction was accounted for under the purchase method of accounting. Goodwill recorded in connection with the transaction was approximately $11.1 million and is being amortized on a straight line basis over 15 years.

3. Summary of Significant Accounting Policies:

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States (GAAP). The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. In the opinion of management these statements include all normal recurring adjustments necessary to present fairly the financial position, results of operations and cash flows of the Company for the periods presented in conformity with GAAP. These statements should be read in conjunction with the consolidated financial statements of the Company for the year ended December 31, 2000, which are presented in MONY Group s Annual Report on Form 10-K for the fiscal year ended December 31, 2000 (MONY Group s 2000 Annual Report). The results of operations for the three-month and six-month period ended June 30, 2001 are not necessarily indicative of the results to be expected for the full year. Certain reclassifications have been made in the amounts presented for the comparative prior periods to conform those periods to the current presentation.

New Accounting Pronouncements

On December 26, 2000 the American Institute of Certified Public Accountants issued Statement of Position 00-3, *Accounting by Insurance Enterprises for Demutualizations and Formations of Mutual Insurance Holding Companies and For Certain Long-Duration Participating Contracts (SOP 00-3)*. SOP 00-3 provides guidance with respect to accounting for Demutualizations and requires, among other things, that (i) Closed Block assets, liabilities, revenues, and expenses should be displayed in financial statements combined with all other assets, liabilities, revenues, and expenses outside the Closed Block, and (ii) Demutualization expenses be classified as a single line item within income from continuing operations. The guidance in SOP 00-3 requires restatement of financial statements presented for years prior to its issuance and is effective for fiscal years beginning after December 15, 2000, except as it pertains to demutualization expenses which was effective immediately upon its issuance. The financial statements herein reflect the adoption of SOP 00-3. Accordingly, the consolidated statements of income and comprehensive income and balance sheets presented herein for the three-month and six-month periods ended June 30, 2000 have been restated from those previously reported in the prior year to conform the presentation thereof to that required by SOP 00-3.

In the first quarter of 2001, the Company adopted SFAS 133, *Accounting for Derivative Instruments and Hedging Activities (SFAS 133)*. SFAS 133 requires all derivatives to be recognized in the statement of financial position as either assets or liabilities and measured at fair value. The corresponding derivative gains and losses should be reported based on the hedge relationship, if any, that exists. Changes in the fair value of derivatives that are not designated as hedges or that do not meet the hedge accounting criteria in SFAS 133, are required to be reported in earnings. SFAS 133, is effective for all fiscal quarters of the fiscal years beginning after June 15, 2000. SFAS 133 did not have a significant affect on the Company s financial position or results of operations.

In September 2000, the FASB issued SFAS No. 140 *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities, a replacement of SFAS No. 125 (SFAS 140).* SFAS No. 140 specifies the accounting and reporting requirements for securitizations and other transfers of financial assets and collateral, recognition and measurement of servicing assets and liabilities and the extinguishment of liabilities. SFAS No. 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001 and is to be applied prospectively with certain exceptions. This statement is effective for recognition and reclassification of collateral and for disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2000. Adoption of the new requirements did not have a significant impact on the Company s consolidated financial position or results of operations.

In July 2001, the FASB issued SFAS No. 141, *Business Combinations (SFAS 141).* SFAS 141 addresses the financial accounting and reporting for all business combinations. This statement requires that all business combinations be accounted for under the purchase accounting method and abolishes the use of the pooling-of-interest method, requires separate recognition of intangible assets that can be identified and named, and expands required disclosures. All of the Company s past business combinations have been accounted for under the purchase accounting method. The provisions of this statement apply to all business combinations initiated after June 30, 2001. This statement has no effect on the financial position or results of operations of the Company.

In June 2001, the FASB issued SFAS No. 142, *Goodwill and Other Intangible Assets (SFAS 142).* This statement addresses (i) how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition and (ii) how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. Under SFAS 142, Company s will no longer amortize goodwill on a straight-line basis over a predetermined period of time. SFAS 142 requires companies to evaluate recoverability of goodwill at least annually, and more frequently if events and circumstances indicate that goodwill may not be recoverable. FAS 142 requires amortization of identified intangibles with finite useful lives over their expected useful lives. This statement is effective for fiscal years beginning after December 15, 2001. The Company is in the process of evaluating the effect of SFAS 142 on its financial position and results of operations, but does not expect it to have an adverse material effect.

New Accounting Policies

Following is a summary of significant accounting policies for certain new line items appearing in the Company s 2001 financial statements for the first time due to the acquisition of Advest.

Receivables from and payables to brokerage customers

Receivables from and payables to brokerage customers arise from cash and margin transactions executed by Advest on their behalf. In virtually all instances, receivables are collateralized by securities with market values in excess of the amounts due. The collateral is not reflected in the accompanying financial statements. A reserve for doubtful accounts is established based upon reviews of individual credit risks, as well as prevailing and anticipated economic conditions. Included in payables to brokerage customers are free credit balances of $168.3 million as of June 30, 2001. Advest pays interest on credit balances when the customer has indicated that the funds are for reinvestment purposes.

Collateralized financing transactions

Securities loaned and borrowed are accounted for as collateralized financing transactions and are recorded at the amount of cash collateral received or advanced. The fee received or paid by Advest is recorded as interest revenue or expense and is reflected in Retail Brokerage and Investment Banking revenues and other operating costs and expenses, respectively, in the consolidated statement of income. The initial collateral advanced or received has a market value in excess of the market value of the underlying securities. The Company monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded, as necessary.

Advest utilizes short-term repurchase agreements as supplementary short-term financing and delivers U.S. Treasury securities as collateral for cash received. These repurchase agreements are accounted for as collateralized financings. The fee paid by Advest is recorded as interest expense. Advest monitors the market value of securities transferred on a daily basis, and obtains or refunds collateral as necessary.

Securities

Advest s trading securities and securities sold, not yet purchased are valued at market with unrealized gains and losses reflected in current period revenues from principal transactions or investment banking. Periodically, Advest receives stock warrants in connection with its investment banking activities. Warrants are carried at their fair value which is determined using the Black-Scholes model or another standard option valuation technique.The value of such warrants and changes therein are reflected in earnings.

At June 30, 2001, trading securities, securities pledged as collateral and securities sold, not yet purchased consisted of:

	Trading securities	Securities pledged as collateral	Securities sold, not yet Purchase

		($ in millions)	
Corporate obligations	$273.1	$182.8	$335.6
State and municipal obligations	55.7		0.2
U.S. government and agency obligations	56.8	3.1	116.2
Mortgage-backed securities	64.4		
Stocks and warrants	4.6		1.4
	$454.6	$185.9	$453.4

Investment banking

Investment banking revenues are recorded, net of expenses, on the settlement date for management fees and sales concessions, and on the dates the underwriting syndications are closed for underwriting fees. Investment banking revenues are included in Retail Brokerage and Investment Banking revenues in the consolidated statement of income.

Short term borrowings

In the ordinary course of business, primarily to facilitate securities settlements and finance margin debits and trading inventories, Advest obtains bank loans which are collateralized by its trading securities and customers margin securities. The loans are payable on demand and bear interest based on the federal funds rate. At June 30, 2001, Advest had $392.7 million in bank loans all collateralized by firm and customer securities. The weighted average interest rate on bank loans outstanding at June 30, 2001, was 5.03%.

4. Segment Information:

For management and reporting purposes, the Company s business is organized in three principal operating segments, the Protection Products segment, the Accumulation Products segment and the Retail Brokerage and Investment Banking segment. Substantially all of the Company s other business activities are combined and reported in the Other Products segment.

Products comprising the Protection Products segment primarily includes a wide range of insurance products, including: whole life, term life, universal life, variable universal life, corporate-owned life insurance, last survivor variable universal life, last survivor universal life, group universal life, last survivor whole life and special-risk products. In addition, included in the protection products segment are: (i) the assets and liabilities transferred pursuant to the Group Pension Transaction, as well as the Group Pension Profits derived therefrom (see Note 5), (ii) the Closed Block assets and liabilities, as well as all the related revenues and expenses relating thereto.

The Accumulation Products segment primarily includes flexible premium variable annuities, single premium deferred annuities, single premium immediate annuities, proprietary mutual funds, investment management services, and certain other financial services products.

The Retail Brokerage and Investment Banking segment is comprised of the operations of Advest, Matrix and MONY Securities Corporation (MSC). Advest provides diversified financial services including securities brokerage, trading, investment banking, trust and asset management services. Matrix is a middle market investment bank specializing in merger and acquisition services for a middle market client base. MSC is a securities broker dealer that transacts customer trades primarily in securities and mutual funds. In addition to selling the Company s Protection and Accumulation Products, MSC provides the Company s career agency distribution system access to other non-proprietary investment products (including stocks, bonds, limited partnership interests, tax-exempt unit investment trusts and other investment securities). MSC was previously reported in the Other Products segment. The segmented data presented below as of December 31, 2000 and for the three-month and six-month periods ended June 30, 2000 has been restated from that reported in the prior year period to reflect the reclassification of MSC from the Other Products segment to the Retail Brokerage and Investment Banking segment.

The Company s Other Products segments primarily consists of an insurance brokerage operation and certain lines of insurance business no longer written by the Company (the run-off businesses).The insurance brokerage operation provides the Company s career agency sales force with access to variable life, annuity, small group health and specialty insurance products written by other carriers to meet the insurance and investment needs of its customers. The run off businesses primarily consist of group life and health business as well as group pension business that was not included in the Group Pension Transaction (see Note 5).

Amounts reported as reconciling amounts in the table below primarily relate to: (i) contracts issued by the Company relating to its employee benefit plans and, (ii) assets, liabilities, revenues and expenses of the MONY Group.

Set forth in the following table is certain financial information with respect to the Company s operating segments as well as amounts not allocated to the segments as of June 30, 2001 and December 31, 2000 and for each the three-month and six-month periods ended June 30, 2001

and 2000.

Segment Summary Financial Information

	For the Three-month Periods Ended June 30,		For the Six-month Periods Ended June 30,	
	2001	**2000**	**2001**	**2000**
	($ in millions)		($ in millions)	
Premiums:				
Protection Products	$169.8	$174.4	$331.4	$336.9
Accumulation Products	1.1	0.3	2.4	0.4
Other Products	2.5	1.8	4.7	4.2
	$173.4	$176.5	$338.5	$341.5
Universal life and investment-type product policy fees:				
Protection Products	$ 37.1	$ 38.2	$ 71.6	$ 68.5
Accumulation Products	14.3	17.6	29.5	36.5
Other Products	0.9	0.1	0.9	0.8
	$ 52.3	$ 55.9	$102.0	$105.8
Net investment income and net realized gains (losses)on investments:				
Protection Products	$153.6	$176.1	$303.5	$459.7
Accumulation Products	20.3	25.6	40.5	76.2
Retail Brokerage and Investment Banking	2.1	0.3	2.9	0.4
Other Products	7.3	12.2	13.3	45.8
Reconciling amounts	9.2	6.4	18.5	8.9
	$192.5	$220.6	$378.7	$591.0
Other income:				
Protection Products(1)	$ 17.9	$ 16.9	$ 25.6	$ 31.1
Accumulation Products	27.0	31.4	53.2	62.7
Retail Brokerage and Investment Banking	99.8	16.0	170.9	34.4
Other Products	4.1	5.2	8.6	9.7
Reconciling amounts	2.0	0.7	3.8	2.0
	$150.8	$ 70.2	$262.1	$139.9
Amortization of deferred policy acquisition costs:				
Protection Products	$ 24.3	$ 30.1	$ 55.2	$ 60.1
Accumulation Products	4.0	7.1	10.3	14.6
	$ 28.3	$ 37.2	$ 65.5	$ 74.7
Benefits to policyholders:(2)				

Protection Products	$198.7	$201.0	$397.4	$384.8
Accumulation Products	16.3	19.2	32.4	37.0
Other Products	4.5	5.3	12.9	11.7
Reconciling amounts	2.0	2.7	4.8	3.8
	$221.5	$228.2	$447.5	$437.3

	For the Three-month Periods Ended June 30,		**For the Six-month Periods Ended June 30,**	
	2001	**2000**	**2001**	**2000**
	($ in millions)		**($ in millions)**	
Income before income taxes:				
Protection Products	$26.9	$53.0	$47.4	$194.1
Accumulation Products	12.9	17.2	24.9	62.5
Retail Brokerage and Investment Banking	(2.1)	(0.3)	(4.0)	0.1
Other Products	0.7	4.2	(4.8)	29.3
Reconciling amounts	(6.6)	(2.6)	(11.4)	(2.3)
	$31.8	$71.5	$52.1	$283.7

	As of June 30, 2001	**As of December 31, 2000**
	(in millions)	
Assets:(5)		
Protection Products(3)	$16,274.5	$16,239.1
Accumulation Products	5,240.4	5,593.5
Retail Brokerage and Investment Banking	977.2	9.7
Other Products	1,341.3	1,051.0
Reconciling amounts	2,251.4	1,682.0
	$26,084.8	$24,575.3
Deferred policy acquisition costs:		
Protection Products	$ 1,076.3	$ 1,064.3
Accumulation Products	146.2	145.4
	$ 1,222.5	$ 1,209.7
Policyholders liabilities:		
Protection Products(4)	$10,327.9	$10,290.7
Accumulation Products	1,053.4	1,060.0
Other Products	371.7	381.4
Reconciling amounts	17.3	17.7

	$11,770.3	$11,749.8
Separate account liabilities:(5)		
Protection Products(6)	$ 3,889.9	$ 3,939.5
Accumulation Products	3,716.7	4,072.9
Other Products	453.3	499.5
Reconciling amounts	726.0	770.1
	$ 8,785.9	$ 9,282.0

(1) Includes Group Pension Profits, Retail Brokerage and Investment Banking revenues and other income.

(2) Includes benefits to policyholders and interest credited to policyholders account balances.

(3) Includes assets transferred in the Group Pension Transaction of $4,824.9 million and $4,927.7 million as of June 30, 2001 and December 31, 2000, respectively (see Note 5).

(4) Includes policyholder liabilities transferred in the Group Pension Transaction of $1,430.7 million and $1,468.1 million as of June 30, 2001 and December 31, 2000, respectively (see Note 5).

(5) Each segment includes separate account assets in an amount equal to the corresponding liability reported.

(6) Includes separate account liabilities transferred in the Group Pension Transaction of $3,340.6 million and $3,416.7 million as of June 30, 2001 and December 31, 2000 respectively (see Note 5).

The following is a summary of premiums and universal life and investment-type product policy fees by product for the three and six-month periods ended June 30, 2001 and 2000, respectively.

	Three-month Period Ended June 30,		**Six-month Period Ended June 30,**	
	2001	**2000**	**2001**	**2000**
	($ in millions)		**($ in millions)**	
Premiums:				
Individual life	$169.7	$174.3	$331.4	$336.7
Group insurance	2.5	1.8	4.7	4.2
Disability income insurance	0.1	0.1	0.2	0.2
Other	1.1	0.3	2.2	0.4
Total	$173.4	$176.5	$338.5	$341.5
Universal life and investment-type product policy fees:				
Universal life	$ 17.8	$ 18.7	$ 35.7	$ 34.5
Variable universal life	17.1	16.7	31.2	28.3
Group universal life	2.3	2.8	4.8	5.7
Individual variable annuities	14.2	17.6	29.4	36.3
Individual fixed annuities	0.9	0.1	0.9	1.0
Total	$ 52.3	$ 55.9	$102.0	$105.8

5. The Group Pension Transaction:

The following sets forth certain summarized financial information relating to the Group Pension Transaction (as defined in the notes to the audited consolidated financial statements included in MONY Group s 2000 Annual Report) as of and for the periods indicated, including information regarding: (i) the general account assets transferred to support the existing deposits in the Group Pension Transaction (such assets hereafter referred to as the AEGON Portfolio), (ii) the transferred separate account assets and liabilities, and (iii) the components of revenue and expense comprising the Group Pension Profits (as defined in the notes to the audited consolidated financial statements included in MONY Group s 2000 Annual Report):

	As of June 30 2001	As of December 31, 2000
	($ in millions)	
Assets:		
General Account		
Fixed Maturities: available for sale, at estimated fair value (amortized cost; $1,377.0 million and $1,420.8 million, respectively)	$1,388.5	$1,419.0
Mortgage loans on real estate	37.6	47.5
Cash and cash equivalents	33.5	18.5
Accrued investment income	24.7	26.0
Total general account assets	1,484.3	1,511.0
Separate account assets	3,340.6	3,416.7
Total assets	$4,824.9	$4,927.7
Liabilities:		
General Account(1)		
Policyholders account balances	$1,430.7	$1,468.1
Other liabilities	19.1	12.4
Total general account liabilities	$1,449.8	$1,480.5
Separate account liabilities(2)	$3,340.6	$3,416.7
Total Liabilities	$4,790.4	$4,897.2

(1) Includes general account liabilities transferred in connection with the Group Pension Transaction pursuant to indemnity reinsurance of $73.2 million and $74.2 million as of June 30, 2001 and December 31, 2000, respectively.

(2) Includes separate account liabilities transferred in connection with the Group Pension Transaction pursuant to indemnity reinsurance of $12.9 million and $14.7 million as of June 30, 2001 and December 31, 2000, respectively.

	For the Three-month Periods Ended June 30,		For the Six-month Periods Ended June 30,	
	2001	2000	2001	2000
	($ in millions)			
Revenues:				
Product policy fees	$ 4.2	$ 5.9	$ 9.5	$12.0

Net investment income	25.8	28.3	53.0	58.4
Net realized gains (losses) on investments	2.0	0.0	3.6	0.6
Total Revenues	32.0	34.2	66.1	71.0
Benefits and Expenses:				
Interest Credited to policyholders account balances	18.6	22.3	37.1	43.2
Other operating costs and expenses	4.1	3.8	9.8	9.6
Total benefits and expenses	22.7	26.1	46.9	52.8
Group Pension Profits	$ 9.3	$ 8.1	$19.2	$18.2

6. Commitments and Contingencies:

Since late 1995 a number of purported class actions have been commenced in various state and federal courts against the Company alleging that it engaged in deceptive sales practices in connection with the sale of whole and universal life insurance policies from the early 1980s through the mid 1990s. Although the claims asserted in each case are not identical, they seek substantially the same relief under essentially the same theories of recovery (i.e., breach of contract, fraud, negligent misrepresentation, negligent supervision and training, breach of fiduciary duty, unjust enrichment and violation of state insurance and/or deceptive business practice laws). Plaintiffs in these cases seek primarily equitable relief (e.g., reformation, specific performance, mandatory injunctive relief prohibiting the Company from canceling policies for failure to make required premium payments, imposition of a constructive trust and creation of a claims resolution facility to adjudicate any individual issues remaining after resolution of all class-wide issues) as opposed to compensatory damages, although they also seek compensatory damages in unspecified amounts. The Company has answered the complaints in each action (except for one being voluntarily held in abeyance). The Company has denied any wrongdoing and has asserted numerous affirmative defenses.

On June 7, 1996, the New York State Supreme Court certified one of those cases, *Goshen v. The Mutual Life Insurance Company of New York and MONY Life Insurance Company of America* (now known as *DeFilippo, et al v. The Mutual Life Insurance Company of New York and MONY Life Insurance Company of America)*, the first of the class actions filed, as a nationwide class consisting of all persons or entities who have, or at the time of the policy s termination had, an ownership interest in a whole or universal life insurance policy issued by MONY and sold on an alleged vanishing premium basis during the period January 1, 1982 to December 31, 1995. On March 27, 1997, MONY filed a motion to dismiss or, alternatively, for summary judgment on all counts of the complaint. All of the other putative class actions have been consolidated and transferred by the Judicial Panel on Multidistrict Litigation to the United States District Court for the District of Massachusetts and/or are being held in abeyance pending the outcome of the *Goshen* case.

On October 21, 1997, the New York State Supreme Court granted MONY s motion for summary judgment and dismissed all claims filed in the *Goshen* case against MONY. On December 20, 1999, the New York State Court of Appeals affirmed the dismissal of all but one of the claims in the *Goshen* case (a claim under New York s General Business Law), which has been remanded back to the New York State Supreme Court for further proceedings consistent with the opinion. The New York State Supreme Court has subsequently reaffirmed that, for purposes of the remaining New York General Business Law claim, the class is now limited to New York purchasers only, and has further held that the New York General Business Law claims of all class members whose claims accrued prior to November 29, 1992 are barred by the applicable statute of limitations. MONY intends to defend itself vigorously against the sole remaining claim. There can be no assurance, however, that the present litigation relating to sales practices will not have a material adverse effect on MONY.

On November 16, 1999, The MONY Group Inc. and MONY Life Insurance Company were served with a complaint in an action *entitled Calvin Chatlos, M.D., and Alvin H. Clement, On Behalf of Themselves And All Others Similarly Situated v. The MONY Life Insurance Company, The MONY Group Inc., and Neil D. Levin, Superintendent, New York Department of Insurance*, filed in the United States District Court for the Southern District of New York. The action purports to be brought as a class action on behalf of all individuals who had an ownership interest in one or more in-force life insurance policies issued by MONY Life Insurance Company as of November 16, 1998. The complaint alleges that (i) the New York Superintendent of Insurance, Neil D. Levin, violated Section 7312 of the New York Insurance Law by approving the plan of demutualization, which plaintiffs claim was not fair and adequate, primarily because it allegedly failed to provide for sufficient assets for the mechanism established under the plan to preserve reasonable dividend expectations of the closed block, and (ii) MONY violated Section 7312 by failing to develop and submit to the Superintendent a plan of demutualization that was fair and adequate. The plaintiffs seek equitable relief in the form of an order vacating and/or modifying the Superintendent s order approving the plan of demutualization and/or directing the Superintendent to order MONY to increase the assets in the closed block, as well as unspecified monetary damages, attorneys fees and other relief.

In early January 2000, MONY and the New York Superintendent wrote to the District Court seeking a pre-motion conference preliminary to the filing of a motion to dismiss the federal complaint on jurisdictional, federal abstention and timeliness grounds and for failure to state a

claim. Following receipt of those letters, plaintiffs counsel offered voluntarily to dismiss their complaint, and a stipulation and order to that effect was thereafter filed and approved by the court.

On March 27, 2000, plaintiffs filed a new action in New York State Supreme Court bearing the same caption and naming the same defendants as the previously filed federal action. The state court complaint differs from the complaint previously filed in federal court in two primary respects. First, it no longer asserts a claim for damages against the Superintendent, nor does its prayer for relief seek entry of an order vacating or modifying the Superintendent s decision or requiring the Superintendent to direct MONY to place additional assets into the closed block. Rather, it seeks an accounting and an order from the Court directing MONY to transfer additional assets to the closed block.

Second, the new complaint contains claims for breach of contract and fiduciary duty, as well as new allegations regarding the adequacy of the disclosures contained in the Policyholder Information Booklet distributed to policyholders soliciting their approval of the plan of demutualization (which plaintiffs claim violated both the Insurance Law and MONY s fiduciary duties).

In order to challenge successfully the New York Superintendent s approval of the plan, plaintiffs would have to sustain the burden of showing that such approval was arbitrary and capricious or an abuse of discretion, made in violation of lawful procedures, affected by an error of law or not supported by substantial evidence. In addition, Section 7312 provides that MONY may ask the court to require the challenging party to give security for the reasonable expenses, including attorneys fees, which may be incurred by MONY or the Superintendent or for which MONY may become liable, to which security MONY shall have recourse in such amount as the court shall determine upon the termination of the action.

MONY and the Superintendent moved to dismiss the state court complaint in its entirety on a variety of grounds. On April 20, 2001, the New York Supreme Court granted both motions and dismissed all claims against MONY and the Superintendent. On June 29, 2001 plaintiffs filed a Notice of Appeal with the New York Appellate Division, appealing the dismissal of the claims against MONY and the Superintendent. MONY intends to defend itself vigorously against plaintiffs appeal. There can be no assurance, however, that the present litigation will not have a material adverse effect on MONY.

In addition to the matters discussed above, the Company is involved in various other legal actions and proceedings (some of which involve demands for unspecified damages) in connection with its business. In the opinion of management of the Company, resolution of contingent liabilities, income taxes and other matters will not have a material adverse effect on the Company s consolidated financial position or results of operations.

At June 30, 2001, the Company had commitments to contribute capital to its equity partnership investments of $153.1 million and commitments to purchase $47.2 million of private fixed and floating rate maturity securities with interest rates ranging from 6.55% to 11.50%.

At June 30, 2001, the Company had commitments to issue $6.1 million of fixed rate agricultural loans with periodic interest rate reset dates. The initial interest rates on such loans range from approximately 7.50% to 7.87%. In addition, the Company had commitments to issue $119.0 million of fixed rate and floating rate commercial mortgage loans with interest rates ranging from 6.60% to 8.65%.

At June 30, 2001, the Company had commitments to issue $16.4 million of mezzanine financing with pay rates ranging from 9.00% to 15.50%.

In addition, the Company maintains a bank line of credit facility with domestic banks aggregating $150.0 million, with a scheduled renewal date in June 2002. In accordance with certain covenants under these lines of credit, the Company is required to maintain a certain statutory tangible net worth and debt to capitalization ratio. The purpose of this facility is to provide additional liquidity for any unanticipated short-term cash needs the Company might experience and also to serve as support for the Company s $150.0 million commercial paper program which was activated in the third quarter of 2000. The Company has complied with all covenants under these lines of credit, has not borrowed against these lines of credit since their inception, and does not have any commercial paper outstanding as of June 30, 2001.

At June 30, 2001, Advest was contingently liable under bank letter of credit agreements in the amount of $5.3 million, which are collateralized by securities held in customer accounts.

7. Closed Block:

The following tables set forth certain summarized financial information relating to the Closed Block, as of and for the periods indicated:

	June 30, 2001	December 31, 2000
	($ in millions)	
Assets:		

Fixed Maturities:		
Available for sale, at estimated fair value (amortized cost;$3,527.8 and $3,535.8 respectively)	$3,556.9	$3,543.1
Mortgage loans on real restate	592.2	566.0
Policy loans	1,167.8	1,183.9
Cash and cash equivalents	277.0	167.8
Premiums receivable	9.5	13.6
Deferred policy acquisition costs	520.7	552.6
Other assets	229.3	224.2
Total Closed Block assets	$6,353.4	$6,251.2
Liabilities:		
Future policy benefits	$6,832.2	$6,826.8
Policyholders account balances	292.5	293.3
Other Policyholders liabilities	181.6	173.5
Other liabilities	111.9	22.2
Total Closed Block liabilities	$7,418.2	$7,315.8

	For the Three-month Period Ended June 30,		**For the Six month Periods Ended June 30,**	
	2001	**2000**	**2001**	**2000**
	($ in millions)			
Revenues:				
Premiums	$138.2	$147.9	$267.5	$283.6
Net investment income	99.1	98.6	199.0	195.0
Net realized gains (losses) on investments	2.1	(4.4)	2.0	(6.9)
Other income	0.5	0.3	1.0	1.1
Total revenues	239.9	242.4	469.5	472.8
Benefits and Expenses:				
Benefits to policyholders	$152.0	$160.6	$293.4	$302.2
Interest credited to policyholders account balances	2.1	2.1	4.2	4.3
Amortization of deferred policy acquisition cost	11.0	14.3	32.2	31.9
Dividends to policyholders	59.9	52.1	113.4	108.7
Other operating costs and expenses	2.4	2.5	4.1	4.3
Total benefits and expenses	227.4	231.6	447.3	451.4
Contribution from the Closed Block	$ 12.5	$ 10.8	$ 22.2	$ 21.4

For the three-month periods ended June 30, 2001 and 2000, there were $4.7 million and $4.5 million in charges for other than temporary impairments on fixed maturities in the Closed Block. For the six-month periods ended June 30, 2001 and 2000, there were $4.7 million and $7.5 million, respectively, in charges for other than temporary impairments on fixed maturity securities in the Closed Block.

8. Extraordinary Item and Other Items:

(a) On March 8, 2000, the MONY Group issued $300.0 million principal amount of senior notes (the Senior Notes). The Senior Notes mature on March 15, 2010 and bear interest at 8.35% per annum. The principal amount of the Senior Notes is payable at maturity and interest is payable semi-annually. The net proceeds to the MONY Group from the issuance of the Senior Notes, after deducting underwriting commissions and other expenses (primarily legal and accounting fees), were approximately $296.6 million. Approximately $280.0 million of the net proceeds from the issuance of the Senior Notes was used by the MONY Group Company to finance the repurchase, on March 8, 2000, by MONY Life of all of its outstanding $115.0 million face amount 9.5% coupon surplus notes, and $116.5 million face amount of its $125.0 million face amount 11.25% coupon surplus notes (hereafter referred to as the 9.5% Notes and 11.25% Notes , respectively), which were outstanding at December 31, 1999. The balance of the net proceeds from the issuance of the Senior Notes will be used by the MONY Group Company for general corporate purposes.

As a result of the repurchase of the 9.5% Notes and substantially all of the 11.25% Notes, the Company recorded a before tax loss of $56.5 million ($36.7 million after tax) during the first quarter of 2000. The loss resulted from the premium paid by MONY Life to the holders of the 9.5% Notes and the 11.25% Notes reflecting the excess of their fair value over their carrying value on the Company s books at the date of the transaction of approximately $7.0 million and $49.5 million, respectively. This loss is reported, net of tax, as an extraordinary item on the Company s income statement for the six-month period ended June 30, 2000.

(b) Since January 2000, the Company has had a common share repurchase program in place. During the second quarter of 2001, the Company announced a plan to repurchase an additional 2.5 million common shares, bringing the total authorized share repurchase to approximately 4.9 million shares. Under the plan, the Company may repurchase such shares from time to time, as market conditions and other factors warrant. The plan may be discontinued at anytime. As of June 30, 2001, 1,898,689 million shares had been repurchased at an aggregate cost of approximately $61.0 million.

9. Subsequent Events:

In August 2001, MONY Life paid dividends to MONY Group in the amount of $100 million.

ITEM 2:

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion addresses the financial condition and results of operations of the Company for the periods indicated. The discussion of the Company s results of operations is based on the results of the Closed Block combined on a line by line basis with the results of operations outside the Closed Block, for such respective periods. The discussion and analysis of the Company s financial condition and results of operations presented below should be read in conjunction with the Company s unaudited interim condensed consolidated financial statements and related notes to the unaudited interim condensed consolidation financial statements included elsewhere herein and MONY Group s 2000 Annual Report.

Results of Operations

The following tables present the Company s consolidated and segment results of operations for the six-month period ended June 30, 2001 and 2000. The discussion following these tables discusses the Company s consolidated and segment results of operations.

	For the Three-month Period Ended June 30, 2001					
	Protection	Accumulation	Retail Brokerage and Investment Banking	Other	Reconciling	Consolidated
	($ in millions)					
Revenues:						
Premiums	$169.8	$ 1.1	$	$ 2.5	$	$173.4
Universal life and investment-type product policy fees	37.1	14.3		0.9		52.3
Net investment income and realized gainson investments	153.6	20.3	2.1	7.3	9.2	192.5
Group Pension Profits	9.3					9.3
Retail Brokerage and Investment Banking revenues			99.8			99.8
Other income	8.6	27.0		4.1	2.0	41.7

	378.4	62.7	101.9	14.8	11.2	569.0
Benefits and Expenses:						
Benefits to policyholders	184.1	6.0		2.4	2.0	194.5
Interest credited to policyholders account balances	14.6	10.3		2.1		27.0
Amortization of deferred policy acquisition costs	24.3	4.0				28.3
Dividends to policyholders	59.9	0.3		0.4		60.6
Other operating costs and expenses	68.6	29.2	104.0	9.2	15.8	226.8
	351.5	49.8	104.0	14.1	17.8	537.2
Income before income taxes	$ 26.9	$12.9	$ (2.1)	$ 0.7	$ (6.6)	31.8
Income tax expense						9.5
Net Income						$ 22.3

	For the Three-month Period Ended June 30, 2000					
	Protection	Accumulation	Retail Brokerage and Investment Banking	Other	Reconciling	Consolidated
Revenues:						
Premiums	$174.4	$ 0.3	$	1.8	$	$176.5
Universal life and investment-type product policy fees	38.2	17.6		0.1		55.9
Net investment income and realized gainson investments	176.1	25.6	0.3	12.2	6.4	220.6
Group Pension Profits	8.1					8.1
Retail Brokerage and Investment Banking revenues			16.0			16.0
Other income	8.8	31.4		5.2	0.7	46.1
	405.6	74.9	16.3	19.3	7.1	523.2
Benefits and Expenses:						
Benefits to policyholders	188.7	7.7		3.3	2.7	202.4
Interest credited to policyholders balances	12.3	11.5		2.0		25.8
Amortization of deferred policy acquisition costs	30.1	7.1				37.2
Dividends to policyholders	51.9	0.4		0.4		52.7
Other operating costs and expenses	69.6	31.0	16.6	9.4	7.0	133.6
	352.6	57.7	16.6	15.1	9.7	451.7
Income before income taxes	$ 53.0	$17.2	$ (0.3)	$ 4.2	$ (2.6)	71.5
Income tax expense						23.4

Net Income	$ 48.1

For the Six-month Period Ended June 30, 2001	Protection	Accumulation	Retail Brokerage and Investment Banking	Other	Reconciling	Consolidated
	($ in millions)					
Revenues:						
Premiums	$331.4	$ 2.4	$	$ 4.7		$ 338.5
Universal life and investment-type product policy fees	71.6	29.5		0.9		102.0
Net investment income and realized gainson investments	303.5	40.5	2.9	13.3	18.5	378.7
Group Pension Profits	19.2					19.2
Retail Brokerage and Investment Banking revenues			170.9			170.9
Other income	6.4	53.2		8.6	3.8	72.0
	732.1	125.6	173.8	27.5	22.3	1,081.3
Benefits and Expenses:						
Benefits to policyholders	367.3	11.8		8.3	4.8	392.2
Interest credited to policyholders account balances	30.1	20.6		4.6		55.3
Amortization of deferred policy acquisition costs	55.2	10.3				65.5
Dividends to policyholders	113.9	0.7		0.6		115.2
Other operating costs and expenses	118.2	57.3	177.8	18.8	28.9	401.0
	684.7	100.7	177.8	32.3	33.7	1029.2
Income before income taxes	$ 47.4	$ 24.9	$ (4.0)	$ (4.8)	$(11.4)	52.1
Income tax expense						16.5
Net Income						$ 35.6

For the Six-month Period Ended June 30, 2000	Protection	Accumulation	Retail Brokerage and Investment Banking	Other	Reconciling	Consolidated
Revenues:						
Premiums	$336.9	0.4		4.2		341.5
Universal life and investment-type product policy fees	68.5	36.5		0.8		105.8
Net investment income and realized gains on investments	459.7	76.2	0.4	45.8	8.9	591.0
Group Pension Profits	18.2					18.2

Retail Brokerage and Investment Banking revenues			34.4			34.4
Other income	12.9	62.7		9.7	2.0	87.3
	896.2	175.8	34.8	60.5	10.9	1,178.2
Benefits and Expenses:						
Benefits to policyholders	359.1	13.0		7.2	3.8	383.1
Interest credited to policyholders account balances	25.7	24.0		4.5		54.2
Amortization of deferred policy acquisition costs	60.1	14.6				74.7
Dividends to policyholders	108.5	0.8		0.6		109.9
Other operating costs and expenses	148.7	60.9	34.7	18.9	9.4	272.6
	702.1	113.3	34.7	31.2	13.2	894.5
Income before income taxes and extraordinary loss	$194.1	$ 62.5	$ 0.1	$29.3	$ (2.3)	283.7
Income tax expense						97.7
Income before extraordinary loss						186.0
Extraordinary loss, net of tax						36.7
Net Income						$ 149.3

Three-month Period Ended June 30, 2001 Compared to the Three-month Period Ended June 30, 2000.

Premiums Premium revenue was $173.4 million for the three-month period ended June 30, 2001, a decrease of $3.1 million, or 1.8% from $176.5 million reported for the comparable prior year period. The decrease was primarily the result of lower premiums in the Protection Products segment of $4.7 million. This decrease was primarily a result of lower renewal premiums of $9.4 million due to the reduction of the in-force block, offset by an increase in single premiums of $1.5 million, and an increase of $3.4 million in premiums from special risk term insurance products offered by U.S. Financial Life Insurance Company (USFL). The increase in new premiums written by USFL is primarily attributable to the expansion of its distribution and the improvement of its financial strength ratings since being acquired by the Company. Management believes that the decrease in traditional life insurance premiums is consistent with industry trends, particularly the continuing shift by consumers from traditional protection products to asset accumulation products. See *New Business Information* for a discussion regarding period to period sales and related trends.

Universal life and investment-type product policy fees Universal life and investment-type product policy fees were $52.3 million for three-month period ended June 30, 2001, a decrease of $3.6 million, or 6.4% from $55.9 million reported for the comparable prior year period. The decrease was primarily a result of lower fees in the Protection Products segment and Accumulation Products segment of $1.0 million and $3.4 million, respectively. The decrease in the Protection Products segment was primarily related to lower fees from universal life (UL) and variable universal life (VUL) of $3.7 million, offset by higher fees earned from USFL of $2.5 million. The decrease in the Accumulation Products segment was primarily due to lower mortality and expense charges of $1.3 million, and a $1.9 million decrease in surrender charges in the Company s flexible payment variable annuity (FPVA) product. The decrease in mortality and expense charges is due to lower fund values resulting from stock market declines. The decrease in surrender charges reflects the positive effects of the efforts of the Company s conservation unit and other measures designed to improve persistency.

Net investment income and realized gains on investments Net investment income was $189.5 million for the three-month period ended June 30, 2001, a decrease of $40.0 million, or 17.4%, from $229.5 million reported for the comparable prior year period. The decrease in net investment income is primarily related to a decrease in income recorded by the Company from its investments in limited partnership interests. Such partnerships provide venture capital funding to companies through the purchase of, or investment in equity securities issued by such companies. For the three-month period ended June 30, 2001, the Company had income of $6.3 million relating to such partnership investments, a decrease of $37.7 million from $44.0 million recorded for the three-month period ended June 30, 2000. As of June 30, 2001, invested assets, excluding trading portfolio assets of $640.5 million, were $10,998.5 million (including cumulative unrealized gains of $32.4 million on fixed maturity securities) compared to $10,755.5 million (including cumulative unrealized losses of $222.5 million on fixed maturity securities) for the prior year period. At June 30, 2001, fixed maturity securities, mortgage loans and real estate represented approximately 59.3%, 16.0% and

1.9%, respectively, of total invested assets (excluding trading portfolio assets), as compared to 59.7%, 17.4% and 3.6%, respectively, at June 30, 2000. The annualized yield on the Company s invested assets, including limited partnership interests, before and after realized gains/(losses) on investments was 6.9% and 7.0%, respectively, for the three-month period ended June 30, 2001, as compared to 8.3% and 7.9%, respectively, for the three-month period ended June 30, 2000. See *Investments Results by Asset Category.*

Net realized capital gains were $3.0 million for the three-month period ended June 30, 2001, an increase of $11.9 million, from losses of $8.9 million for the comparable prior year period. The following table sets forth the components of net realized gains (losses) by investment category for the three-month period ended June 30, 2001 compared to the three-month period ended June 30, 2000.

	For the Three-month Period Ended June 30,	
	2001	**2000**
	($ in millions)	
Real estate	$(0.9)	$3.1
Equity securities	(3.7)	(3.1)
Fixed maturities	2.8	(9.8)
Mortgage loans	3.5	0.7
Other	1.3	0.2
	$3.0	$(8.9)

Net investment income and net realized gains on investments are allocated to the Company s segments based on the assets allocated to such segments to support the associated liabilities of each segment and to maintain a targeted regulatory risk-based capital level for each segment.

Group Pension Profits Group pension profits were $9.3 million for the three-month period ending June 30, 2001, an increase of $1.2 million or 14.8% from $8.1 million reported in the corresponding prior year period. The increase is primarily due to higher capital gains of $2.0 million due to bond prepayment and sales gains in 2001, offset with a $0.8 million decrease in operating income due to the run-off of the Group Pension business.

For summary financial information relating to the Group Pension profits, refer to Note 5 of the Unaudited Interim Condensed Consolidated Financial Statements included elsewhere herein. Management expects that Group Pension Profits will decline in future periods through the termination of the Group Pension Transaction on December 31, 2002 consistent with the continuing run-off of the underlying business.

Retail Brokerage and Investment Banking Revenues Retail Brokerage and Investment Banking revenues were $99.8 million for the three-month period ended June 30, 2001, an increase of $83.8 million compared to $16.0 million for the comparable prior year period. The increase is primarily attributable to the acquisition of Advest in the first quarter of 2001. Revenues for Advest for the three-month periods ended June 30, 2001, were $87.5 million. See *New Business Information.*

Other income Other income (which consists primarily of fees earned by the Company s mutual fund management and insurance brokerage operations, as well as, revenues from interest on deposits held under financial reinsurance arrangements, certain other asset management fees, and other miscellaneous revenues) was $41.7 million for the three-month period ended June 30, 2001, a decrease of $4.4 million, or 9.5%, from $46.1 million reported for the comparable prior year period. The decrease was primarily due to lower income of $4.5 million in the Accumulation Products segment which was primarily attributable to lower fees earned from the Company s mutual fund management operations. The Company s mutual fund management operations reported $23.2 million in fees from advisory, underwriting and distribution services in the three-month periods ended June 30, 2001 as compared to $26.6 million in the comparable prior year period, as assets under management decreased to approximately $7.6 billion at June 30, 2001 from $8.8 billion at June 30, 2000. In addition, income from supplementary contracts decreased $1.7 million in the three-month period June 30, 2001 compared to the three-month period ended June 30, 2000 as lower interest rates on new supplementary contracts makes them less attractive.

Benefits to policyholders Benefits to policyholders were $194.5 million for the three-month period ended June 30, 2001, a decrease of $7.9 million, or 3.9%, from $202.4 million reported for comparable prior year period. The decrease consisted primarily of lower benefits of approximately $4.6 million and $1.8 million in the Company s Protection Products segment and Accumulation Products segment, respectively. The decrease of $4.6 million in the Protection Products segment was primarily due to lower death benefits of $3.5 million, and lower surrenders

of $6.1 million, offset by an increase in USFL of $4.5 million. The decrease of $1.8 million in the Accumulation Products segment was primarily the result of a decrease in benefits on supplementary contracts of $3.3 million due to the decline in the reserve, offset by increases in immediate annuity sales which resulted in increased reserve changes of $1.0 million.

Interest credited to policyholders account balances Interest credited to policyholders account balances was $27.0 million for the three-month period ended June 30, 2001, an increase of $1.2 million, or 4.7%, from $25.8 million reported for the comparable prior year period. The increase was the result of higher interest crediting of $2.3 million in the Company s Protection Products segment which was primarily attributable to the Company s Corporate Sponsored VUL (CSVUL) business. This was offset by lower interest crediting of $1.3 million in the Company s Accumulation Products segment primarily due to lower interest crediting on single premium deferred annuities (SPDA) of $0.7 million. During the second quarter of 2001, SPDA account value decreased approximately $8.0 million to $274.8 million as compared to $282.8 million in the prior year period. The decrease in account value in 2001 was primarily due to continuing withdrawals, which management believes partially reflects consumer preferences for separate account products.

Amortization of deferred policy acquisition costs Amortization of deferred policy acquisition costs (DAC) was $28.3 million for the three-month period ended June 30, 2001, a decrease of $8.9 million, or 23.9%, from $37.2 million reported in the comparable prior year period. The decrease consisted primarily of lower DAC amortization in the Protection Products segment and the Accumulation Products segment of $5.9 million and $3.0 million, respectively. The decrease in DAC amortization in the Protection Products segment was due primarily to a decrease of $3.4 million in the Closed Block due to revised estimates reflecting better than expected profitability and a $2.7 million decrease in universal life. The decrease in DAC amortization in the Accumulation Products segment primarily resulted from lower amortization of $3.0 million relating to the Company s FPVA business due to a decline in FPVA inforce business and the exchange activity to the new variable annuity products where better persistency is anticipated.

Dividends to policyholders Dividends to policyholders were $60.6 million for the three-month period ended June 30, 2001, an increase of $7.9 million, or 15.0%, from $52.7 million reported for the comparable prior year period. The increase, substantially all of which occurred in the Protection Products segment, resulted from an increase in deferred dividend liability established in the Closed Block as of June 30, 2001, as compared to June 30, 2000.

Other operating costs and expenses Other operating costs and expenses were $226.8 million for the three-month period ended June 30, 2001, an increase of $93.2 million, or 69.8%, from $133.6 million reported for the comparable prior year period. This increase consisted of $90.2 million relating to Advest which is reported in the Retail Brokerage and Investment Banking segment and $5.2 higher interest expense from Senior Notes used to finance the Advest acquisition combined with higher interest on the company s benefit plan expenses of $6.6 million. Offsetting these increases was $ 8.1 million lower compensation costs.

Six-month Period Ended June 30, 2001 Compared to the Six-month Period Ended June 30, 2000.

Premiums Premium revenue was $338.5 million for the six-month period ended June 30, 2001, a decrease of $3.0 million, or 0.9% from $341.5 million reported for the comparable prior year period ended June 30, 2000. The decrease was primarily attributable to a decrease in the Protection Products segment of $5.6 million. This decrease was a result of lower renewal premiums of $16.5 million due to the reduction of the in-force block, offset by an increase of $8.9 million in premiums from special risk term insurance products offered by USFL. The increase in new premiums written by USFL is primarily attributable to the expansion of its distribution, the improvement of its financial strength ratings since being acquired by the Company. Management believes that the decrease in traditional life insurance premiums is consistent with industry trends, particularly the continuing shift by consumers from traditional protection products to asset accumulation products. See *New Business Information* for a discussion regarding period to period sales and related trends.

Universal life and investment-type product policy fees Universal life and investment-type product policy fees were $102.0 million for six-month period ended June 30, 2001, a decrease of $3.8 million, or 3.6% from $105.8 million reported for the comparable prior year period. The decrease was primarily a result of lower fees in the Accumulation Products segment of $7.0 million, offset by higher fees in the Protection Product segment of $3.1 million. The decrease in the Accumulation Products segment was primarily due to lower mortality and expense charges of $2.4 million, and a $4.1 million decrease in surrender charges in the Company s flexible payment variable annuity (FPVA) product. The decrease in FPVA mortality and expense charges is due to lower fund balances resulting from stock market declines. The decrease in surrender charges reflects the positive effects of the efforts of the Company s conservation unit and other measures designed to improve persistency. The increase in the Protection Products segment was primarily attributable to higher fees earned from USFL of $3.5 million**,** higher fees earned on corporate sponsored variable universal life universal life (CSVUL) of $1.8 million, offset by lower fees earned on universal life (UL) and group universal life (GUL) of $1.5 million and $0.9 million, respectively.

Net investment income and realized gains on investment Net investment income was $373.2 million for the six-month period ended June 30, 2001, a decrease of $208.1 million, or 35.8%, from $581.3 million reported for the comparable prior year period. The decrease in net investment income is primarily related to a decrease in income recorded by the Company from its investments in limited partnership interests. Such partnerships provide venture capital funding to companies through the purchase of or investment in equity securities issued by such companies. For the six-month period ended June 30, 2001, the Company had income of $1.5 million relating to such partnership investments, a decrease of $208.3 million from $209.8 million recorded for the six-month period ended June 30, 2000. As of June 30, 2001, invested assets excluding trading portfolio assets of $640.5 million were $10,998.5 million (including cumulative unrealized gains of $32.4 million on fixed maturity securities) compared to $10,755.5 million (including cumulative unrealized losses of $222.5 million on fixed maturity securities) for

the prior year period. At June 30, 2001, fixed maturity securities, mortgage loans and real estate represented approximately 59.3%, 16.0% and 1.9%, respectively, of total invested assets (excluding trading portfolio assets), as compared to 59.7%, 17.4% and 3.6%, respectively, at June 30, 2000. The annualized yield on the Company s invested assets, including limited partnership interests, before and after realized gains/(losses) on investments was 6.7% and 6.8%, respectively, for the six-month period ended June 30, 2001, as compared to 10.5% and 10.7%, respectively, for the six-month period ended June 30, 2000. See *Investments Results by Asset Category.*

Net realized capital gains were $5.5 million for the six-month period ended June 30, 2001, a decrease of $4.2 million, from gains of $9.7 million for the comparable prior year period. The following table sets forth the components of net realized gains (losses) by investment category for the six-month period ended June 30, 2001 compared to the six-month period ended June 30, 2000.

	For the Six-month Period Ended June 30,	
	2001	**2000**
	($ in millions)	
Real estate	$(2.5)	$ 2.5
Equity securities	(5.3)	17.0
Fixed maturities	7.5	(12.8)
Mortgage loans	5.2	2.8
Other	0.6	0.2
	$5.5	$ 9.7

Group Pension Profits Group Pension Profits were $19.2 million for six-month period ended June 30, 2001, an increase of $1.0 million or 5.5% from $18.2 million reported in the corresponding prior year period. The increase is due to higher capital gains of $3.0 million due to sales and prepayment gains on bonds in 2001, offset with $2.0 million decrease in operating income due to the run-off of the group pension business. See *Notes to Unaudited interim Condensed Consolidated Financial Statements Group Pension Transaction* .

For summary financial information relating to the Group Pension profits, refer to Note 5 of the Unaudited Interim Condensed Consolidated Financial Statements included herein. Management expects that Group Pension Profits will decline in future periods through the termination of the Group Pension Transaction on December 31, 2002 consistent with the continuing run-off of the underlying business.

Retail Brokerage and Investment Banking Revenues Retail Brokerage and Investment Banking revenues were $170.9 million for the six-month period ended June 30, 2001, an increase of $136.5 million compared $34.4 million for the comparable prior year period. The increase is primarily attributable to the acquisitions of Advest and Matrix in the first quarter of 2001. Revenues for Advest for the period January 31, 2001 (date of acquisition) through June 30, 2001, were $145.9 million. See *New Business Information.*

Other income Other income (which consists primarily of fees earned by the Company s mutual fund management and insurance brokerage operations, as well as revenues from interest on deposits held under financial reinsurance arrangements, certain other asset management fees, and other miscellaneous revenues) was $72.0 million for the six-month period ended June 30, 2001, a decrease of $15.3 million, or 17.5%, from $87.3 million reported for the comparable prior year period. The decrease was primarily due to lower income of $6.5 million in the Protection Products segment and $9.6 million the Accumulation Products segment, respectively.

The decrease in income recorded in the Protection Products was primarily due to the decrease in cash surrender value of the Company s corporate owned life insurance (COLI) contract as a result of unfavorable market conditions. In the second quarter of 2000, the Company purchased a COLI contract from a third party insurance company to better hedge the changes in the value of the Company s non-qualified employee compensation plans. The decrease in income recorded in the Accumulation Products segment was primarily attributable to lower fees earned from the Company s mutual fund management operations. The Company s mutual fund management operations reported $47.0 million in fees from advisory, underwriting and distribution services in the six-month period ended June 30, 2001 as compared to $53.9 million in the comparable prior year period, as assets under management decreased to approximately $7.6 billion at June 30, 2001 from $8.8 billion at June 30, 2000. In addition, income from supplementary contracts decreased $2.0 million in the six-month period June 30, 2001 compared to the six-month period ended June 30, 2000 as interest rates on new supplementary contracts were decreased making them less attractive.

Benefits to policyholders Benefits to policyholders were $392.2 million for the six-month period ended June 30, 2001, an increase of $9.1 million, or 2.4%, from $383.1 million reported for comparable prior year period. The increase consisted primarily of higher death benefits of approximately $8.2 million, and $1.1 million in the Company s Protection Products segment, and Other Products segment, respectively, offset

by $1.2 million in lower benefits in the Accumulation Products segment. The increase of $8.2 million in the Protection Products segment was due to higher death benefits of $5.7 million, and higher reserves of $10.2 million which is consistent with the growth of the traditional in-force block, offset by lower surrenders of $17.5 million and an increase in USFL benefits of $9.2 million. The increase in the Other Products segment was due primarily to a release of a reserve on a long term disability claim. The decrease of $1.2 million in the Accumulation Products segment was primarily the result of a decrease in supplementary contracts of $3.8 million due to the decline in the reserves. This was offset by increases in immediate annuity benefit payments and reserve changes of $1.9 million.

Interest credited to policyholders account balances Interest credited to policyholders account balances was $55.3 million for the six-month period ended June 30, 2001, an increase of $1.1 million, or 2.0%, from $54.2 million reported for the comparable prior year period. The increase was the result of higher interest crediting of $4.3 million in the Company s Protection Product segment due primarily to a $3.5 million increase in CSVUL. This was offset by lower interest crediting of $3.5 million in the Company s Accumulation Products segment primarily due to lower interest crediting on single premium deferred annuities (SPDA) of $1.7 million. During the second quarter of 2001, SPDA account value decreased approximately $20.5 million to $274.8 million as compared to $295.3 million in the prior year period. The decrease in account value in 2001 was primarily due to continuing withdrawals, which management believes partially reflects consumer preferences for separate account products.

Amortization of deferred policy acquisition costs Amortization of deferred policy acquisition costs (DAC) was $65.5 million for the six-month period ended June 30, 2000, a decrease of $9.2 million, or 12.3%, from $74.7 million reported in the comparable prior year period. The decrease consisted primarily of lower DAC amortization in the Protection Product segment and the Accumulation Products segment of $5.0 million and $4.2 million, respectively. The decrease in DAC in the Protection product segment was due to lower universal life and variable universal life of $4.0 million and $1.2 million, respectively due to higher death claims. The decrease in DAC amortization in the Accumulation Products segment primarily resulted from lower amortization in FPVA of $4.2 million due to an adjustment to future expected profitability due to higher surrender charges received per dollar of surrender benefits and lower anticipated trailer costs.

Dividends to policyholders Dividends to policyholders were $115.2 million for the six-month period ended June 30, 2001, an increase of $5.3 million, or 4.8%, from $109.9 million reported for the comparable prior year period. The increase, substantially all of which occurred in the Protection Products segment, resulted from an increase in the deferred dividend liability established in the Closed Block as of June 30, 2001, as compared to June 30, 2000.

Other operating costs and expenses Other operating costs and expenses were $401.0 million for the six-month period ended June 30, 2001, an increase of $128.4 million, or 47.1%, from $272.6 million reported for the comparable prior year period. This increase consisted of $150.0 million for the Retail Brokerage and Investment Banking segment, resulting from the acquisition of Advest and $10.3 higher interest expense resulting from the financing of the Advest acquisition. Offsetting these increases was $30.0 million lower compensation.

New Business Information

The Company distributes its Protection and Accumulation products primarily through its career agency sales force and various complementary distribution channels which include: (i) sales of proprietary retail mutual funds through third party broker-dealers, (ii) sales of Protection Products by the Company s USFL subsidiary through brokerage general agencies, (iii) sales of COLI products by the Company s corporate marketing team, and (iv) sales of a variety of financial products and services through the Company s Trusted Advisors subsidiary. The table below and discussion which follows present certain information with respect to the Company s sales of protection and accumulation products during the three and six-month periods ended June 30, 2001 and 2000 by source of distribution. Management uses this information to measure the Company s sales production from period to period by source of distribution.

The amounts presented with respect to life insurance sales represent annualized statutory-basis premiums. Annualized premiums in the Protection Products segment represent the total premium scheduled to be collected on a policy or contract over a twelve-month period. Pursuant to the terms of certain of the policies and contracts issued by the Company, premiums and deposits may be paid or deposited on a monthly, quarterly, or semi-annual basis. Annualized premium does not apply to single premium paying business. All premiums received on COLI business and single premium paying policies during the periods presented are included. Statutory basis premiums are used in lieu of GAAP basis premiums because, in accordance with statutory accounting practices, revenues from all classes of long-duration contracts are measured on the same basis, whereas GAAP provides different revenue recognition rules for different classes of long-duration contracts as defined by the requirements of SFAS No. 60, *Accounting and Reporting by Insurance Enterprises,* SFAS No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long Duration Contracts and for Realized Gains and Losses from the Sale of Investments,* and SOP 95-1, *Accounting for Certain Insurance Activities of Mutual Life Insurance Enterprises*. The amounts presented with respect to annuity and mutual fund sales represent deposits made by customers during the periods presented.

The amounts presented with respect to the Retail Brokerage and Investment Banking segment represent fees earned by Advest, Matrix and MSC primarily from securities brokerage, investment banking and asset management services.

New Business and Revenues By Source

	Three-months Ended	Six-months Ended

	June 30,		June 30,	
	2001	2000	2001	2000
			($ in millions)	
New Business By Source of Distribution				
Protection Products				
Career Agency System	$ 21.2	$ 23.0	$ 38.3	$ 43.2
U.S. Financial Life Insurance Company	12.7	11.2	22.5	20.1
Complementary Distribution(4)	13.9	22.6	36.3	46.2
Total New Annualized Life Insurance Premiums	$ 47.8	$ 56.8	$ 97.1	$ 109.5
Accumulation Products				
Career Agency System Variable Annuities(1)	$102.0	$116.0	$174.0	$ 232.0
Career Agency System Mutual Funds	100.0	169.0	216.0	381.0
Third Party Distribution Mutual Funds	256.0	314.0	505.0	863.0
Total Accumulation Sales	$458.0	$599.0	$895.0	$1,476.0
Retail Brokerage & Investment Banking Revenues				
Advest(2)	$ 87.5	$ 98.4	$145.9	$ 173.3
MONY Securities Corp.	12.1	16.0	23.1	34.4
Matrix Capital Markets(3)	0.2	1.4	1.9	2.8
Total Revenue	$ 99.8	$115.8	$170.9	$ 210.5

(1) Excludes sales associated with an exchange program offered by the Company wherein contract holders surrendered old FPVA contracts and reinvested the proceeds therefrom in a new enhanced FPVA product offered by the Company.

(2) Amounts presented for Advest are for the two and five month periods ended June 30, 2001 and June 30, 2000, respectively. Advest was acquired on January 31, 2001 and, accordingly, the Company s consolidated results of operations include only the activity of Advest for the two and five month periods ended June 30, 2001. The comparable prior year activity is pro forma as if Advest was acquired on January 31, 2000 and is presented for comparative purpose only. Such pro forma information is not indicative of future results. Actual results could differ materially.

(3) Amounts presented for Matrix are for the three and six-month periods ended June 30, 2001 and June 30, 2000. Matrix was acquired effective January 1, 2001 and, accordingly, the Company s consolidated results of operations include only the activity of Matrix for the three and six-month periods ended June 30, 2001. The comparable prior year activity is pro forma as if Matrix was acquired on January 1, 2000 and is presented for comparative purposes only. Such pro forma information is not indicative of future results. Actual results could differ materially.

(4) Amounts are primarily comprised of COLI cases.

Protection Product Segment

Protection Products Segment New Business Information for the three-month period ended June 30, 2001 compared to the three-month period ended June 30, 2000

Total new annualized and single life insurance premiums for the three-month period ended June 30, 2001 were $47.8 million, compared with $56.8 million during the comparable prior year period. Recurring premiums increased to $28.4 million during the quarter compared to $23.8 million for the three-month period ended June 30, 2000. USFL sales were $12.7 million for the three-month period ended June 30, 2001, compared to $11.2 million during the comparable 2000 period due to an increase in universal life sales.

New life insurance premiums (first-year and single premiums) through the career network remained steady for the three-month period ended June 30, 2001at $21.2 million compared to $23.0 million for the comparable prior year period. New life insurance premiums increased 24

percent from the first quarter of 2001 a 14 percent increase from the comparable prior year period. Sales of COLI and BOLI were $13 million, compared with $21 million during the second quarter of 2000. The decrease in sales reflects an increase in competition in the marketplace. In addition, corporate sales are large-premium cases, which typically generate revenues that can fluctuate considerably from quarter-to-quarter.

Protection Segment New Business Information for the six-month period ended June 30, 2001 compared to the six-month period ended June 30, 2000.

Total new annualized and single life insurance premiums for the six-month period ended June 30, 2001 were $97.1 million, a decrease of $12.4 million from $109.5 million for the comparable prior year period. Recurring premiums decreased to $50.4 million for the six-month period ended June 30, 2001 compared to $65.0 million during the comparable prior year period. USFL sales were $22.5 million for the six-month period ended June 30, 2001, compared to $20.1 million during the comparable 2000 period due to an increase in universal life sales.

New life insurance premiums (first-year and single premiums) were $38.3 million for the six-month period ended June 30, 2001 compared to $43.2 million for the comparable prior year period. Sales of variable-based life insurance products, which comprise a significant portion of the Company s life insurance products, are heavily influenced by the performance of the stock market. Sales of COLI and BOLI were $35.2 million for the six-month period ended June 30, 2001 compared with $44.6 during the comparable prior year period. The decrease in sales reflects an increase in competition in the marketplace. In addition, corporate sales are large-premium cases, which typically generate revenues that can fluctuate considerably from quarter-to-quarter.

Accumulation Segment

The following tables set forth assets under management as of June 30, 2001 and June 30, 2000, and changes in the primary components of assets under management for the three and six-month periods ended June 30, 2001 and 2000:

	As of June 30, 2001	As of June 30, 2000
	($ in billions)	
Assets under management:		
Individual variable annuities	$4.1	$ 4.7
Individual fixed annuities	0.7	0.8
Proprietary retail mutual funds	4.5	5.1
	$9.3	$10.6

	For the Three-month Periods Ended June 30,		For the Six-month Periods Ended June 30,	
	2001	2000	2001	2000
	($ in billions)			
Individual Variable Annuities:				
Beginning account value	$3.9	$4.9	$4.4	$4.9
Sales(1)	0.1	0.1	0.2	0.2
Market appreciation	0.2	(0.1)	(0.2)	0.0
Surrenders and withdrawals(1)	(0.1)	(0.2)	(0.3)	(0.4)
Ending account value	$4.1	$4.7	$4.1	$4.7
Proprietary Retail Mutual Funds:				
Beginning account value	$4.3	$5.2	$4.8	$4.8
Sales	0.3	0.5	0.7	1.2

Dividends reinvested	0.0	0.0	0.0	0.2
Market appreciation	0.2	(0.3)	(0.4)	(0.4)
Redemptions	(0.3)	(0.3)	(0.6)	(0.7)
Ending account value	$4.5	$5.1	$4.5	$5.1

(1) Excludes sales and surrenders associated with an exchange program offered by the Company wherein contractholders surrendered old FPVA contracts and reinvested the proceeds therefrom in a new enhanced FPVA product offered by the Company.

Accumulation Products Segment New Business Information for the three-month period ended June 30, 2001 compared to the three-month period ended June 30, 2000

Accumulation sales were $458 million for the three-month period ended June 30, 2001 compared to $599 million in the comparable prior year period. The Enterprise Group of Funds had second quarter sales of $356 million, $256 million of which were sold third-party broker-dealers and $100 million were sold through the Company s career network. Comparably, second quarter 2000 sales for Enterprise were $483 million, $314 million of which were from third-party broker dealers and $169 million from the career network. The Company s mutual fund business continued to experience net inflows during the period. Net inflows were $53 million and $121 million for the quarter and first half of the year respectively. Annuity sales, net of exchanges, were $102 million during the three-month period ended June 30, 2001 compared to $116 million during the three-month period ended June 30, 2000.

Due to an appreciation in the equity markets, accumulation assets under management rose 4.5 percent to $9.3 billion as of June 30, 2001 from $8.9 billion as of March 31, 2001. Assets under management are still below the $9.9 billion reported as of December 31, 2000 and $10.6 billion reported as of June 30, 2000. New accumulation assets raised in the second quarter 2001 were up 5 percent from the first quarter of 2001 to $458 million.

Accumulation Segment New Business Information for the six-month period ended June 30, 2001 compared to the six-month period ended June 30, 2000

Accumulation sales were $895.0 million for the six-month period ended June 30, 2001 compared to $1,476.0 million in the comparable prior year period. The Enterprise Group of Funds had second quarter sales of $721 million, $505 million of which were sold third-party broker-dealers and $216 million were sold through the Company s career network. Comparably, second quarter 2000 sales for Enterprise were $1,244 million, $863 million of which were from third-party broker dealers and $381 million from the career network. Annuity sales, net of exchanges, were $174.0 million during the six-month period ended June 30, 2001 compared to $232.0 million during the comparable prior year period.

Retail Brokerage and Investment Banking Segment

Retail Brokerage and Investment Banking Segment Revenue Information for the three-month period ended June 30, 2001 compared to the three-month period ended June 30, 2000

The Retail Brokerage and Investment Banking segment includes securities brokerage, trading, investment banking, trust and asset management services to high-net worth individuals and small to mid-size business owner clients through Advest, Matrix and MSC. The Retail Brokerage and Investment Banking segment, formed during the first quarter of 2001, had revenues of $99.8 million for the three-month period ended June 30, 2001. Market volatility and a decrease in trading volume adversely affected revenue at Advest and MSC. Advest revenues were $87.5 million for the three-month period ended June 30, 2001, compared to $98 million for the three-month period ended June 30, 2000 on a proforma basis. Revenues from Advest s private client group were $46 million for the three-month period ended June 30, 2001 compared to $56.3 million for the comparable prior year period on a proforma basis. Advest s private client group includes the retail sale of equities, asset management products, fixed income products and annuities to individual investors through Advest financial advisors.

For the three-month period ended June 30, 2001, MSC, a registered securities broker-dealer for MONY s career network, posted revenues of $12.1 million, compared with $16 million during the comparable prior year period.

Retail Brokerage and Investment Banking Segment Revenue Information for the six-month period ended June 30, 2001 compared to the six-month period ended June 30, 2000

The Retail Brokerage and Investment Banking segment, formed during the first quarter of 2001, had revenues of $170.9 million for the six-month period ended June 30, 2001. Market volatility and a decrease in trading volume adversely affected revenue at Advest and MSC. Advest revenues were $145.9 million for the six-month period ended June 30, 2001, compared to $173.3 million for the six-month period ended June 30, 2000 on a proforma basis. Revenues from Advest s private client group were $76.1 million for the six-month period ended June 30,

2001 compared to $100 million for the comparable prior year period on a proforma basis. Advest s private client group includes the retail sale of equities, asset management products, fixed income products and annuities to individual investors through Advest financial advisors.

For the six-month period ended June 30, 2001, MSC, a registered securities broker-dealer for MONY s career network, posted revenues of $23.1 million, compared with $34.4 million during the comparable prior year period.

2001 Restructuring

In 2001, the Company announced its intention to restructure its businesses and reduce expenses by approximately $35 million. Management expects such plans to be substantially finalized by year end. As a result the Company expects to incur restructuring charges aggregating at least $50 million in the future. As part of this initiative, Advest announced in June 2001 a plan to outsource its back office processing operations which will result in cost savings of approximately $12 million. See Note 2 to the Unaudited Interim Condensed Consolidated Financial Statements include elsewhere herein.

Liquidity and Capital Resources

MONY Group

MONY Group s cash flow consists of investment income from its invested assets (including interest from the inter-company surplus notes, as hereafter defined) and dividends from MONY Life, if declared and paid, offset by expenses incurred in connection with the administration of MONY Group s affairs and interest expense on its outstanding indebtedness. As a holding company, MONY Group s ability to meet its cash requirements, pay interest expense on its outstanding indebtedness, and pay dividends on its Common Stock substantially depend upon payments from its subsidiaries, including the receipt of; (i) dividends, (ii) interest income on the inter-company surplus notes, and (iii) other payments. The payment of dividends by MONY Life to MONY Group is regulated under state insurance law. In addition, payments of principal and interest on the inter-company surplus notes can only be made with the prior approval of the New York Superintendent whenever, in his judgment, the financial condition of such insurer warrants. Such payments may be made only out of surplus funds which are available for such payments under the New York Insurance Law.

In August 2001, MONY Life paid a dividend to MONY Group in the amount of $100.0 million.

Issuance of Senior Notes and Repurchase of Senior Notes

On January 12, 2000, the MONY Group filed a registration statement on Form S-3 with the Securities and Exchange Commission to register certain securities (the Shelf Registration). This registration, provides the Company with a vehicle to offer various securities to the public, when it deems appropriate, to raise proceeds up to an amount not to exceed $1.0 billion in the aggregate for all issuances of securities thereunder. See the Notes to the Unaudited Interim Condensed Consolidated Financial Statements include elsewhere herein.

Capitalization

The Company s total capitalization, excluding accumulated comprehensive income and short term debt, increased to $2,760.4 million at June 30, 2001, as compared to $2,597.0 million at December 31, 2000. The increase was primarily the result of an increase in paid in capital from the issuance of common stock in connection with the acquisition of Advest. The Company s debt to equity and debt to total capitalization ratios (excluding accumulated comprehensive income and short term debt) decreased to 26.9% and 21.2% at June 30, 2001, respectively, from 28.0% and 22.0% at December 31, 2000, respectively.

MONY Life

MONY Life s cash inflows are provided mainly from life insurance premiums, annuity considerations and deposit funds, investment income and maturities and sales of invested assets. Cash outflows primarily relate to the liabilities associated with its various life insurance and annuity products, dividends to policyholders, operating expenses, income taxes, acquisitions of invested assets, and principal and interest on its outstanding debt obligations. The life insurance and annuity liabilities relate to the MONY Life s obligation to make benefit payments under its insurance and annuity contracts, as well as the need to make payments in connection with policy surrenders, withdrawals and loans.

The following table sets forth the withdrawal characteristics and the surrender and withdrawal experience of the Company s total annuity reserves and deposit liabilities at June 30, 2001 and December 31, 2000.

Withdrawal Characteristics of
Annuity Reserves and Deposit Liabilities

	Amount at June 30, 2001	Percent of Total	Amount at December 31, 2000	Percent of Total

	($ in millions)			
Not subject to discretionary withdrawal Provisions	$1,285.8	19.7%	$1,352.9	19.4%
Subject to discretionary withdrawal with market valueadjustment or at carrying value less surrender charge	4,204.5	64.3	4,537.7	65.2
Subtotal	5,490.3	84.0	5,890.6	84.6
Subject to discretionary withdrawal without adjustment at carrying value	1,043.6	16.0	1,071.8	15.4
Total annuity reserves and deposit liabilities (gross)	6,533.9	100.0%	6,962.4	100.0%
Less reinsurance	74.0		74.2	
Total annuity reserves and deposit liabilities (net)	$6,459.9		$6,888.2	

The following table sets forth by product line the actual surrenders and withdrawals paid for the period indicated.

	For the Three-month Period Ended June 30,		For the Six-month Period Ended June 30,	
	2001	**2000**	**2001**	**2000**
Product Line:				
Tradition life	$ 89.7	$ 96.4	$187.5	$205.9
Variable and universal life	14.2	9.1	42.9	19.4
Annuities(1)	117.0	222.5	251.5	463.7
Pensions(2)	15.1	37.0	48.8	139.6
Total	$236.0	$365.0	$530.7	$828.6

(1) Excludes surrenders associated with an exchange program offered by the Company wherein contract holders surrendered old FPVA contracts and reinvested the proceeds therefrom in a new enhanced FPVA product offered by the Company.

(2) Excludes transfers between funds within the company benefit plans.

Annuity surrenders have decreased for the six-month period ended June 30, 2001 compared to the comparable prior year period reflecting the Company s conservation efforts and positive effects of the exchange program.

The Company s principle sources of liquidity to meet cash outflows are its portfolio of liquid assets and its net operating cash flow. During the six-month period ended June 30, 2001 the net cash outflow from operations was $(52.8) million, a $(23.2) million decrease from June 30, 2000 which was $(29.6) million. The decrease primarily relates to lower payments from the Group Pension Transaction, higher interest payments on corporate debt, net operating cash outflow on recently acquired subsidiaries and higher general expenses offset in part by lower tax payments. The Company s liquid assets include substantial U.S. Treasury holdings, short-term money market investments and marketable long-term fixed maturity securities. Management believes that the Company s sources of liquidity are adequate to meet its anticipated needs. As of June 30, 2001, the Company had readily marketable fixed maturity securities with a carrying value of $6,527.4 million (including fixed maturities in the Closed Block), which were comprised of $3,498.0 million public and $3,029.4 million private fixed maturity securities. At that date, approximately 91.7% of the Company s fixed maturity securities were designated in NAIC rating categories 1 and 2 (considered investment grade, with a rating of Baa or higher by Moody s or BBB or higher by S&P). In addition, at June 30, 2001 the Company had cash and cash equivalents of $760.7 million (including cash and cash equivalents in the Closed Block).

INVESTMENTS

The Company s invested assets are allocated between the Closed Block and operations outside the Closed Block. In view of the similar asset quality characteristics of the major asset categories in the two portfolios, the invested assets in the Closed Block have been combined with the Company s invested assets outside the Closed Block for purposes of the following discussion and analysis. In addition, the following discussion excludes invested assets transferred in the Group Pension Transaction. Accordingly, this discussion should be read in conjunction with the summary financial information regarding assets transferred in the Group Pension Transaction presented in Note 5 to the Unaudited Interim Condensed Consolidated Financial Statements.

The following discussion analyzes the results of the major categories of general account invested assets, which includes invested assets of the Closed Block and excludes trading securities of Advest.

The following table summarizes the invested assets of the Company at the dates indicated:

	As of June 30, 2001		**As of December 31, 2000**	
	Carrying Value	**% of Total**	**Carrying Value**	**% of Total**
	($ millions)			
Invested Assets				
Fixed Maturities, Available for Sale	$ 6,524.7	59.3%	$ 6,693.0	59.6%
Fixed Maturities, Held to Maturity	2.7	0.0		0.0
Equity Securities, Available for Sale	327.3	3.0	328.6	2.9
Mortgage Loans on Real Estate	1,759.1	16.0	1,754.7	15.6
Policy Loans	1,252.6	11.4	1,264.6	11.3
Real Estate to be Disposed Of	170.4	1.5	171.3	1.6
Real Estate Held for Investment	47.3	0.4	40.7	0.4
Other Invested Assets	153.7	1.4	100.0	0.9
Cash and Equivalents	760.7	7.0	869.6	7.7
Invested Assets, excluding Trading Securities	$10,998.5	100.0%	$11,222.5	100.0%
Trading Securities	454.5			
Securities pledged as collateral	186.0			
Total Trading securities	640.5			
Total Cash and Invested Assets	$11,639.0		$11,222.5	

The following table illustrates the net investment income yields on average assets for each of the components of the Company s investment portfolio, excluding net realized gains and losses as of the indicated dates. The yields are based on quarterly average carrying values, (excluding unrealized gains and losses in the fixed maturity asset category). Equity real estate income is shown net of operating expenses, depreciation and minority interest. Total investment income includes non-cash income from amortization, payment-in-kind distributions and undistributed equity earnings. Investment expenses include mortgage servicing fees and other miscellaneous fees.

Investment Results by Asset Category

	Three month ended June 30,		**Six-month ended June 30,**	
	2001	**2000**	**2001**	**2000**
Fixed Maturities	7.4%	7.4%	7.5%	7.3%
Equity securities(1)	7.9	34.1	1.1	80.4

Mortgage loans on real estate	7.9	8.1	7.9	8.1
Policy loans	6.7	6.8	6.8	6.7
Real estate	10.3	7.9	7.7	7.6
Cash and cash equivalents	4.5	3.7	4.3	8.9
Other invested assets	4.7	6.7	5.2	6.4
Total invested assets before investment expenses	7.2%	8.7%	7.1%	10.9%
Investment expenses	(0.3)	(0.4)	(0.4)	(0.4)
Total invested assets after investment expenses(1)	6.9%	8.3%	6.7%	10.5%

(1) The decrease in net investment income yields was primarily due to a decrease in limited partnership income included in the equity securities asset category of $37.7 million and $208.3 million for the three-month period ended June 30, 2001 and 2000, and the six-month period ended June 30, 2001, respectively. The net investment income yields excluding the limited partnership income are 6.9% and 6.9% for the three-month periods ended June 30, 2001 and 2000, respectively and 6.9% and 6.9% for the six-month periods ending June 30, 2001 and 2000 respectively.

The yield on general account invested assets (including net realized gains and losses on investments) was 7.0% and 7.9% for the three-month period ended June 30, 2001 and 2000, respectively, and 6.8% and 10.7% for the six-month period ended June 30, 2001 and 2000, respectively.

Fixed Maturities

Fixed maturities consist of publicly traded debt securities, privately placed debt securities and small amounts of redeemable preferred stock, and represented 59.3% and 59.6% of total invested assets at June 30, 2001 and December 31, 2000, respectively.

The Securities Valuation Office of the National Association of Insurance Commissioners (NAIC) evaluates the bond investments of insurers for regulatory reporting purposes and assigns securities to one of six investment categories called NAIC Designations . The NAIC Designations closely mirror the Nationally Recognized Securities Rating Organizations credit ratings for marketable bonds. NAIC Designations 1 and 2 include bonds considered investment grade (Baa or higher by Moody s, or BBB or higher by S&P) by such rating organizations. NAIC Designations 3 through 6 are referred to as below investment grade (Ba or lower by Moody s, or BB or lower by S&P).

The following table presents the Company s fixed maturities by NAIC Designation and the equivalent ratings of the Nationally Recognized Rating Organizations as of the dates indicated, as well as the percentage, based on fair value, that each designation comprises.

TOTAL FIXED MATURITIES BY CREDIT QUALITY

		Quarter Ended June 30, 2001			Year Ended December 31, 2000		
NAIC Rating	**Rating Agency Equivalent Designation**	**Amortized Cost**	**% of Total**	**Estimated Fair Value**	**Amortized Cost**	**% of Total**	**Estimated Fair Value**
			($ millions)			**($ millions)**	
1	Aaa/Aa/A	$3,588.7	55.5%	$3,622.3	$3,739.7	56.1%	$3,757.9
2	Baa	2,337.2	35.9%	2,343.4	2,389.8	35.7%	2,388.7
3	Ba	452.1	6.9%	448.3	442.9	6.4%	427.7
4	B	72.1	1.0%	66.6	80.2	1.1%	73.6
5	Caa and lower	13.6	0.2%	15.0	20.7	0.3%	17.5
6	In or near default	4.0	0.1%	5.0	2.0	0.0%	1.8
	Subtotal	6,467.7	99.6%	6,500.6	6,675.3	99.6%	6,667.2
	Redeemable preferred stock	27.4	0.4%	26.8	27.4	0.4%	25.8
	Total Fixed Maturities	$6,495.1	100.0%	$6,527.4	$6,702.7	100.0%	$6,693.0

Of the Company s total portfolio of fixed maturity securities at June 30, 2001, 91.7% were investment grade and 8.3% were below-investment grade, based on designations assigned by the Securities Valuation Office of the NAIC.

The Company reviews all fixed maturity securities at least once each quarter and identifies investments that management concludes require additional monitoring. Among the criteria are: (i) violation of financial covenants, (ii) public securities trading at a substantial discount as a result of specific credit concerns, and (iii) other subjective factors relating to the issuer.

The Company defines problem securities in the fixed maturity category as securities (i) as to which principal and/or interest payments are in default or are to be restructured pursuant to commenced negotiations or (ii) issued by a company that went into bankruptcy subsequent to the acquisition of such securities or (iii) are deemed to have other than temporary impairments to value.

The Company defines potential problem securities in the fixed maturity category as securities that are deemed to be experiencing significant operating problems or difficult industry conditions. Typically these credits are experiencing or anticipating liquidity constraints, having difficulty meeting projections/budgets and would most likely be considered a below investment grade risk.

The Company defines restructured securities in the fixed maturity category as securities where a concession has been granted to the borrower related to the borrower s financial difficulties that the Company would not have otherwise considered. The Company restructures certain securities in instances where a determination was made that greater economic value will be realized under the new terms than through liquidation or other disposition. The terms of the restructure generally involve some or all of the following characteristics: a reduction in the interest rate, an extension of the maturity date and a partial forgiveness of principal and/or interest. There were no restructured fixed maturities at June 30, 2001 and December 31, 2000.

As of June 30, 2001 the fair value of the Company s problem, potential problem and restructured fixed maturities were $50.9 million, $19.1 million and $0.0 million, respectively, which, in the aggregate, represented approximately 1.1% of total fixed maturities. As of December 31, 2000, the fair value of the Company s problem, potential problem and restructured fixed maturities were $54.1 million, $6.6 million and $0.0 million, respectively, which, in the aggregate, represented approximately 0.9% of total fixed maturities.

At June 30, 2001, the Company s largest unaffiliated single concentration of fixed maturities was $245.6 million of Federal National Mortgage Association (FNMA) which represents 2.2% of total invested assets. The largest non-government issuer consists of $202.1 million of notes purchased in connection with the Group Pension Transaction. These notes represent approximately 1.8% of total invested assets at June 30, 2001. No other individual non-government issuer represents more than 0.5% of total invested assets.

The Company held approximately $1,067.8 million and $1,103.9 million of mortgage-backed and asset-backed securities as of June 30, 2001 and December 31, 2000, respectively. Of such amounts, $321.5 million and $338.9 million, or 30.1% and 30.7%, respectively, represented agency-issued pass-through and collateralized mortgage obligations (CMOs) secured by Federal National Mortgage Association, FHLMC, Government National Mortgage Association and Canadian Housing Authority collateral. The balance of such amounts were comprised of other types of mortgage-backed and asset-backed securities. The Company believes that its active monitoring of its portfolio of mortgage-backed securities and the limited extent of its holdings of more volatile types of mortgage-backed securities mitigate the Company s exposure to losses from prepayment risk associated with interest rate fluctuations for this portfolio. At June 30, 2001 and December 31, 2000, 84.1% and 84.5%, respectively, of the Company s mortgage-backed and asset-backed securities were assigned an NAIC Designation of 1 at such dates.

The following table presents the types of mortgage-backed securities (MBSs), as well as other asset-backed securities, held by the Company as of the dates indicated.

Mortgage and Asset-backed Securities

	As of June 30, 2001	As of December 31, 2000
	($ in millions)	
CMOs	$ 468.9	$ 497.1
Pass-through securities	28.3	28.0
Commercial MBSs	123.2	106.4
Asset-backed securities	447.4	472.4
Total MBSs and asset-backed securities	$1,067.8	$1,103.9

The amortized cost and estimated fair value of fixed maturity securities, by contractual maturity dates, (excluding scheduled sinking funds) as of June 30, 2001 and December 31, 2000 are as follows:

Fixed Maturity Securities by Contractual Maturity Dates

	As of June 30, 2001		As of December 31, 2000	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	($ in millions)			
Due in one year or less	$ 159.6	$ 161.0	$ 25.8	$ 25.8
Due after one year through five years	1,901.7	1,935.6	1,500.2	1,506.4
Due after five years through ten years	2,500.5	2,508.5	2,754.2	2,751.2
Due after ten years	868.5	854.5	1,325.5	1,305.7
Subtotal	5,430.3	5,459.6	5,605.7	5,589.1
Mortgage-backed and other asset-backed securities	1,064.8	1,067.8	1,097.0	1,103.9
Total	$6,495.1	$6,527.4	$6,702.7	$6,693.0

Mortgage Loans

Mortgage loans comprised 16.0% and 15.6% of total invested assets as of June 30, 2001 and December 31, 2000, respectively. Mortgage loans consisted of commercial, agricultural and residential loans. As of June 30, 2001 and December 31, 2000 commercial mortgage loans comprised $1,444.4 million and $1,443.3 million or 82.1% and 82.2% of total mortgage loan investments, respectively. Agricultural loans comprised $313.7 million and $310.3 million, or 17.8% and 17.7% of total mortgage loans, respectively. Residential mortgage loans comprised $1.0 million and $1.1 million, or 0.1% and 0.1% of total mortgage loan investments at June 30, 2001 and December 31, 2000, respectively.

Commercial Mortgage Loans

For commercial mortgages, the carrying value of the largest amount loaned on any one single property aggregated $48.6 million and represented less than 0.5% of general account invested assets as of June 30, 2001. Amounts loaned on 20 properties were $20.0 million or greater, representing in the aggregate 37.9% of the total carrying value of the commercial loan portfolio at the same date. Total mortgage loans to the five largest borrowers accounted in the aggregate for approximately 20.7% of the total carrying value of the commercial loan portfolio and less than 2.8% of total invested assets at June 30, 2001.

The following table presents the Company s commercial mortgage loan maturity profile for the period indicated.

Commercial Mortgage Loan Portfolio Maturity Profile

	As of June 30, 2001		As of December 31, 2000	
	Carrying Value	% of Total	Carrying Value	% of Total
	($ in millions)			
1 year or less	$ 128.4	8.9%	$ 118.0	8.2%
Due after one year through five years	486.3	33.7	464.7	32.2
Due after five years through ten years	477.1	33.0	525.6	36.4
Due after ten years	352.6	24.4	335.0	23.2
	$1,444.4	100.0%	$1,443.3	100.0%

Loans that are delinquent and loans in process of foreclosure are categorized by the Company as problem loans. Loans with valuation allowances, but that are not currently delinquent, and loans which are on watchlist are categorized by the Company as potential problem loans. Loans for which the original terms of the mortgages have been modified or for which interest or principal payments have been deferred are categorized by the Company as restructured loans.

The following table presents the carrying amounts of problem, potential problem and restructured commercial mortgage loans relative to the carrying value of all commercial mortgage loans as of the dates indicated. The table also presents the valuation allowances and writedowns recorded by the Company relative to commercial mortgages defined as problem, potential problem and restructured as of each of the dates indicated.

Problem, Potential Problem and Restructured Commercial Mortgages at Carrying Value

	As of June 30, 2001	As of December 31, 2000
	($ in millions)	
Total commercial mortgages	$1,444.4	$1,443.3
Problem commercial mortgages(1)	13.6	14.8
Potential problem commercial mortgages	75.3	64.7
Restructured commercial mortgages	69.3	75.6
Total problem, potential problem & restructured commercial mortgages	$ 158.2	$ 155.1
Total problem, potential problem and restructured commercialmortgages as a percent of total commercial mortgages	11.0%	10.7%

	As of June 30, 2001	As of December 31, 2000
	($ in millions)	
Valuation allowances/writedowns(2)		
Problem loans	$ 0.0	$ 0.4
Potential problem loans	13.4	14.3
Restructured loans	6.4	7.7
Total valuation allowances/writedowns(2)	$19.8	$22.4
Total valuation allowances/writedowns as a percent of problem, potential problem and restructured commercial mortgages at carrying value before valuation allowances and writedowns	11.1%	12.6%

(1) Problem commercial mortgages included delinquent mortgages of $5.4 million and $0.0 million and loans in process of foreclosure of $8.2 million and $14.8 million at June 30, 2001 and December 31, 2000, respectively.

(2) Includes impairment writedowns recorded prior to the adoption of FASB No. 114, Accounting by Creditors for Impairment of a Loan, of $11.1 million at June 30, 2001 and December 31, 2000.

In addition to valuation allowances and impairment writedowns recorded on specific commercial mortgage loans classified as problem, potential problem, and restructured mortgage loans, the Company records a non-specific estimate of expected losses on all other such mortgage loans based on its historical loss experience for such investments. As of June 30, 2001 and December 31, 2000, such reserves were $15.8 million, and $17.7 million, respectively.

Agricultural Mortgage Loans

The Company defines problem, potential problem and restructured agricultural mortgages in the same manner as it does for commercial mortgages. The following table presents the carrying amounts of problem, potential problem and restructured agricultural mortgages relative to the carrying value of all agricultural mortgages as of the dates indicated. The table also presents the valuation allowances established by the Company relative to agricultural mortgages defined as problem, potential problem and restructured as of each of the aforementioned dates indicated.

Problem, Potential Problem and Restructured Agricultural Mortgages at Carrying Value

	As of June 30, 2001	As of December 31, 2000
	($ in millions)	
Total agricultural mortgages	$313.7	$310.3
Problem agricultural mortgages(1)	$ 15.5	$ 10.2
Potential Problem agricultural mortgages	0.1	0.0
Restructured agricultural mortgages	9.6	10.1
Total problem, potential problem & restructured agricultural mortgages	$ 25.2	$ 20.3
Total problem, potential problem and restructured agricultural mortgages as a percent of total agricultural mortgages	8.0%	6.5%

(1) Problem agricultural mortgages include delinquent mortgage loans of $5.3 million and $10.1 million and loans in process of foreclosure of $10.2 million and $0.1 million at June 30, 2001 and December 31, 2000, respectively.

In addition to valuation allowances and impairments writedowns recorded on specific agricultural mortgage loans classified as problem, potential problem, and restructured mortgage loans, the Company records a non-specific estimate of expected losses on all other agricultural mortgage loans based on its historical loss experience for such investments. As of June 30, 2001 and December 31, 2000, such reserves were $2.9 million and $2.9 million, respectively. As of June 30, 2001 and December 31, 2000, valuation allowances and impairment writedowns recorded on specific agricultural mortgage loans classified as restructured mortgage loans were $0.1 million and $0.2 million, respectively.

Equity Real Estate

The Company holds real estate as part of its general account investment portfolio. The Company has adopted a policy of not investing new funds in equity real estate except to safeguard values in existing investments or to honor outstanding commitments. As of June 30, 2001 and December 31, 2000, the carrying value of the Company s real estate investments was $217.7 million and $212.0 million, respectively, or 1.9% and 1.9%, respectively, of general account invested assets. The Company owns real estate, interests in real estate joint ventures (both majority owned and minority owned), and real estate acquired upon foreclosure of commercial and agricultural mortgage loans. The following table presents the carrying value of the Company s equity real estate investments by such classifications.

Equity Real Estate

	As of June 30, 2001	As of December 31, 2000
	($ in millions)	
Real estate	$ 53.6	$ 54.2
Joint ventures	123.3	116.3
Subtotal	176.9	170.5

Foreclosed	40.8	41.5
Total	$217.7	$212.0

Equity Securities

The Company s equity securities consist of investments in common stocks and limited partnership interests. The following table presents the carrying values of the Company s equity securities at the dates indicated:

Investments in Equity Securities

	As of June 30, 2001	As of December 31, 2000
	($ in millions)	
Common Stocks	$ 59.9	$ 50.6
Limited partnership interests	267.4	277.9
Total	$327.3	$328.5

Common Stocks:

The Company s investments in common stocks represented 0.5% and 0.5% of invested assets at June 30, 2001 and December 31, 2000, respectively. The Company s investments in common stocks are classified as available-for-sale and are reported at estimated fair value. Unrealized gains and losses on the Company s common stocks are reported as a separate component of other comprehensive income, net of deferred income taxes, and an adjustment for the effect on deferred policy acquisition costs that would have occurred if such gains and losses had been realized.

Limited Partnership Interests:

The Company accounts for its investments in limited partnership interests in accordance with either the equity method of accounting or the cost method of accounting depending upon the Company s percentage of ownership of the partnership and the date the partnership was acquired.

The following table sets forth the carrying value of the Company s investments in limited partnership interests sorted by the basis upon which the Company accounts for such investments, as well as the amount of such investments attributable to the partnerships ownership of public and private common stocks of the dates indicated:

	Carrying Value	
	As of June 30, 2001	As of December 31, 2000
	($ in millions)	
Equity Method		
Public common stock	$ 20.7	$ 47.8
Private common stock	113.7	97.2
Sub Total	134.4	145.0
Cost Method		
Public common stock	19.4	26.8

Private common stock	113.6	106.2
Sub Total	133.0	133.0
Total Limited Partnership Interests	$267.4	$278.0

The following table sets forth the Company s investments in equity limited partnership interests by business sector:

	As of June 30, 2001		As of December 31, 2000	
	Carrying Value	**% of Total**	**Carrying Value**	**% of Total**
	($ in millions, except percentages)			
Information Technology	$138.2	51.7%	$144.1	51.8%
Domestic LBO	48.7	18.2%	50.8	18.3%
Life Sciences	21.1	7.9%	21.0	7.6%
International LBO	19.2	7.2%	18.2	6.6%
Other	16.7	6.2%	14.3	5.1%
Merchant Banking	12.8	4.8%	13.7	4.9%
Telecommunications	10.7	4.0%	15.9	5.7%
Total	$267.4	100.0%	$278.0	100.0%

At June 30, 2001 and December 31, 2000, the Company had investments in approximately 55 and 53 different limited partnerships which represented 2.4% and 2.5%, respectively, of the Company s general account invested assets. Investment results for the portfolio are dependent upon, among other things, general market conditions for initial and secondary offerings of common stock. For the three-month period ended June 30, 2001 and 2000, and six-month periods ended June 30, 2001 and 2000, investment income from equity partnership interests (which is comprised primarily of the Company s pro rata share of income reported by partnerships accounted for under the equity method and income recognized upon distribution for partnership investments accounted for under the cost method) was approximately $6.3 million and $44.0 million and $1.5 million and $209.8 million, respectively.

Investment Impairments and Valuation Allowances

The cumulative asset specific impairment adjustments and provisions for valuation allowances that were recorded as of the end of each period are shown in the table below and are reflected in the corresponding asset values discussed above.

Cumulative Impairment Adjustments and Provisions
For Valuation Allowances on Investments

	As of June 30, 2001			As of December 31, 2000		
	Impairment Adjustments	**Valuation Allowances**	**Total**	**Impairment Adjustments**	**Valuation Allowances**	**Total**
			($ in millions)			
Fixed maturities	$34.1	$ 0.0	$34.1	$27.5	$	$ 27.5
Equity securities	2.6	0.0	2.6	2.6		2.6
Mortgages	11.1	27.6	38.7	11.1	32.2	43.3
Real estate(1)	14.3	1.1	15.4	31.0	4.5	35.5

Total	$62.1	$28.7	$90.8	$72.2	$36.7	$108.9

(1) Includes $5.9 million and $22.5 million at June 30, 2001 and December 31, 2000, respectively, relating to impairments taken upon foreclosure of mortgage loans.

ITEM 3.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and qualitative disclosure regarding the Company s exposures to market risk, as well as the Company s objectives, policies and strategies relating to the management of such risks, is set forth in the MONY Group s 2000 Annual Report. The relative sensitivity to changes in fair value from interest rates and equity prices at June 30, 2001 is not materially different from that presented in MONY Group s 2000 Annual Report except as described below with respect to the recently acquired subsidiary, Advest.

Risk Management

During its normal course of business, Advest engages in the trading of securities, primarily fixed income, in both a proprietary and market making capacity, and holds securities for trading, rather than investment, purposes. Advest makes a market in certain investment-grade corporate bonds, mortgage-backed securities, municipal bonds and over-the-counter equities in order to facilitate order flow and accommodate its retail and institutional customers. During the past two years, Advest significantly increased its institutional corporate bond, government agency and mortgage-backed securities trading activities.

Market Risk

Market risk represents the potential change in the value of financial instruments due to fluctuations in interest rates, foreign currency exchange rates, equity and commodity prices. In the course of its trading and hedging activities, the Company is exposed to interest rate and equity price risk.

The Company is exposed to market risk arising from changes in interest rates. Advest s management seeks to reduce the risk of its trading portfolio on an aggregate basis. Its risk management activities include inventory and hedging policies. Inventory policies reflect the level of aggregate short and long positions that may be held for trading and are specified by product line. Risk management strategies also include the use of derivatives, principally exchange-traded futures contracts.

The Company is exposed to equity price risk as a result of making a market in over-the-counter equity securities. Equity price risk arises from changes in the price and volatility of equity securities. In April 1999, a comprehensive review was completed of Advest s NASDAQ trading activities and the decision was made to reduce overnight inventory and more aggressively manage the number of stocks in which it made a market.

Trading Accounts (Value at Risk Analysis)

For purposes of the Securities and Exchange Commission s market risk disclosure requirements, the Company has performed a value at risk analysis of its trading financial instruments and derivatives. The value at risk calculation uses standard statistical techniques to measure the potential loss in fair value based upon a one-day holding period and a 95% confidence level. These total firm, institutional plus retail positions, computations are performed monthly in order to achieve a better understanding of our entire firm s risk/return profile. The establishment of improved management controls includes, as needed, the extension of our monitoring process to the security, product, trader, department, and firm wide levels. Most significantly, Advest s institutional book of business, which represents the vast majority of our usual holdings, is typically monitored daily. Although value at risk models are sophisticated, they can be limited, as historical data is not always an accurate predictor of future conditions. Accordingly, Advest manages its market exposure through other measures, including predetermined trading authorization levels and the hedging requirement policy described previously.

At June 30, 2001 and September 30, 2000 and 1999 Advest s value at risk for each component of market risk and in total was as follows:

	June 2001	2000	1999
		In thousands	
Interest rate risk	$198	$182	$301

Equity price risk	41	21	56
Diversification benefit	(22)	(16)	(10)
Total	$217	$187	$347

The potential future loss represented by the total value at risk falls within predetermined levels of loss that are not material to the Company s results of operations, financial condition or cash flows. Note that in a year over year comparison of an increase in VaR from June 2000 to June 2001 of only about 15% reflected an increase position of more than 45%. Similarly, on a quarter over quarter comparison, there was more than a 50% decrease in VaR. On a per dollar basis, the VaR of June 30, 2000 is the lowest value since we began computing the VaR monthly from November 30, 1999 and yearly from September 30, 1997. This is attributable somewhat to diminishing volatility, while it can be mostly attributed to a favorable mix of securities and their corresponding diversification effects.

The value at risk estimate has limitations that should be considered in evaluating the company s potential future losses based on the year-end portfolio positions. Recent market conditions may result in statistical relationships that result in a higher value at risk than would be estimated from the same portfolio under different market conditions. In addition, a critical risk management strategy is the active management of portfolio levels to mitigate market risk. The Company s, and in particular Advest s, market risk exposure will continue to change with changes in the portfolio and market conditions.

Non-trading Accounts (Tabular Presentation)

The following table shows the interest sensitivity of non-trading assets, liabilities and financial instruments of Advest at June 30, 2001, September 30, 2000 and 1999, based on their estimated maturity/repricing structure:

June 30, 2001	**Amount**	**Percent of Total**	**2001**	**2002**	**2003**	**2004**	**2005**	**After 2005**
				In thousands, except percentages				
Interest-sensitive assets								
Investment securities	$ 8,779	100.00%	$ 1,052	$2,004	$2,376	$	$	$3,347
Average interest rate	7.09%		7.41%	6.63%	7.09%			7.33%
Total interest-sensitive assets	$ 8,779	100.00%	$ 1,052	$2,004	$2,376	$	$	$3,347
Interest-sensitive liabilities								
Other borrowings	$413,657	100.00%	$399,657	$7,000	$7,000	$	$	$
Average interest rate	5.18%		5.08%	7.95%	7.95%			
Total interest-sensitive liabilities	$413,657	100.00%	$399,657	$7,000	$7,000	$	$	$

PART II

OTHER INFORMATION

Item 1. ***Legal Proceedings***

See Note 6 of the Unaudited Interim Condensed Consolidated Financial Statements included in Part I of this Report. Except as disclosed in Note 6, there have been no new material legal proceedings and no new material development in matters previously reported in MONY Group s 2000 Annual Report. In addition to the matters discussed therein, in the ordinary course of its business the Company is involved in various other legal actions and proceedings (some of which may involve demands for unspecified damages), none of which is expected to have a material adverse effect on the Company.

Item 4. ***Submission of Matters to a Vote of Security Holders.***

The Board of Directors of the Company consists of three classes of directors, with the members of each class holding office until their successors are duly elected and qualified. At each Annual Meeting of Shareholders of the Company, the successors to the class of directors whose term expires at such meeting are elected to hold office for a term expiring at the Annual Meeting of Shareholders held in the third year

following the year of election. At the Annual Meeting of Shareholders of the Company held on May 16, 2001, the four nominees listed below were elected as directors to hold office for terms ending May 2004 or until their respective successors shall have been elected or qualified. The following directors, constituting the members of the two classes of directors whose terms did not expire at such annual meeting, continued to serve as directors of the Company after such meeting: G. Robert Durham, James L. Johnson, Frederick W. Kanner, Kenneth M. Levine, Tom H. Barrett, David L. Call, James B. Farley, Samuel J. Foti and Jane C. Pfeiffer. In addition, at such annual meeting, the Company s shareholders ratified the appointment of PricewaterhouseCoopers LLP as the Company s independent accountants and approved the MONY Group Inc. Restricted Stock Ownership Plan. The number of votes cast for and against and abstentions as to each of these matters was as follows:

(a) Election of Directors:

Name of Director	Votes For	Votes Against
Robert Holland, Jr.	27,680,686	532,272
Robert R. Kiley	27,679,426	533,532
Michael I. Roth	27,679,329	533,629
Thomas C. Theobald	27,686,721	526,637

(b) Ratification of Appointment of Independent Accountants:

Votes For	Votes Against	Abstentions
27,919,935	133,838	159,185

(c) Approval of the MONY Group Inc. Restricted Stock Ownership Plan:

Votes For	Votes Against	Abstentions
25,858,928	1,897,369	456,661

Item 6. ***Exhibits and Reports on 8-K***

(a) Exhibits

(b) Reports on Form 8-K

(1) Current Report on Form 8-K filed with SEC on June 1, 2001 (responding to Items 7 and 9 of Form 8-K).

(2) Current Report on Form 8-K filed with SEC on May 8, 2001 (responding to Items 7 and 9 of Form 8-K).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE MONY GROUP INC.

/s/ RICHARD DADDARIO

By: ______________________

Richard Daddario
Executive Vice President and
Chief Financial Officer
(Authorized Signatory and Principal
Financial Officer)

Date: August 13, 2001

/s/ LARRY COHEN

By: ________________________________

Larry Cohen
Vice President and Controller
(Principal Accounting Officer)

Date: August 13, 2001

Cash and cash equivalents
$1,333,949 $1,099,084
Short-term investments
143,560 246,845
Securities purchased under resale agreements
500,000 227,444
Investment securities available-for-sale, at fair value (with amortized cost of $2,900,410 at December 31, 2010 and $2,563,043 at December 31, 2009)
2,875,941 2,564,081
Loans held for sale
220,055 28,014
Loans receivable, excluding covered loans (net of allowance for loan losses of $230,408 at December 31, 2010 and $238,833 at December 31, 2009)
8,430,199 8,218,671
Covered loans (net of allowance for loan losses of $4,225 at December 31, 2010)
4,800,876 5,598,155
Total loans receivable, net
13,231,075 13,816,826
FDIC indemnification asset
792,133 1,091,814
Other real estate owned, net
21,865 13,832
Other real estate owned covered, net
123,902 44,273
Total other real estate owned
145,767 58,105
Investment in Federal Home Loan Bank stock, at cost
162,805 180,217
Investment in Federal Reserve Bank stock, at cost
47,285 36,785
Investment in affordable housing partnerships
155,074 84,833
Premises and equipment, net
135,919 59,099
Accrued interest receivable
82,090 82,370
Due from customers on acceptances
73,796 40,550
Premiums on deposits acquired, net
79,518 89,735
Goodwill
337,438 337,438

Cash surrender value of life insurance policies
103,048 98,552
Other assets
281,084 417,420
TOTAL
$20,700,537 $20,559,212
LIABILITIES AND STOCKHOLDERS' EQUITY

Customer deposit accounts:

Noninterest-bearing
$2,676,466 $2,291,259
Interest-bearing
12,964,793 12,696,354
Total deposits
15,641,259 14,987,613
Federal Home Loan Bank advances
1,214,148 1,805,387
Securities sold under repurchase agreements
1,083,545 1,026,870
Notes payable and other borrowings
60,686 74,406
Bank acceptances outstanding
73,796 40,550
Long-term debt
235,570 235,570
Accrued expenses and other liabilities
277,602 104,157
Total liabilities
18,586,606 18,274,553
COMMITMENTS AND CONTINGENCIES (Note 21)

STOCKHOLDERS' EQUITY

Preferred stock, $0.001 par value, 5,000,000 shares authorized; Series A, non-cumulative convertible, 200,000 shares issued and 85,741 shares outstanding in 2010 and 2009; Series B, cumulative, 306,546 shares issued and outstanding in 2009; Series C, cumulative convertible, 335,047 shares issued and outstanding in 2009.
83,058 693,803
Common stock, $0.001 par value, 200,000,000 shares authorized; 155,743,241 and 116,754,403shares issued in 2010 and 2009, respectivley; 148,542,940 and 109,962,965 shares outstanding in 2010 and 2009, respectively.
156 117
Additional paid in capital
1,434,277 1,091,047
Retained earnings
720,116 604,223
Treasury stock, at cost -- 7,200,301 shares in 2010 and 6,791,438 shares in 2009
(111,262) (105,130)
Accumulated other comprehensive (loss) income, net of tax
(12,414) 599
Total stockholders' equity
2,113,931 2,284,659

TOTAL	$20,700,537	$20,559,212

See accompanying notes to consolidated financial statements.

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EAST WEST BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Year Ended December 31,		
	2010	2009	2008
INTEREST AND DIVIDEND INCOME			
Loans receivable, including fees	$998,589	$587,163	$545,260
Investment securities	70,052	116,286	100,583
Securities purchased under resale agreements	14,208	7,985	6,372
Investment in Federal Home Loan Bank stock	597	—	3,639
Investment in Federal Reserve Bank stock	2,751	2,337	1,536
Short-term investments	9,634	9,047	7,468
Total interest and dividend income	1,095,831	722,818	664,858
INTEREST EXPENSE			
Customer deposit accounts	116,737	129,477	178,060
Federal Home Loan Bank advances	26,641	49,940	70,661
Securities sold under repurchase agreements	48,993	49,725	46,062
Long-term debt	6,420	7,816	12,694
Other borrowings	2,326	171	2,217
Total interest expense	201,117	237,129	309,694
Net interest income before provision for loan losses	894,714	485,689	355,164
Provision for loan losses	200,159	528,666	226,000
Net interest income (loss) after provision for loan losses	694,555	(42,977)	129,164
NONINTEREST INCOME (LOSS)			
Gain on acquisition	22,874	471,009	—
Impairment loss on investment securities	(32,127)	(121,802)	(73,165)
Less: Noncredit-related impairment loss recorded in other comprehensive income	15,458	14,131	—
Net impairment loss on investment securities recognized in earnings	(16,669)	(107,671)	(73,165)
Decrease in FDIC indemnification asset and receivable	(83,213)	(23,338)	—
Branch fees	32,634	22,326	16,972
Net gain on sales of investment securities	31,237	11,923	9,005
Letters of credit fees and commissions	11,816	8,338	9,739
Ancillary loan fees	8,526	6,286	4,646
Income from life insurance policies	4,083	4,368	4,151
Net gain on sales of loans	18,515	—	2,275
Other operating income (loss)	9,467	(2,288)	1,315
Total noninterest income (loss)	39,270	390,953	(25,062)
NONINTEREST EXPENSE			
Compensation and employee benefits	170,052	79,475	82,236
Occupancy and equipment expense	52,073	30,218	26,991
Amortization of investments in affordable housing partnerships	10,032	7,450	7,272
Amortization and impairment writedowns of premiums on deposits acquired	13,283	5,895	7,270

Deposit insurance premiums and regulatory assessments	25,201	28,073	7,223
Loan related expenses	21,070	7,580	6,373
Other real estate owned expense	61,568	19,104	6,013
Legal expense	19,577	8,024	5,577
Prepayment penalty for FHLB advances	13,832	2,370	—
Data processing	10,615	5,641	4,494
Deposit-related expenses	4,750	3,909	4,414
Consulting expense	7,984	8,135	4,398
Other operating expenses	67,879	37,380	39,009
Total noninterest expense	477,916	243,254	201,270
INCOME (LOSS) BEFORE PROVISION (BENEFIT) FOR INCOME TAXES	255,909	104,722	(97,168)
PROVISION (BENEFIT) FOR INCOME TAXES	91,345	22,714	(47,485)
NET INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS	164,564	82,008	(49,683)
Extraordinary item, net of tax	—	(5,366)	—
NET INCOME (LOSS) AFTER EXTRAORDINARY ITEMS	164,564	76,642	(49,683)
PREFERRED STOCK DIVIDENDS AMORTIZATION OF PREFERRED STOCK DISCOUNT, AND INDUCEMENT OF PREFERRED STOCK CONVERSION	43,126	49,115	9,474
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	$121,438	$27,527	$(59,157)
EARNINGS (LOSS) PER SHARE AVAILABLE TO COMMON STOCKHOLDERS			
BASIC	$0.88	$0.35	$(0.94)
DILUTED	$0.83	$0.33	$(0.94)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING			
BASIC	137,478	78,770	62,673
DILUTED	147,102	84,523	62,673
DIVIDENDS DECLARED PER COMMON SHARE	$0.04	$0.05	$0.40

See accompanying notes to consolidated financial statements.

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EAST WEST BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)
(In thousands, except share data)

	Preferred Stock	Additional Paid In Capital Preferred Stock	Common Stock	Additional Paid In Capital Common Stock	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss), Net of Tax	Comprehensive Income (Loss)	Total Stockholders' Equity
BALANCE, JANUARY 1, 2008	$—	$—	$70	$652,297	$657,183	$(98,925)	$(38,802)		$1,171,823
Comprehensive loss:									
Net loss					(49,683)			$(49,683)	(49,683)
Net unrealized loss on investment securities available-for-sale, net of tax benefits of $34,533 and reclassifications of $37,213 net loss included in net income							(47,689)	(47,689)	(47,689)
Total comprehensive loss								$(97,372)	
Cumulative effect of change in accounting principle pursuant to adoption of ASC 715					(479)				(479)
Stock compensation costs				6,167					6,167
Tax provision from stock compensation plans, net				(414)					(414)
Issuance of 200,000 shares Series A preferred stock, net of stock		194,059							194,059

issuance costs					
Conversion of 3,495 shares of Series A preferred stock	(3,391)				(3,391)
Issuance of 227,150 shares of common stock from converted 3,495 shares of Series A preferred stock		3,391			3,391
Issuance of 306,546 shares Series B preferred stock, net of stock issuance costs and discount	281,643				281,643
Issuance of 3,035,109 warrants, pursuant to Series B preferred stock offering		25,201			25,201
Issuance of 496,701 shares pursuant to various stock compensation plans and agreements		2,776			2,776
Issuance of 18,361 shares pursuant to Director retainer fee		219			219
Cancellation of 113,929 shares due to forfeitures of issued restricted stock		3,586		(3,586)	—
Purchase accounting adjustment pursuant to DCB acquisition		2,298			2,298
Purchase of 20,846 shares of treasury stock due to the vesting of restricted stock				(306)	(306)
			(312)		(312)

Amortization of Series B preferred stock discount									
Preferred stock dividends					(9,162)				(9,162)
Common stock dividends					(25,375)				(25,375)
BALANCE, DECEMBER 31, 2008	$—	$472,311	$70	$695,521	$572,172	$(102,817)	$(86,491)		$1,550,766
Cumulative effect adjustment for reclassification of the previously recognized noncredit-related impairment loss on investment securities pursuant to adoption of ASC 320-10-65					8,110		(8,110)		—
BALANCE, JANUARY 1, 2009	$—	$472,311	$70	$695,521	$580,282	$(102,817)	$(94,601)		$1,550,766
Comprehensive income:									
Net income					76,642			$76,642	76,642
Net unrealized gain on investment securities available-for-sale, net of taxes of $52,749 and reclassification of $63,730 net loss included in net income							72,844	72,844	72,844
Net unrealized gain as a result of desecuritization, net of taxes of $22,124							30,552	30,552	30,552
Noncredit-related impairment loss on securities, net of tax benefits of $5,935							(8,196)	(8,196)	(8,196)
Total comprehensive income								$171,842	
				5,330					5,330

Stock compensation costs						
Tax provision from stock compensation plans, net			(1,012)			(1,012)
Preferred stock issuance and conversion costs	(9,928)					(9,928)
Common stock issuance costs			(10,392)			(10,392)
Induced conversion of 110,764 shares of Series A preferred stock	(107,474)					(107,474)
Issuance of 9,968,760 shares of common stock from converted 110,764 shares of Series A preferred stock		10	125,804	(18,340)		107,474
Issuance of 23,247,012 shares common stock from various private placements		24	192,430			192,454
Issuance of 12,650,000 shares common stock from public offering		12	80,316			80,328
Issuance of 488,256 shares pursuant to various stock compensation plans and agreements		1	948			949
Issuance of 22,386 shares pursuant to Director retainer fee			219			219
Issuance of 335,047 shares Series C preferred stock,net of stock issuance costs	335,047					335,047
			1,883		(1,883)	—

Cancellation of 76,962 shares due to forfeitures of issued restricted stock									
Purchase of 37,020 shares of treasury stock due to the vesting of restricted stock						(430)			(430)
Amortization of Series B preferred stock discount		3,847			(3,847)				—
Preferred stock dividends					(26,928)				(26,928)
Common stock dividends					(3,586)				(3,586)
BALANCE, DECEMBER 31, 2009	$—	$693,803	$117	$1,091,047	$604,223	$(105,130)	$599		$2,284,659
Comprehensive income:									
Net income					164,564			$164,564	164,564
Net unrealized loss on investment securities available-for-sale, net of tax benefits of $4,028 and reclassification of $5,714 net gain included in net income							(5,563)	(5,563)	(5,563)
Noncredit-related impairment loss on securities, net of taxes of $6,492							(8,966)	(8,966)	(8,966)
Foreign currency translation adjustments, net of taxes of $1,098							1,516	1,516	1,516
Total comprehensive income								$151,551	
Stock compensation costs				8,480					8,480
Tax provision from stock compensation plans, net				(170)					(170)

Issuance of 1,867,194 shares of common stock pursuant to various stock compensation plans and agreements			2	4,452					4,454
Conversion of 335,047 shares of Series C preferred stock into 37,103,734 shares of common stock		(325,299)	37	325,262					—
Issuance of 17,910 shares pursuant to Director retainer fee				281					281
Cancellation of 343,029 shares of common stock due to forfeitures of issued restricted stock				4,925		(4,925)			—
Purchase of 65,834 shares of treasury stock due to the vesting of restricted stock						(1,207)			(1,207)
Amortization of Series B preferred stock discount		21,042			(21,042)				—
Preferred stock dividends					(22,084)				(22,084)
Common stock dividends					(5,545)				(5,545)
Repurchase of 306,546 shares of Series B preferred stock		(306,488)							(306,488)
BALANCE, DECEMBER 31, 2010	$—	$83,058	$156	$1,434,277	$720,116	$(111,262)	$(12,414)		$2,113,931

See accompanying notes to consolidated financial statements.

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EAST WEST BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss) after extraordinary items	$164,564	$76,642	$(49,683)
Adjustments to reconcile net income (loss) after extraordinary items to net cash provided by operating activities:			
Depreciation and amortization	57,593	81,901	18,096
Accretion of discount and premium	(235,988)	(116,770)	—
Decrease in FDIC indemnification asset and receivable	83,213	23,338	—
Gain on acquisition	(22,874)	(471,009)	—
Impairment writedown on goodwill	—	—	858
Net impairment loss on investment securities available-for-sale recognized in earnings	16,669	107,671	73,165
Impairment writedown (reversal) on mortgage servicing assets	808	(1,051)	2,387
Impairment writedown on other investments	1,244	6,181	1,319
Stock compensation costs	8,761	5,549	6,167
Deferred tax benefit (expense)	12,377	127,132	(83,637)
Provision for loan losses	200,159	528,666	226,000
Impairment on other real estate owned	49,669	7,759	3,609
Net gain on sales of investment securities, loans and other assets	(51,776)	(6,340)	(9,851)
Federal Home Loan Bank stock dividends	—	—	(4,623)
Originations of loans held for sale	(42,985)	(65,047)	(49,352)
Proceeds from sale of loans held for sale	42,059	37,127	49,725
Prepayment penalty for Federal Home Loan Bank advances	13,832	2,370	—
Tax provision (benefit) from stock compensation plans, net	170	(1,012)	414
Income from life insurance policies	(4,083)	(4,368)	(4,151)
Net proceeds from FDIC shared-loss agreements	331,500	—	—
Net change in accrued interest receivable and other assets	87,009	(143,966)	24,623
Net change in accrued expenses and other liabilities	157,275	(39,498)	(22,645)
Total adjustments	704,632	78,633	232,104
Net cash provided by operating activities	869,196	155,275	182,421
CASH FLOWS FROM INVESTING ACTIVITIES			
Net decrease in loans	498,187	467,149	302,422
Net decrease (increase) in short-term investments	103,285	(18,404)	(228,441)
Purchases of:			
Securities purchased under resale agreements	(950,000)	(30,044)	—
Investment securities held-to-maturity	—	(551,608)	(122,185)
Investment securities available-for-sale	(4,207,000)	(1,976,701)	(2,566,040)
Loans receivable	(861,490)	(530,345)	(103,751)
Federal Home Loan Bank stock	—	—	(9,400)
Federal Reserve Bank stock	(10,500)	(9,196)	(5,904)
Premises and equipment	(90,931)	(179)	(3,693)
Proceeds from sale of:			
Investment securities available-for-sale	1,338,910	1,650,680	699,392

Securities purchased under resale agreements	680,000	—	100,000
Loans receivable	473,961	299,322	183,764
Loans held for sale originated for investment	367,404	—	—
Other real estate owned	140,710	81,825	33,709
Premises and equipment	112	18	85
Investments in affordable housing partnerships	2,000	—	—
Repayments, maturity and redemption of investment securities available-for-sale	2,564,157	1,477,470	1,576,271
Redemption of Federal Home Loan Bank stock	20,075	—	12,270
Net cash acquired (paid) in acquisitions	67,186	599,036	(1,181)
Net cash provided by (used in) investing activities	136,066	1,459,023	(132,682)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase (decrease) in:			
Deposits	254,985	325,211	863,045
Short-term borrowings	40,095	(2,215,097)	(547,137)
Proceeds from:			
FHLB advances	550,000	—	250,000
Issuance of common stock pursuant to various stock plans and agreements	4,454	949	2,776
Issuance of preferred stock, net of stock issuance costs, and common stock warrants	—	335,047	500,591
Issuance of common stock from public offering	—	80,328	—
Issuance of common stock from private placement	—	192,454	—
Payment for:			
Repayment of FHLB advances	(1,198,312)	—	(355,640)
Repayment of notes payable and other borrowings	(86,198)	(62,547)	(10,736)
Repurchase of Series B preferred stock	(306,546)	—	—
Purchase of treasury shares	(1,207)	(430)	(306)
Issuance and conversion costs of preferred stock and common stock	—	(20,320)	—
Cash dividends on preferred stock	(24,060)	(26,076)	(8,037)
Cash dividends on common stock	(5,545)	(3,586)	(25,375)
Tax (provision) from stock compensation plans, net	(170)	—	(414)
Net cash (used in) provided by financing activities	(772,504)	(1,394,067)	668,767
Effect of exchange rate changes on cash and cash equivalents	2,107	—	—
NET INCREASE IN CASH AND CASH EQUIVALENTS	234,865	220,231	718,506
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,099,084	878,853	160,347
CASH AND CASH EQUIVALENTS, END OF YEAR	$1,333,949	$1,099,084	$878,853
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	$206,706	$230,667	$301,744
Income tax payments, net of refunds	(60,621)	(21,180)	38,937
Noncash investing and financing activities:			
Transfers from investment securities held-to-maturity to available-for-sale	—	681,404	—
Desecuritization of loans receivable	—	635,614	—
Transfers from other real estate owned/affordable housing partnership	—	13,982	—
Conversion of preferred stock to common stock	325,299	—	—
Real estate acquired through foreclosure	270,995	135,844	83,672

Affordable housing investment financed through notes payable	85,596	—	11,000
Loans to facilitate sales of other real estate owned	15,888	40,687	8,701
Loans to facilitate sales of loans	45,522	—	—
Loans transferred to loans held for sale	563,974	—	—
Purchase accounting adjustment in connection with acquisition	—	—	2,298
Accrued preferred stock dividend	—	852	1,125
Amortization of preferred stock discount	21,042	3,847	312
Issuance of common stock in lieu of Board of Director retainer fees	281	219	219

See accompanying notes to consolidated financial statements.

EAST WEST BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS SUMMARY

East West Bancorp, Inc. (referred to herein on an unconsolidated basis as “East West” and on a consolidated basis as the “Company” or “we”) is a registered bank holding company that offers a full range of banking services to individuals and small to mid-size businesses through its subsidiary bank, East West Bank and its subsidiaries (“East West Bank” or the “Bank”). The Bank is the Company’s principal asset. The Bank operates 106 banking locations throughout California, eight branches in New York, five branches in Georgia, three branches in Massachusetts, two branches in Texas, and four branches in Washington. In Greater China, the Bank’s presence includes three full-service branches in Hong Kong, in Shanghai, and in Shantou. The Bank also has representative offices in Beijing, Guangzhou, Shanghai and Shenzhen, China and Taipei, Taiwan. In addition, the Bank holds operations in the Cayman Islands, through its wholly owned subsidiary, California Canton International Bank (Cayman) Ltd.

The Bank focuses on commercial lending, including commercial real estate loans, commercial business loans and trade finance loans. The Bank also provides financing for residential loans including single-family and multifamily loans. To a lesser extent, the Bank also makes construction development and consumer loans. Included in the Bank’s locations are eleven in-store branches located in 99 Ranch Market stores in Southern and Northern California. The Bank’s revenues are derived from providing financing for residential and commercial real estate and business customers, as well as investing activities. Funding for lending and investing activities is obtained through acceptance of customer deposits, Federal Home Loan Bank advances and other borrowing activities.

SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and general practices within the banking industry. The following is a summary of significant principles used in the preparation of the accompanying financial statements. In preparing the financial statements, management of the Company has made a number of estimates and assumptions pertaining to the reporting of assets and liabilities, including the fair value of assets acquired and liabilities assumed, the FDIC indemnification asset, valuation of OREO, the allowance for loan losses, the disclosure of contingent assets and liabilities and the disclosure of income and expenses for the periods presented in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

Principles of Consolidation—The consolidated financial statements include the accounts of East West Bancorp, Inc., and its wholly owned subsidiaries, East West Bank and East West Insurance Services, Inc. Intercompany transactions and accounts have been eliminated in consolidation. East West also has nine wholly owned subsidiaries that are statutory business trusts (the “Trusts”). In accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 810, the Trusts are not consolidated into the accounts of East West Bancorp, Inc.

Fair Value—Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and, in many cases, may require us to make a number of significant judgments. Based on the observability of the inputs used in the valuation techniques, we classify our assets and liabilities measured and disclosed at fair value in accordance with a three-level hierarchy (e.g., Level 1, Level 2 and Level 3) established under ASC 820. In determining the fair value of financial instruments, we use market prices of the same or similar instruments whenever such prices are available. We do not use prices involving distressed sellers in determining fair value. If observable market prices are unavailable or impracticable to obtain, then

fair value is estimated using modeling techniques such as discounted cash flow analyses. These modeling techniques incorporate our assessments regarding assumptions that market participants would use in pricing the asset or the liability, including assumptions about the risks inherent in a particular valuation technique and the risk of nonperformance.

Securities Purchased Under Resale Agreements (“Resale Agreements”)—The Company purchases securities under resale agreements with terms that range from one day to several years. These agreements are collateralized by mortgage-backed securities and mortgage or commercial loans that are generally held by a third party custodian. The purchases are over-collateralized to ensure against unfavorable market price movements. In the event that the fair value of the securities decreases below the carrying amount of the related repurchase agreement, the counterparty is required to deliver an equivalent value of additional securities. The counterparties to these agreements are nationally recognized investment banking firms that meet credit eligibility criteria and with whom a master repurchase agreement has been duly executed. Resale agreements which are short-term in nature, or have terms of up to 90 days, are included in cash and cash equivalents. Resale agreements with terms greater than 90 days are separately categorized. The Company had no short-term resale agreements as of December 31, 2010 and 2009.

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Investment Securities—The Company classifies its investment securities according to their purpose and holding period. Trading account securities are typically investment grade securities which are generally held by the Bank for a period of seven days or less. Trading account securities are carried at fair value. Realized and unrealized gains or losses on trading account securities are included in noninterest income. As of December 31, 2010 and 2009, there were no trading account securities in the investment portfolio. Held-to-maturity debt securities are recorded at amortized cost. As of December 31, 2010 and 2009 there were no held-to-maturity debt securities in the investment portfolio. The Company has the intent and ability to hold such securities to maturity. Investment securities available-for-sale are reported at estimated fair value, with unrealized gains and losses excluded from operations and reported as a separate component of accumulated other comprehensive income or loss, net of tax, in stockholders' equity.

The fair values of the investment securities are generally determined by reference to average quoted market prices obtained by independent external brokers or independent external pricing service providers who have experience in valuing these securities. In obtaining such valuation information from third parties, the Company has evaluated the methodologies used to develop the resulting fair values. The Company performs a monthly analysis on the broker quotes received from third parties to ensure that the prices represent a reasonable estimate of the fair value. The procedures include, but are not limited to, initial and ongoing review of third party pricing methodologies, review of pricing trends, and monitoring of trading volumes. The Company ensures whether prices received from independent brokers represent a reasonable estimate of fair value through the use of internal and external cash flow models developed based on spreads, and when available, market indices. As a result of this analysis, if the Company determines there is a more appropriate fair value based upon the available market data, the price received from the third party is adjusted accordingly. Prices from third party pricing services are often unavailable for securities that are rarely traded or are traded only in privately negotiated transactions. As a result, certain securities are priced via independent broker quotations which utilize inputs that may be difficult to corroborate with observable market based data. Additionally, the majority of these independent broker quotations are non-binding.

The Company applies a modified valuation approach to certain investment securities for which it believes the current broker prices obtained are based on forced liquidation or distressed sale values in inactive markets. The fair value of each of these securities is individually determined based on a combination of the market approach, reflecting current broker prices, and the income approach, which is a discounted cash flow approach. In calculating the fair value derived from the income approach, the Company makes assumptions related to the implied rate of return, general change in market rates, estimated changes in credit quality and liquidity risk premium, specific non-performance and default experience in the collateral underlying the security; additionally, broker discount rates are taken into consideration in determining the discount rate. The values resulting from each approach (i.e. market and income approaches) are weighted to derive the final fair value of each security trading in an inactive market.

Amortization of premiums and accretion of discounts on securities are recorded as yield adjustments on such securities using the effective interest method. The specific identification method is used for purposes of determining cost in computing realized gains and losses on investment securities sold.

At each reporting date, the Company assesses whether there is an "other-than-temporary" impairment ("OTTI") in its portfolio of investment securities. If we determine that a decline in fair value is other-than-temporary, an impairment loss is recognized in current earnings. When we have the intent and ability to hold debt securities with OTTI for a period necessary to recover the noncredit-related impairment losses, only the credit-related impairment losses are recognized in current earnings. In these instances, the noncredit-related impairment losses are charged to other comprehensive income. The Company examines all individual securities that are in an unrealized loss position at each reporting date for other-than-temporary impairment. Specific investment level factors that are examined to assess impairment include the nature of the investments, the severity and duration of the loss, the probability that the Company will be unable to collect all amounts due, an analysis of the issuers of the securities and whether there has been any cause for default on the securities, and any change in the rating of the securities by the various rating

agencies. Additionally, management takes into consideration the Company's financial resources as well as the Company's overall ability and intent to hold the securities until their fair values recover.

The Company considers all available information relevant to the collectability of the security, including information about past events, current conditions, and reasonable and supportable forecasts, when developing the estimate of future cash flows and making its other-than-temporary impairment assessment for its portfolio of trust preferred securities. The Company considers factors such as remaining payment terms of the security, prepayment speeds, expected defaults, the financial condition of the issuer(s), and the value of any underlying collateral.

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Loans Receivable—Loans receivable that the Company has the intent and ability to hold for the foreseeable future, or until maturity, are stated at their outstanding principal, reduced by an allowance for loan losses and net deferred loan fees or costs on originated loans and unamortized premiums or discounts on purchased loans. Nonrefundable fees and direct costs associated with the origination or purchase of loans are deferred and netted against outstanding loan balances. The deferred net loan fees and costs are recognized in interest income as an adjustment to yield over the loan term using the effective interest method. Discounts or premiums on purchased loans are accreted or amortized to interest income using the effective interest method over the remaining period to contractual maturity adjusted for anticipated prepayments. Interest on loans is calculated using the simple-interest method on daily balances of the principal amounts outstanding. Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that full collection of principal or interest becomes uncertain, regardless of the length of past due status. Generally, loans are placed on nonaccrual status when they become 90 days past due. When interest accrual is discontinued, all unpaid accrued interest is reversed against interest income. In general, subsequent payments received are applied to the outstanding principal balance of the loan. A loan is returned to accrual status when the borrower has demonstrated a satisfactory payment trend subject to management's assessment of the borrower's ability to repay the loan.

Loans held for sale are carried at the lower of aggregate cost or fair value using the aggregate method. Origination fees on loans held for sale, net of certain costs of processing and closing the loans, are deferred until the time of sale and are included in the computation of the gain or loss from the sale of the related loans. A valuation allowance is established if the fair value of such loans is lower than their cost, with a corresponding charge to noninterest income.

Allowance for Loan Losses—The allowance for loan losses is established as management's estimate of probable losses inherent in the loan portfolio. The allowance is increased by the provision for loan losses and decreased by charge-offs when management believes the uncollectability of a loan is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Additionally, non-classified loans are also considered in the allowance for loan losses calculation and are factored in based on the historical loss experience adjusted for various qualitative factors.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all scheduled payments of principal or interest due according to the contractual terms of the loan agreement. Factors considered by management in determining and measuring loan impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for residential, commercial real estate, and commercial and industrial loans based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as an expedient, at the loan's observable market price or the fair value of the collateral, less costs to sell, if the loan is collateral dependent. If the measure of the impaired loan is less than the recorded investment in the loan, the deficiency is charged off against the allowance for loan losses. Consumer loans consist of homogeneous smaller balance loans and are reviewed on a collective basis for impairment.

Acquired Loans—Acquired loans are valued as of acquisition date in accordance with ASC 805. Loans purchased with evidence of credit deterioration since origination for which it is probable that all contractually required payments will

not be collected are accounted for under ASC 310-30. Further, the Company has elected to account for all other acquired loans within the scope of ASC 310-30 using the same methodology.

Under ASC 805 and ASC 310-30, loans are recorded at fair value at acquisition date, factoring in credit losses expected to be incurred over the life of the loan. Accordingly, an allowance for loan losses is not carried over or recorded as of the acquisition date. In situations where loans have similar risk characteristics, loans are aggregated into pools to estimate cash flows under ASC 310-30. A pool is accounted for as a single asset with a single interest rate, cumulative loss rate and cash flow expectation.

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The cash flows expected over the life of the loan or pool are estimated using an internal cash flow model that projects cash flows and calculates the carrying value of the loan or pool, book yield, effective interest income and impairment, if any, based on loan or pool level events, respectively. Assumptions as to default rates, loss severity, loss curves and prepayment speeds are utilized to calculate the expected cash flows.

At acquisition, the excess of the cash flows expected to be collected over the fair value is considered to be the accretable yield and is recognized as interest income over the life of the loan or pool. The excess of the contractual cash flows over the cash flows expected to be collected is considered to be the nonaccretable difference. Subsequent to the acquisition date, any increases in expected cash flows over those expected at purchase date in excess of fair value are adjusted through the accretable difference on a prospective basis. Any subsequent decreases in expected cash flows over those expected at purchase date are recognized by recording an allowance for loan losses. Any disposals of loans, including sales of loans, payments in full or foreclosures result in the removal of the loan from the ASC 310-30 portfolio at the carrying amount.

Covered Loans—Loans acquired in an FDIC-assisted acquisition that are subject to an FDIC shared-loss agreement are referred to as covered loans. Covered loans are reported exclusive of the expected cash flow reimbursements we expect to collect from the FDIC. All covered loans are accounted for under ASC 805 and ASC 310-30.

FDIC Indemnification Asset—In conjunction with the FDIC-assisted acquisitions of Washington First International Bank and United Commercial Bank, the Bank entered into shared-loss agreements with the FDIC related to covered loans and covered other real estate owned (see "Covered Other Real Estate Owned" below). The FDIC indemnification asset is initially recorded at fair value, based on the discounted value of expected future cash flows under the shared-loss agreement. The Company has elected to account for amounts receivable under the shared-loss agreements as an indemnification asset in accordance with ASC 805. The difference between the present value and the undiscounted cash flows the Company expects to collect from the FDIC is accreted into noninterest income over the life of the FDIC indemnification asset. The FDIC indemnification asset is reviewed quarterly and adjusted for any changes in expected cash flows based on recent performance and expectations for future performance of the covered portfolio. These adjustments are measured on the same basis as the related covered loans and covered other real estate owned. Any increases in cash flow of the covered loans over those expected will reduce the FDIC indemnification asset and any decreases in cash flow of the covered loans over those expected will increase the FDIC indemnification asset. Increases and decreases to the FDIC indemnification asset are recorded as adjustments to noninterest income.

Other Real Estate Owned—Other real estate owned ("OREO") represents properties acquired through foreclosure or through full or partial satisfaction of loans, is considered held for sale, and is recorded at the lower of cost or estimated fair value at the time of foreclosure. Loan balances in excess of the fair value of the real estate acquired at the date of foreclosure are charged against the allowance for loan losses. After foreclosure, valuations are periodically performed as deemed necessary by management and the real estate is carried at the lower of carrying value or fair value less costs to sell. Subsequent declines in the fair value of OREO below the carrying value are recorded through the use of a valuation allowance by charges to noninterest expense. Any subsequent operating expenses or income of such properties are also charged to noninterest expense. If the OREO is sold within three months of foreclosure, the Company substitutes the value received in the sale (net of costs to sell) for the fair value (less costs to sell). Any adjustment made to the loss originally recognized at the time of foreclosure is then charged against or credited to the allowance for loan losses, if deemed material. Otherwise, any declines in value, after foreclosure, are recorded as gains or losses from the sale or disposition of the real estate. Gain recognition upon disposition of a property is dependent on the sale having met certain criteria relating to the buyer's initial investment in the property sold.

Covered Other Real Estate Owned—All other real estate owned acquired in an FDIC-assisted acquisition that are subject to an FDIC shared-loss agreement are referred to as covered other real estate owned. Covered other real estate owned is reported exclusive of the expected cash flow reimbursements we expect to collect from the FDIC. Upon transferring

covered loan collateral to covered other real estate owned status, acquisition date fair value discounts on the related loan are also transferred to covered other real estate owned. Fair value adjustments on covered other real estate owned result in a reduction of the covered other real estate carrying amount and a corresponding increase in the FDIC indemnification asset (see “FDIC Indemnification Asset” above), with the estimated net loss to the Bank charged against earnings.

Investment in Affordable Housing Partnerships—The Company owns limited partnership interests in projects of affordable housing for lower income tenants. The investments in which the Company has significant influence or a limited partnership interest that exceeds 5% are recorded using the equity method of accounting. The remaining investments are recorded using the cost method and are being amortized using the level-yield method over the life of the related tax credits. The tax credits are being recognized in the consolidated financial statements to the extent they are utilized on the Company’s income tax returns.

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Goodwill and Other Intangible Assets—The Company has goodwill, which represents the excess of the purchase price over the fair value of net assets acquired, as a result of various past acquisitions. Goodwill is not amortized and is reviewed for impairment on an annual basis on December 31, or on an interim basis if an event occurs or circumstances change that would reduce the fair value of a reporting unit below its carrying value. Premiums on deposits, which represent the intangible value of depositor relationships resulting from deposit liabilities assumed in acquisitions, are amortized over the projected useful lives of the deposits, which is typically 7 to 15 years. Core deposit intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment on goodwill and premiums on deposits is recognized by writing down the asset to the extent that the carrying value exceeds the estimated fair value.

Investment in Federal Home Loan Bank Stock—As a member of the Federal Home Loan Bank (“FHLB”) of San Francisco, the Bank is required to own common stock in the FHLB of San Francisco based upon our balance of residential mortgage loans and outstanding FHLB advances. As a result of the acquisition of WFIB, the Bank also owns common stock in the FHLB of Seattle. FHLB stock is carried at cost and may be sold back to the FHLB at its carrying value. Both cash and stock dividends received are reported as dividend income.

Investment in Federal Reserve Bank Stock—As a member of the Federal Reserve Bank (“FRB”) of San Francisco, the Bank is required to maintain stock in the FRB of San Francisco based on a specified ratio relative to our capital. FRB stock is carried at cost and may be sold back to the FRB at its carrying value. Cash dividends received are reported as dividend income.

Premises and Equipment—The Company’s premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed based on the straight-line method over the estimated useful lives of the various classes of assets. The ranges of useful lives for the principal classes of assets are as follows:

Buildings and building improvements	25 years
Furniture, fixtures and equipment	3 to 7 years
Leasehold improvements	Term of lease or useful life, whichever is shorter

The Company reviews its long-lived assets for impairment annually or when events or circumstances indicate that the carrying amount of these assets may not be recoverable. An asset is considered impaired when the expected undiscounted cash flows over the remaining useful life is less than the net book value. When impairment is indicated for an asset, the amount of impairment loss is the excess of the net book value over its fair value.

Mortgage Servicing Assets—Mortgage servicing assets are initially recorded at fair value. Servicing assets are amortized in proportion to, and over the period of, estimated net servicing income. The fair value of servicing assets is determined based on the present value of estimated net future cash flows related to contractually-specified servicing fees. The primary determinants of the fair value of mortgage servicing assets are prepayment speeds and discount rates. Evaluation of impairment is performed on a quarterly basis using discounted static cash flow analysis in combination with mortgage dealer consensus prepayment forecasts. Variations in either or a combination of these factors could materially affect the estimated values of mortgage servicing assets. In conjunction with the valuation process, each class of servicing assets is stratified to evaluate and measure impairment, which is measured as the excess of cost over fair value. Determination of each stratum is based on one or more predominant risk characteristics of the underlying financial assets, including loan type, maturity and interest rates. Impairment, if it occurs, is recognized through a valuation allowance for each class.

Securities Sold Under Repurchase Agreements (“Repurchase Agreements”)—The Company sells securities under repurchase agreements. These transactions are accounted for as collateralized financing transactions and recorded at

the amounts at which the securities were sold. The Company may have to provide additional collateral to the counterparty, as necessary.

Long-Term Debt—Long-term debt consists of both junior subordinated debt and subordinated debt. The Company has established nine statutory business trusts whereby the Company is the owner of all the beneficial interests represented by the common securities of the Trusts, and third parties hold the fixed and variable rate capital securities of the Trusts. The purpose of issuing the capital securities was to provide the Company with a cost-effective means of obtaining Tier I capital for regulatory reporting purposes.

The Trusts are not consolidated by the Company. Junior subordinated debt represents liabilities of the Company to the Trusts and is included in long-term debt on the accompanying consolidated balance sheets.

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Federal Funds Purchased—The Company utilizes federal funds purchased as part of its short-term financing strategy. Federal funds purchased are generally overnight borrowings and mature within one business day to six months from the transaction date.

Income Taxes—Deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year-end, based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income.

The Company examines its financial statements, its income tax provision, and its federal and state income tax returns and analyzes its tax positions, including permanent and temporary differences, as well as the major components of income and expense to determine whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. In the event a tax position is not more likely than not to be sustained by the tax authorities, a reserve is established by management. The Company recognizes interest and penalties related to such tax positions as part of its provision for income taxes.

Stock-Based Compensation—The Company issues stock-based compensation to certain employees, officers, and directors and accounts for stock options using the fair value method, which generally results in compensation expense recognition. Prior to December 31, 2005, the Company accounted for its fixed stock options using the intrinsic-value method, as prescribed in Accounting Principles Board (“APB”) Opinion No. 25. Accordingly, no stock option expense was recorded in periods prior to December 31, 2005.

In adopting the fair value method discussed above, the Company elected to follow the modified prospective method, which required application of the new standard to new awards and to awards modified, repurchased or cancelled after the required effective date. Accordingly, prior period amounts have not been restated. Additionally, compensation costs for the portion of awards for which the requisite service has not been rendered that are outstanding as of January 1, 2006 are being recognized as the requisite services are rendered on or after January 1, 2006. The compensation cost of that portion of awards is based on the grant-date fair value of those awards as calculated for pro forma disclosures under the original SFAS No. 123.

Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company; (2) the transferee has the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets; and (3) the Company does not maintain effective control over the transferred assets through either (a) an agreement that entitles and obligates the Company to repurchase or redeem them before their maturity or (b) an agreement that provides the Company with both the unilateral ability to cause the holder to return specific assets and a more than trivial benefit attributable to that ability. The difference between the net proceeds received and the carrying amount of the financial assets being sold is recognized as a gain or loss on sale.

Earnings (Loss) Per Share (“EPS”)—Basic EPS excludes dilution and is computed by dividing income or loss available to common stockholders by the weighted-average number of shares outstanding during the period. Diluted EPS is calculated on the basis of the weighted average number of shares outstanding during the period plus restricted stock and shares issuable upon the assumed exercise of outstanding convertible preferred stock, common stock options and warrants, unless they have an antidilutive effect.

Comprehensive Income—The term “comprehensive income” describes the total of all components of comprehensive income, including net income and other comprehensive income. “Other comprehensive income” refers to revenues, expenses, and gains and losses that are included in comprehensive income but are excluded from net income because they have been recorded directly in equity under the provisions of other Financial Accounting Standards Board

statements. The Company presents the comprehensive income disclosure as a part of the statements of changes in stockholders' equity by identifying each element of comprehensive income, including net income.

Derivative Financial Instruments—As part of its asset and liability management strategy, the Company may use derivative financial instruments to mitigate exposure to risk. All derivative instruments, including certain derivative instruments embedded in other contracts, are recognized on the consolidated balance sheet at fair value with the change in fair value reported in earnings.

Reclassifications—Certain items in the consolidated balance sheet and the consolidated statements of operations for the years ended December 31, 2009 and 2008 were reclassified to conform to the 2010 and 2009 presentation, respectively. These reclassifications did not affect previously reported net income.

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RECENT ACCOUNTING STANDARDS

In June 2009, the FASB issued ASC 860, Transfers and Servicing, which requires additional information about transfers of financial assets, including securitization transactions, and where companies have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets, and requires additional disclosures. It was effective for the Company on January 1, 2010. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In June 2009, the FASB issued ASC 810, Consolidation, which changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. It was effective for the Company on January 1, 2010. The adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

In January 2010, the FASB issued Accounting Standards Update ("ASU") 2010-06, Improving Disclosures About Fair Value Measurements. ASU 2010-06 requires separate disclosure of the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and reasons for the transfers and separate presentation of information about purchases, sales, issuances, and settlements in the reconciliation for Level 3 fair value measurements. Additionally, ASU 2010-06 clarifies existing disclosures regarding level of disaggregation and inputs and valuation techniques. The new disclosures and clarifications of existing disclosures under ASU 2010-06 are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years ending after December 15, 2010 and for interim periods within those fiscal years. The Company adopted the disclosure requirements of significant transfers in an out of Level 1 and Level 2 fair value measurements (see Note 3 of the Notes to Consolidated Financial Statements). The adoption of the disclosure requirements did not have a material effect on the Company's consolidated financial statements.

In April 2010, the FASB issued ASU 2010-18, Receivables (Topic 310): Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset, which amends ASC 310-30. This ASU clarifies the treatment of loan modifications for loans accounted for within a loan pool. Loans accounted for under ASC 310-30 should not be removed from the pool even if the loan modification would otherwise be considered a troubled debt restructuring. An entity is still required to assess the entire pool for impairment. The update does not require additional disclosures. This clarified treatment of loan modifications is effective for interim and annual reporting periods beginning after July 15, 2010. The adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

In July 2010, the FASB issued ASU 2010-20, Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and Allowance for Credit Losses, which amends ASC 310, Receivables. ASU 2010-20 is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. Companies will be required to provide more information about the credit quality of their financing receivables in the disclosures to financial statements, such as aging information and credit quality indicators. Both new and existing disclosures must be disaggregated by portfolio segment or class. The disaggregation of information is based on how a company develops its allowance for credit losses and how it manages its credit exposure. The disclosures as of the end of a reporting period will be effective for interim and annual reporting periods ending on or after December 15, 2010. The adoption of the disclosure requirements did not have a material effect on the Company's consolidated financial statements.

In December 2010, the FASB issued ASU 2010-28, Intangibles—Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts, which modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The amendments in ASU 2010-28 are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. Upon adoption of the amendments, any resulting goodwill impairment should be recorded as a cumulative-effect adjustment to beginning retained earnings in the period of adoption. Any goodwill impairments occurring after the initial adoption of the amendments should be included in earnings. The Company does not expect the adoption of this guidance to have a material effect on its consolidated financial statements.

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In December 2010, the FASB issued ASU 2010-29, Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations, which specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. ASU 2010-29 also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments in ASU 2010-29 are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. The Company does not expect the adoption of the disclosure requirements to have a material effect on its consolidated financial statements.

2. BUSINESS COMBINATIONS

Washington First International Bank

On June 11, 2010 the Bank acquired certain assets and assumed certain liabilities of Washington First International Bank ("WFIB") from the FDIC in an FDIC-assisted transaction. As part of the Purchase and Assumption Agreement, the Bank and the FDIC entered into shared-loss agreements, whereby the FDIC will cover a substantial portion of any future losses on loans (and related unfunded loan commitments), OREO and accrued interest on loans for up to 90 days. Under the terms of the shared-loss agreements, the FDIC will absorb 80% of losses and share in 80% of loss recoveries. The shared-loss agreements for commercial and single-family residential mortgage loans are in effect for 5 years and 10 years, respectively, from the June 11, 2010 acquisition date and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from the acquisition date. A summary of the fair value of assets acquired and liabilities assumed from the FDIC is as follows:

	June 11, 2010 (In thousands)
ASSETS	
Cash and cash equivalents	$ 67,186
Investment securities	37,532
Core deposit intangible	3,065
Loans covered by FDIC loss-sharing (gross balance $395,156 and shown net of discount of $84,174)	310,982
Loans not covered by FDIC loss-sharing	2,869
FDIC indemnification asset	41,131
Other real estate owned covered, net	23,443
Other assets	6,380
Total assets acquired	492,588
LIABILITIES	
Deposits	395,910
FHLB advances	65,348
Securities sold under repurchase agreements	1,937
Deferred tax liability	8,189
Other liabilities	9,917
Total liabilities assumed	481,301
NET ASSETS ACQUIRED (after-tax gain)	$ 11,287

The net gain represents the excess of the estimated fair value of the assets acquired over the estimated fair value of the liabilities assumed and is influenced significantly by the FDIC-assisted transaction process. Under the FDIC-assisted transaction process, only certain assets and liabilities are transferred to the acquirer and, depending on the nature and amount of the acquirer's bid, the FDIC may be required to make a cash payment to the acquirer. The Bank received a cash payment from the FDIC for $51.7 million. In the WFIB acquisition, the book value of assets transferred to the Bank was $486.3 million. The pre-tax gain of $19.5 million or the after-tax gain of $11.3 million recognized by the Company is considered a bargain purchase transaction under ASC 805 since the total acquisition-date fair value of the identifiable net assets acquired exceeded the fair value of the consideration transferred. The gain was recognized as noninterest income in the Company's Consolidated Statements of Operations.

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During the fourth quarter of 2010, the Company recognized a $1.6 million purchase price adjustment related to the acquisition of WFIB with a corresponding decrease to the gain on acquisition. The adjustment is included in noninterest income in the Consolidated Statements of Operations. Under ASC 805, the Company is allowed to recognize additional assets and liabilities related to the acquisition of WFIB if new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have resulted in the recognition of those assets and those liabilities as of that date. The measurement period ends as soon as the Company receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

The following table presents our unaudited pro forma results of operations for the periods presented as if the WFIB acquisition had been completed on January 1, 2010 and January 1, 2009, respectively. The unaudited pro forma results of operations include the historical accounts of the Company and WFIB and pro forma adjustments as may be required, including the amortization of intangibles with definite lives and the amortization or accretion of any premiums or discounts arising from fair value adjustments for assets acquired and liabilities assumed. The unaudited pro forma information is intended for informational purposes only and is not necessarily indicative of our future operating results or operating results that would have occurred had the acquisition been completed at the beginning of 2010 and 2009, respectively. No assumptions have been applied to the pro forma results of operations regarding possible revenue enhancements, expense efficiencies or asset dispositions.

	For the Year Ended December 31,	
	2010 Combined	2009 Combined
	(In thousands)	
Revenues (net interest income plus noninterest income)	$947,188	$897,844
Net earnings	$168,233	$33,033
Net income (loss) per share after extraordinary item:		
Basic	$0.91	$(0.20)
Diluted	$0.85	$(0.19)

Note: Extraordinary item relates only to the June 2009 desecuritization of the Company's private-label mortgage-backed securitizations.

Washington First International Bank was a full-service commercial bank headquartered in Seattle, Washington that operated 4 branch locations in the greater Puget Sound Area. The assets acquired and liabilities assumed have been accounted for under the acquisition method of accounting. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the June 11, 2010 acquisition date.

United Commercial Bank

On November 6, 2009 the Bank acquired certain assets and assumed certain liabilities of United Commercial Bank (“UCB”) from the FDIC in an FDIC-assisted transaction and consequently recognized a pre-tax bargain purchase gain of $471.0 million in noninterest income in the Company’s 2009 Consolidated Statement of Operations. During 2010, the Company recognized an additional net pre-tax gain of $5.0 million related to the fair value of investments obtained in the acquisition of UCB. The adjustment is included in noninterest income in the 2010 Consolidated Statement of Operations.

Under ASC 805, the Company is allowed to recognize additional assets and liabilities related to the November 6, 2009 acquisition of UCB if new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have resulted in the recognition of those assets and those liabilities as of that date. The measurement period ends as soon as the Company receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

3. FAIR VALUE

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

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

- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable and can be corroborated by market data. Level 2 financial instruments typically include U.S. Government debt and agency mortgage-backed securities, municipal securities, U.S. Government sponsored enterprise preferred stock securities, single issue trust preferred securities, equity swap agreements, foreign exchange options, interest rate swaps and OREO.

- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category typically includes mortgage servicing assets, impaired loans, private-label mortgage-backed securities, pooled trust preferred securities and derivatives payable.

The Company records investment securities available-for-sale, equity swap agreements, derivatives payable, foreign exchange options and interest rate swaps at fair value on a recurring basis. Certain other assets such as mortgage servicing assets, impaired loans, other real estate owned, goodwill, premiums on acquired deposits and private equity investments are recorded at fair value on a nonrecurring basis. Nonrecurring fair value measurements typically involve assets that are periodically evaluated for impairment and for which any impairment is recorded in the period in which the remeasurement is performed.

In determining the appropriate hierarchy levels, the Company performs a detailed analysis of assets and liabilities that are subject to fair value disclosure. The following tables present both financial and non-financial assets and liabilities that are measured at fair value on a recurring and nonrecurring basis. These assets and liabilities are reported on the consolidated balance sheets at their fair values as of December 31, 2010 and December 31, 2009. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to their fair value measurement. There were no transfers in and out of Levels 1 and 2 during 2010. There were also no transfers in and out of Level 1 and 3 or Levels 2 and 3.

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	Assets (Liabilities) Measured at Fair Value on a Recurring Basis as of December 31, 2010			
	Fair Value Measurements December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
Investment securities available-for-sale:				
U.S. Treasury securities	$20,454	$ 20,454	$—	$ —
U.S. Government agency and U.S. Government sponsored enterprise debt securities	1,333,465	—	1,333,465	—
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	19,132	—	19,132	—
Residential mortgage-backed securities	306,714	—	306,714	—
Municipal securities	—	—	—	—
Other residential mortgage-backed securities:				
Investment grade	—	—	—	—
Non-investment grade	6,254	—	—	6,254
Corporate debt securities:				
Investment grade	1,056,867	—	1,056,867	—
Non-investment grade	38,730	—	35,957	2,773
U.S. Government sponsored enterprise equity securities	—	—	—	—
Other securities	94,325	—	94,325	—
Total investment securities available-for-sale	$2,875,941	$ 20,454	$2,846,460	$ 9,027
Equity swap agreements	$206	$ —	$206	$ —
Derivatives payable	(3,463)	—	—	(3,463)
Foreign exchange options	5,084	—	5,084	—
Interest rate swaps	13	—	13	—

	Assets (Liabilities) Measured at Fair Value on a Recurring Basis as of December 31, 2009			
	Fair Value Measurements December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
Investment securities available-for-sale:				
U.S. Treasury securities	$303,472	$303,472	$—	$ —
U.S. Government agency and U.S. Government sponsored enterprise debt securities	832,025	—	832,025	—

U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	26,355	—	26,355	—
Residential mortgage-backed securities	724,348	—	724,348	—
Municipal securities	60,193	—	60,193	—
Other residential mortgage-backed securities:				
Investment grade	95,517	—	95,517	—
Non-investment grade	41,610	—	28,872	12,738
Corporate debt securities:				
Investment grade	460,895	—	459,917	978
Non-investment grade	8,861	—	6,906	1,955
U.S. Government sponsored enterprise equity securities	1,782	—	1,782	—
Other securities	9,023	9,023	—	—
Total investment securities available-for-sale	$2,564,081	$312,495	$2,235,915	$ 15,671
Equity swap agreements	$14,177	$—	$14,177	$ —
Derivatives payable	(14,185)	—	—	(14,185)
Foreign exchange options	—	—	—	—
Interest rate swaps	—	—	—	—

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	Assets Measured at Fair Value on a Non-Recurring Basis as of and for the Twelve Months Ended December 31, 2010				
	Fair Value Measurements as of December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses) for the Twelve months Ended December 31, 2010
			(In thousands)		
Non-covered impaired loans:					
Total residential	$ 7,486	$ —	$ —	$ 7,486	$ (2,955)
Total commercial real estate	53,884	—	—	53,884	(29,333)
Total commercial and industrial	6,405	—	—	6,405	(6,427)
Total consumer	538	—	—	538	(641)
Total non-covered impaired loans	$ 68,313	$ —	$ —	$ 68,313	$ (39,356)
Mortgage servicing assets (single-family, multifamily and commercial)	$ 14,509	$ —	$ —	$ 14,509	$ (808)
Non-covered OREO	$ 12,940	$ —	$ 12,940	$ —	$ (7,054)
Covered OREO (1)	$ 54,919	$ —	$ 54,919	$ —	$ (44,002)
Investment in affordable housing partnerships	$ —	$ —	$ —	$ —	$ —

(1) Covered OREO results from the WFIB and UCB FDIC-assisted acquisitions for which the Company entered into shared-loss agreements with the FDIC whereby the FDIC will reimburse the Company for 80% of eligible losses. As such, the Company's liability for losses is 20% of the $44.0 million or $8.8 million.

	Assets Measured at Fair Value on a Non-Recurring Basis as of and for the Twelve Months Ended December 31, 2009				
	Fair Value Measurements as of December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs(Level 3)	Total Gains (Losses) for the Twelve Months Ended December 31, 2009
			(In thousands)		
Non-covered impaired loans:					
Total residential	$4,708	$ —	$—	$ 4,708	$ (1,505)
Total commercial real estate	79,407	—	—	79,407	(50,585)
Total commercial and industrial	15,612	—	—	15,612	(14,846)
Total consumer	—	—	—	—	—
Total non-covered impaired loans	$99,727	$ —	$—	$ 99,727	$ (66,936)

Mortgage servicing assets (single-family, multifamily and commercial)	$16,284	$ —	$—	$ 16,284	$ 1,051
Non-covered OREO	$13,832	$ —	$13,832	$ —	$ (5,388)
Covered OREO	$—	$ —	$—	$ —	$ —
Investment in affordable housing partnerships	$8,382	$ —	$—	$ 8,382	$ (5,600)

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At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. The following tables provide a reconciliation of the beginning and ending balances for major asset and liability categories measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2010 and December 31, 2009:

	Investment Securities Available-for-Sale				
			Corporate Debt Securities		
	Total	Other Residential Mortgage-Backed Securities, Non-Investment Grade	Investment Grade	Non-Investment Grade	Derivatives Payable
			(In thousands)		
Beginning balance, January 1, 2010	$ 15,671	$ 12,738	$ 978	$ 1,955	$ (14,185)
Total gains or (losses): (1)					
Included in earnings	(13,996)	(5,903)	5	(8,098)	138
Included in other comprehensive loss (unrealized) (2)	7,363	(152)	308	7,207	—
Purchases, issuances, sales, settlements	(11)	(429)	(9)	427	10,584
Transfer from investment grade to non-investment grade	—	—	(1,282)	1,282	—
Transfers in and/or out of Level 3 (4)	—	—	—	—	—
Ending balance, December 31, 2010	$ 9,027	$ 6,254	$ —	$ 2,773	$ (3,463)
Changes in unrealized losses included in earnings relating to assets and liabilities still held at December 31, 2010	$ (14,447)	$ (6,340)	$ —	$ (8,107)	$ (138)

	Investment Securities Available-for-Sale						
		Other Residential Mortgage-Backed Securities		Corporate Debt Securities			
	Total	Investment Grade	Non-Investment Grade	Investment Grade	Non-Investment Grade	Residual Securities	Derivatives Payable
				(In thousands)			
Beginning balance, January 1, 2009	$ 624,351	$ 527,109	$ 10,216	$ 1,294	$ 35,670	$ 50,062	$ (14,142)

Total gains or (losses): (1)							
Included in earnings	(99,729)	2,629	193	26	(106,434)	3,857	(43)
Included in other comprehensive loss (unrealized) (2)	142,801	101,456	(1,433)	(217)	68,015	(25,020)	—
Purchases, issuances, sales, settlements (3)	(651,752)	(613,582)	(13,850)	(125)	4,704	(28,899)	—
Transfer from investment grade to non-investment grade	—	(17,612)	17,612	—	—	—	—
Transfers in and/or out of Level 3 (4)	—	—	—	—	—	—	—
Ending balance, December 31, 2009	$ 15,671	$ —	$ 12,738	$ 978	$ 1,955	$ —	$ (14,185)
Changes in unrealized losses included in earnings relating to assets and liabilities still held at December 31, 2009	$ (106,434)	$ —	$ —	$ —	$ (106,434)	$ —	$ —

(1) Total gains or losses represent the total realized and unrealized gains and losses recorded for Level 3 assets and liabilities. Realized gains or losses are reported in the consolidated statements of operations.

(2) Unrealized gains or losses on investment securities are reported in accumulated other comprehensive loss, net of tax in the consolidated statements of changes in stockholders' equity and comprehensive income.

(3) Purchases, issuances, sales and settlements represent Level 3 assets and liabilities that were either purchased, issued, sold, or settled during the period. The amounts are recorded at their end of period fair values. In May 2009, the Company desecuritized its portfolio of private-label mortgage-backed securities resulting in a $635.6 million decrease in Level 3 investment grade mortgage-backed securities for the year ended December 31, 2009.

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

Valuation Methodologies

Investment Securities Available-for-Sale—The fair values of available-for-sale investment securities are generally determined by reference to the average of at least two quoted market prices obtained from independent external brokers or prices obtained from independent external pricing service providers who have experience in valuing these securities. In obtaining such valuation information from third parties, the Company has reviewed the methodologies used to develop the resulting fair values.

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The Company's Level 3 available-for-sale securities include one private-label mortgage-backed security and five pooled trust preferred securities. The fair values of these investment securities represent less than 1% of the total available-for-sale investment securities. The fair values of the private-label mortgage-backed security and pooled trust preferred securities have traditionally been based on the average of at least two quoted market prices obtained from independent external brokers since broker quotes in an active market are given the highest priority. However, as a result of the global financial crisis and illiquidity in the U.S. markets, the market for these securities has been inactive since mid-2007. It is the Company's view that current broker prices (which are typically non-binding) on the private-label mortgage-backed security and certain pooled trust preferred securities are based on forced liquidation or distressed sale values in very inactive markets that are not representative of the fair value of these securities. As such, the Company considered what weight, if any, to place on transactions that are not orderly when estimating fair value.

For the private-label mortgage-backed security, the Company determined fair value by using a weighted average of broker prices based on market approach and income approach (discounted cash flow) to derive the final fair value. For the pooled trust preferred securities, the fair value was derived based on discounted cash flow analyses (the income method) prepared by management. In order to determine the appropriate discount rate used in calculating fair values derived from the income method for the private-label mortgage-backed security and pooled trust preferred securities, the Company has made assumptions using an exit price approach related to the implied rate of return which have been adjusted for general changes in market rates, estimated changes in credit quality and liquidity risk premium, specific nonperformance and default experience in the collateral underlying the securities. The losses recorded in the period are recognized in noninterest income.

Equity Swap Agreements—The Company has entered into equity swap agreements to hedge against market fluctuations in a promotional equity index certificate of deposit product offered to bank customers. This deposit product, which has a term of 5 years, pays interest based on the performance of the Hang Seng China Enterprises Index ("HSCEI"). The fair value of these equity swap agreements is based on the income approach. The fair value is based on the change in the value of the HSCEI and the volatility of the call option over the life of the individual swap agreement. The option value is derived based on the volatility, the interest rate and the time remaining to maturity of the call option. The Company's consideration of its counterparty's credit risk resulted in a nominal adjustment to the valuation of the equity swap agreements for the year ended December 31, 2010. The valuation of equity swap agreements falls within Level 2 of the fair value hierarchy due to the observable nature of the inputs used in deriving the fair value of these derivative contracts. The fair value of the derivative contracts is provided by a third party that the Company places reliance on.

Derivatives Payable—The Company's derivatives payable are recorded in conjunction with certain certificate of deposits ("host instrument"). These CDs pay interest based on changes in either the HSCEI or based on changes in the Chinese currency Renminbi ("RMB") as designated and are included in interest-bearing deposits on the consolidated balance sheets. The fair value of these embedded derivatives is based on the income approach. The Company's consideration of its own credit risk resulted in a nominal adjustment to the valuation of the derivative liabilities for 2010. The valuation of the derivatives payable falls within Level 3 of the fair value hierarchy since the significant inputs used in deriving the fair value of these derivative contracts are not directly observable.

Foreign Exchange Options—The Company has entered into foreign exchange option contracts with major investment firms. The settlement amount is determined based upon the performance of the RMB relative to the U.S. Dollar ("USD") over the 5-year term of the contract. The performance amount is computed based on the average quarterly value of the RMB per the USD as compared to the initial value. The fair value of the derivative contract is provided by third parties and is determined based on the change in the RMB and the volatility of the option over the life of the agreement. The option value is derived based on the volatility of the option, interest rate and time remaining to maturity. The Company's consideration of the counterparty's credit risk resulted in a $0.7 million adjustment to the valuation of the foreign exchange options for the year ended December 31, 2010. The valuation of the option contract falls within Level 2 of the fair value hierarchy due to the observable nature of the inputs used in deriving the fair value

of this derivative contract.

Interest Rate Swaps—The Company has entered into a pay fixed, receive variable swap contract with an institutional counterparty to hedge against a promotional interest rate swap product offered to bank customers. This product allows borrowers to lock in attractive intermediate and long-term interest rates by entering into a pay fixed, receive variable swap contract with the Company, resulting in the customer obtaining a synthetic fixed rate loan. The fair value of the interest rate swap contracts is based on a discounted cash flow approach. The Company's consideration of the counterparty's credit resulted in no adjustment as of December 31, 2010. The valuation of the interest rate swap falls within Level 2 of the fair value hierarchy due to the observable nature of the inputs used in deriving the fair value of this derivative contract.

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

Impaired Loans—The Company's impaired loans are generally measured using the fair value of the underlying collateral, which is determined based on the most recent valuation information received. The fair values may be adjusted based on factors such as the Company's historical knowledge and changes in market conditions from the time of valuation. Impaired loans fall within Level 3 of the fair value hierarchy since they are measured at fair value based on the most recent valuation information received on the underlying collateral.

Other Real Estate Owned—The Company's OREO represents properties acquired through foreclosure or through full or partial satisfaction of loans and are recorded at estimated fair value at the time of foreclosure and at the lower of cost or estimated fair value subsequent to acquisition. The fair values of OREO properties are based on third party appraisals, broker price opinions or accepted written offers. These valuations are reviewed and approved by the Company's appraisal department, credit review department, or OREO department. OREO properties are classified as Level 2 assets in the fair value hierarchy. The non-covered OREO balance of $21.9 million included in the consolidated balance sheets as of December 31, 2010 is recorded net of estimated selling cost. The covered OREO balance is $123.9 million as of December 31, 2010.

Fair Value of Financial Instruments

The carrying amounts and fair values of the Company's financial instruments at December 31, 2010 and 2009 were as follows:

	December 31,			
	2010		2009	
	Carrying Notional or Contract Amount	Estimated Fair Value	Carrying Notional or Contract Amount	Estimated Fair Value
	(In thousands)			
Financial Assets:				
Cash and cash equivalents	$1,333,949	$1,333,949	$1,099,084	$1,099,084
Short-term investments	143,560	143,560	246,845	246,845
Securities purchased under resale agreements	500,000	505,826	227,444	232,693
Investment securities available-for-sale	2,875,941	2,875,941	2,564,081	2,564,081
Loans held for sale	220,055	225,221	28,014	28,014
Loans receivable, net	13,231,075	13,043,932	13,816,826	13,491,046
Investment in Federal Home Loan Bank stock	162,805	162,805	180,217	180,217
Investment in Federal Reserve Bank stock	47,285	47,285	36,785	36,785
Accrued interest receivable	82,090	82,090	82,370	82,370
Equity swap agreements	22,884	206	38,828	14,177

Foreign exchange options	85,614	5,084	—	—
Financial Liabilities:				
Customer deposit accounts:				
Demand, savings and money market deposits	8,875,806	7,896,736	7,088,822	6,214,848
Time deposits	6,765,453	6,762,892	7,898,791	7,912,384
Federal Home Loan Bank advances	1,214,148	1,199,151	1,805,387	1,791,326
Securities sold under repurchase agreements	1,083,545	1,296,522	1,026,870	1,265,565
Notes payable	49,690	49,690	7,366	7,366
Accrued interest payable	13,797	13,797	19,386	19,386
Long-term debt	235,570	125,633	235,570	103,442
Derivatives payable	79,640	3,463	38,828	14,185

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The methods and assumptions used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value are explained below:

Cash and Cash Equivalents—The carrying amounts approximate fair values due to the short-term nature of these instruments.

Short-Term Investments—The fair values of short-term investments generally approximate their book values due to their short maturities.

Securities Purchased Under Resale Agreements—Securities purchased under resale agreements with original maturities of 90 days or less are included in cash and cash equivalents. The fair value of securities purchased under resale agreements with original maturities of more than 90 days is estimated by discounting the cash flows based on expected maturities or repricing dates utilizing estimated market discount rates.

Investment Securities Available-For-Sale—The fair values of the investment securities available-for-sale are generally determined by reference to the average of at least two quoted market prices obtained from independent external brokers or independent external pricing service providers who have experience in valuing these securities. In obtaining such valuation information from third parties, the Company has reviewed the methodologies used to develop the resulting fair values. For private-label mortgage-backed securities and pooled trust preferred securities, fair values are based on discounted cash flow analyses.

Loans Held for Sale—The fair value of loans held for sale is derived from current market prices and comparative current sales.

Loans Receivable, net (includes covered and non-covered loans)—The fair value of loans is determined based on the discounted cash flow approach. The discount rate is derived from the associated yield curve plus spreads, and reflects the offering rates in the market for loans with similar financial characteristics. No adjustments have been made for changes in credit within the loan portfolio. It is management's opinion that the allowance for loan losses pertaining to performing and nonperforming loans results in a fair valuation of credit for such loans.

Investment in Federal Home Loan Bank Stock and Federal Reserve Bank Stock—The carrying amount approximates fair value, as the stock may be sold back to the Federal Home Loan Bank and the Federal Reserve Bank at carrying value.

Accrued Interest Receivable—The carrying amount of accrued interest receivable approximates fair value due to its short-term nature.

Equity Swap Agreements—The fair value of the derivative contracts is provided by a third party and is determined based on the change in value of the HSCEI and the volatility of the call option over the life of the individual swap agreement. The option value is derived based on the volatility of the option, interest rate and time remaining to the maturity. We also considered the counterparty's credit risk in determining the fair value.

Foreign Exchange Options—The fair value of the derivative contracts is provided by third parties and is determined based on the change in the RMB and the volatility of the option over the life of the agreement. The option value is derived based on the volatility of the option, interest rate and time remaining to the maturity. We also considered the counterparty's credit risk in determining the fair value.

Interest Rate Swaps—The fair value of the interest rate swap contracts is provided by a third party and is determined based on a discounted cash flow approach. The Company also considered the counterparty's credit risk in determining

the fair value.

Customer Deposit Accounts—The fair value of customer deposit accounts is determined based on the discounted cash flow approach. The discount rate is derived from the associated yield curve, plus spread, if any. For core deposits (demand, savings and money market deposits) the cash outflows are projected by the decay rate based on the Bank's core deposit premium study and are discounted using the LIBOR yield curve. For time deposits, the cash flows are based on the contractual runoff and are discounted by the Bank's current offering rates, plus spread.

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Federal Funds Purchased—The carrying amounts approximate fair values due to the short-term nature of these instruments.

Federal Home Loan Bank Advances—The fair value of FHLB advances is estimated based on the discounted value of contractual cash flows, using rates currently offered by the FHLB of San Francisco for fixed-rate credit advances with similar remaining maturities at each reporting date.

Securities Sold Under Repurchase Agreements—For securities sold under repurchase agreements with original maturities of 90 days or less, the carrying amounts approximate fair values due to the short-term nature of these instruments. At December 31, 2010 and 2009, most of the securities sold under repurchase agreements are long-term in nature and the fair values of securities sold under repurchase agreements are calculated by discounting future cash flows based on expected maturities or repricing dates, utilizing estimated market discount rates and taking into consideration the call features of each instrument.

Notes Payable—The carrying amount of notes payable approximates fair value as these notes are payable on demand.

Accrued Interest Payable—The carrying amount of accrued interest payable approximates fair value due to its short-term nature.

Long-Term Debt—The fair values of long-term debt are estimated by discounting the cash flows through maturity based on current market rates the Bank would pay for new issuances.

Derivatives Payable—The Company's derivatives payable are recorded in conjunction with certain certificate of deposits ("host instrument"). These CDs pay interest based on changes in either the HSCEI or based on changes in the RMB, as designated. The fair value of derivatives payable is estimated using the income approach. Additionally, we considered our own credit risk in determining the valuation.

The fair value estimates presented herein are based on pertinent information available to management as of each reporting date. Although we are not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and therefore, current estimates of fair value may differ significantly from the amounts presented herein.

4. CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

Cash and cash equivalents include cash, amounts due from banks, money-market funds, and other short-term investments with original maturities of less than 90 days. Short-term investments, which include overnight securities purchased under resale agreements, are recorded at cost, which approximates market.

The composition of cash and cash equivalents at December 31, 2010 and 2009 is presented as follows:

	December 31,	
	2010	2009
	(Dollars in thousands)	
Cash and amounts due from banks	$ 1,028,929	$ 848,967
Cash equivalents:		
Money market funds	15,008	150,031
Other short-term investments	290,012	100,086
Total cash and cash equivalents	$ 1,333,949	$ 1,099,084

Short-term investments include interest-bearing deposits in other banks and other short-term investments with original maturities of greater than 90 days and less than one year.

The following table provides information on short-term investments as of and for the period ended December 31, 2010 and 2009.

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	December 31, 2010	2009
	(Dollars in thousands)	
Balance at end of year	$143,560	$246,845
Average balance outstanding during the year	190,923	405,449
Maximum balance outstanding at any month-end	257,399	579,183
Weighted average interest rate at end of year	1.45 %	0.66 %

5. SECURITIES PURCHASED UNDER RESALE AGREEMENTS

Securities purchased under resale agreements ("resale agreements") increased to $500.0 million as of December 31, 2010, compared with $227.4 million at December 31, 2009. The increase as of December 31, 2010 reflects additions of resale agreements for $950.0 million entered into during 2010 offset with the sale of $677.5 million of which $147.5 million represents an early termination of two resale agreements with a gain of $2.5 million.

Resale agreements are recorded at the amounts at which the securities were acquired. The Company's policy is to obtain possession of securities purchased under resale agreements that are equal to or greater than the principal amount loaned. The market value of the underlying securities, which collateralize the related receivable on resale agreements, is monitored, including accrued interest. Additional collateral may be requested from the counterparty when determined to be appropriate.

Total interest income on resale agreements amounted to $14.2 million, $8.0 million, and $6.4 million, for the years ended December 31, 2010, 2009, and 2008, respectively.

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6. INVESTMENT SECURITIES

An analysis of the investment securities available-for-sale portfolio is presented as follows:

	Gross Amortized Cost	Gross Unrealized Gains	Estimated Unrealized Losses	Fair Value
		(In thousands)		
As of December 31, 2010				
Investment securities available-for-sale:				
U.S. Treasury securities	$19,847	$607	$—	$20,454
U.S. Government agency and U.S. Government sponsored enterprisedebt securities	1,349,289	2,297	(18,121)	1,333,465
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	18,620	512	—	19,132
Residential mortgage-backed securities	295,140	11,574	—	306,714
Municipal securities	—	—	—	—
Other residential mortgage-backed securities:				
Investment grade	—	—	—	—
Non-investment grade	14,996	—	(8,742)	6,254
Corporate debt securities:				
Investment grade	1,056,537	9,095	(8,765)	1,056,867
Non-investment grade (1)	50,015	31	(11,316)	38,730
U.S. Government sponsored enterprise equity securities	—	—	—	—
Other securities	95,966	267	(1,908)	94,325
Total investment securities available-for-sale	$2,900,410	$24,383	$(48,852)	$2,875,941
As of December 31, 2009				
Investment securities available-for-sale:				
U.S. Treasury securities	$304,105	$8	$(641)	$303,472
U.S. Government agency and U.S. Government sponsored enterprise debt securities	841,953	507	(10,435)	832,025
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	25,503	852	—	26,355
Residential mortgage-backed securities	707,290	17,863	(805)	724,348
Municipal securities	59,264	1,027	(98)	60,193
Other residential mortgage-backed securities:				
Investment grade	95,181	827	(492)	95,516
Non-investment grade	50,843	368	(9,601)	41,610
Corporate debt securities:				
Investment grade	441,606	20,428	(1,138)	460,896
Non-investment grade	26,277	—	(17,416)	8,861
U.S. Government sponsored enterprise equity securities	1,998	—	(216)	1,782
Other securities	9,023	—	—	9,023
Total investment securities available-for-sale	$2,563,043	$41,880	$(40,842)	$2,564,081

(1)

For 2010, the Company recorded $16.7 million, on a pre-tax basis, of OTTI through earnings and $15.4 million of the non-credit portion of OTTI for pooled trust securities and other mortgage-backed securities in other comprehensive income. The Company recorded $107.7 million, on a pre-tax basis, of the credit portion of OTTI through earnings and $8.2 million, net of tax, of the non-credit portion of OTTI for pooled trust preferred securities in other comprehensive income for the year ended December 31, 2009.

The Company did not have any investment securities held-to-maturity as of December 31, 2010 and December 31, 2009.

The fair values of investment securities are generally determined by reference to the average of at least two quoted market prices obtained from independent external brokers or prices obtained from independent external pricing service providers who have experience in valuing these securities. The Company performs a monthly analysis on the broker quotes received from third parties to ensure that the prices represent a reasonable estimate of fair value. The procedures include, but are not limited to, initial and ongoing review of third party pricing methodologies, review of pricing trends, and monitoring of trading volumes. The Company assesses that prices received from independent brokers represent a reasonable estimate of fair value through the use of internal and external cash flow models developed that are based on spreads and, when available, market indices. As a result of this analysis, if the Company determines there is a more appropriate fair value based upon available market data, the price received from third parties is adjusted accordingly.

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Prices from third party pricing services are often unavailable for securities that are rarely traded or are traded only in privately negotiated transactions. As a result, certain securities are priced via independent broker quotations that utilize inputs that may be difficult to corroborate with observable market based data. Additionally, the majority of these independent broker quotations are non-binding.

As a result of the global financial crisis and illiquidity in the U.S. markets, the market for the private label mortgage-backed security and certain pooled trust preferred securities has been inactive since mid-2007. It is the Company's view that current broker prices (which are typically non-binding) on these securities are based on forced liquidation or distressed sale values in very inactive markets that are not representative of the fair value of these securities. As such, the Company considered what weight, if any, to place on transactions that are not orderly when estimating fair value. For the pooled trust preferred securities and the private-label mortgage-backed security, the Company determined their fair values using the methodologies set forth in Note 3 to the Company's consolidated financial statements presented elsewhere in this report.

The following table shows the Company's rollforward of the amount related to OTTI credit losses for the years ended December 31, 2010 and 2009:

	2010	2009
	(In thousands)	
Beginning balance	$107,671	$—
Addition of other-than-temporary impairment that was not previously recognized	6,340	107,671
Additional increases to the amount related to the credit loss for which an other-than-temporary impairment was previously recognized	10,329	—
Ending balance	$124,340	$107,671

The following tables show the Company's investment portfolio's gross unrealized losses and related fair values, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, for the years ended December 31, 2010 and 2009:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
As of December 31, 2010						
Investment securities available-for-sale:						
U.S. Treasury securities	$—	$—	$—	$—	$—	$—
U.S. Government agency and U.S. Government sponsored enterprise debt securities	935,654	(18,121)	—	—	935,654	(18,121)
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:						
Commercial mortage-backed securities	—	—	—	—	—	—
Residential mortage-backed securities	—	—	—	—	—	—

Municipal securities	—	—	—	—	—	—
Other residential mortgage-backed securities:						
Investment grade	—	—	—	—	—	—
Non-investment grade	—	—	6,254	(8,742)	6,254	(8,742)
Corporate debt securities:						
Investment grade	656,434	(8,765)	—	—	656,434	(8,765)
Non-investment grade	24,105	(623)	9,926	(10,693)	34,031	(11,316)
U.S. Government sponsored enterprise equity securities	—	—	—	—	—	—
Other securities	76,692	(1,908)	—	—	76,692	(1,908)
Total investment securities available-for-sale	$1,692,885	$(29,417)	$16,180	$(19,435)	$1,709,065	$(48,852)

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	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
As of December 31, 2009						
Investment securities available-for-sale:						
U.S. Treasury securities	$253,002	$(641)	$—	$—	$253,002	$(641)
U.S. Government agency and U.S. Government sponsored enterprise debt securities	673,067	(10,435)	—	—	673,067	(10,435)
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:						
Commercial mortgage-backed securities	—	—	—	—	—	—
Residential mortgage-backed securities	55,947	(805)	—	—	55,947	(805)
Municipal securities	12,369	(98)	—	—	12,369	(98)
Other residential mortgage-backed securities:						
Investment grade	47,343	(492)	—	—	47,343	(492)
Non-investment grade	19,970	(1,011)	12,739	(8,590)	32,709	(9,601)
Corporate debt securities:						
Investment grade	32,342	(97)	978	(1,041)	33,320	(1,138)
Non-investment grade	—	—	8,861	(17,416)	8,861	(17,416)
U.S. Government sponsored enterprise equity securities	1,782	(216)	—	—	1,782	(216)
Other securities	—	—	—	—	—	—
Total investment securities available-for-sale	$1,095,822	$(13,795)	$22,578	$(27,047)	$1,118,400	$(40,842)

Unrealized Losses

The majority of the unrealized losses related to securities that have been in a continuous loss position for less than twelve months is related to the agency securities. As of December 31, 2010, the Company had $1.33 billion in agency securities available-for-sale, representing approximately 46% of the total investment securities available-for-sale portfolio.

As of December 31, 2010, there were six individual securities that have been in a continuous unrealized loss position for twelve months or more. These securities are comprised of five pooled trust preferred securities with a total fair value of $9.9 million and one mortgage-backed security with a fair value of $6.3 million. As of December 31, 2010 there were also 129 securities, including the 6 securities above, which have been in a continuous unrealized loss position for less than twelve months. The securities in an unrealized loss position include 46 investment grade corporate debt securities, 8 non-investment grade debt securities, 33 government agency securities and 42 other securities. The unrealized losses on these securities are primarily attributed to changes in interest rates as well as the liquidity crisis that has impacted all financial industries. The issuers of these securities have not, to our knowledge,

established any cause for default on these securities. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated. The Company does not intend to sell these securities and it is not more likely than not that the Company will be required to sell the investments before recovery of their current amortized cost basis. As such, the Company does not deem these securities, other than those previously stated, to be other-than-temporarily impaired as of December 31, 2010.

As of December 31, 2009, there were seven individual securities that have been in a continuous unrealized loss position for twelve months or more. These securities are comprised of six corporate securities with a total fair value of $9.8 million and one mortgage-backed security with a fair value of $12.7 million. As of December 31, 2009, there were also 72 securities that have been in a continuous unrealized loss position for less than twelve months. The unrealized losses on these securities are primarily attributed to changes in interest rates as well as the liquidity crisis that has impacted all financial industries. The issuers of these securities have not, to our knowledge, established any cause for default on these securities. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated. The Company does not intend to sell these securities and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost basis. As such, the Company does not deem these securities to be other-than-temporarily impaired.

Corporate Debt Securities

The majority of the unrealized losses related to securities that have been in a continuous loss position of twelve months or longer is related to five pooled trust preferred debt securities. As of December 31, 2010, these pooled trust preferred securities had an estimated fair value of $9.9 million, representing less than 1% of the total investment securities available-for-sale portfolio. One security was downgraded to non-investment grade during the second quarter of 2010. The ratings for the other four pooled trust preferred securities were downgraded to non-investment grade status during 2009 due to increased deferral and default activity from the issuers of the underlying debt collateralizing these instruments. As of December 31, 2010, these non-investment grade debt instruments had gross unrealized losses amounting to $10.7 million, or 52% of the total amortized cost basis of these securities, comprised of $4.0 million in unrealized losses on securities that are not other-than-temporarily impaired and $6.7 million in noncredit-related impairment losses on securities that are other-than-temporarily impaired as of December 31, 2010 pursuant to the provisions of ASC 320-10-65. As a result of the previously discussed diminishing collateral values, deteriorating cash flows and increasing estimates of future deferrals and defaults, we recorded an impairment loss of $888 thousand on our portfolio of pooled trust preferred securities during 2010 for additional increases to the amount related to the credit loss for which an other-than-temporary impairment was previously recognized.

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During 2009 and 2008, the Company recorded $14.1 million and $13.6 million, respectively, in noncredit-related impairment losses on fourteen and three trust preferred securities, respectively, due to rating downgrades caused by increases in market spreads, concerns regarding the housing market and lack of liquidity in the market. None of these securities have experienced any credit-related losses for which OTTI was previously recorded prior to implementation of ASC 320-10-65. Upon the implementation of ASC 320-10-65, the Company reclassified the combined $14.0 million, or $8.1 million on a net of tax basis, in noncredit-related OTTI impairment losses recognized during 2009 and 2008 from the opening balance of retained earnings to other comprehensive income as of December 31, 2009.

Mortgage-Backed Securities

As of December 31, 2010, the Company had one private-label available-for-sale mortgage-backed security with a fair value of $6.3 million, with a gross unrealized loss of $8.7 million, or 58% of the amortized cost basis of this security, for more than twelve months. This security is collateralized by single-family loans and secured by the first lien on these residential properties. Additionally, any principal and interest shortfall that may arise from the deterioration of the collateral may be covered by a monoline insurance provider. However, due to the current calculated cash flow loss and the potential illiquidity of the insurance provider, the Company did have other-than-temporary impairment of $6.3 million recognized in earnings on this security. The Company does not intend to sell this security and it is not more likely than not that the Company will be required to sell this security before recovery of its new amortized cost basis as of December 31, 2010.

In May 2009, the Company desecuritized its private-label mortgage-backed securities which resulted in a $635.6 million increase in single and multifamily loans receivable with a corresponding decrease in available-for-sale investment securities. These single-family and multifamily loans were previously originated by the Company and were securitized in 2006 and 2007 for additional liquidity purposes. All of the resulting securities were retained by the Company in its available-for-sale investment portfolio. The Company’s decision to desecuritize these securities was prompted by the fair value adjustments recorded on these securities that were based on price points observed in the general market for mortgage-backed securities that were not reflective of the better credit quality of the underlying loans. These loans had very low overall delinquency rates as of December 31, 2009. The accumulated fair value adjustments on these securities, recorded in other comprehensive income, were negatively impacting the Company’s tangible common equity. The desecuritization added $30.6 million to the Company’s tangible common equity.

Government Sponsored Equity Preferred Stock (Available-for Sale)

In September 2008, liquidity and credit concerns led the U.S. Federal Government to assume a conservatorship role in Fannie Mae and Freddie Mac. The rating on Fannie Mae and Freddie Mac preferred stock securities was downgraded from investment grade to non-investment grade status reflecting the cessation of dividend payments on these securities. These securities are non-cumulative perpetual preferred stock in which unpaid dividends do not accumulate. The purchase agreement between the U.S. Treasury and these government-sponsored entities contains a covenant prohibiting the payment of dividends on existing preferred stock. As the assessment on the status of any resumption in dividend payments on these securities was uncertain, the Company recorded $55.3 million in OTTI charges on Fannie Mae and Freddie Mac preferred stock securities in 2008. In December 2009, the Company recorded an additional $1.0 million in OTTI charges. In 2010, the Company recorded $2.0 million in additional OTTI charges. As of December 31, 2010, the fair value of these preferred stock securities was zero.

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The scheduled maturities of investment securities at December 31, 2010 are presented as follows:

	Amortized Cost	Estimated Fair Value
	(In thousands)	
Due within one year	$1,442,349	$1,421,008
Due after one year through five years	436,511	439,695
Due after five years through ten years	683,219	680,620
Due after ten years	338,331	334,618
Total investment securities available-for-sale	$2,900,410	$2,875,941

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

Proceeds from sales of available-for-sale securities during 2010, 2009 and 2008 were $1.34 billion, $1.65 billion and $699.4 million, respectively. Realized gains were $31.2 million, $11.9 million and $9.0 million during 2010, 2009 and 2008, respectively. Other than other-than-temporary impairment, the Company recorded no gross realized losses in 2010, 2009 and 2008, respectively. The tax expense on the sale of investment securities available-for-sale amounted to $13.1 million, $5.0 million and $3.8 million for the years ended December 31, 2010, 2009 and 2008, respectively.

At December 31, 2010 and 2009, investment securities available-for-sale with a par value of $1.9 billion and $1.5 billion, respectively, were pledged to secure public deposits, FHLB advances, repurchase agreements, Federal Reserve Bank's discount window, or for other purposes required or permitted by law.
At December 31, 2010 and 2009, we had no held-to-maturity investment securities. During 2009 and subsequent to the UCB Acquisition, we transferred $681.4 million held-to-maturity investment securities to available-for-sale.

7. DERIVATIVE FINANCIAL INSTRUMENTS

The Company offers various derivative products to clients and enters into derivative transactions in due course. These transactions are not linked to specific Company assets or liabilities in the consolidated balance sheets or to forecasted transactions in a hedge relationship and, therefore, do not qualify for hedge accounting.

Equity Swap Agreements—During 2004, the Company entered into four equity swap agreements with a major investment brokerage firm to hedge against market fluctuations in a promotional equity index certificate of deposit product that was offered to customers for a limited time during the latter half of 2004. This product, which has a term of 51/2 years, pays interest based on the performance of the Hang Seng China Enterprises Index (the "HSCEI"). Under ASC 815, a certificate of deposit that pays interest based on changes in an equity index is a hybrid instrument with an embedded derivative (i.e. equity call option) that must be accounted for separately from the host contract (i.e. the certificate of deposit). In accordance with ASC 815, both the embedded equity call options on the certificates of deposit and the freestanding equity swap agreements are marked-to-market each reporting period with resulting changes in fair value recorded in the consolidated statements of operations. The four equity swap agreements were terminated in 2010 since the related equity index certificates of deposits have matured.

In December 2007, the Company entered into two new equity swap agreements in a promotional deposit product offered to bank customers which has a term of 5 years and pays interest based on the performance of the HSCEI. As of December 31, 2010 and 2009, the combined notional amounts of the equity swap agreements totaled $22.9 million and $38.8 million, respectively.

The fair values of the equity swap agreements and embedded derivative liability for these six derivative contracts amounted to $206 thousand and $210 thousand, respectively, as of December 31, 2010, compared to $14.2 million and $14.2 million, respectively, as of December 31, 2009.

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Foreign Exchange Options—During 2010, the Company entered into foreign exchange option contracts with major investment firms to hedge against currency exchange rate fluctuations in a certificate of deposit product available to bank customers beginning in the first quarter of 2010. This product, which has a term of 5 years, pays interest based on the performance of the Chinese currency Renminbi relative to the U.S. Dollar. Under ASC 815, a certificate of deposit that pays interest based on changes in currency exchange rates is a hybrid instrument with an embedded derivative that must be accounted for separately from the host contract (i.e. the certificate of deposit). In accordance with ASC 815, both the embedded derivative instruments and the freestanding foreign exchange option contracts are marked-to-market each reporting period with resulting changes in fair value reported in the consolidated statements of operations.

As of December 31, 2010 the notional amount of the foreign exchange options totaled $85.6 million.

The fair values of the foreign exchange options and embedded derivative liability for these contracts amounted to a $5.1 million asset and $3.2 million liability as of December 31, 2010.

Interest Rate Swaps—During 2010, the Company entered into a pay fixed, receive variable swap contract with an institutional counterparty to hedge against a newly launched interest rate swap product offered to bank customers. This product allows borrowers to lock in attractive intermediate and long-term interest rates by entering into a pay fixed, receive variable swap contract with the Company, resulting in the customer obtaining a synthetic fixed rate loan. The Company does not assume any interest rate risk since the swap agreements mirror each other. As of December 31, 2010 the notional amount of the interest rate swaps totaled $4.1 million. The interest rate swap agreements are marked-to-market each reporting period with resulting changes in fair value reported in the consolidated statements of operations.

The fair values of the interest rate swap contracts with the institutional counterparty and the bank customers amounted to a $13 thousand asset and $14 thousand liability, respectively, as of December 31, 2010.

The following table summarizes the fair value and balance sheet classification of derivative instruments as of December 31, 2010 and 2009. The notional amount of the contract is not recorded on the consolidated balance sheets, but is used as the basis for determining the amount of interest payments to be exchanged between the counterparties. If the counterparty fails to perform, the Company’s counterparty credit risk is equal to the amount reported as a derivative asset. The valuation methodology of derivative instruments is disclosed in Note 3 to the Company’s consolidated financial statements presented elsewhere in this report.

Fair Values of Derivative Instruments

	December 31, 2010			December 31, 2009		
	Notional Amount	Derivative Assets(1)	Derivative Liabilities(1)	Notional Amount	Derivative Assets(1)	Derivative Liabilities(1)
	(In thousands)					
Equity swap agreements	$22,884	$206	$ 210	$38,828	$14,177	$ 14,185
Foreign exchange options	85,614	5,084	3,239	—	—	—
Interest rate swaps	4,098	13	14	—	—	—
Total derivative instruments	$112,596	$5,303	$ 3,463	$38,828	$14,177	$ 14,185

(1) Derivative assets include the estimated gain to settle a derivative contract plus net interest receivable. Derivative liabilities include the estimated loss to settle a derivative contract.

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The table below summarizes gains and (losses) on derivative instruments recorded in the consolidated statements of operations for the years ended December 31, 2010 and 2009:

	Location in Consolidated Statements of Operations	Year Ended December 31, 2010	2009
		(In thousands)	
Equity swap agreements	Noninterest expense	$ (138)	$ 312
Foreign exchange options	Noninterest expense	—	—
Interest rate swaps	Noninterest expense	—	—
Net (losses) gains on derivative instruments		$ (138)	$ 312

8. COVERED ASSETS AND FDIC INDEMNIFICATION ASSET

Covered Assets

Covered assets consist of loans receivable and OREO that were acquired in the WFIB Acquisition on June 11, 2010 and in the UCB Acquisition on November 6, 2009 for which the Company entered into shared-loss agreements with the FDIC. The shared-loss agreements covered over 99% of the loans originated by WFIB and all of the loans originated by UCB, excluding the loans originated by UCB in China under its United Commercial Bank China (Limited) subsidiary. The Company will share in the losses, which begins with the first dollar of loss incurred, on covered assets under the shared-loss agreements.

Pursuant to the terms of the shared-loss agreements, the FDIC is obligated to reimburse the Company 80% of eligible losses for both WFIB and UCB with respect to covered assets. For the UCB covered assets, the FDIC will reimburse the Company for 95% of eligible losses in excess of $2.05 billion. The Company has a corresponding obligation to reimburse the FDIC for 80% or 95%, as applicable, of eligible recoveries with respect to covered assets. The commercial loan shared-loss agreement and single-family residential mortgage loan shared-loss agreement are in effect for 5 years and 10 years, respectively, from the acquisition date and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from the acquisition date.

Forty-five days following the 10th anniversary of the respective acquisition date, the Company will be required to pay to the FDIC a calculated amount, based on the specific thresholds of losses not being reached. The calculation of this potential liability as stated in the shared-loss agreements is 50% of the excess, if any of (i) 20% of the Intrinsic Loss Estimate and (ii) the sum of (A) 25% of the asset discount plus (B) 25% of the Cumulative Shared-Loss Payments plus (C) the Cumulative Servicing Amount if net losses on covered loans subject to the stated threshold is not reached. As of December 31, 2010, the Company’s estimate for this liability for WFIB and UCB is $7.0 million and zero, respectively.

At each date of acquisition, we accounted for the loan portfolio acquired from the respective bank at fair value. This represents the discounted value of the expected cash flows from the portfolio. In estimating the nonaccretable difference, we (a) calculated the contractual amount and timing of undiscounted principal and interest payments (the “undiscounted contractual cash flows”) and (b) estimated the amount and timing of undiscounted expected principal and interest payments (the “undiscounted expected cash flows”). In the determination of contractual cash flows and cash flows expected to be collected, we assume no prepayment on the ASC 310-30 nonaccrual loan pools as we do not

anticipate any significant prepayments on credit impaired loans. For the ASC 310-30 accrual loans for single-family, multifamily and commercial real estate, we used a third party vendor to obtain prepayment speeds, in order to be consistent with the market participant's notion of the accounting standards. The third party vendor is recognized in the mortgage-industry for the delivery of prepayment and default models for the secondary market to identify loan level prepayment, delinquency, default, and loss propensities. The prepayment rates for the construction, land, and commercial and consumer pools have historically been low and so we applied the prepayment assumptions of our current portfolio using our internal modeling. The difference between the undiscounted contractual cash flows and the undiscounted expected cash flows is the nonaccretable difference. The nonaccretable difference represents our estimate of the credit losses expected and was considered in determining the fair value of the loans as of the acquisition date. The amount by which the undiscounted expected cash flows exceed the estimated fair value (the "accretable yield") is accreted into interest income over the life of the loans. The Company has elected to account for all covered loans acquired in the FDIC-assisted acquisitions under ASC 310-30.

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The carrying amounts and the composition of the covered loans as of December 31, 2010 and 2009 are as follows:

	December 31,	
	2010	2009
	(In thousands)	
Real estate loans:		
Residential single-family	$553,541	$637,139
Residential multifamily	1,093,331	1,170,525
Commercial and industrial real estate	2,085,674	2,421,701
Construction and land	1,043,717	1,473,370
Total real estate loans	4,776,263	5,702,735
Other loans:		
Commercial business	1,072,020	1,281,279
Other consumer	107,490	122,809
Total other loans	1,179,510	1,404,088
Total principal balance	5,955,773	7,106,823
Covered discount	(1,150,672)	(1,508,668)
Net valuation of loans	4,805,101	5,598,155
Allowance on covered loans	(4,225)	—
Total covered loans, net	$4,800,876	$5,598,155

Credit Quality Indicators—The covered loans acquired are and will continue to be subject to the Bank's internal and external credit review and monitoring. The covered loans have the same credit quality indicators as the non-covered loans, to enable the monitoring of the borrower's credit and the likelihood of repayment.

Loans are risk rated based on analysis of the current state of the borrower's credit quality. The analysis of credit quality includes review of all sources of repayment, the borrower's current financial and liquidity status and all other relevant information. The Company utilizes an eight grade risk rating system, where a higher grade represents a higher level of credit risk. The eight grade risk rating system can be generally classified by the following categories: Pass or Watch, Special Mention, Substandard, Doubtful and Loss. The risk ratings reflect the relative strength of the sources of repayment. Refer to Footnote 9 for full discussion of risk ratings.

After a year of historical performance of the covered loans acquired through the UCB acquisition, the Company reduced the nonaccretable difference, due to the performance of the portfolio and expectation for the inherent losses in the portfolio. This reduction was primarily calculated based on the risk ratings of the loans. If credit deteriorates beyond the respective acquisition date fair value amount of the covered loans under ASC 310-30, such deterioration will be reserved for and a provision for credit losses will be charged to earnings with a partially offsetting noninterest income item reflected in the increase to the FDIC indemnification asset or receivable. As of December 31, 2010, there is no allowance for the covered loans accounted for under ASC 310-30 related to deterioration, as the credit has not deteriorated beyond fair value at acquisition date.

As of the acquisition date, WFIB's and UCB's loan portfolios included unfunded commitments for commercial lines of credit, construction draws and other lending activity. The total commitment outstanding as of the acquisition date is covered under the shared-loss agreements. However, any additional advances on these loans subsequent to acquisition date are not accounted for under ASC 310-30. Included in the table below are $561 million of additional advances, under the shared-loss agreements which are not accounted for under ASC 310-30. The bank has considered these additional advances on commitments covered under the shared-loss agreements in the general reserve of the allowance for loan losses calculation. These additional advances are within our loan segments as follows: $397 million of commercial and industrial loans, $129 million of commercial real estate loans, $23 million of consumer loans and $12

million of residential loans. As of December 31, 2010, $4.2 million, or 1.8%, of the total allowance is allocated to these additional advances on loans covered under the shared-loss agreements. This $4.2 million in allowance is allocated within our loan segments as follows: $2.0 million for commercial and industrial loans, $2.1 million for commercial real estate loans, $90 thousand for consumer loans and $85 thousand for residential loans.

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	Pass/Watch	Special Mention	Substandard (In thousands)	Doubtful	Total
December 31, 2010					
Real estate loans:					
Residential single-family	$525,979	$2,153	$ 25,157	$252	$553,541
Residential multifamily	1,008,274	15,114	67,366	2,577	1,093,331
Commercial and industrial real estate	1,520,135	89,870	466,588	9,081	2,085,674
Construction and land	328,214	125,688	556,070	33,745	1,043,717
Total real estate loans	3,382,602	232,825	1,115,181	45,655	4,776,263
Other loans:					
Commercial business	834,252	64,702	161,401	11,665	1,072,020
Other consumer	106,232	336	922	—	107,490
Total other loans	940,484	65,038	162,323	11,665	1,179,510
Total principal balance	$4,323,086	$297,863	$ 1,277,504	$57,320	$5,955,773

At December 31, 2010 and 2009, $379.8 million and $675.6 million, respectively, of the ASC 310-30 credit impaired loans were considered to be nonaccrual loans.

The following table sets forth information regarding covered nonperforming assets as of the dates indicated:

	December 31, 2010	December 31, 2009
	(In thousands)	
Covered nonaccrual loans(1)	$379,797	$675,625
Covered loans past due 90 days or more but not on nonaccrual	—	—
Total nonperforming loans	379,797	675,625
Other real estate owned covered, net	123,902	44,273
Total covered nonperforming assets	$503,699	$719,898

(1) Covered nonaccrual loans meet the criteria for nonaccrual but have a yield accreted through interest income under ASC 310-30.

As of December 31, 2010, we had 114 covered OREO properties with a combined aggregate carrying value of $123.9 million. Approximately 61% of covered OREO properties as of December 31, 2010 were located in California. As of December 31, 2009, we had 61 covered OREO properties with an aggregate carrying value of $44.3 million. During 2010, 157 properties with an aggregate carrying value of $238.4 million were added either through foreclosure or acquisition. The aggregate carrying value at December 31, 2010 includes $42.6 million in net write-downs and $657 thousand in net principal reductions on covered OREO. Included in the $238.4 million are 26 properties acquired with a fair value of $23.4 million on June 11, 2010 through the WFIB acquisition. During 2010, we sold 104 covered OREO properties with a total carrying value of $115.0 million resulting in a total combined net loss on sale of $494 thousand.

The following table shows the carrying amounts for the covered loans at acquisition date, respectively:

	WFIB at Acquisition 6/11/2010	UCB at Acquisition 11/6/2009
	(In thousands)	
Contractually required payments of interest and principal	$468,645	$8,407,745
Nonaccretable difference	(74,666)	(1,705,626)
Cash flows expected to be collected (1)	393,979	6,702,119
Accretable difference	(82,997)	(1,041,687)
Carrying value of covered loans	$310,982	$5,660,432

(1) Represents undiscounted expected principal and interest cash flows.

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Changes in the accretable yield for the covered loans for the years ended December 31, 2010 and 2009 is as follows:

	2010	2009
	(In thousands)	
Balance at beginning of period	$983,107	$—
Additions (1)	82,997	1,041,687
Accretion	(183,835)	(58,580)
Reclassification from nonaccretable to accretable	271,003	—
Balance at end of period	$1,153,272	$983,107

(1) The additions included above for the twelve months ended December 31, 2010 and 2009, resulted from the June 11, 2010 WFIB and November 6, 2009 UCB acquisitions, respectively.

The excess of cash flows expected to be collected over the initial fair value of acquired loans is referred to as the accretable yield and is accreted into interest income over the estimated life of the acquired loans using the effective yield method. The accretable yield will change due to:

- estimate of the remaining life of acquired loans which may change the amount of future interest income
- estimate of the amount of contractually required principal and interest payments over the estimated life that will not be collected (the nonaccretable difference); and
- indices for acquired loans with variable rates of interest.

After a year of historical performance of the UCB portfolio, the bank concluded that the credit quality is performing better than originally estimated. As such, the bank reduced the nonaccretable discount on the UCB covered loan portfolio in December 2010. By lowering the nonaccretable discount, the overall accretable yield will increase thus increasing the interest income recognized over the remaining life of the loans.

From the December 31, 2009 to December 31, 2010, excluding scheduled principal payments, a total of $1.05 billion of loans were removed from the covered loans accounted under ASC 310-30 due to loans being paid in full, sold, or transferred to covered OREO. As a result of this activity, management adjusted the prepayment assumptions in 2010 to reflect the shorter duration resulting from historical paydown activities. The loan discount of $136.5 million related to these payoffs and removals was recorded as an adjustment to interest income in 2010.

FDIC Indemnification Asset

The FDIC indemnification asset was $792.1 million as of December 31, 2010, compared to $1.09 billion as of December 31, 2009. During the year, the FDIC indemnification asset was reduced by $355.5 million as a result of covered loan disposition activity including charge-offs, payoffs, pay downs and the reduction of the nonaccretable discount in the fourth quarter of 2010. This was partially offset by an increase of $41.1 million from expected reimbursement from the FDIC resulting from the WFIB acquisition and accretion of $14.7 million.

The table below shows FDIC indemnification asset activity for 2010 and 2009:

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	2010	2009
	(In thousands)	
Balance at beginning of period	$1,091,814	$1,143,989
Addition due to WFIB acquisition	41,131	—
Accretion	14,678	8,329
Reductions(1)(2)	(355,490)	(60,504)
Balance at end of period	$792,133	$1,091,814

(1) Reductions relate to higher cash flows received from principal amortization, partial prepayments, loan payoffs and loan sales and the reduction of the credit discount.

(2) For the twelve months ended December 31, 2010, the reduction amount of $355.5 million also includes charge-offs, of which $227.6 million of these charge-offs are recoverable from the FDIC and recorded in other assets. For the twelve months ended December 31, 2009, the reduction amount of $60.5 million also includes charge-offs, of which $37.7 million are recoverable from the FDIC and recorded in other assets.

FDIC Receivable

As of December 31, 2010, the FDIC loss sharing receivable was $55.5 million. This receivable represents 80% of reimbursable amounts from the FDIC that have not yet been received. These reimbursable amounts include charge-offs, loan-related expenses and OREO-related expenses. The 80% of any reimbursable expense is recorded as noninterest income. 100% of the loan-related and OREO expenses are recorded as noninterest expense, netting to the 20% of actual expense paid by the Company. The FDIC shares in 80% of recoveries received. Thus, the FDIC receivable is reduced when we receive payment from the FDIC as well as when recoveries occur. The FDIC loss-sharing receivable is included in other assets on the Consolidated Balance Sheet.

9. NON-COVERED LOANS AND ALLOWANCE FOR LOAN LOSSES

The following is a summary of year-end loans receivable, excluding covered loans (“non-covered loans”):

	December 31,	
	2010	2009
	(In thousands)	
Residential:		
Single-family	$1,119,024	$930,392
Multifamily	974,745	1,022,383
Total residential	2,093,769	1,952,775
Commercial Real Estate ("CRE"):		
Income producing	3,392,984	3,606,178
Construction	278,047	455,142
Land	235,707	358,444
Total CRE	3,906,738	4,419,764
Commercial and Industrial ("C&I"):		
Commercial business	1,674,698	1,283,182
Trade finance	308,657	220,528

Total C&I	1,983,355	1,503,710
Consumer:		
Student loans	490,314	395,151
Other consumer	243,212	229,633
Total consumer	733,526	624,784
Total gross loans receivable, excluding covered loans	8,717,388	8,501,033
Unearned fees, premiums, and discounts, net	(56,781)	(43,529)
Allowance for loan losses, excluding covered loans	(230,408)	(238,833)
Loans receivable, excluding covered loans, net	$8,430,199	$8,218,671

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Accrued interest on covered and non-covered loans receivable amounted to $65.6 million and $62.9 million at December 31, 2010 and 2009, respectively.

At December 31, 2010 and 2009, covered and non-covered loans receivable totaling $8.14 billion and $6.42 billion, respectively, were pledged to secure borrowings from the FHLB and the Federal Reserve Bank.

The Bank offers both fixed and adjustable rate ("ARM") first mortgage loans secured by one-to-four unit residential properties located in its primary lending areas. The Bank originated $430.8 million and $226.6 million in new residential single-family loans during 2010 and 2009, respectively.

The Bank also offers both fixed and ARM residential multifamily loan programs. For the years ended December 31, 2010 and 2009, the Bank originated $26.4 million and $27.6 million, respectively, in multifamily residential loans. The Bank primarily offers ARM multifamily loan programs that have six-month, three-year, or five-year initial fixed periods. The Bank considers all of the single-family and multifamily loans originated to be prime loans and underwriting criteria include minimum FICO scores, maximum loan-to-value ratios and minimum debt coverage ratios, as applicable. The Bank does have some single-family loans with interest-only features. Single-family loans with interest-only features totaled $7.8 million or 1% and $16.3 million or 2% of total single-family loans at December 31, 2010 and 2009, respectively. Additionally, the Bank owns residential loans that permit different repayment options that were purchased several years ago. For these loans, there is the potential for negative amortization if the borrower chooses so. These residential loans that permit different repayment options totaled $16.9 million, or 1%, and $18.1 million, or 1%, of total residential loans at December 31, 2010 and 2009, respectively. None of these loans were negatively amortizing as of December 31, 2010 and 2009.

In addition to residential lending, the Bank's lending activities also include commercial real estate, commercial and industrial, and consumer lending. Our CRE lending activities include loans to finance income-producing properties and also construction and land loans. Our C&I lending activities include commercial business financing for small and middle-market businesses in a wide spectrum of industries. Included in commercial business loans are loans for working capital, accounts receivable lines, inventory lines, small business administration loans and lease financing. We also offer a variety of international trade finance services and products, including letters of credit, revolving lines of credit, import loans, bankers' acceptances, working capital lines, domestic purchase financing and pre-export financing. Consumer loans are primarily comprised of fully guaranteed student loans, home equity lines of credit and auto loans.

All of the loans that the Bank originates are subject to its underwriting guidelines and loan origination standards. Management believes that the Bank's underwriting criteria and procedures adequately consider the unique risks which may come from these products. The Bank conducts a variety of quality control procedures and periodic audits to ensure compliance with its origination standards, including criteria for lending and legal requirements.

Credit Risk and Concentrations—The real estate market in California, including the areas of Los Angeles, Riverside, San Bernardino and Orange counties, where a majority of the Company's loan customers are based, has been negatively impacted over the past few years. As of December 31, 2010, the Company had $3.91 billion in non-covered commercial real estate loans and $2.09 billion in non-covered residential loans, of which approximately 94% are secured by real properties located in California. Potential further deterioration in the real estate market generally and residential building in particular could result in additional loan charge-offs and provisions for loan losses in the future, which could have a material adverse effect on the Company's financial condition, net income and capital. In addition, although most of the Company's trade finance activities are related to trade with Asian countries, the majority of our loans are made to companies domiciled in the United States. A substantial portion of this business involves California based customers engaged in import activities. We also offer export-import financing to various domestic and foreign customers; the export loans are guaranteed by the Export-Import Bank of the United States.

Purchased Loans—During 2010, the Company purchased student loans with an unpaid principal balance of $928.3 million and a carrying amount of $861.5 million. These student loans are guaranteed by the U.S. Department of Education and pose limited credit risk.

Loans Held for Sale—Loans held for sale totaled $220.1 million and $28.0 million as of December 31, 2010 and 2009, respectively. Loans held for sale are recorded at the lower of cost or fair market value. Fair market value, if lower than cost is determined based on valuations obtained from market participants or the value of the underlying collateral. As of December 31, 2010, approximately 90% of these loans were student loans reclassified to loans held for sale. During 2010, in total, loans receivable of $564.0 million were reclassified to loans held for sale. These loans were purchased by the Company with the intent to be held for investment; however, subsequent to their purchase, the Company's intent for these loans changed and they were consequently reclassified to loans held for sale. Proceeds from sales of loans held for sale were $409.5 million in 2010, resulting in net gains on sale of $18.5 million. Proceeds from sales of loans held for sale were $37.1 million and $49.7 million in 2009 and 2008, respectively, with insignificant net gains on sales during both years.

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Credit Quality Indicators—Loans are risk rated based on analysis of the current state of the borrower's credit quality. The analysis of credit quality includes review of all sources of repayment, the borrower's current financial and liquidity status and all other relevant information. The Company utilizes an eight grade risk rating system, where a higher grade represents a higher level of credit risk. The eight grade risk rating system can be generally classified by the following categories: Pass or Watch, Special Mention, Substandard, Doubtful and Loss. The risk ratings reflect the relative strength of the sources of repayment.

Pass or Watch loans are generally considered to have sufficient sources of repayment in order to repay the loan in full in accordance with all terms and conditions. These borrowers may have some credit risk that requires monitoring, but full repayment is expected. Special Mention loans are considered to have potential weaknesses that warrant close attention by management. Special Mention is considered a transitory grade and generally, the Company does not have a loan stay graded Special Mention for longer than six months. If any potential weaknesses are resolved, the loan is upgraded to a Pass or Watch grade. If negative trends in the borrower's financial status or other information is presented that indicates the repayment sources may become inadequate, the loan is downgraded to a Substandard grade. Substandard loans are considered to have well-defined weaknesses that jeopardize the full and timely repayment of the loan. Substandard loans have a distinct possibility of loss if the deficiencies are not corrected. Additionally, when management has assessed a potential for loss but a distinct possibility of loss is not recognizable, the loan is still classified as Substandard. Doubtful loans have insufficient sources of repayment and a high probability of loss. Loss loans are considered to be uncollectible and of such little value that they are no longer considered bankable assets. These internal risk ratings are reviewed continuously and adjusted due to changes in borrower status and likelihood of loan repayment. The table below presents the non-covered loan portfolio by credit quality indicator as of December 31, 2010. As of December 31, 2010, multifamily loans graded substandard have increased due to a change in the methodology of reviewing these loans more in line with commercial loans. Prior to this change, these loans were graded more in line with single-family loans and the loan grade was more a reflection of delinquency than other factors. There were no Loss grade loans as of December 31, 2010.

	Pass/Watch	Special Mention	Substandard	Doubtful	Total
			(In thousands)		
December 31, 2010					
Residential:					
Single-family	$1,076,281	$12,376	$30,367	$—	$1,119,024
Multifamily	789,631	42,887	142,227	—	974,745
CRE:					
Income producing	3,054,197	80,714	258,073	—	3,392,984
Construction	202,385	—	75,662	—	278,047
Land	146,499	4,656	84,552	—	235,707
C&I:					
Commercial business	1,553,218	34,449	81,185	5,846	1,674,698
Trade finance	296,430	4,069	8,158	—	308,657
Consumer:					
Student loans	490,314	—	—	—	490,314
Other consumer	238,964	1,486	2,762	—	243,212
Total	$7,847,919	$180,637	$682,986	$5,846	$8,717,388

Nonaccrual and Past Due Loans—Loans are tracked by the number of days borrower payments are past due. The table below presents an age analysis of nonaccrual and past due non-covered loans and loans held for sale, segregated by class of loans, as of December 31, 2010:

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	Accruing Loans 30-59 Days Past Due	Accruing Loans 60-89 Days Past Due	Total Accruing Past Due Loans	Nonaccrual Loans Less Than 90 Days Past Due	Nonaccrual Loans 90 or More Days Past Due	Total Nonaccrual Past Due Loans	Current Loans	Total
	(In thousands)							
December 31, 2010								
Residential:								
Single-family	$5,449	$ 5,432	$10,881	$ 355	$ 7,058	$ 7,413	$1,100,730	$1,119,024
Multifamily	18,894	4,368	23,262	7,694	9,687	17,381	934,102	974,745
CRE:								
Income producing	27,002	6,034	33,036	7,962	38,454	46,416	3,313,532	3,392,984
Construction	—	1,486	1,486	25,688	9,778	35,466	241,095	278,047
Land	479	—	479	20,761	8,138	28,899	206,329	235,707
C&I:								
Commercial business	3,216	1,086	4,302	14,437	8,235	22,672	1,647,724	1,674,698
Trade finance	—	—	—	—	—	—	308,657	308,657
Consumer:								
Student loans	—	—	—	—	—	—	490,314	490,314
Other consumer	781	1,485	2,266	—	620	620	240,326	243,212
Loans held for sale	—	—	—	—	14,062	14,062	205,993	220,055
Total	$55,821	$ 19,891	$75,712	$ 76,897	$ 96,032	$ 172,929	$8,688,802	8,937,443
Unearned fees, premiums and discounts, net								(56,781)
Total recorded investment in non-covered loans and loans held for sale								$8,880,662

The following is a summary of nonaccrual non-covered loans and loans held for sale segregated by class of loans as of December 31, 2009:

	December 31, 2009 (In thousands)
Residential:	
Single-family	$ 3,262
Multifamily	10,631
CRE:	
Income producing	30,104

Construction		34,311
Land		69,846
C&I:		
Commercial business		24,767
Trade finance		—
Consumer:		
Student loans		—
Other consumer		259
Loans held for sale		—
Total nonaccrual loans	$	173,180

Generally, loans 90 or more days past due are placed on nonaccrual status, at which point interest accrual is discontinued and all unpaid accrued interest is reversed against interest income. At December 31, 2010 and 2009, there were no loans 90 or more days past due accruing interest. Additionally, loans that are not 90 or more days past due but have identified deficiencies are also put on nonaccrual status. Nonaccrual loans totaled $172.9 million and $173.2 million at December 31, 2010 and 2009, respectively. $76.9 million in loans not 90 or more days past due as of December 31, 2010 were included in non-covered nonaccrual loans as of December 31, 2010.

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The following is a summary of interest income foregone on nonaccrual loans:

	For the Year Ended December 31, 2010	2009 (In thousands)	2008
Interest income that would have been recognized had nonaccrual loans performed in accordance with their original terms	$ 12,689	$ 13,743	$ 18,986
Less: Interest income recognized on nonaccrual loans on a cash basis	(7,880) (1)	(10,231)	(11,647)
Interest income foregone on nonaccrual loans	$ 4,809	$ 3,512	$ 7,339

(1)Includes interest income recognized on nonaccrual loans held for sale.

Impaired Loans—A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all scheduled payments of principal or interest due according to the contractual terms of the loan agreement. The Bank's loans are grouped into heterogeneous and homogeneous (mostly consumer loans) categories. Classified loans (graded Substandard or Doubtful) in the heterogeneous category are selected and evaluated for impairment on an individual basis under ASC 310-30-21. The Bank considers loans individually reviewed under ASC 310-30-21 to be impaired if, based on current information and events, it is probable that the Bank will not be able to collect all amounts due according to the contractual terms of the loan agreement. For loans determined to be impaired, the bank utilizes the most applicable asset valuation method for the loan from the following valuation methods: fair value of collateral less costs to sell, present value of expected future cash flows, or the loan's observable market price. When the value of an impaired loan is less than the recorded investment in the loan, the deficiency is charged-off against the allowance for loan losses. Individually evaluated impaired loans are excluded from receiving any additional general valuation allowance because specific reserves have been established for them. All other loans, including individually evaluated loans determined not to be impaired under ASC 310-30-21, are included in groups of loans that are evaluated for general reserves.

All Doubtful loans and loans that are past due or matured in excess of 90 days and on nonaccrual status are considered impaired regardless of the collateral coverage. Modified or restructured loans and Substandard loans over $5.0 million are also reviewed for possible impairment.

At December 31, 2010, all impaired loans were on nonaccrual status, including $76.9 million of loans not 90 or more days past due as of December 31, 2010. At December 31, 2010, there were no commitments to lend additional funds to borrowers whose loans are impaired. Impaired non-covered loans as of December 31, 2010 are set forth in the following table. The interest income recognized on impaired loans is recognized on a cash basis when received.

	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment (In thousands)	Related Allowance	Average Recorded Investment	Interest Income Recognized
As of and for the year ended December 31, 2010							
Residential:	$8,272	$7,058	$355	$7,413	$219	$9,046	$209
Single-family	19,065	16,751	631	17,382	90	18,835	540
Multifamily							
CRE:							

Income producing	53,615	40,062	6,354	46,416	1,557	53,678	2,174
Construction	41,200	33,030	2,436	35,466	1,366	39,076	1,728
Land	39,840	21,979	6,920	28,899	4,324	32,722	1,326
C&I:							
Commercial business	32,273	18,774	3,897	22,671	2,468	22,800	1,199
Trade finance	—	—	—	—	—	—	—
Consumer:							
Student loans	—	—	—	—	—	—	—
Other consumer	1,261	620	—	620	—	1,072	28
Total	$195,526	$138,274	$20,593	$158,867	$10,024	$177,229	$7,204

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The average recorded investment in impaired non-covered loans in 2009 is as follows:

	As of and for the Year Ended December 31, 2009 (In thousands)
Recorded investment with related allowance	$ 47,597
Recorded investment with no related allowance	143,855
Allowance on impaired loans	(19,622)
Net recorded investment in impaired loans	$ 171,830
Average total recorded investment in impaired loans	$ 227,200

Restructured Loans—The Company had $122.1 million and $114.0 million in total performing restructured loans as of December 31, 2010 and 2009, respectively. Nonperforming restructured loans were $42.1 million and $10.1 million at December 31, 2010 and 2009, respectively, and are on nonaccrual status. Included in total restructured loans were $57.3 million and $96.0 million in performing A/B notes as of December 31, 2010 and 2009, respectively. In A/B note restructurings, the original note is bifurcated into two notes where the A note represents the portion of the original loan which allows for acceptable loan-to-value and debt coverage on the collateral and is expected to be collected in full and the B note represents the portion of the original loan where there is a shortfall in value and is fully charged-off. The A/B notes balance as of December 31, 2010 is comprised of A note balances only. The A notes are performing loans at market interest rates with adequate collateral and cash flow and are accruing interest. In accordance with generally accepted accounting principles, A notes need not be disclosed as troubled debt restructurings in years after the restructuring if the restructuring agreement specifies an interest rate equal to or greater than the rate that the Bank was willing to accept at the time of the restructuring for a new loan with comparable risk and the loan is not impaired based on the terms specified by the restructuring agreement. At December 31, 2010, the amount of unfunded commitments for restructured loans was $8.7 million. At December 31, 2009 the amount of commitments for restructured loans was not significant.

Allowance for Loan Losses

The allowance consists of specific reserves and a general reserve. The Bank's loans fall into heterogeneous and homogeneous (mostly consumer loans) categories. Impaired loans in the heterogeneous category are subject to specific reserves. Loans in the homogeneous category, as well as non-impaired loans in the heterogeneous category, are evaluated as part of the general reserve. The general reserve is calculated by utilizing both quantitative and qualitative factors. There are different qualitative risks for the loans in each portfolio segment. As of December 31, 2010, the Residential and CRE segments' predominant risk characteristic is the collateral and the geographic location of the property collateralizing the loan. This risk is qualitatively assessed based on the change in the real estate market in those geographic areas. The C&I segment's predominant risk characteristics are global cash flows of the guarantors and businesses we lend to and economic and market conditions. Consumer loans, excluding the student loan portfolio guaranteed by the U.S. Department of Education, are largely comprised of home equity lines of credit, for which the predominant risk characteristic is the real estate collateral securing the loan.

Our methodology to determine the overall appropriateness of the allowance is based on a classification migration model and qualitative considerations. The migration analysis examines pools of loans having similar characteristics and analyzes their loss rates over a historical period. We utilize historical loss factors derived from trends and losses

associated with each pool over a specified period of time. Based on this process, we assign loss factors to each loan grade within each pool of loans. Loss rates derived by the migration model are based predominantly on historical loss trends that may not be indicative of the actual or inherent loss potential. As such, we utilize qualitative and environmental factors as adjusting mechanisms to supplement the historical results of the classification migration model. Qualitative considerations include, but are not limited to, prevailing economic or market conditions, relative risk profiles of various loan segments, volume concentrations, growth trends, delinquency and nonaccrual status, problem loan trends, and geographic concentrations. Qualitative and environmental factors are reflected as percentage adjustments and are added to the historical loss rates derived from the classified asset migration model to determine the appropriate allowance amount for each loan pool.

Covered Loans—As of the respective acquisition dates, WFIB's and UCB's loan portfolios included unfunded commitments for commercial lines of credit, construction draws and other lending activity. The total commitment outstanding as of the respective acquisition dates is covered under the shared-loss agreements. However, any additional advances on these loans subsequent to acquisition date are not accounted for under ASC 310-30. As additional advances on these commitments have occurred, the Bank has considered these amounts in the general reserve of the allowance for loan losses calculation. As of December 31, 2010, $4.2 million, or 1.8%, of the total allowance is allocated to a general reserve on covered loans. The covered loans acquired are and will continue to be subject to the Bank's internal and external credit review and monitoring. Credit deterioration, if any, beyond the respective acquisition date fair value amounts of the covered loans under ASC 310-30 will be separately measured and accounted for under ASC 310-30. If required, the establishment of an allowance for covered loans accounted for under ASC 310-30 will result in a charge to earnings with a partially offsetting noninterest income item reflected in the increase to the FDIC indemnification asset or receivable. As of December 31, 2010, there is no allowance for the covered loans accounted for under ASC 310-30 due to deterioration of credit quality.

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The Company recorded $200.2 million in loan loss provisions during 2010, as compared to $528.7 million during 2009. It is the Company's policy to promptly charge-off the amount of impairment on a loan which represents the difference in the outstanding loan balance and the fair value of the collateral or discounted cash flow. Recoveries are recorded when payment is received on loans that were previously charged-off through the allowance for loan losses. During 2010, the Company recorded $202.5 million in net charge-offs in comparison to $475.3 million during 2009. The following table details activity in the allowance for loan losses, for both non-covered and covered loans, by portfolio segment for the year ended December 31, 2010. Allocation of a portion of the allowance to one segment of the loan portfolio does not preclude its availability to absorb losses in other segments.

	Residential	CRE	C&I	Consumer	Covered Loans Subject to General Reserves(1)	Unallocated	Total
				(In thousands)			
Year ended December 31, 2010							
Beginning balance	$ 38,025	$ 147,591	$ 50,487	$ 2,730	$ —	$ —	$ 238,833
Provision for loan losses	59,525	97,548	34,613	2,415	4,225	1,833	200,159
Allowance for unfunded loan commitmentsand letters of credit	—	—	—	—	—	(1,833)	(1,833)
Charge-offs	(49,685)	(137,460)	(35,479)	(2,579)	—	—	(225,203)
Recoveries	1,626	10,073	10,116	862	—	—	22,677
Net charge-offs	(48,059)	(127,387)	(25,363)	(1,717)	—	—	(202,526)
Ending balance	$ 49,491	$ 117,752	$ 59,737	$ 3,428	$ 4,225	$ —	$ 234,633
Ending balance allocated to:							
Loans individually evaluated for impairment	$ 309	$ 7,247	$ 2,468	$ —	$ —	$ —	$ 10,024
Loans collectively evaluated for impairment	49,182	110,505	57,269	3,428	4,225	—	224,609
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—
Ending balance	$ 49,491	$ 117,752	$ 59,737	$ 3,428	$ 4,225	$ —	$ 234,633

(1) This allowance is related to drawdowns on commitments that were in existence as of the acquisition dates of WFIB and UCB and, therefore, are covered under the shared-loss agreements with the FDIC. Allowance on these subsequent drawdowns is accounted for as part of the general valuation allowance.

Activity in the allowance for loan losses for the years ended December 31, 2009 and 2008 is as follows:

	Year Ended December 31, 2009	2008
	(In thousands)	
Allowance balance, beginning of period	$178,027	$88,407
Allowance for unfunded loan commitments and letters of credit	(1,778)	5,044
Provision for loan losses	528,666	226,000
Impact of desecuritization	9,262	—
Gross charge-offs	(485,256)	(147,451)
Gross recoveries	9,912	6,027
Allowance balance, end of period	$238,833	$178,027

The Company’s recorded investment in total loans receivable as of December 31, 2010 related to each balance in the allowance for loan losses by portfolio segment and disaggregated on the basis of the Company’s impairment methodology is as follows:

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	Residential	CRE	C&I	Consumer	Covered Loans Subject to General Reserves	Total
			(In thousands)			
December 31, 2010						
Loans individually evaluated for impairment	$24,795	$110,781	$22,671	$620	$—	$158,867
Loans collectively evaluated for impairment	2,068,974	3,795,957	1,960,685	732,905	561,725	9,120,246
Loans acquired with deteriorated credit quality(1)	1,614,732	3,059,133	634,560	85,623	—	5,394,048
Ending balance	$3,708,501	$6,965,871	$2,617,916	$819,148	$561,725	$14,673,161

(1) These are covered loans presented gross excluding the purchase discount.

Allowance for Unfunded Loan Commitments, Off-Balance Sheet Credit Exposures and Recourse Provisions—The allowance for unfunded loan commitments, off-balance sheet credit exposures and recourse provisions is maintained at a level believed by management to be sufficient to absorb estimated probable losses related to these unfunded credit facilities. The determination of the adequacy of the allowance is based on periodic evaluations of the unfunded credit facilities including an assessment of the probability of commitment usage, credit risk factors for loans outstanding to these same customers, and the terms and expiration dates of the unfunded credit facilities. As of December 31, 2010 and 2009, the allowance for unfunded loan commitments, off-balance sheet credit exposures, and recourse provisions amounted to $10.0 million and $8.1 million, respectively. Net adjustments to the allowance for unfunded loan commitments, off-balance sheet credit exposures, and recourse provisions are included in the provision for loan losses.

Loans serviced for others amounted to $1.81 billion and $1.55 billion at December 31, 2010 and 2009, respectively. These represent loans that have either been sold or securitized for which the Bank continues to provide servicing and has limited recourse. The majority of these loans are residential and CRE at December 31, 2010. Of the total allowance for unfunded loan commitments, off-balance sheet credit exposures and recourse provisions, $4.7 million and $2.9 million pertain to these loans as of December 31, 2010 and 2009, respectively. These loans are maintained off-balance sheet and are not included in the loans receivable balance.

10. NON-COVERED OTHER REAL ESTATE OWNED

As of December 31, 2010, the Company had 30 OREO properties with a combined carrying value of $21.9 million. Approximately 75% of OREO properties as of December 31, 2010 were located in the Greater Los Angeles area and Inland Empire region of Southern California. During 2010, the Company foreclosed on 81 properties with an aggregate carrying value of $57.3 million as of the foreclosure date. Additionally, the Company recorded $7.0 million in write-downs. During this period, the Company also sold 79 OREO properties for total proceeds of $39.5 million resulting in a total net loss on sale of $145 thousand and charges against the allowance for loan losses totaling $2.6 million. As of December 31, 2009, the Company had 28 OREO properties with a carrying value of $13.8 million. During the year ended December 31, 2009, the Company sold 153 OREO properties with a combined carrying value of $112.2 million for a net loss of $5.4 million. For the year ended December 31, 2008, the Company sold 29 OREO properties with a combined carrying value of $44.5 million for a net loss of $852 thousand.

11. INVESTMENTS IN AFFORDABLE HOUSING PARTNERSHIPS

The Company invests in certain limited partnerships that are formed to develop and operate apartment complexes designed as high-quality affordable housing for lower income tenants throughout the United States. These investments substantially increased with the acquisition of United Commercial Bank in 2009. The Company also obtained one affordable housing partnership through the Washington First International Bank acquisition. The Company's ownership amount in each limited partnership varies. Each of the partnerships must meet the regulatory requirements for affordable housing for a minimum 15-year compliance period to fully utilize the tax credits. Depending on the ownership percentage and the influence the Company has on the limited partnership, the company uses either the equity method or cost method of accounting. The limited partnerships are being amortized over the lives of the related tax credit. If the partnerships cease to qualify during the compliance period, the credits may be denied for any period in which the projects are not in compliance and a portion of the credits previously taken may be subject to recapture with interest.

The Company finances the purchase of certain real estate tax credits generated by partnerships which own multiple properties currently under construction. These transactions were financed with non-recourse notes which are collateralized by the Company's partnership interests in the real estate investment tax credits. The notes are payable upon demand and, if defaulted, interest will be imposed at the annual respective rate or the maximum rate permitted by applicable law. No interest is due if the notes are paid on demand. The Company has no liabilities in addition to these notes payable or any contingent liabilities to the partnerships.

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	December 31,			
	2010		2009	
	Amount	Count	Amount	Count
	(Dollars in thousands)			
Tax credit partnerships:				
Equity method	$117,224	35	$50,135	34
Cost method	37,850	11	34,696	11
Grand total	155,074	46	84,831	45
Notes payable	$49,690		$7,365	
Remaining tax credits	$168,521		$75,894	

The Company's usage of federal tax credits approximated $12.4 million, $7.1 million and $5.7 million during 2010, 2009 and 2008, respectively. Investment amortization amounted to $9.4 million, $7.0 million and $7.1 million for the years ended December 31, 2010, 2009 and 2008, respectively. The Company recorded a purchase accounting adjustment in 2010 which reduced the UCB affordable housing investments by $3.0 million. Also in 2010, one investment incurred an impairment charge of $1.2 million.

12. PREMISES AND EQUIPMENT

Premises and equipment consists of the following:

	December 31,	
	2010	2009
	(In thousands)	
Land	$15,545	$15,545
Office buildings	108,131	27,923
Leasehold improvements	24,534	24,663
Furniture, fixtures and equipment	48,430	39,253
Total cost	196,640	107,384
Accumulated depreciation and amortization	(60,721)	(48,285)
Net book value	$135,919	$59,099

Depreciation expense on premises and equipment was $13.8 million, $7.5 million and $8.3 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Capitalized assets are depreciated or amortized on a straight-line basis in accordance with the estimated useful life for each fixed asset class. The estimated useful life for furniture and fixtures is seven years, office equipment is for five years, and twenty-five years for buildings and improvements. Leasehold improvements are amortized over the shorter of term of the lease or useful life.

13. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The carrying amount of goodwill remained at $337.4 million as of December 31, 2010 and 2009. Goodwill is tested for impairment on an annual basis as of December 31, or more frequently as events occur, or as current circumstances and conditions warrant. The Company records impairment write-downs as charges to noninterest expense and adjustments to the carrying value of goodwill. Subsequent reversals of goodwill impairment are prohibited.

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As of December 31, 2010, the Company's market capitalization based on total outstanding common and preferred shares was $2.96 billion and its total stockholders' equity was $2.11 billion. The Company performed its annual impairment test as of December 31, 2010 to determine whether and to what extent, if any, recorded goodwill was impaired. The analysis compared the fair value of each of the reporting units, including goodwill, to the respective carrying amounts. If the carrying amount of the reporting unit, including goodwill exceeds the fair value of that reporting unit, then further testing for goodwill impairment is performed.

During the first quarter of 2010, the Company re-aligned its management reporting structure and identified three business divisions that meet the criteria of an operating segment in accordance with generally accepted accounting principles. The Company's three operating segments are Retail Banking, Commercial Banking, and Other. The Company determined that there were no additional reporting units below each operating segment and therefore the reporting units are equivalent to the operating segments. For complete discussion and disclosure see Note 26 to the Company's consolidated financial statements presented elsewhere in this report.

In order to determine the fair value of the reporting units, a combined income and market approach was used. Under the income approach, the Company provided a net income projection for the next 5 years plus a terminal growth rate was used to calculate the discounted cash flows and the present value of the reporting units. Under the market approach, the fair value was calculated using the current fair values of comparable peer banks of similar size, geographic footprint and focus. The market capitalizations and multiples of these peer banks were used to calculate the market price of the Company and each reporting unit. The fair value was also subject to a control premium adjustment, which is the cost savings that a purchaser of the reporting units could achieve by eliminating duplicative costs. Under the combined income and market approaches, the value from each approach was appropriately weighted to determine the fair value. As a result of this analysis, the Company determined that there was no goodwill impairment at December 31, 2010 as the fair values of all reporting units exceeded the current carrying amounts of the goodwill. No assurance can be given that goodwill will not be written down in future periods. The Company recorded goodwill impairment of $858 thousand as a charge to earnings during 2008.

The changes in the carrying amount of goodwill for the years ended December 31, 2010 and 2009 are summarized in the following table:

	As of December 31,	
	2010	2009
Balance, beginning of year	$337,438	$337,438
Additions to goodwill	—	—
Impairment write-down	—	—
Purchase accounting adjustments	—	—
Balance, end of year	$337,438	$337,438

Premiums on Acquired Deposits

The Company also has premiums on acquired deposits which represent the intangible value of depositor relationships resulting from deposit liabilities assumed in various acquisitions. These intangibles are tested for impairment on an annual basis, or more frequently as events occur, or as current circumstances and conditions warrant. As of December 31, 2010 and 2009, the gross carrying amount of premiums on acquired deposits totaled $117.6 million and $116.6 million, respectively, and the related accumulated amortization totaled $38.1 million and $26.9 million, respectively. During 2010, the Company recorded $3.1 million in premiums on deposits acquired in the WFIB Acquisition. During 2009, the Company recorded $74.4 million in premiums on deposits acquired in the UCB Acquisition.

The Company amortizes premiums on acquired deposits based on the projected useful lives of the related deposits. Amortization expense of premiums on acquired deposits was $13.3 million, $5.9 million and $7.3 million for the years ended December 31, 2010, 2009 and 2008, respectively. The Company did not record any impairment write-downs on deposit premiums during 2010 and 2009.

The following table provides the estimated future amortization expense of premiums on acquired deposits for the succeeding five years is as follows:

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Estimate For The Year Ending December 31,	Amount (In thousands)
2011	$ 12,572
2012	11,176
2013	9,661
2014	8,775
2015	7,667
Thereafter	29,667
Total	$ 79,518

14. MORTGAGE SERVICING ASSETS

Mortgage servicing assets are recorded when loans are sold to third parties and the servicing of those loans is retained by the Bank. The Company has the following classes of mortgage servicing assets, which result from sales and securitizations; single-family loans, multifamily loans and SBA loans. Mortgage servicing assets are subject to interest rate risk and may become impaired when interest rates fall and borrowers refinance or prepay their mortgage loans. Mortgage servicing assets are included in other assets.

Income from servicing loans is reported as ancillary loan fee income, a component of noninterest income in the Company's consolidated statements of operations, and the amortization of mortgage servicing assets is reported as a reduction to ancillary loan fee income. Late fees and charges collected on delinquent loans are recorded as a component of loans receivable interest income in the consolidated statements of operations.

Information regarding the Company's mortgage servicing assets ("MSAs") for the years ended December 31, 2010 and 2009 is as follows:

	Year ended December 31, 2010	2009
	(In thousands)	
MSAs balance, beginning of year	$16,001	$20,118
Additions	309	221
Additions due to UCB acquisition	—	5,192
Amortization	(2,736)	(9,530)
MSAs before valuation allowance, end of year	13,574	16,001
Valuation allowance	(3,383)	(2,575)
MSAs, end of year	$10,191	$13,426
Fair value, beginning of year	$16,284	$20,174
Fair value, end of year	$14,509	$16,284
Valuation allowance, beginning of year	$(2,575)	$(3,626)
(Impairment) reversal	(808)	1,051
Valuation allowance, end of year	$(3,383)	$(2,575)
Key Assumptions:		
Weighted average discount	12.43%	13.73%

Weighted average prepayment speed assumption	8.17 %	10.32 %

Estimated future amortization of mortgage servicing assets for the succeeding five years and thereafter is as follows:

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	Total (In thousands)
Estimate for the year ending December 31,	
2011	$ 1,902
2012	1,541
2013	1,251
2014	1,019
2015	832
Thereafter	3,646
Total	$ 10,191

The following table shows the hypothetical effect on the fair value of our mortgage servicing assets using various unfavorable variations of the expected levels of certain key assumptions used in the valuations as of December 31, 2010 and 2009. These sensitivities are hypothetical and are presented for illustration purposes only. As the amounts indicate, changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the interest that continues to be held by the transferor is calculated without changing any of the other assumptions. In reality, changes in one factor may result in changes in another factor which might magnify or counteract the sensitivities.

	December 31, 2010	2009
	(Dollars in thousands)	
Balance sheet net carrying value	$10,191	$ 13,426
CPR assumption	8.17 %	10.32 %
Impact on fair value of 10% adverse change of prepayment speed	$(118)	$(107)
Impact on fair value of 20% adverse change of prepayment speed	$(232)	$(209)
Discount rate assumption	12.43 %	13.73 %
Impact on fair value of 10% adverse change of discount rate	$(264)	$(225)
Impact on fair value of 20% adverse change of discount rate	$(511)	$(431)

15. CUSTOMER DEPOSIT ACCOUNTS

Customer deposit account balances are summarized as follows:

	December 31, 2010	2009
	(In thousands)	
Noninterest-bearing demand	$2,676,466	$2,291,259
Interest-bearing checking	757,446	667,177
Money market accounts	4,457,376	3,138,866
Savings deposits	984,518	991,520
Total core deposits	8,875,806	7,088,822

Time deposits:		
Less than $100,000	2,239,836	3,240,094
$100,000 or greater	4,525,617	4,658,697
Total time deposits	6,765,453	7,898,791
Total deposits	$15,641,259	$14,987,613

The $4.53 billion balance of time deposits $100 thousand or greater at December 31, 2010 includes $481.8 million of deposits held by the Company's foreign branch located in Hong Kong.

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At December 31, 2010, the scheduled maturities of time deposits are as follows:

	$100,000 or Greater	Less Than $100,000	Total
		(In thousands)	
2011	$4,030,486	$2,017,749	$6,048,235
2012	376,781	163,687	540,468
2013	46,116	8,276	54,392
2014	35,110	1,853	36,963
2015	15,953	41,805	57,758
Thereafter	21,171	6,466	27,637
Total	$4,525,617	$2,239,836	$6,765,453

Accrued interest payable totaled $2.6 million and $3.8 million at December 31, 2010 and 2009, respectively. Interest expense on customer deposits by account type is summarized as follows:

		December 31,	
	2010	2009	2008
		(In thousands)	
Interest-bearing checking	$2,349	$1,507	$3,226
Money market accounts	29,514	25,583	25,805
Savings deposits	3,986	3,322	4,148
Time deposits:			
Less than $100,000	34,958	32,073	35,061
$100,000 or greater	45,930	66,992	109,820
Total	$116,737	$129,477	$178,060

As of December 31, 2010, time deposits within the Certificate of Deposit Account Registry Service ("CDARS") program decreased to $713.5 million, compared to $995.0 million at December 31, 2009. The CDARS program allows customers with deposits in excess of FDIC-insured limits to obtain full coverage on time deposits through a network of banks within the CDARS program. Additionally, during the third quarter of 2008, the Company partnered with another financial institution to implement a new retail sweep product for non-time deposit accounts to provide added deposit insurance coverage for deposits in excess of FDIC-insured limits. Deposits gathered through these programs are considered brokered deposits under current regulatory reporting guidelines.

16. FEDERAL FUNDS PURCHASED

Federal funds purchased generally mature within one business day to six months from the transaction date. Federal funds purchased are included in notes payable and other borrowings.

The following table provides information on Federal funds purchased for the periods indicated:

	As of and for the Year Ended December 31,		
	2010	2009	2008
		(Dollars in thousands)	

Balance at end of year	$22		$22		$28,022	
Average balance outstanding during the year	$871		$2,379		$89,309	
Maximum balance outstanding at any month-end	$6,023		$3,022		$193,259	
Weighted average interest rate during the year	0.20	%	0.37	%	2.05	%
Weighted average interest rate at end of year	0.15	%	0.06	%	0.25	%

As a means of augmenting its liquidity, the Company has established Federal funds lines with several correspondent banks. The Company's available borrowing capacity from Federal funds line facilities amounted to $313.0 million and $243.0 million as of December 31, 2010 and 2009, respectively.

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17. FEDERAL HOME LOAN BANK ADVANCES

FHLB advances and their related weighted average interest rates are summarized as follows:

Year of Maturity	December 31, 2010 Amount	December 31, 2010 Rate	December 31, 2009 Amount	December 31, 2009 Rate
	(Dollars in thousands)			
2010	$—	— %	$805,861	3.00 %
2011	246,046	0.97 %	102,737	5.01 %
2012	100,000	1.03 %	5,061	4.41 %
2013	186,546	4.55 %	190,916	4.55 %
2014	53,800	4.43 %	54,920	4.43 %
After 2014	627,756	4.26 %	645,892	4.27 %
Total	$1,214,148	3.38 %	$1,805,387	3.78 %

Total outstanding FHLB advances amounted to $1.21 billion and $1.81 billion at December 31, 2010 and 2009, respectively. Of these amounts, $200.0 million represent overnight borrowings at December 31, 2010 and there were no overnight borrowings at December 31, 2009. All advances as of December 31, 2010 and December 31, 2009 are at fixed interest rates and are secured by real estate loans.

The Company’s available borrowing capacity from unused FHLB advances totaled $2.23 billion and $1.07 billion at December 31, 2010 and 2009, respectively. The Company’s available borrowing capacity from FHLB advances is derived from its outstanding FHLB advances and from its portfolio of loans that are pledged to the FHLB. During 2010, long-term FHLB advances totaling $1.12 billion were prepaid, with additional prepayment penalties of $13.8 million. Additionally, at December 31, 2010 and 2009, the Company had additional available borrowing capacity of $588.8 million and $451.8 million, respectively, from the Federal Reserve Bank’s discount window derived from its portfolio of loans that are pledged to the Federal Reserve Bank.

18. SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

Securities sold under repurchase agreements totaled $1.08 billion and $1.03 billion as of December 31, 2010 and 2009, respectively. These balances included $88.5 million and $31.9 million in short-term repurchase agreements as of December 31, 2010 and December 31, 2009, respectively. The interest rates on these short-term repurchase agreements were 0.54% and 0.51% as of December 31, 2010 and December 31, 2009, respectively. The remaining repurchase agreements are long-term with interest rates that are largely fixed, ranging from 4.15% to 5.13% as of December 31, 2010. The counterparties have the right to a quarterly call for many of the repurchase agreements.

Long-term repurchase agreements are accounted for as collateralized financing transactions and recorded at the amounts at which the securities were sold. The collateral for these agreements consist of U.S. Government agency and U.S. Government sponsored enterprise debt and mortgage-backed securities. The Company may have to provide additional collateral for the repurchase agreements, as necessary.

The following table provides information on securities sold under repurchase agreements as of December 31, 2010 and 2009:

Year of Maturity	December 31, 2010 Amount	December 31, 2010 Rate	December 31, 2009 Amount	December 31, 2009 Rate
		(Dollars in thousands)		

2010	$—	—	%	$31,870	0.51	%
2011	88,545	0.54	%	—	—	%
2015	245,000	4.49	%	245,000	4.49	%
2016	700,000	4.91	%	700,000	4.91	%
2017	50,000	4.15	%	50,000	4.15	%
	$1,083,545	4.42	%	$1,026,870	4.63	%

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Total interest expense recorded on repurchase agreements amounted to $49.0 million, $49.7 million and $46.1 million for the years ended December 31, 2010, 2009 and 2008, respectively.

The Company also has master repurchase agreements with other major brokerage companies. The Company's available borrowing capacity from repurchase agreements totaled $1.21 billion and $1.13 billion at December 31, 2010 and 2009, respectively.

19. CAPITAL RESOURCES

Junior Subordinated Debt—The Company has formed nine statutory business trusts for the purpose of issuing junior subordinated debt to third party investors. Junior subordinated debt is recorded as a component of long-term debt and includes the value of the common stock issued by the Trusts to the Company in conjunction with these transactions. The common stock is recorded in other assets for the amount issued in connection with these junior subordinated debt issuances. Junior subordinated debt issued and outstanding by the Trusts to the Company was $155.8 million at both December 31, 2010 and December 31, 2009. Also issued by the Trust of the Company as of both December 31, 2010 and December 31, 2009 was $4.8 million of common stock.

The proceeds from these issuances represent liabilities of the Company to the Trusts and are reported in the consolidated balance sheets as a component of long-term debt. Interest payments on these securities are made either quarterly or semi-annually and are deductible for tax purposes. These securities are not registered with the Securities and Exchange Commission. For regulatory reporting purposes, these securities qualify for Tier I capital treatment. Under Dodd-Frank, depository institution holding companies, such as the Company, with more than $15 billion in total consolidated assets as of December 31, 2009, will no longer be able to include trust preferred securities as Tier I regulatory capital as of the end of a phase-out period in 2016, and will be obligated to replace any outstanding trust preferred securities issued prior to May 19, 2010, with qualifying Tier I regulatory capital during the phase-out period.

The table below summarizes pertinent information related to outstanding junior subordinated debt issued by each Trust as of December 31, 2010 and 2009:

Trust Name	Maturity Date (1)	Stated Interest Rate	Rate at December 31, 2010	Balance at December 31, 2010	Balance at December 31, 2009
				(Dollars in thousands)	
East West Capital Trust I	March 2030	10.88%, fixed	10.88 %	$ 10,750	$ 10,750
East West Capital Trust II	July 2030	10.95%, fixed	10.95 %	10,000	10,000
East West Capital Statutory Trust III	December 2033	3-month Libor + 2.85%	3.15 %	10,000	10,000
East West Capital Trust IV	July 2034	3-month Libor + 2.55%	2.84 %	10,000	10,000
East West Capital Trust V	November 2034	3-month Libor + 1.80%	2.08 %	15,000	15,000
East West Capital Trust VI	September 2035	3-month Libor + 1.50%	1.80 %	20,000	20,000

East West Capital Trust VII	June 2036	3-month Libor + 1.35%	1.65 %		30,000	30,000
East West Capital Trust VIII	June 2037	3-month Libor + 1.40%	1.70 %		20,000	20,000
East West Capital Trust IX	September 2037	3-month Libor + 1.90%	2.20 %		30,000	30,000
				$	155,750	$ 155,750

(1) All of the above debt instruments are subject to various call options.

Subordinated Debt—In 2005, the Company issued $75.0 million in subordinated debt in a private placement transaction. For the subordinated debt, the maturity is September 15, 2015 and the interest rate is based on the three-month LIBOR plus 110 basis points, payable on a quarterly basis. At December 31, 2010, the interest rate on this debt instrument was 1.41%. The subordinated debt was issued through the Bank and qualifies as Tier II capital for regulatory reporting purposes and is included as a component of long-term debt in the accompanying consolidated balance sheets.

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20. INCOME TAXES

The provision (benefit) for income taxes consists of the following components:

	Year Ended December 31,		
	2010	2009	2008
	(Dollars in thousands)		
Current income tax expense (benefit):			
Federal	$9,942	$(109,092)	$20,575
State	69,026	2,916	15,577
Foreign	—	1,758	—
Total current income tax expense (benefit)	78,968	(104,418)	36,152
Deferred income tax expense (benefit):			
Federal	55,083	127,668	(61,068)
State	(48,273)	11,571	(22,569)
Foreign	5,567	(12,107)	—
Total deferred income tax expense (benefit)	12,377	127,132	(83,637)
Provision (benefit) for income taxes	$91,345	$22,714	$(47,485)

The difference between the effective tax rate implicit in the consolidated financial statements and the statutory federal income tax rate can be attributed to the following:

	Year Ended December 31,		
	2010	2009	2008
Federal income tax provision at statutory rate	35.0 %	35.0 %	35.0 %
State franchise taxes, net of federal tax effect	5.3	8.1	4.7
Tax credits	(4.8)	(6.9)	7.7
Foreign subsidiaries acquisition	—	(14.4)	—
Other, net	0.2	(0.1)	1.5
Effective income tax rate	35.7 %	21.7 %	48.9 %

The Company recognizes investment tax credits from low income housing and other investments in the year the credit arises under the flow-through method of accounting.

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The tax effects of temporary differences that give rise to significant portions of the deferred tax (assets) liabilities are presented below:

	December 31,							
	2010				2009			
	Federal	State	Foreign	Total	Federal	State	Foreign	Total
	(In thousands)							
Deferred tax liabilities:								
Core deposit intangibles	$ 26,574	$ 8,723	$ (133)	$ 35,164	$ 27,553	$ 8,533	$ (133)	$ 35,953
Affordable housing partnerships	14,889	4,489	—	19,378	14,008	4,219	—	18,227
Fixed assets	27,053	9,504	—	36,557	1,987	999	—	2,986
FHLB stock	32,191	10,202	—	42,393	39,885	2,479	—	42,364
Deferred loan fees	3,854	1,194	—	5,048	4,943	1,474	—	6,417
Purchased loan discounts	199	61	—	260	233	72	—	305
State taxes	—	—	—	—	6,539	—	—	6,539
Mortgage servicing assets	3,227	999	—	4,226	10,408	1,111	1,817	13,336
Section 597 gain	—	—	—	—	14,081	—	—	14,081
FDIC receivable	420,752	(31,026)	—	389,726	435,480	39,251	—	474,731
Acquired debt	51,070	922	300	52,292	62,402	1,043	300	63,745
Other, net	2,531	454	600	3,585	3,132	997	600	4,729
Total gross deferred tax liabilities (assets)	582,340	5,522	767	588,629	620,651	60,178	2,584	683,413
Deferred tax assets:								
Allowance for loan losses and OREO reserves	(84,337)	(21,896)	5,220	(101,013)	(86,472)	(26,660)	5,220	(107,912)
Deferred compensation	(15,407)	(4,854)	—	(20,261)	(13,701)	(4,237)	—	(17,938)
State taxes	(2,734)	—	—	(2,734)	(190)	—	—	(190)
Purchased loan premium	(966)	(299)	—	(1,265)	(1,112)	(344)	—	(1,456)
Unrealized loss on securities	(77,760)	(24,336)	—	(102,096)	(58,113)	(15,138)	—	(73,251)
Net operating loss carryforwards	(3,057)	(34,813)	(2,041)	(39,911)	(23,193)	(34,944)	—	(58,137)
Acquired loans and OREOs	(303,045)	7,298	(11,926)	(307,673)	(395,114)	5,751	(17,493)	(406,856)
Other, net	(12,013)	(3,751)	(97)	(15,861)	(4,787)	(4,587)	—	(9,374)
	(499,319)	(82,651)	(8,844)	(590,814)	(582,682)	(80,159)	(12,273)	(675,114)

Total gross deferred tax assets								
Valuation allowance	—	624	2,041	2,665	—	364	—	364
Net deferred tax liabilities (assets)	$ 83,021	$ (76,505)	$ (6,036)	$ 480	$ 37,969	$ (19,617)	$ (9,689)	$ 8,663

Management believes that it is more likely than not that all of the deferred tax assets recorded at December 31, 2010 will be realized (except to the extent of the recorded valuation allowance) because it expects to have sufficient taxable income in future years to fully realize them. A valuation allowance has been provided for the deferred assets related to the China loss and state net operating losses ("NOLs") (for states other than California, Georgia, Massachusetts and New York) since management believes that these NOLs may not be fully utilized. The valuation allowance was netted against the tax deferred asset in 2009. Management believes it is a better presentation to separately account for the valuation allowance as well as the foreign operation of the Bank. In 2009, the Bank had a deferred tax liability related to the Internal Revenue Code Section 597 gain from the acquisition of UCB. In early 2010, the Bank exercised an option to purchase additional assets from the FDIC related to UCB which increased the purchase price for tax purposes and reallocated the Section 597 gain to other categories of assets.

The portion of this valuation allowance that was attributable to these state NOLs were reflected in the 2009 Income Taxes footnote as a reduction of the NOL deferred tax asset. Management believes it is appropriate to reflect the gross deferred tax assets for the NOLs and a related valuation allowance. In 2009, the Bank had a deferred tax liability related to the Internal Revenue Code Section 597 gain from the acquisition of UCB. In early 2010, the Bank exercised an option to purchase additional assets from the FDIC which increased the purchase price for tax purposes and eliminated the Section 597 gain. Accordingly, the corresponding deferred tax liability has been eliminated.

In its 2009 footnote for Income Taxes, Management presented the Bank's federal and foreign deferred tax assets and liabilities as net federal deferred tax assets and liabilities. Management believes it is appropriate to reflect federal and foreign deferred tax assets and liabilities separately and has done so on a comparative basis in the table above.

At December 31, 2010, 2009 and 2008, the Bank had federal net operating loss carryforwards of approximately $3.3 million, $40.9 million and zero, respectively. At December 31, 2010, the Bank had state NOL carryforwards of approximately $321.1 million. Of this amount, $3.0 million of the state net operating loss resulted from the acquisition of Desert Community Bank ("DCB") in 2007 and will expire in 2021. The remaining state NOL carryforward expires in various years through 2031. Federal and state tax laws related to a change in ownership, such as that resulting from the acquisition of DCB, place limitations on the annual amount of net operating loss carryovers that can be utilized to offset post-acquisition taxable income. Under Internal Revenue Code Section 382, which is also applicable for California tax purposes, certain changes in the ownership of a loss company can result in limitations on the utilization of net operating and any built-in losses. This annual limitation is generally based on the value of the loss company at the ownership change date. In 2010, California suspended the utilization of net operating losses for tax years 2010 and 2011 but allowed taxpayers to carryforward net operating losses for 20 years properly increased for any years in which the loss is suspended.

The passage of the Emergency Economic Stabilization Act of 2008 ("EESA") in October 2008 provided banks with tax relief by treating OTTI losses on Fannie Mae and Freddie Mac preferred stock as ordinary losses, instead of capital losses. As a result of this law change, an additional $5.7 million in tax benefits related to these OTTI charges were recognized during 2008.

The Company adopted the provisions of ASC 740-10 on January 1, 2007. During 2008, the Company determined that certain state tax benefits of $4.6 million, net of the associated federal tax effect, in connection with its dissolved regulated investment company, East West Securities Company, Inc., would not "more likely than not" be sustained upon

examination by tax authorities and as a result, a charge was recorded against the provision for income taxes.

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The following table summarizes the activity related to our unrecognized tax benefits:

	Year Ended December 31,	
	2010	2009
	(Dollars in thousands)	
Balance, beginning of year	$5,763	$796
Additions for tax positions of prior years	721	4,732
Reductions for tax positions of prior years	(288)	—
Additions for tax positions of current year	634	235
Settlements	(1,878)	—
Balance, end of year	$4,952	$5,763

During 2010, the Company increased the unrecognized tax benefits reserve by $1.2 million for the California enterprise zone net interest deduction. The Company also paid the Franchise Tax Board tax and interest of approximately $2.6 million related to the resolution of the enterprise zone net interest deduction for the tax years ended 2003 to 2005. As of December 31, 2010 and 2009, the ASC 740-10 liability was $6.2 million and $6.8 million, respectively. Also, as of December 31, 2010 and 2009, the total amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate is $3.0 million and $3.8 million, respectively.

The Company is currently under examination by the Internal Revenue Service for the tax years ended 2007 to 2009 and by California for tax years ended 2003 through 2008 and Florida for the tax years ended 2006 to 2008. For federal tax purposes, tax years from 2007 and beyond remain open to examination, and for California franchise tax purposes, tax years from 2003 and beyond remain open to examination. The Company does not believe that there are any other tax jurisdictions in which the outcome of unresolved issues or claims is likely to be material to the Company's financial position, cash flows or results of operations. The Company further believes that adequate provisions have been made for all income tax uncertainties. The Company does not anticipate that the total amount of unrecognized tax benefits will significantly change during the year ending December 31, 2011.

The Company recognizes interest and penalties, if applicable, related to the underpayment of income taxes as a component of income tax expense in the consolidated statement of operations. The Company has accrued $796 thousand, $1.15 million and $141 thousand of interest and penalties expense for its unrecognized tax positions as of December 31, 2010, 2009 and 2008, respectively. Total interest and penalties accrued as of December 31, 2010 and 2009 were $1.2 million and $1.1 million, respectively.

21. COMMITMENTS AND CONTINGENCIES

Credit Extensions—In the normal course of business, the Company has various outstanding commitments to extend credit that are not reflected in the accompanying consolidated financial statements. While the Company does not anticipate losses as a result of these transactions, commitments to extend credit are included in determining the appropriate level of the allowance for unfunded commitments and credit exposures.

Loan commitments are agreements to lend to a customer provided there is no violation of any condition established in the agreement. Commitments generally have fixed expiration dates or other termination clauses. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future funding requirements. As of December 31, 2010 and 2009, undisbursed loan commitments amounted to $1.89 billion and $2.46 billion, respectively. In addition, the Bank has committed to fund mortgage and commercial loan applications in process amounting to $349.9 million and $75.1 million as of December 31, 2010 and 2009, respectively. Substantially all commitments are for loans to be held for investment.

Commercial letters of credit are issued to facilitate domestic and foreign trade transactions while standby letters of credit are issued to make payments on behalf of customers when certain specified future events occur. As of December 31, 2010 and 2009, commercial and standby letters of credit totaled $768.8 million and $715.2 million, respectively. The Bank issues standby letters of credit ("SBLCs") and financial guarantees to support the obligations of its customers to beneficiaries. Based on historical trends, the probability that it will have to make payments under standby letters of credit is low. Additionally, in many cases, the Bank holds collateral in various forms against these standby letters of credit. As part of its risk management activities, the Bank continuously monitors the creditworthiness of the customer as well as its SBLC exposure; however, if the customer fails to perform the specified obligation to the beneficiary, the beneficiary may draw upon the standby letters of credit by presenting documents that are in compliance with the letter of credit terms. In that event, the Bank either repays the money borrowed or advanced, makes payment on account of the indebtedness of the customer or makes payment on account of the default by the customer in the performance of an obligation, to the beneficiary up to the full notional amount of the standby letters of credit. The customer is obligated to reimburse the Bank for any such payment. If the customer fails to pay, the Bank would, as applicable, liquidate collateral and/or set off accounts.

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Credit card lines are unsecured commitments that are not legally binding. Management reviews credit card lines at least annually and, upon evaluation of the customers' creditworthiness, the Bank has the right to terminate or change certain terms of the credit card lines.

The Bank uses the same credit policies in making commitments and conditional obligations as in extending loan facilities to customers. It evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties.

As of December 31, 2010 and 2009, the allowance for unfunded loan commitments, and off-balance sheet credit exposures amounted to $5.3 million and $5.2 million, respectively. These amounts are included in accrued expenses and other liabilities in the accompanying consolidated balance sheets. The increase in the off-balance sheet allowance amount was due to increases in unfunded loan commitments and off-balance sheet exposures.

Guarantees—From time to time, the Company sells or securitizes loans with recourse in the ordinary course of business. For loans that have been sold or securitized with recourse, the recourse component is considered a guarantee. When the Company sells or securitizes a loan with recourse, it commits to stand ready to perform if the loan defaults, and to make payments to remedy the default. As of December 31, 2010, total loans sold or securitized with recourse amounted to $699.6 million and were comprised of $60.9 million in single-family loans with full recourse and $638.7 million in multifamily loans with limited recourse. In comparison, total loans sold or securitized with recourse amounted to $497.5 million at December 31, 2009, comprised of $72.6 million in single-family loans with full recourse and $425.0 million in multifamily loans with limited recourse. The increase in the multifamily loans with limited recourse year over year relates to the identification during 2010 of loans that the former UCB had sold with recourse in prior years. In conjunction with the UCB Purchase and Assumption Agreement, East West Bank assumed all servicing agreements the prior UCB had entered into. The recourse provision on multifamily loans varies by loan sale and is limited to up to 4% of the top loss on the underlying loans. The Company's recourse reserve related to loan sales and securitizations totaled $4.7 million and $2.9 million as of December 31, 2010 and 2009, respectively, and is included in accrued expenses and other liabilities in the accompanying consolidated balance sheets. Despite the challenging conditions in the real estate market, the Company continues to experience minimal losses from single-family and multifamily loan portfolios.

The Company also sells or securitizes loans without recourse that may have to be subsequently repurchased if a defect that occurred during the loan origination process results in a violation of a representation or warranty made in connection with the securitization or sale of the loan. When a loan sold or securitized to an investor without recourse fails to perform according to its contractual terms, the investor will typically review the loan file to determine whether defects in the origination process occurred and if such defects give rise to a violation of a representation or warranty made to the investor in connection with the sale or securitization. If such a defect is identified, the Company may be required to either repurchase the loan or indemnify the investor for losses sustained. If there are no such defects, the Company has no commitment to repurchase the loan. As of December 31, 2010 and 2009, the amount of loans sold without recourse totaled $1.00 billion and $697.7 million, respectively. Total loans securitized without recourse amounted to $325.5 million and $358.1 million, respectively, at December 31, 2010 and 2009. The loans sold or securitized without recourse represent the unpaid principal balance of the Company's loans serviced for others portfolio.

Lease Commitments—The Company conducts a portion of its operations utilizing leased premises and equipment under operating leases. Rental expense amounted to $23.2 million, $15.0 million and $10.7 million for the years ended December 31, 2010, 2009 and 2008, respectively.

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Future minimum rental payments under non-cancelable operating leases are estimated as follows:

Estimate For The Year Ending December 31,	Amount (In thousands)
2011	$ 20,907
2012	19,536
2013	17,715
2014	15,109
2015	10,590
Thereafter	29,178
Total	$ 113,035

Litigation—Neither the Company nor the Bank is involved in any material legal proceedings at December 31, 2010. The Bank, from time to time, is a party to litigation that arises in the ordinary course of business, such as claims to enforce liens, claims involving the origination and servicing of loans, and other issues related to the business of the Bank. After taking into consideration information furnished by counsel to the Company and the Bank, management believes that the resolution of such issues will not have a material adverse impact on the financial position, results of operations or liquidity of the Company or the Bank.

22. STOCK COMPENSATION PLANS

The Company issues stock options and restricted stock to employees under share-based compensation plans. The adoption of ASC 505 and ASC 718 on January 1, 2006 has resulted in incremental stock-based compensation expense. Since the Company has previously recognized compensation expense on restricted stock awards, the incremental stock-based compensation expense recognized pursuant to ASC 505 and ASC 718 relates only to issued and unvested stock option grants. For the years ended December 31, 2010, 2009, and 2008, incremental stock-based compensation expense reduced income before income taxes by $937 thousand, $1.4 million, and $2.1 million, and reduced net income by $544 thousand, $841 thousand, and $1.2 million, respectively. This additional expense reduced both basic and diluted earnings per share by $0.00, $0.01, and $0.02 for the years ended December 31, 2010, 2009, and 2008, respectively.

During the years ended December 31, 2010, 2009 and 2008, total compensation expense related to stock options and restricted stock awards reduced income before taxes by $8.5 million, $5.3 million, and $6.2 million, respectively, and reduced net income by $4.9 million, $3.1 million and $3.6 million, respectively.

The Company received $3.6 million and $251 thousand as of December 31, 2010 and 2009, respectively, in cash proceeds from stock option exercises. The net tax expense recognized in equity for stock compensation plans was $170 thousand for 2010 compared with a net tax benefit of $1.0 million for 2009.

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

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A summary of activity for the Company's stock options as of and for the year ended December 31, 2010 is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (In thousands)
Outstanding at beginning of year	1,927,515	$ 21.59		
Granted	—	—		
Exercised	(303,696)	11.87		
Forfeited	(184,840)	17.16		
Outstanding at end of year	1,438,979	$ 24.21	2.59 years	$ 3,032
Vested or expected to vest at year-end	1,413,093	$ 24.26	2.56 years	$ 2,964
Exercisable at year-end	1,022,128	$ 25.38	1.95 years	$ 2,358

A summary of changes in unvested stock options and related information for the year ended December 31, 2010 is presented below:

Unvested Options	Shares	Weighted Average Grant Date Fair Value (per share)
Unvested at January 1, 2010	901,367	$5.21
Granted	—	—
Vested	(350,808)	6.09
Forfeited	(133,708)	3.44
Unvested at December 31, 2010	416,851	$4.15

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

	Year Ended December 31,		
	2010(5)	2009	2008
Expected term (1)	N/A	4 years	4 years
Expected volatility (2)	N/A	60.5 %	28.1 %
Expected dividend yield (3)	N/A	0.6 %	1.2 %
Risk-free interest rate (4)	N/A	1.8 %	2.6 %

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

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

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

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

(5) The Company did not issue any stock options during the year ended December 31, 2010.

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The following table summarizes information about stock options outstanding as of December 31, 2010:

Range of Exercise Prices	Options Outstanding Number of Outstanding Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Options Exercisable Number of Exercisable Options	Weighted Average Exercise Price
$0.00 to $4.99	23,529	$ 4.25	5.25 years	—	$ —
$5.00 to $9.99	12,379	5.91	5.13 years	—	—
$10.00 to $14.99	341,844	12.85	1.14 years	328,016	12.77
$15.00 to $19.99	117,511	17.73	3.46 years	62,723	17.43
$20.00 to $24.99	393,078	21.09	4.14 years	133,616	21.09
$25.00 to $29.99	69,441	26.34	0.15 years	69,441	26.34
$30.00 to $34.99	43,048	34.17	1.64 years	43,048	34.17
$35.00 to $39.99	430,400	37.83	2.35 years	377,535	37.70
$40.00 to $44.99	7,749	40.70	2.43 years	7,749	40.70
$0.00 to $44.99	1,438,979	$ 24.21	2.59 years	1,022,128	$ 25.38

During the years ended December 31, 2010, 2009 and 2008, information related to stock options are presented as follows:

	Year Ended December 31, 2010	2009	2008
Weighted average grant date fair value of stock options granted during the year(1)	$—	$3.00	$4.28
Total intrinsic value of options exercised (in thousands)	$1,772	$53	$517
Total fair value of options vested (in thousands)	$2,137	$1,638	$1,486

(1) The Company did not issue any stock options during the year ended December 31, 2010.

As of December 31, 2010, total unrecognized compensation cost related to stock options amounted to $805 thousand. This cost is expected to be recognized over a weighted average period of 2.1 years.

Restricted Stock—In addition to stock options, the Company also grants restricted stock awards to directors, officers and employees. The restricted shares awarded become fully vested after three to five years of continued employment from the date of grant. The Company becomes entitled to an income tax deduction in an amount equal to the taxable income reported by the holders of the restricted shares when the restrictions are released and the shares are issued. Restricted

shares are forfeited if officers and employees terminate prior to the lapsing of restrictions. The Company records forfeitures of restricted stock as treasury share repurchases.

A summary of the activity for the Company's restricted stock as of December 31, 2010, including changes during the year then ended, is presented below:

	2010	
	Shares	Weighted Average Price
Outstanding at beginning of year	864,717	$20.12
Granted	1,506,836	17.11
Vested	(239,026)	27.09
Forfeited	(343,029)	17.72
Outstanding at end of year	1,789,498	$17.09

Of the total shares of restricted stock granted in 2010, 22,923 shares were granted to outside directors.

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Restricted stock is valued at the closing price of the Company's stock on the date of award. The weighted average fair values of restricted stock awards granted during the years ended December 31, 2010, 2009, and 2008 were $17.11, $7.41, and $19.58, respectively. The total fair value of restricted stock vested during 2010, 2009 and 2008 was $6.5 million, $3.5 million and $3.4 million, respectively.

As of December 31, 2010, total unrecognized compensation cost related to restricted stock awards amounted to $20.6 million. This cost is expected to be recognized over a weighted average period of 2.5 years.

Stock Purchase Plan—The Company adopted the 1998 Employee Stock Purchase Plan (the "Purchase Plan") providing eligible employees of the Company and its subsidiaries participation in the ownership of the Company through the right to purchase shares of its common stock at a discount. The Purchase Plan allows employees to purchase shares at 90% of the per share market price at the date of exercise, with an annual common stock value purchase limitation of $25,000. As of December 31, 2010, the Purchase Plan qualifies as a non-compensatory plan under Section 423 of the Internal Revenue Code and, accordingly, no compensation expense is recognized under the Purchase Plan.

The Purchase Plan covers a total of 2,000,000 shares of the Company's common stock. During 2010 and 2009, 56,448 shares totaling $849 thousand and 133,730 shares totaling $697 thousand, respectively, were sold to employees under the Purchase Plan.

23. EMPLOYEE BENEFIT PLANS

The Company sponsors a defined contribution plan for the benefit of its employees. The Company's contributions to the plan are determined annually by the Board of Directors in accordance with plan requirements. For tax purposes, eligible participants may contribute up to a maximum of 15% of their compensation, not to exceed the dollar limit imposed by the Internal Revenue Service. For plan years ended December 31, 2010 and 2008, the Company contributed $2.0 million and $3.0 million, respectively. There were no Company contributions to the plan for the plan year ended December 31, 2009.

During 2002, the Company adopted a Supplemental Executive Retirement Plan ("SERP"). The SERP meets the definition of a pension plan per ASC 715-30, Compensation—Retirement Benefits – Defined Benefit Plans—Pension, pursuant to which the Company will pay supplemental pension benefits to certain executive officers designated by the Board of Directors upon retirement based upon the officers' years of service and compensation. For the years ended December 31, 2010, 2009, and 2008, $2.6 million, $2.3 million and $2.5 million, respectively, of benefits were accrued and expensed. The SERP is funded through life insurance contracts on the participating officers, though the plan does not require formal funding. At December 31, 2010, the life insurance contracts related to the SERP had an aggregate cash surrender value of $103.0 million. As of December 31, 2010 and 2009, the vested benefit obligation under the SERP was $12.9 million and $11.3 million, respectively.

24. STOCKHOLDERS' EQUITY AND EARNINGS PER SHARE

Series A Preferred Stock Offering—In April 2008, the Company issued 200,000 shares of 8% Non-Cumulative Perpetual Convertible Preferred Stock, Series A ("Series A"), with a liquidation preference of $1,000 per share. The Company received $194.1 million of additional Tier 1 qualifying capital, after deducting stock issuance costs. The holders of the Series A preferred stock have the right at any time to convert each share of Series A preferred shares into 64.9942 shares of the Company's common stock, plus cash in lieu of fractional shares. This represents an initial conversion price of approximately $15.39 per share of common stock or a 22.5% conversion premium based on the closing price of the Company's common stock on April 23, 2008 of $12.56 per share. On or after May 1, 2013, the Company will have the right, under certain circumstances, to cause the Series A preferred shares to be converted into shares of the Company's common stock. Dividends on the Series A preferred shares, if declared, will accrue and be

payable quarterly in arrears at a rate per annum equal to 8% on the liquidation preference of $1,000 per share. The proceeds from this offering were used to augment the Company's liquidity and capital positions and reduce its borrowings. As of December 31, 2010, 85,741 shares were outstanding.

Series B Preferred Stock Offering—On December 5, 2008, the Company issued 306,546 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series B ("Series B"), with a liquidation preference of $1,000 per share. The Company received $306.5 million of additional Tier 1 qualifying capital from the U.S. Treasury by participating in the U.S. Treasury's Capital Purchase Program ("TCPP"). On December 29, 2010, in accordance with approvals received from the U.S. Treasury and the Federal Reserve Board, the Company repurchased all shares of the Series B preferred stock and the related accrued and unpaid dividends by using $308.4 million of available cash, without raising any capital or debt. As a result of repurchasing the Series B preferred stock, the Company accelerated the remaining accretion of the issuance discount on the Series B preferred stock of $17.5 million and recorded a corresponding charge to stockholders' equity and income available to common stockholders in the calculation of diluted earnings per share. While participating in the TCPP, we recorded $56.9 million in dividends and accretion, including $31.7 million in cash dividends and $25.2 million of accretion on the Series B preferred stock issuance discount. Repayment will save us approximately $15.3 million in annual dividends.

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Private Sales of Common Stock—On July 14, 2009, in private placement transactions, two customers of the Bank purchased 5,000,000 newly issued shares of the Company's common stock at a price of $5.50 per share. The Company received net proceeds of approximately $26.0 million, net of stock issuance costs, in conjunction with this common stock offering. The Company has registered these shares for resale to the public.

Public Offering of Common Stock—On July 24, 2009, the Company completed a public offering of 11 million shares of its common stock priced at $6.35. The underwriter also exercised its option to purchase an additional 1.65 million shares of the Company's common stock. The Company received net proceeds of approximately $76.7 million, net of stock issuance costs, in conjunction with this common stock offering.

Private Placement—On November 5, 2009, we entered into investment agreements with various investors, pursuant to which the investors purchased an aggregate of $500.0 million of our common stock and newly-issued shares of our Mandatorily Convertible Non-Voting Perpetual Preferred Stock, Series C ("Series C"), with a liquidation preference of $1,000 per share, in a private placement transaction which closed on November 6, 2009. In the private placement, we issued certain qualified institutional buyers and accredited investors, several of whom were already our largest institutional stockholders, an aggregate of 335,047 shares of our Series C preferred stock and an aggregate of 18,247,012 shares of common stock. On March 25, 2010, at a special meeting of the stockholders, our stockholders voted to approve the issuance of 37,103,734 shares of our common stock upon conversion of the 335,047 shares of the Series C preferred stock. Subsequently, on March 30, 2010, each share of the Series C preferred stock was automatically converted into 110.74197 shares of common stock at a per common share conversion price of $9.03, as adjusted in accordance with the terms of the Series C preferred stock. As a result, no shares of the Series C preferred stock remain outstanding as of December 31, 2010.

Warrants—During 2008, in conjunction with the Series B preferred stock offering, the Company issued to the U.S. Treasury warrants with an initial price of $15.15 per share of common stock for which the warrants may be exercised, with an allocated fair value of $25.2 million. The warrants could be exercised at any time on or before December 5, 2018. As of December 31, 2010, there were 1,517,555 warrants outstanding. As stated in Note 29 to the Company's consolidated financial statements presented elsewhere in this report, on January 26, 2011 the Company repurchased the outstanding warrants for $14.5 million.

Stock Repurchase Program—During 2007, the Company's Board of Directors authorized a stock repurchase program to buy back up to $80.0 million of the Company's common stock. The Company did not repurchase any shares during the years ended December 31, 2010, 2009 and 2008.

Quarterly Dividends—The Company's Board of Directors declared and paid quarterly preferred stock cash dividends of $20.00 per share on its Series A preferred stock during 2010 and 2009. The Board of Directors has also authorized the payment of quarterly dividends of $12.50 per share on the Company's Series B preferred stock during 2010 and 2009. Cash dividends totaling $22.1 million and $26.9 million were paid to the Company's Series A and Series B preferred stock shareholders during the years ended December 31, 2010 and 2009, respectively.

The Company also paid quarterly dividends on its common stock of $0.02 per share for the first quarter of 2009 and $0.01 per share for the remaining quarters of 2009 and all quarters of 2010. Total quarterly dividends amounting to $5.5 million and $3.6 million were paid to the Company's common shareholders during the years ended December 31, 2010 and 2009, respectively.

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Earnings (Loss) Per Share ("EPS")—The calculation of basic and diluted earnings (loss) per share for the years ended December 31, 2010, 2009 and 2008 is presented below:

	Net Income (Loss) Available to Common Stockholders	Number of Shares	Per Share Amounts
	(In thousands, except per share data)		
2010			
Net income	$164,564	137,478	
Less:			
Preferred stock dividends and amortization of preferred stock discount	(43,126)	—	
Basic EPS – income available to common stockholders	$121,438	137,478	$ 0.88
Effect of dilutive securities:			
Stock options	—	142	
Restricted stock	15	370	
Convertible preferred stock	—	8,936	
Stock warrants	—	176	
Diluted EPS – income available to common stockholders	$121,453	147,102	$ 0.83
2009			
Net income before extraordinary item	$82,008	78,770	
Less:			
Preferred stock dividends, amortization of preferred stock discount and inducement of preferred stock conversion	(49,115)		
Income available to common stockholders before extraordinary item	32,893	78,770	$ 0.42
Extraordinary item – impact of descuritization	(5,366)	78,770	(0.07)
Basic EPS – income available to common stockholders after extraordinary item	27,527	78,770	$ 0.35
Effect of dilutive securities:			
Stock options	—	15	
Restricted stock	—	51	
Convertible preferred stock	—	5,687	
Stock warrants	—	—	
Income available to common stockholders before extraordinary item	$32,893	84,523	$ 0.39
Income impact of assumed conversions	2	—	
Extraordinary item – impact of descuritization	(5,366)	84,523	$ (0.06)
Diluted EPS – income available to common stockholders after extraordinary item plus assumed conversions	$27,529	84,523	$ 0.33
2008			
Net loss	$(49,683)	62,673	
Less:			
Preferred stock dividends and amortization of preferred stock discount	(9,474)	—	
Basic EPS – loss available to common stockholders	$(59,157)	62,673	$ (0.94)

Effect of dilutive securities:			
Stock options	—	—	
Restricted stock	—	—	
Convertible preferred stock	—	—	
Stock warrants	—	—	
Diluted EPS – loss available to common stockholders	$(59,157)	62,673	$ (0.94)

The following outstanding convertible preferred stock, stock options, restricted stock and stock warrants for years ended December 31, 2010, 2009 and 2008, respectively, were excluded from the computation of diluted EPS because including them would have had an antidilutive effect.

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	For the Year Ended		
	2010	2009	2008
	(In thousands)		
Convertible preferred stock	5,573	9,293	8,924
Stock options	1,043	1,848	1,997
Restricted stock	326	463	640
Warrants	—	—	1

25. REGULATORY REQUIREMENTS

Risk-Based Capital—The Bank is a member bank of the Federal Reserve System and the FRB is the Bank's primary regulator. The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

As of December 31, 2010 and 2009, the Bank is categorized as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain specific total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table below. There are no conditions or events since that notification which management believes have changed the category of the Bank.

The actual and required capital amounts and ratios at December 31, 2010 and 2009 are presented as follows:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
As of December 31, 2010:						
Total Capital (to Risk-Weighted Assets)						
Consolidated Company	$2,075,480	17.5 %	$950,680	8.0 %	N/A	N/A
East West Bank	$2,068,922	17.4 %	$950,301	8.0 %	$1,187,877	10.0 %
Tier I Capital (to Risk-Weighted Assets)						
Consolidated Company	$1,865,602	15.7 %	$475,340	4.0 %	N/A	N/A
East West Bank	$1,859,102	15.7 %	$475,151	4.0 %	$712,726	6.0 %
Tier I Capital (to Average Assets)						
Consolidated Company	$1,865,602	9.3 %	$801,850	4.0 %	N/A	N/A
East West Bank	$1,859,102	9.3 %	$800,863	4.0 %	$1,001,079	5.0 %
As of December 31, 2009:						

Total Capital (to Risk-Weighted Assets)								
Consolidated Company	$2,228,243	19.8	%	$898,461	8.0	%	N/A	N/A	
East West Bank	$1,979,409	17.7	%	$897,322	8.0	%	$1,121,653	10.0	%
Tier I Capital (to Risk-Weighted Assets)									
Consolidated Company	$2,011,158	17.9	%	$449,230	4.0	%	N/A	N/A	
East West Bank	$1,762,536	15.7	%	$448,661	4.0	%	$672,992	6.0	%
Tier I Capital (to Average Assets)									
Consolidated Company	$2,011,158	11.7	%	$688,656	4.0	%	N/A	N/A	
East West Bank	$1,762,536	10.2	%	$688,650	4.0	%	$860,812	5.0	%

Under the Dodd-Frank Act, bank holding companies with more than $15 billion in total consolidated assets will no longer be able to include trust preferred securities as Tier I regulatory capital as of the end of the phase-out period in 2016. As of December 31, 2010 and 2009, trust preferred securities comprised 8.6% and 7.7%, respectively, of the Company's Tier I capital.

Reserve Requirement—The Bank is required to maintain a percentage of its deposits as reserves at the Federal Reserve Bank. The daily average reserve requirement was approximately $80.9 million and $63.3 million for the years ended December 31, 2010 and 2009, respectively.

26. SEGMENT INFORMATION

The Company utilizes an internal reporting system to measure the performance of various operating segments within the Bank and the Company overall. We have identified three operating segments for purposes of management reporting: 1) Retail Banking; 2) Commercial Banking; and 3) Other. These three business divisions meet the criteria of an operating segment: the segment engages in business activities from which it earns revenues and incurs expenses and whose operating results are regularly reviewed by the Company's chief operating decision-maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

Prior to 2009, the Company had identified five operating segments for purposes of management reporting: retail banking, commercial lending, residential lending, treasury, and other. As a result of an evolution in the Company's strategic focus, the Company realigned its segment methodology during the first quarter of 2009, and identified three business divisions as meeting the criteria of an operating segment: Retail Banking, Commercial Banking, and Other. The residential lending segment was combined with the Retail Banking segment due to the consumer-centric nature of the products and services offered by the two segments as well as the synergistic relationship between the two units in generating consumer mortgage loans. The remaining centralized functions, including the former treasury segment, and eliminations on intersegment amounts were aggregated and included in "Other." The objective of combining certain segments under a new reporting structure was to better align the Company's service structure with its customer base, and to provide a platform to more efficiently manage the complexities and challenges impacting the Company's business environment.

With the acquisition of UCB in November 2009, a fourth segment was added.

During the first quarter of 2010, the Company's management made the decision to fully integrate the UCB segment into its two-segment core business structure: Retail Banking and Commercial Banking. With this integration, effective the first quarter of 2010, the Company's business focus reverted back to a three-segment core business structure: Retail Banking, commercial Banking and Other.

The Retail Banking segment focuses primarily on retail operations through the Bank's branch network. The Commercial Banking segment, which includes commercial real estate, primarily generates commercial loans through the efforts of the commercial lending offices located in the Bank's northern and southern California production offices. Furthermore, the Company's Commercial Banking segment also offers a wide variety of international finance and trade services and products. The remaining centralized functions, including treasury activities and eliminations of inter-segment amounts, have been aggregated and included in the Other segment, which provides broad administrative support to the two core segments.

The Company's funds transfer pricing assumptions are intended to promote core deposit growth and to reflect the current risk profiles of various loan categories within the credit portfolio. Transfer pricing assumptions and methodologies are reviewed at least annually to ensure that the Company's process is reflective of current market conditions. The transfer pricing process is formulated with the goal of incenting loan and deposit growth that is consistent with the Company's overall growth objectives as well as provide a reasonable and consistent basis for the measurement of the Company's business segments and product net interest margins. Changes to the Company's transfer pricing assumptions and methodologies are approved by the Asset Liability Committee.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Operating segment results are based on the Company's internal management reporting process, which reflects assignments and allocations of capital, certain operating and administrative costs and the provision for loan losses. Net interest income is based on the Company's internal funds transfer pricing system which assigns a cost of funds or a

credit for funds to assets or liabilities based on their type, maturity or repricing characteristics. Noninterest income and noninterest expense, including depreciation and amortization, directly attributable to a segment are assigned to that business. Indirect costs, including overhead expense, are allocated to the segments based on several factors, including, but not limited to, full-time equivalent employees, loan volume and deposit volume. The provision for credit losses is allocated based on actual charge-offs for the period as well as average loan balances for each segment during the period. The Company evaluates overall performance based on profit or loss from operations before income taxes excluding nonrecurring gains and losses.

Changes in our management structure or reporting methodologies may result in changes in the measurement of operating segment results. Results for prior periods are generally restated for comparability for changes in management structure or reporting methodologies unless it is not deemed practicable to do so.

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The following tables present the operating results and other key financial measures for the individual operating segments for the years ended December 31, 2010, 2009 and 2008. Amounts for the year ending December 31, 2008 have been retrospectively revised to reflect the change in the Company's segment reporting during the first quarter of 2009 as discussed above.

	Year Ended December 31, 2010			
	Retail Banking	Commercial Lending	Other	Total
	(In thousands)			
Interest income	$330,019	$684,882	$80,930	$1,095,831
Charge for funds used	(113,121)	(156,303)	29,514	(239,910)
Interest spread on funds used	216,898	528,579	110,444	855,921
Interest expense	(112,703)	(24,756)	(63,658)	(201,117)
Credit on funds provided	209,040	14,346	16,524	239,910
Interest spread on funds provided	96,337	(10,410)	(47,134)	38,793
Net interest income	$313,235	$518,169	$63,310	$894,714
Provision for loan losses	$(73,021)	$(127,138)	$—	$(200,159)
Depreciation, amortization and accretion	(14,286)	(83,706)	2,810	(95,182)
Goodwill	320,566	16,872	—	337,438
Segment pre-tax profit (loss)	(15,521)	168,460	102,970	255,909
Segment assets	6,580,118	9,856,661	4,263,758	20,700,537

	Year Ended December 31, 2009			
	Retail Banking	Commercial Lending	Other	Total
	(In thousands)			
Interest income	$263,293	$343,173	$116,352	$722,818
Charge for funds used	(69,260)	(75,153)	(186,024)	(330,437)
Interest spread on funds used	194,033	268,020	(69,672)	392,381
Interest expense	(103,778)	(20,156)	(113,195)	(237,129)
Credit on funds provided	165,258	17,854	147,325	330,437
Interest spread on funds provided	61,480	(2,302)	34,130	93,308
Net interest income (expense)	$255,513	$265,718	$(35,542)	$485,689
Provision for loan losses	$(175,825)	$(352,841)	$—	$(528,666)
Depreciation, amortization and accretion	(4,707)	(36,265)	6,103	(34,869)
Goodwill	320,566	16,872	—	337,438
Segment pre-tax profit (loss)	(23,196)	(173,396)	301,314	104,722
Segment assets	6,697,894	10,404,063	3,457,255	20,559,212

	Year Ended December 31, 2008			
	Retail Banking	Commercial Lending	Other	Total
	(In thousands)			
Interest income	$256,807	$333,706	$74,345	$664,858
Charge for funds used	(120,848)	(146,370)	(127,406)	(394,624)
Interest spread on funds used	135,959	187,336	(53,061)	270,234

Interest expense	(139,455)	(15,913)	(154,326)	(309,694)
Credit on funds provided	202,727	16,685	175,212	394,624
Interest spread on funds provided	63,272	772	20,886	84,930
Net interest income (expense)	$199,231	$188,108	$(32,175)	$355,164
Provision for loan losses	$(93,261)	$(132,739)	$—	$(226,000)
Depreciation, amortization and accretion	11,778	804	5,515	18,097
Goodwill	320,566	16,872	—	337,438
Segment pre-tax loss	(17,379)	(2,969)	(76,820)	(97,168)
Segment assets	4,015,402	5,332,156	3,075,258	12,422,816

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27. PARENT COMPANY FINANCIAL STATEMENTS

The financial information of East West Bancorp, Inc. as of December 31, 2010 and 2009 and for the years ended December 31, 2010, 2009 and 2008 are as follows:

BALANCE SHEETS

	December 31,	
	2010	2009
	(In thousands)	
ASSETS		
Cash and cash equivalents	$4,973	$206,207
Certificates of deposit	198	17,714
Investment securities available-for-sale	—	26,922
Investment in subsidiaries	2,268,453	2,196,982
Other investments	1,136	1,733
Other assets	5,081	3,642
TOTAL	$2,279,841	$2,453,200
LIABILITIES AND STOCKHOLDERS' EQUITY		
Long-term debt	$160,570	$160,570
Other liabilities	5,340	7,971
Total liabilities	165,910	168,541
STOCKHOLDERS' EQUITY		
Preferred stock (par value $0.001 per share) Authorized — 5,000,000 shares Issued — 200,000 shares in Series A, non-cumulative convertible preferred stock in 2010 and 2009 Outstanding — 85,741 shares in 2010 and 2009 Issued and outstanding — 306,546 shares in Series B, cumulativepreferred stock in 2009; 335,047 shares in Series C cumulativeconvertible preferred stock in 2009	83,058	693,803
Common stock (par value $0.001 per share) Authorized — 200,000,000 shares Issued — 155,743,241 shares in 2010 and 116,754,403 shares in 2009 Outstanding — 148,542,940 shares in 2010 and 109,962,965 in 2009	156	117
Additional paid in capital	1,434,277	1,091,047
Retained earnings	720,116	604,223
Treasury stock, at cost: 7,200,301 shares in 2010 and 6,791,438 shares in 2009	(111,262)	(105,130)
Accumulated other comprehensive (loss) income, net of tax	(12,414)	599
Total stockholders' equity	2,113,931	2,284,659
TOTAL	$2,279,841	$2,453,200

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STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2010	2009	2008
	(In thousands)		
Dividends from subsidiaries	$85,158	$23,576	$34,818
Interest income	1,095	794	1,293
Gain on sales of investment securities available-for-sale	556	—	—
Impairment writedown on investment securities available-for-sale	—	(5,863)	(4,600)
Impairment writedown on other investments	—	(581)	(1,319)
Other income	3	—	6
Total income	86,812	17,926	30,198
Interest expense	5,302	6,197	9,372
Compensation and net occupancy reimbursement to subsidiary	2,921	2,288	4,377
Goodwill impairment	—	—	858
Other expense	2,132	1,179	1,478
Total expense	10,355	9,664	16,085
Income before income taxes and equity in undistributed income of subsidiaries	76,457	8,262	14,113
Income tax benefit	3,592	6,361	9,954
Equity in undistributed income (loss) of subsidiaries	84,515	62,019	(73,750)
Net income (loss)	$164,564	$76,642	$(49,683)

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STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2010	2009	2008
	(In thousands)		
Cash flows from operating activities:			
Net income (loss)	$164,564	$76,642	$(49,683)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Equity in undistributed (income) loss of subsidiaries	(84,515)	(62,019)	73,750
Depreciation and amortization	623	470	230
Impairment writedown on goodwill	—	—	858
Impairment writedown on investment securities available-for-sale	—	5,863	4,600
Impairment writedown on other investments	—	581	1,319
Stock compensation costs	8,761	5,330	6,167
Loss on sale of other investments	—	—	147
Gain on sale of investment securities available-for-sale	(556)	—	—
Tax provision (benefit) from stock plans	170	(1,012)	414
Net change in other assets	(1,605)	(1,841)	(3,754)
Net change in other liabilities	(596)	4,509	(194)
Net cash provided by operating activities	86,846	28,523	33,854
Cash flows from investing activities:			
Purchases of:			
Investment securities available-for-sale	(20,746)	(31,981)	—
Certificates of deposit	—	(17,714)	—
Proceeds from:			
Redemption of certificates of deposit	17,516		
Repayments, maturity and redemption of investment securities available-for-sale	—	—	190
Sale/call of investment securities available-for-sale	48,224	5,000	—
Capital contributions to subsidiaries, net	—	(350,000)	(501,046)
Net cash provided by (used in) investing activities	44,994	(394,695)	(500,856)
Cash flows from financing activities:			
Payment for:			
Purchase of treasury shares	(1,207)	(430)	(306)
Cash dividends on preferred stock	(24,060)	(26,076)	(8,037)
Cash dividends on common stock	(5,545)	(3,586)	(25,375)
Repurchase of Series B preferred stock	(306,546)	—	—
Proceeds from:			
Issuance of common stock pursuant to various stock plans and agreements	4,454	263,336	2,776
Issuance of preferred stock and common stock warrants	—	325,120	500,591
Tax (provision) benefit from stock plans	(170)	—	(414)
Net cash (used in) provided by financing activities	(333,074)	558,364	469,235
Net (decrease) increase in cash and cash equivalents	(201,234)	192,192	2,233
Cash and cash equivalents, beginning of year	206,207	14,015	11,782
Cash and cash equivalents, end of year	$4,973	$206,207	$14,015

Supplemental Cash Flow Information:			
Cash paid during the year for:			
Interest	$5,306	$6,373	$9,584
Income tax payments, net of refunds	—	—	40,000
Noncash financing activities:			
Conversion of preferred stock to common stock	325,299	—	—
Accrued preferred stock dividends	—	852	1,125
Amortization of preferred stock discount	21,042	3,847	312
Issuance of common stock in lieu of Board of Director retainer fees	281	219	219

28. QUARTERLY FINANCIAL INFORMATION (unaudited)

	Quarters Ended			
	December 31,	September 30,	June 30,	March 31,
	(In thousands, except per share data)			
2010				
Interest and dividend income	$292,195	$231,400	$253,533	$318,703
Interest expense	45,633	48,595	49,910	56,979
Net interest income	246,562	182,805	203,623	261,724
Provision for loan losses	29,834	38,648	55,256	76,421
Net interest income loss after provision for loan losses	216,728	144,157	148,367	185,303
Noninterest (loss) income	(17,279)	29,315	35,685	(8,451)
Noninterest expense	113,743	99,945	125,318	138,910
Income before provision for income taxes	85,706	73,527	58,734	37,942
Provision for income taxes	29,357	26,576	22,386	13,026
Net income	$56,349	$46,951	$36,348	$24,916
Preferred stock dividends and amortization of preferred stock discount	24,109	6,732	6,147	6,138
Net income available to common stockholders	$32,240	$40,219	$30,201	$18,778
Basic earnings per share	$0.22	$0.27	$0.21	$0.17
Diluted earnings per share	$0.22	$0.27	$0.21	$0.13
2009				
Interest and dividend income	$283,639	$147,924	$146,333	$144,923
Interest expense	61,770	52,044	58,073	65,242
Net interest income	221,869	95,880	88,260	79,681
Provision for loan losses	140,001	159,244	151,422	78,000
Net interest income (loss) after provision for loan losses	81,868	(63,364)	(63,162)	1,681
Noninterest income (loss)	415,238	(11,880)	(26,199)	13,794
Noninterest expense	87,872	46,064	57,912	51,406
Income (loss) before provision (benefit) for income taxes	409,234	(121,308)	(147,273)	(35,931)
Provision (benefit) for income taxes	149,504	(52,777)	(60,548)	(13,465)
Net income (loss) before extraordinary item	259,730	(68,531)	(86,725)	(22,466)
Extraordinary item, net of tax	—	—	5,366	—
Net income (loss) after extraordinary item	$259,730	$(68,531)	$(92,091)	$(22,466)
Preferred stock dividends and amortization of preferred stock discount	6,129	10,620	23,623	8,743
Net income (loss) available to common stockholders	$253,601	$(79,151)	$(115,714)	$(31,209)
Basic earnings (loss) per share	$2.49	$(0.91)	$(1.83)	$(0.50)
Diluted earnings (loss) per share	$1.96	$(0.91)	$(1.83)	$(0.50)

29. SUBSEQUENT EVENTS

On January 25, 2011, the East West Board of Directors declared first quarter 2011 dividends on the Company's common stock and Series A preferred stock. The common stock dividend of $0.01 per share is payable on or about February 24, 2011 to shareholders of record on February 10, 2011. The dividend on the Series A preferred stock of $20 per share is payable on February 1, 2011 to shareholders on record on January 15, 2011. In addition, on January 26, 2011 the Company repurchased the outstanding TARP warrants at a cost of $14.5 million. We have evaluated

events and transactions occurring through the date of filing this report on Form 10-K. Such evaluation resulted in no adjustments to the accompanying financial statements.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: February 28, 2011

EAST WEST BANCORP INC.
(Registrant)

By /s/ DOMINIC NG
Dominic Ng
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

/s/ DOMINIC NG Dominic Ng	Chairman and Chief Executive Officer (Principal Executive Officer)	February 28, 2011
/s/ JULIA GOUW Julia Gouw	President and Chief Operating Officer	February 28, 2011
/s/ PEGGY T. CHERNG Peggy T. Cherng	Director	February 28, 2011
/s/ RUDOLPH I. ESTRADA Rudolph I. Estrada	Director	February 28, 2011
/s/ ANDREW S. KANE Andrew S. Kane	Director	February 28, 2011
/s/ JOHN LEE John Lee	Vice-Chairman and Director	February 28, 2011
/s/ HERMAN Y. LI Herman Y. Li	Director	February 28, 2011
/s/ JACK C. LIU Jack C. Liu	Director	February 28, 2011

/s/ IRENE H. OH Irene H. Oh	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	February 28, 2011
/s/ KEITH W. RENKEN Keith W. Renken	Director	February 28, 2011
/s/ PAUL H. IRVING Paul H. Irving	Director	February 28, 2011

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Exhibit No.	Exhibit Description
3.1	Certificate of Incorporation of the Registrant [Incorporated by reference from Registrant's Registration Statement on Form S-4 filed with the Commission on September 17, 1998 (File No. 333-63605).]
3.2	Certificate of Amendment to Certificate of Incorporation of the Registrant [Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2002 filed with the Commission on March 28, 2003.]
3.3	Amendment to the Certification of Incorporation of the Registrant [Incorporated by reference from Registrant's Definitive Proxy Statement on Schedule 14A filed with the Commission on April 15, 2005.]
3.4	Certificate of Amendment to Certificate of Incorporation of the Registrant [Incorporated by reference from Registrant's Exhibit A of the Registrant's Definitive Proxy Statement on Schedule 14A filed with the Commission on April 24, 2008.]
3.5	Bylaws of the Registrant [Incorporated by reference from Registrant's Registration Statement on Form S-4 filed with the Commission on September 17, 1998 (File No. 333-63605).]
3.6	Amended and Restated Bylaws of the Registrant dated May 29, 2008 [Incorporated by reference from Registrant's Current Report on Form 8-K, filed with the Commission on June 3, 2008.]
3.7	Certificate of Designations of 8.00% Non-Cumulative Perpetual Convertible Preferred Stock, Series A, including Form of Series A Preferred Stock Certificate. [Incorporated by reference from Registrant's Current Report on Form 8-K, filed with the Commission on April 30, 2008.]
3.8	Certificate of Designations of Fixed Rate Cumulative Perpetual Preferred Stock, Series B [Incorporated by reference from Registrant's Current Report on Form 8-K, filed with the Commission on December 9, 2008.]
3.9	Certificate of Designations of Mandatory Convertible Cumulative Non-Voting Perpetual Preferred Stock, Series C [Incorporated by reference from Registrant's Current Report on Form 8-K, filed with the Commission on November 12, 2009.]
4.1	Specimen Common Stock Certificate of Registrant [Incorporated by reference from Registrant's Registration Statement on Form S-4 filed with the Commission on September 17, 1998 (File No. 333-63605).]
4.2	Form of Certificate of the Registrant's 8.00% Non-Cumulative Perpetual Convertible Preferred Stock, Series A [Incorporated by reference from Registrant's Current report on Form 8-K, filed with the Commission on April 30, 2008.]
4.3	Form of Preferred Share Certificate for Fixed Rate Cumulative Perpetual Preferred Stock, Series B. [Incorporated by reference from Registrant's Current report on Form 8-K, filed with the Commission on December 9, 2008.]
4.4	Warrant to purchase up to 3,035,109 shares of Common Stock [Incorporated by reference from Registrant's Current Report on Form 8-K, filed with the Commission on December 9, 2008.]

10.1	Employment Agreement with Dominic Ng+ [Incorporated by reference from Registrant's Registration Statement on Form S-4 filed with the Commission on November 13, 1998 (File No. 333-63605).]
10.2	Employment Agreement with Julia Gouw+ [Incorporated by reference from Registrant's Registration Statement on Form S-4 filed with the Commission on November 13, 1998 (File No. 333-63605).]
10.5	Employment Agreement with Douglas P. Krause+ [Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2005 filed with the Commission on March 11, 2005.]
10.6.1	East West Bancorp, Inc. 1998 Stock Incentive Plan and Forms of Agreements+ [Incorporated by reference from Registrant's Registration Statement on Form S-4 filed with the Commission on November 13, 1998 (File No. 333-63605).]
10.6.2	Amended East West Bancorp, Inc. 1998 Stock Incentive Plan+ [Incorporated by reference from Registrant's Current Report on Form 8-K filed with the Commission on March 9, 2005.]

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Exhibit No.	Exhibit Description
10.6.3	1998 NonQualified Stock Option Program for Employees and Independent Contractors+ [Incorporated by reference from Registrant's Current Report on Form 8-K filed with the Commission on March 9, 2005.]
10.6.4	Performance-Based Bonus Plan+ [Incorporated by reference from Registrant's Current Report on Form 8-K filed with the Commission on March 9, 2005.]
10.6.5	1999 Spirit of Ownership Restricted Stock Program+ [Incorporated by reference from Registrant's Current Report on Form 8-K filed with the Commission on March 9, 2005.]
10.6.6	2003 Directors' Restricted Stock Program+ [Incorporated by reference from Registrant's Current Report on Form 8-K filed with the Commission on March 9, 2005.]
10.7	East West Bancorp, Inc. 1998 Employee Stock Purchase Plan+ [Incorporated by reference from Registrant's Registration Statement on Form S-4 filed with the Commission on November 13, 1998 (File No. 333-63605).]
10.8	Employment Agreement with William J. Lewis+ [Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2005 filed with the Commission on March 11, 2005.]
10.9.1	Employment Agreement with Donald Sang Chow+ [Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 1999 filed with the Commission on March 30, 2000.]
10.9.2	Amendment to Employment Agreement with Donald Sang Chow+ [Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 1999 filed with the Commission on March 30, 2000.]
10.9.3	Amendment to Employment Agreement with Donald Sang Chow+ [Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2005 filed with the Commission on March 11, 2005.]
10.10	Amended Supplemental Executive Retirement Plans+ [Incorporated by reference from Registrant's Form 10-K for the year ended December 31, 2005 filed with the Commission on March 11, 2005.]
10.11	Employment Agreement with Wellington Chen+ [Incorporated by reference from Registrant's Current Report Form 8-K filed with the Commission on December 31, 2008.]
10.12	Director Compensation%+
10.14	Letter Agreement, dated December 5, 2008, including Securities Purchase Agreement – Standard Terms incorporated by reference therein, by and between the Registrant and the United States Department of Treasury [Incorporated by reference from Registrant's Current report on Form 8-K, filed with the Commission on December 9, 2008.]

10.15	Form of Investment Agreement by and between the Company and the respective Purchaser thereto [Incorporated by reference from Registrant's Current Report on Form 8-K, filed with the Commission on November 12, 2009.]
10.16	Purchase and Assumption Agreement – Whole Bank – All Deposits, among the Federal Deposit Insurance Corporation, Receiver of United Commercial Bank, San Francisco, California, the Federal Deposit Insurance Corporation and East West Bank, dated as of November 6, 2009 [Incorporated by reference from Registrant's Current Report on Form 8-K, filed with the Commission on November 12, 2009.]
10.17	Purchase and Assumption Agreement – Whole Bank – All Deposits, among the Federal Deposit Insurance Corporation, Receiver of Washington First International Bank, Seattle, Washington, the Federal Deposit Insurance Corporation and East West Bank, dated as of June 11, 2010 [Incorporated by reference from Registrant's Current Report on Form 8-K/A, filed with the Commission on August 27, 2010.]
12.1	Computation of Ratio of Earnings to Fixed Charges%
21.1	Subsidiaries of the Registrant%

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Exhibit No.	Exhibit Description
23.1	Consent of Independent Registered Public Accounting Firm KPMG LLP%
23.2	Consent of Independent Registered Public Accounting Firm Deloitte and Touche LLP%
31.1	Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002%
31.2	Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002%
32.1	Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002%
32.2	Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002%
99.1	Chief Executive Officer Certification Pursuant to Section 111(b)(4) of the Emergency Economic Stabilization Act of 2008, as Amended%
99.2	Chief Financial Officer Certification Pursuant to Section 111(b)(4) of the Emergency Economic Stabilization Act of 2008, as Amended%

Forms 8-K, 10-Q and 10-K identified in the exhibit index have SEC file number 000-24939.

+ Denotes management contract or compensatory plan or arrangement.

% A copy of this exhibit is being filed with this Annual Report on Form 10-K.