BBCN BANCORP INC
Form 10-K
March 03, 2014
Table of Contents

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

FORM 10-K

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

Commission File # 000-50245

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

Delaware	95-4849715
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3731 Wilshire Boulevard
Suite 1000
Los Angeles, California 90010
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (213) 639-1700
Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Name of Exchange on Which Registered
Common Stock, par value $0.001 per share	NASDAQ Global Select Market

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

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes o No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements

incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K x
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of “accelerated filer,” “large accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller Reporting Company o

Table of Contents

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

The aggregate market value of the Common Stock held by non-affiliates of the Registrant based upon the closing sale price of the Common Stock as of the last business day of the Registrant's most recently completed second fiscal quarter, June 30, 2013, as reported on the NASDAQ Global Select Market, was approximately $1,109,750,286.

Number of shares outstanding of the Registrant's Common Stock as of February 24, 2014: 79,441,525

Documents Incorporated by Reference: The information required in Part III, Items 10 through 14 are incorporated herein by reference to the registrant's definitive proxy statement for the 2014 annual meeting of stockholders.

Table of Contents

Table of Contents

PART I		Page
Forward-Looking Information		
Item 1.	Business	4
	General	4
	Business Overview	4
	Lending Activities	5
	Deposit Activities	6
	Borrowing Activities	7
	Market Area and Competition	7
	Economic Conditions, Government Policies and Legislation	7
	Supervision and Regulation	8
	Employees	14
Item 1A.	Risk Factors	15
Item 1B.	Unresolved Staff Comments	19
Item 2.	Properties	19
Item 3.	Legal Proceedings	19
Item 4.	Mine Safety Disclosures	19
PART II		
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity	
	Securities	20
Item 6.	Selected Financial Data	22
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	25
Item 7A.	Quantitative and Qualitative Disclosures about Market Risk	53
Item 8.	Financial Statements and Supplementary Data	56
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	57
Item 9A.	Controls and Procedures	57
Item 9B.	Other Information	59
PART III		
Item 10.	Directors, Executive Officers and Corporate Governance	60
Item 11.	Executive Compensation	60
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	60
Item 13.	Certain Relationships and Related Transactions, and Director Independence	60
PART IV		
Item 15.	Exhibits and Financial Statement Schedules	61

Table of Contents

PART I

Forward-Looking Information

Some statements in this Annual Report on Form 10-K constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements relate to, among other things, expectations regarding the business environment in which we operate, projections of future performance, perceived opportunities in the market and statements regarding our business strategies, objectives and vision. Forward-looking statements include, but are not limited to, statements preceded by, followed by or that include the words "will," "believes," "expects," "anticipates," "intends," "plans," "estimates" or similar expressions. With respect to any su forward-looking statements BBCN Bancorp, Inc. claims the protection provided for in the Private Securities Litigation Reform Act of 1995. These statements involve risks and uncertainties. Our actual results, performance or achievements may differ significantly from the results, performance or achievements expressed or implied in any forward-looking statements. For a more detailed discussion of factors that might cause such a difference, see Item 1A, "Risk Factors". BBCN Bancorp, Inc. does not undertake, and specifically disclaims any obligation, to update any forward looking statements to reflect the occurrence of events or circumstances after the date of such statements except as required by law.

Item 1. BUSINESS

General

BBCN Bancorp, Inc. ("BBCN Bancorp" on a parent-only basis, and the "Company," "we" or "our" on a consolidated basis) is a bank holding company headquartered in Los Angeles, California. We offer commercial banking loan and deposit products through our wholly-owned subsidiary, BBCN Bank, a California state-chartered bank (the "Bank" or "BBCN Bank"). BBCN Bank primarily focuses its business in Korean communities in California, New Jersey, and the New York City, Chicago, Seattle and Washington, D.C. metropolitan areas. Our headquarters are located at 3731 Wilshire Boulevard, Suite 1000, Los Angeles, California 90010, and our telephone number at that address is (213) 639-1700.

BBCN Bancorp, Inc., formerly named Nara Bancorp, Inc., was formed to become the holding company for Nara Bank effective in February 2002. Nara Bank opened for business in June 1989 under the name United Citizens National Bank as a national banking association, was renamed Nara Bank, National Association in January 1994 and became Nara Bank upon converting to a California state-chartered bank in January 2005. On November 30, 2011, Nara Bancorp, Inc. merged with Center Financial Corporation ("Center Financial" or "Center") in a merger of equals transaction. Concurrently with the merger, Nara Bancorp, Inc. changed its name to BBCN Bancorp, Inc. At the bank level, Nara Bank merged into Center Bank, and concurrently with the merger, Center Bank changed its name to BBCN Bank.

BBCN Bancorp is registered as a financial holding company pursuant to the Gramm-Leach-Bliley Act and a bank holding company registered under the Bank Holding Company Act of 1956, as amended. BBCN Bancorp exists primarily for the purpose of holding the stock of the Bank and of such other subsidiaries as it may acquire or establish. BBCN Bank's deposits are insured by the Federal Deposit Insurance Corporation (the "FDIC"), up to applicable limits.

We file reports with the Securities and Exchange Commission (the "SEC"), which include annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, as well as proxy statements and information statements in connection with our stockholders meetings and other information. The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC, 20549. The SEC maintains a website that contains the reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. The address of the site is http://www.sec.gov. Our website address is http://www.bbcnbank.com. Electronic copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, other information and reports we file with the SEC and amendments to those reports, are available free of charge by visiting the Investor Relations section of our website. These reports are generally posted as soon as reasonably practicable after they are electronically filed with the SEC. None of the information on or

hyperlinked from the Company's website is incorporated into this Annual Report on From 10-K.

Business Overview

Our principal business activities are conducted through BBCN Bank and primarily consist of earning interest on loans and investment securities that are funded by customer deposits and other borrowings. Operating revenues consist of the difference between interest received and interest paid, gains and losses on the sale of financial assets and fees earned for financial services provided. Interest rates are highly sensitive to many factors that are beyond our control, such as general economic conditions, new legislation affecting the banking industry and the policies of various governmental and regulatory authorities. Although our business may vary with local and national economic conditions, such variations are not generally seasonal in nature.

Table of Contents

Through our network of 49 branches and six loan production offices, we offer commercial banking loan and deposit products to our customers, who typically are small- to medium-sized businesses and individuals in our market areas. We accept deposits and originate a variety of loans, including commercial business loans, commercial real estate loans, trade finance loans and Small Business Administration ("SBA") loans. BBCN Bank offers cash management services to our business customers, which include remote deposit capture, lock box and ACH origination services. BBCN Bank also offers a mobile banking application for smartphones that extends convenient banking services, such as mobile deposits and bill payment, into the hands of customers at all times. To better meet our customers' needs, our mini-market branches generally offer extended hours from 9 a.m. to 6 p.m. Most of our branches operate 24-hour automated teller machines ("ATMs"). We also offer debit card services with a rewards program to all customers. Our banking officers focus on customers to better support their banking needs. In addition, most of our branches offer travelers' checks, safe deposit boxes and other customary bank services. Our website at www.bbcnbank.com offers internet banking services and applications in both English and Korean.

Lending Activities

Commercial Business Loans

We provide commercial loans to businesses for various purposes such as for working capital, purchasing inventory, debt refinancing, business acquisitions and other business related financing needs. Commercial loans are typically classified as (1) short-term loans (or lines of credit) or (2) long-term loans (or term loans to businesses). Short term loans are often used to finance current assets such as inventory and accounts receivable and typically have terms of one year with interest paid monthly on the outstanding balance and the principal balance due at maturity. Long term loans typically have terms of 5 to 7 years with principal and interest paid monthly. The credit worthiness of our borrowers is determined before a loan is originated and is periodically reviewed to ascertain whether credit quality changes have occurred. Commercial business loans are typically collateralized by the borrower's business assets and/or real estate.

Our commercial business loan portfolio includes trade finance loans from BBCN Bank's Corporate Banking Center, which generally serves businesses involved in international trade activities. These loans are typically collateralized by business assets and are used to meet the short-term working capital needs (accounts receivable and inventory financing) of our borrowers. The International Operations Department issues and advises on letters of credit for export and import businesses. The underwriting procedure for this type of credit is the same as for commercial business loans. We offer the following types of letters of credit to customers:

- Commercial: An undertaking by the issuing bank to pay for a commercial transaction.
- Standby: An undertaking by the issuing bank to pay for the non-performance of the applicant customer.
- Revocable: Letter of credit that can be modified or cancelled by the issuing bank at any time with notice to the beneficiary (does not provide the beneficiary with a firm promise of payment).
- Irrevocable: Letter of credit that cannot be altered or cancelled without mutual consent of all parties.
- Sight: Letter of credit requiring payment upon presentation of conforming shipping documents.
- Usance: Letter of credit which allows the buyer to delay payment up to a designated number of days after presentation of shipping documents.
- Import: Letter of credit issued to assist customers in purchasing goods from overseas.
- Export: Letter of credit issued to assist customers selling goods to overseas.
- Transferable: Letter of credit which allows the beneficiary to transfer its drawing (payment) rights, in part or full, to another party.
- Non-transferable: Letter of credit which does not allow the beneficiary to transfer their right, in part or full, to another.

Our trade finance services include the issuance and negotiation of letters of credit, as well as the handling of documentary collections. On the export side, we provide advice and negotiation of commercial letters of credit and we transfer and issue back-to-back letters of credit. We also provide importers with trade finance lines of credit, which allow for the issuance of commercial letters of credit and the financing of documents received under such letters of

credit, as well as documents received under documentary collections. Exporters are assisted through export lines of credit as well as through immediate financing of clean documents presented under export letters of credit.

Table of Contents

Commercial Real Estate Loans

Real estate loans are extended for the purchase and refinance of commercial real estate and are generally secured by first deeds of trust. The maturities on the majority of such loans are generally five to seven years with a 25-year principal amortization schedule and a balloon payment due at maturity. We offer both fixed and floating rate commercial real estate loans. It is our general policy to restrict commercial real estate loan amounts to 75% of the appraised value of the property at the date of origination.

Small Business Administration Loans

The Bank also extends loans partially guaranteed by the SBA. The Bank primarily extends SBA loans known as SBA 7(a) loans and SBA 504 loans. SBA 7(a) loans are typically extended for working capital needs, purchase of inventory, purchase of machinery and equipment, debt refinance, business acquisitions, start-up financing or to purchase or construct owner-occupied commercial property. SBA 7(a) loans are typically term loans with maturities up to 10 years for loans not secured by real estate and up to 25 years for real estate secured loans. SBA loans are fully amortizing with monthly payments of principal and interest. SBA 7(a) loans are typically floating rate loans that are secured by business assets and/or real estate. Depending on the loan amount, each loan is typically guaranteed 75% to 85% by the SBA, with a maximum gross loan amount to any one small business borrower of $5.0 million and a maximum SBA guaranteed amount of $3.75 million.

We are generally able to sell the guaranteed portion of the SBA 7(a) loans in the secondary market at a premium, while earning servicing fee income on the sold portion over the remaining life of the loan. In addition to the interest yield earned on the unguaranteed portion of the SBA 7(a) loans that are not sold, we recognize income from gains on sales and from loan servicing on the SBA 7(a) loans that are sold.

SBA 504 loans are typically extended for the purpose of purchasing owner-occupied commercial real estate or long-term capital equipment. SBA 504 loans are typically extended for up to 20 years or the life of the asset being financed. SBA 504 loans are financed as a participation loan between the Bank and the SBA through a Certified Development Company ("CDC"). Generally, the loans are structured to give the Bank a 50% first deed of trust ("TD"), the CDC a 40% second TD, and the remaining 10% is funded by the borrower. Interest rates for the first TD Bank loans are subject to normal bank commercial rates and terms and the second TD CDC loans are fixed for the life of the loans based on certain indices.

All of our SBA loans are originated through BBCN Bank's SBA Loan Departments. The SBA Loan Departments are staffed by loan officers who provide assistance to qualified businesses. The Bank has been designated as an SBA Preferred Lender, which is the highest designation awarded by the SBA. This designation generally facilitates a more efficient marketing and approval process for SBA loans. We have attained SBA Preferred Lender status nationwide.

Consumer Loans

Our consumer loans consist of auto loans, home equity and signature loans, with a majority of our consumer loan portfolio currently consisting of auto loans. Effective January 1, 2008, we discontinued originating new home equity loans, due to the lack of scalability and profitability of these types of loans.

Investing Activities

The main objectives of our investment strategy are to provide a source of on-balance sheet liquidity while providing a means to manage our interest rate risk, and to generate an adequate level of interest income without taking undue risks. Subject to various restrictions, our investment policy permits investment in various types of securities, certificates of deposit ("CDs") and federal funds sold. Our investment portfolio consists of government sponsored agency bonds, mortgage backed securities, collateralized mortgage obligations ("CMOs"), trust preferred securities, municipal bonds and mutual funds. For a detailed breakdown of our investment portfolio, see Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition – Investment Security Portfolio."

Our securities are classified for accounting purposes as available-for-sale. We do not maintain held-to-maturity or trading portfolios. Securities purchased to meet investment-related objectives, such as liquidity management or interest rate risk and which may be sold as necessary to implement management strategies, are designated as

available-for-sale at the time of purchase.

Deposit Activities

We attract both short-term and long-term deposits from the general public by offering a wide range of deposit products and services. Through our branch network, we provide our banking customers with personal and business checking accounts, money market accounts, savings accounts, CDs, individual retirement accounts, 24-hour ATMs, internet banking and bill-pay, remote deposit capture, lock boxes and ACH origination services. In addition to our retail deposits, we obtain both secured and

Table of Contents

unsecured wholesale deposits including public deposits such as State of California Treasurer's time deposits, brokered money market and time deposits, and deposits gathered from outside of the Bank's normal market area through deposit listing services.

FDIC-insured deposits are our primary source of funds. As part of our asset-liability management, we analyze our retail and wholesale deposit maturities and interest rates to monitor and manage our cost of funds, to the extent feasible in the context of changing market conditions, as well as to promote stability in our supply of funds. For more deposit information, see Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition – Deposits.”

Borrowing Activities

When we have more funds than required for our reserve requirements or short-term liquidity needs, we sell federal funds to other financial institutions. Conversely, when we have less funds than required, we may borrow funds from the Federal Home Loan Bank of San Francisco (the “FHLB”), the Federal Reserve Bank of San Francisco or our correspondent banks. In addition, we may borrow from the FHLB on a longer term basis to provide funding for certain loan or investment securities strategies, as well as asset-liability management strategies.

The FHLB functions in a reserve credit capacity for qualifying financial institutions. As a member, we are required to own capital stock in the FHLB and may apply for advances from the FHLB utilizing qualifying mortgage loans and certain securities as collateral. The FHLB offers a full range of borrowing programs on its advances, with terms ranging from one day to thirty years, at competitive market rates. A prepayment penalty is usually imposed for early repayment of these advances. Information concerning FHLB advances is included in Note 7 of “Notes to Consolidated Financial Statements.”

We may also borrow from the Federal Reserve Bank of San Francisco. The maximum amount that we may borrow from the Federal Reserve Bank’s discount window is up to 95% of the outstanding principal balance of the qualifying loans and the fair value of the securities that we pledge.

Market Area and Competition

We have 49 banking offices in areas having high concentrations of Korean Americans, of which 28 are located in the Los Angeles, Orange County, Oakland and Silicon Valley (Santa Clara County) areas of California, 7 are located in the New York City metropolitan area and New Jersey, 4 are in the Seattle metropolitan area, 9 are in the Chicago metropolitan area and 1 is in Arlington, Virginia. We also have six loan production offices located in Dallas, Seattle, Atlanta, Northern California, Denver, and Annandale. The banking and financial services industry generally, and in our market areas specifically, is highly competitive. The increasingly competitive environment is a result primarily of strong competition among the banks servicing the Korean-American community, changes in regulation, changes in technology and product delivery systems and consolidation among financial services companies. In addition, federal legislation may have the effect of further increasing the pace of consolidation within the financial services industry. See “Supervision and Regulation.”

We compete for loans, deposits and customers with other commercial banks, savings and loan associations, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market funds, credit unions and other non-bank financial service providers. Many of these competitors are much larger in total assets and capitalization, have greater access to capital markets, are more widely recognized, have broader geographic scope and offer a broader range of financial services than we do.

Economic Conditions, Government Policies and Legislation

Our profitability, like that of most financial institutions, depends, among other things, on interest rate differentials. In general, the difference between the interest expense on interest bearing liabilities, such as deposits and borrowings, and the interest income on our interest earning assets, such as loans we extend to our customers and securities held in our investment portfolio, as well as the level of noninterest bearing deposits, have a significant impact on our profitability. Interest rates are highly sensitive to many factors that are beyond our control, such as the economy,

inflation, unemployment, consumer spending and political events. The impact that future changes in domestic and foreign economic and political conditions might have on our performance cannot be predicted.

Our business is also influenced by the monetary and fiscal policies of the federal government and the policies of regulatory agencies, particularly the Federal Reserve Board (the "FRB"). The FRB implements national monetary policies (with objectives such as curbing inflation or preventing recession) through its open-market operations in U.S. government securities, by adjusting the required level of reserves for depository institutions subject to its reserve requirements and by varying the targeted federal funds and discount rates applicable to borrowings by depository institutions. The actions of the FRB in these areas influence the growth of bank loans, investments, and deposits and also affect interest rates earned on interest earning assets and paid on interest bearing liabilities. The nature and impact on BBCN Bancorp and the Bank of future changes in monetary and fiscal policies cannot be predicted.

From time to time, legislation and regulations are enacted or adopted which have the effect of increasing the cost of doing business, limiting or expanding permissible activities, or affecting the competitive balance between banks and other financial services providers. Proposals to change the laws and regulations governing the operations and taxation of banks, bank holding companies, financial holding companies and other financial institutions and financial services providers are frequently made in the U.S. Congress, in state legislatures, and by various regulatory agencies. These proposals may result in changes in banking statutes and regulations and our operating environment in substantial and unpredictable ways. If enacted, such legislation could increase the cost of doing business, limit permissible activities or affect the competitive balance among banks, savings associations, credit unions and other financial institutions. We cannot predict whether any of this potential legislation will be enacted, and if enacted, the effect that it, or any implementing regulations, would have on our financial condition or results of operations. See “Supervision and Regulation.”

Supervision and Regulation

General

As a California state-chartered bank whose accounts are insured by the FDIC, BBCN Bank is subject to regulation, supervision and regular examination by the California Department of Business Oversight (the “DBO”) and the FDIC. Such supervision and regulation covers substantially all of its business activities, including, among others, capital standards, general investment authority, deposit taking and borrowing authority, mergers, establishment of branch offices and permitted subsidiary investments and activities. In addition, while BBCN Bank is not a member of the FRB, the Bank is subject to certain regulations of the FRB. BBCN Bancorp is registered with and subject to examination by the FRB as a bank holding company and a financial holding company and is also subject to certain provisions of the California Financial Code as applicable to bank holding companies. These regulatory systems are intended primarily for the protection of depositors, the FDIC deposit insurance fund (the "DIF") and the banking system as a whole, rather than for the protection of shareholders or other investors.

The following paragraphs summarize certain of the laws and regulations that apply to us and to the Bank. These descriptions of statutes and regulations and their possible effects do not purport to be complete descriptions of all of the provisions of those statutes and regulations and their possible effects on us, nor do they purport to identify every statute and regulation that may apply to us.

Recent Developments

In response to the economic downturn and financial industry instability, legislative and regulatory initiatives have been, and will likely continue to be, introduced and implemented, which could substantially intensify the regulation of the financial services industry. We cannot predict whether or when potential legislation or new regulations will be enacted, and if enacted, the effect that new legislation or any implemented regulations and supervisory policies would have on our financial condition and results of operations. Moreover, especially in the current economic environment, bank regulatory agencies have been very aggressive in responding to concerns and trends identified in examinations, and this has resulted in the increased issuance of enforcement actions to financial institutions requiring action to address credit quality, liquidity and risk management and capital adequacy, as well as other safety and soundness concerns.

Bank Holding Company Regulation

BBCN Bancorp is registered as a bank holding company pursuant to the Bank Holding Company Act (the “BHCA”) and in that capacity is subject to supervision and examination by the FRB and its authority to:

- Require periodic reports and such additional information as the FRB may require;
- Require bank holding companies to maintain regulatory specified levels of capital, which may be increased for individual holding companies if deemed appropriate by the FRB (see “Capital Requirements”);
- Require that bank holding companies serve as a source of financial and managerial strength to subsidiary banks and commit resources as necessary to support each subsidiary bank;
- Restrict the ability of bank holding companies to obtain dividends or other distributions from their subsidiary banks;

- Terminate an activity or terminate control of or liquidate or divest subsidiaries, affiliates or investments if the FRB determines the activity or the control of the subsidiary or affiliate constitutes a significant risk to the financial safety, soundness or stability of any bank subsidiary;
- Require prior approval of senior executive officer or director changes;
- Regulate provisions of certain bank holding company debt and require prior approval to purchase or redeem securities in certain situations; and

Table of Contents

- Approve or disapprove acquisitions and mergers with banks and consider competitive, management, financial and other factors in granting these approvals, in addition to similar federal, California or other state banking agency approvals which may also be required.

The FRB's view is that, in serving as a source of strength to its subsidiary banks, a bank holding company should stand ready to use available resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity and should maintain financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks. A bank holding company's failure to meet its source-of-strength obligations may constitute an unsafe and unsound practice or a violation of the FRB's regulations, or both. The source-of-strength doctrine most directly affects bank holding companies where a bank holding company's subsidiary bank fails to maintain adequate capital levels. In such a situation, the subsidiary bank will be required by the bank's federal regulator to take "prompt corrective action." See "Prompt Corrective Action" below.

Subject to prior notice or FRB approval, bank holding companies may generally engage in, or acquire shares of companies engaged in, activities determined by the FRB to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Bank holding companies which elect and retain "financial holding company" status pursuant to the Gramm-Leach-Bliley Act of 1999 (the "GLBA") may engage without prior FRB approval in these nonbanking activities and broader securities, insurance, merchant banking and other activities that are determined by the FRB, in consultation with the Treasury, to be "financial in nature" or are incidental or complementary to activities that are financial in nature. In order to elect and retain financial holding company status, all depository institution subsidiaries of a bank holding company must be well capitalized, well managed and, except in limited circumstances, be in satisfactory compliance with the Community Reinvestment Act ("CRA"), which requires banks to help meet the credit needs of the communities in which they operate. Failure to maintain compliance with these requirements or correct any non-compliance within a fixed time period could lead to required divestiture of subsidiary banks or a requirement to conform all of the holding company's activities to those permissible for a bank holding company.

Securities Exchange Act of 1934

BBCN Bancorp's common stock is publicly held and listed on the NASDAQ Global Select Market ("NASDAQ") and BBCN Bancorp is subject to the periodic reporting, information, proxy solicitation, insider trading, corporate governance and other requirements and restrictions of the Securities Exchange Act of 1934 and the regulations of the SEC promulgated hereunder and the NASDAQ listing requirements.

Sarbanes-Oxley Act

BBCN Bancorp is subject to the accounting oversight and corporate governance requirements of the Sarbanes-Oxley Act of 2002, which, among other things, requires executive certification of financial presentations, increased requirements for board audit committees and their members and enhanced disclosure of controls and procedures and internal control over financial reporting.

Dodd-Frank Act

As required by the Dodd-Frank Act, the FDIC adopted a new DIF restoration plan which became effective on January 1, 2011. Among other things, the plan: (1) raises the minimum designated reserve ratio, which the FDIC is required to set each year, to 1.35 percent (from the former minimum of 1.15 percent) and removes the upper limit on the designated reserve ratio (which was formerly capped at 1.5 percent) and consequently on the size of the fund; (2) requires that the fund reserve ratio reach 1.35 percent by September 30, 2020 (rather than 1.15 percent by the end of 2016, as formerly required); (3) requires that, in setting assessments, the FDIC offset the effect of requiring that the reserve ratio reach 1.35 percent by September 30, 2020, rather than 1.15 percent by the end of 2016 on insured depository institutions with total consolidated assets of less than $10 billion; (4) eliminates the requirement that the FDIC provide dividends from the fund when the reserve ratio is between 1.35 percent and 1.5 percent; and (5) continues the FDIC's authority to declare dividends when the reserve ratio at the end of a calendar year is at least 1.5 percent, but grants the FDIC sole discretion in determining whether to suspend or limit the declaration or payment of dividends. The Federal Deposit Insurance Act continues to require that the FDIC's Board of Directors consider the appropriate level for the designated reserve ratio annually and, if changing the designated reserve ratio, engage in notice-and-comment rule making before the beginning of the calendar year. The FDIC has set a long-term goal of

getting its reserve ratio up to 2% of insured deposits by 2027.

On February 7, 2011, the FDIC approved a final rule, as mandated by the Dodd-Frank Act, changing the deposit insurance assessment system from one that is based on total domestic deposits to one that is based on average consolidated total assets minus average tangible equity. In addition, the final rule creates a scorecard-based assessment system for larger banks (those with more than $10 billion in assets) and suspends dividend payments if the DIF reserve ratio exceeds 1.5 percent, but provides for decreasing assessment rates when the DIF reserve ratio reaches certain thresholds. Larger insured depository institutions will likely pay higher assessments to the DIF than under the old system. Additionally, the final rule includes a new adjustment

for depository institution debt whereby an institution would pay an additional premium equal to 50 basis points on every dollar of long-term, unsecured debt held as an asset that was issued by another insured depository institution (excluding debt guaranteed under the FDIC's Temporary Liquidity Guarantee Program) to the extent that all such debt exceeds 3 percent of the other insured depository institution's Tier 1 capital.

As required by the Dodd-Frank Act, federal regulators have adopted regulations to (i) increase capital requirements on banks and bank holding companies pursuant to Basel III, and (ii) implement the so-called "Volcker Rule" of the Dodd-Frank Act, which significantly restricts certain activities by covered bank holding companies, including restrictions on proprietary trading and private equity investing.

Many aspects of the Dodd-Frank Act, which address a wide variety of banking activities other than deposit insurance, are subject to rule making and will take effect over several years, making it difficult to anticipate the overall financial impact on us, our customers or the financial industry more generally. Provisions in the legislation that affect deposit insurance assessments, payment of interest on demand deposits, and interchange fees could increase the costs associated with deposits as well as place limitations on certain revenues that those deposits may generate.

Volcker Rule

The final rules adopted on December 10, 2013 to implement a part of the Dodd-Frank Act commonly referred to as the "Volcker Rule," prohibit insured depository institutions and companies affiliated with insured depository institutions ("banking entities") from engaging in short-term proprietary trading of certain securities, derivatives, commodity futures and options on these instruments, for their own account. The final rules also impose limits on banking entities' investments in, and other relationships with, hedge funds or private equity funds. These rules will become effective on April 1, 2014. Certain collateralized debt obligations ("CDOs"), securities backed by trust preferred securities which were initially defined as covered funds subject to the investment prohibitions, have been exempted to address the concern that many community banks holding such CDOs securities may have been required to recognize significant losses on those securities.

Like the Dodd-Frank Act, the final rules provide exemptions for certain activities, including market making, underwriting, hedging, trading in government obligations, insurance company activities, and organizing and offering hedge funds or private equity funds. The final rules also clarify that certain activities are not prohibited, including acting as agent, broker, or custodian.

The compliance requirements under the final rules vary based on the size of the banking entity and the scope of activities conducted. Banking entities with significant trading operations will be required to establish a detailed compliance program and their CEOs will be required to attest that the program is reasonably designed to achieve compliance with the final rule. Independent testing and analysis of an institution's compliance program will also be required. The final rules reduce the burden on smaller, less-complex institutions by limiting their compliance and reporting requirements. Additionally, a banking entity that does not engage in covered trading activities will not need to establish a compliance program. The Company and the Bank held no investment positions at December 31, 2013 that were subject to the final rule. Therefore, while these new rules may require us to conduct certain internal analysis and reporting, we believe that they will not require any material changes in our operations or business.

Bank Regulation

BBCN Bank is subject to regulation, supervision and regular examination by the DBO and the FDIC. In addition, while the Bank is not a member of the Federal Reserve System, the Bank is subject to certain regulations of the FRB. Federal and state laws and regulations which are specifically applicable to banks regulate, among other things, the scope of their business, their investments, their reserves against deposits, the timing of the availability of deposited funds, their activities relating to dividends, investments, loans, the nature and amount of and collateral for certain loans, borrowings, capital requirements, certain check-clearing activities, branching and mergers and acquisitions. California banks are also subject to FRB Regulation O, and Federal Reserve Act Sections 23A and 23B and FRB Regulation W, which restrict or limit loans or extensions of credit to "insiders", including officers, directors and principal shareholders, and loans or extension of credit by banks to affiliates or purchases of assets from affiliates, including parent bank holding companies, except pursuant to certain limits and exceptions and only on terms and conditions at least as favorable as those prevailing for comparable transactions with unaffiliated parties.

The federal and California regulatory structure gives the bank regulatory agencies extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate allowances for loan losses for regulatory purposes. The regulatory agencies have adopted guidelines to assist in identifying and addressing potential safety and soundness concerns. The guidelines establish operational and managerial standards generally relating to: (1) internal controls, information systems, and internal audit systems; (2) loan documentation; (3) credit underwriting; (4) interest-rate risk exposure; (5) asset growth and asset quality; and (6) compensation, fees, and benefits. Further, the regulatory agencies have adopted safety and soundness guidelines for asset

quality and for evaluating and monitoring earnings to ensure that earnings are sufficient for the maintenance of adequate capital and reserves. If, as a result of an examination, the DBO or the FDIC should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of the bank's operations are unsatisfactory or that the bank or its management is violating or has violated any law or regulation, the DBO and the FDIC have authority to:

- Require affirmative action to correct any conditions resulting from any violation or practice;
- Direct an increase in capital and the maintenance of higher specific minimum capital ratios, which would preclude the bank from being deemed well capitalized and restrict its ability to accept certain brokered deposits;
- Restrict the bank's growth geographically, by products and services, or by mergers and acquisitions;
- Enter into or issue informal or formal enforcement actions, including memorandas of understanding, written agreements and consent or cease and desist orders or prompt corrective action orders to take corrective action and cease unsafe and unsound practices;
- Require prior approval of senior executive officer or director changes;
- Remove officers and directors and assess civil monetary penalties; and
- Take possession of, close and liquidate the bank or appoint the FDIC as conservator or receiver under certain circumstances.

Under the California Financial Code and the Federal Deposit Insurance Act (the "FDI Act"), California state-chartered commercial banks may generally engage in any activity permissible for national banks. Additionally, BBCN Bank may form subsidiaries to engage in the many so-called "closely related to banking" or "nonbanking" activities commonly conducted by national banks in operating subsidiaries. Further, California state-chartered commercial banks may conduct certain "financial" activities in a subsidiary to the same extent that national banks may conduct such activities, provided the bank is and remains well capitalized, well managed and in satisfactory compliance with the CRA. BBCN Bank currently does not conduct activities in subsidiaries.

Capital Requirements

The federal banking agencies have adopted risk-based capital guidelines for bank holding companies and banks that are expected to provide a measure of capital that reflects the degree of risk associated with a banking organization's operations for both transactions reported on the balance sheet as assets, such as loans, and those recorded as off-balance sheet items, such as commitments, letters of credit and recourse arrangements. Under these capital guidelines, a banking organization is required to maintain its capital above certain minimum capital ratios, which are computed by dividing its qualifying capital by its total risk-adjusted assets and off-balance sheet items. In general, the dollar amounts of assets and certain off-balance sheet items are "risk-adjusted" and assigned to various risk categories. Qualifying capital is classified depending on the type of capital as follows:

- "Tier 1 capital" consists of common equity, retained earnings, qualifying non-cumulative perpetual preferred stock, a limited amount of qualifying cumulative perpetual preferred stock and minority interests in the equity accounts of consolidated subsidiaries (including trust-preferred securities), less goodwill and certain other intangible assets. In determining bank holding company compliance with holding company level capital requirements, qualifying Tier 1 capital may consist of trust-preferred securities, subject to certain criteria and quantitative limits for inclusion of restricted core capital elements in Tier 1 capital. Accordingly, the capital received from trust preferred offerings qualifies as Tier 1 capital, but is subject to the new provisions of the Dodd-Frank Act. Under the Dodd-Frank Act, depository institution holding companies 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 1 regulatory capital after the end of a 3-year phase-out period beginning 2013, and would need to replace any outstanding trust preferred securities issued prior to May 19, 2010 with qualifying Tier 1 regulatory capital during the phase-out period. For institutions with less than $15 billion in total consolidated assets, existing trust preferred capital will still qualify as Tier 1 to be phased out over a ten year period. Small bank holding companies with less than $500 million in assets could issue new trust preferred which could still qualify as Tier 1; however, the market for any new trust preferred capital raises is uncertain.
- "Tier 2 capital" includes, among other things, hybrid capital instruments, perpetual debt, mandatory convertible debt securities, qualifying term subordinated debt, preferred stock that does not qualify as Tier 1 capital, and a limited

amount of allowance for loan and lease losses. Following the phase-out period under the Dodd-Frank Act, trust preferred securities will be treated as Tier 2 capital for institutions with more than $15 billion in total consolidated assets.

- "Tier 3 capital" consists of qualifying unsecured subordinated debt.

Table of Contents

Under the capital guidelines, there currently are three fundamental capital ratios: a total risk-based capital ratio, a Tier 1 risk-based capital ratio and a Tier 1 leverage ratio. To generally be deemed “well capitalized” a bank must have a total risk-based capital ratio, a Tier 1 risk-based capital ratio and a Tier 1 leverage ratio of at least 10%, 6% and 5%, respectively. At December 31, 2013, the respective capital ratios of BBCN Bancorp and BBCN Bank exceeded the minimum percentage requirements to generally be deemed “well-capitalized.” Further information is provided in the schedule in Note 14 of Notes to Consolidated Financial Statements.
Pursuant to federal regulations, banks must maintain capital levels commensurate with the level of risk to which they are exposed, including the volume and severity of problem loans. The federal banking agencies may change existing capital guidelines or adopt new capital guidelines in the future and have required many banks and bank holding companies subject to enforcement actions to maintain capital ratios in excess of the minimum ratios otherwise required to be deemed well capitalized, in which case institutions may no longer be deemed well capitalized and may therefore be subject to restrictions on taking brokered deposits.
BBCN Bancorp and BBCN Bank are required by the U.S. bank regulatory agencies to also maintain a leverage capital ratio designed to supplement the risk-based capital guidelines. Banks and bank holding companies that have received the highest rating of the five categories used by regulators to rate banks and that are not anticipating or experiencing any significant growth must maintain a ratio of Tier 1 capital (net of all intangibles) to average total assets of at least 3%. All other institutions are required to maintain a leverage ratio of at least 100 to 200 basis points above the 3% minimum, for a minimum of 4% to 5%. As of December 31, 2013, BBCN Bancorp and BBCN Bank's leverage capital ratios were 11.97% and 11.79%, respectively, exceeding regulatory minimums.
The current risk-based capital guidelines are based upon the 1988 capital accord of the Basel Committee on Banking Supervision, a committee of central banks and bank supervisors and regulators from the major industrialized countries that develops broad policy guidelines for use by each country’s supervisors in determining the supervisory policies they apply. In December 2010, the Basel Committee published an agreement among its member country bank regulatory authorities to establish a new set of capital and other standards for major banking institutions, commonly referred to as Basel III. Under these standards, when fully phased in on January 1, 2019, banking institutions will be required to maintain a heightened Common Equity Tier 1 capital ratio, Tier 1 capital ratio, and Total capital ratio, and a "leverage ratio" of Tier 1 capital (with certain deductions to average consolidated assets of 4%. Common Equity Tier 1 capital ratio and Tier 1 capital ratio requirements will be phased in incrementally between January 1, 2013 and January 1, 2015; the deductions from common equity made in calculating Common Equity Tier 1 capital ratio (exclude trust preferred securities, mortgage servicing rights and certain deferred tax assets and include unrealized gains and losses on available for sale debt and equity securities (with a one-time opt out option for Standardized Banks (banks with less than $250 billion of total consolidated assets and less than $10 billion of foreign exposures))) will be phased in incrementally over a four-year period commencing on January 1, 2014; and the capital conservation buffer will be phased in incrementally between January 1, 2016 and January 1, 2019 to a maximum of 2.5% of risk weighted assets. In July 2013, the U.S. banking agencies approved the U.S. version of Basel III. The federal bank regulatory agencies adopted version of Basel III revises the risk-based and leverage capital requirements and the method for calculating risk-weighted assets to make them consistent with Basel III and to meet the requirements of the Dodd-Frank Act. The current bank capital standards are revised to a requirement consisting of four fully phased-in minimum capital ratios, including (1) a ratio of Common Equity Tier 1 capital to risk-weighted assets of 4.5%, (2) a Tier 1 capital to risk-weighted assets of 6.0%, (3) a Total capital to risk-weighted assets of 8% and (4) a “leverage ratio” of Tier 1 capital (with certain deductions) to average consolidated assets of 4%. For this purpose, Common equity Tier 1 capital will consist of common stock and related surplus. Total Tier 1 capital will include non-cumulative perpetual preferred stock. The rule also changes the capital standards set forth in the capital category definitions used in the prompt corrective action regulations discussed below to refer to the new capital ratios and increasing the levels of capital required to generally be considered “well capitalized” under those regulations.
Prompt Corrective Action
The federal banking agencies have issued regulations pursuant to the FDI Act defining five categories in which an insured depository institution will be assigned, based on the level of its capital ratios: well-capitalized,

adequately-capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. A bank that may otherwise meet the minimum requirements to be classified as well-capitalized, adequately capitalized, or undercapitalized may be treated instead as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition, or an unsafe or unsound practice, warrants such treatment. Under the prompt corrective action regulations, the subsidiary bank will be required to submit to its federal regulator a capital restoration plan and to comply with the plan. Each parent company that controls the subsidiary bank will be required to provide assurances of compliance by the bank with the capital restoration plan. However, the aggregate liability of such parent companies will not exceed the lesser of (i) 5% of the bank's total assets at the time it became undercapitalized and (ii) the amount necessary to bring the bank into compliance with the plan. Failure to restore capital under a capital restoration plan can result in the bank's

Table of Contents

being placed into receivership if it becomes critically undercapitalized. A bank subject to prompt corrective action also may affect its parent bank holding company in other ways. These include possible restrictions or prohibitions on dividends to the parent bank holding company by the bank; subordinated debt payments to the parent; and other transactions between the bank and the holding company. In addition, the regulators may impose restrictions on the ability of the holding company itself to pay dividends; require divestiture of holding company affiliates that pose a significant risk to the bank; or require divestiture of the undercapitalized subsidiary bank. At each successive lower-capital category, an insured bank may be subject, at the agencies' discretion, to more restrictions under the agencies' prompt corrective action regulations, including restrictions on the bank's activities.

Deposit Insurance

The FDIC is an independent federal agency that insures deposits of federally insured banks and savings institutions, up to prescribed statutory limits for each depositor, through the DIF and safeguards the safety and soundness of the banking and savings industries. The FDIC insures our customer deposits. The Dodd-Frank Act permanently raised the standard maximum deposit insurance amount to $250,000.

The amount of FDIC assessments paid by each DIF member institution is based on its relative risk of default as measured by regulatory capital ratios and other supervisory factors. Since 2008, there have been higher levels of bank failures which has dramatically increased resolution costs of the FDIC and depleted the DIF. In order to maintain a strong funding position and restore reserve ratios of the DIF, the FDIC has increased assessment rates of insured institutions and may continue to do so in the future. As of December 31, 2013, the Bank's assessment rate averaged 5 cents per $100 in assessable deposits.

We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If there are additional bank or financial institution failures or if the FDIC otherwise determines, we may be required to pay even higher FDIC premiums than the recently increased levels. These announced increases and any future increases in FDIC insurance premiums may have a material and adverse affect on our earnings. Further, all FDIC-insured institutions are required to pay assessments to the FDIC to fund interest payments on bonds issued by the Financing Corporation ("FICO"), an agency of the Federal government established to recapitalize the predecessor to the DIF. The FICO assessment rates, which are determined quarterly, averaged 0.015% of insured deposits in fiscal 2013. These assessments will continue until the FICO bonds mature in 2017.

The FDIC has redefined its deposit insurance premium assessment base to be an institution's average consolidated total assets minus average tangible equity as required by the Dodd-Frank Act and revised deposit insurance assessment rate schedules in light of the changes to the assessment base.

The FDIC may terminate a depository institution's deposit insurance upon a finding that the institution's financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices that pose a risk to the DIF or that may prejudice the interest of the bank's depositors. The termination of deposit insurance for a bank would also result in the revocation of the bank's charter by the DBO.

Restrictions on Dividends and Other Capital Distributions

Under the California Financial Code, the Bank is permitted to pay dividends out of the Bank's net profits up to the lesser of retained earnings or the Bank's net income for the last three fiscal years (less any distributions made to shareholders during such period), or with the prior written approval of the DBO, in an amount not exceeding the greatest of (i) the Bank's retained earnings, (ii) its net income for the Bank's last fiscal year and (iii) the Bank's net income for its current fiscal year.

It is the FRB's policy that bank holding companies generally pay dividends on common stock only out of income available over the past year, and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. It is also the FRB's policy that bank holding companies should not maintain dividend levels that undermine their ability to be a source of strength to their banking subsidiaries. Additionally, in consideration of the current financial and economic environment, the FRB has indicated that bank holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong.

Operations and Consumer Compliance Laws

The Bank must comply with numerous federal anti-money laundering and consumer protection statutes and implementing regulations, including but not limited to the Truth in Savings Act, Electronic Funds Transfer Act, Expedite Funds Availability Act, the USA PATRIOT Act of 2001, the Bank Secrecy Act, the CRA, the Equal Credit Opportunity Act, the Truth in Lending Act, the National Flood Insurance Act and various other federal and state privacy protection laws. Noncompliance with these laws could subject the Bank to lawsuits and could also result in administrative penalties, including, fines and reimbursements. BBCN Bancorp and the Bank are also subject to federal and state laws prohibiting unfair or fraudulent business practices, untrue or misleading advertising and unfair competition.

Table of Contents

These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans, collecting loans, and providing other services. Failure to comply with these laws and regulations can subject the Bank to various penalties, including but not limited to enforcement actions, injunctions, fines or criminal penalties, punitive damages to consumers, and the loss of certain contractual rights.

Employees

As of December 31, 2013, we had 835 full-time equivalent employees. None of our employees are represented by a union or covered by a collective bargaining agreement. Management believes that its relations with its employees are good.

Item 1A. RISK FACTORS

In the course of conducting its business operations, the Company is exposed to a variety of risks, some of which are inherent in the financial services industry and others of which are more specific to its own business. The following discussion addresses the most significant risks that could affect the Company's business, financial condition, liquidity, results of operations, and capital position. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business. If any of these known or unknown risks or uncertainties actually occurs, our business, financial condition and results of operations may be seriously harmed. In that event, the market price for our common stock will likely decline.

Economic conditions in the markets in which we operate may adversely affect our loan portfolio and reduce the demand for our services. We focus our business primarily in Korean-American communities in California, the greater New York City, Chicago and Seattle metropolitan areas, New Jersey and Virginia. Adverse economic conditions in our market areas have had a material adverse impact on the quality of our business. A renewed economic slowdown in the markets in which we operate may have any or all of the following consequences, any of which may reduce our net income and adversely affect our financial condition:

- loan delinquencies may increase;
- problem assets and foreclosures may increase;
- the level and duration of deposits may decline;
- demand for our products and services may decline; and
- collateral for loans may decline in value below the principal amount owed by the borrower.

We have a high level of loans secured by real estate collateral. A further downturn in the real estate market may seriously impair our loan portfolio. As of December 31, 2013, approximately 77% of our loan portfolio consisted of loans secured by various types of real estate. There was a general slowdown in the economy and declines in value in the commercial real estate market in Southern California, along with high levels of unemployment. Renewed deterioration in the real estate market generally and in commercial real estate values in particular, along with high levels of unemployment, may result in additional loan charge-offs and provisions for loan losses, which may have a material and adverse effect on our net income and capital levels.

Our allowance for loan losses may not cover actual loan losses. If our actual loan losses exceed the amount we have allocated for estimated probable incurred losses, our business will be adversely affected. We attempt to limit the risk that borrowers will fail to repay loans by carefully underwriting our loans, but losses nevertheless occur in the ordinary course of business operations. We create allowances for estimated loan losses through provisions that are recorded as reductions in income in our accounting records. We base these allowances on estimates of the following:

- historical experience with our loans;
- evaluation of current economic conditions and other factors;
- reviews of the quality, mix and size of the overall loan portfolio;
- reviews of delinquencies; and
- the quality of the collateral underlying our loans.

If our allowance estimates are inadequate, we may incur losses, our financial condition may be materially and adversely affected and we may be required to raise additional capital to enhance our capital position. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the adequacy of our allowance. These agencies may require us to establish additional allowances based on their judgment of the information available at the time of their examinations. No assurance can be given that we will not sustain loan losses in excess of present or future levels of the allowance for loan losses.

Changes in interest rates affect our profitability. The interest rate risk inherent in our lending, investing, and deposit taking activities is a significant market risk to us and our business. We derive our income mainly from the difference or "spread" between the interest earned on loans, securities and other interest earning assets, and interest paid on deposits, borrowings and other interest bearing liabilities. In general, the wider the spread, the more net interest income we earn. When market rates of interest change, the interest we receive on our assets and the interest we pay on

our liabilities will fluctuate. This can cause decreases in our spread and can greatly affect our income. In addition, interest rate fluctuations can affect how much money we may be able to lend. There can be no assurance that we will be successful in minimizing the adverse effects of changes in interest rates.

Table of Contents

If we lose key employees, our business may suffer. There is intense competition for experienced and highly qualified personnel in the Korean-American banking industry. Our future success depends on the continued employment of existing senior management personnel. If we lose key employees temporarily or permanently, it may hurt our business. We may be particularly hurt if our key employees became employed by our competitors in the Korean-American banking industry.

Environmental laws may force us to pay for environmental problems. The cost of cleaning up or paying damages and penalties associated with environmental problems may increase our operating expenses. When a borrower defaults on a loan secured by real property, we often purchase the property in foreclosure or accept a deed to the property surrendered by the borrower. We may also take over the management of commercial properties whose owners have defaulted on loans. We also lease premises where our branches and other facilities are located, all where environmental problems may exist. Although we have lending, foreclosure and facilities guidelines that are intended to exclude properties with an unreasonable risk of contamination, hazardous substances may exist on some of the properties that we own, lease, manage or occupy. We may face the risk that environmental laws may force us to clean up the properties at our expense. The cost of cleaning up a property may exceed the value of the property. We may also be liable for pollution generated by a borrower’s operations if we take a role in managing those operations after a default. We may find it difficult or impossible to sell contaminated properties.

We are exposed to the risks of natural disasters. A significant portion of our operations is concentrated in Southern California, which is an earthquake-prone region. A major earthquake may result in material loss to us. A significant percentage of our loans are and will be secured by real estate. Many of our borrowers may suffer uninsured property damage, experience interruption of their businesses or lose their jobs after an earthquake. Those borrowers might not be able to repay their loans, and the collateral for such loans may decline significantly in value. Unlike a bank with operations that are more geographically diversified, we are vulnerable to greater losses if an earthquake, fire, flood, mudslide or other natural catastrophe occurs in Southern California.

An increase in nonperforming assets would reduce our income and increase our expenses. If the level of nonperforming assets increases in the future, it may adversely affect our operating results and financial condition. Nonperforming assets are mainly loans on which the borrowers are not making their required payments. Nonperforming assets also include loans that have been restructured to permit the borrower to make payments and real estate that has been acquired through foreclosure or deed in lieu of foreclosure of unpaid loans. To the extent that assets are nonperforming, we have less earning assets generating interest income and an increase in credit related expenses, including provisions for loan losses.

We may experience adverse effects from acquisitions. We have acquired other banking companies and bank offices in the past and consider additional acquisitions as opportunities arise. If we do not adequately address the financial and operational risks associated with acquisitions of other companies, we may incur material unexpected costs and disruption of our business. Future acquisitions may increase the degree of such risks.

Risks involved in acquisitions of other companies include:

- the risk of failure to adequately evaluate the asset quality of the acquired company;
- difficulty in assimilating the operations, technology and personnel of the acquired company;
- diversion of management’s attention from other important business activities;
- difficulty in maintaining good relations with the loan and deposit customers of the acquired company;
- inability to maintain uniform standards, controls, procedures and policies;
- potentially dilutive issuances of equity securities or the incurrence of debt and contingent liabilities; and
- amortization of expenses related to acquired intangible assets that have finite lives.

Liquidity risks may impair our ability to fund operations and jeopardize our financial condition. Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans, and other sources may have a material adverse effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities may be impaired by factors that affect us specifically or the financial services industry in general. Factors that may detrimentally impact our access to liquidity sources include a decrease in the level of our business activity due to a market downturn or adverse regulatory action against us. Our ability to acquire deposits or borrow may also be

impaired by factors that are not specific to us, such as a severe disruption of the financial markets or negative views and expectations about the prospects for the banking industry or the general financial services industry as a whole. Increases in the level of our problem assets, occurrence of operating losses or a failure to comply with requirements of the agencies which regulate us may result in regulatory actions against us which may materially and adversely affect our business and the market price of our common stock. The DBO, the FDIC and the FRB each have authority to take actions to require that we comply with applicable regulatory capital requirements, cease engaging in what they perceive to be unsafe or unsound practices or make other changes in our business. Among others, the corrective measures that such regulatory

Table of Contents

authorities may take include requiring us to enter into informal or formal agreements regarding our operations, the issuance of cease and desist orders to refrain from engaging in unsafe and unsound practices, removal of officers and directors and the assessment of civil monetary penalties. See “Item 1. Business – Supervision and Regulation” for a further description of such regulatory powers.

Changes in accounting standards may affect how we record and report our financial condition and results of operations. Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time, the Financial Accounting Standards Board and SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes and their impacts on us can be hard to predict and may result in unexpected and materially adverse impacts on our reported financial condition and results of operations.

We are subject to operational risks relating to our technology and information systems. The continued efficacy of our technology and information systems, related operational infrastructure and relationships with third party vendors in our ongoing operations is integral to our performance. Failure of any of these resources, including but not limited to operational or systems failures, interruptions of client service operations and ineffectiveness of or interruption in third party data processing or other vendor support, may cause material disruptions in our business, impairment of customer relations and exposure to liability for our customers, as well as action by bank regulatory authorities.

Our business reputation is important and any damage to it may have a material adverse effect on our business. Our reputation is very important for our business, as we rely on our relationships with our current, former and potential clients and stockholders, and in the communities we serve. Any damage to our reputation, whether arising from regulatory, supervisory or enforcement actions, matters affecting our financial reporting or compliance with SEC and exchange listing requirements, negative publicity, our conduct of our business or otherwise may have a material adverse effect on our business.

As we expand outside our California markets, we may encounter additional risks that may adversely affect us. Currently, the majority of our offices are located in California, but we also have offices in the New York City, Chicago and Seattle metropolitan areas, New Jersey and Virgina. Over time, we may seek to establish offices to serve Korean-American communities in other parts of the United States as well. In the course of these expansion activities, we may encounter significant risks, including unfamiliarity with the characteristics and business dynamics of new markets, increased marketing and administrative expenses and operational difficulties arising from our efforts to attract business in new markets, manage operations in noncontiguous geographic markets, comply with local laws and regulations and effectively and consistently manage our non-California personnel and business. If we are unable to manage these risks, our operations may be materially and adversely affected.

Adverse conditions in South Korea may adversely affect our business. A substantial number of our customers have economic and cultural ties to South Korea and, as a result, we are likely to feel the effects of adverse economic and political conditions there. If economic conditions in South Korea deteriorate, we may, among other things, be exposed to economic and transfer risk, and may experience an outflow of deposits by our customers with connections to South Korea. Transfer risk may result when an entity is unable to obtain the foreign exchange needed to meet its obligations or to provide liquidity. This may materially and adversely impact the recoverability of investments in or loans made to such entities. Adverse economic conditions in South Korea may also negatively impact asset values and the profitability and liquidity of our customers who operate in this region.

Our use of appraisals in deciding whether to make loans secured by real property does not ensure that the value of the real property collateral will be sufficient to repay our loans. In considering whether to make a loan secured by real property, we require an appraisal of the property. However, an appraisal is only an estimate of the value of the property at the time the appraisal is made and requires the exercise of a considerable degree of judgment. If the appraisal does not accurately reflect the amount that may be obtained upon sale or foreclosure of the property, whether due to a decline in property value after the date of the original appraisal or defective preparation of the appraisal, we may not realize an amount equal to the indebtedness secured by the property and as a result, we may suffer losses.

Changes in governmental regulation may impair our operations or restrict our growth. Federal and state bank regulatory agencies regulate many aspects of our operations. These areas include:

- the capital that we must maintain;
- the dividends that we may pay;
- the kinds of activities that we may engage in;
- the compensation that we may pay;
- the kinds and amounts of investments that we can make;
- the locations of our offices;

Table of Contents

- how much interest we can pay on demand deposits;
- insurance of deposits and the premiums that we must pay for this insurance; and
- how much cash we must set aside as reserves for deposits.

The governmental supervision and regulations to which we are subject, which are intended primarily for the protection of depositors rather than our stockholders, may be changed at any time, and the interpretation of these statutes and regulations by examining authorities may also change. Within the last several years, Congress and the federal bank regulatory authorities have made significant changes to these statutes and regulations. There can be no assurance that such changes to the statutes and regulations or in their interpretation will not adversely affect our business. BBCN Bank is subject to regulation and examination by the DBO and the FDIC and BBCN Bancorp is subject to the rules and regulations of the FRB. In addition to governmental supervision and regulation, BBCN Bank and BBCN Bancorp are subject to changes in other federal and state laws, including changes in tax laws, which may materially affect the banking industry. If we fail to comply with federal and state bank regulations, the regulators may limit our activities or growth, fine us or force the bank into receivership.

Implementation of the various provisions of the Dodd-Frank Act may increase our operating costs or otherwise have a material effect on our business, financial condition or results of operations. The Dodd-Frank Act includes, among other things: (i) the creation of a Financial Services Oversight Council to identify emerging systemic risks and improve interagency cooperation; (ii) the creation of a Consumer Financial Protection Bureau authorized to promulgate and enforce consumer protection regulations relating to financial products that would affect banks and non-bank finance companies; (iii) the establishment of new capital and prudential standards for banks and bank holding companies, including the elimination, with exceptions for banking organizations having assets of less than $10 billion, of the ability to treat trust preferred securities as Tier 1 capital; (iv) enhanced regulation of financial markets, including the derivatives, securitization and mortgage origination markets; (v) the elimination of proprietary trading and private equity investment activities by banks; (vi) the elimination of barriers to de novo interstate branching by banks; (vii) permanent establishment of the previously implemented temporary increase of FDIC deposit insurance to $250,000 per insured account; (viii) the authorization of interest bearing transaction accounts and (ix) changes in the calculation of FDIC deposit insurance assessments and an increase in the minimum designated reserve ratio for the DIF.

Certain provisions of the legislation are not immediately effective or are subject to required studies and implementing regulations. Further, community banks with less than $10 billion in assets (less than $15 billion with respect to trust preferred securities) are exempt from certain provisions of the legislation. We cannot predict how this significant new legislation may be interpreted and enforced nor how implementing regulations and supervisory policies may affect us. There can be no assurance that these or future reforms will not significantly increase our compliance or operating costs or otherwise have a significant impact on our business, financial condition and results of operations.

Our stock price may be volatile, which may result in substantial losses for our stockholders. The market price of our common stock may be subject to fluctuations in response to a number of factors, including:

- issuing new equity securities;
- the amount of our common stock outstanding and the trading volume of our stock;
- actual or anticipated changes in our future financial performance;
- changes in financial performance estimates of us or by securities analysts;
- competitive developments, including announcements by us or our competitors of new products or services or acquisitions, strategic partnerships, joint ventures or capital commitments;
- the operating and stock performance of our competitors;
- changes in interest rates;
- changes in key personnel;
- changes in economic conditions that affect the Bank’s performance; and
- changes in legislation or regulations that affect the Bank.

We may raise additional capital, which could have a dilutive effect on the existing holders of our common stock and adversely affect the market price of our common stock. We periodically evaluate opportunities to access capital markets, taking into account our financial condition, regulatory capital ratios, business strategies, anticipated asset growth and other relevant considerations. It is possible that future acquisitions, organic growth or changes in regulatory capital requirements could require us to increase the amount or change the composition of our current capital, including our common equity. For all

of these reasons and others, and always subject to market conditions, we may issue additional shares of common stock or other capital securities in public or private transactions.
The issuance of additional common stock or securities convertible into or exchangeable for our common stock or that represent the right to receive common stock, or the exercise of such securities, could be substantially dilutive to holders of our common stock. Holders of our common stock have no preemptive or other rights that would entitle them to purchase their pro rata share of any offering of shares of any class or series and, therefore, such sales or offerings could result in dilution of the ownership interests of our stockholders.
We had suspended declaration and payment of dividends on our common stock. Our ability to declare and pay dividends in the future, as well as the ability of the Bank to make dividend payments to us, will be subject to regulatory, statutory and other restrictions. In March, 2009, we announced the suspension of our prior policy of paying quarterly dividends in order to preserve capital and to provide us with increased flexibility to invest in our business. Until November 2011, we were also subject to special regulatory limitations on the payment of dividends under resolutions adopted by the boards of directors of Nara Bancorp and Nara Bank after consultation with the California Department of Financial Institutions (the "DFI"), the DBO's predecessor agency, and the FRB. Our board of directors reinstated our quarterly dividend beginning in the fourth quarter of 2012. There can be no assurance, however, that we will continue payment of regular cash dividends. Our ability to pay dividends at that time will be subject to statutory and other limitations applicable to us or to the Bank.
Our results of operations or financial condition could be adversely affected as a result of future impairment of our intangible assets. At December 31, 2013, we had $105.4 million of goodwill. Future acquisitions could result in increases in the amount of our goodwill or other intangible assets. We assess the carrying value of intangible assets, including goodwill, at least annually in order to determine whether such assets are impaired. We make a qualitative assessment of whether it is more likely than not that the fair value of goodwill or other intangible assets is less than its carrying amount.
If we fail to maintain an effective system of internal controls and disclosure controls and procedures, we may not be able to accurately report our financial results or prevent fraud. Effective internal controls and disclosure controls and procedures are necessary for us to provide reliable financial reports and disclosures to stockholders, to prevent fraud and to operate successfully as a public company. If we cannot provide reliable financial reports and disclosures or prevent fraud, our business may be adversely affected and our reputation and operating results would be harmed. Any failure to develop or maintain effective internal controls and disclosure controls and procedures or difficulties encountered in their implementation may also result in regulatory enforcement action against us, adversely affect our operating results or cause us to fail to meet our reporting obligations.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

Our principal executive offices are located at 3731 Wilshire Blvd., Suite 1000, Los Angeles, California 90010. As of December 31, 2013, we operated full-service branches at 46 leased operations and 3 owned facilities operations, and we operated Loan Production Offices at 6 leased operations. Expiration dates of our leases range from April 2014 to November 2027. We believe our present facilities are adequate for our current needs.
As of December 31, 2013, premises and equipment, net of accumulated depreciation and amortization, totaled $30.9 million. Total occupancy expense, including furniture and equipment expense for the year ended December 31, 2013, was $21.3 million. Total lease expense for the year ended December 31, 2013 was $10.5 million.

Item 3. LEGAL PROCEEDINGS

We are involved in routine litigation incidental to our business, none of which is expected to have a material adverse effect on us.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents

Part II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the NASDAQ Global Select Market under the symbol "BBCN."

The following table sets forth, the range of high and low sales prices for, and quarterly dividend paid on our common stock for the calendar quarters indicated.

Quarters ended:	High Sales Price	Low Sales Price	Dividends
December 31, 2013	$16.91	$13.54	$0.075
September 30, 2013	$16.00	$13.05	$0.075
June 30, 2013	$14.32	$12.25	$0.05
March 31, 2013	$13.90	$11.67	$0.05
December 31, 2012	$12.89	$10.62	$0.05
September 30, 2012	$13.21	$10.62	$—
June 30, 2012	$11.55	$9.98	$—
March 31, 2012	$11.59	$9.26	$—

The closing price for our common stock on the NASDAQ Global Select Market on February 24, 2014 was $16.65 per share.

BBCN Bancorp's ability to pay dividends is subject to restrictions set forth in the Delaware General Corporation Law. The Delaware General Corporation Law provides that a Delaware corporation may pay dividends either (i) out of the corporation's surplus (as defined by Delaware law), or (ii) if there is no surplus, out of the corporation's net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. In addition, the payment of dividends by BBCN Bancorp is subject to review and possible limitation by the FRB under its authority as regulator of bank holding companies. In general, the FRB discourages the payment of dividends on common stock in amounts exceeding a holding company's net income available to common stockholders for the four quarters preceding a dividend payment. If we defer interest on the subordinated debentures issued in connection with our trust preferred securities, BBCN Bancorp would also be prohibited from paying any dividends on our common stock or preferred stock until BBCN Bancorp is current on its interest payments.

BBCN Bancorp's ability to pay cash dividends in the future will depend in large part on the ability of the Bank to pay dividends on its capital stock to BBCN Bancorp. The ability of the Bank to declare a cash dividend to BBCN Bancorp is subject to compliance with its minimum capital requirements and, additional limitations under California law and regulations.

The applicable statutory and regulatory limitations on the declaration and payment of dividends are further described in "Item 1. Business – Supervision and Regulation – Restrictions on Dividends and Other Capital Distributions."

Securities Authorized for Issuance Under Equity Compensation Plans

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans excluding

	(a)		securities reflected in Column (a) (c)
Equity compensation plans approved by security holders	420,594	$19.14	2,716,054
Equity compensation plans not approved by security holders	—	—	—
Total	420,594	$19.14	2,716,054

Table of Contents

Stock Performance Graph

The following graph compares the yearly percentage change in the cumulative total shareholder return (stock price appreciation plus reinvested dividends) on the common stock of the Company with (i) the cumulative total return of the NASDAQ Composite Index, (ii) the cumulative total return of the S&P Small Cap 600 Index, (iii) a published index comprised of banks and thrifts selected by SNL Financial LLC , and (iv) the cumulative total return of the S&P 500 Index. The graph assumes an initial investment of $100 and reinvestment of dividends. Points on the graph represent the performance as of the last business day of each of the years indicated. The graph is not necessarily indicative of future price performance.

The following graph does not constitute soliciting material and shall not be deemed filed or incorporated by reference into any filing by BBCN Bancorp under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that we may specifically incorporate this graph by reference.

COMPARATIVE CUMULATIVE TOTAL RETURN
AMONG BBCN BANCORP, NASDAQ MARKET INDEX, S&P SMALLCAP 600 INDEX,
SNL BANK & THRIFT INDEX AND, S&P 500 INDEX

ASSUMES $100 INVESTED ON DECEMBER 31, 2008
ASSUMES DIVIDENDS REINVESTED
FISCAL YEAR ENDING DECEMBER 31, 2013

	Period Ending					
Index	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013
BBCN Bancorp, Inc.	100.00	115.36	100.25	96.13	118.19	172.59
NASDAQ Composite	100.00	145.36	171.74	170.38	200.63	281.22
S&P 600 Index	100.00	125.56	158.61	160.21	186.37	263.36
SNL Bank and Thrift	100.00	98.66	110.14	85.64	115.00	157.46
S&P 500	100.00	126.46	145.51	148.59	172.37	228.19

Table of Contents

Item 6. SELECTED FINANCIAL DATA

The following table presents selected financial and other data of the Company as of and for each of the years in the five-year period ended December 31, 2013. The information below should be read in conjunction with, and is qualified in its entirety by: the more detailed information included elsewhere herein, including our Audited Consolidated Financial Statements and Notes thereto.

Table of Contents

	For The Year Ended December 31,				
	2013	2012	2011	2010	2009
	(Dollars in thousands, except share and per share data)				
Income Statement Data:					
Interest income	$283,073	$267,885	$161,895	$150,436	$158,045
Interest expense	30,018	29,647	32,077	42,052	65,699
Net interest income	253,055	238,238	129,818	108,384	92,346
Provision for loan losses	20,000	19,104	27,939	84,630	61,023
Net interest income after provision for loan losses	233,055	219,134	101,879	23,754	31,323
Noninterest income	42,713	39,390	23,130	24,481	18,468
Noninterest expense	141,614	120,891	82,234	63,374	61,713
Income before income tax provision (benefit)	134,154	137,633	42,775	(15,139)	(11,922)
Income tax provision (benefit)	52,399	54,410	15,660	(7,900)	(6,199)
Net income (loss)	$81,755	$83,223	$27,115	$(7,239)	$(5,723)
Dividends and discount accretion on preferred stock	—	(5,640)	(4,568)	(4,291)	(4,276)
Net income (loss) available to common stockholders	$81,755	$77,583	$22,547	$(11,530)	$(9,999)
Per Common Share Data:					
Earnings (loss)—basic	$1.03	$0.99	$0.53	$(0.30)	$(0.35)
Earnings (loss)—diluted	$1.03	$0.99	$0.53	$(0.30)	$(0.35)
Book value (period end, excluding preferred stock and warrants)	$10.18	$9.62	$8.64	$7.69	$7.99
Cash dividends declared per common share	$0.25	$0.05	$—	$—	$—
Number of common shares outstanding (period end)	79,441,525	78,041,511	77,984,252	37,983,027	37,824,007
Balance Sheet Data—At Period End:					
Assets	$6,473,004	$5,640,661	$5,166,604	$2,963,296	$3,227,957
Securities available for sale and held to maturity	$705,751	$704,403	$740,920	$528,262	$782,690
Loans receivable, net of unearned loan fees and discounts (excludes loans held for sale)	$5,074,176	$4,296,252	$3,738,826	$2,147,745	$2,221,433
Deposits	$5,148,057	$4,384,035	$3,940,892	$2,176,114	$2,434,190
FHLB advances	$421,352	$420,722	$344,402	$350,000	$350,000
Subordinated debentures	$57,410	$41,846	$52,102	$39,268	$39,268
Stockholders' equity	$809,374	$751,104	$795,939	$358,563	$367,975
Average Balance Sheet Data:					
Assets	$6,042,674	$5,228,557	$3,168,124	$3,007,294	$3,038,969
Securities available for sale	$703,812	$694,719	$520,460	$516,460	$619,594

Gross loans, including loans held for sale	$4,692,089	$3,974,626	$2,352,253	$2,173,840	$2,124,615
Deposits	$4,739,261	$3,989,401	$2,360,786	$2,213,940	$2,291,346
Stockholders’ equity	$788,570	$775,718	$414,768	$364,159	$304,770
Selected Performance Ratios:					
Return on average assets[1]	1.35 %	1.59 %	0.86 %	(0.24)%	(0.19)%
Return on average stockholders’ equity[2]	10.37 %	10.73 %	6.54 %	(1.99)%	(1.88)%
Average stockholders’ equity to average assets	13.05 %	14.84 %	13.09 %	12.11 %	10.03 %
Dividend payout ratio (dividends per share/earnings per share)	24.27 %	5.05 %	0.00 %	0.00 %	0.00 %
Net interest spread[3]	4.23 %	4.59 %	3.92 %	3.35 %	2.64 %
Net interest margin[4]	4.46 %	4.88 %	4.29 %	3.75 %	3.15 %
Yield on interest earning assets[5]	4.99 %	5.48 %	5.35 %	5.21 %	5.39 %
Cost of interest bearing liabilities[6]	0.76 %	0.89 %	1.43 %	1.86 %	2.75 %
Efficiency ratio[7]	47.88 %	43.54 %	53.77 %	47.70 %	55.69 %

Table of Contents

	For The Year Ended December 31,									
	2013		2012		2011		2010		2009	
	(Dollars in thousands)									
Regulatory Capital Ratios:										
Bancorp: Leverage	11.97	%	12.76	%	19.81	%	12.61	%	12.36	%
Tier 1 risk-based	13.66	%	14.91	%	18.15	%	16.42	%	16.73	%
Total risk-based	14.90	%	16.16	%	19.41	%	17.69	%	17.99	%
Bank: Leverage	11.79	%	12.38	%	18.13	%	12.27	%	11.77	%
Tier I risk-based	13.46	%	14.47	%	16.62	%	16.00	%	16.02	%
Total risk-based	14.70	%	15.73	%	17.88	%	17.27	%	17.29	%
Asset Quality Data:										
Nonaccrual loans	$39,154		$29,653		$32,291		$43,803		$51,674	
Loans 90 days or more past due and still accruing [8]	5		—		6		—		—	
Restructured loans (accruing)	33,903		29,849		18,776		35,103		64,341	
Total nonperforming loans	73,062		59,502		51,073		78,906		116,015	
Other real estate owned	24,288		2,698		7,624		1,581		2,044	
Total nonperforming assets	$97,350		$62,200		$58,697		$80,487		$118,059	
Asset Quality Ratios:										
Nonaccrual loans to loans receivable	0.77	%	0.69	%	0.86	%	2.04	%	2.33	%
Nonperforming loans to loans receivable	1.44	%	1.38	%	1.37	%	3.67	%	5.22	%
Nonperforming assets to total assets	1.50	%	1.10	%	1.14	%	2.72	%	3.66	%
Nonperforming assets to loans receivable and OREO	1.91	%	1.45	%	1.57	%	3.74	%	5.31	%
Allowance for loan losses to loans receivable	1.33	%	1.56	%	1.66	%	2.90	%	2.68	%
Allowance for loan losses to nonaccrual loans	171.94	%	225.75	%	191.86	%	142.27	%	115.00	%
Allowance for loan losses to nonperforming loans	92.14	%	112.50	%	121.30	%	78.98	%	51.22	%
Allowance for loan losses to nonperforming assets	69.15	%	107.62	%	105.55	%	77.43	%	50.33	%
Net charge-offs to average gross loans	0.42	%	0.36	%	1.20	%	3.76	%	2.12	%

(1) Net income (loss) divided by the average assets

(2) Net income (loss) divided by the average stockholders' equity

(3) Difference between the average yield earned on interest earning assets and the average rate paid on interest bearing liabilities

(4) Net interest income expressed as a percentage of average interest earning assets

(5) Interest income divided by the average interest earning assets

(6) Interest expense divided by the average interest bearing liabilities

(7) Noninterest expense divided by the sum of net interest income plus noninterest income

(8)

Excludes acquired credit impaired loans totaling $43.8 million, $17.7 million, $23.9 million, $0 and $0 as of December 31, 2013, 2012, 2011, 2010 and 2009, respectively.

Table of Contents

Item 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with our Consolidated Financial Statements and accompanying notes presented elsewhere in this Report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those set forth under Item 1A “Risk Factors” and elsewhere in this Report.

Overview

BBCN Bancorp, Inc., formerly named Nara Bancorp, Inc., is a bank holding company headquartered in Los Angeles, California. BBCN Bank, formerly named Nara Bank, opened for business in June 1989 under the name United Citizens National Bank as a national banking association, was renamed Nara Bank, National Association in January 1994 and, in January 2005, became Nara Bank upon converting to a California state-chartered bank in connection with its holding company reorganization transaction. On November 30, 2011, Nara Bancorp, Inc. merged with Center Financial Corporation ("Center Financial" or "Center") in a merger of equals transaction. Concurrently with the merger, Nara Bancorp changed its name to BBCN Bancorp, Inc. At the bank level, Nara Bank merged into Center Bank, and concurrently with the merger, Center Bank changed its name to BBCN Bank.

We offer a full range of commercial banking and consumer deposit products through BBCN Bank. We now have 49 banking offices in California, the New York City, Chicago and Seattle metropolitan areas, New Jersey and Virginia. We have six loan production offices located in the Atlanta, Dallas, Seattle, Northern California and Denver markets, and Virginia. We offer our banking services through our network of banking offices and loan production offices to our customers who typically are small- to medium-sized businesses in our market areas. We accept deposits and originate a variety of loans including commercial business loans, commercial real estate loans, trade finance and SBA loans. We have discontinued origination of consumer loans, but continue to service such loans in our portfolio. Effective December 1, 2011, upon the merger with Center, we resumed originating direct auto loans and started issuing credit cards.

Our results are affected by economic conditions in our markets and in South Korea. A decline in economic and business conditions in our market areas and in South Korea may have a material impact on the quality of our loan portfolio or the demand for our products and services, which in turn may have a material adverse effect on our results of operations.

Our principal business involves earning interest on loans and investment securities that are funded by customer deposits and other borrowings. Our operating income and net income are derived primarily from the difference between interest income received from interest earning assets and interest expense paid on interest bearing liabilities and, to a lesser extent, from fees received in connection with servicing loan and deposit accounts and income from the sale of SBA loans. Our major expenses are the interest we pay on deposits and borrowings, provisions for loan losses and general operating expenses, which primarily consist of salaries and employee benefits and occupancy costs. Interest rates are highly sensitive to many factors that are beyond our control, such as changes in the national economy and in the related monetary policies of the Board of Governors of the Federal Reserve System, inflation, unemployment, consumer spending and political events. We cannot predict the impact that these factors and future changes in domestic and foreign economic and political conditions might have on our performance.

Recent Mergers and Acquisitions

Through the merger with Center Financial, we acquired Center Bank's 21 full-service branch offices, 18 of which were located in California, as well as two loan production offices in Seattle and Denver. Under the terms of the merger agreement, Center Financial shareholders received 0.7805 shares of Company common stock in exchange for each share of common stock of Center Financial, resulting in our issuance of approximately 31.2 million shares of Company common stock, with a merger date fair value of $292 million.

On February 15, 2013, we completed the acquisition of Pacific International Bancorp, Inc. ("PIB"), the holding company of Pacific International Bank, a Washington state-chartered bank. Through the acquisition, we acquired

PIB's four full-service branch offices in the Seattle metropolitan area. Under the terms of the acquisition agreement, PIB stockholders were entitled to receive 0.14121 shares of BBCN common stock for each share of PIB common stock that they owned as of the close of business February 15, 2013.

On August 13, 2013, we completed the acquisition of Foster Bankshares, Inc. ("Foster"), the holding company of Foster Bank. Through the acquisition, we acquired Foster's nine full-service branch offices, eight of which are located in Illinois and one in Virginia. Under the terms of the acquisition agreement, Foster shareholders can elect to receive a cash price of $34.6703 per share or, for shareholders who qualified as accredited investors, 2.62771 shares of Company common stock for each share of Foster common stock. The Company recorded a liability for 4,475 shares of Foster common stock which were unredeemed as of December 31, 2013.

Table of Contents

Each acquisition was accounted for as acquisition in accordance with the acquisition method of accounting as detailed in Accounting Standards Codification ("ASC") 805, Business Combinations. The acquisition method of accounting requires an acquirer to recognize the assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree based on their fair values as of the date of acquisition. This process is heavily reliant on measuring and estimating the fair values of all the assets and liabilities of the acquired entities. To the extent we did not have the requisite expertise to determine the fair values of the assets acquired and liabilities assumed, we engaged third party valuation specialists to assist us in determining such values.

Critical Accounting Policies

Our financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") and general practices within the banking industry. The financial information contained within these statements is, to a significant extent, financial information that is based on approximate measures of the financial effects of transactions and events that have already occurred. All of our significant accounting policies are described in Note 1 of our Consolidated Financial Statements presented elsewhere herein and are essential to understanding Management's Discussion and Analysis of Financial Condition and Results of Operations. GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions.

The following is a summary of the more judgmental and complex accounting estimates and principles affecting the financial condition and results reported in our financial statements. In each area, we have identified the variables we believe to be the most important in the estimation process. We use the best information available to us to make the estimations necessary to value the related assets and liabilities in each of these areas.

Investment Securities

The fair values of investment securities are generally determined by quoted market prices obtained from independent external brokers or external pricing services providers who have experience in valuing these securities. We perform a monthly analysis on the broker quotes received from third parties to assess whether the prices represent a reasonable estimate of the fair value. The procedures include, but are not limited to, initial and on-going review of third party pricing methodologies as well as independent auditors' reports from the third party regarding its controls over valuation of financial instruments, review of pricing trends and monitoring of trading volumes. We also compare the market prices obtained from one source to another reputable independent external brokers or independent external pricing service providers for the reasonableness of the initial market prices obtained on a quarterly basis. We did not adjust any of the prices provided to us by the independent pricing services at December 31, 2013 or 2012.

We evaluate securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the financial condition and near-term prospects of the issuer; the length of time and the extent to which the fair value has been less than cost, and our intention to sell, or whether it is more likely than not that we will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. In analyzing an issuer's financial condition, we consider whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. We do not believe that we had any investment securities available for sale with unrealized losses that would be deemed to be other-than-temporarily impaired as of December 31, 2013. Investment securities are discussed in more detail under "Financial Condition—Investment Securities Portfolios" below.

Allowance for Loan Losses

Accounting for the allowance for loan losses involves significant judgments and assumptions by management, which has a material impact on the carrying value of net loans. The judgments and assumptions used by management are based on historical data and management's analysis of other qualitative factors, including the current economic environment as described under "Financial Condition—Allowance for Loan Losses" below.

Table of Contents

Acquired Loans
Loans that we acquired were recorded at fair value with no carryover of the related allowance for loan losses. We considered all classified and criticized loans as credit impaired loans ("Acquired Credit Impaired Loans" or "ACILs") under the provisions of ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality, resulting from our acquisitions. Pass graded loans from the acquisitions ("Acquired Performing Loans" or "APLs") were not accounted for under ASC 310-30. The APLs were placed in pools with similar risk characteristics and were recorded at fair value as of acquisition dates. We periodically reassess the net realizable value of each loan pool and record interest income resulting from the accretion of the purchase discount in accordance with ASC 310-20.
Acquired Credit Impaired Loans
In accordance with ASC 310-30, ACILs were aggregated into pools based on individually evaluated common risk characteristics and expected cash flows were estimated on a pool basis. Each pool is accounted for as a single asset with a single interest rate, cumulative loss rate and cash flow expectation. A loan will be removed from a pool of loans at its carrying value only if the loan is sold or foreclosed, assets are received in satisfaction of the loan or the loan is written off.
The cash flows expected to be received over the life of the pools were estimated by management with the assistance of a third party valuation specialist. These cash flows were utilized in calculating the carrying values of the pools and underlying loans, book yields, effective interest income and impairment, if any, based on actual and projected events. Default rates, loss severity and prepayment speeds assumptions are periodically reassessed and updated within the accounting model to update the expectation of future cash flows. The excess of the cash expected to be collected over the pool's carrying value is considered to be the accretable yield and is recognized as interest income over the estimated life of the loan pool using the effective interest yield method. The accretable yield will change due to changes in the timing and amounts of expected cash flows. Changes in the accretable yield are disclosed quarterly.
The excess of the contractual balances due over the cash flows expected to be collected is considered to be nonaccretable difference. The nonaccretable difference represents our estimate of the credit losses expected to occur and was considered in determining the fair value of the loans as of their acquisition date. Subsequent to their acquisition date, any increases in expected cash flows over those expected at the acquisition 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 their acquisition date are recognized by recording a provision for loan losses.
ACILs that met the criteria for nonaccrual of interest prior to the acquisition are considered performing upon acquisition, regardless of whether the customer is contractually delinquent, if we can reasonably estimate the timing and amount of the expected cash flows on such loans and if we expect to collect the new carrying value of the loans in full. As such, we no longer consider the loan to be nonaccrual or nonperforming and accrue interest on these loans, including the impact of any accretable discount. We have determined that we can reasonably estimate future cash flows on any such acquired loans that are past due 90 days or more and on which we are accruing interest and we expect to fully collect the carrying value of the loans.
FDIC Loss Share Receivable
In conjunction with the FDIC-assisted acquisition of Innovative Bank by Center Financial in 2010, Center Bank entered into shared-loss agreements with the FDIC for amounts receivable covered by the shared-loss agreements. At the date of merger with Center Financial, consistent with Center Financial's accounting treatment, we elected to account for amounts receivable under the loss sharing agreement with the FDIC as a FDIC loss share receivable in accordance with ASC 805. The FDIC loss share receivable was recorded at fair value, based on the discounted value of expected future cash flows under the loss sharing agreement. The cash flows expected to be received under the loss sharing agreement were estimated by management with the assistance of a third party valuation specialist. The difference between the present value and the undiscounted cash flows we expect to collect from the FDIC will be accreted into other income over the life of the FDIC loss share receivable.
The FDIC loss share receivable 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 the cash flows of

the covered assets over those expected will reduce the FDIC loss share receivable and any decreases in cash flows of the covered assets under those expected will increase the FDIC loss share receivable. Increase and decrease to the FDIC loss share receivable are recorded as adjustments to other income.

Goodwill

We test goodwill for impairment annually. Before applying the two-step goodwill impairment test, in accordance with Accounting Standards Update ("ASU") 2011-08, Intangibles - Goodwill and Other (Topic 350): Testing Goodwill for Impairment, we make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than

Table of Contents

its carrying amount. If we conclude that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, we do not perform the two-step impairment test. Goodwill is also tested for impairment on an interim basis if circumstances change or an event occurs between annual tests that would more likely than not reduce the fair value of the reporting unit below its carrying amount. Significant judgment is applied when goodwill is assessed for impairment. This judgment includes developing cash flow projections, selecting appropriate discount rates, identifying relevant market comparables, incorporating general economic and market conditions and selecting an appropriate control premium. The selection and weighting of the various fair value techniques may result in a higher or lower fair value. Judgment is applied in determining the weighting that is most representative of fair value. Based on our qualitative assessment, we were not required to perform the two-step impairment test as of December 31, 2013.

Income Taxes

The provision for income taxes is based on income reported for financial statement purposes, and differs from the amount of taxes currently payable, since certain income and expense items are reported for financial statement purposes in different periods than those for tax reporting purposes. Taxes are discussed in more detail in Note 9 to our Consolidated Financial Statements presented elsewhere herein. Accrued taxes represent the net estimated amount due or to be received from taxing authorities. In estimating accrued taxes, we assess the relative merits and risks of the appropriate tax treatment of transactions taking into account statutory, judicial, and regulatory guidance in the context of our tax position. We account for income taxes using the asset and liability approach, the objective of which is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the tax basis of our assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion, or all, of the deferred tax asset will not be realized. In assessing the realization of deferred tax assets, management evaluates both positive and negative evidence, including the existence of any cumulative losses in the current year and the prior two years, the amount of taxes paid in available carry-back years, the forecasts of future income and taxable income, applicable tax planning strategies, and assessments of current and future economic and business conditions. This analysis is updated quarterly and adjusted as necessary.

Section 382 of the Internal Revenue Code imposes limitations on a corporation's ability to use any net unrealized built in losses and other tax attributes, such as net operating loss and tax credit carryforwards, when it undergoes a 50% “ownership change” over a designated testing period (not to exceed three years). As a result of the acquisition on February 14, 2013 of PIB and on August 12, 2013 of Foster, both PIB and Foster underwent a greater than 50% ownership change. Except for the limitation on PIB’s net operating loss carryforward, there is expected to be no limitation on the use of either PIB’s or Foster’s tax attributes because neither company has a net unrealized built in loss. PIB is expected to fully utilized the net operating loss carryforward before it expires with the application of the annual limitation. However, future transactions, such as issuances of common stock or sales of shares of our stock by certain holders of our shares, including persons who have held, currently hold or may accumulate in the future 5% or more of our outstanding common stock for their own account, could trigger future Section 382 limitations on the Company's use of tax attributes.

Results of Operations

General

Our most significant source of income is net interest income, which is the difference between our interest income and our interest expense. Generally, interest income is generated from the loans we extend to our customers and investments, and interest expense is generated from interest bearing deposits our customers have with us and borrowings that we may have, such as FHLB advances and subordinated debentures. Our ability to generate profitable levels of net interest income is largely dependent on our ability to manage the levels of interest earning assets and interest bearing liabilities, and the rates received or paid on them, as well as our ability to maintain sound asset quality and appropriate levels of capital and liquidity. As mentioned above, interest income and interest expense may fluctuate based on factors beyond our control, such as economic or political conditions.

We attempt to minimize the effect of interest rate fluctuations on net interest margin by monitoring our interest sensitive assets and our interest sensitive liabilities. Net interest income can be affected by a change in the composition of assets and liabilities, such as replacing higher yielding loans with a like amount of lower yielding investment securities. Changes in the level of nonaccrual loans and changes in volume and interest rates can also affect net interest income. Volume changes are caused by differences in the level of interest earning assets and interest bearing liabilities. Interest rate changes result from differences in yields earned on assets and rates paid on liabilities.
The other significant source of our income is noninterest income, including service charges and fees on deposit accounts, loan servicing fees, fees from trade finance activities and the issuance of letters of credit and net gains on sale of loans that were held for sale and investment securities available for sale. Our noninterest income can be reduced by net losses on sales of other real estate owned and charges for other than temporary impairment on investment securities.

Table of Contents

In addition to interest expense, our income is impacted by provisions for loan losses and noninterest expenses, primarily salaries and benefits and occupancy expense.

Impact of Acquisitions

The comparability of our operating results is affected by acquisitions. We completed the following acquisitions during the three years ended December 31, 2013: Center Bank ($2.25 billion in assets), which was acquired in November 2011; Pacific International Bancorp ($183.6 million in assets), which was acquired in February 2013; Foster Bancshares ($350.0 million in assets), which was acquired in August 2013; These acquisitions have been accounted for using the acquisition method of accounting and, accordingly, their operating results have been included in the consolidated financial statements from their respective acquisition dates.

Net Income Available to Common Stockholders

Our net income available to common stockholders was $81.8 million for 2013 compared to $77.6 million for 2012 and $22.5 million for 2011. Our earnings per common share based on fully diluted shares were $1.03, $0.99 and $0.53 for 2013, 2012 and 2011, respectively. The return on average assets was 1.35%, 1.59% and 0.86% and the return on average stockholders' equity was 10.37%, 10.73% and 6.54% for 2013, 2012 and 2011, respectively.

The increase in net income available to common stockholders for 2013 compared to 2012 was primarily due to increases in net interest income and noninterest income and a decrease in dividends and discount accretion on preferred stock which were partially offset by an increase in noninterest expense. The increase in net income available to common stockholders for 2012 compared to 2011 was primarily due to an increase in net interest income, a decrease in the provision for loan losses and an increase in net interest income which were partially offset by increases in noninterest expense and the income tax provision.

Operations Summary

	Year Ended December 31,						
		Increase (Decrease)			Increase (Decrease)		
(Dollars in thousands)	2013	Amount	%	2012	Amount	%	2011
Interest income	$283,073	$15,188	6 %	$267,885	$105,990	65 %	$161,895
Interest expense	30,018	371	1 %	29,647	(2,430)	(8)%	32,077
Net interest income	253,055	14,817	6 %	238,238	108,420	84 %	129,818
Provision for loan losses	20,000	896	5 %	19,104	(8,835)	(32)%	27,939
Noninterest income	42,713	3,323	8 %	39,390	16,260	70 %	23,130
Noninterest expense	141,614	20,723	17 %	120,891	38,657	47 %	82,234
Income before income tax provision	134,154	(3,479)	(3)%	137,633	94,858	222 %	42,775
Income tax provision	52,399	(2,011)	(4)%	54,410	38,750	247 %	15,660
Net income	81,755	(1,468)	(2)%	83,223	56,108	2	27,115
Dividends and discount accretion on preferred stock	—	5,640	(100)%	(5,640)	(1,072)	—	(4,568)
Net income available to common shareholders	$81,755	$4,172	5 %	$77,583	$55,036	244 %	$22,547

Net Interest Margin and Net Interest Rate Spread

We analyze our earnings performance using, among other measures, the net interest spread and net interest margin. The net interest spread represents the difference between the weighted average yield earned on interest earning assets and average rate paid on interest bearing liabilities. Net interest income, when expressed as a percentage of average total interest earning assets, is referred to as the net interest margin. Our net interest margin is affected by changes in the yields earned on assets and rates paid on liabilities, as well as the ratio of the amounts of interest earning assets to

interest bearing liabilities.

Interest rates charged on our loans are affected principally by the demand for such loans, the supply of money available for lending purposes and other competitive factors. These factors are in turn affected by general economic conditions and other factors including those beyond our control, such as federal economic policies, the general supply of money in the economy, legislative tax policies, governmental budgetary matters and the actions of the FRB. The table below presents the weighted

Table of Contents

average yield on each category of interest earning assets, the average rate paid on each category of interest bearing liabilities, and the resulting net interest spread and net interest margin for each year in the three-year period ended December 31, 2013.

Table of Contents

Average Balance Sheet and Analysis of Net Interest Income

	Year Ended December 31,								
	2013			2012			2011		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
	(Dollars in thousands)								
INTEREST EARNING ASSETS:									
Loans[(1)(2)(3)]	$4,692,089	$266,684	5.68 %	$3,974,626	$250,583	6.30 %	$2,352,253	$145,554	6.19 %
Securities[(3)]	703,812	14,726	2.09 %	694,719	16,480	2.37 %	520,460	15,501	2.98 %
Other investments	276,109	1,663	0.59 %	205,743	744	0.36 %	148,339	812	0.55 %
Federal funds sold	—	—	NA	11,342	78	0.68 %	3,469	28	0.81 %
Total interest earning assets	5,672,010	283,073	4.99 %	4,886,430	267,885	5.48 %	3,024,521	161,895	5.35 %
Noninterest earning assets:									
Cash and due from banks	94,914			74,605			48,632		
Premises and equipment, net	26,140			21,894			11,036		
Accrued interest receivable	12,455			12,029			9,381		
Intangible assets	107,944			93,564			11,207		
Other assets	129,211			140,035			63,347		
Total noninterest earning assets	370,664			342,127			143,603		
Total assets	$6,042,674			$5,228,557			$3,168,124		
INTEREST BEARING LIABILITIES:									
Deposits:									
Demand, interest bearing	$1,289,082	7,818	0.61 %	$1,191,548	7,566	0.63 %	$751,783	6,322	0.84 %
Savings	200,735	2,800	1.39 %	187,301	3,364	1.80 %	130,568	2,945	2.26 %
Time certificates	1,988,848	12,703	0.64 %	1,543,550	10,425	0.68 %	1,002,780	10,978	1.09 %
FHLB advances	421,729	4,899	1.16 %	374,938	6,229	1.66 %	314,216	9,774	3.11 %
Other borrowings	47,678	1,798	3.72 %	44,535	2,064	4.56 %	44,971	2,058	4.58 %
Total interest bearing liabilities	3,948,072	30,018	0.76 %	3,341,872	29,648	0.89 %	2,244,318	32,077	1.43 %
Noninterest bearing liabilities and									

equity								
Demand deposits	1,260,596			1,072,631			475,655		
Other liabilities	45,436			38,336			33,383		
Stockholders' equity	788,570			775,718			414,768		
Total liabilities and stockholders' equity	$6,042,674			$5,228,557			$3,168,124		
NET INTEREST INCOME AND YIELD:									
Net interest income		$253,055			$238,237			$129,818	
Net interest margin		4.46	%		4.88	%		4.29	%
Net interest margin, excluding nonaccrual interest		4.47	%		4.90	%		4.31	%
Net interest margin, excluding nonaccrual interest and loan prepayment fee income		4.44	%		4.88	%		4.29	%
Net interest spread[4]		4.23	%		4.59	%		3.92	%
Net interest spread[5]		4.41	%		4.81	%		4.30	%
Cost of funds[6]		0.58	%		0.67	%		1.18	%

31

Table of Contents

(1) Interest income on loans includes accretion of net deferred loan origination fees and costs, prepayment fees received on loan pay-offs and accretion of discounts on acquired loans. See the table below for detail. The average balance of loans is net of deferred loan origination fees and costs.

Year ended December 31,	Net Loan Origination Fees	Loan Prepayment Fee Income	Interest Reversed for Nonaccrual Loans, Net of Income Recognized	Accretion of Discounts on Acquired Loans
	(In thousands)			
2013	$1,263	$1,485	$(274)	$27,462
2012	2,171	746	(998)	23,253
2011	2,173	487	(368)	2,429

(2) Average balances of loans are net of deferred loan origination fees and costs and include nonaccrual loans and loans held for sale.
(3) Interest income and yields are not presented on a tax-equivalent basis.
(4) Interest on interest earning assets minus interest on interest bearing liabilities
(5) Interest on interest earning assets minus interest on interest bearing liabilities and noninterest bearing deposits
(6) Interest on interest bearing liabilities and noninterest bearing deposits

	Year Ended December 31, 2013 Compared to 2012			2012 Compared to 2011		
	Net Increase (Decrease)	Change due to Rate	Change due to Volume	Net Increase (Decrease)	Change due to Rate	Change due to Volume
	(In thousands)					
INTEREST INCOME:						
Interest and fees on loans	$16,101	$(26,143)	$42,244	$105,029	$2,644	$102,385
Interest on other investments	919	594	325	(68)	(334)	266
Interest on securities	(1,754)	(1,945)	191	979	(3,570)	4,549
Interest on federal funds sold	(78)	0	(78)	50	(5)	55
TOTAL INTEREST INCOME	$15,188	$(27,494)	$42,682	$105,990	$(1,265)	$107,255
INTEREST EXPENSE:						
Interest on demand deposits	$253	$(280)	$533	$1,243	$(1,855)	$3,098
Interest on savings	(564)	(802)	238	419	(689)	1,108
Interest on time certificates of deposit	2,278	(639)	2,917	(553)	(5,082)	4,529
Interest on FHLB advances	(4,431)	(4,255)	(176)	(3,545)	(5,208)	1,663
Interest on other borrowings	2,835	1,838	997	6	21	(15)
	$371	$(4,138)	$4,509	$(2,430)	$(12,813)	$10,383

TOTAL INTEREST EXPENSE						
NET INTEREST INCOME	$14,817	$(23,356)	$38,173	$108,420	$11,548	$96,872

Net Interest Income and Net Interest Margin

Net interest income was $253.1 million for 2013, compared to $238.2 million for 2012 and $129.8 million for 2011. The net interest margin was 4.46% for 2013 compared to 4.88% for 2012 and 4.29% for 2011. Interest income reversed for nonaccrual loans, net of income recognized, was $274 thousand for 2013, compared to $998 thousand for 2012 and $368 million for 2011. Excluding this effect, the net interest margin for 2013, 2012 and 2011 was 4.47%, 4.90% and 4.31%, respectively.

Comparison of 2013 with 2012

Net interest income increased $14.8 million, or 6%, during 2013. The increase resulted from an increase in interest earning assets, net of interest bearing liabilities, which was partially offset by a decrease in the net interest margin. The growth in interest earning assets, net of interest bearing liabilities, was primarily due to the acquisitions of PIB and Foster.

Table of Contents

Comparison of 2012 with 2011

Net interest income increased $108.4 million, or 84%, during 2012. The increase in net interest income was primarily attributable to an improvement in the net interest margin and a full year of net interest income following the merger with Center. Net interest income for the year ended December 31, 2012, also included $23.3 million of loan interest income resulting from the accretion of discounts on acquired loans, a $20.8 million increase over the $2.4 million recognized for 2011. The cost of deposits decreased during 2012 due to the decrease in the rates paid on certificates of deposit upon renewal as well as a favorable shift in the mix of deposits.

Interest Income

Interest income was $283.1 million for 2013, compared to $267.9 million for 2012 and $161.9 million for 2011. The yield on average interest earning assets was 4.99% for 2013, compared to 5.48% for 2012 and 5.35% for 2011.

Comparison of 2013 with 2012

The increase in interest income of $15.2 million, or 6%, for 2013 compared to 2012 was primarily due to the increase in average interest earning assets as a result of the net growth in loans receivable. The average balances of gross loans increased by $717.5 million during the year, resulting in an increase in interest income of $42.2 million. In addition, the increase in interest income for the year ended December 31, 2013 was attributable to $27.5 million of loan interest income resulting from the accretion of discounts on acquired loans, a $4.2 million increase over the $23.3 million recognized in 2012. This increase was offset by a $27.7 million decrease due to a decreasing interest rate environment along with higher customer demand for fixed rate loans.

Comparison of 2012 with 2011

The increase in interest income of $106.0 million, or 65%, for 2012 compared to 2011 was primarily due to the increase in in average interest earning assets as a result of the net growth in loans receivable. The weighted average yield on investment securities for 2012 decreased due to $184 million in available for sale securities purchased during 2012, yielding 1.98% compared to $236 million in available-for-sale securities purchased during 2011, yielding 2.57%, and $293 million in available for sale securities acquired from the merger with Center, yielding 1.86%.

Interest Expense

Deposits

Interest expense on deposits was $23.3 million for 2013 compared to $21.4 million for 2012 and $20.2 million for 2011. The average cost of deposits was 0.49% for 2013, compared to 0.54% for 2012 and 0.86% for 2011. The average cost of interest bearing deposits was 0.67%, compared to 0.73% for 2012 and 1.07% for 2011.

Comparison of 2013 with 2012

The increase in interest expense on total deposits of $2.0 million, or 9%, for 2013, compared to 2012 was due to an increase in interest bearing deposits partially offset by a decrease in the average cost of the deposits. The increase in interest bearing deposits was due to the PIB and Foster acquisitions and and an increase in wholesale deposits. Noninterest bearing deposits accounted for 27.2% of total deposits at December 31, 2013, compared to 27.0% at December 31, 2012.

Comparison of 2012 with 2011

The increase in interest expense on total deposits of $1.1 million, or 5%, for 2012 compared to 2011 was due to the higher level of interest bearing deposits following the Center acquisition, a steady increase in interest bearing deposits from the addition of wholesale deposits, and a shift in the mix of deposits to time deposits. Noninterest bearing deposits accounted for 27% of total deposits at December 31, 2012, compared to 25% at December 31, 2011.

Borrowings

Borrowings include borrowings from the FHLB, the FRB, federal funds purchased and subordinated debentures. As part of our asset-liability management, we utilize FHLB advances to supplement our deposit source of funds. Therefore, there may be fluctuations in these balances depending on the short-term liquidity and longer-term financing needs of the Bank.

Average FHLB advances were $421.7 million in 2013, compared to $374.9 million in 2012 and $314.2 million in 2011. Interest expense on FHLB advances was $4.9 million for 2013, compared to $6.2 million for 2012 and $9.8

million for 2011. The average cost of FHLB advances was 1.16% for 2013, compared to 1.66% for 2012 and 3.11% for 2011. The decrease in the average cost of FHLB advances in 2013 was primarily due to the replacement of maturing borrowings with lower rate advances.

33

The average cost of other borrowings, including subordinated debentures and secured borrowings, was 3.72% for 2013, compared to 4.56% for 2012 and 4.58% for 2011. The decrease in the average cost of other borrowings decreased 84 basis points in 2013 compared to 2012 was due to the June 2012 redemption of a $10.4 million subordinated debenture with a fixed rate of 10.18% and a decrease in the average 3-month LIBOR, to which all of our remaining issues of subordinated debentures are tied. The two basis points decrease in the average cost of other borrowings in 2012 compared to 2011 was due to the aforementioned June 2012 redemption of a fixed rate subordinated debenture partially offset by a 7 basis point increase in the average 3-month LIBOR, to which all our other issues of subordinated debentures are tied. For 2013, the 3-month LIBOR average was 0.27%, compared to 0.43% and 0.34% for 2012 and 2011, respectively.

Provision for Loan Losses

The provision for loan losses reflects our judgment of the current period cost associated with credit risk inherent in our loan portfolio. The loan loss provision for each period is dependent upon many factors, including loan growth, net charge-offs, changes in the composition of the loan portfolio, delinquencies, assessments by management, third parties' and regulators' examination of the loan portfolio, the value of the underlying collateral on problem loans and the general economic conditions in our market areas. Specifically, the provision for loan losses represents the amount charged against current period earnings to achieve an allowance for loan losses that, in our judgment, is adequate to absorb probable incurred losses inherent in our loan portfolio. Periodic fluctuations in the provision for loan losses result from management's assessment of the adequacy of the allowance for loan losses; however, actual loan losses may vary in material respects from current estimates. If the allowance for loan losses is inadequate, we may be required to record additional loan loss provision, which may have a material adverse effect on our business and our financial condition.

Comparison of 2013 with 2012

The provision for loan losses was $20.0 million for 2013, an increase of $0.9 million, or 5%, from $19.1 million for 2012. The provision for loan losses for 2013 reflects growth in the loan portfolio and an increase in net charge offs, which increased to $19.6 million for 2013, compared to $14.1 million for 2012.

Comparison of 2012 with 2011

The provision for loan losses was $19.1 million for 2012, a decrease of $8.8 million, or 32%, from $27.9 million for 2011. The reduction in the the provision for loan losses reflects a decrease in net charge offs, which decreased to $14.1 million for 2012, compared to $28.3 million for 2011.

See "Financial Condition—Allowance for Loan Losses" for a description of our methodology for determining the allowance for loan losses.

Noninterest Income

Noninterest income was $42.7 million for 2013, compared to $39.4 million for 2012 and $23.1 million for 2011.

Comparison of 2013 with 2012

The increase in noninterest income for 2013 over 2012 primarily reflected increases in net gains on sales of SBA loans and service charges on deposit accounts. These increases were offset by a decrease in net gains on sales of securities available for sale.

Net gains on sales of SBA loans increased by $3.3 million, or 41%, to $11.5 million in 2013 from $8.2 million in 2012 primarily due to an increase in the volume of SBA loans sold.

Service charges on deposit accounts increased $0.4 million, or 3%, to $12.8 million in 2013 from $12.5 million in 2012 primarily due to increases of $163 thousand in non-sufficient funds charges and $249 thousand of monthly service and customer analysis charges due to an increased volume of deposit accounts from the acquisitions.

Net gains on sales of securities available for sale decreased as we recorded net gains of $54 thousand compared to $895 thousand during the prior year.

Comparison of 2012 with 2011

The increase in noninterest income for 2012 over 2011 primarily reflected increases in service charges on deposit accounts, loan servicing fees, and other income and fees.

Service charges on deposit accounts increased $6.1 million, or 96%, to $12.5 million in 2012 from $6.4 million in 2011 primarily due to increases of $3.3 million in non-sufficient funds charges and $2.4 million in service charges on business analysis checking accounts which reflected a full twelve months of the combined operations of Nara and Center during 2012 compared to only one month of combined operations during 2011.

Table of Contents

Loan servicing fees increased $2.6 million, or 168%, to $4.1 million in 2012 from $1.5 million in 2011. Loan servicing fees are comprised mainly of servicing fee income on SBA loans which increased by $3.2 million in 2012 due to the merger and sales of SBA loans.

Other income and fees, which includes losses on sales of fixed assets, earnings on bank owned life insurance, and other miscellaneous fee income increased $3.2 million, or 138%, to $5.5 million in 2012 from $2.3 million in 2011. The increase was primarily due to an increase in Debit Card Pass Rebate of $734 thousand and an increase of $571 thousand on earnings on bank owned life insurance. The remaining increase was from minor fluctuations in other miscellaneous income and fee accounts.

A breakdown of noninterest income by category is shown below:

	Year Ended December 31,						
(Dollars in thousands)	2013	Increase (Decrease) Amount	%	2012	Increase (Decrease) Amount	%	2011
Noninterest Income:							
Service charges on deposit accounts	$12,838	$372	3%	$12,466	$6,096	96%	$6,370
International service fees	4,916	(122)	(2)%	5,038	2,413	92%	2,625
Loan servicing fees, net	3,955	(157)	(4)%	4,112	2,579	168%	1,533
Wire transfer fees	3,579	329	10%	3,250	1,695	109%	1,555
Other income and fees	5,896	437	8%	5,459	3,167	138%	2,292
Net gains on sales of SBA loans	11,515	3,335	41%	8,180	826	11%	7,354
Net gains on sales of other loans	62	(90)	(59)%	152	119	361%	33
Net gains on sales and calls of securities available for sale	54	(895)	(94)%	949	(340)	(26)%	1,289
Net gains (losses) on sales of OREO	(102)	149	(59)%	(251)	(444)	(230)%	193
Net valuation gains (losses) on interest rate swaps	—	(35)	(100)%	35	149	(131)%	(114)
Total noninterest income	$42,713	$3,323	8%	$39,390	$16,260	70%	$23,130

Noninterest Expense

Noninterest expense was $141.6 million for 2013, compared to $120.9 million for 2012 and $82.2 million for 2011. The increases were $20.7 million, or 17%, for 2013 as compared to 2012 and $38.7 million, or 30%, for 2012 as compared to 2011.

Comparison of 2013 with 2012

The increase in noninterest expense for 2013 over 2012 primarily reflected increases in salaries and employee benefits, occupancy expense, professional fees, and other expenses.

Salaries and employee benefits amounted to $66.8 million for 2013, an increase of $10.3 million, or 18%, compared to $56.5 million for 2012. The increase was due to an additional $8.9 million in salary expenses we incurred due to the acquisitions of PIB and Foster, an increase in bonus expenses and an increase in the number of full-time equivalent employees, which increased to 835 at December 31, 2013 from 704 as of December 31, 2012. Group insurance expenses increased by $1.3 million due to increases in premium costs and 401(k) plan employer contributions increased by $348 thousand.

Our occupancy expense increased $2.0 million, or 13%, to $17.7 million for 2013 compared to $15.6 million for 2012. The increase is primarily due to an increase in the number of branches as a result of the acquisitions of PIB and Foster. Lease expense and other occupancy costs related to our branches increased by a total of $1.6 million during the year. Property tax and utilities related to the leases increased by $330 thousand during the year.

Professional fees increased $1.3 million, or 34%, to $5.2 million for 2013 compared to $3.9 million in 2012 primarily due to increased legal fees, fees for accounting services and consulting services for our information systems.

Other expenses increased $2.9 million, or 24%, to $15.0 million for 2013 compared to $12.0 million in 2012 due to an increase in supplies and other miscellaneous expenses during the year.

Table of Contents

Comparison of 2012 with 2011

The increase in noninterest expense for 2012 over 2011 primarily reflected increases in salaries and employee benefits, occupancy expense, credit-related expense, and other expenses and was offset by a decrease in prepayment charge on retirement of debt.

Salaries and employee benefits amounted to $56.5 million for 2012, an increase of $24.9 million, or 79%, compared to $31.6 million for 2011. The increase was due to an additional $20.9 million in salary expenses we incurred for the combined operations of Nara and Center for the full twelve months in 2012 compared to only one month of combined operations in 2011, an increase in bonus expenses, and an increase in the number of full-time equivalent employees, which increased to 704 at December 31, 2012 from 678 as of December 31, 2011. Group insurance expenses increased by $2.5 million due to increases in premium costs, and 401(k) plan employer contributions increased by $683 thousand.

Our occupancy expense increased $3.8 million, or 32%, to $15.6 million for 2012 compared to $11.8 million for 2011. The increase is primarily due to an increase in the number of branches as a result of the merger, from 23 branches pre-merger to 40 branches as of December 31, 2012. Lease expense and other occupancy costs related to our branches increased by a total of $2.3 million during the year. The increase in occupancy expense is also due to an increase of $702 thousand in leasehold amortization expenses as a result of the amortization of significant leasehold improvements during 2012 and the amortization of Nara and Center leasehold improvements for the full year in 2012.

Credit-related expense increased $5.2 million, or 138%, to $9.0 million for 2012 compared to $3.8 million in 2011 primarily due to an increase of $1.9 million and $707 thousand in valuation expense for OREO and LHFS, respectively. Loan collection activity also increased during the year which accounted for a $1.4 million increase in credit-related expenses.

Other expenses increased $5.9 million, or 97%, to $12.1 million for 2012 compared to $6.1 million in 2011 due to an increase of $990 thousand in CRA investment expenses, an increase of $935 thousand in amortization of intangible assets, an increase of $676 thousand in Director fees, and an increase of $1.4 million in miscellaneous expenses.

Pre-payment charges on retirement of debt decreased $5.9 million, or 138%, to $461 thousand for 2012 compared to $6.4 million in 2011 primarily due to a $6.4 million prepayment charge for early retirement of FHLB advances in 2011 with no such charge in the year ended December 31, 2012.

A breakdown of noninterest expense by category is provided below:

	Year Ended December 31,						
		Increase (Decrease)			Increase (Decrease)		
(Dollars in thousands)	2013	Amount	%	2012	Amount	%	2011
Noninterest Expense:							
Salaries and employee benefits	$66,805	$10,314	18 %	$56,491	$24,862	79 %	$31,629
Occupancy	17,676	2,045	13	15,631	3,798	32	11,833
Furniture and equipment	6,809	1,146	20	5,663	1,630	40	4,033
Advertising and marketing	5,184	108	2	5,076	2,590	104	2,486
Data processing and communications	7,595	1,231	19	6,364	2,451	63	3,913
Professional fees	5,194	1,312	34	3,882	911	31	2,971
FDIC assessment	3,309	867	36	2,442	(1,905)	(44)	4,347
Credit related expense	8,895	(115)	(1)	9,010	5,221	138	3,789
Merger and integration expense	5,161	1,352	35	3,809	(904)	(19)	4,713
Prepayment charge on retirement of debt	2	(459)	100	461	(5,924)	100	6,385

Other	14,984	2,922	24		12,062	5,927	97		6,135
Total noninterest expense:	$141,614	$20,723	17	%	$120,891	$38,657	47	%	$82,234

36

Table of Contents

Income Tax Provision

The provision for income taxes for 2013 was $52.4 million compared to $54.4 million in 2012 and $15.7 million in 2011. The effective income tax rate was 39% for 2013 compared to 40% for 2012 and 37% for 2011. See Note 9 of Notes to Consolidated Financial Statements for more detailed information on Income taxes.

Financial Condition

Our total assets were $6.48 billion at December 31, 2013 compared to $5.64 billion at December 31, 2012, an increase of $834.5 million, or 15%. The increase in total assets is comprised mainly of increases in net loans receivable of $777.5 million, deferred tax assets of $29.1 million, goodwill of $15.5 million, OREO of $21.6 million, FHLB stock of $5.4 million, premises and equipment of $8.3 million and cash and cash equivalents of $3.8 million partially offset by decreases in loans held for sale of $7.5 million, customers' liabilities on acceptances of $4.9 million, prepaid FDIC insurance of $7.6 million, FDIC loss share receivable of $4.7 million and other assets of $6.1 million.

Loan Portfolio

We offer various products designed to meet the credit needs of our borrowers. Our lending activities primarily consist of commercial real estate loans, commercial business loans and trade finance loans. Gross loan receivable rose by $777.9 million to $5.1 billion at December 31, 2013 from $4.3 billion at December 31, 2012.

During 2013, new loans originated were $1.1 billion, compared to $1.1 billion for 2012. Loan growth remained concentrated in commercial real estate loans. The rates of interest charged on adjustable rate loans are set at specified spreads based on the prime lending rate and vary as the prime lending rate varies. Approximately 52% of our total loans were adjustable rate loans at December 31, 2013, compared to 60% at December 31, 2012. Approximately 59% of new loan originations were fixed rate loans for 2013 compared to 46% for 2012.

With certain exceptions, we are permitted under applicable law to make unsecured loans to single borrowers (including certain related persons and entities) in aggregate amounts of up to 15% of the sum of our total capital and our allowance for loan losses (as defined for regulatory purposes) and certain capital notes and debentures issued by us, if any. As of December 31, 2013, our lending limit was approximately $188 million per borrower for unsecured loans. For lending limit purposes, a secured loan is defined as a loan secured by collateral having a current fair value of at least 100% of the amount of the loan or extension of credit at all times and satisfying certain other requirements. In addition to unsecured loans, we are permitted to make such collateral-secured loans in an additional amount up to 10% (for a total of 25%) of our total capital and the allowance for loan losses for a total limit of approximately $269 million to one borrower. The largest aggregate amount of loans that the Bank had outstanding to any one borrower and related entities was $50.5 million, which were performing as agreed at December 31, 2013.

The following table shows the composition of our loan portfolio by type of loan on the dates indicated:

	December 31,														
(Dollars in thousands)	2013			2012			2011			2010			2009		
	Amount	%		Amount	%		Amount	%		Amount	%		Amount	%	
Loan portfolio composition:															
Real estate loans:															
Residential	$10,039	0	%	$9,247	0	%	$2,043	0	%	$2,263	0	%	$4,801	0	%
Commercial	3,821,163	75	%	3,100,466	72	%	2,631,880	70	%	1,525,687	71	%	1,597,839	72	%
Construction	72,856	2	%	65,045	2	%	44,756	1	%	46,900	2	%	54,084	2	%
Total real estate loans	3,904,058	77	%	3,174,758	74	%	2,678,679	71	%	1,574,850	73	%	1,656,724	75	%
Commercial business	949,093	19	%	921,556	21	%	849,576	23	%	504,458	23	%	497,606	22	%

Trade finance	124,685	2	%	152,070	4	%	146,684	4	%	57,430	3	%	51,411	2	%
Consumer and other	98,507	2	%	49,954	1	%	66,631	2	%	13,268	1	%	18,035	1	%
Total loans outstanding	5,076,343	100	%	4,298,338	100	%	3,741,570	100	%	2,150,006	100	%	2,223,776	100	%
Less: deferred loan fees	(2,168	)		(2,086	)		(2,744	)		(2,261	)		(2,343	)	
Gross loans receivable	5,074,175			4,296,252			3,738,826			2,147,745			2,221,433		
Less: allowance for loan losses	(67,320	)		(66,941	)		(61,952	)		(62,320	)		(59,424	)	
Loans receivable, net	$5,006,855			$4,229,311			$3,676,874			$2,085,425			$2,162,009		

Real Estate Loans

Table of Contents

Our real estate loans consist primarily of loans secured by deeds of trust on commercial real estate, including SBA loans secured by commercial real estate. It is our general policy to restrict commercial real estate loan amounts to 75% of the appraised value of the property at the time of loan funding. We offer both fixed and floating interest rate loans. The maturities on such loans are generally up to seven years (with payments determined on the basis of principal amortization schedules of up to 25 years and a balloon payment due at maturity). Residential real estate loans comprise less than 1% of the total loan portfolio and are currently not being offered by the Bank. This pool of residential real estate loans is made up of loans acquired from PIB and Foster and loans funded in prior years that are still being serviced by the Bank. Construction loans are also a small portion of the total real estate portfolio, comprising approximately 2% of total loans outstanding. Total real estate loans, consisting primarily of commercial real estate loans, increased $729.3 million or, 23%, to $3.9 billion at December 31, 2013 from $3.2 billion at December 31, 2012.

Other Loans

Commercial business loans include term loans to businesses, lines of credit, trade finance facilities, and SBA loans. Business term loans are generally provided to finance business acquisitions, working capital and/or equipment purchases. Lines of credit are generally provided to finance short-term working capital needs. Trade finance facilities are generally provided to finance import and export activities. SBA loans are provided to small businesses under the U.S. SBA guarantee program. Short-term credit facilities (payable within one year) typically provide for periodic interest payments, with principal payable at maturity. Term loans (usually 5 to 7 years) normally provide for monthly payments of both principal and interest. SBA commercial loans usually have a longer maturity (7 to 10 years). These credits are regularly reviewed on a periodic basis, and most loans are secured by business assets and/or real estate. During 2013, commercial business loans increased by $27.5 million, or 30%, to $949.1 million at December 31, 2013 from $921.6 million at December 31, 2012 primarily due to new originations. Consumer loans comprise 2% of the total loan portfolio. Most of our consumer loan portfolio consists of automobile loans, home equity lines and loans, and signature (unsecured) lines of credit and loans. We ceased offering auto loans in February 2007 and ceased offering home equity loans in January 2008. However, upon the merger with Center, we resumed originating direct auto loans effective December 1, 2011.

We provide lines of credit to business customers usually on an annual renewal basis. We normally do not make loan commitments in material amounts for periods in excess of one year.

The following table shows our loan commitments and letters of credit outstanding at the dates indicated:

	December 31,				
(Dollars in thousands)	2013	2012	2011	2010	2009
Commitments to extend credit	$668,306	$690,917	$458,096	$205,752	$198,807
Standby letters of credit	44,190	39,176	29,028	9,777	9,907
Other commercial letters of credit.	56,380	51,257	49,457	30,180	23,575
	$768,876	$781,350	$536,581	$245,709	$232,289

Nonperforming Assets

Nonperforming assets consist of nonaccrual loans, accruing loans that are 90 days or more past due, accruing restructured loans and OREO.

Loans are placed on nonaccrual status when they become 90 days or more past due, unless the loan is both well-secured and in the process of collection. Loans may be placed on nonaccrual status earlier if the full and timely collection of principal or interest becomes uncertain. When a loan is placed on nonaccrual status, unpaid accrued interest is charged against interest income. Loans are charged off when the collection is determined unlikely. Loans are restructured when, for economic or legal reasons related to the borrower’s financial difficulties, the Bank grants a concession to the borrower that it would not otherwise consider. OREO consists of real estate acquired by the Bank through foreclosure or similar means, including by deed from the owner in lieu of foreclosure, and is held for sale.

Nonperforming assets were $97.4 million at December 31, 2013, compared to $62.2 million at December 31, 2012. The increase in nonperforming assets in 2013 was primarily due to increases of $9.5 million in nonaccrual loans, $4.1 in restructured loans and $21.6 million in OREO (the increase in OREO was primarily due to the PIB and Foster acquisitions). The amount of additional interest income that the Bank would have recorded in 2013, 2012 and 2011, if nonaccrual loans had been current in accordance with their original contracted terms, was $1.5 million, $1.5 million and $1.9 million, respectively. The following table illustrates the composition of nonperforming assets as of the dates indicated:

Table of Contents

(In thousands)	December 31, 2013	2012	2011	2010	2009
Nonaccrual loans	$39,154	$29,653	$32,291	$43,803	$51,674
Loans past due 90 days or more, still accruing	5	—	6	—	—
Restructured loans	33,904	29,849	18,776	35,103	64,341
Total nonperforming loans	$73,063	$59,502	$51,073	$78,906	$116,015
Other real estate owned	24,288	2,698	7,624	1,581	2,044
Total nonperforming assets	$97,351	$62,200	$58,697	$80,487	$118,059

We did not have any commitments to extend additional credit on restructured loans as of December 31, 2013 or 2012.

Maturity and Repricing of Loans

The following table illustrates the maturity distribution and repricing intervals of loans outstanding as of December 31, 2013. The table also shows the distribution of such loans between those with variable or floating interest rates and those with fixed or predetermined interest rates.

(Dollars in thousands)	December 31, 2013 Loans Maturing and repricing			
	Within One Year	Between One and Five Years	After Five Years	Total Loans Outstanding
Real estate loans:				
Residential	$1,903	$ 8,136	$—	$10,039
Commercial	277,796	2,323,350	1,220,018	3,821,164
Construction	56,640	16,216	—	72,856
Total real estate loans	336,339	2,347,702	1,220,018	3,904,059
Commercial business loans	394,877	379,726	174,490	949,093
Trade finance loans	122,941	1,744	—	124,685
Consumer loans	19,599	39,115	39,793	98,507
Total	$873,756	$ 2,768,287	$1,434,301	$5,076,344
Loans with fixed interest rates	$164,656	$ 1,450,823	$786,180	$2,401,659
Loans with variable interest rates without interest rate floors	456,359	680,723	482,777	1,619,859
Loans with variable interest rates with interest rate floors	252,740	636,741	165,344	1,054,825
Total	$873,755	$ 2,768,287	$1,434,301	$5,076,343

Concentrations

Our lending activities are predominately in California, New Jersey and the New York City, Chicago and Seattle metropolitan areas. At December 31, 2013, California represented 67.2% of the total loans outstanding and New York and New Jersey represented 16%. The remaining 16.8% of total loans outstanding represented other states. Although we have a diversified loan portfolio, a substantial portion of the loan portfolio and credit performance depends on the economic stability of Southern California. Within the Southern California market, most of our business activity is with customers located within Los Angeles County (61%). Therefore, the Company's exposure to credit risk is significantly affected by changes in the economy in the Los Angeles County area. Within our commercial real estate loan portfolio, the largest industry concentrations are retail building (29.0%), hotel/motel (18.3%), gas stations (13.3%), and industrial & warehouse (9.8%). Within our commercial and industrial loan portfolio, the largest industry

concentrations are wholesalers (37.0%), retail trade (15.8%), and manufacturing (12.6%).

Table of Contents

Allowance for Loan Losses

The Bank has implemented a multi-faceted process to identify, manage and mitigate the credit risks that are inherent in the loan portfolio. For new loans, each loan application package is fully analyzed by experienced reviewers and approvers. In accordance with current lending approval authority guidelines, a majority of loans are approved by the Management Loan Committee (“MLC”) and Directors Loan Committee. For existing loans, the Bank maintains a systematic loan review program, which includes internally conducted reviews and periodic reviews by external loan review consultants. Based on these reviews, loans are graded as to their overall credit quality, which is measured based on: the sufficiency of credit and collateral documentation; proper lien perfection; proper approval by loan committee(s); adherence to any loan agreement covenants; compliance with internal policies and procedures, and with laws and regulations; adequacy and strength of repayment sources including borrower or collateral generated cash flow; payment performance; and liquidation value of the collateral. We closely monitor loans that management has determined require further supervision because of the loan size, loan structure, and/or specific circumstances of the borrower.

When principal or interest on a loan is 90 days or more past due, a loan is generally placed on nonaccrual status unless it is considered to be both well-secured and in the process of collection. Further, a loan is considered a loss in whole or in part when (1) it appears that loss exposure on the loan exceeds the collateral value for the loan, (2) servicing of the unsecured portion has been discontinued or (3) collection is not anticipated due to the borrower’s financial condition and general economic conditions in the borrower’s industry. Any loan or portion of a loan judged by management to be uncollectible is charged against the allowance for loan losses, while any recoveries are credited to such allowance.

The allowance for loan losses was $67.3 million at December 31, 2013, compared to $66.9 million at December 31, 2012. We recorded provisions for loan losses of $20.0 million in 2013, compared to $19.1 million in 2012 and $27.9 million in 2011. During 2013, we charged off $22.1 million in loans outstanding and recovered $2.4 million in loans previously charged off. Total Criticized Loans at December 31, 2013 were $355.9 million compared to $288.7 million at December 31, 2012. The allowance for loan losses was 1.33% of gross loans at December 31, 2013, compared to 1.56% at December 31, 2012. The decrease in this ratio was primarily due to increases in loans receivable and net charge offs partially offset by an increase in the specific allowances related to impaired loans.

For loans not classified as impaired loans, general loan loss allowances are provided to cover probable and inherent losses. The allowance is determined based first on a quantitative analysis using a loss migration methodology. The loans are classified by type and loan grade and the historical loss migration is tracked for the various stratifications. We further segregate these stratifications between loans accounted for under the amortized cost method (referred to as "Legacy Loans") and loans acquired (referred to as "Acquired Loans"), as acquired loans were originally recorded at fair value with no carryover of the related allowance for loan losses. See “Financial Condition—Allowance for Loan Losses Methodology” for a detailed description of our loan loss methodology.

Impaired loans as defined by FASB ASC 310-10-35, Accounting by Creditors for Impairment of a Loan, totaled $116.3 million and $90.2 million, respectively, as of December 31, 2013 and December 31, 2012, with specific allowances of $12.7 million and $9.2 million, respectively. The MLC, and Directors Loan Committee and the Management ALLL Committee of the Bank review the adequacy of the allowance for loan losses at least quarterly. Based upon these evaluations, and internal and external reviews of the overall quality of our loan portfolio, we believe that the allowance for loan losses was adequate to absorb estimated probable incurred losses inherent in the loan portfolio as of December 31, 2013. However, no assurances can be given that the Bank will not experience further losses in excess of the allowance, which may require additional future provisions for loan losses.

Table of Contents

The following table illustrates total delinquent loans as of the dates indicated:

DELINQUENT LOANS BY TYPE	12/31/2013	12/31/2012	12/31/2011	12/31/2010	12/31/2009
	(In thousands)				
Real estate—Residential	$—	$—	$36	$46	$784
Real estate—Commercial	35,492	25,502	26,985	21,016	51,876
Real estate—Construction	—	—	128	8,547	—
Commercial business	11,366	8,421	15,038	17,530	15,303
Trade finance	1,031	869	117	469	—
Consumer and other	1,364	1,275	1,227	491	1,514
Total Delinquent Loans	$49,253	$36,067	$43,531	$48,099	$69,477
Nonaccrual loans included above	$39,154	$29,653	$32,291	$43,803	$51,674

	As of December 31, 2013					
	30-59 Days Past Due	60-89 Days Past Due	90 or More Days Past Due	Total Past Due	Nonaccrual loans	Total Delinquent loans
Legacy Loans	(In Thousands)					
Real estate—Residential	$—	$—	$—	$—	$—	$—
Real estate—Commercial						
Retail	122	—	—	122	4,363	4,485
Hotel & Motel	—	—	—	—	121	121
Gas Station & Car Wash	1,038	—	—	1,038	2,228	3,266
Mixed Use	—	—	—	—	974	974
Industrial & Warehouse	215	—	—	215	1,923	2,138
Other	—	—	—	—	1,398	1,398
Real estate—Construction	—	—	—	—	—	—
Commercial business	780	244	—	1,024	6,402	7,426
Trade finance	—	—	—	—	1,031	1,031
Consumer and other	54	22	—	76	—	76
Subtotal	$2,209	$266	$—	$2,475	$18,440	$20,915
Acquired Loans[1]						
Real estate—Residential	$—	$—	$—	$—	$—	$—
Real estate—Commercial						
Retail	2,024	—	—	2,024	1,030	3,054
Hotel & Motel	—	—	—	—	6,441	6,441
Gas Station & Car Wash	1,068	—	—	1,068	1,339	2,407
Mixed Use	576	—	—	576	—	576
Industrial & Warehouse	121	—	—	121	6,890	7,011
Other	516	1,729	—	2,245	1,376	3,621
Real estate—Construction	—	—	—	—	—	—
Commercial business	524	703	5	1,232	2,708	3,940
Trade finance	—	—	—	—	—	—
Consumer and other	284	74	—	358	930	1,288
Subtotal	$5,113	$2,506	$5	$7,624	$20,714	$28,338
TOTAL	$7,322	$2,772	$5	$10,099	$39,154	$49,253

(1) The Acquired Loan balances exclude ACILs of $9.7 million, $2.5 million and $43.8 million that were 30-59 days, 60-89 days and 90 or more days past due, respectively.

Table of Contents

We categorize loans into risk categories based on relevant information about the ability of borrowers to service their debt including but not limited to: current financial information, historical payment experience, credit documentation, public information, and current economic trends. We analyze loans individually by classifying the loans as to credit risk. This analysis includes all non-homogeneous loans. This analysis is performed at least on a quarterly basis. We use the following definitions for risk ratings:

- Pass: Loans that meet a preponderance or more of the Company's underwriting criteria and evidence an acceptable level of risk.
- Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.
- Substandard: Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.
- Doubtful/Loss: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans assigned a risk rating of Special Mention or worse are referred to as Criticized Loans and loans assigned a risk rating of Substandard or worse are referred to as Classified Loans. The following table provides the detail of Criticized Loans by risk rating as of the dates indicated:

	12/31/2013	12/31/2012	12/31/2011	12/31/2010	12/31/2009
	(In thousands)				
Special Mention	$89,489	$79,589	$97,785	$29,573	$42,671
Substandard	258,500	207,945	208,555	135,774	153,535
Doubtful	7,861	1,134	7,282	260	3,655
Loss	—	—	—	—	—
Total Criticized Loans	$355,850	$288,668	$313,622	$165,607	$199,861

The following table shows the provision made for loan losses, the amount of loans charged off, the recoveries on loans previously charged off together with the balance in the allowance for loan losses at the beginning and end of each year, the amount of average and total loans outstanding and other pertinent ratios as of the dates and for the years indicated:

Table of Contents

(In thousands)	December 31, 2013	2012	2011	2010	2009
LOANS:					
Average gross loans receivable, including loans held for sale (net of deferred fees)	$4,692,089	$3,974,626	$2,352,253	$2,173,840	$2,124,615
Total gross loans receivables, excluding loans held for sale at end of year (net of deferred fees)	5,074,175	4,296,252	3,738,826	2,134,061	2,208,943
ALLOWANCE:					
Balance—beginning of year	$66,941	$61,952	$62,320	$59,424	$43,419
Loans charged off:					
Residential real estate	—	—	—	23	—
Commercial and industrial real estate	8,529	7,182	18,698	58,818	18,218
Construction	—	—	3,489	848	6,116
Commercial business loans and Trade Finance	12,973	10,650	9,756	23,607	19,775
Consumer and other loans	567	948	256	1,356	1,577
Total loans charged off	22,069	18,780	32,199	84,652	45,686
Less: recoveries:					
Commercial and industrial real estate	311	2,442	1,328	770	166
Commercial business loans and Trade Finance	1,937	1,832	2,320	1,951	445
Consumer and other loans	200	391	244	197	57
Total loan recoveries	2,448	4,665	3,892	2,918	668
Net loans charged off	19,621	14,115	28,307	81,734	45,018
Provision for loan losses	20,000	19,104	27,939	84,630	61,023
Balance—end of year	$67,320	$66,941	$61,952	$62,320	$59,424

	December 31, 2013	2012	2011	2010	2009
RATIOS:					
Net loan charge-offs to average gross loans	0.42 %	0.36 %	1.20 %	3.76 %	2.12 %
Allowance for loan losses to gross loans	1.33 %	1.56 %	1.66 %	2.90 %	2.68 %
Net loan charge-offs to beginning allowance	29.31 %	21.09 %	45.42 %	137.54 %	103.68 %
Net loan charge offs to provision for loan losses	98.11 %	73.89 %	101.32 %	96.58 %	73.77 %
Allowance for loan losses to nonperforming loans	92.14 %	112.50 %	121.30 %	78.98 %	51.22 %

Allowance for Loan Losses Methodology

We maintain an allowance for loan losses to provide for estimated probable losses that are inherent in our loan portfolio. The allowance is based on our regular quarterly assessments. Our methodologies for measuring the appropriate level of the

43

Table of Contents

allowance include the combination of: (1) a quantitative historical loss migration analysis ("Migration Analysis") for pools of loans and a qualitative analysis of subjective factors and (2) a specific allowance method for impaired loans. The following table reflects our allocation of the allowance for loan losses by loan category and the ratio of each loan category to total loans as of the dates indicated:

	Allocation of Allowance for Loan Losses														
	12/31/2013			12/31/2012			12/31/2011			12/31/2010			12/31/2009		
	Amount of allowance for loan losses	Percent of loans to total loans		Amount of allowance for loan losses	Percent of loans to total loans		Amount of allowance for loan losses	Percent of loans to total loans		Amount of allowance for loan losses	Percent of loans to total loans		Amount of allowance for loan losses	Percent of loans to total loans	
	(Dollars in thousands)														
Loan Type															
Real estate—Residential	$25	—	%	$74	—	%	$9	—	%	$14	—	%	$18	—	%
Real estate—Commercial	45,897	75	%	45,163	72	%	38,307	70	%	32,885	71	%	40,841	73	%
Real estate—Construction	628	1	%	986	2	%	724	1	%	3,396	2	%	913	2	%
Commercial business	17,592	19	%	17,606	21	%	20,681	23	%	24,930	23	%	15,655	22	%
Trade finance	2,653	3	%	2,352	4	%	1,786	4	%	192	3	%	410	2	%
Consumer and other	525	2	%	760	1	%	445	2	%	634	1	%	1,144	1	%
Unallocated	—	—	%	—	—	%	—	—	%	269	—	%	443	—	%
Total	$67,320	100	%	$66,941	100	%	$61,952	100	%	$62,320	100	%	$59,424	100	%

The adequacy of the allowance for loan losses is determined by management based upon an evaluation and review of the credit quality of the loan portfolio, consideration of historical loan loss experience, relevant internal and external factors that affect the collection of a loan and other pertinent factors.

The Migration Analysis is a formula methodology based on the Bank's actual historical net charge off experience for each loan pool and loan risk grade (Pass, Special Mention, Substandard and Doubtful). The migration analysis is centered on the Bank's internal credit risk rating system. Our internal loan review and external contracted credit review examinations are used to determine and validate loan risk grades. This credit review system takes into consideration factors such as: borrower's background and experience; historical and current financial condition; credit history and payment performance; economic conditions and their impact on various industries; type, fair value and volatility of the fair value of collateral; lien position; and the financial strength of any guarantors.

A general loan loss allowance is provided on loans not specifically identified as impaired ("non-impaired loans"). For the acquired loans, the allowance is determined first based on a quantitative analysis using a loss migration methodology. The loans are classified by type and loan grade and the historical loss migration is tracked for the various stratifications. Loss experience is quantified for a specified period determined by management and then weighted to give more weight to the most recent losses. That loss experience is then applied to the stratified portfolio at each quarter end. As of December 31, 2013, we utilized nineteen non-homogeneous loan pools in the quantitative analysis process. The non-impaired commercial real estate loan portfolio was stratified into fourteen different loan pools based on property types and the non-impaired commercial and industrial loan portfolio was stratified into five different loan pools based on loan type in order to allocate historic loss experience to more granular loan pools.

Additionally, in order to systematically quantify the credit risk impact of other trends and changes within the loan portfolio, the Bank utilizes qualitative adjustments to the Migration Analysis within established parameters. The parameters for making adjustments are established under a Credit Risk Matrix that provides seven possible scenarios for each of the factors below. The matrix allows for up to three positive (major, moderate and minor), three negative (major, moderate and minor), and one neutral credit risk scenarios within each factor for each loan type pool. Generally, the factors are considered to have no significant impact (neutral) to our historical migration ratios. However, if information exists to warrant adjustment to the Migration Analysis changes are made in accordance with the established parameters supported by narrative and/or statistical analysis. The Credit Risk Matrix and the nine possible scenarios enable the Bank to qualitatively adjust the Loss Migration

Table of Contents

Ratio or individual specific reserve allocations by as much as 50 basis points in either direction (positive or negative) for each loan type pool. This matrix considers the following nine factors, which are patterned after the guidelines provided under the FFIEC Interagency Policy Statement on the Allowance for Loan and Lease Losses:

- Changes in lending policies and procedures, including underwriting standards and collection, charge-off and recovery practices.
- Changes in national and local economic and business conditions and developments, including the condition of various market segments.
- Changes in the nature and volume of the loan portfolio.
- Changes in the experience, ability and depth of lending management and staff.
- Changes in the trends of the volume and severity of past due and classified loans and changes in trends in the volume of nonaccrual loans, troubled debt restructurings and other loan modifications.
- Changes in the quality of our loan review system and the degree of oversight by the Directors.
- Changes in the value of underlying collateral for collateral dependent loans.
- The existence and effect of any concentrations of credit, and changes in the level of such concentrations.
- The effect of external factors such as competition and legal and regulatory requirements on the level of estimated losses in our loan portfolio.

We also establish specific loss allowances for loans where we have identified potential credit risk conditions or circumstances related to a specific individual credit. The specific allowance amounts are determined by a method prescribed by FASB ASC 310-10-35-22, Measurement of Impairment. The loans identified as impaired are accounted for in accordance with one of the three acceptable valuation methods: 1) the present value of future cash flows discounted at the loan's effective interest rate; 2) the loan's observable market price; or 3) the fair value of the collateral, if the loan is collateral dependent. For the collateral dependent impaired loans, we obtain an appraisal to determine the amount of impairment as of the date that the loan became impaired. The appraisals are based on an "as is" valuation. To ensure that appraised values remain current, we generally obtain either an internally prepared evaluation report or an updated appraisal every twelve months from a qualified independent appraiser. If the fair value of the collateral, less cost to sell, is less than the recorded amount of the loan, we then recognize impairment by creating or adjusting an existing valuation allowance with a corresponding charge to the provision for loan losses. If an impaired loan is expected to be collected through liquidation of the collateral, the loan is deemed to be collateral dependent and the amount of impairment is charged off against the allowance for loan losses.

We consider a loan to be impaired when it is probable that not all amounts due (principal and interest) will be collectible in accordance with the contractual terms of the loan agreement. Factors considered by management in determining 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. The significance of payment delays and payment shortfalls is determined on a case-by-case basis by taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the 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.

For commercial business loans, real estate loans and certain consumer loans, we base the measurement of loan impairment on the present value of the expected future cash flows, adjusted by a three-year average probability of default which is calculated annually by loan segment and by loan size, discounted at the loan's effective interest rate or on the fair value of the loan's collateral if the loan is collateral dependent. We evaluate most consumer loans for impairment on a collective basis, because these loans have generally smaller balances and are homogeneous in the underwriting terms and conditions, and in the type of collateral. If a loan is deemed to be impaired, the amount of the impairment is supported by a specific allowance amount which is included in the allowance for loan losses through a charge to the provision for loan losses.

In the third quarter, 2010, based on current market conditions, we expanded the criteria for evaluating loans for potential impairment. Prior to the third quarter of 2010, loans graded Substandard were not individually evaluated for

impairment and only considered impaired if they were 60+ days past due, unless other events existed that qualified the loan for impairment review. Therefore, a Substandard credit that was current in its contractual payments, but was classified due to other risk issues would not necessarily be subject to individual review for impairment analysis. Effective March 31, 2011, the scope for evaluation of individual impairment was modified to include all loans risk graded Doubtful or Loss, all TDRs and all loans risk graded Substandard that are either (1) greater than $350 thousand and are 60 or more days past due and (2) greater than $1.0 million regardless of performance under their contractual terms. We utilize a preliminary non-impairment test, that is applied to loans for $1.0 million or more that are graded Substandard and are less than 60 days past due and accruing and are not TDRs. We use a five-step test with the following criteria: (1) the loan is current with no 30-day late payments in the past six months;

Table of Contents

(2) the loan payments are the contractual, non-modified amount; (3) the financial information that supports payment capacity is not aged over one year; (4) the global cash flow supports the current payment amount at a ratio of 1:1 or better; and (5) for CRE loans secured by a first lien on real estate collateral, the most current LTV is below 100%.
If the loan meets all of these criteria, it is not considered impaired and is subject to the general loan loss allowance for non-impaired loans. Impaired loans at December 31, 2013, were $116.3 million, a net increase of $26.1 million from $90.2 million at December 31, 2012. This net increase in impaired loans is due primarily to an increase in Legacy loans that became impaired during they year.

Covered Loans

On April 16, 2010, the DFI closed Innovative Bank, California, and appointed the FDIC as its receiver. On the same date, Center Bank assumed the banking operations of Innovative Bank from the FDIC under a purchase and assumption agreement and two related loss sharing agreements with the FDIC. Upon the merger between Nara Bancorp and Center Financial, we assumed the loss sharing agreements with the FDIC.
Covered nonperforming assets totaled $826 thousand at December 31, 2013. These covered nonperforming assets are subject to the loss sharing agreements with the FDIC. The covered nonperforming assets at December 31, 2013 were as follows:

(In thousands)	December 31, 2013	
Covered loans on nonaccrual status	$236	
Covered other real estate owned	590	
Total covered nonperforming assets	$826	
Acquired covered loans	$55,088	
Covered nonperforming assets to net covered loans	1.50	%

Investment Security Portfolio

The main objectives of our investment strategy are to provide a source of liquidity while managing our interest rate risk and to generate an adequate level of interest income without taking undue risks. Our investment policy permits investments in various types of securities, certificates of deposits and federal funds sold in compliance with various restrictions in the policy. Securities are classified as held to maturity or available for sale. We do not maintain a trading portfolio. The securities for which we have the ability and intent to hold to maturity are classified as held to maturity securities. All other securities are classified as available for sale.
Our available-for-sale securities totaled $705.8 million at December 31, 2013, compared to $704.4 million at December 31, 2012. We had no securities in the held to maturity category at December 31, 2013 or 2012. We paid down $174.3 million and sold $6.6 million in available-for-sale securities during the year. We also purchased $218.2 million in securities during the year, which included available-for-sale securities acquired from PIB and Foster. All of the securities involved in these transactions were classified as available for sale. Securities with a carrying value of $2.0 million were pledged to the FRB at December 31, 2013 and $13.2 million was pledged to the FHLB. We also pledged securities with a carrying value of $341.4 million to the California State Treasurer's Office as collateral for time certificates deposit. Our investment portfolio consists of U.S. Treasury bills, government sponsored enterprise (“GSE”) bonds, mortgage backed securities (“MBS”), collateralized mortgage obligations (“CMOs”), mutual funds, a corporate note and municipal bonds.
Our available-for-sale securities portfolio is primarily invested in CMOs and residential MBS, which comprised 96% of our total available-for-sale portfolio as of December 31, 2013 and 2012, respectively. At December 31, 2013 and 2012, all of our CMOs and MBS were issued by GNMA, FNMA or FHLMC, which guarantee the contractual cash flows of these investments.

Table of Contents

Investment Portfolio Balance and Fair Value

December 31, 2013			2012	
Amortized Cost	Estimated Fair Value	Unrealized/ Unrecognized Gain (Loss)	Amortized Cost	Estimated