



TRAILBLAZER

AWARD

BANK DIRECTOR
BOARD PERFORMANCE
AWARDS ²⁰⁰⁷

PRESENTED TO AN EXCEPTIONAL BOARD THAT WORKED WITH MANAGEMENT TO TAKE THE BANK IN A NEW DIRECTION, THEREBY INCREASING THE VALUE OF THE ORGANIZATION.

DOMINIC NG
EAST WEST
BANCORP

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When Shell Oil Co. wanted to raise its visibility with Chinese-American consumers a few years back, it worked out a joint marketing agreement with Pasadena, California-

based East West Bancorp Inc. that made everybody happy. East West is the largest commercial bank focusing on the Asian market in the United States, and in October 2000 Shell provided a \$10 prepaid Shell gift card to the first 1,000 customers to open an East West account. By doing so, Shell was introduced to an important ethnic group that it might not have been able to crack on its own, East West gained a slew of new customers—and the customers got a freebie for doing something that most of them probably would have done anyway.

“The customers got really excited about it,” says Dominic Ng, chairman and chief executive officer at East

West Bancorp. “They became loyal East West customers.”

Success in such a highly competitive industry as banking is often determined by a company’s ability to carve out a market niche. East West’s strategic focus on the large Chinese community on the West Coast has enabled it to become one of the top-performing banks in the country—finishing 24th on *Bank Director’s* 2006 Bank Performance Scorecard, a ranking of the 150 largest U.S. banks based on a number of performance metrics. Shell came to East West for help because there are few companies with a better understanding of Chinese-American consumers.

“When it comes to the Asian market, we know it better than anyone else because we’ve been doing this for 35 years,” says the 47-year-old Ng, who joined East West as CEO in 1992 when it was a private company. When the company went public in 1998, Ng was faced with the task of assembling a new board of directors that could function in

by **JACK MILLIGAN**

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PASADENA, CALIFORNIA

a more demanding governance environment. Ng has recruited seven new directors since then, and the board has earned high marks for its overall governance practices.

In recent years, East West has extended its reach into the mainstream marketplace, where it has become one of the largest commercial real estate lenders in Southern California. Still, Ng insists that East West will never abandon its ethnic roots because the bank's core strategy is to act as a bridge between its traditional Chinese-American customer base and the larger U.S. economy—and increasingly, between U.S. businesses and the rapidly expanding economy of the People's Republic of China. "We want to be the icon in that Asian space," says Ng. For successfully demonstrating that a highly focused business strategy—in this case one of the fastest-growing ethnic groups in the country—can be translated into market-leading financial performance, Dominic Ng and the board of directors at East West Bancorp are the winners of *Bank Director's* 2006 Trailblazer Award.

With \$10.8 billion in assets, East West has a 62-branch network that stretches from Los Angeles to San Francisco, with additional offices in Houston, Beijing, and soon, Hong Kong. California accounts for as much as 40% of the Chinese-American population in the United States, according to one estimate, and Chinese immigration to the Golden State was particularly strong in the 1980s and 1990s. The 2000 census put the number of Chinese-Americans living in California at approximately 1.1 million.

It should come as no surprise then, that as many as 20 banks focusing on the Asian-American market are doing business just in Southern California, where approximately two-thirds of the state's Asian population is concentrated. And for good reason. Asians—including Chinese-Americans—have higher savings rates, higher employment levels, and higher education levels than the overall population. They also tend to have a strong entrepreneurial spirit and a propensity for owning real estate. They are the kind of demographic group with whom any bank would want to do business. Other institutions that focus on the Chinese market include Los Angeles-based Cathay General Bancorp and UCBH Holdings in San Francisco. Brett Rabatin, a securities analyst with FTN Financial Securities Corp. in Nashville, estimates that the three banks together command about 60% of the Chinese market in California. "The Asian space isn't easy anymore," says Rabatin. "It's very competitive."

Traditionally, East West has served as a conduit between Chinese immigrants and the mainstream economy. The bank helps newcomers buy a new car or a home, gives them a credit card, and takes in their deposits. "We're the bridge that helps them adapt to their new community," says Ng. Another way in which the bank has tried to

provide a bridge between "east" and "west" is by assisting large U.S. companies like Shell hook up with Chinese-American consumers through joint marketing campaigns. Other companies that have looked to East West for assistance include GTE, AT&T, Staples, Enterprise Rent-A-Car, and Carnival Cruise Lines. "These companies want to be more visible to the Asian market, and they look to us as the perfect partner," Ng says.

East West also has tried to take advantage of the growth of China's economy by helping U.S. companies do business there, either by financing their trade with Chinese companies or using its contacts to help them find Chinese business partners. "Our understanding of the business climate in Asia is more important to our mainstream customers than our Asian customers," Ng says. "We don't offer value to the Chinese customer who already knows everything about China."

Each of the three large Chinese-centric banks is pursuing a somewhat different strategy, according to Rabatin. Cathay has been the most aggressive at reaching out to Chinese-Americans living outside the Southern California region, while UCBH has been working harder than the other two to build an extensive trade finance infrastructure throughout Asia and, particularly, in China. East West, on the other hand, has pushed aggressively into the Southern California commercial real estate market. Sixty percent of the bank's commercial loan portfolio—much of which is in commercial real estate—no longer has a specific tie to the Chinese community.

James Abbott, a securities analyst with Friedman Billings Ramsey in Arlington, Virginia, believes East West has quite possibly become the top real estate lender in the Southern California market. "They've established themselves as the go-to [lender] in commercial real estate in Los Angeles—and that's a big business," he says. Abbott says that East West's high concentration of real estate loans has caught the attention of bank regulators, according to comments that executives there have made to him, although he credits the bank with taking a cautious approach all the same. The bank's average loan size remains relatively small, which limits the economic impact of any single credit going bad, and the average loan-to-value ratio of its real estate portfolio is around 60%. "That is very conservative," Abbott says. Moreover, the bank does an extensive amount of research on the region's real estate market—including the activities of other lenders—to make sure it doesn't inadvertently underwrite projects in areas that are already overbuilt. "That allows them to have a better handle on their exposure," he says.

Real estate lending was probably a natural extension of East West's ethno-centric focus since, as Abbott puts it, "I think there is a natural propensity for the Chinese to own real estate." And Ng pounces quickly and firmly on any

suggestion that East West's push into the mainstream commercial real estate market means that it's drifting away from its ethnic roots. "The reason we've been so successful in the mainstream market is because we've stayed in the Asian market," he says. For example, East West is often able to use its contacts in the Chinese-American community to link developers with Chinese equity investors, he says. Also, the bank's retail business is still primarily oriented towards the Chinese-American consumer; in March 2006 it acquired Monterey Park, California-based Standard Bank, which was focused exclusively on the Chinese-American market.

Furthermore, to try to become a mainstream commercial bank and compete with the likes of Bank of America Corp. and Wells Fargo & Co. would be foolish, Ng says. "If you're not good enough to stay in your space and you're trying to go to the mainstream market, you're going to get clobbered," he says.

When Ng joined East West as CEO in the early 1990s, the company was owned by Sjamsul Nursalim, an Indonesian tycoon of Chinese descent. When Nursalim's Asian business empire got into trouble following the Asian currency crisis in 1998, East West was spun off through an initial public offering. Ng, a CPA by training, was named chairman and had to recruit a new board that could provide the kind of oversight a public company requires. Since then, Ng has looked for people who would bring value to the organization and help support the bank's core strategy. "If it was going to be a bridge between East and West, [I knew the directors] should complement each other," he says.

One of his first recruits was Herman Y. Li, chairman of C&L Restaurant Group, one of the largest franchises in the Burger King system. "He has a very clear understanding of big corporate diversity programs, and we want people who understand diversity," Ng says. "He also knows a lot about branding, marketing, and the retail business." Another early recruit was Jack C. Liu, an attorney who also serves as senior adviser to the Morgan Stanley International Real Estate Fund. Liu resides in Taiwan but spends 50% of his time in the People's Republic of China and provides Ng and the board with important insights into developments there.

Keith W. Renken, a former senior partner at Deloitte & Touche (which happens to be Ng's old firm), brought his financial expertise to the board in 2000 and chairs the credit and finance committee. Renken has been designated by the board as a financial expert. Peggy Cherng—CEO of the Panda Restaurant Group—joined the board in 2002. A successful Chinese businesswoman whose company focuses on the mainstream U.S. consumer marketplace, "Cherng also understands what it means to be a CEO," Ng says. Also coming on the board that same year was John Kooken, a former chief financial officer at the old Security Pacific Corp. He

later served as a director of Golden State Bancorp, and Ng asked him to join the East West board after Golden State was acquired by Citigroup. Kooken chairs the audit committee and also has been designated as a financial expert.

EAST WEST BANCORP

DOMINIC NG
CHAIRMAN

BOARD MEMBERS

Peggy Cherng	Herman Y. Li
Rudolph Estrada	Jack C. Liu, Esq.
John Kooken	Keith W. Renken
John Lee	

Rounding out the board is Rudolph Estrada, a one-time commissioner on the White House Commission on Small Business in the Clinton administration, who brings knowledge of the Hispanic marketplace—another ethnic group in which Ng is interested—and former Standard Bank chairman John Lee, who brings his lengthy experience in the Chinese-American banking sector. Interestingly, Lee was East West's first general manager when the bank started in the mid-1970s.

Kooken notes that the East West board is an eclectic collection of individuals and backgrounds. "They all bring something different to the table," he says.

According to Kooken, the board reviews the company's strategy during a one-day strategic planning session every December. It also reserves time on the agenda of every regular board meeting to review one aspect of the company's strategy, and usually hears presentations from senior managers within the company. Kooken characterizes Ng as a strong CEO—"Much of what happens around here reflects Dominic and what he thinks is the right thing to do," he says—but says he does listen to his board. "We have been very supportive of the [company's strategic] plan, but [management] is open to suggestions," he says.

Last fall, East West received a very high score—99.6 out of a possible 100—from Institutional Shareholder Services on its corporate governance analysis, a closely watched rating of the governance practices and policies of public companies. Kooken says the board takes corporate governance seriously—a remark that is strongly endorsed by Ng himself.

"Our directors have good reputations, and they're not going to have us running around and doing something crazy," he says. **|BD|**

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