

BANK OF THE WEST AND SUBSIDIARIES

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Report of Independent Auditors

To the Board of Directors and Stockholders
of Bank of the West and its Subsidiaries:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, consolidated statements of changes in equity and comprehensive income, and consolidated statements of cash flows present fairly, in all material respects, the financial position of Bank of the West and its subsidiaries (the “Bank”) at December 31, 2011 and December 31, 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Bank’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
San Francisco, CA
March 5, 2012

BANK OF THE WEST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(dollars in thousands)	Year Ended December 31,	
	2011	2010
Interest income		
Loans	\$1,891,344	\$1,997,946
Lease financing	134,069	144,464
Securities available for sale	188,237	181,550
Other	5,797	4,470
Total interest income	<u>2,219,447</u>	<u>2,328,430</u>
Interest expense		
Deposits	156,459	255,502
Short-term borrowings	637	863
Long-term debt	154,108	289,020
Total interest expense	<u>311,204</u>	<u>545,385</u>
Net interest income	<u>1,908,243</u>	<u>1,783,045</u>
Provision for credit losses	<u>319,865</u>	<u>512,782</u>
Net interest income after provision for credit losses	<u>1,588,378</u>	<u>1,270,263</u>
Noninterest income		
Service charges on deposit accounts	153,698	173,556
Trust and investment services income	18,684	17,647
Brokerage service fees	41,105	46,336
Credit and debit card fees	109,503	102,789
Other service charges and fees	98,240	89,323
Net gains (losses) on debt securities available for sale ⁽¹⁾	34,099	(35,951)
Income from bank-owned life insurance	23,318	21,624
Net gains on customer accommodation derivatives	15,603	10,271
Loss on credit guarantee derivative	(6,351)	(73,201)
Write-downs of other real estate owned assets, net	(34,174)	(36,770)
Other	60,935	43,058
Total noninterest income	<u>514,660</u>	<u>358,682</u>
Noninterest expense		
Salaries and employee benefits	764,103	697,617
Occupancy	131,606	134,434
Outside services	124,201	125,089
FDIC assessments	61,886	85,060
Intangible amortization	51,455	55,712
Equipment	56,328	56,558
Advertising and marketing	38,618	41,817
Collection and repossession	47,320	33,710
Other	132,478	124,008
Total noninterest expense	<u>1,407,995</u>	<u>1,354,005</u>
Income before income taxes and noncontrolling interest	<u>695,043</u>	<u>274,940</u>
Income tax expense	<u>251,936</u>	<u>89,600</u>
Net income before noncontrolling interest	<u>443,107</u>	<u>185,340</u>
Net income attributable to noncontrolling interest	<u>1,096</u>	<u>740</u>
Net income attributable to Bank of the West	<u>\$ 442,011</u>	<u>\$ 184,600</u>

⁽¹⁾ Includes other-than-temporary impairment (OTTI) losses of \$1.9 million and \$8.2 million recognized in earnings (\$1.9 million and \$12.3 million of total OTTI losses, net of nil and \$4.1 million recognized in other comprehensive income) for the years ended December 31, 2011 and 2010, respectively.

The accompanying notes are an integral part of these consolidated financial statements.

BANK OF THE WEST AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except per share amounts)	December 31,	
	2011	2010
Assets		
Cash and due from banks	\$ 763,987	\$ 683,530
Interest-bearing deposits in other banks	2,832,249	118,738
Trading assets	6,000	5,500
Securities available for sale	7,717,655	6,128,762
Loans held for sale	244,509	107,440
Loans and leases:		
Loans and leases	43,427,394	43,007,720
Less allowance for loan and lease losses	870,188	1,059,017
Net loans and leases	42,557,206	41,948,703
Premises and equipment, net	451,035	446,469
Customers' acceptance liability	4,101	7,469
Goodwill	4,201,513	4,201,143
Other intangibles, net	170,447	205,700
Other real estate owned and repossessed personal property	156,049	195,017
Interest receivable	167,562	158,852
Bank-owned life insurance	1,301,847	1,289,392
Other assets	1,834,144	2,156,111
Total assets	\$62,408,304	\$57,652,826
Liabilities and Equity		
Deposits:		
Interest-bearing	\$32,261,182	\$28,257,259
Noninterest-bearing	11,734,014	11,289,985
Total deposits	43,995,196	39,547,244
Federal funds purchased and securities sold under agreements to repurchase	352,060	733,172
Short-term borrowings	1,560	6,465
Acceptances outstanding	4,101	7,469
Long-term debt	5,676,868	5,812,535
Liability for pension benefits	202,057	162,769
Other liabilities	964,004	761,593
Total liabilities	51,195,846	47,031,247
Equity:		
Common stock, par value \$0.001 per share in 2011 and 2010		
Authorized — 20,000,000 shares		
Issued and outstanding — 5,548,359 shares at December 31, 2011 and 2010	6	6
Additional paid-in capital	9,730,732	9,728,178
Retained earnings	1,469,882	1,027,871
Accumulated other comprehensive loss	(10,664)	(158,325)
Total Bank of the West stockholder's equity	11,189,956	10,597,730
Noncontrolling interest	22,502	23,849
Total equity	11,212,458	10,621,579
Total liabilities and equity	\$62,408,304	\$57,652,826

The accompanying notes are an integral part of these consolidated financial statements.

BANK OF THE WEST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY AND COMPREHENSIVE INCOME

(dollars in thousands)	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Bank of the West Stockholder's Equity	Non- controlling Interest	Total Equity
	Shares	Amount						
Balance, January 1, 2010	5,039,194	\$5	\$8,332,394	\$ 843,271	\$(234,584)	\$ 8,941,086	\$ 5,774	\$ 8,946,860
Comprehensive income:								
Net income	-	-	-	184,600	-	184,600	740	185,340
Other comprehensive income (loss), net of tax:								
Pension	-	-	-	-	(7,394)	(7,394)	-	(7,394)
Net change in unrealized gains on securities available for sale	-	-	-	-	76,651	76,651	-	76,651
Net change in unrealized gains on cash flow derivative hedges	-	-	-	-	7,002	7,002	-	7,002
Comprehensive income	-	-	-	184,600	76,259	260,859	740	261,599
Stock options	-	-	2,333	-	-	2,333	-	2,333
Stock issuance	509,165	1	1,000,000	-	-	1,000,001	-	1,000,001
Capital infusion	-	-	393,451	-	-	393,451	-	393,451
Noncontrolling interest	-	-	-	-	-	-	17,335	17,335
Balance, December 31, 2010	5,548,359	\$6	\$9,728,178	\$1,027,871	\$(158,325)	\$10,597,730	\$23,849	\$10,621,579
Comprehensive income:								
Net income	-	-	-	442,011	-	442,011	1,096	443,107
Other comprehensive income (loss), net of tax:								
Pension	-	-	-	-	(26,034)	(26,034)	-	(26,034)
Net change in unrealized gains on securities available for sale	-	-	-	-	168,770	168,770	-	168,770
Net change in unrealized gains on cash flow derivative hedges	-	-	-	-	4,925	4,925	-	4,925
Comprehensive income	-	-	-	442,011	147,661	589,672	1,096	590,768
Stock options	-	-	2,554	-	-	2,554	-	2,554
Noncontrolling interest	-	-	-	-	-	-	(2,443)	(2,443)
Balance, December 31, 2011	5,548,359	\$6	\$9,730,732	\$1,469,882	\$ (10,664)	\$11,189,956	\$22,502	\$11,212,458

The accompanying notes are an integral part of these consolidated financial statements.

BANK OF THE WEST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)	Year Ended December 31,	
	2011	2010
Cash flows from operating activities		
Net income	\$ 442,011	\$ 184,600
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	319,865	512,782
Net (gains) losses on securities available for sale	(34,099)	35,951
Net gains on sale of loans	(22,006)	(21,620)
Net increase in trading assets	(500)	(393)
Depreciation, amortization and accretion, net	195,168	168,777
Deferred income taxes	(24,060)	(18,899)
Decrease in interest receivable and other assets	72,510	39,858
Increase in interest payable and other liabilities	142,678	141,907
Change in fair value of credit guarantee derivative	6,351	73,201
Originations of loans held for sale	(1,092,158)	(1,052,128)
Proceeds from sales of loans held for sale	1,123,551	1,046,169
Other, net	82,383	49,217
Net cash provided by operating activities	1,211,694	1,159,422
Cash flows from investing activities		
Securities available for sale:		
Proceeds from maturities and prepayments	1,429,134	3,100,984
Proceeds from sales	4,423,454	2,524,515
Purchases	(7,163,979)	(5,241,818)
Net (increase) decrease in loans resulting from originations and collections	(1,325,460)	521,729
Purchases of loans and leases	(105,473)	(68,514)
Proceeds from sales of loans	188,394	37,891
Purchase of premises, equipment and software	(83,112)	(55,738)
Decrease in bank-owned life insurance investments	10,863	6,481
Other, net	159,665	182,292
Net cash (used) provided by investing activities	(2,466,514)	1,007,822
Cash flows from financing activities		
Net increase (decrease) in deposits	4,568,447	(488,381)
Net (decrease) increase in short-term borrowings under three months	(386,483)	211,680
Proceeds from issuance of short-term borrowings	468	5,371
Proceeds from issuance of long-term debt	2,100,000	-
Repayment of long-term debt	(2,232,297)	(3,741,704)
Proceeds from issuance of common stock	-	1,000,001
Noncontrolling interest	(1,347)	2,966
Net cash provided (used) by financing activities	4,048,788	(3,010,067)
Net increase (decrease) in cash and cash equivalents	2,793,968	(842,823)
Cash and cash equivalents at beginning of year	802,268	1,645,091
Cash and cash equivalents at end of year	\$ 3,596,236	\$ 802,268
Supplemental disclosures		
Interest paid	\$ 322,457	\$ 577,167
Income taxes paid	324,291	48,016
Noncash investing and financing activities:		
Capital infusion	-	393,451
Transfer from deposits for the settlement of credit guarantee derivative	120,495	169,521
Transfers into loans held for sale	259,037	42,136
Transfers from loans to foreclosed properties	126,882	171,432
Increase in loans and leases due to consolidation of variable interest entities	-	15,109

The accompanying notes are an integral part of these consolidated financial statements.

1. Organization and Summary of Significant Accounting Policies

Bank of the West (“BOW”) is a State of California chartered bank. BOW has 659 retail branch banking locations (645 full service retail branches and 14 limited service retail offices) and other commercial banking offices located in Arizona, California, Colorado, Idaho, Iowa, Kansas, Minnesota, Missouri, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Utah, Washington, Wisconsin and Wyoming providing a wide range of financial services to both consumers and businesses. BOW also has branches serving Pacific Rim customers, specializing in domestic and international products and services in predominantly Asian American communities. In addition, the Bank has a commercial banking office in New York and an offshore office in the Cayman Islands. Lending and other services focus on corporate, consumer and smaller middle market businesses. Bank of the West’s principal subsidiaries include Essex Credit Corporation (“Essex”), BW Insurance (“BWI”) and BancWest Investment Services, Inc. (“BWIS”). The terms “the Bank,” “we,” “our,” “us” and similar terms as used in this report refer to Bank of the West and its subsidiaries.

BancWest Corporation (“BancWest”), a financial holding company, as of December 31, 2011 and 2010, owned 100% and 83.22% of the outstanding common stock of the Bank, respectively. The balance of the Bank’s common stock at December 31, 2010 was held by BNP Paribas (“BNPP”). During 2011, BancWest repaid the outstanding debt owed to BNPP that was collateralized by these common shares of the Bank’s stock. The Bank issued 509,165 shares of common stock to BancWest in 2010, which received the related funding from BNPP. The Bank also had authorized 1,000,000 shares of preferred stock, none of which were issued or outstanding at December 31, 2011 and 2010.

BancWest is a wholly owned subsidiary of BNPP, a financial institution based in France. BancWest’s other bank subsidiary (wholly owned) is First Hawaiian Bank.

Regulation

The Bank’s primary regulators are the Federal Deposit Insurance Corporation (“FDIC”) and the California Department of Financial Institutions. The Bank is a member of the Federal Home Loan Bank System and is required to maintain an investment in the capital stock of the Federal Home Loan Bank (“FHLB”). The Bank maintains insurance on its customer deposit accounts with the FDIC, which requires quarterly assessments of deposit insurance premiums.

Basis of Presentation

The accounting and reporting policies of the Bank and its subsidiaries conform to accounting principles generally accepted in the United States (“GAAP”). The accompanying consolidated financial statements include the accounts of the Bank and all of its wholly-owned, majority-owned or controlled subsidiaries and variable interest entities (“VIEs”) if the Bank determines it is the primary beneficiary. All material intercompany transactions among the Bank and its consolidated entities have been eliminated.

For consolidated entities where it holds less than a 100% interest, the Bank reports income or loss attributable to noncontrolling shareholders in the consolidated statements of income, and the equity interest attributable to noncontrolling shareholders in the equity section of the consolidated balance sheets.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in accordance with GAAP requires management to make judgments using estimates and assumptions. Actual results could differ from these estimates and assumptions.

Reclassifications

Certain amounts in the financial statements and notes thereto for the prior year have been reclassified to conform to the current financial statement presentation.

Cash and Due from Banks

Cash and due from banks include amounts due from other financial institutions as well as in-transit clearings. For purposes of the consolidated statement of cash flows, the Bank includes as cash and cash equivalents, cash and due from banks, interest-bearing deposits in other banks and federal funds sold and securities purchased under agreements to resell (with original maturities of less than three months).

Securities

Securities are classified as trading, available for sale or held-to-maturity.

Securities used for trading purposes are classified as trading and are carried at fair value with unrealized gains and losses included in the consolidated statements of income.

Investments in debt securities and marketable equity securities having readily determinable fair values and not used for trading purposes are classified as available for sale and are carried at estimated fair value with net unrealized gains and losses included in accumulated other comprehensive income (loss), net of applicable income taxes. Amortization of premiums and accretion of discounts for the available for sale securities are included in interest income. Upon sale, realized gains and losses are reported in earnings. Refer to Note 16 for information on fair value measurement of the securities.

Nonmarketable equity securities are carried at cost and included in other assets.

The Bank evaluates its investment securities portfolio for impairment on a quarterly basis. The cost basis of a security is written down through a charge to earnings when a decline in fair value below amortized cost is considered to be other-than-temporary (“OTTI”). The new cost basis is not increased for subsequent recoveries in fair value.

For a debt security, OTTI is recognized in earnings when the Bank intends to sell or will more likely than not be required to sell before recovery of its amortized cost basis. However, even if the Bank does not intend to sell the security, we evaluate the expected cash flows to be received on the security to determine if a potential credit loss exists, which is recognized as a charge to earnings. Amounts relating to factors other than credit losses are recorded in other comprehensive income (“OCI”). For equity securities, the Bank evaluates the securities for OTTI based on the length of time fair value is below cost and the severity of the differences, the Bank’s intent and ability to hold the security until forecasted recovery of the fair value of the security, and the investee’s financial condition and capital strength.

Loans Held for Sale

Loans that the Bank intends to sell are classified as held for sale (“HFS”) and are carried at the lower of cost or fair value. Fair value is determined on an individual loan basis and collective basis for commercial and consumer loans, respectively. Fair value is measured based on collateral value, estimated cash flows or prevailing market prices for loans with similar characteristics. Any excess between cost and fair value upon transfer to held for sale is recorded through the allowance for credit losses. Subsequent declines in fair value or recoveries of such declines are recognized as increases or decreases in a valuation allowance and reported in noninterest income. Gains and losses upon sale are reported as part of noninterest income.

Loan origination fees and direct costs on loans held for sale are deferred until the related loan is sold and recognized in noninterest income upon sale.

For consumer loans originated for sale, the Bank enters into short-term loan commitments to fund the loans that it originates at specified rates and also enters into forward commitments to sell those loans at specified prices. Such interest rate lock commitments to fund the loans and the commitments to sell those loans are accounted for as derivatives at fair value with subsequent changes in fair value recorded through noninterest income.

Loans and Leases

Loans and leases make up a portfolio that the Bank has the intent and the ability to hold for the foreseeable future or until maturity or payoff. The Bank's loans and lease portfolio is divided into two portfolio segments, which are the same segments used by the Bank to determine the allowance for credit losses, commercial and consumer. The portfolio segments are well diversified by borrower, collateral and industry. The Bank further disaggregates its portfolio segments into various classes of loans for purposes of monitoring and assessing credit risk as described below.

Commercial Loans

The Bank disaggregates the commercial loan portfolio into the following classes:

- Loans to businesses for commercial, industrial and professional purposes ("Commercial & industrial");
- Loans that are secured by real estate properties ("Commercial real estate");
- Loans secured by real estate to finance land development and construction of industrial, commercial, residential or farm building ("Construction");
- Indirect and direct leases to finance commercial equipment purchases ("Equipment leases");
- Loans to finance agricultural production and other loans to farmers ("Agriculture").

Consumer Loans

The Bank disaggregates the consumer loan portfolio into the following classes:

- Consumer loans and leases such as autos, marine, recreational vehicles, personal lines of credit and credit cards ("Installments and lines");
- Closed-end loans secured by first and junior liens on 1-4 family residential properties ("Residential secured – closed-end");
- Revolving, open-end loans secured by 1-4 family residential properties ("Residential secured – revolving, open-end").

Loans that the Bank originates are recorded at the principal amount outstanding, net of unamortized deferred loan origination fees and costs. Loans purchased by the Bank are initially measured at fair value at the date of acquisition at a premium or discount, as appropriate. At the time of acquisition, the seller's estimate for expected credit losses is not carried over or recorded by the Bank as a credit loss allowance against the loans (see Allowance for Credit Losses below).

Net deferred fees or costs and premiums and discounts are recognized in earnings over the contractual term of the loans, adjusted for actual prepayments, using the interest method or on a straight line basis for revolving loans.

Interest income is accrued unless the loan is determined to be impaired and placed on nonaccrual status (see Nonaccrual Loans and Leases below). The Bank recognizes unaccrued or unamortized fees, costs, premiums and discounts on loans and leases paid in full as a component of interest income.

Direct financing leases are carried at the aggregate of lease payments receivable plus estimated residual value less unearned income. Unearned income on financing leases is accreted over the lives of the leases to provide a constant periodic rate of return on the net investment in the lease. The Bank reviews commercial lease residual values at least annually and recognizes residual value impairments that are deemed to be other-than-temporary through earnings.

The Bank also charges other loan and lease fees consisting of delinquent payment charges and servicing fees, including fees for servicing loans sold to third parties, and recognizes such fees as income when earned.

Nonaccrual Loans and Leases

The Bank generally places a loan or lease on nonaccrual status when management believes that full and timely collection of principal or interest has become doubtful; or it is 90 days past due as to principal or interest payments based on its contractual terms, unless it is well secured and in the process of collection. The Bank determines loans to be past due if payment is not received in accordance with contractual terms.

When the Bank places a loan or lease on nonaccrual status, previously accrued but uncollected interest is reversed against interest income of the current period. When there are doubts about the ultimate collection of the recorded balance on a nonaccrual loan or lease, cash payments by the borrower are applied as a reduction of the principal balance, under the cost recovery method. Otherwise, the Bank records such payments as income.

Nonaccrual loans and leases are generally returned to accrual status when either (1) they become current as to principal and interest, there is a sustained period of repayment performance by the borrower and the bank expects payment of remaining contractual principal and interest; or (2) they are both well secured and in the process of collection.

Not all impaired loans or leases are placed on nonaccrual status; for example, restructured loans performing under restructured terms beyond a specific period may be classified as accruing, but may still be deemed impaired (see Allowance for Credit Losses and Troubled Debt Restructurings below).

Allowance for Credit Losses

The Bank maintains an allowance for loan and lease losses (the "Allowance") against the carrying value of the loans and leases to absorb estimated probable credit losses within the portfolio. The Allowance is maintained at a level which, in management's judgment, is adequate to absorb probable losses that have been incurred and can be reasonably estimated as of the balance sheet date. The Allowance is increased through provisions for loan and lease losses charged to earnings and reduced by principal charge-offs, net of recoveries.

The Allowance consists of two components, allocated and unallocated. The Bank determines the allocated component of the Allowance by measuring credit impairment on (i) an individual basis for larger balance loans in the commercial portfolio that are on nonaccrual status and commercial and mortgage loans in a troubled debt restructuring, and (ii) on a collective basis for groups of loans with similar risk characteristics and large groups or pools of homogeneous loans with smaller balances that are not evaluated on a case-by-case basis such as credit card, residential mortgages and consumer installment loans.

The Bank considers a loan to be impaired on an individual basis when, based on current information and events, it is probable that it will be unable to collect all amounts due according to the contractual terms of the loan. The Bank measures impairment by comparing the present value of the expected future cash flows discounted at the loan's effective interest rate with the recorded investment in the loan, except for collateral-dependent loans. For collateral dependent loans, the Bank measures impairment by comparing the fair value of the collateral on an "as-is" basis less disposition costs with the recorded investment in the loan. On a case-by-case basis, the Bank may measure impairment based upon a loan's observable market price.

For loans assessed on a collective basis, the calculation of the allocated reserve considers historical loss experience for each type of loan, management's ongoing review of internal risk ratings and associated trends and factors including:

- Trends in the volume and severity of delinquent loans, nonaccrual loans, troubled debt restructuring and other loan modifications;
- Trends in the quality of risk management and loan administration practices including findings of internal and external reviews of loans and effectiveness of collection practices;

- Changes in the quality of the Bank’s risk identification process and loan review system;
- Changes in lending policies and procedures including underwriting standards and collection, charge-off and recovery practices;
- Changes in the nature and volume of the loan portfolio;
- Changes in the concentration of credit and the levels of credit;
- Changes in the national and local economic business conditions, including the condition of various market segments.

The unallocated component of the Allowance is maintained to cover uncertainties in our estimate of credit losses. While the Bank’s allocated reserve methodology strives to reflect all risk factors, there may still be certain unidentified risk elements. The purpose of the unallocated reserve is to capture these factors. The relationship of the unallocated component to the total Allowance may fluctuate from period to period. Management evaluates the adequacy of the Allowance based on the combined total of allocated and unallocated components.

In addition to the Allowance, we also maintain a reserve for losses on unfunded loan commitments and letters of credit which is recorded within other liabilities. We determine this reserve using estimates of the probability of the ultimate funding and losses related to those credit exposures based on a methodology similar to our methodology for determining the Allowance.

While the Bank has a formal methodology to determine the adequate and appropriate level of the allowance for credit losses, estimates of inherent loan, lease and unfunded commitment losses involve judgment and assumptions as to various factors, including current economic conditions. Management’s determination of adequacy of the total allowance for credit losses is based on quarterly evaluations of the above factors. Accordingly, the provision for credit losses will vary from period to period based on management’s ongoing assessment of the adequacy of the Allowance. See Note 5 for discussion on how the Bank’s experience and current economic conditions have influenced management’s determination of the Allowance.

Charge-off and Recovery Policies for Loans and Leases

The Bank’s policy is to charge off a loan or lease when there is evidence that the loan or lease balance is uncollectible. A commercial loan or lease that is individually assessed for impairment is charged off when potential recovery of the recorded loan balance is uncertain as a result of shortfall in collateral value or borrowers’ financial difficulty. Consumer installment loans and leases are generally charged off, partially or fully, upon reaching a predetermined delinquency status that ranges from 120 to 180 days depending on the type of consumer installment loans and leases.

Recoveries of amounts that have previously been charged off are credited to the Allowance and are generally recorded only to the extent that cash or other assets are received.

Troubled Debt Restructurings

On July 1, 2011, we adopted an amendment to the accounting guidance related to the classification of loans as TDRs. This amendment clarified when a restructuring such as a loan modification is considered a TDR. For additional information, see “Recent Accounting Standards – A Creditor’s Determination of Whether a Restructuring is a Troubled Debt Restructuring,” below.

In situations where 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, the related loan is classified as a troubled debt restructuring (“TDR”). Concessions generally include modifications to the loan’s terms, including but not limited to interest rate modifications and reductions, principal or interest forgiveness, term extensions or renewals, or any other actions that may minimize the potential economic loss to the Bank.

A nonaccrual loan involved in a TDR continues to be recorded as nonaccrual until some period of performance on the restructured terms, generally six months, can be evidenced. Loans whose contractual terms have been modified in a TDR and are current at the time of restructuring remain on accrual status if payment in full under the restructured terms is expected.

Regardless of its accrual status, the Bank continues to measure and recognize impairment on an individual basis for its restructured commercial loans. For residential secured loans, we assess for individual impairment at time of restructure.

Premises and Equipment

Premises and equipment, including leasehold improvements, are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives as follows:

Premises	10-39 years
Furniture and equipment	3-20 years
Leasehold improvements	Shorter of the lease term or estimated remaining life

We periodically evaluate our long-lived assets for impairment. We perform these evaluations whenever events or changes in circumstances suggest that the carrying amount of an asset or group of assets is not recoverable. If impairment recognition criteria are met, an impairment charge would be reported in noninterest expense. For the years ended December 31, 2011 and 2010, the Bank's evaluation did not result in any impairment.

Goodwill

The net assets of entities acquired by the Bank are recorded at their estimated fair value at the acquisition date, and the excess of the cost of an acquired entity over the fair value of the identifiable net assets acquired represents goodwill.

Goodwill is not amortized, but is tested for impairment annually, or whenever events or changes in circumstances suggest that the carrying value may not be recoverable. The Bank first compares the fair value of an identified reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying value, the goodwill of the reporting unit is not considered impaired. Otherwise, the Bank measures impairment as the difference between the recorded goodwill and the implied fair value of the reporting unit's goodwill.

Other Intangible Assets

Core deposit and other intangible assets determined to have finite lives are amortized over their estimated useful lives. They are generally amortized using accelerated methods over estimated useful lives of five to ten years. The Bank reviews core deposit intangibles for impairment annually or whenever events or changes in circumstance indicate that we may not recover our investment in the underlying deposits. Other finite-lived intangible assets are reviewed for impairment whenever events or changes in circumstance suggest the carrying value may not be recoverable.

Internal-use Software Development Costs

The Bank incurs costs to purchase and develop computer software, classified as other intangibles. The treatment of costs to purchase or develop the software depends on the nature of the costs and the stage of construction. Costs incurred in the initial design and evaluation phase, such as the cost of performing feasibility studies and evaluating alternatives are charged to expense. Costs incurred in the committed project planning and design phase, and in the construction and installation phase, are capitalized as part of the cost of the software. The Bank stops capitalizing costs when the software is substantially completed and ready for its intended use at which point it begins to amortize.

Internal-use software development costs are amortized over their estimated useful lives, generally five to seven years. The Bank reviews internal-use software development costs for impairment annually or

whenever changes in circumstances indicate that the carrying amount of the assets may not be recoverable from their expected use and eventual disposition. If such an asset is considered impaired, the impairment to be recognized is measured as the amount by which the carrying basis of the asset exceeds its fair value.

Other Real Estate Owned and Repossessed Personal Property

Other real estate owned (“OREO”) and repossessed personal property are primarily comprised of properties that we acquired through foreclosure proceedings. Assets acquired in satisfaction of a defaulted loan are recorded at fair value upon acquisition. The amount by which the recorded investment in the loan exceeds the fair value (less estimated costs to sell) is charged off against the Allowance. The amount by which the fair value (less estimated costs to sell) exceeds the recorded investment in the loan is recognized first against prior charge-off (as a recovery) with any excess recognized through noninterest income. Subsequent declines in fair value and recoveries in those declines of the assets are recognized in a valuation allowance through noninterest income. Gains and losses upon sale of the foreclosed asset are reported as part of noninterest income.

Transfers and Servicing of Financial Assets

The Bank enters into loan participations and loan sales, including originations to sell residential mortgage loans to the Federal National Mortgage Association (“FNMA”). The Bank records these transactions as sales and derecognizes the financial assets in accordance with GAAP.

Any interests in the loans retained by the Bank in a participation are recognized by allocating the carrying amount of the loans between the participating interests sold and interests retained based on their relative fair values at the date of transfer. Gain or loss on the sale of the participating interests is based on the proceeds received and the allocated carrying amount of assets transferred.

The Bank retains the servicing on mortgage loans sold which is recognized as a mortgage servicing right (“MSR”) on our balance sheet in other intangibles, net. Our servicing activities include collecting principal, interest, tax and insurance payments from borrowers while accounting for and remitting payments to investors on behalf of the borrowers. MSRs are initially recognized at fair value at the date of transfer as a component of the sales proceeds and subsequently amortized and carried at the lower of cost or fair value. Fair value of MSRs is determined based on the present value of estimated future net servicing income. The MSRs are amortized over the estimated period that net servicing income is expected to be received. Projections of the amount and timing of estimated future net cash flows are calculated using management’s best estimates including, prepayment speeds, forward yield curves and default rates. These estimates are updated based on actual results, industry trends and other economic considerations.

The Bank periodically evaluates its MSR assets for impairment by evaluating the fair value of those assets based on a disaggregated, discounted cash flow method. For purposes of measuring impairment, MSRs are stratified based on predominant risk characteristics, such as loan category or maturity. We assess impairment using a present value of expected cash flows model for each strata based upon assumptions for estimated servicing income and expense as discussed in Note 3, Loans Held for Sale and Servicing Activity. The impairment, if any, is measured as the amount by which the carrying value of the servicing right strata exceeds its estimated fair value. Impairment is recognized through a valuation allowance and a charge to earnings if it is considered to be temporary or through a direct write-down of the asset and a charge to earnings if it is considered other than temporary.

Securities purchased under agreements to resell and securities sold under agreements to repurchase are treated as collateralized financing transactions and are recorded at the amounts at which the securities were acquired or sold plus accrued interest. The fair value of collateral either received from or provided to a third party is continually monitored and additional collateral is obtained or is requested to be returned to the Bank as in accordance with the agreement. The Bank or a custodian holds all collateral.

Fair Value

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Fair value is defined as the exchange price that would be received

for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants on the measurement date. Trading assets, securities available for sale, certain other assets and certain liabilities are recorded at fair value on a recurring basis in accordance with applicable accounting guidance. The Bank may also be required to record other assets at fair value on a nonrecurring basis, such as loans held for sale and impaired loans held for investment. These nonrecurring fair value adjustments typically involve application of lower of cost or fair value accounting or write-downs of individual assets.

The Bank values its assets and liabilities based on observable market prices or parameters or derived from such prices or parameters, if available. If observable prices or inputs are not available, fair values are measured using valuation models. In the case of securities, fair values are adjusted for credit rating, prepayment assumptions, credit loss assumptions and market liquidity.

Fair value measurements are classified within one of three levels in a valuation hierarchy based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets to which the Bank has access on the measurement date.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. See Note 16 for more information regarding fair value measurements.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated to the U.S. dollar equivalent at the rate of exchange at the balance sheet date. Transactions in foreign currencies are translated to the U.S. dollar equivalent at the rate of exchange in effect at the time of the transaction. Foreign currency gains and losses are included in the consolidated statement of income within other noninterest income in the period in which they occur.

Lease Commitments

Lease commitments are transactions entered into by the Bank where the Bank is the lessee. Leases are classified as capital or operating depending on the terms and conditions of the contracts; the accounting for these leases depends on the nature of the lease transactions. For assets accounted for as capital leases, depreciation is recorded on a straight-line basis over the period of the lesser of the lease term or asset life. Lease obligations recorded under capital leases are reduced by lease payments net of imputed interest. Operating leases are contracts that do not transfer substantially all of the benefits and risk of ownership and do not meet the accounting requirements for capital lease classification. Operating lease payments are charged as rental expense on a straight-line basis over the lease term. Lease incentives received as part of the lease agreement are recognized as a reduction of rental expense on a straight-line basis over the term of the lease.

Income Taxes

The Bank is included in the consolidated federal income tax return filed by BancWest. We also file various combined and separate company state returns according to the laws of the particular state. Federal and state income taxes are generally allocated to individual subsidiaries as if each had filed a separate return. Amounts equal to income tax benefits of those subsidiaries having taxable losses or credits are reimbursed by other subsidiaries which would have incurred current income tax liabilities.

The Bank recognizes current income tax expense in an amount which approximates the amount of tax to be paid or refunded for the current period. The Bank recognizes deferred income tax liabilities and assets for the expected future tax consequences of events that the Bank includes in our financial statements or tax returns. Under this method, the Bank determines deferred income tax liabilities and assets based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the years in which the differences are expected to reverse. Deferred tax assets are recognized if it is more likely than not that they will be realized. Realization is dependent on generating sufficient taxable income prior to expiration of any loss carry forward balance. The Bank's net tax asset is presented as a component of other assets.

Income tax benefits are recognized and measured based upon a two-step model: (1) a tax position must be more-likely-than-not to be sustained based solely on its technical merits in order to be recognized, and (2) the benefit is measured as the largest dollar amount of that position that is more-likely-than-not to be sustained upon settlement. The difference between the benefit recognized and the tax benefit claimed on the return is referred to as an unrecognized tax benefit. Foreign taxes paid are generally applied as credits to reduce federal income taxes payable. Tax-related interest is recognized as a component of income tax expense. Penalties are recognized as a component of other noninterest expense.

Derivative Instruments and Hedging Activities

Derivatives are recognized on the consolidated balance sheet at fair value and designated as (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value" hedge), (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow" hedge) or (3) held for trading, customer accommodation or not designated for hedge accounting ("free standing derivative instrument").

The Bank formally documents the relationship between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. The Bank also formally assesses both at the inception of the hedge and on a quarterly basis, whether the derivative instruments are considered effective in offsetting changes in fair values of or cash flows related to hedged items. For a fair value hedge, changes in the fair value of the derivative instrument and changes in the fair value of the hedged asset or liability or of an unrecognized firm commitment attributable to the hedged risk are recorded in current period income. For a cash flow hedge, to the extent that the hedge is considered effective, changes in the fair value of the derivative instrument are recorded in other comprehensive income within stockholder's equity. The fair value is subsequently reclassified into the income statement in the same period and classification of the hedged transaction. Any portion of the changes in fair value of derivatives designated as a hedge that is deemed ineffective is recorded in current period earnings.

For free standing derivative instruments, changes in the fair values are reported in current period income.

Valuations of derivative assets and liabilities reflect the value of the instrument including the values associated with counterparty risk and the Bank's own credit standing; refer to Note 15, Derivative Financial Instruments for additional information.

The Bank occasionally purchases or originates financial instruments that contain embedded features that may require recognition as separate embedded derivative instruments. Such embedded derivatives are separated from the hybrid financial instrument and carried at fair value with changes recorded in current period earnings.

Recent Accounting Standards

The following Accounting Standard Updates (“ASU”) were issued during the year by the Financial Accounting Standards Board (“FASB”) and are applicable to the Bank:

ASU No. 2011-02: Receivables (Topic 310) – A Creditor’s Determination of Whether a Restructuring is a Troubled Debt Restructuring:

In April 2011, the FASB issued guidance to clarify existing standards for determining whether a modification represents a TDR from the perspective of the creditor. The guidance became effective in the third quarter of 2011 and must be applied retrospectively to January 1, 2011. Refer to Note 5 for the impact of the application of this guidance in 2011.

ASU No. 2011-04: Fair Value Measurement (Topic 820) – Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (International Financial Reporting Standards):

In May 2011, the FASB issued new guidance on the measurement of fair value and expanded disclosure requirements in an effort to develop a single, converged fair value framework between U.S. GAAP and IFRS. This ASU is largely consistent with the existing fair value measurement principles in U.S. GAAP; however it expanded the existing disclosure requirements for fair value and amended how the fair value measurement guidance in ASC 820 is applied. The amendments in this ASU are effective for the Bank for fiscal years beginning on January 1, 2012 and are to be applied prospectively.

ASU No. 2011-05: Comprehensive Income (Topic 220) – Presentation of Comprehensive Income:

In June 2011, the FASB issued revised guidance on the presentation of comprehensive income and its components in the financial statements. As a result of the guidance, the Bank will be required to present net income and other comprehensive income either in a single continuous statement or in two separate, but consecutive statements. The ASU does not change the items that must be reported in other comprehensive income or the determination of net income. The new guidance is applied retrospectively. This ASU is effective for the Bank for fiscal years beginning on January 1, 2012.

ASU No. 2011-08: Intangibles – Goodwill and Other (Topic 350) – Testing Goodwill for Impairment:

In September 2011, the FASB issued revised guidance intended to simplify how an entity tests goodwill for impairment. As a result of the guidance, an entity will be allowed to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity will not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The accounting guidance is effective for the Bank on January 1, 2012. The accounting guidance is not expected to have a material impact on the Bank’s consolidated financial statements.

ASU No. 2011-11: Balance Sheet (Topic 210): Disclosure about Offsetting Assets and Liabilities:

In December 2011, the FASB issued new disclosure requirements about the nature of an entity’s rights to setoff and related arrangements associated with its financial instruments and derivative instruments. The new disclosures are designed to make financial statements that are prepared under GAAP more comparable to those prepared under IFRS. This ASU is effective for the Bank for fiscal years beginning on January 1, 2013 and will be applied retrospectively.

ASU No. 2010-20: Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses:

In July 2010, the FASB issued new guidance that requires the Bank to provide more robust and disaggregated disclosures about the credit quality of financing receivables, allowances for credit losses and troubled debt restructurings. Except for troubled debt restructuring disclosures, the new disclosure guidance became effective for the Bank’s 2010 financial statements. New disclosures related to troubled debt restructurings are effective for our 2011 financial statements.

2. Securities Available for Sale

Amortized cost and fair value of securities available for sale at December 31, 2011 and 2010 were as follows:

(dollars in thousands)	2011				2010			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury and other U.S. Government agencies and corporations	\$1,009,189	\$ 18,776	\$ (382)	\$1,027,583	\$ 174,181	\$ 126	\$ (76)	\$ 174,231
Government sponsored agencies	119,233	541	(13)	119,761	483,192	958	(1,039)	483,111
Mortgage and asset-backed securities:								
Government agencies ⁽¹⁾	4,043,843	129,337	(283)	4,172,897	239,209	1,429	(1,116)	239,522
Government sponsored agencies ⁽¹⁾	1,444,937	30,776	(11)	1,475,702	1,178,263	33,605	(329)	1,211,539
Collateralized debt obligations	65,192	-	(20,059)	45,133	127,674	-	(60,682)	66,992
Collateralized loan obligations	171,510	-	(42,855)	128,655	223,390	-	(93,484)	129,906
Other asset-backed securities	1,782	44	(1)	1,825	8,546	50	(924)	7,672
Collateralized mortgage obligations:								
Government agencies	9,623	99	-	9,722	1,084,543	15,813	(828)	1,099,528
Government sponsored agencies	59,260	433	-	59,693	1,451,179	5,943	(19,699)	1,437,423
States and political subdivisions	649,698	25,091	(4,201)	670,588	1,299,297	18,885	(45,589)	1,272,593
Equity securities	6,160	254	(318)	6,096	6,244	271	(270)	6,245
Total securities available for sale	\$7,580,427	\$205,351	\$(68,123)	\$7,717,655	\$6,275,718	\$77,080	\$(224,036)	\$6,128,762

⁽¹⁾ Backed by residential real estate.

The following tables present the unrealized gross losses and fair values of securities in the available for sale portfolio by length of time that individual securities in each category have been in a continuous loss position.

(dollars in thousands)	December 31, 2011					
	Less Than 12 Months		12 Months or More		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
U.S. Treasury and other U.S. Government agencies and corporations	\$ (382)	\$146,753	\$ -	\$ -	\$ (382)	\$146,753
Government sponsored agencies	(13)	50,368	-	-	(13)	50,368
Mortgage and asset-backed securities:						
Government agencies ⁽¹⁾	(283)	127,828	-	-	(283)	127,828
Government sponsored agencies ⁽¹⁾	(10)	47,216	(1)	23	(11)	47,239
Collateralized debt obligations	-	-	(20,059)	45,133	(20,059)	45,133
Collateralized loan obligations	-	-	(42,855)	128,655	(42,855)	128,655
Other asset-backed securities	(1)	47	-	-	(1)	47
State and political subdivisions	(360)	9,975	(3,841)	59,255	(4,201)	69,230
Equity securities	-	-	(318)	5,824	(318)	5,824
Total securities available for sale	\$(1,049)	\$382,187	\$(67,074)	\$238,890	\$(68,123)	\$621,077

⁽¹⁾ Backed by residential real estate.

(dollars in thousands)	December 31, 2010					
	Less Than 12 Months		12 Months or More		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
U.S. Treasury and other U.S. Government agencies and corporations	\$ (75)	\$ 90,839	\$ (1)	\$ 330	\$ (76)	\$ 91,169
Government sponsored agencies	(1,039)	330,445	-	-	(1,039)	330,445
Mortgage and asset-backed securities:						
Government agencies ⁽¹⁾	(1,069)	189,008	(47)	890	(1,116)	189,898
Government sponsored agencies ⁽¹⁾	(329)	97,620	-	-	(329)	97,620
Collateralized debt obligations	-	-	(60,682)	66,992	(60,682)	66,992
Collateralized loan obligations	-	-	(93,484)	129,906	(93,484)	129,906
Other asset-backed securities	-	-	(924)	3,492	(924)	3,492
Collateralized mortgage obligations:						
Government agencies	(828)	141,128	-	-	(828)	141,128
Government sponsored agencies	(19,699)	695,627	-	-	(19,699)	695,627
State and political subdivisions	(27,740)	550,576	(17,849)	165,041	(45,589)	715,617
Equity securities	-	-	(270)	5,957	(270)	5,957
Total securities available for sale	<u>\$(50,779)</u>	<u>\$2,095,243</u>	<u>\$(173,257)</u>	<u>\$372,608</u>	<u>\$(224,036)</u>	<u>\$2,467,851</u>

⁽¹⁾ Backed by residential real estate.

For the securities in the above tables, at year-end we did not have the intent to sell and determined it was more likely than not that we would not be required to sell the securities prior to recovery of the amortized cost basis. We have also assessed each of the securities in the above tables for credit impairment. We frequently monitor the credit ratings of individual investments within our portfolio and believe that the majority of our unrealized loss positions are due to changes in interest rates and illiquidity within the markets. The Bank may occasionally sell securities at a loss when it decides to restructure portions of the portfolio due to changing market conditions. For equity securities, we consider numerous factors in determining whether impairment exists, including our intent and ability to hold the securities for a period of time sufficient to recover the securities' cost basis.

The following is a description of our security categories, including a description of the nature of the unrealized losses and other-than-temporary impairment ("OTTI") losses within our portfolio:

U.S. Treasury and other U.S. Government agencies and corporations

The unrealized losses associated with United States ("U.S.") Treasury and federal agency securities are driven primarily by changes in interest rates. We do not estimate any credit losses due to guarantees provided by the U.S. Government.

Government sponsored agencies

The unrealized losses associated with U.S. Government sponsored agencies are driven primarily by changes in interest rates. We do not estimate any credit losses due to backing provided by the United States Government.

Mortgage and asset-backed securities:

Government agencies and government sponsored agencies

The unrealized losses associated with federal agency mortgage-backed securities are primarily driven by changes in interest rates. These securities are issued by U.S. Government or government sponsored entities and do not have any expected credit losses given government guarantees.

Collateralized debt obligations

The unrealized losses associated with collateralized debt obligations for securities backed by trust preferred hybrid capital issued by other financial institutions are driven primarily by changes in interest rates and market illiquidity. We estimate credit impairment using a cash flow model that incorporates default rates, loss severities and prepayment rates.

Collateralized loan obligations

The unrealized losses associated with collateralized loan obligations, related to securities backed by commercial loans and individual corporate debt obligations, stem from changes in interest rates and market illiquidity. We estimate credit impairment using a cash flow model that incorporates default rates, loss severities and prepayment rates.

Other asset-backed securities

The unrealized losses associated with other asset-backed securities are driven by changes in interest rates and market illiquidity. These securities will continue to be monitored as part of our ongoing portfolio review process.

Collateralized mortgage obligations:**Government agencies and government sponsored agencies**

The unrealized losses associated with federal agency collateralized mortgage obligations are primarily driven by changes in interest rates. These securities are issued by U.S. Government or government sponsored entities and do not have any expected credit losses given government guarantees.

State and political subdivisions

The unrealized losses associated with securities of U.S. states and political subdivisions are primarily driven by changes in interest rates and illiquidity within the markets. These securities will continue to be monitored as part of our ongoing portfolio review process.

Equity securities

The unrealized losses on equity securities are associated with changes in market prices for Community Reinvestment Act-sponsored corporations. The unrealized losses are due to temporary declines in the equity markets.

Assessment of Other-Than-Temporary Impairment

The Bank tests for other-than-temporary impairment of investment securities on a quarterly basis. For 2011 and 2010, we recognized OTTI for certain of our debt securities classified as available for sale. Prior to recording OTTI, we assessed whether we intended to sell or if it was more likely than not that we would have been required to sell a security before recovery of its amortized cost basis, less any current period credit losses. For a debt security that is considered other-than-temporarily impaired that we did not intend to sell and will not be required to sell before recovery of its amortized cost basis less any current period credit losses, we separate the amount of the impairment into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in earnings and is the difference between the security's amortized cost basis and the present value of its expected future cash flows discounted at the security's original purchase yield (except for those securities that are beneficial interests in securitized financial assets). The remaining difference between the security's fair value and the present value of expected future cash flows is due to factors that are not credit related and, therefore, is not required to be recognized as a loss in the income statement, but instead is recognized in OCI. We believe that we will fully collect the carrying value of securities on which we have recorded a non-credit-related impairment in OCI.

All collateralized loan obligations and one municipal security that were other-than-temporarily impaired were sold and the related gains and losses were recognized in earnings in 2011. In 2010, previously other-than-temporarily impaired private label mortgage-backed and collateralized debt obligations backed by residential and trust preferred capital were sold. The slow economic recovery continues to negatively affect the creditworthiness of state and local governments, which could result in impairment as the Bank holds bonds issued from various local governments. However, the Bank has reduced its exposure to state and political subdivision debt significantly since 2010. Several other factors including the unemployment level, illiquidity, and credit rating downgrades could continue to negatively affect the real estate market and the value of our portfolio.

Gross realized gains and losses on securities available for sale for the periods indicated were as follows:

(dollars in thousands)	Year Ended December 31,	
	2011	2010
Realized gains	\$ 74,171	\$ 77,468
Realized losses ⁽¹⁾	(40,072)	(113,419)
Realized net gains (losses)	\$ 34,099	\$ (35,951)

⁽¹⁾ Includes other-than-temporary impairment recognized in the income statement of \$1.9 million and \$8.2 million for 2011 and 2010, respectively. The 2010 amount is net of a \$25 million recovery of OTTI.

The table below presents activity related to the credit component recognized in earnings on debt securities held by the Bank for which a portion of the OTTI loss remains in other comprehensive income for the years ending December 31, 2011 and 2010. The credit loss component represents the difference between the present value of expected future cash flows and the amortized cost basis of the security prior to considering credit losses. OTTI recognized in earnings for credit-impaired debt securities is presented as additions in two components based upon whether the current period is the first time the debt security was credit-impaired (initial credit impairment) or is not the first time the debt security was credit-impaired (subsequent credit impairments). The credit loss component is reduced if we sell, intend to sell or believe we will be required to sell previously credit-impaired debt securities. Additionally, the credit loss component is reduced if we receive or expect to receive cash flows in excess of what we previously expected to receive over the remaining life of the credit-impaired debt security, the security matures or is fully written down.

(dollars in thousands)	2011	2010
Balance, beginning of period	\$ 6,478	\$ 147,515
Additions related to the credit component of securities on which OTTI impairment losses were:		
Previously recognized	-	21,286
Not previously recognized	845	1,979
Reductions for securities sold	(7,323)	(164,302)
Balance, end of period	\$ -	\$ 6,478

The fair value, yield and amortized cost of securities available for sale at December 31, 2011, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because debt issuers may have the right to call or prepay obligations.

(dollars in thousands)	Total Amount	Weighted Average Yield	Remaining Contractual Principal Maturity							
			Within One Year		After One But Within Five Years		After Five Years But Within Ten Years		After Ten Years	
			Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. Treasury and other U.S. Government agencies and corporations	\$1,027,583	0.90%	\$ -	-%	\$ 840,632	0.87%	\$186,848	1.03%	\$ 103	2.44%
Government sponsored agencies	119,761	0.91	18,772	2.03	100,989	0.70	-	-	-	-
Mortgage and asset-backed securities:										
Government agencies	4,172,897	3.17	12	4.25	905	4.43	2,609	5.22	4,169,371	3.17
Government sponsored agencies	1,475,702	2.46	54	4.35	5,750	5.32	324,000	2.42	1,145,898	2.46
Collateralized debt obligations	45,133	1.21	-	-	-	-	-	-	45,133	1.21
Collateralized loan obligations	128,655	1.18	-	-	-	-	128,655	1.18	-	-
Other asset-backed securities	1,825	5.49	-	-	8	8.26	198	2.70	1,619	5.82
Collateralized mortgage obligations:										
Government agencies	9,722	1.08	-	-	-	-	-	-	9,722	1.08
Government sponsored agencies	59,693	1.70	-	-	-	-	59,693	1.70	-	-
State and political subdivisions ⁽¹⁾	670,588	6.19	12,017	5.92	105,236	5.99	69,797	5.86	483,538	6.29
Estimated fair value of debt securities ⁽²⁾	\$7,711,559	2.90%	\$30,855	3.55%	\$1,053,520	1.43%	\$771,800	2.13%	\$5,855,384	3.27%
Total amortized cost of debt securities	7,574,267		30,453		1,034,479		798,357		5,710,978	

⁽¹⁾ The weighted average yields were calculated on a taxable equivalent basis.

⁽²⁾ The weighted average yields, except for yields of state and political subdivisions, were calculated on the basis of the cost and effective yields weighted for the scheduled maturity of each security.

Securities with an aggregate carrying value of \$4.4 billion and \$4.6 billion were pledged to secure public deposits, repurchase agreements and derivative liability positions at December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, there were no secured parties that had the right to repledge or resell these securities.

We held no securities of any single issuer (other than the U.S. Government and government sponsored agencies) which were in excess of 10% of consolidated stockholder's equity at December 31, 2011 and 2010.

3. Loans Held for Sale and Servicing Activity

Loans held for sale include mortgage loans that we originate for sale to Fannie Mae ("FNMA") and certain commercial loans which we no longer intend to hold to maturity. Mortgage loans are sold to FNMA on a non-recourse basis for which we also retain the rights to service the sold loans. In addition, during 2011, we designated certain commercial loans for sale to non-affiliated parties on a non-recourse basis, of which approximately 90% were nonperforming. We do not have any continuing involvement in these nonperforming commercial loans after their sale.

The following table summarizes the activity on loans held for sale for the years ended December 31, 2011 and 2010:

(dollars in thousands)	2011		2010 ⁽¹⁾
	Commercial	Mortgage	Mortgage
Loans originated for sale	\$ -	\$1,092,515	\$1,052,128
Loans transferred to held for sale	259,037	-	42,136
Loans sold during the year	87,745	1,112,958	1,046,169
Net gains on sale of loans recorded in noninterest income	1,908	17,069	20,142

⁽¹⁾ We did not have any commercial loans held for sale in 2010.

For the years ended December 31, 2011 and 2010, the Bank did not record any adjustments to record loans held for sale at the lower of cost or fair value.

Our mortgage loan servicing activities include collecting principal, interest, tax and insurance payments from borrowers while accounting for and remitting payments to investors, taxing authorities and insurance companies. We also monitor delinquencies and execute foreclosure proceedings. Due to similar risks underlying the residential mortgages and nature of assumptions for estimating the fair value of servicing assets, management has determined that there is a single recognized class of servicing asset.

Mortgage servicing income is recorded in noninterest income as a part of other service charges and fees and is reported net of the amortization of the servicing assets. The unpaid principal amount of mortgage loans serviced for others was \$2.5 billion and \$1.6 billion for the years ended December 31, 2011 and 2010, respectively. Gross servicing fees include contractually specified fees, late charges and ancillary fees, and were \$5.1 million and \$2.6 million for the years ended December 31, 2011 and 2010, respectively.

The changes in MSR using the amortization method including valuation allowance were:

(dollars in thousands)	2011	2010
Carrying amount, balance at beginning of year	\$14,384	\$ 6,929
Additions ⁽¹⁾ :		
Assumption of servicing obligations resulting from asset transfers	10,594	10,015
Subtractions ⁽¹⁾ :		
Amortization	(4,634)	(2,547)
Application of valuation allowance to adjust carrying values of servicing assets	(1,110)	(13)
Carrying amount, balance at end of year	\$19,234	\$14,384
Valuation allowance for servicing assets:	2011	2010
Beginning balance	\$ 24	\$ 11
Provisions	1,110	13
Balance at end of year	\$ 1,134	\$ 24

⁽¹⁾ The Bank did not purchase or sell any servicing obligations during the years ended December 31, 2011 and 2010. Additionally, there was no other-than-temporary impairment recorded and no other changes that affected the balance during the years ended December 31, 2011 and 2010.

The MSR asset class is stratified based on loan term and interest rate for purposes of determining impairment. Each stratum is evaluated to determine if the amortized cost basis of the MSR exceeds the fair value. The fair value of each stratum is determined using a present value of expected cash flows model, which is based upon assumptions for future net servicing income. The model incorporates significant inputs classified as Level 3. Those inputs reflect assumptions that market participants use in estimating

future net servicing income such as future prepayment speeds, discount rate, cost to service the assets including expected delinquency and foreclosure related costs, escrow account earnings, contractual servicing fee income, late fees and other ancillary income. Impairment of an MSR stratum is recognized through a valuation allowance to the extent the estimated fair value of the stratum falls below its amortized cost basis.

The fair value of the amortized MSRs were:

(dollars in thousands)	2011	2010
Balance at beginning of year	\$15,886	\$ 7,475
Balance at end of year	19,245	15,886

Key assumptions used in determining the lower of cost or fair value of the Bank's MSRs were as follows:

	2011	2010
Weighted average constant prepayment rate	11.23%	12.19%
Weighted average life in years (of the MSR)	5.66	6.28
Weighted average note rate	3.95%	4.81%
Weighted average discount rate	10.00%	10.00%

In addition to loans held for sale and certain loans which we no longer intend to hold to maturity, the Bank participates out certain commercial loans in transactions negotiated with other financial institutions. The Bank continues to maintain the servicing relationship with borrowers for the entire loan and receives a nominal fee from these borrowers to cover the costs of servicing activities. At the end of 2011 and 2010, the Bank recognized \$300 million and \$373 million (net of charge-offs), respectively, as its retained interest in the unpaid principal balance of the loans. The unpaid principal balance of loans sold as participating interests at the end of 2011 and 2010 was \$309 million and \$371 million, respectively. As the Bank sold the participating interests concurrently with the loan origination, there was no difference between the fair value and carrying amount of the loans transferred and therefore no gain or loss on sale was recognized in 2011 and 2010.

4. Loans and Leases

At December 31, 2011 and 2010, loans and leases were comprised of the following:

(dollars in thousands)	2011		2010 ⁽²⁾	
	Outstanding	Commitments ⁽¹⁾	Outstanding	Commitments ⁽¹⁾
Commercial:				
Commercial and industrial	\$ 7,626,489	\$ 6,653,590	\$ 6,596,037	\$ 5,496,030
Commercial real estate	8,959,459	410,008	9,349,060	281,098
Construction	725,068	481,821	1,019,614	281,299
Equipment leases	2,641,125	-	2,364,198	-
Agriculture	2,026,176	1,379,487	1,883,867	993,358
Consumer:				
Installments and lines	11,130,273	1,059,716	10,599,290	1,131,820
Residential secured – closed-end	8,051,983	10,205	8,906,869	-
Residential secured – revolving, open-end	2,266,821	2,257,564	2,288,785	2,173,200
Total loans and leases	\$43,427,394	\$12,252,391	\$43,007,720	\$10,356,805

⁽¹⁾ Commitments to extend credit represent unfunded amounts and are reported net of participations sold to other lenders.

⁽²⁾ Certain reclassifications were made to prior year amounts to conform to current year presentation by loan class for all loans and allowance for credit loss tables.

Outstanding loan balances at December 31, 2011 and 2010 are net of unearned income, including net deferred loan fees, of \$206.6 million and \$227.4 million, respectively.

Loans totaling \$26.6 billion were pledged to collateralize the Bank's borrowing capacity at the Federal Reserve Bank and Federal Home Loan Bank at December 31, 2011.

Our leasing activities consist primarily of leasing automobiles and commercial equipment. Generally, lessees are responsible for all maintenance, taxes and insurance on the leased property.

The following lists the components of the net investment in financing leases, which includes equipment and consumer leases at December 31:

(dollars in millions)	2011	2010
Total minimum lease payments to be received	\$2,761	\$2,538
Estimated residual values of leased property	247	276
Less: Unearned income	241	265
Net investment in financing leases⁽¹⁾	\$2,767	\$2,549

⁽¹⁾ Includes auto leases of \$126 million and \$185 million at December 31, 2011 and 2010, respectively.

At December 31, 2011, minimum lease receivables for the five succeeding years and thereafter were as follows:

(dollars in millions)	Lease Receivable
2012	\$ 978
2013	784
2014	533
2015	356
2016	186
2017 and thereafter	171
Gross minimum payments	3,008
Less: Unearned income	241
Net minimum receivable	\$2,767

In the normal course of business, the Bank makes loans to executive officers and directors of the Bank and to entities and individuals affiliated with those executive officers and directors. The aggregate amount of all such extensions of credit was \$4.0 million and \$4.2 million as of December 31, 2011 and 2010, respectively. Such loans are made on terms no less favorable to the Bank than those prevailing at the time for comparable transactions with other persons or, in the case of certain residential real estate loans, on terms that were widely available to employees of the Bank who were not directors or executive officers.

In the course of evaluating the credit risk presented by a customer and the pricing that will adequately compensate the Bank for assuming that risk, management may require a certain amount of collateral support. The type of collateral held varies, but may include accounts receivable, inventory, land, buildings, equipment, income-producing commercial properties and residential real estate. The Bank has the same collateral policy for loans whether they are funded immediately or on a delayed basis (loan commitments).

A commitment to extend credit is a legally binding agreement to lend funds to a customer usually at a stated interest rate and for a specified purpose. Such commitments have fixed expiration dates and generally require a fee. The extension of a commitment gives rise to credit risk. The actual liquidity requirements or credit risk that the Bank will experience will be lower than the contractual amount of commitments to extend credit because a significant portion of those commitments are expected to expire without being drawn upon. Additionally, certain commitments are subject to loan agreements containing covenants regarding the financial performance of the customer that must be met before the Bank is required to fund the commitment. For our consumer loan commitments, the Bank may reduce or cancel such commitments by providing prior notice to the borrower or, in some cases, without notice as legally permitted.

The Bank further manages the potential credit risk in commitments to extend credit by limiting the total amount of arrangements, both by individual customer and in the aggregate, by monitoring the size and maturity structure of these portfolios and by applying the same credit standards maintained for all of its related credit activities. A significant portion of our loan and lease portfolio is located in California and, to a lesser extent, the remaining states within our footprint. The risk inherent in our loan and lease portfolio is dependent upon the economic stability of those states, which affects property values, and the financial well-being and creditworthiness of the borrowers.

Standby letters of credit totaled \$1.1 billion and \$868.5 million at December 31, 2011 and 2010, respectively. Standby letters of credit are issued on behalf of customers in connection with contracts between the customers and third parties. Under standby letters of credit, the Bank assures that the third parties will receive specified funds if customers fail to meet their contractual obligations. The liquidity risk to the Bank arises from its obligation to make payment in the event of a customer's contractual default. The Bank also had commitments for commercial and similar letters of credit of \$26.0 million and \$65.7 million at December 31, 2011 and 2010, respectively. The commitments outstanding as of December 31, 2011 have maturities ranging from January 1, 2012 to July 25, 2018. In connection with the issuance of such commitments, fees are charged based on contract terms and recognized into income when they are earned.

Credit Quality of Loans and Leases

A significant portion of the Bank's loan and lease portfolio consists of high credit quality loans.

The Bank assesses the credit quality of its commercial loans and leases with an internal credit risk grading system using a ten-point credit risk scale and categorizes the loans and leases consistent with industry guidelines in the following grades: pass, special mention and classified.

Risk grades one through six (or Pass grades) represent loans with strong to acceptable credit quality where the loan is protected by adequate collateral and the borrower is not facing financial difficulties. Risk grade seven (or Special Mention grade) represents loans with borrowers that have potential credit weaknesses which, if not checked or corrected, will weaken the Bank's repayment prospects. Risk grades eight through ten (or Classified grades) represent loans characterized by the distinct possibility that the bank will sustain partial or entire loss. In particular, risk grade eight represents borrowers who have a well-defined weakness but no loss in principal balance is currently anticipated. Risk grade nine represents loans with doubtful borrowers but partial loss is probable based on facts existing at the time of assessment. Risk grade ten represents loans with borrowers who are incapable of repayment or loans that are considered uncollectable and are therefore, charged off. All loans in risk grades nine and ten and certain loans in risk grade eight that are on nonaccrual status are considered impaired loans. Risk grades of commercial loans are reviewed on an ongoing basis and upon a credit event.

The following represents the credit quality of each class of commercial loans and leases based on our internal risk grading system as of December 31, 2011, and 2010:

December 31, 2011				
(dollars in thousands)	Pass	Special Mention	Classified	Total
Commercial and industrial	\$ 7,020,903	\$ 279,584	\$ 326,002	\$ 7,626,489
Commercial real estate	7,639,315	616,102	704,042	8,959,459
Construction	372,167	191,092	161,809	725,068
Equipment leases	2,529,157	41,864	70,104	2,641,125
Agriculture	1,786,545	145,774	93,857	2,026,176
Total Commercial	\$19,348,087	\$1,274,416	\$1,355,814	\$21,978,317

December 31, 2010				
(dollars in thousands)	Pass	Special Mention	Classified	Total
Commercial and industrial	\$ 5,786,991	\$ 281,852	\$ 527,194	\$ 6,596,037
Commercial real estate	7,656,667	580,601	1,111,792	9,349,060
Construction	355,832	350,765	313,017	1,019,614
Equipment leases	2,190,796	99,960	73,442	2,364,198
Agriculture	1,507,491	224,570	151,806	1,883,867
Total Commercial	\$17,497,777	\$1,537,748	\$2,177,251	\$21,212,776

Consumer loans are assessed for credit quality by delinquency status and are placed into one of two categories. The first category is for borrowers who are current in their payments in accordance with their contractual terms and the second category is for borrowers who have missed one or more payments and are past due 30 days or more. The following represents the credit quality of each class of consumer loans and leases based on the delinquency status as of December 31, 2011 and 2010:

(dollars in thousands)	Residential secured - closed-end	Residential secured - revolving, open-end	Installments and lines	Total
December 31, 2011:				
Current ⁽¹⁾	\$7,905,241	\$2,249,983	\$11,014,540	\$21,169,764
Past Due	146,742	16,838	115,733	279,313
Total	\$8,051,983	\$2,266,821	\$11,130,273	\$21,449,077
December 31, 2010:				
Current ⁽¹⁾	\$8,561,439	\$2,258,385	\$10,447,563	\$21,267,387
Past Due	345,430	30,400	151,727	527,557
Total	\$8,906,869	\$2,288,785	\$10,599,290	\$21,794,944

⁽¹⁾ Includes loans that are contractually current but on nonaccrual status.

5. Allowance for Credit Losses

The allowance for credit losses reflects management's estimate of credit losses inherent in the loan and lease portfolio and reserve for unfunded lending commitments. We consider the allowance for credit losses of \$893.9 million at the end of 2011 to be adequate to cover such losses. Changes in the allowance for credit losses were:

(dollars in thousands)	December 31,	
	2011	2010
Balance at beginning of year	\$1,059,017	\$1,220,661
Provision for credit losses	319,865	512,782
Charge-offs:		
Commercial:		
Commercial and industrial	(64,809)	(132,851)
Commercial real estate	(194,336)	(117,840)
Construction	(46,043)	(66,581)
Equipment leases	(30,737)	(52,818)
Agriculture	(8,703)	(69,769)
Total commercial ⁽¹⁾	(344,628)	(439,859)
Consumer:		
Installments and lines	(157,169)	(211,568)
Residential secured – closed-end	(80,827)	(93,950)
Residential secured – revolving, open-end	(25,491)	(27,277)
Total consumer	(263,487)	(332,795)
Total charge-offs	(608,115)	(772,654)
Recoveries:		
Commercial:		
Commercial and industrial	19,800	20,054
Commercial real estate	22,519	9,821
Construction	22,108	12,649
Equipment leases	14,346	14,117
Agriculture	4,419	2,281
Total commercial	83,192	58,922
Consumer:		
Installments and lines	28,768	32,006
Residential secured – closed-end	9,622	6,023
Residential secured – revolving, open-end	1,598	1,277
Total consumer	39,988	39,306
Total recoveries	123,180	98,228
Net charge-offs	(484,935)	(674,426)
Balance at end of year	\$ 893,947	\$1,059,017
Components:		
Allocated Loan and Leases	\$ 775,188	\$ 966,400
Unallocated Loan and Leases	95,000	92,617
Total Allowance for Loans and Leases	870,188	1,059,017
Reserve for Unfunded Commitments	23,759	-
Allowance for Credit Losses	\$ 893,947	\$1,059,017

⁽¹⁾ Includes \$143.4 million of charge-offs due to loans transferred to HFS.

The following table summarizes the activity in the allowance for loan and lease losses by commercial and consumer portfolio segments for the year ended December 31, 2011.

(dollars in thousands)	December 31, 2011			
	Commercial	Consumer	Unallocated	Total
Balance at beginning of year	\$ 454,809	\$ 511,591	\$92,617	\$1,059,017
Provision for loan and lease losses	138,357	155,366	2,383	296,106
Charge-offs	(344,628)	(263,487)	-	(608,115)
Recoveries	83,192	39,988	-	123,180
Net charge-offs	(261,436)	(223,499)	-	(484,935)
Balance at end of year	\$ 331,730	\$ 443,458	\$95,000	\$ 870,188

The following table disaggregates our allocated component of the allowance for loan and lease losses and recorded investment in loans by impairment methodology as of December 31, 2011.

(dollars in thousands)	December 31, 2011					
	Allocated allowance for loan and lease losses			Recorded investment in loans		
	Commercial	Consumer	Total	Commercial	Consumer	Total
Collectively evaluated	\$308,185	\$443,458	\$751,643	\$21,437,062	\$21,449,077	\$42,886,139
Individually evaluated	23,545	-	23,545	541,255	-	541,255
Total	\$331,730	\$443,458	\$775,188	\$21,978,317	\$21,449,077	\$43,427,394

The following table summarizes the activity in the allowance for loan and lease losses by commercial and consumer portfolio segments for the year ended December 31, 2010.

(dollars in thousands)	December 31, 2010			
	Commercial	Consumer	Unallocated	Total
Balance at beginning of year	\$ 565,146	\$ 602,514	\$53,001	\$1,220,661
Provision for loan and lease losses	270,600	202,566	39,616	512,782
Charge-offs	(439,859)	(332,795)	-	(772,654)
Recoveries	58,922	39,306	-	98,228
Net charge-offs	(380,937)	(293,489)	-	(674,426)
Balance at end of year	\$ 454,809	\$ 511,591	\$92,617	\$1,059,017

The following table disaggregates our allocated component of the allowance for loan and lease losses and recorded investment in loans by impairment methodology as of December 31, 2010.

(dollars in thousands)	December 31, 2010					
	Allocated allowance for loan and lease losses			Recorded investment in loans		
	Commercial	Consumer	Total	Commercial	Consumer	Total
Collectively evaluated	\$374,779	\$511,591	\$886,370	\$20,164,039	\$21,794,944	\$41,958,983
Individually evaluated	80,030	-	80,030	1,048,737	-	1,048,737
Total	\$454,809	\$511,591	\$966,400	\$21,212,776	\$21,794,944	\$43,007,720

Our total allowance for credit losses decreased compared to the prior year as a result of modest improvements in the current economic conditions for most sectors. The improvement is reflected through our estimate for a lower provision for credit losses for 2011 relative to 2010. While there are some signs of improvement in economic conditions, there remains considerable underlying potential volatility. High unemployment, a fragile recovery in the housing sector, commodity volatility and a stressed commercial real estate sector are all factors that may continue to negatively influence the majority of our loan and lease portfolios.

Impaired Loans

The following tables present information related to impaired loans that are individually assessed as of December 31, 2011 and 2010:

(dollars in thousands)	December 31, 2011					
	Commercial Product					
	Commercial & industrial	Commercial real estate	Construction	Equipment leases	Agriculture	Total
Recorded investment in impaired loans						
Impaired loans and leases with related allowance	\$ 53,657	\$ 63,202	\$ 12,275	\$ 1,954	\$ 2,808	\$133,896
Impaired loans and leases with no related allowance	57,819	186,574	102,676	7,366	52,924	407,359
Total impaired loans	\$111,476	\$249,776	\$114,951	\$ 9,320	\$55,732	\$541,255
Allowance for loan and lease losses on impaired loans	9,009	12,910	760	692	174	23,545
Total unpaid principal balance	138,128	283,320	162,546	9,320	71,464	664,778
Average recorded investment in impaired loans and leases	188,854	392,228	200,906	14,148	72,425	868,561

(dollars in thousands)	December 31, 2010					
	Commercial Product					
	Commercial & industrial	Commercial real estate	Construction	Equipment leases	Agriculture	Total
Recorded investment in impaired loans						
Impaired loans and leases with related allowance	\$ 92,683	\$130,755	\$ 82,669	\$13,787	\$ 15,460	\$ 335,354
Impaired loans and leases with no related allowance	99,435	366,973	169,365	4,467	73,143	713,383
Total impaired loans	\$192,118	\$497,728	\$252,034	\$18,254	\$ 88,603	\$1,048,737
Allowance for loan and lease losses on impaired loans	\$ 33,303	\$ 28,417	\$ 9,209	\$ 6,074	\$ 3,027	\$ 80,030
Total unpaid principal balance	275,358	588,595	372,250	18,253	145,160	1,399,616
Average recorded investment in impaired loans and leases	203,322	442,276	309,598	23,769	111,801	1,090,766

Impaired loans without a related allowance for credit losses are generally collateralized by assets with fair values (on an “as-is” basis) in excess of the recorded investment in the loans. Payments on impaired loans are generally applied to reduce the outstanding principal balance of such loans. Interest income recognized on impaired loans was not material for 2011 and 2010.

Troubled Debt Restructuring

In situations where 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, the related loan is classified as a TDR. At December 31, 2011 and 2010, loan modifications that qualified as TDRs amounted to \$653.1 million and \$354.1 million for commercial loans (including those that were held for sale) and \$266.3 million and \$190.8 million for consumer loans, respectively. The Bank had \$19.5 million and \$3.7 million of commitments to lend additional funds and letters of credit to customers whose troubled debt have been restructured as of December 31, 2011 and 2010, respectively.

For our commercial loan portfolio, concessions granted by the Bank generally include term extensions, renewals, forbearances of principal or interest payments and interest rate modifications for each of the classes shown below. In addition, for smaller balance nonperforming loans, we may use third party collection agencies who generally enter into payment or settlement arrangements with the borrowers in order to protect as much of the Bank’s investment in the loan as possible. For our consumer loan portfolio, concessions generally include term extensions, interest rate reductions, payment deferrals and temporary payment reductions.

The following table provides a summary of the financial effects of the modifications during 2011, as well as the outstanding balance at December 31, 2011. In addition, the table provides a summary of loans outstanding at December 31, 2011 that were modified as TDRs within the previous 12 months for which there was a payment default during the period. A payment default is defined as 90 days past due for commercial portfolio and 60 days past due for consumer portfolio. For the commercial portfolio, these are mostly interest only payment defaults.

(dollars in thousands)	2011				
	Financial Effects			Subsequent Defaults	
	Pre Modification Loan Balance	Post Modification Loan Balance	Balance at December 31, 2011	Number of Contracts	Balance at December 31, 2011
Commercial TDRs:					
Commercial and industrial	\$149,255	\$146,407	\$121,440	1	\$ 1,126
Commercial real estate	167,205	162,944	114,133	6	11,372
Construction	80,693	73,497	50,150	-	-
Equipment leases	16,174	16,094	15,079	-	-
Agriculture	58,853	56,951	47,645	-	-
Consumer TDRs:					
Installments and lines	16,889	16,889	13,470	29	1,174
Residential secured – closed-end	98,360	102,152	87,871	45	7,351
Residential secured – revolving, open-end	636	636	668	-	-
Total	\$588,065	\$575,570	\$450,456	81	\$21,023

Commercial TDR loans, for which we either forbore our rights to take legal action in relation to past due payments or used third party collection agencies, are not considered to be in subsequent payment default and were \$20.7 million at December 31, 2011.

Nonaccrual and Past Due Loans and Leases

Total nonaccrual loans and leases were \$769.9 million and \$1,484.4 million as of December 31, 2011 and 2010, respectively. The following table presents information relating to the past due and nonaccrual status of the loans and leases by class:

(dollars in thousands)	December 31, 2011					
	Current	30 - 89 days past due	More than 90 days	Total loans and leases	Loans and leases on nonaccrual status	Past due 90 days or more but still accruing
Commercial:						
Commercial and industrial	\$ 7,529,482	\$ 53,019	\$ 43,988	\$ 7,626,489	\$111,588	\$ 5,361
Commercial real estate	8,755,994	95,894	107,571	8,959,459	280,563	8,064
Construction	652,001	38,257	34,810	725,068	93,988	2,956
Equipment leases	2,609,384	16,506	15,235	2,641,125	34,860	-
Agriculture	1,978,119	15,846	32,211	2,026,176	42,846	7,372
Consumer:						
Installments and lines	11,005,003	115,733	9,537	11,130,273	9,537	-
Residential secured – closed-end	7,722,443	148,697	180,843	8,051,983	185,737	733
Residential secured – revolving, open-end	2,239,166	16,838	10,817	2,266,821	10,817	-
Total	\$42,491,592	\$500,790	\$435,012	\$43,427,394	\$769,936	\$24,486

December 31, 2010

(dollars in thousands)	Current	30 - 89 days past due	More than 90 days	Total loans and leases	Loans and leases on nonaccrual status	Past due 90 days or more but still accruing
Commercial:						
Commercial and industrial	\$ 6,398,455	\$ 49,378	\$148,204	\$ 6,596,037	\$ 250,543	\$15,127
Commercial real estate	8,820,776	135,674	392,610	9,349,060	603,417	23,483
Construction	820,476	49,379	149,759	1,019,614	258,990	7,648
Equipment leases	2,309,821	24,326	30,051	2,364,198	57,650	-
Agriculture	1,797,118	25,431	61,318	1,883,867	91,714	994
Consumer:						
Installments and lines	10,447,563	137,219	14,508	10,599,290	13,536	972
Residential secured – closed-end	8,558,994	164,937	182,938	8,906,869	200,433	724
Residential secured – revolving, open-end	2,258,386	22,271	8,128	2,288,785	8,128	-
Total	\$41,411,589	\$608,615	\$987,516	\$43,007,720	\$1,484,411	\$48,948

6. Premises and Equipment

At December 31, 2011 and 2010, premises and equipment were comprised of the following:

(dollars in thousands)	2011	2010
Premises	\$696,611	\$692,687
Equipment ⁽¹⁾	264,307	262,176
Total premises and equipment	960,918	954,863
Less accumulated depreciation and amortization	509,883	508,394
Net book value	\$451,035	\$446,469

⁽¹⁾ Includes in process equipment not subject to depreciation of \$7.4 million and \$10.1 million at December 31, 2011 and 2010, respectively.

Occupancy and equipment expenses include depreciation and amortization expenses of \$52.1 million and \$56.0 million for 2011 and 2010, respectively.

The Bank is obligated under a number of capital and noncancelable operating leases for premises and equipment with terms, including renewal options, up to 50 years, many of which provide for periodic adjustment of rentals based on changes in various economic indicators. Under the premises leases, we are also required to pay real property taxes, insurance and maintenance. The following table shows future minimum payments under leases with terms in excess of one year as of December 31, 2011:

(dollars in thousands)	Capital Leases	Operating Leases	Less Sublease Income	Net Lease Payments
2012	\$ 1,479	\$ 63,645	\$ 3,819	\$ 61,305
2013	1,501	60,187	2,987	58,701
2014	1,546	52,531	2,165	51,912
2015	1,514	45,442	969	45,987
2016	1,437	40,878	531	41,784
2017 and thereafter	14,736	199,103	299	213,540
Total minimum payments	\$22,213	\$461,786	\$10,770	\$473,229
Less interest on capital leases	11,515			
Total principal payable on capital leases⁽¹⁾	\$10,698			

⁽¹⁾ Excludes purchase accounting adjustments of \$5.0 million.

The table above includes operating leases for approximately 326,000 square feet of administrative office space in San Ramon, CA with a monthly expense of \$0.7 million. The Bank started recognizing expense in November 2010. The lease agreements extend through December 31, 2025 and were entered into to consolidate multiple back offices from other nearby locations.

Rental expense, net of rental income, for all operating leases was \$63.4 million and \$61.4 million for 2011 and 2010, respectively.

The Bank did not enter into any sale-leaseback transactions in 2011 or 2010. The Bank amortized \$5.8 million of deferred gains relating to its prior sale-leaseback transactions into earnings for both 2011 and 2010. The Bank has no obligations or circumstances which require our continuing involvement with any of these properties.

7. Credit Guarantee Derivative

On March 31, 2010 (the “transaction date”), the Bank entered into a Collateralized Credit Guarantee Derivative Agreement (the “Guarantee”) with its parent. Under the Guarantee, BancWest agreed to reimburse the Bank for principal charge-offs, write-downs on foreclosed assets and foregone interest for a specific portfolio of commercial loans and foreclosed properties (the “covered assets”) for a period of seven years. BancWest makes payments to the Bank under the Guarantee on a quarterly basis, but is not entitled to claim any recoveries on or gains on sale of the covered assets by the Bank.

At the transaction date, the fair value of the Guarantee was estimated at \$393.5 million and was based upon the expected future claims to be made under the Guarantee. The transaction was accounted for as a capital contribution to the Bank, and the fair value is reported in other assets within the Consolidated Balance Sheet. To secure payments under the Guarantee, BancWest sent to the Bank collateral in the form of a non-interest bearing cash deposit of \$1.1 billion.

The Guarantee is recognized as a derivative, measured at fair value with changes in fair value recorded through earnings. At December 31, 2011, the estimated fair value of the Guarantee asset was \$23.9 million; the notional amount of the derivative agreement was \$460.8 million and the value of the cash collateral was \$0.9 billion. At December 31, 2010, the estimated fair value of the Guarantee asset was \$150.7 million; the notional amount of the derivative agreement was \$796.6 million and the value of the cash collateral was \$1.0 billion. The decline in the fair value of the Guarantee asset since inception was primarily driven by changes in credit forecasts, and decreases in the covered asset principal balances due to charge-offs and paydowns. The net impact of the Guarantee on earnings as of December 31, 2011, was a loss of \$6.3 million (reported within noninterest income) due to a \$126.8 million decrease in the fair value of the Guarantee significantly offset by payments for claims made under the Guarantee for \$120.5 million. The net impact of the Guarantee on earnings as of December 31, 2010, was a loss of \$73.2 million due to a \$242.7 million decrease in the fair value of the Guarantee significantly offset by payments for claims made under the Guarantee for \$169.5 million.

8. Goodwill and Other Intangible Assets

We performed impairment testing of goodwill in the fourth quarter of 2011 and the fourth quarter of 2010 and no impairment of goodwill was found. Our estimates of fair value were based upon factors such as projected future cash flows, discount rates, and other uncertain elements that require significant judgments. While we use available information to prepare our estimates and perform impairment evaluations, actual results in the future could differ significantly. Impairment tests in future periods may result in impairment charges which could materially impact our future reported results. The table below provides the breakdown of goodwill by reportable segment.

(dollars in millions)	Regional Banking	Commercial Banking	National Finance	Wealth Management	Total
Balance as of January 1, 2010:	\$2,921	\$840	\$421	\$17	\$4,199
Purchase accounting adjustments:					
Wachovia branch purchase ⁽¹⁾	1	-	-	-	1
Insurance agency acquisitions	-	-	-	1	1
Balance as of December 31, 2010:	\$2,922	\$840	\$421	\$18	\$4,201
Purchase accounting adjustments:					
Insurance agency acquisitions	-	-	1	-	1
Other	-	-	1	(1)	-
Balance as of December 31, 2011:	\$2,922	\$840	\$423	\$17	\$4,202

⁽¹⁾ In January 2010, the Bank acquired deposits of approximately \$265 million of two former Wachovia branches from Wells Fargo located in Northern California.

The details of our finite-lived intangible assets are presented below:

(dollars in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Balance as of December 31, 2011:			
Core Deposits	\$398,878	\$326,681	\$ 72,197
Software ⁽¹⁾	198,432	130,774	67,658
Other Intangible Assets ⁽²⁾	52,822	22,230	30,592
Total	\$650,132	\$479,685	\$170,447
Balance as of December 31, 2010:			
Core Deposits	\$398,878	\$293,706	\$105,172
Software ⁽¹⁾	195,705	122,308	73,397
Other Intangible Assets ⁽²⁾	42,942	15,811	27,131
Total	\$637,525	\$431,825	\$205,700

⁽¹⁾ Includes in process software not subject to amortization of \$14.4 million and \$16.1 million at December 31, 2011 and 2010, respectively.

⁽²⁾ Includes mortgage servicing rights. Refer to Note 3 for additional information.

Intangible amortization expense included in noninterest expense was \$51.5 million and \$55.7 million for 2011 and 2010, respectively. For the years ended December 31, 2011 and 2010, the Bank's review did not result in any material impairment.

The table below presents the estimated future annual amortization expense for finite-lived intangible assets for the years ending December 31:

(dollars in thousands)	
2012	\$33,566
2013	27,689
2014	24,829
2015	21,331
2016	17,053

9. Variable Interest Entities

A VIE is an entity that has either a total equity investment that is insufficient to finance its activities without additional subordinated financial support or whose equity investors lack the ability to control the entity's activities. Under existing accounting guidance, a VIE is consolidated by its primary beneficiary, the party that has both the power to direct the activities that most significantly impact the VIE and a variable interest that could potentially be significant to the VIE.

The Bank evaluates whether an entity is a VIE upon its creation and upon the occurrence of significant events such as a change in an entity's assets or activities. The determination of whether the Bank is the primary beneficiary involves performing a qualitative analysis of the VIE that includes its capital structure, contractual terms including the rights of each variable interest holder, the activities of the VIE that most significantly impact its economic performance, whether the Bank has the power to direct those activities and our obligation to absorb losses or the right to receive benefits significant to the VIE.

Limited liability companies

The Bank has investments in numerous limited liability companies ("LLCs") for the purpose of managing foreclosed properties seized to mitigate losses to the Bank and its partners by selling the collateral. These LLCs have similar risks and characteristics and therefore have been aggregated for disclosure purposes. For some of these entities, the Bank is responsible for managing the daily operations. The Bank is the primary beneficiary when it has the power to direct the activities that significantly impact the performance of the LLCs and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIEs. Profits and losses of the entities are allocated to the Bank and its

third-party partners in accordance with their respective ownership percentages. The Bank's maximum exposure to losses associated with the foreclosed properties incorporates not only potential losses associated with the assets recorded on the balance sheet but also potential losses under other contractual arrangements. Creditors, if any, of the consolidated VIEs do not have recourse on the general credit of the Bank.

In addition to the investments in LLCs for managing foreclosed properties, the Bank has formed CLAAS Financial Services, LLC with the purpose of providing lease and loan financing to commercial entities acquiring agricultural equipment. The Bank owns a 51% interest in the LLC and provides for all of its funding. As a result, the Bank carries the greatest variability in the LLC and has the obligation to absorb a majority of the expected losses. The Bank also has the power to direct key activities of the LLC that significantly drive its performance through control of the Board of Directors. Since the Bank is the primary beneficiary of this entity, it is consolidated in our financial statements.

Tax credit investments

The Bank owns several limited partnership interests in low-income housing developments in conjunction with the Community Reinvestment Act. The Bank is not the primary beneficiary of these entities and in most instances, the Bank is one of many limited partners and our interest in the partnerships may decrease as new limited partners are added. Limited partners do not participate in the control of the partnerships' businesses. The general partners, which are either developers or nonprofit organizations, exercise the day-to-day control and management of the projects. The general partners have exclusive control over the partnerships' businesses and have all of the rights, powers, and authority generally conferred by law or necessary, advisable or consistent with accomplishing the partnerships' businesses. As a limited partner, the Bank does not have an active role in any of the partnerships and our involvement is limited to providing financial support, as stated within the contractual agreements and therefore we are not the primary beneficiary.

The business purpose of these entities is to provide affordable housing within the Bank's service area in return for tax credits and tax loss deductions. The Bank has not received additional income or incurred additional expenses as a result of our involvement with these entities. Because we are the limited partner, our maximum exposure would never exceed our investment, including our subscription amount. In the unlikely event that the general partners do not adhere to their contractual obligations to provide financial support to low-income housing, the Bank may be subject to tax credit recapture rules and would record income or expense related to the project, including recognition of a gain or loss on the disposition or termination of its partnership interest. Bargain purchase options are available for the general partners to purchase the Bank's portion of interests in the limited partnerships.

Consolidated VIEs

The following table presents information on assets and liabilities of the consolidated VIEs as they are included in these line items in our consolidated balance sheets at December 31:

(dollars in thousands)	2011	2010
Assets		
Cash and due from banks	\$ 3,746	\$ 3,717
Loans and leases:		
Loans and leases	223,733	153,878
Less allowance for loan and lease losses	1,479	871
Net loans and leases	222,254	153,007
Other real estate owned assets	3,461	7,026
Interest receivable	-	148
Other assets	120	21
Total Assets	\$229,581	\$163,919
Liabilities		
Long-term debt	54,987	76,330
Total liabilities	\$ 54,987	\$ 76,330

Unconsolidated VIEs

The following tables present the carrying amount of assets, liabilities and our maximum exposure to loss related to our unconsolidated VIEs in our consolidated balance sheets at:

(dollars in thousands)	December 31, 2011		
	Total Assets ⁽¹⁾	Total Liabilities ⁽¹⁾	Maximum Exposure to Loss
Tax credit investments	\$152,877	\$66,124	\$277,856
Limited liability company	3,837	-	3,837

⁽¹⁾ Reported in other assets or other liabilities.

(dollars in thousands)	December 31, 2010		
	Total Assets ⁽¹⁾	Total Liabilities ⁽¹⁾	Maximum Exposure to Loss
Tax credit investments	\$109,464	\$23,407	\$219,435
Limited liability company	3,842	-	3,842

⁽¹⁾ Reported in other assets or other liabilities.

10. Regulatory Capital Requirements

The Bank is subject to various regulatory capital requirements administered by federal banking agencies. If the Bank fails to meet minimum capital requirements, these agencies can initiate certain discretionary and mandatory actions. Such regulatory actions could have a material effect on the Bank's financial statements. The Bank constantly monitors its regulatory capital levels and, if necessary, may obtain capital from its Parent company through BNP Paribas or by other means. In 2010, the Bank received \$1 billion in capital through the issuance of common stock to help ensure compliance with the regulatory capital requirements.

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets and certain off-balance sheet items as calculated under regulatory accounting practices. These capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain adequate levels of Tier 1 and Total capital to risk-weighted assets and Tier 1 capital to average assets. The table below sets forth those ratios at December 31, 2011 and 2010.

(dollars in thousands)	Actual		For Capital Adequacy Purposes		To be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2011						
Tier 1 capital to risk-weighted assets	\$6,679,424	14.20%	\$1,882,089	4.00%	\$2,823,133	6.00%
Total capital to risk-weighted assets	7,271,352	15.45	3,764,178	8.00	4,705,222	10.00
Tier 1 leverage ratio ⁽¹⁾	6,679,424	11.57	2,309,521	4.00	2,886,902	5.00
As of December 31, 2010						
Tier 1 capital to risk-weighted assets	\$5,979,172	13.32%	\$1,795,229	4.00%	\$2,692,843	6.00%
Total capital to risk-weighted assets	6,546,329	14.59	3,590,457	8.00	4,488,072	10.00
Tier 1 leverage ratio ⁽¹⁾	5,979,172	11.22	2,132,475	4.00	2,665,594	5.00

⁽¹⁾ The leverage ratio consists of a ratio of Tier 1 capital to average assets, excluding goodwill and certain other items. The minimum leverage ratio guideline is 3% for banking organizations that do not anticipate or are not experiencing significant growth, and that have well-diversified risk, excellent asset quality, high liquidity, good earnings, are considered strong banking organizations and rated a composite 1 under the Uniform Financial Institution Rating System established by the Federal Financial Institution Examination Council. For all others, the minimum ratio is 4%.

Pursuant to applicable laws and regulations, the Bank is deemed to be well-capitalized. To be well-capitalized, a bank must have a total risk-based capital ratio of 10.00% or greater, a Tier 1 risk-based capital ratio of 6.00% or greater, a leverage ratio of 5.00% or greater and not be subject to any agreement, order or directive to meet a specific capital level for any capital measure. These capital ratios represent the relative risk inherent within our balance sheet.

11. Deposits

The following table represents the maturity distribution of time certificates of deposit at December 31, 2011:

(dollars in thousands)	
2012	\$7,263,575
2013	755,042
2014	397,355
2015	693,798
2016	647,662
2017 and thereafter	207,226
Total	\$9,964,658

Time certificates with a denomination of \$100,000 and greater totaled \$6.5 billion and \$5.0 billion at December 31, 2011 and 2010, respectively. Total brokered time certificates of deposit totaled \$738.0 million and \$95.2 million at December 31, 2011 and 2010, respectively.

Total deposits reclassified to loans due to overdrafts at December 31, 2011 and 2010 were \$5.1 million and \$7.1 million, respectively.

In March 2010, the Bank received \$1.1 billion of noninterest-bearing cash deposits to collateralize the Guarantee. The collateralized deposits on hand were \$858.6 million and \$1.0 billion at December 31, 2011 and 2010, respectively. Refer to Note 7 for additional information.

12. Short-Term Borrowings

At December 31, 2011 and 2010, short-term borrowings were comprised of the following:

(dollars in thousands)	2011	2010
Federal funds purchased and securities sold under agreements to repurchase	\$352,060	\$733,172
Advances from Federal Home Loan Banks and other short-term borrowings	1,560	6,465
Total short-term borrowings	\$353,620	\$739,637

The table below shows selected information for short-term borrowings:

(dollars in thousands)	2011	2010
Federal funds purchased and securities sold under agreements to repurchase:		
Weighted-average interest rate at December 31	0.05%	0.09%
Highest month-end balance	\$1,178,962	\$4,433,701
Average daily outstanding balance	640,517	720,107
Weighted-average daily interest rate paid	0.10%	0.12%
Advances from Federal Home Loan Banks and other short-term borrowings:		
Weighted-average interest rate at December 31	-	-
Highest month-end balance	\$ 32,574	\$ 89,665
Average daily outstanding balance	2,191	13,724
Weighted-average daily interest rate paid	0.04%	0.01%

The Bank treats securities sold under agreements to repurchase as collateralized financings. The Bank reflects the obligations to repurchase the identical securities sold as liabilities, with the dollar amount of

securities underlying the agreements remaining in the asset accounts. At December 31, 2011, the outstanding balance of these agreements was \$327.5 million with a weighted average maturity of 4 days.

At December 31, 2011, the Bank had \$8.0 billion of credit lines available from other U.S. financial institutions. Of this amount, \$0.9 billion is available from First Hawaiian Bank and \$1.7 billion is available from BNP Paribas of New York. At December 31, 2011, the Bank had drawn down on the available credit lines of credit by \$125 million, from non-affiliated U.S. financial institutions and \$55 million from BNP Paribas of New York.

13. Long-Term Debt

At December 31, 2011 and 2010, long-term debt was comprised of the following:

(dollars in thousands)	Rate(s)	2011	2010
Fixed-rate advances from the Federal Home Loan Bank due through 2035 ⁽¹⁾⁽²⁾⁽⁴⁾	2.87% to 7.96%	\$2,010,776	\$2,758,042
Fixed-rate advances from the Federal Home Loan Bank due through 2018 ⁽¹⁾⁽³⁾⁽⁶⁾	1.22% to 3.37%	1,145,839	830,000
Floating-rate advances from the Federal Home Loan Bank due through 2013 ⁽¹⁾⁽²⁾⁽⁶⁾	1 mo. LIBOR +0.02% to +0.19%	350,000	1,050,000
Floating-rate advances from the Federal Home Loan Bank due through 2013 ⁽¹⁾⁽³⁾	3 mo. LIBOR -0.02% to +0.07%	1,100,000	-
Fixed-rate Temporary Liquidity Guarantee Program (TLGP) unsecured senior debt through 2012 ⁽⁵⁾	2.15%	1,000,013	1,000,997
Fixed-rate unsecured lines of credit with BNP Paribas due through 2015 ⁽²⁾	2.89% to 4.71%	54,500	75,900
Floating-rate subordinated note due 2011 ⁽⁵⁾	6 mo. LIBOR +3.75%	-	31,026
Fixed-rate subordinated note due 2011 ⁽⁵⁾	8.30%	-	50,036
Capital leases due through 2030 ⁽²⁾		15,740	16,534
Total long-term debt		\$5,676,868	\$5,812,535

⁽¹⁾ This debt is secured by real estate loans or securities. See Notes 2 and 4 to the financial statements for additional information.

⁽²⁾ Interest is payable monthly.

⁽³⁾ Interest is payable quarterly.

⁽⁴⁾ Fixed rate with partial repayment monthly.

⁽⁵⁾ Interest is payable semi-annually.

⁽⁶⁾ In 2011, the Bank terminated \$440 million of these advances and recognized a \$0.8 million loss on the termination.

As part of long-term and short-term borrowing arrangements, the Bank was subject to various covenants. At December 31, 2011 and 2010, the Bank was in compliance with all the covenants.

As of December 31, 2011, the principal payments due on long-term debt were as follows:

(dollars in thousands)	
2012	\$1,700,153
2013	2,666,651
2014	876,434
2015	162,953
2016	497
2017 and thereafter	269,030
Total⁽¹⁾	\$5,675,718

⁽¹⁾ Excludes fair valuation for debt that was hedged and purchase accounting adjustments totaling \$1.2 million.

14. Litigation

In the course of normal business, the Bank is subject to numerous pending and threatened lawsuits, some of which seek substantial relief or damages. While the Bank is not able to predict whether the outcome of such actions will materially affect our results of operations for a particular period, based upon consultation with counsel, management does not expect that the aggregate liability, if any, resulting from these proceedings would have a material effect on the Bank's consolidated financial position, results of operations or liquidity.

The Bank is named as a defendant in a putative class action complaint challenging the order in which the Bank posted debit card transactions to consumer deposit accounts prior to July 1, 2011. A series of similar putative class action complaints have been filed against a number of other banks, and these cases, along with the case against the Bank have been consolidated in multi-district litigation proceedings in the U.S. District Court for the Southern District of Florida (the "Action").

In January 2012, the Bank and the plaintiffs agreed to settle and release all claims asserted against the Bank in the Action subject to execution of a written settlement agreement. A Notice of Settlement was filed with the U.S. District Court for the Southern District of Florida in January 2012. The settlement is subject to both preliminary and final approval by the court. The settlement amount is not material to consolidated income and is recognized in the Bank's Consolidated Statement of Income as other noninterest expense for the year ended December 31, 2011 and is anticipated to be paid in 2012.

15. Derivative Financial Instruments

The Bank enters into derivative contracts to manage its interest rate risk, as well as for customer accommodation purposes. Derivative transactions are measured in terms of the notional amount but this amount is not recorded in the balance sheet and is not, when viewed in isolation, a meaningful measure of the risk profile of the instruments. Derivatives are also subject to credit risk associated with counterparties to the derivative contracts. The Bank measures that credit risk based on its assessment of the probability of counterparty default and includes that within the fair value of the derivative. The Bank manages counterparty credit risk by utilizing master netting and Collateral Support Annex (CSA) agreements which allow the Bank to call for immediate, full collateral coverage when credit-rating thresholds are triggered by counterparties. The Bank's CSA's are bilateral, and therefore contain provisions that require collateralization of the Bank's net liability derivative positions. Required collateral coverage is based on certain net liability thresholds and contingent upon the Bank's credit rating from two of the nationally recognized statistical rating organizations. If the Bank's credit rating were to fall below credit rating thresholds established in the collateral agreements, the counterparties could request immediate full collateral coverage for derivatives in net liability positions. At December 31, 2011 and 2010, the aggregate fair value of all derivatives under CSA's were in a net liability position of \$369 million and \$291 million to which the Bank posted \$194 million and \$266 million of investment securities as collateral, respectively, and as of December 31, 2011 posted \$154 million of restricted cash.

At December 31, 2011 and 2010, the Bank had \$2.8 billion and \$2 million notional amount of derivatives designated as fair value hedges, \$100 million and \$400 million notional amount of cash flow hedges and \$12.1 billion and \$11.6 billion notional amount as free standing derivatives, respectively.

Fair Value Hedges

The Bank's fair value hedges are primarily interest rate swaps that hedge the change in fair value related to interest rate changes of underlying fixed-rate debt. Changes in the fair value of derivatives designated as fair value hedges, and changes in the fair value of the hedged items, are recorded in noninterest income.

In July 2011 and August 2011, the Bank executed a total of \$1.2 billion of interest rate swaps to hedge underlying fixed-rate certificates of deposit with maturities ranging from April 2012 to August 2013. The Bank receives on average a fixed rate of 0.67% and pays on average three-month LIBOR plus 23 basis points. The interest rate swaps had a fair value loss of \$1.5 million at December 31, 2011.

In July 2011, the Bank executed two \$500 million interest rate swaps to hedge a total of \$1 billion notional of underlying fixed-rate TLGP debt with a maturity of March 27, 2012. The Bank receives a fixed rate of 2.15% and pays on average three-month LIBOR plus 176 basis points. On September 30, 2011, one of the \$500 million interest rate swap hedges was deemed ineffective and unwound; the swap was re-designated as a free standing derivative with subsequent gains and losses recorded to earnings. The effective and ineffective interest rate swaps had a total fair value gain of \$2.4 million at December 31, 2011.

In October 2011 and November 2011, the Bank executed a total of \$1 billion of interest rate swaps to hedge underlying fixed-rate FHLB advances with maturities ranging from March 2014 to March 2015. The Bank receives on average a fixed rate of 1.52% and pays on average one-month LIBOR plus 89 basis points. The interest rate swaps had a fair value gain of \$0.5 million at December 31, 2011.

In February 2010, the Bank entered into an agreement to hedge the fair value of a commercial loan which matured on April 2011. The Bank received one-month LIBOR plus 75 basis points and paid a fixed rate of 8.32%. This interest rate swap had a notional amount of \$2 million and a fair value loss of \$0.1 million at December 31, 2010.

In January 2010, the Bank executed a \$300 million interest rate swap to hedge an underlying fixed-rate FHLB advance that matured on January 3, 2011. On June 30, 2010, the hedge was deemed ineffective and unwound; the swap was re-designated as a free standing derivative with subsequent gains and losses recorded to earnings.

The total impact of amortization related to the carrying value adjustments of hedged items due to terminated fair value hedges for the years ended December 31, 2011 and 2010 was \$1.1 million and \$11.5 million, respectively.

Cash Flow Hedges

The Bank's cash flow hedges are interest rate swaps that hedge the forecasted cash flows of underlying variable-rate debt and variable-rate loans. Changes in the fair values of derivatives designated as cash flow hedges, to the extent effective, are recorded in other comprehensive income until income from the cash flows of the hedged items is realized. Any ineffectiveness which may arise during the hedging relationship is recognized in earnings in the period in which it arises. If a derivative designated as a cash flow hedge is terminated or deemed overall ineffective, the gain or loss in other comprehensive income is amortized to earnings over the period the forecasted hedged transactions impact earnings. If a hedged forecasted transaction is probable of not occurring, hedge accounting is ceased and any gain or loss included in other comprehensive income (loss) is reported in earnings immediately.

In November 2011, the Bank executed \$100 million of interest rate swaps to hedge forecasted cash flows of underlying variable-rate loans indexed to one-month LIBOR with maturity of December 2014. The Bank receives a fixed rate of 0.749% and pays one-month LIBOR plus nil spread. The interest rate swaps had \$0.2 million of unrealized gains in other comprehensive income at December 31, 2011. The estimated amount to be reclassified from other comprehensive income into earnings during the next 12 months is a gain of \$0.1 million.

At December 31, 2010, the Bank had \$400 million of interest rate swaps hedging floating-rate FHLB debt with maturities from April 2011 to April 2012 with \$9.5 million of unrealized losses in other comprehensive income, respectively, of which \$300 million matured during 2011. On December 28, 2011, a \$100 million interest rate swap with maturity in April 2012 was terminated along with the underlying variable-rate debt. As a result, \$1.1 million of fair value loss was reclassified from other comprehensive income and recognized immediately in earnings.

The total impact of amortization related to terminated cash flow hedges for the years ended December 31, 2011 and 2010 was expense of \$0.3 million and \$1.2 million, respectively.

Free Standing Derivatives

Free standing derivative instruments include derivative transactions entered into for purposes for which hedge accounting does not apply. These derivatives include interest rate swaps, interest rate collars, market linked equity swaps and options and forward commitments to fund and sell residential mortgage loans. The Bank acts as a seller and buyer of interest rate derivatives and foreign exchange contracts to accommodate customers. To mitigate the market and liquidity risk associated with these derivatives, the Bank enters into similar offsetting positions.

The following table is a summary of notional amounts and fair values of derivative instruments at:

(dollars in thousands)	December 31, 2011			December 31, 2010		
	Notional Amount	Fair Value		Notional Amount	Fair Value	
		Asset derivatives ⁽¹⁾	Liability derivatives ⁽²⁾		Asset derivatives ⁽¹⁾	Liability derivatives ⁽²⁾
Derivatives designated as hedging instruments:						
Fair value hedges:						
Interest rate swaps	\$ 2,756,698	\$ 2,345	\$ 898	\$ 2,045	\$ -	\$ 51
Cash flow hedges:						
Interest rate swaps	100,000	179	-	400,000	-	9,529
Subtotal	2,856,698	2,524	898	402,045	-	9,580
Free standing derivatives:						
Interest rate swaps	9,214,482	429,080	397,892	8,917,090	345,261	298,507
Interest rate collars	-	-	-	400,000	600	20
Credit guarantee derivative ⁽³⁾	460,811	23,883	-	796,601	150,729	-
Market linked swaps	9,001	464	-	10,632	-	305
Purchased market linked options	435,629	29,309	-	31,631	3,083	-
Written market linked options ⁽⁴⁾	444,630	-	30,228	42,263	-	4,055
Purchased interest rate options	149,139	257	-	134,706	550	-
Written interest rate options	149,139	-	257	134,706	-	550
Commitments to purchase and sell foreign currencies	742,236	11,973	10,700	558,986	11,033	6,778
Purchased foreign exchange options	29,802	1,077	-	9,629	253	-
Written foreign exchange options	29,802	-	1,077	9,629	-	253
Subtotal	11,664,671	496,043	440,154	11,045,873	511,509	310,468
Free standing derivatives from mortgage sale activity:						
Forward contracts	238,053	26	1,302	301,981	3,100	381
Written interest rate options	231,430	4,989	-	286,990	975	1,411
Subtotal	469,483	5,015	1,302	588,971	4,075	1,792
Total free standing derivatives	12,134,154	501,058	441,456	11,634,844	515,584	312,260
Total derivatives	\$14,990,852	\$503,582	\$442,354	\$12,036,889	\$515,584	\$321,840

⁽¹⁾ The positive fair values of derivative assets are included in other assets.

⁽²⁾ The negative fair values of derivative liabilities are included in other liabilities.

⁽³⁾ This relates to the Guarantee as described in Note 7.

⁽⁴⁾ Includes bifurcated derivatives embedded in market linked instruments.

The following table shows the effect of fair value hedging on the Bank's pretax income due to interest rate contracts for the years ended December 31, 2011 and 2010:

(dollars in thousands)	December 31, 2011 Interest rate contracts hedging		December 31, 2010 Interest rate contracts hedging	
	Deposits	Long-term debt	Deposits	Long-term debt
Gains recorded in net interest income	\$ 562	\$ 2,025	\$5,038	\$6,659
Gains (losses) recorded in noninterest income:				
Recognized on derivatives	(1,870)	(900) ⁽¹⁾	-	(38) ⁽²⁾
Recognized on hedged items	1,683	1,892 ⁽¹⁾	-	(96) ⁽²⁾
Recognized as ineffective portion	(187)	992	-	(134)
Total	\$ 375	\$ 3,017	\$5,038	\$6,525

⁽¹⁾ A \$500 million swap hedging fixed-rate TLGP debt did not provide perfect offsetting fair valuation in certain periods due to the late term nature of the hedge; the cumulative effects of this led to hedge ineffectiveness at September 30, 2011. The hedge was unwound and the swap was re-designated as a free standing derivative.

⁽²⁾ A \$300 million swap hedging a fixed-rate FHLB advance did not provide perfect offsetting fair valuation in certain periods due to the late term nature of the hedge; the cumulative effects of this led to hedge ineffectiveness at June 30, 2010. The hedge was unwound and the swap was re-designated as a free standing derivative.

The following table summarizes the effect of cash flow hedging for the years ended December 31, 2011 and 2010:

(dollars in thousands)	2011	2010
Pretax loss recognized in OCI on derivatives (effective portion)	\$ (56)	\$ (4,939)
Pretax loss reclassified from cumulative OCI into net interest income (effective portion) ⁽¹⁾	8,346	16,727

⁽¹⁾ Includes net settlement of \$7.5 million and \$15.5 million, and amortization of fair value captured in OCI on terminated swaps of \$0.8 million and \$1.2 million for the years ending December 31, 2011 and 2010, respectively.

The following table shows the net gains (losses) recognized as noninterest income relating to free standing derivatives not recognized as hedging instruments, held by the Bank as of December 31, 2011 and 2010:

(dollars in thousands)	2011	2010
Interest rate swaps	\$ 3,019	\$ (1,669)
Interest rate collars	(137)	580
Credit guarantee derivative	(6,351)	(73,201)
Market linked equity swaps	970	23
Purchased market linked options	(4,132)	347
Written market linked options	3,827	(631)
Purchased interest rate options	(293)	(2,794)
Written interest rate options	344	2,374
Commitments to purchase and sell foreign currencies	12,373	11,021
Purchased foreign exchange options	(470)	(340)
Written foreign exchange options	613	479
Forward contracts	(3,994)	836
Total net gains (losses)	\$ 5,769	\$(62,975)

16. Fair Value

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value and for estimating fair value for financial instruments not recorded at fair value:

Short-term financial assets

We do not measure short-term financial assets at fair value. As such, valuation techniques discussed herein for short-term financial assets are for estimations used in the fair value of financial instruments disclosure requirements. Short-term financial assets include cash and due from banks and due from customers on acceptances. The carrying amount is a reasonable estimate of fair value because of the relatively short time between the origination of the instrument and its expected realization.

Trading assets

Trading assets are measured at fair value on a recurring basis. Fair values of trading assets are based on quoted market prices of comparable instruments and are classified as Level 2. Trading assets include Federal Home Loan Bank discount notes.

Securities

Securities available for sale are measured at fair value on a recurring basis. Fair value measurement is based upon quoted prices if available. If quoted prices are not available for the specific security, the Bank may estimate the fair value of such instruments using a combination of observed transaction prices of comparable securities, independent pricing services, or other adjustments deemed necessary to properly reflect an exit price. Level 1 securities primarily include highly liquid government securities such as U.S. Treasuries as well as certain equity securities that have quoted prices available in active markets. Level 2 securities primarily include U.S. Government agency securities as well as non-Government agency securities, municipal bonds, and other equity securities, the pricing of which are derived using observable data such as prices on similar assets in active or inactive markets. Level 3 securities include collateralized debt obligations, collateralized loan obligations and other asset-backed securities where pricing was based on a qualified third-party source.

Loans held for sale

Loans held for sale are measured at fair value on a nonrecurring basis. For loans originated for investment and transferred to held for sale with declines in fair value that are attributable to credit quality, any reduction in the loan's value at the time of the transfer must be reflected as a write down of the recorded investment resulting in a new cost basis, with a corresponding reduction in the allowance for loan and lease losses. For mortgage loans held for sale, we use inputs from quoted prices or rates for assets in the active bond loans market and accordingly, classify them as Level 2. For commercial loans held for sale, we use price estimates from loan sale advisors less standard commission rates and accordingly, classify them as level 2.

Loans

Loans may be measured at fair value on a nonrecurring basis, generally when they become impaired. For secured loans and leases that are impaired, the Bank uses the fair value of collateral less costs to sell to determine the amount of impairment. The fair values of collateral for impaired loans are primarily based on real estate appraisal reports prepared by third party appraisers. The Bank reviews the third party's appraisal based on observable market data for reasonableness. As such, impaired loans are classified as Level 2.

Valuation techniques used in the fair value of financial instruments disclosure requirements primarily consist of discounted cash flow analyses, which include a liquidity premium and utilize interest rates currently being offered for loans with similar terms and credit quality.

Foreclosed assets

Foreclosed assets are measured at fair value on a nonrecurring basis. Foreclosed assets include foreclosed properties securing residential and auto loans. Foreclosed assets are adjusted to fair value less costs

to sell upon transfer of the loans to foreclosed assets. Subsequently, foreclosed assets are carried at the lower of carrying value or fair value less costs to sell. Fair value is generally determined using appraised values based on observable market data and, accordingly, we classify foreclosed assets as Level 2.

Assets for deferred compensation plans

Assets for deferred compensation plans are Level 1 securities consisting of money market funds held within a nonqualified deferred compensation trust. Fair value measurement of these assets is based upon quoted prices.

Deposits

We do not measure deposits at fair value. As such, valuation techniques discussed herein for deposits are primarily for estimations used in the fair value of financial instruments disclosure requirements. The fair values of deposits with no maturity date (e.g., interest and noninterest-bearing checking, regular savings, and certain types of money market savings accounts) are equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values of fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Short-term borrowings and long-term debt

We do not measure short-term borrowings or long-term debt at fair value. As such, valuation techniques discussed herein are primarily for estimations used in the fair value of financial instruments disclosure requirements. The fair values are estimated using quoted market prices or discounted cash flow analyses based on our current incremental borrowing rates for similar types of borrowing arrangements.

Derivatives

Most of our derivatives are traded in over-the-counter markets where quoted market prices are not readily available. For those derivatives, we measure fair value primarily using market observable inputs, such as yield curves. In addition, the fair valuations for derivatives include an adjustment for estimated credit risk. As such, we classify derivatives as Level 2. Examples of Level 2 derivatives are interest rate swaps and forward contracts. The fair value of the Guarantee is classified as a Level 3 fair value measurement since the Bank estimates its fair value using an internally developed discounted cash flow valuation model. The key assumptions in the model and the drivers of changes in fair value are credit loss forecasts to project the future potential payoffs from the Guarantee, the average remaining life of the covered assets, and the rate to discount the estimated claims under the Guarantee. The credit loss forecast is an internally developed estimate that incorporates the timing and amount of potential credit losses. The credit loss forecast also uses migration matrices to predict potential future credit ratings for the covered assets. The expected life of the Guarantee is based on management's best estimate at each balance sheet date.

Off-balance sheet financial instruments

The fair value of letters of credit and commitments to fund loans represents estimated fees that would be charged to enter into similar agreements with similar remaining maturities and is not presented herein. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. The fair value of these financial instruments is not material to our consolidated financial statements.

The table below presents the balances of assets, liabilities and derivatives measured at fair value on a recurring basis at December 31, 2011:

(dollars in thousands)	Level 1	Level 2	Level 3	Total
Trading assets	\$ -	\$ 6,000	\$ -	\$ 6,000
Securities available for sale:				
U.S. Treasury and other U.S. Government agencies and corporations	1,026,316	1,267	-	1,027,583
Government sponsored agencies	-	119,761	-	119,761
Mortgage and asset-backed securities:				
Government agencies ⁽¹⁾	-	4,172,897	-	4,172,897
Government sponsored agencies ⁽¹⁾	-	1,475,702	-	1,475,702
Collateralized debt obligations	-	-	45,133	45,133
Collateralized loan obligations	-	-	128,655	128,655
Other asset-backed securities	-	1,648	177	1,825
Collateralized mortgage obligations:				
Government agencies	-	9,722	-	9,722
Government sponsored agencies	-	59,693	-	59,693
State and political subdivisions and others	-	670,588	-	670,588
Equity securities	6,096	-	-	6,096
Total securities available for sale	1,032,412	6,511,278	173,965	7,717,655
Derivative assets	-	479,699	23,883	503,582
Other assets ⁽²⁾	25,175	371	33	25,579
Total assets measured at fair value on a recurring basis	\$1,057,587	\$6,997,348	\$197,881	\$8,252,816
Derivative liabilities	\$ -	\$ 442,354	\$ -	\$ 442,354
Other liabilities	-	336	-	336
Total liabilities measured at fair value on a recurring basis	\$ -	\$ 442,690	\$ -	\$ 442,690

⁽¹⁾ Backed by residential real estate.

⁽²⁾ Largely represents assets for deferred compensation plans.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis at December 31, 2010:

(dollars in thousands)	Level 1	Level 2	Level 3	Total
Trading assets	\$ -	\$ 5,500	\$ -	\$ 5,500
Securities available for sale:				
U.S. Treasury and other U.S. Government agencies and corporations	-	174,231	-	174,231
Government sponsored agencies	-	483,111	-	483,111
Mortgage and asset-backed securities:				
Government agencies ⁽¹⁾	-	239,522	-	239,522
Government sponsored agencies ⁽¹⁾	-	1,211,539	-	1,211,539
Collateralized debt obligations	-	-	66,992	66,992
Collateralized loan obligations	-	-	129,906	129,906
Other asset-backed securities	-	6,809	863	7,672
Collateralized mortgage obligations:				
Government agencies	-	1,099,528	-	1,099,528
Government sponsored agencies	-	1,437,423	-	1,437,423
Other	-	-	-	-
State and political subdivisions and others	-	1,272,593	-	1,272,593
Equity securities	441	5,804	-	6,245
Total securities available for sale	441	5,930,560	197,761	6,128,762
Derivative assets	-	364,855	150,729	515,584
Other assets ⁽²⁾	25,414	907	92	26,413
Total assets measured at fair value on a recurring basis	\$25,855	\$6,301,822	\$348,582	\$6,676,259
Derivative liabilities	\$ -	\$ 321,840	\$ -	\$ 321,840
Other liabilities	-	72	-	72
Total liabilities measured at fair value on a recurring basis	\$ -	\$ 321,912	\$ -	\$ 321,912

⁽¹⁾ Backed by residential real estate.

⁽²⁾ Largely represents assets for deferred compensation plans.

For the years ended December 31, 2011 and December 31, 2010, there were no significant transfers in or out of Levels 1 or 2. The changes for 2011 in Level 3 assets measured at fair value on a recurring basis are summarized below. There were no Level 3 liabilities measured at fair value on a recurring basis for the year ended December 31, 2011:

(dollars in thousands)	Beginning balance	Total net losses included in net income ⁽¹⁾	Total net gains included in other comprehensive income	Purchases, sales, issuances and settlements, net	Transfers out of Level 3	Ending balance	Net unrealized gains (losses) included in net income for the year relating to assets held at year end
Securities available for sale:							
Collateralized debt obligations	\$ 66,992	\$(17,068)	\$40,622	\$ (45,413)	\$-	\$ 45,133	\$-
Collateralized loan obligations	129,906	(6,227)	50,631	(45,655)	-	128,655	-
Other asset-backed securities	863	-	207	(893)	-	177	-
Total securities available for sale	\$197,761	\$(23,295)	\$91,460	\$ (91,961)	\$-	\$173,965	\$-
Derivative assets	150,729	(6,351)	-	(120,495)	-	23,883	-
Other assets	92	-	-	(59)	-	33	-

⁽¹⁾ Included in noninterest income in the income statement.

The changes for 2010 in Level 3 assets measured at fair value on a recurring basis are summarized below. There were no Level 3 liabilities measured at fair value on a recurring basis for the year ended December 31, 2010:

(dollars in thousands)	Beginning balance	Total net losses included in net income ⁽¹⁾	Total net gains included in other comprehensive income	Purchases, sales, issuances and settlements, net	Transfers out of Level 3	Ending balance	Net unrealized gains (losses) included in net income for the year relating to assets held at year end
Securities available for sale:							
Non-government mortgage-backed securities ⁽²⁾	\$692,906	\$(23,246)	\$149,072	\$(818,732)	\$ -	\$ -	\$ -
Collateralized debt obligations	79,753	(7,483)	54,308	(59,586)	-	66,992	-
Collateralized loan obligations	136,975	(459)	58	(6,668)	-	129,906	(459)
Other asset-backed securities	5,984	(130)	9,407	(14,398)	-	863	-
Total securities available for sale	\$915,618	\$(31,318)	\$212,845	\$(899,384)	\$ -	\$197,761	\$(459)
Derivative assets	-	(73,200)	-	223,929	-	150,729	-
Other assets	3,673	-	-	(55)	(3,526) ⁽³⁾	92	-

⁽¹⁾ Included in noninterest income in the income statement.

⁽²⁾ Backed by residential real estate.

⁽³⁾ Related to the adoption of new accounting guidance for the consolidation of VIEs and transfers of financial assets.

The following table presents gains or losses in Level 3 assets from the above tables that were reported in noninterest income for the years ended December 31, 2011 and 2010:

(dollars in thousands)	2011	2010
Total losses included in earnings	\$(29,646)	\$(104,518)
Change in unrealized gains or losses relating to assets still held at reporting date	-	(459)

We may be required, from time to time, to measure certain other assets at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from application of lower of cost or fair value accounting or write downs of individual financial assets. The following table provides the level of valuation inputs used to determine each adjustment, the carrying value of the related individual assets or portfolios for assets measured at fair value on a nonrecurring basis, and total losses for the year ended:

(dollars in thousands)	Carrying Value			Total Losses for Year Ended
	Level 1	Level 2	Level 3	
December 31, 2011:				
Impaired loans	\$-	\$517,710 ⁽¹⁾	\$-	\$ -
Foreclosed assets	-	156,049	-	34,174
Loans held for sale	-	244,509 ⁽²⁾	-	-
December 31, 2010:				
Impaired loans	\$-	\$968,707 ⁽¹⁾	\$-	\$ -
Foreclosed assets	-	195,017	-	36,770
Loans held for sale	-	107,440	-	-

⁽¹⁾ The fair value adjustment is not related to actual losses but is related to the allocation of the allowance in order to adjust the carrying amount of the loan to the fair value of the collateral.

⁽²⁾ See Note 5, for related charge-offs at time of transfer to held for sale.

Fair Value of Financial Instruments

In compliance with GAAP, we disclose estimated fair values for certain financial instruments. Financial instruments include such items as loans, deposits, securities, interest rate and foreign exchange contracts, swaps and other instruments as defined by the standard.

Disclosure of fair values is not required for certain items such as lease financing, investments accounted for under the equity method of accounting, obligations for pension and other postretirement benefits, premises and equipment, other real estate owned, prepaid expenses, core deposit intangibles and other customer relationships, other intangible assets and income tax assets and liabilities. Accordingly, the aggregate fair value amounts presented do not purport to represent, and should not be considered representative of, the underlying “market” or franchise value of the Bank.

Reasonable comparisons of our fair value information to other financial institutions cannot necessarily be made as the fair value disclosure standard permits many alternative calculation techniques which require numerous assumptions used to estimate fair values.

This table is a summary of financial instruments, requiring fair value of financial instruments disclosure under GAAP, excluding certain short-term financial assets and liabilities, for which carrying amounts approximate fair value, trading assets, which are carried at fair value, securities available for sale (Note 2) and derivative financial instruments (Note 15).

(dollars in thousands)	2011		2010	
	Book Value	Fair Value	Book Value	Fair Value
Financial Assets				
Loans held for sale	\$ 244,509	\$ 244,509	\$ 107,440	\$ 107,440
Loans, net ⁽¹⁾	39,837,768	40,542,926	39,458,611	40,516,706
Financial Liabilities				
Deposits	\$43,995,196	\$44,093,985	\$39,547,244	\$39,578,059
Short-term borrowings ⁽²⁾	353,620	353,620	739,637	739,637
Long-term debt ⁽³⁾	5,661,128	5,812,918	5,796,001	5,965,192

⁽¹⁾ Excludes net leases of \$2,719 million and \$2,490 million at December 31, 2011 and 2010, respectively.

⁽²⁾ Includes federal funds purchased and securities sold under agreements to repurchase and short-term borrowings.

⁽³⁾ Excludes capital leases of \$15.7 million and \$16.5 million at December 31, 2011 and 2010, respectively.

17. Cash and Dividend Restrictions

Federal Reserve Board regulations require the Bank to maintain reserve balances against certain deposit liabilities with the Federal Reserve Bank. The average required reserve balance was \$160 million and \$135 million for the years ended December 31, 2011 and 2010, respectively.

California statutes limit the amount of dividends the Bank may declare or pay to the lesser of the Bank’s retained earnings or the net income of the Bank for the prior three years less any dividends paid during those three years. Due to our net loss in 2009, the Bank could not declare or pay cash dividends in 2010 or 2011.

18. Accumulated Other Comprehensive Income (Loss)

Comprehensive income is defined as the change in equity from all transactions other than those with stockholders, and is comprised of net income and other comprehensive income. Accumulated other comprehensive income (loss) for the periods ended December 31, 2011 and December 31, 2010 is presented below:

(dollars in thousands)	Pretax Amount	Income Tax (Expense) Benefit	After-tax Amount ⁽¹⁾
Accumulated other comprehensive loss, December 31, 2009	\$(395,779)	\$ 161,195	\$(234,584)
Pension	(11,739)	4,345	(7,394)
Securities available for sale:			
Unrealized net gains on securities available for sale arising during the year	27,959	(11,351)	16,608
Reclassification of losses on previously credit-impaired securities included in net income	65,131	(26,443)	38,688
Reclassification of net realized losses on securities available for sale included in net income	35,951	(14,596)	21,355
Net change in unrealized gains on securities available for sale	129,041	(52,390)	76,651
Cash flow hedges:			
Unrealized net losses on cash flow derivative hedges arising during the year	(4,939)	2,005	(2,934)
Reclassification of net realized losses on cash flow derivative hedges included in net income	16,727	(6,791)	9,936
Net change in unrealized losses on cash flow derivative hedges	11,788	(4,786)	7,002
Other comprehensive income	129,090	(52,831)	76,259
Accumulated other comprehensive loss, December 31, 2010	\$(266,689)	\$ 108,364	\$(158,325)
Pension	(44,536)	18,502	(26,034)
Securities available for sale:			
Unrealized net gains on securities available for sale arising during the year	317,311	(128,828)	188,483
Reclassification of losses on previously credit-impaired securities included in net income	912	(370)	542
Reclassification of net realized gains on securities available for sale included in net income	(34,099)	13,844	(20,255)
Net change in unrealized gains on securities available for sale	284,124	(115,354)	168,770
Cash flow hedges:			
Unrealized net losses on cash flow derivative hedges arising during the year	(56)	23	(33)
Reclassification of net realized losses on cash flow derivative hedges included in net income	8,346	(3,388)	4,958
Net change in unrealized gains on cash flow derivative hedges	8,290	(3,365)	4,925
Other comprehensive income	247,878	(100,217)	147,661
Accumulated other comprehensive loss, December 31, 2011	\$ (18,811)	\$ 8,147	\$ (10,664)

⁽¹⁾ Accumulated other comprehensive loss, net of tax, consisted of net unrealized losses on securities with OTTI available for sale related to factors other than credit of nil and \$(542) at December 31, 2011 and 2010, respectively; net unrealized gains (losses) on securities available for sale of \$81,474 and \$(86,754) at December 31, 2011 and 2010, respectively; net unrealized gains (losses) on cash flow derivative hedges of \$83 and \$(4,842) at December 31, 2011 and 2010, respectively; and pension adjustments of \$(92,221) and \$(66,187) at December 31, 2011 and 2010, respectively.

19. Benefit Plans

The Bank has the following pension and other postretirement benefit plans:

Pension Benefits:

Funded Pension Plans

The Bank had previously offered the Employees' Retirement Plan ("ERP") of BancWest Corporation to its employees, which is a noncontributory defined benefit pension plan. The ERP was created from the merger of two separate plans: the First Hawaiian Bank Employee Plan and the Bank of the West Employee Plan. The Bank of the West Employee Plan was a cash balance pension plan that was frozen on January 1, 2010. At the freeze date, the plan stopped accruing benefits and was closed to new participants. However,

existing participants of the plan continue to earn interest until distributions are made in accordance with the plan requirements. The Bank did not incur an immediate gain or loss associated with the freezing of the plan; however, the overall cost of the plan is expected to decline.

Additionally, in connection with the acquisition of United California Bank (“UCB”) in 2002, the Bank assumed the pension obligations of UCB. UCB employees participated in a funded noncontributory final average pay defined benefit pension plan (“UCBP”) that was frozen on June 30, 2003 to new participants and benefit accruals.

Unfunded Pension Plans

The Bank also sponsored an unfunded excess benefit pension plan covering employees whose pay or benefits exceed certain regulatory limits and, for certain key executives, an unfunded supplemental executive retirement plan (“SERP”). The unfunded excess plan was frozen on January 1, 2010 to new participants and benefit accruals. The SERP was frozen in 2002 to new participants; however benefits continue to accrue for existing plan participants. The Bank did not incur an immediate gain or loss associated with the freezing of the plan; however, the overall cost of the plan is expected to decline.

Additionally, in connection with the acquisition of UCB in 2002, the Bank assumed the pension obligations of UCB’s unfunded supplemental pension benefit plan (“UCB SEP”) which was available to eligible key executives if certain requirements were met. The UCB SEP was frozen on June 30, 2003 to new participants and benefit accruals.

Other Postretirement Benefits:

Postretirement Medical and Life Insurance Plan

The Bank offers an unfunded postretirement medical and life insurance plan. The benefits include access to medical benefits and the payment of premiums for medical and life insurance benefits.

Executive Life Insurance Plan

The Bank also offered pre-and postretirement life insurance benefits for certain executives under the unfunded Executive Life Insurance Plan (the “ELIP”). The accumulated benefit obligation and expense amounts for the ELIP are included in Other Benefits in the tables that follow.

Pension Accounting

Accounting for defined benefit pension plans involves four key variables that are utilized in the calculation of the Bank’s annual pension costs. These factors include: (1) size of the employee population and their estimated compensation increases for active plans (2) actuarial assumptions and estimates, (3) expected long-term rate of return on plan assets and (4) the discount rate.

Pension expense is directly affected by the number of employees eligible for pension benefits, their estimated compensation increases for active plans and economic conditions, which include the actual return on plan assets. With the help of an actuary, management is able to estimate future expenses and plan obligations based on factors such as compensation increases, discount rates, mortality, turnover, retirement and disability rates.

The Bank uses the building block method to calculate the expected return on plan assets each year based on the balance of the pension asset portfolio at the beginning of the year and the expected long-term rate of return on that portfolio. The method requires (1) the percentage of total plan assets be multiplied by the expected asset return for each component of the plan asset mix, (2) the resulting weighted expected rates of return for each component be added together to determine the total rate of return and (3) the total be adjusted by considering the active management of the portfolio. Under this approach, forward-looking expected returns for each invested asset class are determined. Forward-looking capital market assumptions are typically developed by using historical returns as a starting point and applying a combination of macroeconomics, econometrics, statistical, and other technical analysis, such as spread differentials, to forecast the expected return going forward.

The following table shows the amount of pension and other postretirement benefits recognized in other comprehensive income:

(dollars in thousands)	Pension Benefits		Other Benefits	
	2011	2010	2011	2010
Amounts arising during the period:				
Net gain (loss) on pension assets	\$(18,107)	\$ 16,588	\$ -	\$ -
Net loss on obligations	(39,020)	(39,791)	(2,397)	(2,111)
Reclassification adjustments recognized as components of net periodic benefit cost during the period:				
Net loss	16,050	14,665	28	-
Net prior service cost (credit)	34	34	(1,124)	(1,124)
Amounts recognized in other comprehensive income	\$(41,043)	\$ (8,504)	\$(3,493)	\$(3,235)

The following table shows the amounts within accumulated other comprehensive income that have not yet been recognized as components of net periodic benefit costs:

(dollars in thousands)	Pension Benefits		Other Benefits	
	2011	2010	2011	2010
Net loss	\$(149,326)	\$(108,249)	\$(6,723)	\$(4,354)
Net prior service (cost) credit	(272)	(306)	1,069	2,193
Ending balance within accumulated other comprehensive income	\$(149,598)	\$(108,555)	\$(5,654)	\$(2,161)

The following table shows the amounts within accumulated other comprehensive income expected to be recognized as components of net periodic benefit costs during 2012:

(dollars in thousands)	Pension Benefits	Other Benefits
Amortization of net loss	\$24,670	\$ 224
Amortization of net prior service cost (credit)	34	(1,069)
Total	\$24,704	\$ (845)

The following table summarizes the changes to the benefit obligation and fair value of plan assets, and the funded status for all Bank of the West plans for the years indicated:

(dollars in thousands)	Pension Benefits		Other Benefits	
	2011	2010	2011	2010
Benefit obligation at beginning of year	\$ 482,316	\$ 442,256	\$ 46,673	\$ 41,626
Service cost	824	1,457	1,566	3,530
Interest cost	24,477	24,448	2,334	2,419
Actuarial loss	39,020	39,791	1,574	2,111
Benefit payments	(27,075)	(25,636)	(3,162)	(3,013)
Benefit obligation at end of year	\$ 519,562	\$ 482,316	\$ 48,985	\$ 46,673
Fair value of plan assets at beginning of year	\$ 364,207	\$ 340,971	\$ -	\$ -
Actual return on plan assets	4,077	36,723	-	-
Employer contributions	20,000	7,500	3,162	3,013
Benefit payments	(22,304)	(20,987)	(3,162)	(3,013)
Fair value of plan assets at end of year	\$ 365,980	\$ 364,207	\$ -	\$ -
Funded status⁽¹⁾	\$(153,582)	(118,109)	\$(48,985)	\$(46,673)

⁽¹⁾ All amounts are recognized in liabilities in the Bank of the West consolidated balance sheet.

Amortization of the unrecognized net gain or loss is included as a component of net pension cost. If amortization results in an amount less than the minimum amortization required under GAAP, the minimum required amount is recorded. The minimum amount recorded under GAAP represents unrecognized net gains or losses that exceed 5% of the greater of the projected benefit obligation or the market-related value of plan assets as of the beginning of the year. The unrecognized amounts are amortized on a straight-line basis over the lesser of five years or the average remaining service period of active employees expected to receive benefits under the plan.

The accumulated benefit obligation for the Bank's defined benefit pension plans was \$517.1 million and \$478.9 million at December 31, 2011 and 2010, respectively.

Each of our pension plans had an accrued benefit liability at December 31, 2011 and 2010. The following table summarizes information for pension plans with benefit obligations in excess of plan assets as of December 31:

(dollars in thousands)	2011	2010
Projected benefit obligation	\$519,562	\$482,316
Accumulated benefit obligation	517,134	478,914

The following table sets forth the components of the net periodic benefit cost (credit) for Bank of the West at December 31:

(dollars in thousands)	Pension Benefits		Other Benefits	
	2011	2010	2011	2010
Service cost	\$ 824	\$ 1,457	\$ 1,566	\$ 3,530
Interest cost	24,477	24,448	2,334	2,419
Expected return on plan assets	(22,185)	(20,136)	-	-
Amortization of prior service cost (credit)	34	34	(1,124)	(1,124)
Recognized net actuarial loss (gain)	16,050	14,665	(794)	-
Total benefit cost	\$ 19,200	\$ 20,468	\$ 1,982	\$ 4,825

Assumptions

Weighted-average assumptions used to determine benefit obligations and net periodic benefit cost were as follows at December 31:

	ERP Pension Benefits		SERP Pension Benefits		Other Benefits ⁽¹⁾	
	2011	2010	2011	2010	2011	2010
Benefit Obligations:						
Discount rate	4.50%	5.25%	4.50%	5.25%	4.50%	6.00%
Rate of compensation increase	NA	NA	4.00%	4.00%	5.00%	5.00%
Net Periodic Benefit Cost:						
Discount rate	5.25%	5.75%	5.25%	5.75%	4.50%	6.00%
Expected long-term return on plan assets	6.00%	6.00%	NA	NA	NA	NA
Rate of compensation increase	NA	NA	4.00%	4.00%	5.00%	5.00%

⁽¹⁾ Includes the postretirement medical and life insurance plan, which used a discount rate of 4.50% and 5.25% in 2011 and 2010, respectively, for benefit obligations and a discount rate of 5.25% and 5.75% in 2011 and 2010, respectively, for net periodic benefit cost. The rate of compensation increase is not applicable to the postretirement medical and life insurance plan.

The assumed discount rate reflects management's estimate of the rate at which the benefits could be effectively settled. In selecting the discount rate, the Bank reviews the yield on high quality corporate bonds and resulting yield curves. The yield curve information is considered with the plans' projected benefit cash flows and resulting duration to select a single discount rate to calculate plan obligations for reporting purposes. The selected rate is rounded to the nearest 25 basis points.

Assumed health care cost trend rates at December 31, were as follows:

	2011	2010
Health care cost trend rate assumed for next year	7.5%	8.0%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	2017	2017

Assumed health care cost trend rates have an impact on the amounts reported for the health care plans. A one-percentage-point change in the assumed health care cost trend rates would have the following pretax effect:

(dollars in thousands)	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on 2011 total of service and interest cost components	\$ 103	\$ (63)
Effect on postretirement benefit obligation at December 31, 2011	1,318	(941)

Plan Assets

The assets within the Bank of the West Employees' Retirement Plan and the UCB Retirement Plan ("the Plans") are managed in accordance with the Employee Retirement Income Security Act of 1974 ("ERISA"). The Plans' assets consist mainly of fixed income and equity securities of U.S. and foreign issuers and may include alternative investments such as real estate, private equity and other absolute return strategies.

Investment Strategy and Risk Management for the Plans' Assets

The long-term investment objective of the ERP and UCB plans is to earn an investment return which meets or exceeds the following benchmarks over the long term:

- The target rate of return should meet or exceed the current actuarial investment return assumption as reflected in the funding valuation rate.
- The target rate of return should meet or exceed a compounded annual long-term rate of return equal to or greater than the Plans' custom benchmark returns.

The Plans' assets are managed in accordance with the Retirement Committee's (the "Committee") guidelines. All transactions that utilize assets of the Trust will be undertaken for the sole benefit of the participants of the Plans.

The assets selected for the Plans may consist of individual security issues managed by the investment manager(s) or securities held in a well-diversified portfolio of a registered investment company or an exchange-traded fund. In addition, for the UCB plan, the assets selected for the plan must have readily ascertainable market value and must be marketable. The assets under this plan may also consist of a publicly traded mutual fund. Investment managers may be permitted to use derivative instruments to control portfolio risk.

The equity portion and debt portion of the Plans' assets may employ commingled assets or be individually invested expressly including the use of money market funds managed by a corporate trustee or by others.

In its desire to protect Plans' assets, the Committee imposes general guidelines on asset allocation. Asset allocations are based on the Committee's appraisal of current and long-term needs for liquidity and income of the Plans and its estimate of the investment returns from the various classes and types of investments. The asset allocations are likely to be the primary determinant of the Plans' returns and the associated volatility of returns for the Plans.

The target asset allocations for the two plans for the years ended December 31, 2011 and 2010 are as follows:

	Bank of the West Plan		UCB Plan	
	2011	2010	2011	2010
Equity	50%	45%	45%	45%
Fixed Income	45	50	50	50
Other	5	5	5	5
Total	100%	100%	100%	100%

Concentration of Risk

The Bank describes “risk” as the possibility of not achieving the Plans’ actuarial rates of return. Risks associated with the Plans’ investments include systematic and nonsystematic risk, interest rate, yield curve, reinvestment and credit risk and the combination of these risks. The Bank mitigates the credit risk of investments by establishing guidelines with the investment managers. Both the Bank and our investment managers monitor the diversity of the plans to ensure that they meet ERISA requirements. Equity securities in the Plans did not include BancWest or BNP Paribas stock at December 31, 2011 and 2010.

The tables below summarize the Bank’s pension plan assets by investment category at December 31, 2011 and 2010. The three-level hierarchy that describes the inputs used to measure assets at fair value is discussed in Note 1:

(dollars in thousands)	2011			
	Fair Value	Level 1	Level 2	Level 3
Asset Category				
Cash and equivalents	\$ 1,039	\$ 1,039	\$ -	\$ -
Fixed income:				
U.S. Government agency securities and corporate securities	125,713	125,713	-	-
Mutual funds	19,300	19,300	-	-
Other	20,184	9,762	-	10,422
Equity securities:				
Mutual funds	120,322	120,322	-	-
Exchange traded funds	33,603	33,603	-	-
Separate assets	29,254	29,254	-	-
Multi strategy mutual funds	16,565	10,464	6,101	-
Total plan assets	\$365,980	\$349,457	\$6,101	\$10,422

(dollars in thousands)	2010			
	Fair Value	Level 1	Level 2	Level 3
Asset Category				
Cash and equivalents	\$ 2,760	\$ 2,760	\$ -	\$ -
Fixed income:				
U.S. Government agency securities and corporate securities	122,686	122,686	-	-
Mutual funds	27,850	27,850	-	-
Other	17,492	7,487	-	10,005
Equity securities:				
Mutual funds	119,951	119,951	-	-
Exchange traded funds	26,276	26,276	-	-
Separate assets	29,197	29,197	-	-
Multi strategy mutual funds	17,995	12,184	5,811	-
Total plan assets	\$364,207	\$348,391	\$ 5,811	\$10,005

There were no transfers in or out of Levels 1 and 2 for the year ended December 31, 2011. The changes in our Level 3 pension plan assets for the year ended December 31, 2011, were as follows:

(dollars in thousands)	Contracts/Annuities
Beginning balance at December 31, 2010	\$10,005
Actual return on plan assets	522
Settlements	(1,820)
Purchases	1,786
Service fees	(71)
Ending balance at December 31, 2011	<u>\$10,422</u>

Valuation Methodologies

The following is a description of the valuation methodologies used for the Plans' assets measured at fair value:

- **Cash and equivalents** — this category includes cash and money market fund holdings. The fair values are based on a review of unadjusted quoted prices for identical assets in active markets.
- **Fixed income** — this category includes obligations issued and guaranteed by the U.S. Treasury, debt securities issued by U.S. corporations, SEC registered mutual funds, debt securities issued by a state, municipality or county, and an annuity contract (with interest guarantees) which participates in the general account of a major life insurance company. Except for the annuity contract, the fair values are based on a review of unadjusted quoted prices for identical assets in active markets. The fair value of the annuity contract is based on a contractually agreed upon value.
- **Equity securities** — this category includes SEC registered mutual funds, exchange-traded funds tracking domestic or international equity indices, and individual equities held in the form of common stock of companies in the Standard and Poor's 500 Index. The fair values are based on a review of unadjusted quoted prices for identical assets in active markets.
- **Multi strategy mutual funds** — this category includes SEC registered mutual funds investing in multiple asset strategies. The fair values are based on a review of quoted prices for identical and similar assets in active markets.

Contributions

Bank of the West expects to contribute \$5.0 million to its non-qualified defined benefit pension plans and \$4.4 million to its other postretirement benefit plans in 2012. Based on the funding requirements of the Pension Protection Act of 2006, Bank of the West anticipates making a contribution of approximately \$7.5 million to the ERP during 2012.

Estimated Future Benefit Payments

The following table presents the expected benefit payments, for the periods indicated:

(dollars in thousands)	Pension Benefits	Other Benefits
2012	\$ 25,477	\$ 4,368
2013	26,145	2,755
2014	26,887	6,029
2015	27,562	2,777
2016	29,063	4,205
2017 – 2021	<u>165,069</u>	<u>19,410</u>

401(k) Match Plan

The Bank matches 100% of employee contributions up to 6% of pay to the BancWest Corporation 401(k) Savings Plan, a defined contribution plan. The plan covers all employees who satisfy eligibility requirements. Matching employer contributions to the 401(k) plan for 2011 and 2010 were \$23.0 million and \$21.1 million, respectively.

Incentive Plan for Key Executives and Officer's Incentive Plan

The Bank has two incentive plans under which awards of cash are made to certain employees. One plan is for key executives; the Incentive Plan for Key Executives ("IPKE"), and the other plan is for employees below the level of key executives; the Officer's Incentive Plan ("OIP"). The IPKE and OIP limit the aggregate and individual value of the awards that could be issued in any one fiscal year. Both plans have the same limits on individual awards. Salary and employee benefits expense includes IPKE and OIP expense of \$37.9 million and \$29.7 million for 2011 and 2010, respectively.

Long-Term Incentive Plans

In 2006, BancWest created an incentive plan, the Phantom Stock Plan, which was designed to reward certain employees for their performance and BancWest's performance over a multi-year performance cycle. The Phantom Stock Plan's final cycle payout of \$4.5 million occurred during 2011. For the years ended December 31, 2011 and 2010, related salary and employee benefits expense for the Bank was \$0.7 million and \$1.0 million, respectively. In 2008, the Bank created a Performance Share Plan to replace the Phantom Stock Plan on a go-forward basis with employee benefit expense for the Bank at \$12.1 million and \$3.1 million for 2011 and 2010, respectively.

In 2008, the Bank created a new Long Term Incentive Plan ("LTIP") to replace the BancWest LTIP on a go-forward basis. The plan rewards selected key executives for the Bank of the West performance assessed over a three year performance cycle on a relative and absolute basis. Salary and employee benefits expense for the Bank includes LTIP expense of \$13.8 million and \$4.7 million for 2011 and 2010, respectively.

20. Income Taxes

For the years indicated, the expense (benefit) provision for income taxes was comprised of the following:

(dollars in thousands)	2011	2010
Current:		
Federal	\$212,592	\$ 76,178
States and other	63,404	32,321
Total current	275,996	108,499
Deferred:		
Federal	(16,305)	(23,501)
States and other	(7,755)	4,602
Total deferred	(24,060)	(18,899)
Total expense for income taxes	\$251,936	\$ 89,600

The components of the Bank's net deferred income tax asset at December 31, 2011 and 2010 were as follows:

(dollars in thousands)	2011	2010
Assets		
Allowance for loan and lease losses and nonperforming assets	\$578,539	\$619,997
Investment securities	-	34,328
Deferred compensation expenses	140,938	112,507
Depreciation expense	8,082	8,357
State income and franchise taxes	22,723	10,398
Other	42,847	27,964
Total deferred income tax assets	\$793,129	\$813,551
Liabilities		
Leases	\$201,926	\$226,016
Investment securities	81,645	-
Intangible assets	17,555	19,587
Total deferred income tax liabilities	301,126	245,603
Net deferred income tax assets	\$492,003	\$567,948

Net deferred income tax assets are included within other assets in the consolidated balance sheets.

Deferred taxes related to net unrealized gains (losses) on securities available for sale, net unrealized gains (losses) on derivatives, and employee benefit plan adjustments are recorded in cumulative OCI (see Note 18). These associated adjustments decreased OCI by \$100.2 million.

A valuation allowance for certain state capital loss carryforwards has been established in the amount of \$3.5 million as of December 31, 2010. Management believes it is unlikely that sufficient capital gains will be generated during the carryforward period to fully utilize the capital losses. There is no change to the valuation allowance in 2011.

With respect to all other deferred tax assets, no valuation allowances are required. Realization is dependent on generating sufficient taxable income in the future and, although realization is not assured, management believes it is more likely than not that all of the deferred tax assets will be realized. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income are reduced.

The following analysis reconciles the federal statutory income tax rate to the effective income tax rate for the years indicated:

(dollars in thousands)	2011		2010	
	Amount	%	Amount	%
Federal statutory income tax expense and rate	\$243,265	35.0%	\$ 96,229	35.0%
Foreign, state and local taxes expense, net of federal effect	38,317	5.5	26,021	9.5
Bank-owned life insurance	(9,351)	(1.4)	(8,571)	(3.1)
Non-taxable income, net	(13,246)	(1.9)	(21,188)	(7.7)
Tax credits	(7,427)	(1.1)	(5,599)	(2.1)
Other	378	0.1	2,708	1.0
Effective income tax expense and rate	\$251,936	36.2%	\$ 89,600	32.6%

The Bank and its subsidiaries file income tax returns with the federal government and various state and local jurisdictions. The Internal Revenue Service ("IRS") is in the process of examining the Bank's income tax returns for 2006 and 2007. During 2011, the IRS issued an agreed Revenue Agent's Report for tax years 2003-2005 and the IRS proposed no significant adjustments with respect to the Bank or its acquired entities. With few exceptions, the Bank and its acquired entities are no longer subject to federal, state, and local income tax examinations for years prior to 2003. As of December 31, 2011, the state tax jurisdictions have not proposed any significant adjustments. The Bank believes that there are no other

jurisdictions in which the outcome of unresolved issues or claims is likely to be material to our results of operations, financial position or cash flows. The Bank further believes that it has made adequate provision for all income tax uncertainties.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows:

(dollars in thousands)	2011	2010
Balance at January 1,	\$18,424	\$21,518
Additions based on tax positions related to the current year	3,655	2,475
Reductions for tax positions of prior years	(175)	(1,574)
Reductions relating to settlements with tax authorities	(2,179)	-
Reductions as a result of a lapse of the applicable statute of limitations	(530)	(3,995)
Balance at December 31,	\$19,195	\$18,424

Included in the balance of unrecognized tax benefits are \$13.1 million and \$12.6 million of tax benefits as of December 31, 2011 and 2010, respectively which, if recognized, will affect the effective tax rate.

During the year ended December 31, 2011, the Bank recognized approximately \$0.8 million (\$0.5 million, net of federal and state tax benefit) in interest and no penalties. The unrecognized tax benefit balances do not include \$2.9 million and \$3.7 million of the net accruals for the payment of interest and penalties for the years ended December 31, 2011 and 2010, respectively.

It is reasonably possible that the total amounts of unrecognized tax benefits will decrease within twelve months of the reporting date with respect to certain state tax liabilities of acquired companies that the Bank expects to be finalized with the tax jurisdictions. We estimate the possible change could be approximately \$3.5 million, which, if recognized, will affect the effective tax rate.

21. Transactions with Affiliates

The Bank participates in various transactions with its affiliates, including BancWest, First Hawaiian Bank, BNP Paribas and its affiliates.

These transactions are subject to federal and state statutory and regulatory restrictions and limitations which require, among other items, that certain transactions be collateralized, and be subject to quantitative limitations, and be on terms at least as favorable to the Bank as those prevailing at the time for similar non-affiliate transactions. These transactions have included the sales and purchases of assets, foreign exchange activities, financial guarantees, international services, interest rate swaps and intercompany deposits and borrowing.

Amounts due to and from affiliates and off-balance sheet transactions at December 31, 2011 and 2010 were as follows:

(dollars in thousands)	2011	2010
Cash and due from banks	\$ 44,910	\$ 45,701
Loans	-	6
Noninterest-bearing demand deposits ⁽¹⁾	8,562	1,018,597
Money market deposits ⁽¹⁾	1,156,614	67,941
Time certificates of deposit	253,412	219,438
Other assets	87,193	225,285
Other liabilities	170,935	116,845
Short-term borrowings	1,560	1,094
Fixed-rate unsecured lines of credit	54,500	75,900
Noncontrolling interest	22,502	23,849
Derivatives and off-balance sheet transactions:		
Credit guarantee derivative ⁽²⁾	460,811	796,601
Standby letters of credit	18,776	19,242
Guarantees received	154,488	141,220
Fair value hedge ⁽²⁾	831,000	2,045
Commitments to purchase foreign currencies ⁽²⁾	93,077	108,389
Commitments to sell foreign currencies ⁽²⁾	49,816	42,376
Interest rate contracts ⁽²⁾	2,210,411	2,864,853

⁽¹⁾ Predominately related to cash deposit to collateralize the Guarantee with BancWest comprised of noninterest bearing deposit in 2010 and money market deposit in 2011, refer to Note 7 for additional information.

⁽²⁾ Represents the notional amount of derivative financial instruments.

Interest expense to affiliates for 2011 and 2010 was \$13.9 million and \$107.6 million, respectively. Noninterest income from affiliate transactions, which includes fair value adjustments related to derivatives, was a net loss of \$130.0 million and \$169.0 million for 2011 and 2010, respectively.

22. Stock-based Compensation

The Bank participates in a BNPP stock option plan where certain members of Bank of the West's senior management team receive stock option awards from BNPP for shares of BNPP stock. The Bank accounts for these stock option awards at their fair values estimated on the grant dates using a trinomial tree pricing model as compensation expense over the vesting or requisite service periods. Upon exercise of the stock options, the Bank's senior management team receives shares of BNPP stock. The stock options were awarded in the years 2003 through 2011. The options do not vest until after the fourth year, at which time they are exercisable from the fourth anniversary through the tenth anniversary date (the expiration date) for the 2003 and 2004 grants and through the eighth anniversary date for the 2005 through 2011 grants. The range of exercise prices for the 2003-2011 options were \$52.81 through \$115.18. As of December 31, 2011, no stock options had expired.

Annual stock option awards are recognized over the vesting period and reflected as compensation expense, which was \$2.6 million and \$2.3 million for the years ending December 31, 2011 and 2010, respectively. The related income tax benefit was \$1.0 million and \$0.9 million for the years ended December 31, 2011 and 2010, respectively.

The following table is a summary of stock option activity:

	Number	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)
Options outstanding as of January 1, 2010:	819,960	\$92.93	4.79
Granted	87,735	69.77	
Exercised	(8,217)	65.04	
Forfeited	(46,843)	88.81	
Options outstanding as of December 31, 2010	852,635	91.04	4.00
2011:			
Granted	90,569	\$78.95	
Exercised	(12,847)	62.32	
Forfeited	(5,854)	75.49	
Options outstanding as of December 31, 2011	924,503	90.32	3.33

The total fair value of vested options and options exercised was \$5.9 million and \$0.5 million in 2011 and \$4.8 million and \$0.3 million in 2010, respectively.

The fair value of each stock option was estimated on the date of grant using a trinomial tree pricing model. The implied volatility used in measuring stock options is estimated on the basis of a range of ratings prepared by various dealing rooms. The level of volatility used by the Bank takes into account historical volatility trends for the Dow Jones Euro Stoxx Bank index and BNPP shares over a 10-year period. The weighted-average grant-date fair values of options granted during the years 2011 and 2010 were \$31.37 and \$34.28, respectively. Total unrecognized compensation costs related to nonvested shares was \$5.1 million and \$6.4 million and the weighted-average period in which these costs will be recognized was 2.24 and 2.17 years at December 31, 2011 and 2010, respectively. The following table presents the weighted-average assumptions used.

	2011	2010
Dividend yield	4.3%	2.0%
Expected volatility	28.5%	30.4%
Risk free interest rate	3.5%	3.1%
Expected life (in years)	8	8

A summary of the Bank's nonvested options and changes during the years ended December 31, 2011 and 2010 is presented below.

Nonvested Options Outstanding	Number	Weighted-Average Grant-Date Fair Value
Options outstanding at January 1, 2010	575,620	\$36.60
Granted	87,735	34.28
Vested	(166,531)	32.72
Forfeited	<u>(30,059)</u>	40.33
Options outstanding at December 31, 2010	466,765	37.30
2011:		
Granted	90,569	\$31.37
Vested	(173,062)	34.87
Forfeited	<u>(3,784)</u>	41.44
Options outstanding at December 31, 2011	380,488	38.62

A summary of the Bank's vested and exercisable options and changes during the years ended December 31, 2011 and 2010 is presented below.

Vested and Exercisable Options Outstanding	Number	Weighted-Average Grant-Date Fair Value	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (dollars in thousands)
Outstanding at January 1, 2010	244,340	\$36.55	\$74.76	3.36	\$ 99.16
Vested	166,531	32.72			
Exercised	(8,217)	41.92			
Forfeited	<u>(16,784)</u>	34.21			
Vested and exercisable options outstanding at December 31, 2010	385,870	35.67	89.53	2.75	472.78
2011:					
Vested	173,062	\$34.87			
Exercised	(12,847)	37.07			
Forfeited	<u>(2,070)</u>	35.35			
Vested and exercisable options outstanding at December 31, 2011	544,015	35.38	98.04	2.23	-

23. Subsequent Events

We have evaluated the effects of subsequent events that have occurred after December 31, 2011 and through March 5, 2012, the date of our financial statement issuance. Refer to Note 14 for details of a Notice of Settlement for a class action complaint in 2011.

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Bank of the West

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BANK OF THE WEST AND SUBSIDIARIES

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Independent Auditors' Report

To the Board of Directors and Stockholders of
Bank of the West and its Subsidiaries:

We have audited the accompanying consolidated financial statements of Bank of the West and its subsidiaries (the "Bank"), which comprise the consolidated balance sheet as of December 31, 2012, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bank of the West and its subsidiaries as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Predecessor Auditors' Opinion on 2011 Financial Statements

The consolidated financial statements of the Bank as of and for the year ended December 31, 2011 were audited by other auditors whose report, dated March 5, 2012, expressed an unmodified opinion on those statements.

/s/ Deloitte & Touche LLP
San Francisco, CA
March 15, 2013

BANK OF THE WEST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(dollars in thousands)	Year Ended December 31,	
	2012	2011
Interest income		
Loans	\$1,840,031	\$1,891,344
Lease financing	127,638	134,069
Securities available for sale	174,421	188,237
Other	10,398	5,797
Total interest income	2,152,488	2,219,447
Interest expense		
Deposits	151,030	156,459
Short-term borrowings	221	637
Long-term debt	100,765	154,108
Total interest expense	252,016	311,204
Net interest income	1,900,472	1,908,243
Provision for credit losses	169,462	319,865
Net interest income after provision for credit losses	1,731,010	1,588,378
Noninterest income		
Service charges on deposit accounts	151,381	153,698
Credit and debit card fees	78,718	109,503
Loan fees	38,471	33,049
Brokerage service fees	29,655	41,105
Other service charges and fees	68,910	65,191
Gain on loans and leases sales	81,562	28,289
Net gains on debt securities available for sale ⁽¹⁾	54,102	34,099
Gain (loss) on credit guarantee derivative	38,257	(6,351)
Net gains on customer accommodation derivatives	28,366	15,603
Income from bank-owned life insurance	25,645	23,318
Trust and investment services income	19,279	18,684
Write-downs of other real estate owned assets, net	(17,087)	(34,174)
Other	7,854	32,646
Total noninterest income	605,113	514,660
Noninterest expense		
Salaries and employee benefits	830,325	764,103
Occupancy	139,619	131,606
Outside services	136,203	124,201
Equipment	57,537	56,328
FDIC assessments	42,042	61,886
Advertising and marketing	41,401	38,618
Intangible amortization	37,152	51,455
Collection and repossession	36,672	47,320
Other	143,605	132,478
Total noninterest expense	1,464,556	1,407,995
Income before income taxes and noncontrolling interest	871,567	695,043
Income tax expense	314,359	251,936
Net income before noncontrolling interest	557,208	443,107
Net income attributable to noncontrolling interest	2,005	1,096
Net income attributable to Bank of the West	\$ 555,203	\$ 442,011

⁽¹⁾ Includes other-than-temporary impairment (OTTI) losses of \$0.5 million and \$1.9 million recognized in earnings for the years ended December 31, 2012 and 2011, respectively.

The accompanying notes are an integral part of these consolidated financial statements.

BANK OF THE WEST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in thousands)	2012	2011
Net income attributable to Bank of the West	\$555,203	\$ 442,011
Other comprehensive income, before tax		
Net change in pension and other benefits adjustment	3,939	(44,536)
Net change in unrealized gains on securities available for sale	84,532	284,124
Net change in unrealized gains on cash flow derivative hedges	17,248	8,290
Other comprehensive income, before tax	105,719	247,878
Income tax expense related to other comprehensive income	(42,922)	(100,217)
Other comprehensive income, net of tax	62,797	147,661
Comprehensive income attributable to Bank of the West	618,000	589,672
Comprehensive income attributable to noncontrolling interest	2,005	1,096
Total comprehensive income	\$620,005	\$ 590,768

The accompanying notes are an integral part of these consolidated financial statements.

BANK OF THE WEST AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except per share amounts)	December 31,	
	2012	2011
Assets		
Cash and due from banks	\$ 1,054,216	\$ 763,987
Interest-bearing deposits in other banks	1,599,849	2,832,249
Trading assets	6,498	6,000
Securities available for sale	8,164,040	7,717,655
Loans held for sale	261,101	244,509
Loans and leases:		
Loans and leases	44,991,531	43,427,394
Less allowance for loan and lease losses	710,703	870,188
Net loans and leases	44,280,828	42,557,206
Premises and equipment, net	440,930	451,035
Other real estate owned and repossessed personal property	44,906	156,049
Interest receivable	172,025	167,562
Bank-owned life insurance	1,315,039	1,301,847
Identifiable intangible assets	170,753	170,447
Goodwill	4,201,513	4,201,513
Other assets	1,631,661	1,838,245
Total assets⁽¹⁾	\$63,343,359	\$62,408,304
Liabilities and Equity		
Deposits:		
Interest-bearing	\$32,838,841	\$32,261,182
Noninterest-bearing	14,268,596	11,734,014
Total deposits	47,107,437	43,995,196
Short-term borrowings	328,190	353,620
Long-term debt	2,974,800	5,676,868
Liability for pension benefits	221,906	202,057
Other liabilities	1,057,241	968,105
Total liabilities ⁽²⁾	51,689,574	51,195,846
Equity:		
Common stock, par value \$0.001 per share in 2012 and 2011		
Authorized — 20,000,000 shares		
Issued and outstanding — 5,548,359 shares at December 31, 2012 and 2011	6	6
Additional paid-in capital	9,733,396	9,730,732
Retained earnings	1,850,090	1,469,882
Accumulated other comprehensive income (loss)	52,133	(10,664)
Total Bank of the West stockholder's equity	11,635,625	11,189,956
Noncontrolling interest	18,160	22,502
Total equity	11,653,785	11,212,458
Total liabilities and equity	\$63,343,359	\$62,408,304

⁽¹⁾ Consolidated assets at December 31, 2012 and 2011 include \$261.7 million and \$229.6 million of total assets of certain variable interest entities (VIEs) that can only be used to settle the liabilities of those VIEs.

⁽²⁾ Consolidated liabilities at December 31, 2012 and 2011 include \$34.3 million and \$55.0 million of total liabilities of certain VIEs for which the VIE creditors do not have recourse to Bank of the West.

The accompanying notes are an integral part of these consolidated financial statements.

BANK OF THE WEST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(dollars in thousands)	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Bank of the West Stockholder's Equity	Non- controlling Interest	Total Equity
	Shares	Amount						
Balance, January 1, 2011	5,548,359	\$6	\$9,728,178	\$1,027,871	\$(158,325)	\$10,597,730	\$23,849	\$10,621,579
Net income	-	-	-	442,011	-	442,011	1,096	443,107
Other comprehensive income (loss), net of tax	-	-	-	-	147,661	147,661	-	147,661
Contributed capital	-	-	2,554	-	-	2,554	-	2,554
Noncontrolling interest	-	-	-	-	-	-	(2,443)	(2,443)
Net change for the period	-	-	2,554	442,011	147,661	592,226	(1,347)	590,879
Balance, December 31, 2011	5,548,359	\$6	\$9,730,732	\$1,469,882	\$ (10,664)	\$11,189,956	\$22,502	\$11,212,458
Net income	-	-	-	555,203	-	555,203	2,005	557,208
Other comprehensive income (loss), net of tax	-	-	-	-	62,797	62,797	-	62,797
Contributed capital	-	-	2,664	-	-	2,664	-	2,664
Dividends	-	-	-	(174,995)	-	(174,995)	-	(174,995)
Noncontrolling interest	-	-	-	-	-	-	(6,347)	(6,347)
Net change for the period	-	-	2,664	380,208	62,797	445,669	(4,342)	441,327
Balance, December 31, 2012	5,548,359	\$6	\$9,733,396	\$1,850,090	\$ 52,133	\$11,635,625	\$18,160	\$11,653,785

The accompanying notes are an integral part of these consolidated financial statements.

BANK OF THE WEST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)	Year Ended December 31,	
	2012	2011
Cash flows from operating activities		
Net income	\$ 555,203	\$ 442,011
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	169,462	319,865
Net gains on securities available for sale	(54,102)	(34,099)
Net gains on sale of loans and leases	(81,562)	(22,006)
Net increase in trading assets	(498)	(500)
Depreciation, amortization and accretion, net	264,476	195,168
Deferred income taxes	45,497	(24,060)
Decrease in interest receivable and other assets	61,091	95,828
Increase in interest payable and other liabilities	76,309	142,678
Change in fair value of credit guarantee derivative	(38,257)	6,351
Originations of loans held for sale	(1,527,447)	(1,092,158)
Proceeds from sales of loans held for sale	1,438,702	1,123,551
Other, net	17,911	68,581
Net cash provided by operating activities	926,785	1,221,210
Cash flows from investing activities		
Securities available for sale:		
Proceeds from maturities and prepayments	887,172	1,429,134
Proceeds from sales	2,639,552	4,423,454
Purchases	(3,931,146)	(7,163,979)
Net increase in loans resulting from originations and collections	(2,061,081)	(1,325,460)
Purchases of loans and leases	(84,387)	(105,473)
Proceeds from sales of loans	308,650	188,394
Proceeds from sales of foreclosed assets	133,028	138,313
Purchase of premises, equipment and software	(77,887)	(83,112)
Other, net	61,087	21,352
Net cash used in investing activities	(2,125,012)	(2,477,377)
Cash flows from financing activities		
Net increase in deposits	3,168,237	4,568,447
Net decrease in short-term borrowings under three months	(25,430)	(386,015)
Proceeds from issuance of long-term debt	109,578	2,100,000
Repayment of long-term debt	(2,821,334)	(2,232,297)
Cash dividends paid	(174,995)	-
Net cash provided by financing activities	256,056	4,050,135
Net (decrease) increase in cash and cash equivalents	(942,171)	2,793,968
Cash and cash equivalents at beginning of year	3,596,236	802,268
Cash and cash equivalents at end of year	\$ 2,654,065	\$ 3,596,236
Supplemental disclosures		
Interest paid	\$ 268,745	\$ 322,457
Income taxes paid	250,937	324,291
Noncash investing and financing activities:		
Transfer from deposits for the settlement of credit guarantee derivative	55,996	120,495
Transfers into loans held for sale	217,273	259,037
Transfers from loans to foreclosed properties	42,092	126,882

The accompanying notes are an integral part of these consolidated financial statements.

1. Organization and Summary of Significant Accounting Policies

Bank of the West (“BOW”), a State of California chartered bank, has 648 retail branch banking locations (638 full service retail branches and 10 limited service retail offices) and other commercial banking offices located in Arizona, California, Colorado, Idaho, Iowa, Kansas, Minnesota, Missouri, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Utah, Washington, Wisconsin and Wyoming providing a wide range of financial services to both consumers and businesses. BOW also has branches serving Pacific Rim customers, specializing in domestic and international products and services in predominantly Asian American communities. In addition, the Bank has a commercial banking office in New York and an offshore office in the Cayman Islands. Lending and other services focus on corporate, consumer and smaller middle market businesses. BOW’s principal subsidiaries include Essex Credit Corporation (“Essex”), BW Insurance (“BWI”), BancWest Investment Services, Inc. (“BWIS”) and CLAAS Financial Services LLC (“CLAAS”). The terms “the Bank,” “we,” “our,” “us” and similar terms as used in this report refer to Bank of the West and its subsidiaries.

BancWest Corporation (“BancWest”), a financial holding company, as of December 31, 2012 and 2011, owned 100% of the outstanding common stock of the Bank. The Bank also had authorized 1,000,000 shares of preferred stock, none of which were issued or outstanding at December 31, 2012 and 2011.

BancWest is a wholly owned subsidiary of BNP Paribas (“BNPP”), a financial institution based in France. BancWest’s other bank subsidiary (wholly owned) is First Hawaiian Bank.

Regulation

The Bank’s primary regulators are the Federal Deposit Insurance Corporation (“FDIC”) and the California Department of Financial Institutions. The Bank is a member of the Federal Home Loan Bank System and is required to maintain an investment in the capital stock of the Federal Home Loan Bank (“FHLB”). The Bank maintains insurance on its customer deposit accounts with the FDIC, which requires quarterly assessments based on a prespecified formula.

Basis of Presentation

The accounting and reporting policies of the Bank and its subsidiaries conform to accounting principles generally accepted in the United States (“GAAP”). The accompanying consolidated financial statements include the accounts of the Bank and all of its wholly-owned, majority-owned, or controlled subsidiaries and variable interest entities (“VIEs”) if the Bank determines it is the primary beneficiary. All material intercompany transactions among the Bank and its consolidated entities have been eliminated.

For consolidated entities where it holds less than a 100% interest, the Bank reports income or loss attributable to noncontrolling shareholders in the consolidated statements of income, and the equity interest attributable to noncontrolling shareholders in the equity section of the consolidated balance sheets.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in accordance with GAAP requires management to make judgments using estimates and assumptions. Results could differ based on different estimates and assumptions.

Reclassifications

Certain amounts in the financial statements and notes thereto for the prior year have been reclassified to conform to the current financial statement presentation.

Cash and Due from Banks

Cash and due from banks include amounts due from other financial institutions as well as in-transit clearings. For purposes of the consolidated statement of cash flows, the Bank includes as cash and cash equivalents, cash and due from banks, interest-bearing deposits in other banks and federal funds sold and securities purchased under agreements to resell (with original maturities of less than three months).

Securities

Securities are classified as trading, available for sale (“AFS”) or held-to-maturity.

Securities used for trading purposes are classified as trading and are carried at fair value with unrealized gains and losses included in the consolidated statements of income.

Investments in debt securities and marketable equity securities having readily determinable fair values and not used for trading purposes are classified as available for sale and are carried at estimated fair value with net unrealized gains and losses included in accumulated other comprehensive income (loss), net of applicable income taxes. Amortization of premiums and accretion of discounts for the available for sale securities are included in interest income. Upon sale, realized gains and losses are reported in earnings. Refer to Note 16 for information on fair value measurement of the securities.

The Bank evaluates its investment securities portfolio classified as AFS for other than temporary impairment (“OTTI”) on a quarterly basis. For debt securities, the Bank recognizes OTTI in earnings if the Bank has the intent, or will more likely than not be required, to sell the security before recovery of its amortized cost basis. In these circumstances, OTTI is equal to the entire difference between the amortized cost basis and the fair value of the securities. However, when the Bank has the intent and ability to hold the debt securities in an unrealized loss position, an evaluation of the expected cash flows to be received is performed to determine if a credit loss exists. In the event a credit loss exists, only the amount of impairment associated with the credit loss is recognized in income. Amounts relating to factors other than credit losses are recorded in other comprehensive income (“OCI”) as fair value changes.

For equity securities classified as AFS, the Bank evaluates whether the declines in fair value below the cost basis are considered OTTI based on the Bank’s intent and ability to hold the security until recovery of the cost of the security, the length of time fair value is below cost, the severity of the differences, and the investee’s financial condition and capital strength. In the event of OTTI, the cost basis of the individual security is written down to fair value which becomes its new cost basis, and the amount of the write-down is included in earnings as a realized loss.

Nonmarketable equity securities are carried at cost and included in other assets and measured for impairment on a quarterly basis.

Loans Held for Sale

Loans that the Bank intends to sell are classified as held for sale (“HFS”) and are carried at the lower of cost or fair value. Fair value is determined on an individual loan basis and is measured primarily based on prevailing market prices for loans with similar characteristics. Except for loans originated for sale, any excess of cost over fair value upon transfer to held for sale is recorded through the allowance for credit losses. For all loans held for sale, subsequent declines in fair value or recoveries of such declines are recognized as increases or decreases in a valuation allowance and reported in noninterest income. Gains and losses upon sale are reported as part of noninterest income.

Loan origination fees and direct costs on loans held for sale are deferred until the related loan is sold and recognized in noninterest income upon sale.

For consumer mortgage loans originated for sale, the Bank enters into short-term loan commitments to fund loans originated at specified rates and also enters into forward commitments to sell those loans at specified prices. Such interest rate lock commitments to fund the loans and the commitments to sell those loans are accounted for as derivatives at fair value with subsequent changes in fair value recorded through noninterest income.

Loans and Leases

Loans and direct financing leases for which the Bank has the intent and the ability to hold for the foreseeable future or until maturity or payoff, are classified in the Consolidated Balance Sheets as loans and leases. Loans that the Bank originates are recorded at the principal amount outstanding, net of

unamortized deferred loan origination fees and costs. Loans purchased by the Bank are initially measured at fair value at the date of acquisition at a premium or discount, as appropriate. At the time of acquisition, the seller's estimate for expected credit losses is not carried over or recorded by the Bank as a credit loss allowance against the loans (see Allowance for Credit Losses below).

Net deferred fees or costs and premiums and discounts are recognized in earnings over the contractual term of the loans, adjusted for actual prepayments, using the interest method or on a straight line basis for revolving loans.

Interest income is accrued unless the loan is placed on nonaccrual status (see Nonaccrual Loans and Leases below). The Bank recognizes unaccreted fees and discounts, or unamortized costs and premiums on loans and leases paid in full as a component of interest income.

Direct financing leases are carried at the aggregate of lease payments receivable plus estimated residual value less unearned income. Unearned income on financing leases is accreted over the lives of the leases to provide a constant periodic rate of return on the net investment in the lease. The Bank reviews commercial and consumer lease residual values at least annually and recognizes through earnings residual value impairments that are deemed to be other-than-temporary.

The Bank also charges other loan and lease fees consisting of delinquent payment charges and servicing fees, including fees for servicing loans sold to third parties, and recognizes such fees as income when earned.

Loan and Lease Portfolio Composition

The Bank's loan and lease portfolio is divided into two segments, commercial and consumer, which are the same segments used by the Bank to determine the allowance for credit losses. The portfolio segments are well diversified by borrower, collateral, and industry. The Bank further disaggregates its portfolio segments into various classes of loans for purposes of monitoring and assessing credit risk as described below.

Commercial Loans

The Bank disaggregates the commercial loan portfolio into the following classes:

- Loans to businesses for commercial, industrial and professional purposes ("Commercial & industrial");
- Loans that are secured by real estate properties ("Commercial real estate");
- Loans secured by real estate to finance land development and construction of industrial, commercial, residential or farm building ("Construction");
- Indirect and direct leases to finance commercial equipment purchases ("Equipment leases");
- Loans to finance agricultural production and other loans to farmers ("Agriculture").

Consumer Loans

The Bank disaggregates the consumer loan portfolio into the following classes:

- Consumer loans and leases such as autos, marine, recreational vehicles, personal lines of credit and credit cards ("Installments and lines");
- Closed-end loans secured by first and junior liens on 1-4 family residential properties ("Residential secured—closed-end");
- Revolving, open-end loans secured by first and junior liens on 1-4 family residential properties ("Residential secured—revolving, open-end").

Nonaccrual Loans and Leases

The Bank generally places a loan or lease on nonaccrual status when management believes that full and timely collection of principal or interest has become doubtful; or it is 90 days past due as to principal or interest payments based on its contractual terms, unless it is well secured and in the process of collection. The Bank determines loans to be past due if payment is not received in accordance with contractual terms.

When the Bank places a loan or lease on nonaccrual status, previously accrued but uncollected interest is reversed against interest income of the current period. When there are doubts about the ultimate collection of the recorded balance on a nonaccrual loan or lease, cash payments by the borrower are applied as a reduction of the principal balance, under the cost recovery method. Otherwise, the Bank generally records such payments on a cash basis, first as interest income and then reduction of principal balance.

Nonaccrual loans and leases are generally returned to accrual status when either (1) they become current as to principal and interest, there is a sustained period of repayment performance by the borrower and the bank expects payment of remaining contractual principal and interest; or (2) they are both well secured and in the process of collection.

Not all impaired loans or leases are placed on nonaccrual status; for example, restructured loans performing under restructured terms beyond a specific period may be classified as accruing, but may still be deemed impaired (see Allowance for Credit Losses and Troubled Debt Restructurings below).

Allowance for Credit Losses

The Bank maintains an allowance for loan and lease losses (the "Allowance") against the carrying value of the loans and leases to absorb estimated probable credit losses within the portfolio. The Allowance is maintained at a level which, in management's judgment, is adequate to absorb probable losses that have been incurred and can be reasonably estimated as of the balance sheet date. The Allowance is increased through provisions for loan and lease losses charged to earnings and reduced by principal charge-offs, net of recoveries.

The Allowance consists of two components, allocated and unallocated. The Bank determines the allocated component of the Allowance by measuring credit impairment on (i) an individual basis for larger balance loans in the commercial portfolio that are on nonaccrual status and commercial and mortgage loans in a troubled debt restructuring, and (ii) on a collective basis for groups of loans with similar risk characteristics and large groups or pools of homogeneous loans with smaller balances that are not evaluated on a case-by-case basis such as credit card, residential mortgages and consumer installment loans.

The Bank considers a loan to be impaired on an individual basis when, based on current information and events, it is probable that it will be unable to collect all amounts due according to the contractual terms of the loan. The Bank measures impairment by comparing the present value of the expected future cash flows discounted at the loan's effective interest rate with the recorded investment in the loan, except for collateral-dependent loans. For collateral dependent loans, the Bank measures impairment by comparing the fair value of the collateral on an "as-is" basis less disposition costs with the recorded investment in the loan. On a case-by-case basis, the Bank may measure impairment based upon a loan's observable market price.

For commercial and consumer loans assessed on a collective basis, the calculation of the allocated reserve considers quantitative historical loss experience for each type of loan and qualitative adjustments based on an analysis of portfolio specific external factors, key performance indicators and other qualitative factors.

The unallocated component of the Allowance is maintained to cover uncertainties in our estimate of credit losses. While the Bank's allocated reserve methodology strives to reflect all risk factors, there may still be certain unidentified risk elements. The purpose of the unallocated reserve is to capture these factors.

The relationship of the unallocated component to the total Allowance may fluctuate from period to period. Management evaluates the adequacy of the Allowance based on the combined total of allocated and unallocated components which considers management's ongoing review of internal risk ratings and associated trends and factors including:

- Trends in the volume and severity of delinquent loans, nonaccrual loans, troubled debt restructuring and other loan modifications;
- Trends in the quality of risk management and loan administration practices including findings of internal and external reviews of loans and effectiveness of collection practices;
- Changes in the quality of the Bank's risk identification process and loan review system;
- Changes in lending policies and procedures including underwriting standards and collection, charge-off and recovery practices;
- Changes in the nature and volume of the loan portfolio;
- Changes in the concentration of credit and the levels of credit;
- Changes in the national and local economic business conditions, including the condition of various market segments.

In addition to the Allowance, we also maintain a reserve for losses on unfunded loan commitments and letters of credit, which is recorded within other liabilities. We determine this reserve using estimates of the probability of the ultimate funding and losses related to those credit exposures based on a methodology similar to our methodology for determining the Allowance.

While the Bank has a formal methodology to determine the adequate and appropriate level of the allowance for credit losses, estimates of inherent loan, lease and unfunded commitment losses involve judgment and assumptions as to various factors, including current economic conditions. Management's determination of adequacy of the total allowance for credit losses is based on quarterly evaluations of the above factors. Accordingly, the provision for credit losses will vary from period to period based on management's ongoing assessment of the adequacy of the Allowance. See Note 5 for discussion on how the Bank's experience and current economic conditions have influenced management's determination of the Allowance.

Charge-off and Recovery Policies for Loans and Leases

The Bank's policy is to charge off a loan or lease when there is evidence that the loan or lease balance is uncollectible. A commercial loan or lease that is individually assessed for impairment is charged off when potential recovery of the recorded loan balance is unlikely as a result of shortfall in collateral value or borrowers' financial difficulty. Consumer installment loans and leases are generally charged off, partially or fully, upon reaching a predetermined delinquency status that ranges from 120 to 180 days depending on the type of consumer installment loans and leases.

Recoveries of amounts on nonaccrual loans that have previously been charged off are credited to the Allowance and are generally recorded only to the extent that cash or other assets are received.

Troubled Debt Restructurings

In situations where 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, the related loan is classified as a troubled debt restructuring ("TDR"). Concessions generally include modifications to the loan's terms, including but not limited to interest rate modifications and reductions, principal or interest forgiveness, term extensions or renewals, or any other actions that may minimize the potential economic loss to the Bank.

A nonaccrual loan involved in a TDR continues to be recorded as nonaccrual until some period of performance on the restructured terms, generally six months, can be evidenced. Loans whose contractual terms have been modified in a TDR and are current at the time of restructuring remain on accrual status if payment in full under the restructured terms is expected.

Regardless of its accrual status, the Bank continues to measure and recognize impairment on an individual basis for its troubled restructured loans.

Premises and Equipment

Premises and equipment, including leasehold improvements, are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives as follows:

Premises	10-39 years
Furniture and equipment	3-20 years
Leasehold improvements	Shorter of the lease term or estimated remaining life

We periodically evaluate our long-lived assets for impairment. We perform these evaluations whenever events or changes in circumstances suggest that the carrying amount of an asset or group of assets is not recoverable. If impairment recognition criteria are met, an impairment charge would be reported in noninterest expense.

Lease Commitments

Lease commitments are transactions entered into by the Bank where the Bank is the lessee. Leases are classified as capital or operating depending on the terms and conditions of the contracts; the accounting for these leases depends on the nature of the lease transactions. For assets accounted for as capital leases, depreciation is recorded on a straight-line basis over the period of the lesser of the lease term or asset life. Lease obligations recorded under capital leases are reduced by lease payments net of imputed interest. Operating leases are contracts that do not transfer substantially all of the benefits and risk of ownership and do not meet the accounting requirements for capital lease classification. Operating lease payments are charged as rental expense on a straight-line basis over the lease term. Lease incentives received as part of the lease agreement are recognized as a reduction of rental expense on a straight-line basis over the term of the lease.

Goodwill

The net assets of entities acquired by the Bank are recorded at their estimated fair value at the acquisition date, and the excess of the cost of an acquired entity over the fair value of the identifiable net assets acquired represents goodwill.

Goodwill is not amortized, but is tested for impairment annually, or whenever events or changes in circumstances suggest that the carrying value may not be recoverable. The Bank may qualitatively assess whether there have been any events or circumstances during the year that would result in impairment of goodwill allocated to its reporting units. If a qualitative assessment is not performed or it suggests further quantitative analysis is necessary, the Bank performs the first step of the quantitative impairment test by comparing the fair value of an identified reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying value, the goodwill of the reporting unit is not considered impaired. Otherwise, the Bank measures impairment as the difference between the recorded goodwill and the implied fair value of the reporting unit's goodwill.

Identifiable Intangible Assets

Core deposit and other identifiable intangible assets determined to have finite lives are amortized over their estimated useful lives. They are generally amortized using accelerated methods over estimated useful lives of five to ten years. The Bank reviews core deposit intangibles for impairment annually or whenever events or changes in circumstance indicate that we may not recover our investment in the underlying

deposits. Other finite-lived intangible assets are reviewed for impairment whenever events or changes in circumstance suggest the carrying value may not be recoverable. See ‘Transfers and Servicing of Financial Assets’ below for further discussion.

Internal-use Software Development Costs

The Bank incurs costs to purchase and develop computer software, classified as identifiable intangible assets. The treatment of costs to purchase or develop the software depends on the nature of the costs and the stage of the project. Costs incurred in the preliminary project stage, such as the cost of performing feasibility studies and evaluating alternatives are charged to expense. Costs for significant projects incurred from the time the preliminary project stage is complete through the time the project is substantially complete and the software is ready for its intended purpose are capitalized.

Internal-use software development costs are amortized over their estimated useful lives, generally five to seven years. The Bank reviews internal-use software development costs for impairment annually or whenever changes in circumstances indicate that the carrying amount of the assets may not be recoverable from their expected use and eventual disposition. If such an asset is considered impaired, impairment to be recognized is measured as the amount by which the carrying basis of the asset exceeds its fair value.

Other Real Estate Owned and Repossessed Personal Property

Other real estate owned (“OREO”) and repossessed personal property are primarily comprised of properties that we acquired through foreclosure proceedings or repossession activities. Assets acquired in satisfaction of a defaulted loan are recorded at fair value upon acquisition. The amount by which the recorded investment in the loan exceeds the fair value (less estimated costs to sell) is charged off against the Allowance. The amount by which the fair value (less estimated costs to sell) exceeds the recorded investment in the loan is recognized first against prior charge-off (as a recovery) with any excess recognized through noninterest income. Subsequent declines in fair value and recoveries in those declines of the assets are recognized in a valuation allowance through noninterest income. Gains and losses upon sale of the foreclosed asset are reported as part of noninterest income.

Transfers and Servicing of Financial Assets

The Bank enters into loan participations and loan sales, including originations to sell residential mortgage loans to the Federal National Mortgage Association (“FNMA”). The Bank records these transactions as sales and derecognizes the financial assets in accordance with GAAP.

Any interests in the loans retained by the Bank in a participation are recognized by allocating the carrying amount of the loans between the participating interests sold and interests retained based on their relative fair values at the date of transfer. Gain or loss on the sale of the participating interests is based on the proceeds received and the allocated carrying amount of assets transferred.

The Bank retains the servicing on mortgage loans sold, which is recognized as a mortgage servicing right (“MSR”) on our balance sheet in identifiable intangible assets. Our servicing activities include collecting principal, interest, tax and insurance payments from borrowers while accounting for and remitting payments to investors on behalf of the borrowers. MSRs are initially recognized at fair value at the date of transfer as a component of the sales proceeds and subsequently amortized and carried at the lower of cost or fair value. Fair value of MSRs is determined based on the present value of estimated future net servicing income. The MSRs are amortized over the estimated period that net servicing income is expected to be received. Projections of the amount and timing of estimated future net cash flows are calculated using management’s best estimates including, prepayment speeds, forward yield curves and default rates. These estimates are updated based on actual results, industry trends and other economic considerations.

The Bank periodically evaluates its MSR assets for impairment by evaluating the fair value of those assets based on a disaggregated, discounted cash flow method. For purposes of measuring impairment, MSRs are stratified based on predominant risk characteristics, such as loan category or maturity. We assess

impairment using a present value of expected cash flows model for each strata based upon assumptions for estimated servicing income and expense as discussed in Note 3, Loans Held for Sale and Servicing Activity. The impairment, if any, is measured as the amount by which the carrying value of the servicing right strata exceeds its estimated fair value. Impairment is recognized through a valuation allowance and a charge to earnings if it is considered to be temporary or through a direct write-down of the asset and a charge to earnings if it is considered other than temporary.

Securities Purchased and Sold Agreements

Securities purchased under agreements to resell and securities sold under agreements to repurchase are treated as collateralized financing transactions and are recorded at the amounts at which the securities were acquired or sold plus accrued interest. Securities sold under agreements to repurchase are classified as short-term borrowings in the consolidated balance sheets. The fair value of collateral either received from or provided to a third party is continually monitored and additional collateral is obtained or is requested to be returned to the Bank as in accordance with the agreement. The Bank or a custodian holds all collateral.

Fair Value

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Trading assets, securities available for sale, certain other assets and certain liabilities are recorded at fair value on a recurring basis in accordance with applicable accounting guidance. The Bank may also be required to record other assets at fair value on a nonrecurring basis, such as loans held for sale and impaired loans held for investment. These nonrecurring fair value adjustments typically involve application of lower of cost or fair value accounting or write-downs of individual assets.

The Bank values its assets and liabilities based on observable market prices or inputs. If observable prices or inputs are not available, fair values are measured using unobservable inputs based on the Bank's own assumptions about what market participants would use to price the asset or liability.

Fair value measurements are classified within one of three levels in a valuation hierarchy based upon the observability of significant inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and inputs that are corroborated by observable market data.
- Level 3 inputs are unobservable inputs for the asset or liability for which there is limited or no market activity at the measurement date.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. See Note 16 for more information regarding fair value measurements.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated to the U.S. dollar equivalent at the rate of exchange at the balance sheet date. Transactions in foreign currencies are translated to the U.S. dollar equivalent at the rate of exchange in effect at the time of the transaction. Foreign currency gains and losses are included in the consolidated statements of income within other noninterest income in the period in which they occur.

Income Taxes

The Bank is included in the consolidated federal income tax return filed by BancWest. We also file various combined and separate company state returns according to the laws of the particular state. Federal and state income taxes are generally allocated to individual subsidiaries as if each had filed a separate return. Amounts equal to income tax benefits of those subsidiaries having taxable losses or credits are reimbursed by other subsidiaries which would have incurred current income tax liabilities.

The Bank recognizes current income tax expense in an amount which approximates the tax to be paid or refunded for the current period. The Bank recognizes deferred income tax liabilities and assets for the expected future tax consequences of events that the Bank includes in our financial statements or tax returns. Under this method, the Bank determines deferred income tax liabilities and assets based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the years in which the differences are expected to reverse. Deferred tax assets are recognized if it is more likely than not that they will be realized. Realization is dependent on generating sufficient taxable income prior to expiration of any loss carry forward balance. The Bank's net tax asset is presented as a component of other assets.

Tax benefits are recognized and measured based upon a two-step model: (1) a tax position must be more-likely-than-not to be sustained based solely on its technical merits in order to be recognized, and (2) the benefit is measured as the largest dollar amount of that position that is more-likely-than-not to be sustained upon settlement. The difference between the benefit recognized and the tax benefit claimed on the return is referred to as an unrecognized tax benefit. Foreign taxes paid are generally applied as credits to reduce federal income taxes payable. Tax-related interest is recognized as a component of income tax expense. Substantially all penalties are recognized as a component of other noninterest expense. The Bank recognizes interest and penalties related to unrecognized tax benefits within the income tax expense line in the accompanying Consolidated Statements of Income.

Derivative Instruments and Hedging Activities

Derivatives are recognized on the consolidated balance sheet at fair value and designated as (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value" hedge), (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow" hedge) or (3) held for trading, customer accommodation or not designated for hedge accounting ("free standing derivative instrument").

The Bank formally documents the relationship between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. The Bank also formally assesses both at the inception of the hedge and on a quarterly basis, whether the derivative instruments are considered effective in offsetting changes in fair values of or cash flows related to hedged items. For a fair value hedge, changes in the fair value of the derivative instrument and changes in the fair value of the hedged asset or liability or of an unrecognized firm commitment attributable to the hedged risk are recorded in current period income. For a cash flow hedge, to the extent that the hedge is considered effective, changes in the fair value of the derivative instrument are recorded in other comprehensive income within stockholder's equity. The fair value is subsequently reclassified into the income statement in the same period and classification of the hedged transaction. Any portion of the changes in fair value of derivatives designated as a hedge that is deemed ineffective is recorded in current period earnings.

For free standing derivative instruments, changes in the fair values are reported in current period income.

Valuations of derivative assets and liabilities reflect the value of the instrument including the values associated with counterparty risk and the Bank's own credit standing; refer to Note 15, Derivative Financial Instruments, for additional information.

The Bank occasionally purchases or originates financial instruments that contain embedded features that may require recognition as separate embedded derivative instruments. Such embedded derivatives are separated from the hybrid financial instrument and carried at fair value with changes recorded in current period earnings.

Recent Accounting Standards

The following Accounting Standard Updates (“ASU”) have been issued by the Financial Accounting Standards Board (“FASB”) and are applicable to the Bank in 2012 or in future periods:

ASU No. 2011-04: *Fair Value Measurement (Topic 820) – Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (International Financial Reporting Standards)*:

In May 2011, the FASB issued new guidance that amended some of the existing provisions of the fair value measurement guidance and expanded disclosure requirements for Level 3 fair value measurements in an effort to develop a single, converged fair value framework between U.S. GAAP and IFRS. The amendments also clarify the application of the highest and best use and valuation premise concepts, preclude the application of “blockage factors” in the valuation of all financial instruments and include criteria for applying the fair value measurement principles to portfolios of financial instruments. The new guidance did not have a significant impact on our fair value measurements. Refer to Note 16, Fair Value for new disclosures required by the guidance.

ASU No. 2011-05: *Comprehensive Income (Topic 220)—Presentation of Comprehensive Income and ASU 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU No. 2011-05*:

In June 2011, the FASB issued revised guidance on the presentation of comprehensive income and its components in the financial statements which requires the Bank to present net income and other comprehensive income either in a single continuous statement or in two separate, but consecutive statements. The ASU does not change the items that must be reported in other comprehensive income or the determination of net income. The Bank has elected to present two consecutive statements. The new guidance is applied retrospectively.

ASU No. 2011-11: *Balance Sheet (Topic 210): Disclosure about Offsetting Assets and Liabilities*:

In December 2011, the FASB issued new disclosure requirements about the nature of an entity’s rights to setoff and related arrangements associated with its financial instruments and derivative instruments. The new disclosures are designed to make financial statements that are prepared under GAAP more comparable to those prepared under IFRS. This ASU is effective for the Bank for fiscal years beginning on January 1, 2013 and will be applied retrospectively. This ASU will not affect our consolidated financial results since it amends only the disclosure requirements for offsetting financial instruments.

Significant accounting policy changes

In January 2012, Federal regulators issued guidance on potential junior lien loss estimations, titled “*Interagency Supervisory Guidance on Allowance for Loan and Lease Losses Estimation Practices for Loans and Lines of Credit Secured by Junior Liens on 1-4 Family Residential Properties*” that, among other things, requires the Bank to gather and use additional data to adequately and correctly assess the possibility of a loss in their junior lien portfolio on residential properties. As a result, the Bank aligned its nonaccrual accounting policy with this guidance to accelerate the timing of placing junior lien loans on nonaccrual that does not solely rely upon the payment delinquency or performance status of the borrower.

In July 2012, the Office of the Comptroller of the Currency (“OCC”) issued interpretive guidance on accounting and reporting of certain loans with borrowers in bankruptcy. Under the OCC’s guidance, loans that have been discharged in a Chapter 7 Bankruptcy and have not been reaffirmed by the borrower should be accounted for as troubled debt restructurings (TDRs) and written down to collateral value regardless of their current payment history and expected continued performance. While the OCC is not our primary regulator, and our primary regulator has not provided similar guidance, the Bank considers the guidance as interpretive industry accounting guidance. The resulting impact was an increase in TDRs of \$117.7 million and associated partial charge-offs of \$42.1 million as of December 31, 2012 for the Consumer portfolio.

2. Securities Available for Sale

Amortized cost and fair value of securities available for sale at December 31, 2012 and 2011 were as follows:

(dollars in thousands)	2012				2011			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury and other U.S. Government agencies and corporations	\$1,777,345	\$ 22,098	\$ -	\$1,799,443	\$1,009,189	\$ 18,776	\$ (382)	\$1,027,583
Government sponsored agencies	50,015	22	-	50,037	119,233	541	(13)	119,761
Mortgage and asset-backed securities:								
Government agencies ⁽¹⁾	4,126,161	195,212	(2,280)	4,319,093	4,043,843	129,337	(283)	4,172,897
Government sponsored agencies ⁽¹⁾	1,210,744	6,813	(4,564)	1,212,993	1,444,937	30,776	(11)	1,475,702
Collateralized debt obligations	13,552	-	(3,277)	10,275	65,192	-	(20,059)	45,133
Collateralized loan obligations	127,486	-	(15,883)	111,603	171,510	-	(42,855)	128,655
Other asset-backed securities	429	46	-	475	1,782	44	(1)	1,825
Collateralized mortgage obligations:								
Government agencies	7,647	176	-	7,823	9,623	99	-	9,722
Government sponsored agencies	42,213	526	-	42,739	59,260	433	-	59,693
States and political subdivisions	580,595	25,012	(2,499)	603,108	649,698	25,091	(4,201)	670,588
Equity securities	6,160	588	(297)	6,451	6,160	254	(318)	6,096
Total securities available for sale	\$7,942,347	\$250,493	\$(28,800)	\$8,164,040	\$7,580,427	\$205,351	\$(68,123)	\$7,717,655

⁽¹⁾ Backed by residential real estate.

The following table presents gross realized gains and losses on securities available for sale for the periods indicated:

(dollars in thousands)	Year Ended December 31,	
	2012	2011
Realized gains	\$ 70,506	\$ 74,171
Realized losses ⁽¹⁾	(16,404)	(40,072)
Realized net gains (losses)	\$ 54,102	\$ 34,099

⁽¹⁾ Includes other-than-temporary impairment recognized in the income statement of \$0.5 million and \$1.9 million for 2012 and 2011, respectively.

The fair value, yield and amortized cost of debt securities available for sale at December 31, 2012, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because debt issuers may have the right to call or prepay obligations.

(dollars in thousands)	Remaining Contractual Principal Maturity								
	Total Amount	Within One Year		After One But Within Five Years		After Five Years But Within Ten Years		After Ten Years	
		Amount	Amount	Yield	Amount	Yield	Amount	Yield	Amount
U.S. Treasury and other U.S. Government agencies and corporations	\$1,799,443	\$ -	-%	\$1,620,898	0.83%	\$178,448	1.26%	\$ 97	0.63%
Government sponsored agencies	50,037	50,037	0.78	-	-	-	-	-	-
Mortgage and asset-backed securities:									
Government agencies	4,319,093	-	-	-	-	-	-	4,319,093	3.21
Government sponsored agencies	1,212,993	137	4.71	31	5.81	56,205	3.25	1,156,620	2.80
Collateralized debt obligations	10,275	-	-	-	-	-	-	10,275	1.53
Collateralized loan obligations	111,603	-	-	-	-	111,603	1.01	-	-
Other asset-backed securities	475	-	-	45	5.36	137	2.00	293	1.79
Collateralized mortgage obligations:									
Government agencies	7,823	-	-	-	-	-	-	7,823	1.01
Government sponsored agencies	42,739	-	-	-	-	42,739	2.09	-	-
States and political subdivisions ⁽¹⁾	603,108	22,029	4.96	109,921	4.36	59,828	5.37	411,330	6.22
Estimated fair value of debt securities ⁽²⁾	\$8,157,589	\$72,203	2.06%	\$1,730,895	1.05%	\$448,960	2.01%	\$5,905,531	3.33%
Total amortized cost of debt securities	7,936,187	71,982		1,708,792		455,565		5,699,848	

⁽¹⁾ The yields were calculated on a taxable equivalent basis.

⁽²⁾ The yields, except for states and political subdivisions, were calculated on the basis of the cost and effective yields.

Securities with an aggregate carrying value of \$4.9 billion and \$4.4 billion were pledged to secure public deposits, repurchase agreements, borrowings from the Federal Reserve Bank ("FRB"), derivative liability positions and for other purposes at December 31, 2012 and 2011, respectively. At December 31, 2012 and 2011, there were no secured parties that had the right to repledge or resell these securities.

We held no securities of any single issuer (other than the U.S. Government and government sponsored agencies) which were in excess of 10% of consolidated stockholder's equity at December 31, 2012 and 2011.

The following tables present the unrealized gross losses and fair values of securities in the available for sale portfolio by length of time that individual securities in each category have been in a continuous loss position.

(dollars in thousands)	December 31, 2012					
	Less Than 12 Months		12 Months or More		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Mortgage and asset-backed securities:						
Government agencies ⁽¹⁾	\$(2,280)	\$345,512	\$ -	\$ -	\$(2,280)	\$ 345,512
Government sponsored agencies ⁽¹⁾	(4,563)	557,663	(1)	3	(4,564)	557,666
Collateralized debt obligations	-	-	(3,277)	10,275	(3,277)	10,275
Collateralized loan obligations	-	-	(15,883)	111,603	(15,883)	111,603
States and political subdivisions	(2,273)	64,585	(226)	2,882	(2,499)	67,467
Equity securities	-	-	(297)	5,704	(297)	5,704
Total securities available for sale	\$(9,116)	\$967,760	\$(19,684)	\$130,467	\$(28,800)	\$1,098,227

⁽¹⁾ Backed by residential real estate.

(dollars in thousands)	December 31, 2011					
	Less Than 12 Months		12 Months or More		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
U.S. Treasury and other U.S. Government agencies and corporations	\$ (382)	\$146,753	\$ -	\$ -	\$ (382)	\$146,753
Government sponsored agencies	(13)	50,368	-	-	(13)	50,368
Mortgage and asset-backed securities:						
Government agencies ⁽¹⁾	(283)	127,828	-	-	(283)	127,828
Government sponsored agencies ⁽¹⁾	(10)	47,216	(1)	23	(11)	47,239
Collateralized debt obligations	-	-	(20,059)	45,133	(20,059)	45,133
Collateralized loan obligations	-	-	(42,855)	128,655	(42,855)	128,655
Other asset-backed securities	(1)	47	-	-	(1)	47
States and political subdivisions	(360)	9,975	(3,841)	59,255	(4,201)	69,230
Equity securities	-	-	(318)	5,824	(318)	5,824
Total securities available for sale	\$(1,049)	\$382,187	\$(67,074)	\$238,890	\$(68,123)	\$621,077

⁽¹⁾ Backed by residential real estate.

For the debt securities in the above tables, at year-end we did not have the intent to sell and determined it was more likely than not that we would not be required to sell the securities prior to recovery of the amortized cost basis. As the Bank has the intent and ability to hold the debt securities in an unrealized loss position, each security with an unrealized loss position in the above tables has been further assessed to determine if a credit loss exists. We frequently monitor the credit performance of individual investments within our portfolio and believe that the majority of our unrealized loss positions are due to changes in interest rates and wider liquidity spreads within the markets. Several other factors including the unemployment level and reduced demand for housing and housing prices could continue to negatively affect the value of our portfolio. The Bank may occasionally sell securities at a loss when it decides to restructure portions of the portfolio due to changing market conditions. We have also determined that limited sales of debt securities during the year do not impact the OTTI assessment on the remaining securities. For equity securities, we consider numerous factors in determining whether impairment exists, including our intent and ability to hold the securities for a period of time sufficient to recover the securities' cost basis.

The following is a description of the unrealized losses and OTTI losses for our material security categories within our portfolio:

Mortgage and asset-backed securities:

Government agencies and government sponsored agencies

The unrealized losses associated with federal agency mortgage-backed securities are primarily driven by changes in interest rates. These securities are issued by U.S. Government or government sponsored entities and do not have any expected credit losses given government guarantees.

Collateralized debt obligations

The unrealized losses associated with collateralized debt obligations for securities backed by trust preferred hybrid capital issued by other financial institutions are driven primarily by changes in interest rates and wider liquidity spreads. We assess credit impairment using a cash flow model that incorporates default rates, loss severities and prepayment rates. Based upon our assessment of expected credit losses and credit enhancement level of the securities, we expect to recover the entire amortized cost basis of these securities.

Collateralized loan obligations

The unrealized losses associated with collateralized loan obligations, related to securities backed by commercial loans and individual corporate debt obligations, stem primarily from changes in interest rates. We assess credit impairment using a cash flow model that incorporates default rates, loss severities and prepayment rates. The unrealized losses are considered temporary based on our assessment that the estimated cash flows together with the credit enhancement levels for those securities remain sufficient to support the cost basis.

States and political subdivisions

The unrealized losses associated with securities of U.S. states and political subdivisions are primarily driven by changes in interest rates. The slow economic recovery continues to negatively affect the creditworthiness of state and local governments. Additionally, potential reduced federal and state funding to state and local governments could place additional strain on state and local governments. These factors could result in impairment as the Bank holds bonds issued from various local governments. We expect to fully recover the cost basis of these securities.

Other-Than-Temporary Impairment Losses

In 2012, there are two interest-only strips classified as other asset-backed securities that are other-than-temporarily impaired, primarily due to a decrease in expected cash flows of the securities based on changes in the prepayment rates of underlying collateral. These securities did not have any OTTI losses for which a portion remained in OCI at December 31, 2012. In 2011, all collateralized loan obligations and municipal securities that were other-than-temporarily impaired were sold and the related gains and losses were recognized in earnings.

The following table presents a rollforward of the credit loss component recognized in earnings for OTTI impaired debt securities, for which a portion of the unrealized loss was recognized in other comprehensive income for the year ended December 31, 2011. The credit loss component represents the difference between the present value of expected future cash flows discounted using the security's effective interest rate and the amortized cost basis of the security prior to considering credit losses. OTTI recognized in earnings for credit-impaired debt securities is presented as additions in two components based upon whether the current period is the first time the debt security was credit-impaired (not previously recognized) or is not the first time the debt security was credit-impaired (previously recognized). The credit loss component is reduced if we sell, intend to sell or believe we will be required to sell previously credit-impaired debt securities. Additionally, the credit loss component is reduced if we receive or expect to receive cash flows in excess of what we previously expected to receive over the remaining life of the credit-impaired securities, the security matures or is fully written down. There was no such activity related to the credit component of OTTI recognized in earnings on debt securities held by the Bank in 2012 for which a portion of the unrealized loss was recognized in other comprehensive income.

(dollars in thousands)	2011
Balance, beginning of period	\$ 6,478
Additions related to the credit component of securities on which OTTI impairment losses were:	
Previously recognized	-
Not previously recognized	845
Reductions for securities sold	(7,323)
Balance, end of period	\$ -

3. Loans Held for Sale and Servicing Activity

Loans held for sale activity includes mortgage loans that we originate for sale to FNMA and certain commercial and non-performing mortgage loans which we no longer intend to hold to maturity. Mortgage loans originated for sale to FNMA and certain non-performing mortgage loans designated for sale to non-affiliated parties are sold on a non-recourse basis. We also retain the rights to service the loans sold to FNMA. Certain commercial loans designated for sale to non-affiliated parties are sold on a non-recourse basis, substantially all of which were nonperforming. We do not have any continuing involvement in the nonperforming commercial loans after their sale.

The following table summarizes the activity on loans held for sale for the years ended December 31, 2012 and 2011:

(dollars in thousands)	2012		2011	
	Commercial	Mortgage	Commercial	Mortgage
Loans originated for sale	\$ -	\$1,527,447	\$ -	\$1,092,515
Loans transferred to held for sale ⁽¹⁾	145,293	71,980	259,037	-
Loans sold during the year	183,039	1,456,292	87,745	1,112,958
Net gains on sale of loans recorded in noninterest income ⁽²⁾	21,813	51,447	1,908	17,069

⁽¹⁾ Balances reflect after-transferred basis. Refer to Note 5 for charge-offs upon transfer to held for sale.

⁽²⁾ Included in Gain on loans and leases sales on the Consolidated Statements of Income.

For the year ended December 31, 2012, the Bank recorded a \$0.1 million market value reduction in loans held for sale. At year ended 2011, the market value of the loans held for sale exceeds cost, so no valuation adjustment was recorded.

Our mortgage loan servicing activities include collecting principal, interest, tax and insurance payments from borrowers while accounting for and remitting payments to investors, taxing authorities and insurance companies. We also monitor delinquencies and administer foreclosure proceedings. Due to similar risks underlying the residential mortgages and nature of assumptions for estimating the fair value of servicing assets, management has determined that there is a single recognized class of servicing asset.

Mortgage servicing income is recorded in noninterest income as a part of other service charges and fees and is reported net of the amortization of the servicing assets. The unpaid principal amount of mortgage loans serviced for others was \$3.2 billion and \$2.5 billion for the years ended December 31, 2012 and 2011, respectively. Gross servicing fees include contractually specified fees, late charges and ancillary fees, and were \$7.8 million and \$5.1 million for the years ended December 31, 2012 and 2011, respectively.

The changes in MSRs using the amortization method including valuation allowance were:

(dollars in thousands)	2012	2011
Carrying amount, balance at beginning of year	\$19,234	\$14,384
Additions ⁽¹⁾ :		
Assumption of servicing obligations resulting from asset transfers	14,272	10,594
Subtractions ⁽¹⁾ :		
Amortization	(8,750)	(4,634)
Application of valuation allowance to adjust carrying values of servicing assets	(16)	(1,110)
Carrying amount, balance at end of year	\$24,740	\$19,234
Valuation allowance for servicing assets:	2012	2011
Beginning balance	\$ 1,134	\$ 24
Provisions	16	1,110
Balance at end of year	\$ 1,150	\$ 1,134

⁽¹⁾ The Bank did not purchase or sell any servicing obligations during the years ended December 31, 2012 and 2011. Additionally, there was no other-than-temporary impairment recorded and no other changes that affected the balance during the years ended December 31, 2012 and 2011.

The MSR asset class is stratified based on loan term and interest rate for purposes of determining impairment. Each stratum is evaluated to determine if the amortized cost basis of the MSR exceeds the fair value. The fair value of each stratum is determined using an income approach model. The model incorporates significant unobservable inputs and accordingly MSR assets are classified as Level 3 in the fair value hierarchy. Those inputs reflect assumptions that market participants use in estimating future net servicing income such as future prepayment speeds, discount rate, cost to service the assets including expected delinquency and foreclosure related costs, escrow account earnings, contractual servicing fee income, late fees, and other ancillary income. The model is operated and maintained by a third party service provider. The Bank reviews the valuation assumptions against market data for reasonableness. Additionally, the Bank has a Secondary Marketing Committee (“SMC”) comprised of key members of management from National Finance Group, Market Risk and Treasury. The SMC is responsible for reviewing changes in assumptions and valuation results from the third party service provider on a monthly basis. The fair value of MSRs is sensitive to changes in projected interest rates and their effect on prepayment speeds. MSRs typically decrease in value when interest rates decline because declining interest rates tend to increase prepayments and therefore reduce the expected average life of the net servicing cash flows that comprise the MSR asset. Conversely, during periods of rising interest rates, the value of MSRs generally increases due to reduced prepayment rates.

The fair value of the amortized MSRs was:

(dollars in thousands)	2012	2011
Balance at beginning of year	\$19,245	\$15,886
Balance at end of year	25,181	19,245

The quantitative assumptions used in determining the lower of cost or fair value of the Bank’s MSRs were as follows:

	2012	2011
	Range	Weighted Average
Conditional prepayment rate	7.62% – 34.41%	17.27%
Life in years (of the MSR)	2.24 – 7.96	4.56
Note rate	2.85% – 6.02%	4.28%
Discount rate	-	10.00%

In addition to loans originated for sale and certain loans which we no longer intend to hold to maturity, the Bank participates out certain commercial loans in transactions negotiated with other financial institutions. The Bank continues to maintain the servicing relationship with borrowers for the entire loan and receives a nominal fee from these borrowers to cover the costs of servicing activities. At the end of 2012 and 2011, the Bank recognized \$314 million and \$300 million (net of charge-offs), respectively, as its retained interest in the unpaid principal balance of the loans. The unpaid principal balance of loans sold as participating interests at the end of 2012 and 2011 was \$313 million and \$309 million, respectively. As the Bank sold the participating interests concurrently with the loan origination, there was no difference between the fair value and carrying amount of the loans transferred and therefore no gain or loss on sale was recognized in 2012 and 2011.

4. Loans and Leases

At December 31, 2012 and 2011, loans and leases were comprised of the following:

(dollars in thousands)	2012		2011	
	Outstanding	Commitments ⁽¹⁾	Outstanding	Commitments ⁽¹⁾
Commercial:				
Commercial and industrial	\$ 6,890,094	\$ 7,653,166	\$ 7,626,489	\$ 6,653,590
Commercial real estate	11,059,676	423,398	8,959,459	410,008
Construction	645,395	736,903	725,068	481,821
Equipment leases	2,799,131	233,673	2,641,125	-
Agriculture	2,356,658	1,413,753	2,026,176	1,379,487
Consumer:				
Installments and lines	11,882,759	1,177,454	11,130,273	1,059,716
Residential secured—closed-end	7,230,292	8,081	8,051,983	10,205
Residential secured—revolving, open-end	2,127,526	2,172,745	2,266,821	2,257,564
Total loans and leases	\$44,991,531	\$13,819,173	\$43,427,394	\$12,252,391

⁽¹⁾ Commitments to extend credit represent unfunded amounts and are reported net of participations sold to other lenders.

Outstanding loan balances at December 31, 2012 and 2011 are net of unearned income, including net deferred loan fees, of \$183.1 million and \$206.6 million, respectively.

Loans totaling \$27.9 billion were pledged to collateralize the Bank's borrowing capacity at the FRB and FHLB at December 31, 2012.

Our leasing activities consist primarily of leasing automobiles and commercial equipment. Generally, lessees are responsible for all maintenance, taxes and insurance on the leased property.

The following lists the components of the net investment in financing leases, which includes equipment and consumer leases at December 31:

(dollars in millions)	2012	2011
Total minimum lease payments to be received	\$2,889	\$2,761
Estimated residual values of leased property	229	247
Less: Unearned income	218	241
Net investment in financing leases⁽¹⁾	\$2,900	\$2,767

⁽¹⁾ Includes auto leases of \$101 million and \$126 million at December 31, 2012 and 2011, respectively.

At December 31, 2012, minimum lease receivables for the five succeeding years and thereafter were as follows:

(dollars in millions)	Lease Receivable
2013	\$1,039
2014	794
2015	587
2016	358
2017	194
2018 and thereafter	146
Gross minimum payments	3,118
Less: Unearned income	218
Net minimum receivable	\$2,900

In the normal course of business, the Bank makes loans to executive officers and directors of the Bank and to entities and individuals affiliated with those executive officers and directors. The aggregate amount

of all such extensions of credit was \$3.5 million and \$4.0 million as of December 31, 2012 and 2011, respectively. Such loans are made on terms no less favorable to the Bank than those prevailing at the time for comparable transactions with other persons or, in the case of certain residential real estate loans, on terms that were widely available to employees of the Bank who were not directors or executive officers.

In the course of evaluating the credit risk presented by a customer and the pricing that will adequately compensate the Bank for assuming that risk, management may require a certain amount of collateral support. The type of collateral held varies, but may include accounts receivable, inventory, land, buildings, equipment, income-producing commercial properties and residential real estate. The Bank has the same collateral policy for loans whether they are funded immediately or on a delayed basis (loan commitments).

A commitment to extend credit is a legally binding agreement to lend funds to a customer usually at a stated interest rate and for a specified purpose. Such commitments have fixed expiration dates and generally require a fee. The extension of a commitment gives rise to credit risk. The actual liquidity requirements or credit risk that the Bank will experience will be lower than the contractual amount of commitments to extend credit because a significant portion of those commitments are expected to expire without being drawn upon. Additionally, certain commitments are subject to loan agreements containing covenants regarding the financial performance of the customer that must be met before the Bank is required to fund the commitment. For our consumer loan commitments, the Bank may reduce or cancel such commitments as legally permitted.

The Bank further manages the potential credit risk in commitments to extend credit by limiting the total amount of arrangements, both by individual customer and in the aggregate, by monitoring the size and maturity structure of these portfolios and by applying the same credit standards maintained for all of its related credit activities. A significant portion of our loan and lease portfolio is located in California and, to a lesser extent, the remaining states within our footprint. The risk inherent in our loan and lease portfolio is dependent upon the economic stability of those states, which affects property values, and the financial well-being and creditworthiness of the borrowers.

Standby letters of credit totaled \$1.1 billion at December 31, 2012 and 2011. Standby letters of credit are issued on behalf of customers in connection with contracts between the customers and third parties. Under standby letters of credit, the Bank assures that the third parties will receive specified funds if customers fail to meet their contractual obligations. The liquidity risk to the Bank arises from its obligation to make payment in the event of a customer's contractual default. The Bank also had commitments for commercial and similar letters of credit of \$21.3 million and \$26.0 million at December 31, 2012 and 2011, respectively. The commitments outstanding as of December 31, 2012 have maturities ranging from January 1, 2013 to July 25, 2018. In connection with the issuance of such commitments, fees are charged based on contract terms and recognized into income when they are earned.

Credit Quality

We monitor credit quality by evaluating various attributes and utilize such information in our evaluation of the adequacy of the allowance for credit losses. The following sections provide the credit quality indicators we most closely monitor. A significant portion of our loan and lease portfolio consists of high credit quality loans.

Commercial Credit Quality Indicators

The Bank assesses the credit quality of its commercial loans and leases with an internal credit risk grading system using a ten-point credit risk scale and categorizes the loans and leases consistent with industry guidelines in the following grades: pass, special mention, and classified.

Risk grades one through six (or Pass grades) represent loans with strong to acceptable credit quality where the loan is protected by adequate collateral and the borrower is not facing financial difficulties. Risk grade seven (or Special Mention grade) represents loans with borrowers that have potential credit weaknesses which, if not checked or corrected, will weaken the Bank's repayment prospects. Risk grades eight through ten (or Classified grades) represent loans characterized by the distinct possibility that the

bank will sustain partial or entire loss. In particular, risk grade eight represents borrowers who have a well-defined weakness but no loss in principal balance is currently anticipated. Risk grade nine represents loans with doubtful borrowers but partial loss is probable based on facts existing at the time of assessment. Risk grade ten represents loans with borrowers who are incapable of repayment or loans that are considered uncollectable and are therefore, charged off. All loans in risk grades nine and ten and certain loans in risk grade eight that are on nonaccrual status are considered impaired loans. Risk grades of commercial loans are reviewed on an ongoing basis and upon a credit event.

The following represents the credit quality of each class of commercial loans and leases based on our internal risk grading system as of December 31, 2012, and 2011:

(dollars in thousands)	December 31, 2012			
	Pass	Special Mention	Classified	Total
Commercial and industrial	\$ 6,504,769	\$176,694	\$208,631	\$ 6,890,094
Commercial real estate	9,985,153	517,357	557,166	11,059,676
Construction	532,870	38,343	74,182	645,395
Equipment leases	2,712,004	29,900	57,227	2,799,131
Agriculture	2,166,614	139,229	50,815	2,356,658
Total Commercial	\$21,901,410	\$901,523	\$948,021	\$23,750,954

(dollars in thousands)	December 31, 2011			
	Pass	Special Mention	Classified	Total
Commercial and industrial	\$ 7,020,903	\$ 279,584	\$ 326,002	\$ 7,626,489
Commercial real estate	7,639,315	616,102	704,042	8,959,459
Construction	372,167	191,092	161,809	725,068
Equipment leases	2,529,157	41,864	70,104	2,641,125
Agriculture	1,786,545	145,774	93,857	2,026,176
Total Commercial	\$19,348,087	\$1,274,416	\$1,355,814	\$21,978,317

Consumer Credit Quality Indicators

Consumer loans are assessed for credit quality by delinquency status and are placed into one of two categories. The first category is for borrowers who are current in their payments in accordance with their contractual terms and the second category is for borrowers who have missed one or more payments and are past due 30 days or more. The following represents the credit quality of each class of consumer loans and leases based on the delinquency status as of December 31, 2012 and 2011:

(dollars in thousands)	Residential secured – closed-end	Residential secured – revolving, open-end	Installments and lines	Total
December 31, 2012:				
Current ⁽¹⁾	\$7,021,766	\$2,100,676	\$11,762,304	\$20,884,746
Past Due	208,526	26,850	120,455	355,831
Total	\$7,230,292	\$2,127,526	\$11,882,759	\$21,240,577
December 31, 2011:				
Current ⁽¹⁾	\$7,722,443	\$2,239,166	\$11,005,003	\$20,966,612
Past Due	329,540	27,655	125,270	482,465
Total	\$8,051,983	\$2,266,821	\$11,130,273	\$21,449,077

⁽¹⁾ Includes loans that are contractually current but on nonaccrual status.

5. Allowance for Credit Losses

The allowance for credit losses reflects management's estimate of credit losses inherent in the loan and lease portfolio and reserve for unfunded lending commitments. We consider the allowance for credit losses at the end of 2012 to be adequate to cover such losses. Changes in the allowance for credit losses were:

(dollars in thousands)	December 31,	
	2012	2011
Balance at beginning of year	\$ 893,947	\$1,059,017
Provision for credit losses	169,462	319,865
Charge-offs:		
Commercial:		
Commercial and industrial	(50,060)	(64,809)
Commercial real estate	(81,743)	(194,336)
Construction	(17,920)	(46,043)
Equipment leases	(11,957)	(30,737)
Agriculture	(27,562)	(8,703)
Total commercial ⁽¹⁾	(189,242)	(344,628)
Consumer:		
Installments and lines	(143,959)	(157,169)
Residential secured – closed-end	(112,441)	(80,827)
Residential secured – revolving, open-end	(27,004)	(25,491)
Total consumer ⁽²⁾	(283,404)	(263,487)
Total charge-offs	(472,646)	(608,115)
Recoveries:		
Commercial:		
Commercial and industrial	17,498	19,800
Commercial real estate	41,694	22,519
Construction	18,202	22,108
Equipment leases	12,687	14,346
Agriculture	6,810	4,419
Total commercial	96,891	83,192
Consumer:		
Installments and lines	28,922	28,768
Residential secured – closed-end	28,551	9,622
Residential secured – revolving, open-end	1,534	1,598
Total consumer	59,007	39,988
Total recoveries	155,898	123,180
Net charge-offs	(316,748)	(484,935)
Balance at end of year	\$ 746,661	\$ 893,947
Components:		
Allocated Loans and Leases	\$ 665,703	\$ 775,188
Unallocated Loans and Leases	45,000	95,000
Total Allowance for Loans and Leases	710,703	870,188
Reserve for Unfunded Commitments	35,958	23,759
Allowance for Credit Losses	\$ 746,661	\$ 893,947

⁽¹⁾ Includes \$112.5 million and \$143.4 million of charge-offs due to commercial loans transferred to HFS at December 31, 2012 and 2011, respectively.

⁽²⁾ Includes \$42.4 million and nil of charge-offs due to consumer loans transferred to HFS at December 31, 2012 and 2011, respectively.

The following table summarizes the activity in the allowance for loan and lease losses by commercial and consumer portfolio segments for the year ended December 31, 2012.

(dollars in thousands)	December 31, 2012			
	Commercial	Consumer	Unallocated	Total
Balance at beginning of year	\$ 331,730	\$ 443,458	\$ 95,000	\$ 870,188
Provision for loan and lease losses	69,879	137,384	(50,000)	157,263
Charge-offs	(189,242)	(283,404)	-	(472,646)
Recoveries	96,891	59,007	-	155,898
Net charge-offs	(92,351)	(224,397)	-	(316,748)
Balance at end of year	\$ 309,258	\$ 356,445	\$ 45,000	\$ 710,703

The following table disaggregates our allocated component of the allowance for loan and lease losses and recorded investment in loans by impairment methodology as of December 31, 2012.

(dollars in thousands)	December 31, 2012					
	Allocated allowance for loan and lease losses			Recorded investment in loans		
	Commercial	Consumer	Total	Commercial	Consumer	Total
Collectively evaluated	\$279,125	\$327,945	\$607,070	\$23,263,202	\$20,916,533	\$44,179,735
Individually evaluated	30,133	28,500	58,633	487,752	324,044	811,796
Total	\$309,258	\$356,445	\$665,703	\$23,750,954	\$21,240,577	\$44,991,531

The following table summarizes the activity in the allowance for loan and lease losses by commercial and consumer portfolio segments for the year ended December 31, 2011.

(dollars in thousands)	December 31, 2011			
	Commercial	Consumer	Unallocated	Total
Balance at beginning of year	\$ 454,809	\$ 511,591	\$92,617	\$1,059,017
Provision for loan and lease losses	138,357	155,366	2,383	296,106
Charge-offs	(344,628)	(263,487)	-	(608,115)
Recoveries	83,192	39,988	-	123,180
Net charge-offs	(261,436)	(223,499)	-	(484,935)
Balance at end of year	\$ 331,730	\$ 443,458	\$95,000	\$ 870,188

The following table disaggregates our allocated component of the allowance for loan and lease losses and recorded investment in loans by impairment methodology as of December 31, 2011.

(dollars in thousands)	December 31, 2011					
	Allocated allowance for loan and lease losses			Recorded investment in loans		
	Commercial	Consumer	Total	Commercial	Consumer	Total
Collectively evaluated	\$308,185	\$443,458	\$751,643	\$21,437,062	\$21,449,077	\$42,886,139
Individually evaluated	23,545	-	23,545	541,255	-	541,255
Total	\$331,730	\$443,458	\$775,188	\$21,978,317	\$21,449,077	\$43,427,394

Our total allowance for credit losses decreased compared to the prior year as a result of modest improvements in the current economic conditions for most sectors. The improvement is reflected through our estimate of a lower provision for credit losses for 2012 relative to 2011. While there are signs of improvement in economic conditions, there remains considerable underlying potential volatility. High unemployment and commodity volatility may continue to negatively influence the majority of our loan and lease portfolios.

Impaired Loans

The following tables present information related to impaired loans that are individually assessed as of December 31, 2012 and 2011:

(dollars in thousands)	December 31, 2012						
	Commercial Product						Consumer Product
	Commercial & industrial	Commercial real estate	Construction	Equipment leases	Agriculture	Total	Residential secured – closed-end
Recorded investment in impaired loans:							
Impaired loans and leases with related allowance	\$ 28,446	\$ 34,581	\$ 24,905	\$ 4,374	\$ 5,687	\$ 97,993	\$ 196,628
Impaired loans and leases with no related allowance	89,672	192,191	73,629	3,662	30,605	389,759	127,416
Total impaired loans	\$ 118,118	\$ 226,772	\$ 98,534	\$ 8,036	\$ 36,292	\$ 487,752	\$ 324,044
Allowance for loan and lease losses on impaired loans	18,478	6,445	168	2,559	2,483	30,133	28,500
Total unpaid principal balance	137,486	246,459	123,346	8,036	40,782	556,109	356,382
Average recorded investment in impaired loans and leases	128,878	265,998	126,328	8,958	45,182	575,344	266,710

(dollars in thousands)	December 31, 2011					
	Commercial Product					
	Commercial & industrial	Commercial real estate	Construction	Equipment leases	Agriculture	Total
Recorded investment in impaired loans:						
Impaired loans and leases with related allowance	\$ 53,657	\$ 63,202	\$ 12,275	\$ 1,954	\$ 2,808	\$ 133,896
Impaired loans and leases with no related allowance	57,819	186,574	102,676	7,366	52,924	407,359
Total impaired loans	\$ 111,476	\$ 249,776	\$ 114,951	\$ 9,320	\$ 55,732	\$ 541,255
Allowance for loan and lease losses on impaired loans	9,009	12,910	760	692	174	23,545
Total unpaid principal balance	138,128	283,320	162,546	9,320	71,464	664,778
Average recorded investment in impaired loans and leases	188,854	392,228	200,906	14,148	72,425	868,561

Impaired loans without a related allowance for credit losses are generally collateralized by assets with fair values (on an “as-is” basis) in excess of the recorded investment in the loans. For commercial loans, payments on impaired loans are generally applied to reduce the outstanding principal balance of such loans. Interest income recognized on impaired loans was \$2.8 million and \$16.5 million for the commercial and consumer portfolios, respectively, for 2012 and was not material for the commercial and consumer portfolios for 2011.

Troubled Debt Restructuring

In situations where 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, the related loan is classified

as a TDR. The Bank had \$30.6 million and \$19.5 million of commitments to lend additional funds and letters of credit to customers whose troubled debt have been restructured as of December 31, 2012 and 2011, respectively.

For our commercial loan portfolio, concessions granted by the Bank generally include term extensions, renewals, forbearances of principal or interest payments and interest rate modifications for each of the classes shown below. In addition, for smaller balance nonperforming loans, we may use third party collection agencies who generally enter into payment or settlement arrangements with the borrowers in order to protect as much of the Bank's investment in the loan as possible. For our consumer loan portfolio, concessions generally include term extensions, interest rate changes, payment deferrals and temporary payment reductions.

The following tables provide a summary of the financial effects of the modifications during 2012 and 2011, as well as the outstanding balance at December 31, 2012 and 2011. In addition, the tables provide a summary of loans outstanding at December 31, 2012 and 2011 that were modified as TDRs within the previous 12 months for which there was a payment default during the period. A payment default is defined as 90 days past due for commercial portfolio and 60 days past due for consumer portfolio.

(dollars in thousands)	2012				
	Financial Effects			Subsequent Defaults ⁽²⁾	
	Pre Modification Loan Balance	Post Modification Loan Balance	Balance at December 31, 2012 ⁽¹⁾	Number of Contracts	Balance at December 31, 2012
Commercial TDRs:					
Commercial and industrial	\$ 22,157	\$ 21,501	\$ 17,212	8	\$ 739
Commercial real estate	76,348	74,488	29,897	12	4,052
Construction	22,015	20,000	-	-	-
Equipment leases	1,283	1,236	924	6	656
Agriculture	36,261	34,284	23,266	5	4,798
Consumer TDRs:					
Installments and lines	19,866	14,767	14,767	16	666
Residential secured – closed-end	93,318	94,280	84,766	80	11,956
Residential secured – revolving, open-end	7,681	6,721	6,721	1	30
Total	\$278,929	\$267,277	\$177,553	128	\$22,897

⁽¹⁾ Consumer TDRs include \$25.0 million due to the adoption of interpretive guidance issued by the OCC in July 2012. Refer to Note 1 for details.

⁽²⁾ Subsequent defaults exclude commercial loans for which we forbore our rights to take legal action in relation to past due payments.

(dollars in thousands)	2011				
	Financial Effects			Subsequent Defaults ⁽¹⁾	
	Pre Modification Loan Balance	Post Modification Loan Balance	Balance at December 31, 2011	Number of Contracts	Balance at December 31, 2011
Commercial TDRs:					
Commercial and industrial	\$149,255	\$146,407	\$121,440	1	\$ 1,126
Commercial real estate	167,205	162,944	114,133	6	11,372
Construction	80,693	73,497	50,150	-	-
Equipment leases	16,174	16,094	15,079	-	-
Agriculture	58,853	56,951	47,645	-	-
Consumer TDRs:					
Installments and lines	16,889	16,889	13,470	29	1,174
Residential secured—closed-end	98,360	102,152	87,871	45	7,351
Residential secured—revolving, open-end	636	636	668	-	-
Total	\$588,065	\$575,570	\$450,456	81	\$21,023

⁽¹⁾ Subsequent defaults exclude commercial loans for which we forbore our rights to take legal action in relation to past due payments or used third party collection agencies.

Nonaccrual and Past Due Loans and Leases

The following table presents information relating to the past due and nonaccrual status of our loans and leases by class, which we monitor as part of our credit risk management practices:

December 31, 2012						
(dollars in thousands)	Current ⁽¹⁾	30 -89 days past due ⁽¹⁾	More than 90 days past due ⁽¹⁾	Total loans and leases ⁽¹⁾	Loans and leases on nonaccrual status ⁽²⁾	Past due 90 days or more but still accruing
Commercial:						
Commercial and industrial	\$ 6,805,737	\$ 36,474	\$ 47,883	\$ 6,890,094	\$ 99,989	\$ 6,791
Commercial real estate	10,941,212	51,672	66,792	11,059,676	203,040	4,068
Construction	621,243	-	24,152	645,395	42,116	3,046
Equipment leases	2,775,706	12,643	10,782	2,799,131	24,453	-
Agriculture	2,288,244	15,261	53,153	2,356,658	50,596	10,499
Consumer:						
Installments and lines	11,762,304	111,542	8,913	11,882,759	19,805	-
Residential secured – closed-end	7,021,766	123,373	85,153	7,230,292	132,616	-
Residential secured – revolving, open-end	2,100,676	15,798	11,052	2,127,526	20,103	-
Total	\$44,316,888	\$366,763	\$307,880	\$44,991,531	\$592,718	\$24,404

⁽¹⁾ Includes both accruing and nonaccruing balances.

⁽²⁾ Residential loans include the impact of Federal regulator guidance issued in January 2012. Refer to Note 1 for details.

December 31, 2011						
(dollars in thousands)	Current ⁽¹⁾	30 -89 days past due ⁽¹⁾	More than 90 days past due ⁽¹⁾	Total loans and leases ⁽¹⁾	Loans and leases on nonaccrual status	Past due 90 days or more but still accruing
Commercial:						
Commercial and industrial	\$ 7,529,482	\$ 53,019	\$ 43,988	\$ 7,626,489	\$111,588	\$ 5,361
Commercial real estate	8,755,994	95,894	107,571	8,959,459	280,563	8,064
Construction	652,001	38,257	34,810	725,068	93,988	2,956
Equipment leases	2,609,384	16,506	15,235	2,641,125	34,860	-
Agriculture	1,978,119	15,846	32,211	2,026,176	42,846	7,372
Consumer:						
Installments and lines	11,005,003	115,733	9,537	11,130,273	9,537	-
Residential secured – closed-end	7,722,443	148,697	180,843	8,051,983	185,737	733
Residential secured – revolving, open-end	2,239,166	16,838	10,817	2,266,821	10,817	-
Total	\$42,491,592	\$500,790	\$435,012	\$43,427,394	\$769,936	\$24,486

⁽¹⁾ Includes both accruing and nonaccruing balances.

6. Premises and Equipment

At December 31, 2012 and 2011, premises and equipment were comprised of the following:

(dollars in thousands)	2012	2011
Premises	\$715,627	\$696,611
Equipment ⁽¹⁾	276,863	264,307
Total premises and equipment	992,490	960,918
Less: Accumulated depreciation and amortization	551,560	509,883
Net book value	\$440,930	\$451,035

⁽¹⁾ Includes in process equipment not subject to depreciation of \$2.6 million and \$7.4 million at December 31, 2012 and 2011, respectively.

Occupancy and equipment expenses include depreciation and amortization expenses of \$52.6 million and \$52.1 million for 2012 and 2011, respectively. For the year ended December 31, 2012, the Bank recognized an impairment of \$1.4 million.

The Bank has obligations under a number of capital and noncancelable operating leases for premises and equipment. The remaining lease terms are up to 50 years, and many provide for periodic adjustment of rentals based on changes in various economic indicators. Certain leases include renewal options, with the longest up to 50 years. Under the premises leases, we are also required to pay real property taxes, insurance and maintenance. The following table shows future minimum payments under leases with terms in excess of one year, excluding future renewal options, as of December 31, 2012:

(dollars in thousands)	Capital Leases	Operating Leases	Less Sublease Income	Net Lease Payments
2013	\$ 1,492	\$ 67,232	\$3,716	\$ 65,008
2014	1,546	62,954	2,772	61,728
2015	1,514	54,979	1,498	54,995
2016	1,437	48,498	962	48,973
2017	1,458	41,898	496	42,860
2018 and thereafter	13,286	180,802	240	193,848
Total minimum payments	\$20,733	\$456,363	\$9,684	\$467,412
Less: Interest on capital leases	10,441			
Total principal payable on capital leases ⁽¹⁾	\$10,292			

⁽¹⁾ Excludes purchase accounting adjustments of \$4.7 million.

The table above includes operating leases for approximately 335,000 square feet of administrative office space in San Ramon, CA with a monthly expense of \$0.7 million. The lease agreements extend through December 31, 2025.

Rental expense, net of rental income, for all operating leases was \$71.9 million and \$63.4 million for 2012 and 2011, respectively.

The Bank did not enter into any sale-leaseback transactions in 2012 and 2011. The Bank amortized \$5.9 million and \$5.8 million of deferred gains relating to its prior sale-leaseback transactions into earnings for 2012 and 2011, respectively. The Bank has no obligations or circumstances which require our continuing involvement with any of these properties.

7. Credit Guarantee Derivative

On March 31, 2010 (the “transaction date”), the Bank entered into a Collateralized Credit Guarantee Derivative Agreement (the “Guarantee”) with its parent. Under the Guarantee, BancWest agreed to reimburse the Bank for principal charge-offs, write-downs on foreclosed assets and foregone interest for a specific portfolio of commercial loans and foreclosed properties (the “covered assets”) for a period of seven years. BancWest makes payments to the Bank under the Guarantee on a quarterly basis, but is not entitled to claim any recoveries.

At the transaction date, the fair value of the Guarantee was estimated at \$393.5 million and was based upon the expected future claims to be made under the Guarantee. The transaction was accounted for as a capital contribution to the Bank, and the fair value is reported in other assets within the consolidated balance sheet. To secure payments under the Guarantee, BancWest sent to the Bank collateral in the form of a non-interest bearing cash deposit of \$1.1 billion.

The Guarantee is recognized as a derivative, measured at fair value with changes in fair value recorded through earnings. At December 31, 2012, the estimated fair value of the Guarantee asset was \$6.1 million; the notional amount of the derivative agreement was \$239.2 million and the value of the cash collateral was \$785.7 million. At December 31, 2011, the estimated fair value of the Guarantee asset was \$23.9 million; the notional amount of the derivative agreement was \$460.8 million and the value of the cash collateral was \$858.6 million. The decline in the fair value of the Guarantee asset since inception was primarily driven by changes in credit forecasts, and decreases in the covered asset principal balances due to charge-offs and paydowns. The net impact of the Guarantee on earnings as of December 31, 2012, was a

gain of \$38.3 million (reported within noninterest income) due to payments for claims made under the Guarantee of \$56.0 million offset by a \$17.7 million decrease in the fair value of the Guarantee. The net impact of the Guarantee on earnings as of December 31, 2011, was a loss of \$6.3 million (reported within noninterest income) due to a \$126.8 million decrease in the fair value of the Guarantee significantly offset by payments for claims made under the Guarantee for \$120.5 million.

8. Goodwill and Identifiable Intangible Assets

The Bank has \$4.2 billion in goodwill from previous acquisitions. Prior to 2012, goodwill was allocated to four reporting units: Regional Banking Group (“RBG”), National Finance Group (“NFG”), Wealth Management Group (“WM”) and Commercial Banking Group (“CBG”). In 2012 the Bank reevaluated its reporting units resulting in an aggregation of RBG, NFG, and WM into a single reporting unit, Retail. Our 2012 goodwill impairment assessment was therefore performed for Retail and Commercial.

We perform annual impairment testing of goodwill in the fourth quarter. The Bank decided to bypass the optional qualitative assessment of changes in circumstances that may result in goodwill impairment and instead directly performed the quantitative assessment that first requires determining whether the carrying values of our reporting units exceed their respective fair values. No impairment of goodwill was deemed necessary in 2012 and 2011. Our estimates of fair value of reporting units were based upon factors such as projected future cash flows, discount rates, and other uncertain elements that require significant judgments. While we use available information to prepare our estimates and perform impairment evaluations, actual results in the future could differ significantly. Impairment tests in future periods may result in impairment charges, which could materially impact our future reported results.

The details of our finite-lived intangible assets are presented below:

(dollars in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Balance as of December 31, 2012:			
Core Deposits ⁽¹⁾	\$195,059	\$138,441	\$ 56,618
Software ⁽²⁾	228,889	149,372	79,517
Other Intangible Assets ⁽³⁾	66,971	32,353	34,618
Total	\$490,919	\$320,166	\$170,753
Balance as of December 31, 2011:			
Core Deposits	\$398,878	\$326,681	\$ 72,197
Software ⁽²⁾	198,432	130,774	67,658
Other Intangible Assets ⁽³⁾	52,822	22,230	30,592
Total	\$650,132	\$479,685	\$170,447

⁽¹⁾ December 31, 2012 balances do not include fully amortized assets.

⁽²⁾ Includes in process software not subject to amortization of \$23.7 million and \$14.4 million at December 31, 2012 and 2011, respectively.

⁽³⁾ Includes mortgage servicing rights. Refer to Note 3 for additional information.

Intangible amortization expense included in noninterest expense was \$37.2 million and \$51.5 million for 2012 and 2011, respectively. For the years ended December 31, 2012 and 2011, the Bank’s review did not result in any material impairment. See Note 3 for valuation allowance related to MSRs.

The table below presents the estimated future annual amortization expense for finite-lived intangible assets for the years ending December 31:

(dollars in thousands)	Core Deposits	Software	Other Intangibles	Total
2013	\$12,555	\$18,907	\$6,157	\$37,619
2014	12,536	16,092	5,319	33,947
2015	12,517	11,027	4,561	28,105
2016	12,498	7,397	3,960	23,855
2017	6,392	2,159	3,260	11,811

9. Variable Interest Entities

A VIE is an entity that has either a total equity investment that is insufficient to finance its activities without additional subordinated financial support or whose equity investors lack the ability to control the entity's activities. Under existing accounting guidance, a VIE is consolidated by its primary beneficiary, the party that has both the power to direct the activities that most significantly impact the VIE and a variable interest that could potentially be significant to the VIE.

The Bank evaluates whether an entity is a VIE upon its creation and upon the occurrence of significant events such as a change in an entity's assets or activities. The determination of whether the Bank is the primary beneficiary involves performing a qualitative analysis of the VIE that includes its capital structure, contractual terms including the rights of each variable interest holder, the activities of the VIE that most significantly impact its economic performance, whether the Bank has the power to direct those activities and our obligation to absorb losses or the right to receive benefits significant to the VIE.

Limited liability companies

The Bank has investments in numerous limited liability companies ("LLCs") for the purpose of managing foreclosed properties seized to mitigate losses to the Bank and its partners by selling the collateral. These LLCs have similar risks and characteristics and therefore have been aggregated for disclosure purposes. For some of these entities, the Bank is responsible for managing the daily operations. The Bank is the primary beneficiary when it has the power to direct the activities that significantly impact the performance of the LLCs and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIEs. Profits and losses of the entities are allocated to the Bank and its third-party partners in accordance with their respective ownership percentages. The Bank's maximum exposure to losses associated with the foreclosed properties incorporates not only potential losses associated with the assets recorded on the balance sheet but also potential losses under other contractual arrangements. Creditors, if any, of the consolidated VIEs do not have recourse on the general credit of the Bank.

In addition to the investments in LLCs for managing foreclosed properties, the Bank has formed CLAAS Financial Services, LLC with the purpose of providing lease and loan financing to commercial entities acquiring agricultural equipment. The Bank owns a 51% interest in the LLC and has the obligation to absorb losses that could be potentially significant to the LLC. The Bank also has the power to direct key activities of the LLC that significantly drive its performance through control of the Board of Directors. Since the Bank is the primary beneficiary of this entity, it is consolidated in our financial statements.

Tax credit investments

The Bank owns several limited partnership interests in low-income housing developments in conjunction with the Community Reinvestment Act. The Bank is not the primary beneficiary of these entities and in most instances, the Bank is one of many limited partners and our interest in the partnerships may decrease as new limited partners are added. Limited partners do not participate in the control of the partnerships' businesses. The general partners, which are either developers or nonprofit organizations, exercise the day-to-day control and management of the projects. The general partners have exclusive control over the partnerships' businesses and have all of the rights, powers, and authority generally conferred by law or necessary, advisable or consistent with accomplishing the partnerships' businesses. As a limited partner, the Bank does not have an active role in any of the partnerships and our involvement is limited to providing financial support, as stated within the contractual agreements and therefore we are not the primary beneficiary.

The business purpose of these entities is to provide affordable housing within the Bank's service area in return for tax credits and tax loss deductions. The Bank has not received additional income or incurred additional expenses as a result of our involvement with these entities. Because we are a limited partner, our maximum exposure would never exceed our investment, including our subscription amount. In the unlikely event that the general partners do not adhere to their contractual obligations to provide financial support to low-income housing, the Bank may be subject to tax credit recapture rules and would record income or

expense related to the project, including recognition of a gain or loss on the disposition or termination of its partnership interest. Bargain purchase options are available for the general partners to purchase the Bank's portion of interests in the limited partnerships.

Consolidated VIEs

The following table presents information on assets and liabilities of the consolidated VIEs as they are included in these line items in our consolidated balance sheets at December 31, 2012 and 2011:

(dollars in thousands)	2012	2011
Assets		
Cash and due from banks	\$ 2,039	\$ 3,746
Loans and leases:		
Loans and leases	260,184	223,733
Less: Allowance for loan and lease losses	1,427	1,479
Net loans and leases	258,757	222,254
Other real estate owned assets	-	3,461
Other assets	887	120
Total Assets	\$261,683	\$229,581
Liabilities		
Long-term debt	33,700	54,500
Other liabilities	567	487
Total liabilities	\$ 34,267	\$ 54,987

Unconsolidated VIEs

The following tables present the carrying amount of assets, liabilities and our maximum exposure to loss related to our unconsolidated VIEs in our consolidated balance sheets at:

(dollars in thousands)	December 31, 2012		
	Total Assets ⁽¹⁾	Total Liabilities ⁽¹⁾	Maximum Exposure to Loss
Tax credit investments	\$177,133	\$73,262	\$324,484
Limited liability company	502	-	502

⁽¹⁾ Reported in other assets or other liabilities.

(dollars in thousands)	December 31, 2011		
	Total Assets ⁽¹⁾	Total Liabilities ⁽¹⁾	Maximum Exposure to Loss
Tax credit investments	\$152,877	\$66,124	\$277,856
Limited liability company	3,837	-	3,837

⁽¹⁾ Reported in other assets or other liabilities.

10. Regulatory Capital Requirements

The Bank is subject to various regulatory capital requirements administered by federal banking agencies. If the Bank fails to meet minimum capital requirements, these agencies can initiate certain discretionary and mandatory actions. Such regulatory actions could have a material effect on the Bank's financial statements. The Bank constantly monitors its regulatory capital levels and, if necessary, may obtain capital from its parent company through BNP Paribas or by other means.

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets and certain off-balance sheet items as calculated under regulatory accounting practices. These capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain adequate levels of Tier 1 and Total capital to risk-weighted assets and Tier 1 capital to average assets. The table below sets forth those ratios at December 31, 2012 and 2011.

(dollars in thousands)	Actual		For Capital Adequacy Purposes		To be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2012						
Tier 1 capital to risk-weighted assets	\$7,321,452	14.69%	\$1,993,194	4.00%	\$2,989,791	6.00%
Total capital to risk-weighted assets	7,945,984	15.95	3,986,388	8.00	4,982,985	10.00
Tier 1 leverage ratio ⁽¹⁾	7,321,452	12.46	2,351,141	4.00	2,938,926	5.00
As of December 31, 2011						
Tier 1 capital to risk-weighted assets	\$6,679,424	14.20%	\$1,882,089	4.00%	\$2,823,133	6.00%
Total capital to risk-weighted assets	7,271,352	15.45	3,764,178	8.00	4,705,222	10.00
Tier 1 leverage ratio ⁽¹⁾	6,679,424	11.57	2,309,521	4.00	2,886,902	5.00

⁽¹⁾ The leverage ratio consists of a ratio of Tier 1 capital to average assets, excluding goodwill and certain other items.

Pursuant to applicable laws and regulations, the Bank is deemed to be well-capitalized. To be well-capitalized, a bank must have a total risk-based capital ratio of 10.00% or greater, a Tier 1 risk-based capital ratio of 6.00% or greater, a leverage ratio of 5.00% or greater and not be subject to any agreement, order or directive to meet a specific capital level for any capital measure.

11. Deposits

The following table represents the maturity distribution of time certificates of deposit at December 31, 2012:

(dollars in thousands)	
2013	\$6,446,807
2014	788,208
2015	769,220
2016	627,715
2017	376,229
2018 and thereafter	330,709
Total	\$9,338,888

Time certificates with a denomination of \$100,000 and greater totaled \$5.7 billion and \$6.5 billion at December 31, 2012 and 2011, respectively. Total brokered time certificates of deposit totaled \$1.4 billion and \$0.7 billion at December 31, 2012 and 2011, respectively.

Total deposits reclassified to loans due to overdrafts at December 31, 2012 and 2011 were \$5.9 million and \$5.1 million, respectively.

In March 2010, the Bank received \$1.1 billion of noninterest-bearing cash deposits to collateralize the Guarantee. The collateralized deposits on hand were \$785.7 million and \$858.6 million at December 31, 2012 and 2011, respectively. Refer to Note 7 for additional information.

12. Short-Term Borrowings

At December 31, 2012 and 2011, short-term borrowings were comprised of the following:

(dollars in thousands)	2012	2011
Federal funds purchased and securities sold under agreements to repurchase	\$324,797	\$352,060
Advances from FHLB and other short-term borrowings	3,393	1,560
Total short-term borrowings	\$328,190	\$353,620

The table below shows selected information for short-term borrowings:

(dollars in thousands)	2012	2011
Federal funds purchased and securities sold under agreements to repurchase:		
Weighted-average interest rate at December 31	0.05%	0.05%
Highest month-end balance	\$525,153	\$1,178,962
Average daily outstanding balance	417,396	640,517
Weighted-average daily interest rate paid	0.05%	0.10%
Advances from FHLB and other short-term borrowings:		
Weighted-average interest rate at December 31	-	-
Highest month-end balance	\$ 10,560	\$ 32,574
Average daily outstanding balance	1,389	2,191
Weighted-average daily interest rate paid	0.02%	0.04%

The Bank treats securities sold under agreements to repurchase as collateralized financings. The Bank reflects the obligations to repurchase the identical securities sold as liabilities, with the dollar amount of securities underlying the agreements remaining in the asset accounts. At December 31, 2012, the outstanding balance of these agreements was \$324.8 million with a weighted average maturity of 2 days. Of this amount, \$324.4 million have an overnight maturity and \$0.4 million have a maturity of less than 30 days.

At December 31, 2012, the Bank had \$6.8 billion of credit lines available. Of this amount, \$0.9 billion is available from First Hawaiian Bank and \$1.7 billion is available from BNP Paribas New York. At December 31, 2012, the Bank had drawn down on the available lines of credit by \$300.0 million from non-affiliated U.S. financial institutions as a deposit and \$33.7 million from BNP Paribas New York as long-term debt.

13. Long-Term Debt

At December 31, 2012 and 2011, long-term debt was comprised of the following:

(dollars in thousands)	Rate(s)	2012	2011
Fixed-rate advances from the FHLB due through 2018 ⁽¹⁾⁽³⁾⁽⁶⁾	1.22% to 3.37%	\$1,156,340	\$1,145,839
Fixed-rate advances from the FHLB due through 2035 ⁽¹⁾⁽²⁾⁽⁵⁾	1.70% to 7.96%	219,820	2,010,776
Fixed-rate unsecured lines of credit with BNP Paribas due through 2015 ⁽²⁾	2.89% to 4.71%	33,700	54,500
Fixed-rate Temporary Liquidity Guarantee Program (TLGP) unsecured senior debt through 2012 ⁽⁴⁾	2.15%	-	1,000,013
Floating-rate advances from the FHLB due through 2013 ⁽¹⁾⁽³⁾⁽⁷⁾	3 mo. LIBOR -0.02% to +0.07%	1,100,000	1,100,000
Floating-rate advances from the FHLB due through 2014 ⁽¹⁾⁽²⁾	1 mo. LIBOR +0.12% to +0.16%	450,000	350,000
Capital leases due through 2030 ⁽²⁾		14,940	15,740
Total long-term debt		\$2,974,800	\$5,676,868

⁽¹⁾ This debt is secured by real estate loans or securities. See Notes 2 and 4 for additional information.

⁽²⁾ Interest is payable monthly.

⁽³⁾ Interest is payable quarterly.

⁽⁴⁾ Interest is payable semi-annually.

⁽⁵⁾ Fixed rate with partial repayment monthly.

⁽⁶⁾ In 2012, \$1.0 billion of these advances remain hedged by a Fair Value Hedge. See Note 15 for additional information.

⁽⁷⁾ In 2012, \$350 million of these advances were hedged with Cash Flow Hedges. See Note 15 for additional information.

Amounts above are net of unamortized discounts and adjustments related to hedging with derivative financial instruments. The derivative instruments, principally interest rate swaps, are used to hedge the fair values of certain fixed-rate debt by converting the debt to a floating rate. See Note 15 for more information regarding such financial instruments.

In 2012 and 2011 the Bank terminated \$1.1 billion of FHLB fixed-rate advances and \$440 million of FHLB fixed- and floating-rate advances, respectively. Losses recognized on these terminations were \$33.7 million and \$0.8 million for the years ending December 31, 2012 and 2011, respectively.

As part of long-term and short-term borrowing arrangements, the Bank was subject to various covenants. At December 31, 2012 and 2011, the Bank was in compliance with all the covenants.

As of December 31, 2012, the aggregate annual maturities due on long-term debt were as follows:

(dollars in thousands)	
2013	\$1,573,046
2014	965,282
2015	154,411
2016	905
2017	1,263
2018 and thereafter	279,893
Total	\$2,974,800

14. Litigation

In the course of normal business, the Bank is subject to asserted and unasserted legal actions which may seek substantial relief or damages. While the Bank is not able to predict whether the outcome of such actions will materially affect our results of operations for a particular period, based upon consultation with counsel, management does not expect that the aggregate liability, if any, resulting from these proceedings would have a material effect on the Bank's consolidated financial position, results of operations or liquidity.

15. Derivative Financial Instruments

The Bank enters into derivative contracts to manage its interest rate risk, as well as for customer accommodation purposes. Derivative transactions are measured in terms of the notional amount, but this amount is not recorded in the balance sheet and is not, when viewed in isolation, a meaningful measure of the risk profile of the instruments. Derivatives are also subject to credit risk associated with counterparties to the derivative contracts. The Bank measures that credit risk based on its assessment of the probability of counterparty default and includes that within the fair value of the derivative. Customer counterparty credit risk is managed via cross-collateralization agreements with associated credit facilities. The Bank manages financial institution counterparty credit risk by utilizing master netting and Collateral Support Annex ("CSA") agreements, which allow the Bank to call for immediate, full collateral coverage when credit-rating thresholds are triggered by counterparties. The Bank's CSAs are bilateral, and therefore contain provisions that require collateralization of the Bank's net liability derivative positions. Required collateral coverage is based on certain net liability thresholds and contingent upon the Bank's credit rating from two of the nationally recognized statistical rating organizations. If the Bank's credit rating were to fall below credit rating thresholds established in the collateral agreements, the counterparties could request immediate full collateral coverage for derivatives in net liability positions. At December 31, 2012 and 2011, the aggregate fair value of all derivatives under CSAs were in a net liability position of \$311 million and \$369 million to which the Bank posted \$180 million and \$194 million of investment securities as collateral, respectively, and \$124 million and \$154 million of restricted cash, respectively.

The following table is a summary of notional amounts and fair values of derivative instruments at:

(dollars in thousands)	December 31, 2012			December 31, 2011		
	Notional Amount	Fair Value		Notional Amount	Fair Value	
		Asset derivatives ⁽¹⁾	Liability derivatives ⁽²⁾		Asset derivatives ⁽¹⁾	Liability derivatives ⁽²⁾
Derivatives designated as hedging instruments:						
Fair value hedges:						
Interest rate swaps	\$ 1,175,000	\$ 7,357	\$ -	\$ 2,756,698	\$ 2,345	\$ 898
Cash flow hedges:						
Interest rate swaps	1,700,000	18,038	60	100,000	179	-
Subtotal	2,875,000	25,395	60	2,856,698	2,524	898
Free standing derivatives:						
Interest rate swaps	9,356,769	413,371	390,587	9,214,482	429,080	397,892
Interest rate floors	580,000	4,836	-	-	-	-
Credit guarantee derivative ⁽³⁾	239,225	6,143	-	460,811	23,883	-
Market linked swaps and purchased options	731,757	37,384	-	444,630	29,773	-
Written market linked options ⁽⁴⁾	731,757	-	37,545	444,630	-	30,228
Purchased interest rate options	168,777	115	-	149,139	257	-
Written interest rate options	168,777	-	115	149,139	-	257
Commitments to purchase and sell foreign currencies	677,033	10,526	8,567	742,236	11,973	10,700
Purchased foreign exchange options	11,706	249	-	29,802	1,077	-
Written foreign exchange options	11,706	-	249	29,802	-	1,077
Subtotal	12,677,507	472,624	437,063	11,664,671	496,043	440,154
Free standing derivatives from mortgage sale activity:						
Forward contracts	440,000	117	515	238,053	26	1,302
Written interest rate options	185,458	8,753	-	231,430	4,989	-
Subtotal	625,458	8,870	515	469,483	5,015	1,302
Total free standing derivatives	13,302,965	481,494	437,578	12,134,154	501,058	441,456
Total derivatives	\$16,177,965	\$506,889	\$437,638	\$14,990,852	\$503,582	\$442,354

⁽¹⁾ The positive fair values of derivative assets are included in other assets.

⁽²⁾ The negative fair values of derivative liabilities are included in other liabilities.

⁽³⁾ This relates to the Guarantee as described in Note 7.

⁽⁴⁾ Includes bifurcated derivatives embedded in market linked instruments.

Fair Value Hedges

The Bank's fair value hedges are primarily interest rate swaps that hedge the change in fair value related to interest rate changes of underlying fixed-rate debt. Changes in the fair value of derivatives designated as fair value hedges, and changes in the fair value of the hedged items, are recorded in noninterest income.

In July 2011 and August 2011, the Bank executed a total of \$1.25 billion of interest rate swaps to hedge underlying fixed-rate certificates of deposit with maturities ranging from April 2012 to August 2013. A total of \$1.08 billion of these swaps matured as of December 31, 2012 leaving \$0.17 billion outstanding. The Bank receives on average a fixed rate of 0.82% and pays on average three-month LIBOR plus 30 basis points on the remaining interest rate swaps. The interest rate swaps had a fair value gain of \$0.3 million and a fair value loss of \$1.5 million at December 31, 2012 and 2011, respectively.

In July 2011, the Bank executed two \$500 million interest rate swaps to hedge a total of \$1.00 billion notional of underlying fixed-rate TLGP debt with a maturity of March 27, 2012. The Bank received a fixed rate of 2.15% and paid on average three-month LIBOR plus 176 basis points. On September 30, 2011, one of the \$500 million interest rate swap hedges was deemed ineffective and unwound; the swap was re-designated as a free standing derivative with subsequent gains and losses recorded to earnings. Both swaps matured in March 2012. The effective and ineffective interest rate swaps had a total fair value gain of \$2.4 million at December 31, 2011.

In October 2011 and November 2011, the Bank executed a total of \$1.00 billion of interest rate swaps to hedge underlying fixed-rate FHLB advances with maturities ranging from March 2014 to March 2015. The Bank receives on average a fixed rate of 1.52% and pays on average one-month LIBOR plus 89 basis points. The interest rate swaps had a fair value gain of \$7.0 million and \$0.5 million at December 31, 2012 and 2011, respectively.

The total impact of amortization related to the carrying value adjustments of hedged items due to fair value hedges terminated prior to 2011 for the years ended December 31, 2012 and 2011 was a loss of \$1.11 million and a gain of \$1.10 million, respectively.

The following table shows the effect of fair value hedging on the Bank's pretax income due to interest rate contracts for the years ended December 31, 2012 and 2011:

(dollars in thousands)	December 31, 2012 Interest rate contracts hedging		December 31, 2011 Interest rate contracts hedging	
	Deposits	Long-term debt	Deposits	Long-term debt
Gains (losses) recorded in net interest income	\$ (261)	\$ 2,646	\$ 562	\$2,025
Gains (losses) recorded in noninterest income:				
Recognized on derivatives	1,978	6,576	(1,870)	(900) ⁽¹⁾
Recognized on hedged items	(1,805)	(8,135)	1,683	1,892 ⁽¹⁾
Recognized as ineffective portion	173	(1,559)	(187)	992
Total	\$ (88)	\$ 1,087	\$ 375	\$3,017

⁽¹⁾ A \$500 million swap hedging fixed-rate TLGP debt did not provide perfect offsetting fair valuation in certain periods due to the late term nature of the hedge; the cumulative effects of this led to hedge ineffectiveness at September 30, 2011. The hedge was unwound and the swap was re-designated as a free standing derivative. The swap matured in March 2012.

Cash Flow Hedges

The Bank's cash flow hedges are interest rate swaps that hedge the forecasted cash flows of underlying variable-rate debt and variable-rate loans. Changes in the fair values of derivatives designated as cash flow hedges, to the extent effective, are recorded in other comprehensive income until income from the cash flows of the hedged items is realized. Any ineffectiveness which may arise during the hedging relationship is recognized in earnings in the period in which it arises. If a derivative designated as a cash flow hedge is terminated or deemed overall ineffective, the gain or loss in other comprehensive income is amortized to earnings over the period the forecasted hedged transactions impact earnings. If a hedged forecasted transaction is probable of not occurring, hedge accounting is ceased and any gain or loss included in other comprehensive income (loss) is reported in earnings immediately.

In November 2011 and from February to April 2012, the Bank executed a total of \$0.10 billion and \$1.25 billion of interest rate swaps, respectively, to hedge forecasted cash flows of underlying variable-rate loans indexed to one-month LIBOR with maturities ranging from December 2014 to April 2017. The Bank receives a range of fixed rates from 0.64% to 1.21% and pays one-month LIBOR plus nil spread. The interest rate swaps had \$18.1 million and \$0.2 million of unrealized gains in other comprehensive income at December 31, 2012 and 2011, respectively. The estimated amount to be reclassified from other comprehensive income into earnings during the next 12 months is a gain of \$8.3 million.

In March 2012 and April 2012, the Bank executed a total of \$350 million of interest rate swaps to hedge underlying floating-rate FHLB advances with maturities ranging from March 2013 to May 2013.

The Bank pays an average fixed rate of 0.54% and receives on average one-month LIBOR plus 5 basis points. The interest rate swaps had a fair value loss of \$0.2 million at December 31, 2012 in other comprehensive income, all of which will be reclassified to earnings in 2013.

The total impact of amortization related to terminated cash flow hedges for the years ended December 31, 2012 and December 31, 2011 expense were nil and \$0.3 million, respectively.

The following table summarizes the effect of cash flow hedging for the years ended December 31, 2012 and 2011:

(dollars in thousands)	2012	2011
Pretax gain (loss) recognized in OCI on derivatives (effective portion)	\$23,576	\$ (56)
Pretax loss (gain) reclassified from cumulative OCI into net interest income (effective portion) ⁽¹⁾	(6,328)	8,346

⁽¹⁾ Includes net settlement of \$6.3 million and \$7.5 million, and amortization of fair value captured in OCI on terminated swaps of nil and \$0.8 million for the years ending December 31, 2012 and 2011, respectively.

Free Standing Derivatives

Free standing derivative instruments include derivative transactions entered into for purposes for which hedge accounting does not apply. These derivatives include interest rate swaps, interest rate collars, interest rate floors, market linked swaps and options and forward commitments to fund and sell residential mortgage loans. The Bank acts as a seller and buyer of interest rate derivatives and foreign exchange contracts to accommodate customers. To mitigate the market and liquidity risk associated with these derivatives, the Bank enters into similar offsetting positions.

The following table shows the net gains (losses) recognized as noninterest income relating to free standing derivatives not recognized as hedging instruments, held by the Bank as of December 31, 2012 and 2011:

(dollars in thousands)	2012	2011
Interest rate swaps	\$ 17,368	\$ 3,019
Interest rate collars	(890)	(137)
Purchased interest rate options	151	(293)
Written interest rate options	(87)	344
Forward contracts	878	(3,994)
Credit guarantee derivative	38,257	(6,351)
Market linked swaps and purchased options	(10,060)	(3,162)
Written market linked options	10,258	3,827
Commitments to purchase and sell foreign currencies	12,215	12,373
Purchased foreign exchange options	346	(470)
Written foreign exchange options	(265)	613
Total net gains (losses)	\$ 68,171	\$ 5,769

16. Fair Value

The Bank determines the fair value of certain assets and liabilities based on the fair value hierarchy established under applicable accounting guidance, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. See Note 1 for more information regarding the fair value hierarchy and definitions of the levels of inputs.

Recurring Fair Value Measurements:

The Bank measures certain financial instruments at fair value on a recurring basis. These instruments are primarily securities available for sale and derivatives. The Bank has an organized and established process for determining and reviewing recurring fair value measurements reported in our financial statements. The fair value of assets and liabilities is determined using several methods including third party pricing services, purchased valuation software or internally developed models in accordance with the Bank's policy.

The fair value measurements are reviewed to ensure they are reasonable and in line with market experience in similar asset classes. For example, we perform one or more of the following procedures to validate the fair value measurement:

- Corroborate pricing by reference to other independent market data such as broker quotes, market transactions and relevant benchmark indices;
- Review pricing by Bank personnel familiar with market liquidity and other market-related conditions;
- Compare to other pricing vendors (if available); and
- Challenge vendor pricing and investigate prices on a specific instrument-by-instrument basis

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value on a recurring basis, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy:

Trading assets

Trading assets consist of U.S. Treasuries for the year ended 2012. The U.S. Treasury securities are classified as Level 1 and priced using quoted market prices (unadjusted) in active markets for identical securities. For the year ended 2011, trading assets primarily consisted of FHLB discount notes and were classified as level 2.

Securities

The Bank has an Impairment and Valuation Steering Committee (“IVSC”) to oversee its valuation framework for measuring the fair value of securities available for sale. The Bank utilizes third-party pricing services in determining the fair value of substantially all securities. IVSC consists of senior executive management who meet on a quarterly basis and monitor the use of pricing sources and other valuation processes. In addition, a cross-functional team comprised of representatives from our Treasury and Risk groups, reviews and approves the fair value measurements on a monthly basis. This management team also analyzes changes in fair value from period to period.

Securities classified as Level 1 are priced using quoted market prices (unadjusted) in active markets for identical securities, and consist of U.S. Treasury securities, money market funds and equity securities. When quoted market prices are not available, fair values are classified as Level 2 using quoted prices for similar assets in markets that are either active or not active and through model-based techniques in which all significant inputs are observable for the asset, either directly or indirectly, for substantially the full term of the financial instrument. Examples of such instruments include U.S. government sponsored agency securities, agency mortgage-backed securities, collateralized debt obligations, collateralized loan obligations, and municipal securities.

If relevant market prices are limited or unavailable, fair value measurements may require use of significant unobservable inputs, in which case the fair values are classified as Level 3. Level 3 securities primarily consist of Community Reinvestment Act (“CRA”) bonds, which are categorized within states and political subdivisions, and are valued using proprietary discounted cash flow models from a third party service provider. The significant input to the valuation model is a bond yield, which consists of interest rate yield curves, credit spreads and liquidity spreads. This requires judgment due to the absence of available market prices and lack of liquidity. An increase in any of the factors that comprise the bond yields would result in lower fair values for CRA bonds, whereas a decrease in bond yields would impact the fair value in a directionally opposite way.

Derivatives

All of our derivatives are private transactions where quoted market prices are not readily available. Therefore the Bank values these derivatives using internal valuation techniques, mainly discounted cash

flows. Valuation techniques and inputs to internally-developed models depend on the type of derivative and nature of the underlying rate, price or index upon which the derivative's value is based. Key inputs can include yield curves, credit curves, foreign-exchange rates, volatility measurements and other market parameters. Where model inputs can be observed in a liquid market and the model does not require significant judgment, such derivatives are typically classified as Level 2 of the fair value hierarchy. Level 2 derivatives include interest rate swaps, foreign currency and forward contracts and certain options.

We also measure the fair value of certain derivatives using an option-pricing model with significant unobservable inputs, which are classified within Level 3 of the valuation hierarchy. The derivatives are embedded written options linking the returns on host certificates of deposit to the performance of baskets of equity securities, equity indices, or commodity indices. We purchase offsetting options to minimize the related market risk. The fair value of the derivative instruments would increase or decrease based on the performance of the underlying equity securities, equity indices, or commodity indices. The primary unobservable inputs to the values of these options are the volatility of option prices for the underlying securities in the basket or market indices and correlation of underlying individual securities in the basket or market indices.

An increase in the volatility or correlation factor would generally increase the fair value of the option. A decrease in the volatility or correlation factor would generally decrease the fair value of the option. The correlation factor is considered independent from movements in other significant unobservable inputs for the derivative instruments.

The fair value of the Credit Guarantee Derivative is also classified as a Level 3 fair value measurement since the Bank estimates its fair value using an internally developed discounted cash flow valuation model. The key assumptions in the model and the drivers of changes in fair value are credit loss forecasts to project the future potential payoffs from the Guarantee and the rate to discount the estimated claims under the Credit Guarantee Derivative. The credit loss forecast is an internally developed estimate that cannot be directly corroborated by observable market data. A significant increase or decrease in the credit loss forecast would result in a significantly higher or lower fair value measurement. Refer to Note 7.

In addition, the fair value for derivatives may include an adjustment for estimated counterparty and Bank credit risk.

Deferred compensation plan and Other assets

Assets for deferred compensation plans are Level 1 securities consisting of money market funds held within a nonqualified deferred compensation trust. Fair value measurement of these assets is based upon quoted prices.

The table below presents the balances of assets and liabilities including derivatives measured at fair value on a recurring basis at December 31, 2012:

(dollars in thousands)	Level 1	Level 2	Level 3	Total
Trading assets	\$ 6,498	\$ -	\$ -	\$ 6,498
Securities available for sale:				
U.S. Treasury and other U.S. Government agencies and corporations	1,798,631	812	-	1,799,443
Government sponsored agencies	-	50,037	-	50,037
Mortgage and asset-backed securities:				
Government agencies ⁽¹⁾	-	4,319,093	-	4,319,093
Government sponsored agencies ⁽¹⁾	-	1,212,993	-	1,212,993
Collateralized debt obligations	-	10,275	-	10,275
Collateralized loan obligations	-	111,603	-	111,603
Other asset-backed securities	-	323	152	475
Collateralized mortgage obligations:				
Government agencies	-	7,823	-	7,823
Government sponsored agencies	-	42,739	-	42,739
States and political subdivisions	-	555,187	47,921	603,108
Equity securities	6,451	-	-	6,451
Total securities available for sale	1,805,082	6,310,885	48,073	8,164,040
Derivative assets ⁽²⁾				
Interest rate	-	452,587	-	452,587
Foreign exchange	-	10,775	-	10,775
Market linked swaps and purchased options	-	-	37,384	37,384
Credit guarantee derivative	-	-	6,143	6,143
Total derivative assets	-	463,362	43,527	506,889
Deferred compensation plan and Other assets	30,966	138	33	31,137
Total assets measured at fair value on a recurring basis	\$1,842,546	\$6,774,385	\$91,633	\$8,708,564
Derivative liabilities ⁽²⁾				
Interest rate	\$ -	\$ 391,277	\$ -	\$ 391,277
Foreign exchange	-	8,816	-	8,816
Written market linked options	-	-	37,545	37,545
Total derivative liabilities	-	400,093	37,545	437,638
Other liabilities	-	148	-	148
Total liabilities measured at fair value on a recurring basis	\$ -	\$ 400,241	\$37,545	\$ 437,786

⁽¹⁾ Backed by residential real estate.

⁽²⁾ These amounts are reflected in other assets and other liabilities on the Consolidated Balance Sheet.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis at December 31, 2011:

(dollars in thousands)	Level 1	Level 2	Level 3	Total
Trading assets	\$ -	\$ 6,000	\$ -	\$ 6,000
Securities available for sale:				
U.S. Treasury and other U.S. Government agencies and corporations	1,026,316	1,267	-	1,027,583
Government sponsored agencies	-	119,761	-	119,761
Mortgage and asset-backed securities:				
Government agencies ⁽¹⁾	-	4,172,897	-	4,172,897
Government sponsored agencies ⁽¹⁾	-	1,475,702	-	1,475,702
Collateralized debt obligations	-	-	45,133	45,133
Collateralized loan obligations	-	-	128,655	128,655
Other asset-backed securities	-	1,648	177	1,825
Collateralized mortgage obligations:				
Government agencies	-	9,722	-	9,722
Government sponsored agencies	-	59,693	-	59,693
States and political subdivisions	-	670,588	-	670,588
Equity securities	6,096	-	-	6,096
Total securities available for sale	1,032,412	6,511,278	173,965	7,717,655
Derivative assets ⁽²⁾				
Interest rate	-	436,876	-	436,876
Foreign exchange	-	13,050	-	13,050
Market linked swaps and purchased options	-	29,773	-	29,773
Credit guarantee derivative	-	-	23,883	23,883
Total derivative assets	-	479,699	23,883	503,582
Deferred compensation plan and Other assets	25,175	371	33	25,579
Total assets measured at fair value on a recurring basis	\$1,057,587	\$6,997,348	\$197,881	\$8,252,816
Derivative liabilities ⁽²⁾				
Interest rate	\$ -	\$ 400,349	\$ -	\$ 400,349
Foreign exchange	-	11,777	-	11,777
Written market linked options	-	30,228	-	30,228
Total derivative liabilities	-	442,354	-	442,354
Other liabilities	-	336	-	336
Total liabilities measured at fair value on a recurring basis	\$ -	\$ 442,690	\$ -	\$ 442,690

⁽¹⁾ Backed by residential real estate.

⁽²⁾ These amounts are reflected in other assets and other liabilities on the Consolidated Balance Sheet.

The Bank's policy is to recognize the fair value of transfers among Levels 1, 2 and 3 as of the end of the reporting period. There were no transfers between Levels 1 and 2 for the year ended December 31, 2012 and no significant transfers between Levels 1 and 2 for the year ended December 31, 2011.

The changes for 2012 in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized in the table below. There were no net unrealized gains or losses included in net income for the year relating to assets held at December 31, 2012.

(dollars in thousands)	Beginning balance of asset (liability)	Total net gains (losses) included in net income ⁽¹⁾	Total net gains (losses) included in OCI ⁽²⁾	Purchases/ Issuances	Sales	Settlements	Transfers into Level 3 ⁽⁴⁾	Transfers out of Level 3 ⁽³⁾	Ending balance of asset (liability)
Securities available for sale:									
Collateralized debt obligations	\$ 45,133	\$(11,692)	\$16,783	\$ -	\$(35,809)	\$ (4,140)	\$ -	\$(10,275)	\$ -
Collateralized loan obligations	128,655	(3,716)	26,970	-	(40,412)	106	-	(111,603)	-
Other asset-backed securities	177	-	(3)	-	-	(22)	-	-	152
States and political subdivisions	-	-	-	-	-	-	47,921	-	47,921
Total securities available for sale	\$173,965	\$(15,408)	\$43,750	\$ -	\$(76,221)	\$ (4,056)	\$ 47,921	\$(121,878)	\$ 48,073
Market linked swaps and purchased options									
Credit guarantee derivative	23,883	38,257	-	-	-	(55,997)	-	-	6,143
Deferred compensation plan and Other assets	33	-	-	-	-	-	-	-	33
Total assets	\$197,881	\$ 22,849	\$43,750	\$ -	\$(76,221)	\$(60,053)	\$ 85,305	\$(121,878)	\$ 91,633
Written market linked options	-	-	-	-	-	-	(37,545)	-	(37,545)
Total liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$(37,545)	\$ -	\$(37,545)

⁽¹⁾ Included in noninterest income in the income statement.

⁽²⁾ Included in net change in unrealized gains on securities available for sale in the statement of comprehensive income.

⁽³⁾ Transferred out of Level 3 to Level 2 at the end of the reporting period due to an increase in the volume of trading activity for certain securities, which resulted in increased occurrences of observable market prices.

⁽⁴⁾ Transferred into Level 3 from Level 2 at the end of the period due to consideration of market factors used in pricing these instruments, accordingly there is no Level 3 activity for the period presented in the table above.

The changes for 2011 in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized in the table below. There were no net unrealized gains or losses included in net income for the year relating to assets held at December 31, 2011.

(dollars in thousands)	Beginning balance of asset (liability)	Total net losses included in net income ⁽¹⁾	Total net gains included in OCI ⁽²⁾	Purchases/ Issuances	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Ending balance of asset (liability)
Securities available for sale:									
Collateralized debt obligations	\$ 66,992	\$(17,068)	\$40,622	\$-	\$(24,583)	\$(20,830)	\$-	\$-	\$ 45,133
Collateralized loan obligations	129,906	(6,227)	50,631	-	(45,073)	(582)	-	-	128,655
Other asset-backed securities	863	-	207	-	-	(893)	-	-	177
Total securities available for sale	\$197,761	\$(23,295)	\$91,460	\$-	\$(69,656)	\$(22,305)	\$-	\$-	\$173,965
Credit guarantee derivative	150,729	(6,351)	-	-	(120,495)	-	-	-	23,883
Deferred compensation plan and Other assets	92	-	-	-	(59)	-	-	-	33
Total assets	\$348,582	\$(29,646)	\$91,460	\$-	\$(190,210)	\$(22,305)	\$-	\$-	\$197,881

⁽¹⁾ Included in noninterest income in the income statement.

⁽²⁾ Included in net change in unrealized gains on securities available for sale in the statement of comprehensive income.

Nonrecurring Fair Value Measurements:

We may be required, from time to time, to measure certain other assets at fair value on a nonrecurring basis in accordance with GAAP. These assets are subject to fair value adjustments that result from the application of lower of cost or fair value accounting or write-downs of individual assets to fair value. The following is a description of valuation methodologies used for assets and liabilities recorded at fair value on a nonrecurring basis.

Loans held for sale

Loans that are classified as held for sale are recorded at the lower of cost or fair value. For loans originated as held for sale, the fair value is based on quoted prices or rates for similar assets traded in active markets, accordingly these are classified as Level 2. The fair value of the loans transferred to held for sale is obtained from pricing provided by independent sales facilitators and considers a number of factors including value of collateral, credit quality of the loan, guarantees, anticipated cash flows as well as assumptions about investor return requirements and is therefore classified as Level 3 within the fair value hierarchy.

Impaired Loans

A large portion of the Bank's impaired loans are collateral dependent and are measured at fair value on a nonrecurring basis using the collateral value as a practical expedient. The fair values of collateral for impaired loans are primarily based on real estate appraisal reports prepared by third party appraisers. The Bank has a real estate valuation services group that manages the real estate appraisal solicitation and evaluation process for commercial real estate. The Bank reviews the third party's appraisal to ensure that the methods, assumptions, data sources, and conclusions are reasonable, and appraised values may be adjusted for management judgment. The appraised values consider factors such as capitalization rates, conditions of sales, physical characteristics of the property, rental income, and other expenses associated with the property. Impaired loans are classified as Level 3 based on significant unobservable inputs in the fair value measurements. The fair values of impaired loans are reviewed and evaluated quarterly for additional impairment and adjusted accordingly.

OREO

OREO assets include foreclosed properties securing residential and commercial loans. Foreclosed assets are adjusted to lower of cost or fair value less costs to sell. Subsequently, foreclosed assets are carried at the lower of carrying value or fair value less costs to sell. Fair value is generally determined using appraised values of the collateral, which may be considered to be largely unobservable, and, accordingly, we classify foreclosed assets as Level 3. For residential foreclosed assets, the Bank engages a third party to assist in the real estate appraisal solicitation process. The Bank then performs an appraisal review process to ensure the methods, assumptions, data sources and conclusions are reasonable, well-supported, and appropriate for the property and market.

MSRs

MSRs are measured at fair value on a nonrecurring basis, when they become impaired. MSRs do not trade in an active market with readily observable prices. Accordingly, the fair value of these assets is classified as Level 3. For further information, see Note 3.

The following table provides the level of valuation inputs used to determine each fair value adjustment, the carrying value of the related individual assets or portfolios for assets subject to fair value adjustments on a nonrecurring basis, and total losses for the year ended:

(dollars in thousands)	Level 1	Level 2	Level 3 ⁽³⁾	Total Losses for Year Ended
December 31, 2012:				
Impaired loans	\$-	\$ -	\$232,263	\$ -
Other Real Estate Owned	-	-	31,342	5,533
Loans held for sale	-	217,084 ⁽²⁾	44,017	34,161
Mortgage servicing rights	-	-	25,181	16
December 31, 2011:				
Impaired loans	\$-	\$517,710 ⁽¹⁾	\$ -	\$ -
Other Real Estate Owned	-	140,114	-	34,174
Loans held for sale	-	244,509 ⁽²⁾	-	-
Mortgage servicing rights	-	-	19,245	1,110

⁽¹⁾ The fair value adjustment is not related to actual losses but is related to the allocation of the allowance in order to adjust the carrying amount of the loan to the fair value of the collateral.

⁽²⁾ See Note 5 for related charge-offs at time of transfer to held for sale.

⁽³⁾ The assets with recorded fair value measurements for the year ended December 31, 2012 were as follows: Impaired loans \$110.0 million, for which the change in the allowance or charge-offs during the year totaled \$28.9 million; Other Real Estate Owned \$18.9 million and Loans held for sale \$43.9 million.

The following table provides quantitative information about the valuation techniques and significant unobservable inputs used in the valuation of the Bank's material Level 3 assets and liabilities measured at fair value on a recurring and nonrecurring basis.

(dollars in thousands)	Fair Value at 12/31/12	Valuation Technique(s)	Significant Unobservable Input	Range (Weighted Average)
State and political subdivisions and others	\$ 47,921	Discounted cash flow	Yield	2.66% - 6.50% (4.52%)
Market linked swaps and purchased options	\$ 37,384			25.00% - 40.50%
Written market linked options	\$ 37,545	Option model	Volatility factor	(29.00%) 30.40% - 65.30%
			Correlation factor	(46.50%)
Impaired Loans ⁽¹⁾	\$232,263	Appraised/ Marketable value	Appraised/ Marketable value	Not Meaningful
Foreclosed Assets ⁽¹⁾	\$ 31,342	Appraised value	Appraised value	Not Meaningful

⁽¹⁾ The fair value of these assets is determined based on appraised values of collateral or broker price opinions, the range of which is not meaningful to disclose.

Fair Value of Financial Instruments

We are required to disclose estimated fair values and classification within the fair value hierarchy for certain financial instruments that are not carried at fair value in the Bank's financial statements. Financial instruments include such items as cash and due from banks, loans, deposits, short-term borrowings and long-term debt. Disclosure of fair values is not required for certain items such as lease financing, investments accounted for under the equity method of accounting, obligations for pension and other postretirement benefits, premises and equipment, prepaid expenses, goodwill and identifiable intangible assets, and income tax assets and liabilities.

Reasonable comparisons of our fair value information to other financial institutions cannot necessarily be made as the fair value disclosure standard permits many alternative calculation techniques which require numerous assumptions used to estimate fair values. The following is a description of valuation methodologies used for estimating fair value for financial instruments not recorded at fair value on a recurring basis:

Cash and due from banks

Cash and due from banks include amounts due from other financial institutions and interest bearing deposits in other banks. We used their carrying amount as a proxy for fair values due to their short-term nature and they are classified as Level 1.

Loans, net

The fair value of loans is determined by discounting the future expected cash flows using the current origination rates for similar loans made to borrowers with similar credit ratings. The valuation requires significant judgment because significant inputs such as prepayment rates and credit losses are not observable due to the absence of documented market prices. Loans, net are classified as Level 3.

Deposits

The fair values of deposits with no maturity date (e.g., interest and noninterest-bearing checking, regular savings, and certain types of money market savings accounts) are equal to the amount payable on demand at the reporting date. Accordingly, these are classified as Level 1. Fair values of fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits. Accordingly, these are classified as Level 2.

Short-term borrowings

Short-term borrowings are carried at cost and include Federal funds purchased and securities sold under agreements to repurchase. The carrying amount is considered to be their fair value due to their short-term nature. These are classified as Level 2.

Long-term debt

The fair values are estimated generally using discounted cash flow analyses based on our current incremental borrowing rates for similar types of borrowing arrangements and are inclusive of our current credit spread levels. As the significant inputs are market observable, long-term debt is classified as Level 2.

Off-balance sheet financial instruments

During the normal course of business, the Bank has various loan commitments and standby letters of credit outstanding. The Bank's pricing of such financial instruments is based largely on credit quality and relationship, probability of funding and other requirements. Letters of credit and commitments to fund loans generally have short-term, variable-rate features and contain clauses that limit the Bank's exposure to changes in credit quality. A reasonable estimate of the fair value of these instruments is the carrying value of deferred fees. At December 31, 2012 and December 31, 2011, the fair value was immaterial.

The following tables are a summary of financial instruments, requiring fair value of financial instruments disclosure under GAAP, excluding financial instruments which are carried at fair value on a recurring basis, and their classification within the fair value hierarchy.

(dollars in thousands)	2012				
	Carrying Value	Level 1	Level 2	Level 3	Total
Financial Assets					
Cash and due from banks	\$ 1,054,216	\$ 1,054,216	\$ -	\$ -	\$ 1,054,216
Loans, net ⁽¹⁾	41,429,515	-	-	41,664,050	41,664,050
Financial Liabilities					
Deposits	\$47,107,437	\$37,768,548	\$9,476,923	\$ -	\$47,245,471
Short-term borrowings	328,190	-	328,190	-	328,190
Long-term debt ⁽²⁾	2,959,861	-	3,014,609	-	3,014,609

⁽¹⁾ Excludes net leases of \$2,851 million at December 31, 2012.

⁽²⁾ Excludes capital leases of \$14.9 million at December 31, 2012.

(dollars in thousands)	2011	
	Carrying Value	Fair Value
Financial Assets		
Cash and due from banks	\$ 763,987	\$ 763,987
Loans, net ⁽¹⁾	39,837,768	40,542,926
Financial Liabilities		
Deposits	\$43,995,196	\$44,093,985
Short-term borrowings	353,620	353,620
Long-term debt ⁽²⁾	5,661,128	5,812,918

⁽¹⁾ Excludes net leases of \$2,719 million at December 31, 2011.

⁽²⁾ Excludes capital leases of \$15.7 million at December 31, 2011.

17. Cash and Dividend Restrictions

Federal Reserve Board regulations require the Bank to maintain reserve balances against certain deposit liabilities with the Federal Reserve Bank. The average required reserve balance was \$194 million and \$160 million for the years ended December 31, 2012 and 2011, respectively.

California statutes limit the amount of dividends the Bank may declare or pay to the lesser of the Bank's retained earnings or the net income of the Bank for the prior three years less any dividends paid during those three years. At December 31, 2012 the amount available for payment of dividends without prior regulatory approval was \$1.0 billion.

18. Other Comprehensive Income (Loss)

Comprehensive income is defined as the change in equity from all transactions other than those with stockholders, and is comprised of net income and other comprehensive income. The components of other comprehensive income (loss) and the related tax effects for the periods ended December 31, 2012 and December 31, 2011 are presented below:

(dollars in thousands)	Pretax Amount	Income Tax (Expense) Benefit	After-tax Amount
For the year ended December 31, 2011:			
Pension and other benefits adjustment:			
Net actuarial losses arising during the period	\$ (59,524)	\$ 24,729	\$ (34,795)
Amortization of net loss included in net income	16,078	(6,680)	9,398
Amortization of net prior service credit included in net income	(1,090)	453	(637)
Net change in pension and other benefits adjustment	(44,536)	18,502	(26,034)
Securities available for sale:			
Unrealized net gains on securities available for sale arising during the year	317,311	(128,828)	188,483
Reclassification of losses on previously credit-impaired securities included in net income	912	(370)	542
Reclassification of net realized gains on securities available for sale included in net income	(34,099)	13,844	(20,255)
Net change in unrealized gains on securities available for sale	284,124	(115,354)	168,770
Cash flow derivative hedges:			
Unrealized net losses on cash flow derivative hedges arising during the year	(56)	23	(33)
Reclassification of net realized losses on cash flow derivative hedges included in net income	8,346	(3,388)	4,958
Net change in unrealized gains on cash flow derivative hedges	8,290	(3,365)	4,925
Other comprehensive income at end of year	247,878	(100,217)	147,661
For the year ended December 31, 2012:			
Pension and other benefits adjustment:			
Net actuarial losses arising during the period	\$ (19,786)	\$ 8,032	\$ (11,754)
Amortization of net loss included in net income	24,760	(10,052)	14,708
Amortization of net prior service credit included in net income	(1,035)	421	(614)
Net change in pension and other benefits adjustment	3,939	(1,599)	2,340
Securities available for sale:			
Unrealized net gains on securities available for sale arising during the year	138,634	(56,285)	82,349
Reclassification of net realized gains on securities available for sale included in net income	(54,102)	21,965	(32,137)
Net change in unrealized gains on securities available for sale	84,532	(34,320)	50,212
Cash flow derivative hedges:			
Unrealized net gains on cash flow derivative hedges arising during the year	23,576	(9,572)	14,004
Reclassification of net realized gains on cash flow derivative hedges included in net income	(6,328)	2,569	(3,759)
Net change in unrealized gains on cash flow derivative hedges	17,248	(7,003)	10,245
Other comprehensive income at end of year	\$105,719	\$ (42,922)	\$ 62,797

The following table summarizes the changes in accumulated other comprehensive income (loss) balances, net of tax:

(dollars in thousands)

	Pension and Other Benefits	Unrealized Gains (Losses) on Securities Available for Sale	Unrealized Gains (Losses) on Cash Flow Derivative Hedges	Total Accumulated Other Comprehensive Income (Loss)
Balance, January 1, 2011:	\$(66,187)	\$ (87,296)	\$ (4,842)	\$(158,325)
Other Comprehensive Income	(26,034)	168,770	4,925	147,661
Balance, December 31, 2011:	(92,221)	81,474	83	(10,664)
Other Comprehensive Income	2,340	50,212	10,245	62,797
Balance, December 31, 2012	\$(89,881)	\$131,686	\$10,328	\$ 52,133

19. Benefit Plans

The Bank has the following pension and other postretirement benefit plans:

Pension Benefits:

Funded Pension Plans

The Bank had previously offered the Employees' Retirement Plan ("ERP") of BancWest Corporation to its employees, which is a noncontributory defined benefit pension plan. The ERP was created from the merger of two separate plans: the First Hawaiian Bank Employee Plan and the Bank of the West Employee Plan. The Bank of the West Employee Plan was a cash balance pension plan that was frozen on January 1, 2010. At the freeze date, the plan stopped accruing benefits and was closed to new participants. However, existing participants of the plan continue to earn interest until distributions are made in accordance with the plan requirements. The Bank did not incur an immediate gain or loss associated with the freezing of the plan; however, the overall cost of the plan is expected to decline.

Additionally, in connection with the acquisition of United California Bank ("UCB") in 2002, the Bank assumed the pension obligations of UCB. UCB employees participated in a funded noncontributory final average pay defined benefit pension plan ("UCBP") that was frozen on June 30, 2003 to new participants and benefit accruals.

Unfunded Pension Plans

The Bank also sponsored an unfunded excess benefit pension plan covering employees whose pay or benefits exceed certain regulatory limits and, for certain key executives, an unfunded supplemental executive retirement plan ("SERP"). The unfunded excess plan was frozen on January 1, 2010 to new participants and benefit accruals. The SERP was frozen in 2002 to new participants; however benefits continue to accrue for existing plan participants. The Bank did not incur an immediate gain or loss associated with the freezing of the plan; however, the overall cost of the plan is expected to decline.

Additionally, in connection with the acquisition of UCB in 2002, the Bank assumed the pension obligations of UCB's unfunded supplemental pension benefit plan ("UCB SEP") which was available to eligible key executives if certain requirements were met. The UCB SEP was frozen on June 30, 2003 to new participants and benefit accruals.

Other Postretirement Benefits:

Postretirement Medical and Life Insurance Plan

The Bank offers an unfunded postretirement medical and life insurance plan. The benefits include access to medical benefits and the payment of premiums for medical and life insurance benefits.

Executive Life Insurance Plan

The Bank also offered pre-and postretirement life insurance benefits for certain executives under the unfunded Executive Life Insurance Plan (the “ELIP”). The accumulated benefit obligation and expense amounts for the ELIP are included in Other Benefits in the tables that follow.

Pension Accounting

Accounting for defined benefit pension plans involves four key variables that are utilized in the calculation of the Bank’s annual pension costs. These factors include: (1) size of the employee population and their estimated compensation increases for active plans (2) actuarial assumptions and estimates, (3) expected long-term rate of return on plan assets and (4) the discount rate.

Pension expense is directly affected by the number of employees eligible for pension benefits, their estimated compensation increases for active plans and economic conditions, which include the actual return on plan assets. With the help of an actuary, management is able to estimate future expenses and plan obligations based on factors such as compensation increases, discount rates, mortality, turnover, retirement and disability rates.

The Bank uses the building block method to calculate the expected return on plan assets each year based on the balance of the pension asset portfolio at the beginning of the year and the expected long-term rate of return on that portfolio. The method requires (1) the percentage of total plan assets be multiplied by the expected asset return for each component of the plan asset mix, (2) the resulting weighted expected rates of return for each component be added together to determine the total rate of return and (3) the total adjusted by considering the active management of the portfolio. Under this approach, forward-looking expected returns for each invested asset class are determined. Forward-looking capital market assumptions are typically developed by using historical returns as a starting point and applying a combination of macroeconomics, econometrics, statistical, and other technical analysis, such as spread differentials, to forecast the expected return going forward.

The following table shows the amount of pension and other postretirement benefits recognized in other comprehensive income:

(dollars in thousands)	Pension Benefits		Other Benefits	
	2012	2011	2012	2011
Amounts arising during the period:				
Net gain (loss) on pension assets	\$ 16,880	\$(18,107)	\$ -	\$ -
Net loss on obligations	(36,263)	(39,020)	(403)	(2,397)
Reclassification adjustments recognized as components of net periodic benefit cost during the period:				
Net loss	24,711	16,050	49	28
Net prior service cost (credit)	34	34	(1,069)	(1,124)
Amounts recognized in other comprehensive income	\$ 5,362	\$(41,043)	\$(1,423)	\$(3,493)

The following table shows the amounts within accumulated other comprehensive income that have not yet been recognized as components of net periodic benefit costs:

(dollars in thousands)	Pension Benefits		Other Benefits	
	2012	2011	2012	2011
Net loss	\$(143,997)	\$(149,326)	\$(7,077)	\$(6,723)
Net prior service (cost) credit	(239)	(272)	-	1,069
Ending balance within accumulated other comprehensive income	\$(144,236)	\$(149,598)	\$(7,077)	\$(5,654)

The following table shows the amounts within accumulated other comprehensive income expected to be recognized as components of net periodic benefit costs during 2013:

(dollars in thousands)	Pension Benefits	Other Benefits
Amortization of net loss	\$23,279	\$236
Amortization of net prior service cost (credit)	34	-
Total	\$23,313	\$236

The following table summarizes the changes to the benefit obligation and fair value of plan assets, and the funded status for all Bank of the West plans for the years indicated:

(dollars in thousands)	Pension Benefits		Other Benefits	
	2012	2011	2012	2011
Benefit obligation at beginning of year	\$ 519,562	\$ 482,316	\$ 48,985	\$ 46,673
Service cost	1,119	824	1,844	1,566
Interest cost	22,776	24,477	2,123	2,334
Actuarial loss	36,263	39,020	865	1,574
Benefit payments	(27,745)	(27,075)	(2,681)	(3,162)
Benefit obligation at end of year	\$ 551,975	\$ 519,562	\$ 51,136	\$ 48,985
Fair value of plan assets at beginning of year	\$ 365,980	\$ 364,207	\$ -	\$ -
Actual return on plan assets	38,175	4,077	-	-
Employer contributions	-	20,000	2,681	3,162
Benefit payments	(22,950)	(22,304)	(2,681)	(3,162)
Fair value of plan assets at end of year	\$ 381,205	\$ 365,980	\$ -	\$ -
Funded status⁽¹⁾	\$(170,770)	\$(153,582)	\$(51,136)	\$(48,985)

⁽¹⁾ All amounts are recognized in liabilities in the Bank of the West consolidated balance sheet.

Amortization of the unrecognized net gain or loss is included as a component of net pension cost. If amortization results in an amount less than the minimum amortization required under GAAP, the minimum required amount is recorded. The amount recorded represents unrecognized net gains or losses that exceed 5% of the greater of the projected benefit obligation or the market-related value of plan assets as of the beginning of the year. The unrecognized amounts are amortized on a straight-line basis over the lesser of five years or the average remaining service period of active employees expected to receive benefits under the plan.

The accumulated benefit obligation for the Bank's defined benefit pension plans was \$549.1 million and \$517.1 million at December 31, 2012 and 2011, respectively.

Each of our pension plans had an accrued benefit liability at December 31, 2012 and 2011. The following table summarizes information for pension plans with benefit obligations in excess of plan assets as of December 31:

(dollars in thousands)	2012	2011
Projected benefit obligation	\$551,975	\$519,562
Accumulated benefit obligation	549,065	517,134

The following table sets forth the components of the net periodic benefit cost (credit) for Bank of the West at December 31:

(dollars in thousands)	Pension Benefits		Other Benefits	
	2012	2011	2012	2011
Service cost	\$ 1,119	\$ 824	\$ 1,844	\$ 1,566
Interest cost	22,776	24,477	2,123	2,334
Expected return on plan assets	(21,295)	(22,185)	-	-
Amortization of prior service cost (credit)	34	34	(1,069)	(1,124)
Recognized net actuarial loss (gain)	24,711	16,050	511	(794)
Total benefit cost	\$ 27,345	\$ 19,200	\$ 3,409	\$ 1,982

Assumptions

Weighted-average assumptions used to determine benefit obligations and net periodic benefit cost were as follows at December 31:

	ERP Pension Benefits		SERP Pension Benefits		Other Benefits⁽¹⁾	
	2012	2011	2012	2011	2012	2011
Benefit Obligations:						
Discount rate	3.90%	4.50%	3.90%	4.50%	4.50%	4.50%
Rate of compensation increase	NA	NA	4.00%	4.00%	5.00%	5.00%
Net Periodic Benefit Cost:						
Discount rate	4.50%	5.25%	4.50%	5.25%	4.50%	4.50%
Expected long-term return on plan assets	6.00%	6.00%	NA	NA	NA	NA
Rate of compensation increase	NA	NA	4.00%	4.00%	5.00%	5.00%

⁽¹⁾ Includes the postretirement medical and life insurance plan, which used a discount rate of 3.90% and 4.50% in 2012 and 2011, respectively, for benefit obligations and a discount rate of 4.50% and 5.25% in 2012 and 2011, respectively, for net periodic benefit cost. The rate of compensation increase is not applicable to the postretirement medical and life insurance plan.

The assumed discount rate reflects management's estimate of the rate at which the benefits could be effectively settled. In selecting the discount rate, the Bank reviews the yield on high quality corporate bonds and resulting yield curves. The yield curve information is considered with the plans' projected benefit cash flows and resulting duration to select a single discount rate to calculate plan obligations for reporting purposes.

Assumed health care cost trend rates at December 31, were as follows:

	2012	2011
Health care cost trend rate assumed for next year	7.0%	7.5%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	2017	2017

Assumed health care cost trend rates have an impact on the amounts reported for the health care plans. A one-percentage-point change in the assumed health care cost trend rates would have the following pretax effect:

(dollars in thousands)	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on 2012 total of service and interest cost components	\$ 104	\$ (60)
Effect on postretirement benefit obligation at December 31, 2012	1,217	(835)

Plan Assets

The assets within the Bank of the West Employees' Retirement Plan and the UCB Retirement Plan ("the Plans") are managed in accordance with the Employee Retirement Income Security Act of 1974 ("ERISA"). The Plans' assets consist mainly of fixed income and equity securities of U.S. and foreign issuers and may include alternative investments such as real estate, private equity and other absolute return strategies.

Investment Strategy and Risk Management for the Plans' Assets

The long-term investment objective of the ERP and UCB plans is to earn an investment return which meets or exceeds certain benchmarks. The Plans' assets are managed in accordance with the Retirement Committee's (the "Committee") guidelines. All transactions that utilize assets of the Trust will be undertaken for the sole benefit of the participants of the Plans.

The assets selected for the Plans may consist of individual security issues managed by the investment manager(s) or securities held in a well-diversified portfolio of a registered investment company or an exchange-traded fund. In addition, for the UCB plan, the assets selected for the plan must have readily ascertainable market value and must be marketable. The assets under this plan may also consist of a publicly traded mutual fund. Investment managers may be permitted to use derivative instruments to control portfolio risk.

The equity portion and debt portion of the Plans' assets may employ commingled assets or be individually invested expressly including the use of money market funds managed by a corporate trustee or by others.

In its desire to protect Plans' assets, the Committee imposes general guidelines on asset allocation. Asset allocations are based on the Committee's appraisal of current and long-term needs for liquidity and income of the Plans and its estimate of the investment returns from the various classes and types of investments. The asset allocations are likely to be the primary determinant of the Plans' returns and the associated volatility of returns for the Plans.

The target asset allocations for the two plans for the years ended December 31, 2012 and 2011 are as follows:

	Bank of the West Plan		UCB Plan	
	2012	2011	2012	2011
Equity	55%	50%	45%	45%
Fixed Income	45	45	50	50
Other	-	5	5	5
Total	100%	100%	100%	100%

Concentration of Risk

The Bank describes "risk" as the possibility of not achieving the Plans' actuarial rates of return. Risks associated with the Plans' investments include systematic and nonsystematic risk, interest rate, yield curve, reinvestment and credit risk and the combination of these risks. The Bank mitigates the credit risk of investments by establishing guidelines with the investment managers. Both the Bank and our investment managers monitor the diversity of the Plans to ensure that they meet ERISA requirements. Equity securities in the Plans did not include BancWest or BNP Paribas stock at December 31, 2012 and 2011.

The tables below summarize the Bank's pension plan assets by investment category at December 31, 2012 and 2011. The three-level hierarchy that describes the inputs used to measure assets at fair value is discussed in Note 1:

(dollars in thousands)	2012			
	Fair Value	Level 1	Level 2	Level 3
Asset Category				
Cash and equivalents	\$ 4,440	\$ 4,440	\$ -	\$ -
Fixed income:				
U.S. Government agency and government sponsored agency securities and corporate securities	120,391	-	120,391	-
Mutual funds	18,256	18,256	-	-
Municipal individual securities	7,682	-	7,682	-
Exchange-traded funds	4,147	4,147	-	-
Contracts/annuities	10,844	-	-	10,844
Equities:				
Mutual funds	127,103	120,186	6,917	-
Exchange-traded funds	42,354	42,354	-	-
Separate assets	32,807	32,807	-	-
Multi-strategy mutual funds	13,181	13,181	-	-
Total plan assets	\$381,205	\$235,371	\$134,990	\$10,844

(dollars in thousands)	2011			
	Fair Value	Level 1	Level 2	Level 3
Asset Category				
Cash and equivalents	\$ 1,039	\$ 1,039	\$ -	\$ -
Fixed income:				
U.S. Government agency and government sponsored agency securities and corporate securities	125,713	125,713	-	-
Mutual funds	19,300	19,300	-	-
Municipal individual securities	5,775	5,775	-	-
Exchange-traded funds	3,987	3,987	-	-
Contracts/annuities	10,422	-	-	10,422
Equities:				
Mutual funds	120,322	120,322	-	-
Exchange-traded funds	33,603	33,603	-	-
Separate assets	29,254	29,254	-	-
Multi-strategy mutual funds	16,565	10,464	6,101	-
Total plan assets	\$365,980	\$349,457	\$6,101	\$10,422

The changes in our Level 3 pension plan assets for the year ended December 31, 2012, were as follows:

(dollars in thousands)	Contracts/Annuities
Beginning balance at December 31, 2011	\$10,422
Actual return on plan assets	502
Distributions and settlements	(1,852)
Contributions	1,844
Service fees	(72)
Ending balance at December 31, 2012	\$10,844

Valuation Methodologies

The following is a description of the valuation methodologies used for the Plans' assets measured at fair value:

- **Cash and equivalents** – this category includes cash and money market fund holdings. The fair values are based on a review of unadjusted quoted prices for identical assets in active markets and are classified as Level 1.
- **Fixed income** – this category includes SEC registered mutual funds, exchange-traded funds, U.S. Government agency and government sponsored agency securities, corporate securities, debt securities issued by a state, municipality or county, and an annuity contract (with interest guarantees) which participates in the general account of a major life insurance company. The fair values of assets classified as Level 1 are based on unadjusted quoted market prices for identical assets in active markets, and primarily consist of SEC registered mutual funds and exchange-traded funds. The fair values of assets classified as Level 2 are primarily determined using market-based pricing matrices using significant inputs observable in the market such as yield curves and trade prices for similar assets. Level 2 assets primarily consist of U.S. Government agency and government sponsored agency securities, corporate and municipal bonds. The determination of the value of the annuity contract requires significant judgment due to lack of market price and liquidity and is classified as Level 3 based on unobservable inputs.
- **Equities** – this category includes SEC registered mutual funds, exchange-traded funds tracking domestic or international equity indices, and individual equities held in the form of common stock of companies in the Standard and Poor's 500 Index. The fair values of Level 1 assets are based on a review of unadjusted quoted prices for identical assets in active markets. Where quoted market prices are not available, the fair values of Level 2 assets are determined using quoted market prices for similar assets.
- **Multi-strategy mutual funds** – this category includes SEC registered mutual funds investing in alternative asset classes. The fair values are based on a review of quoted prices for identical assets in active markets.

Contributions

Bank of the West expects to contribute \$5.3 million to its non-qualified defined benefit pension plans and \$3.9 million to its other postretirement benefit plans in 2013. Based on the funding requirements of the Pension Protection Act of 2006, Bank of the West does not anticipate making a contribution to the ERP during 2013.

Estimated Future Benefit Payments

The following table presents the expected benefit payments, for the periods indicated:

(dollars in thousands)	Pension Benefits	Other Benefits
2013	\$ 26,405	\$ 3,875
2014	27,246	6,257
2015	27,346	2,869
2016	28,731	4,255
2017	29,725	4,101
2018 – 2022	166,660	18,741

401(k) Match Plan

The Bank matches 100% of employee contributions up to 6% of pay to the BancWest Corporation 401(k) Savings Plan, a defined contribution plan. The plan covers all employees who satisfy eligibility requirements. Matching employer contributions to the 401(k) plan for 2012 and 2011 were \$25.3 million and \$23.0 million, respectively.

Incentive Plan for Key Executives and Officer's Incentive Plan

The Bank has two incentive plans under which awards of cash are made to certain employees. One plan is for key executives; the Incentive Plan for Key Executives ("IPKE"), and the other plan is for employees below the level of key executives; the Officer's Incentive Plan ("OIP"). The IPKE and OIP limit the aggregate and individual value of the awards that could be issued in any one fiscal year. Both plans have the same limits on individual awards. Salary and employee benefits expense includes IPKE and OIP expense of \$41.1 million and \$37.9 million for 2012 and 2011, respectively.

Long-Term Incentive Plans

In 2006, BancWest created an incentive plan, the Phantom Stock Plan, which was designed to reward certain employees for their performance and BancWest's performance over a multi-year performance cycle. The Phantom Stock Plan's final cycle payout of \$4.5 million occurred during 2011. For the year ended December 31, 2011, related salary and employee benefits expense for the Bank was \$0.7 million. In 2008, the Bank created a Performance Share Plan ("PSP") to replace the Phantom Stock Plan on a go-forward basis with employee benefit expense for the Bank at \$16.5 million and \$12.1 million for 2012 and 2011, respectively.

The Bank has a Long Term Incentive Plan ("LTIP") which rewards selected key executives for the Bank of the West performance assessed over a three year performance cycle on a relative and absolute basis. Salary and employee benefits expense for the Bank includes LTIP expense of \$10.8 million and \$13.8 million for 2012 and 2011, respectively.

Additionally, the Bank participates in a BNPP stock option plan where certain members of Bank of the West's senior management team receive stock option awards from BNPP for shares of BNPP stock. See Note 21 for additional information.

20. Income Taxes

For the years indicated, the expense (benefit) provision for income taxes was comprised of the following:

(dollars in thousands)	2012	2011
Current:		
Federal	\$228,881	\$212,592
States	39,981	63,404
Total current	268,862	275,996
Deferred:		
Federal	34,359	(16,305)
States	11,138	(7,755)
Total deferred	45,497	(24,060)
Total expense for income taxes	\$314,359	\$251,936

The components of the Bank's net deferred income tax asset at December 31, 2012 and 2011 were as follows:

(dollars in thousands)	2012	2011
Assets		
Allowance for loan and lease losses and nonperforming assets	\$466,950	\$578,539
Deferred compensation expenses	186,240	140,938
Depreciation expense	-	8,082
State income and franchise taxes	17,458	22,723
Other	46,813	42,847
Total deferred income tax assets	\$717,461	\$793,129
Liabilities		
Leases	\$164,226	\$201,926
Investment securities	105,858	81,645
Intangible assets	26,721	17,555
Depreciation expense	1,644	-
Total deferred income tax liabilities	298,449	301,126
Net deferred income tax assets	\$419,012	\$492,003

Net deferred income tax assets (liabilities) are included within other assets in the consolidated balance sheets.

Deferred taxes related to net unrealized gains (losses) on securities available for sale, net unrealized gains (losses) on derivatives, and employee benefit plan adjustments are recorded in cumulative OCI (see Note 18). These associated adjustments decreased OCI for the years ended December 31, 2012 and 2011 by \$42.9 million and \$100.2 million, respectively.

A valuation allowance for certain state capital loss carryforwards in the amount of \$3.5 million was recorded against the gross deferred tax asset balance as of December 31, 2011. For the year ended December 31, 2012, the Bank recorded a full valuation allowance release of \$3.5 million on the basis that sufficient business capital gains were generated by another member of the California unitary tax return.

With respect to all other deferred tax assets, no valuation allowances are required. Realization is dependent on generating sufficient taxable income in the future and, although realization is not assured, management believes it is more likely than not that all of the deferred tax assets will be realized. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income are reduced.

The following analysis reconciles the federal statutory income tax rate to the effective income tax rate for the years indicated:

(dollars in thousands)	2012		2011	
	Amount	%	Amount	%
Federal statutory income tax expense and rate	\$305,049	35.0%	\$243,265	35.0%
Foreign, state and local taxes expense, net of federal effect	35,279	4.1	37,293	5.4
Bank-owned life insurance	(8,851)	(1.0)	(8,061)	(1.2)
Non-taxable income, net	(10,074)	(1.2)	(13,246)	(1.9)
Tax credits	(6,542)	(0.7)	(7,427)	(1.1)
Other	(502)	(0.1)	112	0.0
Effective income tax expense and rate	\$314,359	36.1%	\$251,936	36.2%

The Bank and its subsidiaries file income tax returns with the federal government and various state and local jurisdictions. The Internal Revenue Service (“IRS”) has completed the examination field work with respect to the Bank’s income tax returns for 2006, 2007 and 2008. During 2012, the IRS examination team issued a preliminary agreed-to Revenue Agent’s Report for tax years 2006-2008 and the IRS proposed no significant adjustments with respect to the Bank or its acquired entities. This Report is subject to further governmental review and approval (including the Joint Committee on Taxation). With few exceptions, the Bank and its acquired entities are no longer subject to federal, state, and local income tax examinations for years prior to 2006. As of December 31, 2012, the state and local tax jurisdictions have not proposed any significant adjustments. The Bank believes that there are no other jurisdictions in which the outcome of unresolved issues or claims is likely to be material to our results of operations, financial position or cash flows. The Bank further believes that it has made adequate provision for all income tax uncertainties.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows:

(dollars in thousands)	2012	2011
Balance at January 1,	\$19,195	\$18,424
Additions based on tax positions related to the current year	1,438	1,183
Additions for tax positions of prior years	826	2,472
Reductions for tax positions of prior years	(280)	(175)
Reductions relating to settlements with tax authorities	-	(2,179)
Reductions as a result of a lapse of the applicable statute of limitations	(5,755)	(530)
Balance at December 31,	\$15,424	\$19,195

Included in the balance of unrecognized tax benefits are \$10.1 million and \$13.1 million of tax benefits as of December 31, 2012 and 2011, respectively which, if recognized, will affect the effective tax rate.

The Bank recognizes interest accrued related to unrecognized tax benefits and penalties as income tax expense. Related to the unrecognized tax benefits noted above, the Bank accrued interest and penalties of \$1.9 million (\$1.7 million, net of federal and state tax benefit) during 2012, and in total, as of December 31, 2012, has recognized a liability for interest and penalties of \$4.1 million (\$3.1 million, net of federal and state benefit). During 2011, the Bank accrued interest and penalties of \$0.8 million (\$0.5 million, net of federal and state tax benefit), and in total, as of December 31, 2011, had recognized a liability for interest and penalties of \$4.4 million (\$2.9 million, net of federal and state tax benefit).

The Bank does not believe that the total amounts of unrecognized tax benefits will decrease within twelve months of the reporting date with respect to certain state tax liabilities. The Bank does not expect any positions to be finalized with the tax jurisdictions during the next 12 months.

21. Transactions with Affiliates

The Bank participates in various transactions with its affiliates, including BancWest, First Hawaiian Bank, BNP Paribas and its affiliates.

These transactions are subject to federal and state statutory and regulatory restrictions and limitations which require, among other items, that certain transactions be collateralized, and be subject to quantitative limitations, and be on terms at least as favorable to the Bank as those prevailing at the time for similar non-affiliate transactions. These transactions have included the sales and purchases of assets, foreign exchange activities, financial guarantees, international services, interest rate swaps and intercompany deposits and borrowing.

Amounts due to and from affiliates and off-balance sheet transactions at December 31, 2012 and 2011 were as follows:

(dollars in thousands)	2012	2011
Cash and due from banks	\$ 95,578	\$ 44,910
Loans	53	-
Noninterest-bearing demand deposits	8,486	8,562
Money market deposits ⁽¹⁾	1,370,694	1,156,614
Time certificates of deposit	213,600	253,412
Other assets	66,895	87,193
Other liabilities	168,841	170,935
Short-term borrowings	3,223	1,560
Fixed-rate unsecured lines of credit	33,700	54,500
Noncontrolling interest	18,160	22,502
Derivatives and off-balance sheet transactions:		
Credit guarantee derivative ⁽²⁾	239,225	460,811
Commitments and standby letters of credit	24,277	18,776
Guarantees received	135,369	154,488
Fair value hedge ⁽²⁾	75,000	831,000
Commitments to purchase foreign currencies ⁽²⁾	74,748	93,077
Commitments to sell foreign currencies ⁽²⁾	27,515	49,816
Interest rate contracts ⁽²⁾	3,248,975	2,210,411

⁽¹⁾ Primarily related to cash deposit to collateralize the Guarantee with BancWest comprised of money market deposit in 2012 and 2011; refer to Note 7 for additional information.

⁽²⁾ Represents the notional amount of derivative financial instruments.

Interest expense to affiliates for 2012 and 2011 was \$4.2 million and \$13.9 million, respectively. Noninterest income from affiliate transactions, which includes fair value adjustments related to derivatives, was a net loss of \$21.5 million and \$130.0 million for 2012 and 2011, respectively.

The Bank participates in a BNPP stock option plan where certain members of Bank of the West's senior management team receive stock option awards from BNPP for shares of BNPP stock. Stock option expense was \$2.7 million and \$2.6 million for the years ended December 31, 2012 and 2011, respectively.

22. Subsequent Events

We have evaluated the effects of subsequent events that have occurred after December 31, 2012 through March 15, 2013, the date of our financial statement issuance, and there have been no material events that would require recognition in our financial statements or disclosure in the Notes to the financial statements.

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**BANK OF
THE WEST
AND SUBSIDIARIES**

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Independent Auditors' Report

To the Board of Directors and Stockholders of
Bank of the West and its Subsidiaries
San Francisco, California

We have audited the accompanying consolidated financial statements of Bank of the West and its subsidiaries (the "Bank"), which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bank of the West and its subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP
San Francisco, CA
March 12, 2014

BANK OF THE WEST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

<i>(dollars in thousands)</i>	Year ended December 31,	
	2013	2012
Interest income		
Loans	\$1,728,229	\$1,840,031
Lease financing	125,857	127,638
Securities available for sale	160,304	174,421
Other	16,940	10,398
Total interest income	2,031,330	2,152,488
Interest expense		
Deposits	134,561	151,030
Short-term borrowings	271	221
Long-term debt	26,197	100,765
Total interest expense	161,029	252,016
Net interest income	1,870,301	1,900,472
Provision for credit losses	44,686	169,462
Net interest income after provision for credit losses	1,825,615	1,731,010
Noninterest income		
Service charges on deposit accounts	147,421	151,381
Credit and debit card fees	82,474	78,718
Net gains on debt securities available for sale	66,683	54,102
Loan fees	47,288	38,471
Other service charges and fees	42,417	43,009
Net gains on sales of loans and leases	43,327	81,562
Insurance agency fees	28,255	25,901
Brokerage service fees	23,675	29,655
Net gains on customer accommodation derivatives	22,817	28,366
Income from bank-owned life insurance	20,473	25,645
Trust and investment services income	20,455	19,279
Gain on credit guarantee derivative	4,396	38,257
Write-downs of other real estate owned assets, net	(4,274)	(17,087)
Other	7,106	7,854
Total noninterest income	552,513	605,113
Noninterest expense		
Salaries and employee benefits	862,999	830,325
Contracted services and professional fees	156,734	136,203
Occupancy	139,990	139,619
Equipment	62,524	57,537
Advertising and marketing	44,017	41,401
Intangible amortization	36,678	37,152
Regulatory assessment and fees	32,389	42,042
Collection and repossession	18,216	36,672
Other	121,825	143,605
Total noninterest expense	1,475,372	1,464,556
Income before income taxes and noncontrolling interest	902,756	871,567
Income tax expense	339,823	314,359
Net income before noncontrolling interest	562,933	557,208
Net income attributable to noncontrolling interest	2,328	2,005
Net income attributable to Bank of the West	\$ 560,605	\$ 555,203

The accompanying notes are an integral part of these consolidated financial statements.

BANK OF THE WEST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>(dollars in thousands)</i>	Year ended December 31,	
	2013	2012
Net income attributable to Bank of the West	\$ 560,605	\$555,203
Other comprehensive income (loss), before tax		
Net change in pension and other benefits adjustment	118,790	3,939
Net change in unrealized (losses) gains on securities available for sale	(433,963)	84,532
Net change in unrealized (losses) gains on cash flow derivative hedges	(22,482)	17,248
Other comprehensive (loss) income, before tax	(337,655)	105,719
Income tax benefit (expense) related to other comprehensive income	137,088	(42,922)
Other comprehensive (loss) income, net of tax	(200,567)	62,797
Comprehensive income attributable to Bank of the West	360,038	618,000
Comprehensive income attributable to noncontrolling interest	2,328	2,005
Total comprehensive income	\$ 362,366	\$620,005

The accompanying notes are an integral part of these consolidated financial statements.

BANK OF THE WEST AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

<i>(dollars in thousands, except per share amounts)</i>	As of December 31,	
	2013	2012
Assets		
Cash and due from banks	\$ 825,492	\$ 1,054,216
Interest-bearing deposits in other banks	2,442,252	1,599,849
Trading assets	6,499	6,498
Securities available for sale	8,685,416	8,164,040
Loans held for sale	13,959	261,101
Loans and leases:		
Loans and leases	47,329,731	44,991,531
Less allowance for loan and lease losses	634,573	710,703
Net loans and leases	46,695,158	44,280,828
Premises and equipment, net	421,741	440,930
Other real estate owned and repossessed personal property	25,497	44,906
Interest receivable	162,777	172,025
Bank-owned life insurance	1,327,950	1,315,039
Identifiable intangible assets	193,363	170,753
Goodwill	4,201,513	4,201,513
Pension assets	40,741	-
Other assets	1,425,423	1,631,661
Total assets	\$66,467,781	\$63,343,359
Liabilities and Equity		
Deposits:		
Interest-bearing	\$34,375,898	\$32,838,841
Noninterest-bearing	13,996,570	14,268,596
Total deposits	48,372,468	47,107,437
Short-term borrowings	3,055,802	328,190
Long-term debt	2,312,978	2,974,800
Liability for pension benefits	118,583	221,906
Other liabilities	895,157	1,057,241
Total liabilities	54,754,988	51,689,574
Equity:		
Common stock, par value \$0.001 per share:		
Authorized — 20,000,000 shares		
Issued and outstanding — 5,548,359 shares as of December 31, 2013 and 2012	6	6
Additional paid-in capital	9,735,522	9,733,396
Retained earnings	2,110,695	1,850,090
Accumulated other comprehensive (loss) income	(148,434)	52,133
Total Bank of the West stockholder's equity	11,697,789	11,635,625
Noncontrolling interest	15,004	18,160
Total equity	11,712,793	11,653,785
Total liabilities and equity	\$66,467,781	\$63,343,359

The accompanying notes are an integral part of these consolidated financial statements.

BANK OF THE WEST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

<i>(dollars in thousands)</i>	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Bank of the West Stockholder's Equity	Non- controlling Interest	Total Equity
	Shares	Amount						
Balance as of January 1, 2012	5,548,359	\$6	\$9,730,732	\$1,469,882	\$ (10,664)	\$11,189,956	\$22,502	\$11,212,458
Net income	-	-	-	555,203	-	555,203	2,005	557,208
Other comprehensive income (loss), net of tax	-	-	-	-	62,797	62,797	-	62,797
Contributed capital	-	-	2,664	-	-	2,664	-	2,664
Dividends	-	-	-	(174,995)	-	(174,995)	-	(174,995)
Other	-	-	-	-	-	-	(6,347)	(6,347)
Net change for the period	-	-	2,664	380,208	62,797	445,669	(4,342)	441,327
Balance as of December 31, 2012	5,548,359	\$6	\$9,733,396	\$1,850,090	\$ 52,133	\$11,635,625	\$18,160	\$11,653,785
Net income	-	-	-	560,605	-	560,605	2,328	562,933
Other comprehensive income (loss), net of tax	-	-	-	-	(200,567)	(200,567)	-	(200,567)
Contributed capital	-	-	2,126	-	-	2,126	-	2,126
Dividends	-	-	-	(300,000)	-	(300,000)	-	(300,000)
Other	-	-	-	-	-	-	(5,484)	(5,484)
Net change for the period	-	-	2,126	260,605	(200,567)	62,164	(3,156)	59,008
Balance as of December 31, 2013	5,548,359	\$6	\$9,735,522	\$2,110,695	\$(148,434)	\$11,697,789	\$15,004	\$11,712,793

The accompanying notes are an integral part of these consolidated financial statements.

BANK OF THE WEST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(dollars in thousands)</i>	Year ended December 31,	
	2013	2012
Cash flows from operating activities		
Net income	\$ 560,605	\$ 555,203
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	44,686	169,462
Net gains on debt securities available for sale	(66,683)	(54,102)
Net gains on sales of loans and leases	(43,327)	(81,562)
Depreciation, amortization and accretion, net	260,008	264,476
Deferred income taxes	68,130	45,497
Decrease in interest receivable and other assets	217,903	61,091
Net (decrease) increase in interest payable and other liabilities	(174,787)	76,309
Change in fair value of credit guarantee derivative	(4,396)	(38,257)
Originations of loans held for sale	(1,097,834)	(1,527,447)
Proceeds from sales of loans held for sale	1,315,926	1,438,702
Other, net	(30,695)	17,413
Net cash provided by operating activities	1,049,536	926,785
Cash flows from investing activities		
Securities available for sale:		
Proceeds from maturities and prepayments	1,047,996	887,172
Proceeds from sales	3,620,122	2,639,552
Purchases	(5,648,085)	(3,931,146)
Net increase in loans resulting from originations and collections	(2,537,808)	(2,061,081)
Purchases of loans and leases	(31,921)	(84,387)
Proceeds from sales (including participations) of loans originated for investment	71,959	308,650
Proceeds from sales of foreclosed assets	38,314	133,028
Purchase of premises, equipment and software	(102,534)	(77,887)
Other, net	59,280	61,087
Net cash used in investing activities	(3,482,677)	(2,125,012)
Cash flows from financing activities		
Net increase in deposits	1,272,000	3,168,237
Net increase (decrease) in short-term borrowings	2,727,612	(25,430)
Proceeds from issuance of long-term debt	918,679	109,578
Repayment of long-term debt	(1,571,471)	(2,821,334)
Cash dividends paid	(300,000)	(174,995)
Net cash provided by financing activities	3,046,820	256,056
Net increase (decrease) in cash and cash equivalents	613,679	(942,171)
Cash and cash equivalents at beginning of year	2,654,065	3,596,236
Cash and cash equivalents at end of year	\$ 3,267,744	\$ 2,654,065
Supplemental disclosures		
Interest paid	\$ 166,198	\$ 268,745
Income taxes paid	337,821	250,937
Noncash investing and financing activities:		
Transfer from deposits for the settlement of credit guarantee derivative	6,969	55,996
Transfers into loans held for sale	889	217,273
Transfers from loans to other real estate owned	25,606	42,092

The accompanying notes are an integral part of these consolidated financial statements.

1. Organization and Summary of Significant Accounting Policies

Bank of the West (“BOW”), a State of California chartered bank has 614 retail branch banking locations (604 full service retail branches and 10 limited service retail offices) and other commercial banking offices, as of December 31, 2013, located in Arizona, California, Colorado, Idaho, Iowa, Kansas, Minnesota, Missouri, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Utah, Washington, Wisconsin and Wyoming providing a wide range of financial services to both consumers and businesses. BOW also has branches serving Pacific Rim customers, specializing in domestic and international products and services in predominantly Asian American communities. In addition, the Bank has a commercial banking office in New York and an offshore office in the Cayman Islands. The terms “the Bank,” “we,” “our,” “us” and similar terms as used in this report refer to Bank of the West and its subsidiaries.

BancWest Corporation (“BancWest”), a financial holding company, as of December 31, 2013 and 2012, owned all of the outstanding common stock of BOW. BOW also had authorized 1,000,000 shares of preferred stock, none of which were issued or outstanding as of December 31, 2013 and 2012.

BancWest is a wholly owned subsidiary of BNP Paribas (“BNPP”), a financial institution based in France. BancWest’s other bank subsidiary (wholly owned) is First Hawaiian Bank.

Regulation

The Bank’s primary regulators are the Federal Deposit Insurance Corporation (“FDIC”) and the California Department of Financial Institutions. The Bank is a member of the Federal Home Loan Bank System and is required to maintain an investment in the capital stock of the Federal Home Loan Bank (“FHLB”). The Bank maintains insurance on its customer deposit accounts with the FDIC, which requires quarterly assessments based on an FDIC formula.

Basis of Presentation

The accounting and reporting policies of the Bank and its subsidiaries conform to accounting principles generally accepted in the United States (“GAAP”). The accompanying consolidated financial statements include the accounts of the Bank and its subsidiaries, including the variable interest entities (“VIEs”) in which the Bank determines it is the primary beneficiary. All material intercompany transactions among the Bank and its consolidated entities have been eliminated.

For consolidated entities where it holds less than a 100% interest, the Bank reports income or loss attributable to noncontrolling stockholders in the consolidated statements of income, and the equity interest attributable to noncontrolling stockholders in the equity section of the consolidated balance sheets.

Use of Estimates

The preparation of the consolidated financial statements and related notes thereto in accordance with GAAP requires management to make judgments using estimates and assumptions. While management makes its best judgment, actual amounts or results could differ from those estimates.

Reclassifications

Certain amounts in the consolidated financial statements and notes thereto for the prior year have been reclassified to conform to the current financial statement presentation.

Cash and Due from Banks

Cash and due from banks include amounts due from other financial institutions as well as in-transit clearings. For purposes of the consolidated statements of cash flows, the Bank includes as cash and cash equivalents, cash and due from banks, interest-bearing deposits in other banks, federal funds sold and securities purchased under agreements to resell (with original maturities of less than three months).

Securities

Securities used for trading purposes are classified as trading and are carried at fair value with unrealized gains and losses included in the consolidated statements of income.

Investments in debt securities and marketable equity securities having readily determinable fair values and not used for trading purposes are classified as available for sale (“AFS”). AFS securities are carried at estimated fair value with net unrealized gains and losses included in accumulated other comprehensive income (loss) (“AOCI”), net of applicable income taxes. Amortization of premiums and accretion of discounts for the available for sale securities are included in interest income. Upon sale, realized gains and losses are recognized in income. See Note 15 for information on fair value measurement of the securities.

The Bank evaluates its investment securities portfolio classified as AFS for other-than-temporary impairment (“OTTI”) on a quarterly basis. For debt securities in an unrealized loss position i.e., where fair value is below amortized cost basis, OTTI equal to the entire difference between the amortized cost basis and the fair value is recognized immediately in income if the Bank has the intent, or will more likely than not be required, to sell the security before recovery of its amortized cost basis. However, if the Bank has the intent and ability to hold the debt securities in an unrealized loss position, the Bank performs an evaluation of the expected cash flows to be received to determine if a credit loss exists. If a credit loss exists, only the amount of impairment associated with the credit loss is recognized in income. Amounts relating to factors other than credit losses are recorded in other comprehensive (loss) income (“OCI”).

For equity securities classified as AFS, the Bank evaluates whether the declines in fair value below the cost basis are considered OTTI based on the Bank’s intent and ability to hold the security until recovery of the cost of the security, the length of time fair value is below cost, the severity of the differences, and the investee’s financial condition and capital strength. In the event of OTTI, the cost basis of the individual security is written down to fair value, which becomes its new cost basis, and the amount of realized loss is recorded in noninterest income.

Nonmarketable equity securities are carried at cost and included in other assets. FHLB stocks are evaluated for impairment on a quarterly basis while other nonmarketable equity securities are evaluated for impairment whenever changes in circumstances indicate that there may be impairment.

Loans Held for Sale

Loans that the Bank intends to sell are classified as held for sale (“HFS”) and are carried at the lower of cost or fair value. Fair value is determined on an individual loan basis and is measured primarily based on prevailing market prices for loans with similar characteristics. Except for loans originated for sale, any excess of cost over fair value upon transfer to HFS is recorded through the allowance for credit losses. For all loans held for sale, subsequent declines in fair value or recoveries of such declines are recognized as increases or decreases in a valuation allowance and reported in noninterest income. Gains and losses upon sale are reported in noninterest income.

Direct loan origination fees and costs on loans held for sale are deferred until the related loan is sold and recognized in noninterest income upon sale.

For consumer mortgage loans originated for sale, the Bank enters into short-term loan commitments to fund loans at specified rates and also enters into forward commitments to sell those loans at specified rates. Such interest rate lock commitments to fund the loans and the commitments to sell those loans are accounted for as derivatives at fair value with subsequent changes in fair value recorded in noninterest income.

Loans and Leases

Loans and direct financing leases for which the Bank has the intent and the ability to hold for the foreseeable future or until maturity or payoff, are classified in the consolidated balance sheets as loans and leases. Loans are recorded at their outstanding principal balances net of any unearned income, cumulative charge-offs, unamortized deferred fees and costs on originated loans and unamortized premiums or discounts on purchased loans.

Net deferred fees or costs and premiums and discounts are recognized in income over the contractual term of the loans, adjusted for actual prepayments, using the interest method or on a straight-line basis for revolving loans.

Interest income is accrued unless the loan or lease is placed on nonaccrual status (see Nonaccrual Loans and Leases below). The Bank recognizes unaccreted fees and discounts, or unamortized costs and premiums on loans and leases paid in full as interest income.

Direct financing leases are carried at the aggregate of minimum lease payments receivable, estimated residual value of the leased property and unamortized initial direct costs less unearned income. Unearned income net of initial direct

costs on direct financing leases is accreted over the lives of the leases to provide a constant periodic rate of return on the net investment in the lease. The Bank reviews the estimated residual values of the lease properties for both commercial and consumer at least annually and recognizes through income any reduction in net investment resulting from a decline in estimated residual value that is deemed to be other-than-temporary.

The Bank also charges other loan and lease fees consisting of delinquent payment charges and servicing fees, including fees for servicing loans sold to third parties, and recognizes such fees as income when earned.

Loan and Lease Portfolio Composition

The Bank's loan and lease portfolio is divided into two segments, commercial and consumer, which are the same segments used by the Bank to determine the allowance for credit losses. The portfolio segments are well diversified by borrower, collateral and industry. The Bank further disaggregates its portfolio segments into various classes of loans for purposes of monitoring and assessing credit risk as described below.

Commercial Loans

The Bank disaggregates the commercial loan portfolio into the following classes:

- Loans to businesses for commercial, industrial and professional purposes ("Commercial & industrial");
- Loans that are secured by real estate properties ("Commercial real estate");
- Loans secured by real estate to finance land development and construction of industrial, commercial, residential or farm building ("Construction");
- Indirect and direct leases to finance commercial equipment purchases ("Equipment leases");
- Loans to finance agricultural production and other loans to farmers ("Agriculture").

Consumer Loans

The Bank disaggregates the consumer loan portfolio into the following classes:

- Consumer loans and leases such as autos, marine, recreational vehicles, personal lines of credit and credit cards ("Installments and lines");
- Closed-end loans secured by first and junior liens on 1-4 family residential properties ("Residential secured—closed-end");
- Revolving, open-end loans secured by first and junior liens on 1-4 family residential properties ("Residential secured—revolving, open-end").

Nonaccrual Loans and Leases

The Bank generally places a loan or lease on nonaccrual status when management believes that full and timely collection of principal or interest has become doubtful; or it is 90 days past due as to principal or interest payments based on its contractual terms, unless it is well secured and in the process of collection. The Bank determines loans to be past due if payment is not received in accordance with contractual terms.

When the Bank places a loan or lease on nonaccrual status, previously accrued but uncollected interest is reversed against interest income during the current period. When there are doubts about the ultimate collectability of the recorded balance on a nonaccrual loan or lease, cash payments by the borrower are applied as a reduction of the principal balance, under the cost recovery method. For nonaccrual loans and leases where ultimate collectability of the recorded balance is presumed, the Bank generally records such payments as interest income on a cash basis.

Nonaccrual loans and leases are generally returned to accrual status when either (1) they become current as to principal and interest, with a sustained period of repayment performance, generally six months, by the borrower and the Bank expects payment of remaining contractual principal and interest; or (2) they are both well secured and in the process of collection.

Not all impaired loans or leases are placed on nonaccrual status; for example, restructured loans that are performing under their modified terms may continue to accrue interest or may return to accrual status after the borrower demonstrates a sustained period of performance (see Allowance for Credit Losses and Troubled Debt Restructurings below).

Allowance for Credit Losses

The allowance for credit losses (the “Allowance”) is management’s estimate of probable credit losses inherent in the loan and lease portfolio, as well as unfunded credit commitments and is maintained at a level which, in management’s judgment, is adequate to absorb probable losses that have been incurred and can be reasonably estimated as of the balance sheet dates. The Allowance is increased through provisions for credit losses charged to earnings and reduced by charge-offs, net of recoveries.

The Allowance consists of an allocated and an unallocated component. The Bank determines the allocated component of the Allowance by measuring credit impairment on (1) an individual basis for larger balance loans in the commercial portfolio that are on nonaccrual status and commercial and mortgage loans in a troubled debt restructuring, and (2) on a collective basis for groups of loans with similar risk characteristics and large groups or pools of homogeneous loans with smaller balances that are not evaluated on a case-by-case basis such as credit card, residential mortgages and consumer installment loans.

The Bank considers a loan to be impaired on an individual basis when, based on current information and events, it is probable that it will be unable to collect all amounts due according to the contractual terms of the loan. The Bank measures impairment by comparing the present value of the expected future cash flows discounted at the loan’s effective interest rate with the recorded investment in the loan, except for collateral-dependent loans. For collateral-dependent loans, the Bank measures impairment by comparing the fair value of the collateral on an “as-is” basis less disposition costs with the recorded investment in the loan. On a case-by-case basis, the Bank may measure impairment based upon a loan’s observable market price.

Loans that are not assessed individually for impairment are assessed on a collective basis, and the calculation of the allocated reserve considers quantitative historical loss experience for each type of loan and qualitative adjustments based on an analysis of portfolio-specific external factors, key performance indicators and other qualitative factors.

The unallocated component of the Allowance is maintained to cover uncertainties in the Bank’s estimate of credit losses. While the Bank’s allocated reserve methodology strives to reflect all risk factors, there may still be certain unidentified risk elements. The purpose of the unallocated reserve is to capture these factors. The relationship of the unallocated component to the total Allowance may fluctuate from period to period. Management evaluates the adequacy of the Allowance based on the combined total of allocated and unallocated components, which considers management’s ongoing review of internal risk ratings and associated trends and factors including:

- Trends in the volume and severity of delinquent loans, nonaccrual loans, troubled debt restructurings and other loan modifications;
- Trends in the quality of risk management and loan administration practices including findings of internal and external reviews of loans and effectiveness of collection practices;
- Changes in the quality of the Bank’s risk identification process and loan review system;
- Changes in lending policies and procedures including underwriting standards and collection, charge-off and recovery practices;
- Changes in the nature and volume of the loan portfolio;
- Changes in the concentration of credit and the levels of credit;
- Changes in the national and local economic business conditions, including the condition of various market segments.

The Bank also maintains a reserve for losses on unfunded loan commitments and letters of credit, which is recorded within other liabilities. The Bank measures the amount of reserve based on estimates of the probability of the ultimate funding and losses related to credit exposures that exist at the balance sheet date similar to the methodology used for the loans and leases portfolio.

While the Bank has a formal methodology to determine the adequate and appropriate level of the allowance for credit losses, estimates of inherent loan, lease and unfunded loan commitment losses involve judgment and assumptions as to various factors, including current economic conditions. Management’s determination of adequacy of the total allowance for credit losses is based on quarterly evaluations of the above factors. Accordingly, the provision for credit losses will vary from period to period based on management’s ongoing assessment of the adequacy of the Allowance. See Note 5 for discussion on how the Bank’s experience and current economic conditions have influenced management’s determination of the Allowance.

Charge-off and Recovery Policies for Loans and Leases

The Bank’s policy is to fully charge-off or partially charge down to net realizable value when a loan or lease is deemed to be uncollectible and all commercially reasonable means of recovering those payments have been exhausted. A commercial loan or lease that is considered to be individually impaired is charged off, partially or fully, when potential recovery of the recorded loan balance is unlikely as a result of a shortfall in collateral value or the borrower’s financial difficulty. Consumer installment loans and leases are generally charged off, partially or fully, upon reaching a predetermined delinquency status that ranges from 120 to 180 days depending on the type of consumer installment loans and leases.

Recoveries of amounts on nonaccrual loans that have previously been charged off are credited to the Allowance and are generally recorded only to the extent that cash or other assets are received.

Troubled Debt Restructurings

In situations where 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, the related loan is classified as a troubled debt restructuring (“TDR”). Concessions generally include modifications to the loan’s terms, including but not limited to interest rate modifications and reductions, principal and interest forgiveness, term extensions or renewals, or any other actions that may minimize the potential economic loss to the Bank.

With the exception of the following, all loans modified in a TDR (including consumer loans that have been discharged in a Chapter 7 Bankruptcy) are placed or remain on nonaccrual status at the time of the restructuring. Certain accruing loans modified in a TDR that are current at the time of restructuring may remain on accrual status if payment in full under the restructured terms is expected.

Premises and Equipment

Premises and equipment, including leasehold improvements, are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives as follows:

Premises	10-39 years
Furniture and equipment	3-20 years
Leasehold improvements	Shorter of the lease term or estimated remaining life

We periodically evaluate our long-lived assets for impairment. We perform these evaluations whenever events or changes in circumstances suggest that the carrying amount of an asset or group of assets is not recoverable. If impairment recognition criteria are met, an impairment charge is reported in noninterest expense.

Lease Commitments

Lease commitments are transactions entered into by the Bank where the Bank is the lessee. Leases are classified as either a capital or an operating lease depending on the terms and conditions of the contracts. For assets accounted for as capital leases, depreciation is recorded on a straight-line basis over the period of the lease term or the estimated useful life of the asset, depending on the nature of the transaction. Lease obligations recorded under capital leases are reduced by lease payments net of imputed interest. Operating leases are contracts that do not transfer substantially all of the benefits and risks of ownership and do not meet the accounting requirements for capital lease classification. Operating lease payments are charged as rental expense on a straight-line basis over the lease term. Lease incentives received as part of the lease agreement are recognized as a reduction of rental expense on a straight-line basis over the term of the lease.

Goodwill

The net assets of entities acquired by the Bank are recorded at their estimated fair value at the acquisition date, and the excess of the cost of an acquired entity over the fair value of the identifiable net assets acquired represents goodwill.

Goodwill is not amortized, but is tested for impairment annually, or whenever events or changes in circumstances suggest that the carrying value may not be recoverable. The Bank may qualitatively assess whether there have been any events or circumstances during the year that would suggest existence of impairment of goodwill for any of its reporting units. If a qualitative assessment is not performed or it suggests further quantitative analysis is necessary, the Bank performs a quantitative impairment test by comparing the fair value of an identified reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying value, the goodwill of the reporting unit is not considered impaired. If the carrying value exceeds the fair value, the Bank measures impairment as the difference between the recorded goodwill and the implied fair value of the reporting unit's goodwill.

Identifiable Intangible Assets

Core deposit and other identifiable intangible assets are amortized over their estimated useful lives. They are generally amortized using accelerated methods over estimated useful lives of five to ten years. The Bank reviews core deposit intangible assets for impairment annually or whenever events or changes in circumstances indicate that we may not recover our investment in the underlying deposits. Other finite-lived intangible assets are reviewed for impairment whenever events or changes in circumstances suggest the carrying value may not be recoverable.

The Bank incurs costs to purchase and develop computer software. The treatment of costs to purchase or develop the software depends on the nature of the costs and the stage of the project. Costs incurred in the preliminary project stage, such as the cost of performing feasibility studies and evaluating alternatives are charged to expense. Costs for significant projects incurred from the time the preliminary project stage is complete through the time the project is substantially complete and the software is ready for its intended purpose are capitalized.

Internal-use software development costs are amortized over their estimated useful lives of five to seven years. The Bank reviews internal-use software development costs for impairment annually or whenever changes in circumstances indicate that there may be impairment. If impairment is identified, it is measured as the amount by which the carrying basis of the asset exceeds its fair value and recognized immediately.

Other Real Estate Owned and Repossessed Personal Property

Other real estate owned ("OREO") and repossessed personal property are primarily comprised of properties that we acquired through foreclosure proceedings or repossession activities. Assets acquired in satisfaction of a defaulted loan are recorded at fair value upon acquisition. The amount by which the recorded investment in the loan exceeds the fair value (less estimated costs to sell) is charged off against the Allowance. The amount by which the fair value (less estimated costs to sell) exceeds the recorded investment in the loan is recognized first against prior charge-off (as a recovery) with any excess recognized through noninterest income. Subsequent declines in fair value and recoveries in those declines of the assets are recognized in a valuation allowance through noninterest income. Gains and losses upon sale of the foreclosed asset are reported as part of noninterest income.

Transfers and Servicing of Financial Assets

The Bank enters into loan participations and loan sales, including originations to sell residential mortgage loans to the Federal National Mortgage Association ("FNMA"). The Bank records these transactions as sales and derecognizes the financial assets in accordance with GAAP.

Any interests in the loans retained by the Bank in a participation are recognized by allocating the carrying amount of the loans between the participating interests sold and interests retained based on their relative fair values at the date of transfer. Gain or loss on the sale of the participating interests is based on the proceeds received and the allocated carrying amount of assets transferred.

The Bank retains the servicing on mortgage loans sold, which are recognized as mortgage servicing rights ("MSRs") on the consolidated balance sheets within identifiable intangible assets. MSRs are initially recognized at fair value at the date of transfer as a component of the sales proceeds and subsequently amortized and carried at the lower of cost or fair value. Fair value of MSRs is determined based on the present value of estimated future net servicing income. MSRs are amortized over the estimated period that net servicing income is expected to be received. Projections of the

amount and timing of estimated future net cash flows are calculated using management's best estimates, including prepayment speeds, forward yield curves and default rates. These estimates are updated based on actual results, industry trends and other economic considerations.

The Bank periodically evaluates its MSRs for impairment by stratifying them based on predominant risk characteristics and comparing the carrying value of each strata to the estimated fair value measured using a discounted cash flow method as discussed in Note 3. Impairment is recognized through a valuation allowance and a charge to earnings if it is considered to be temporary or through a direct write-down of the asset and a charge to earnings if it is considered other than temporary.

Securities Purchased and Sold Agreements

Securities purchased under agreements to resell and securities sold under agreements to repurchase are treated as collateralized financing transactions and are recorded at the amounts at which the securities were acquired or sold plus accrued interest. Securities sold under agreements to repurchase are classified as short-term borrowings in the consolidated balance sheets. The fair value of collateral either received from or provided to a third-party is continually monitored and additional collateral is obtained or is requested to be returned to the Bank in accordance with the agreement. The Bank or a custodian holds all collateral.

Fair Value

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Trading assets, securities available for sale, certain other assets and certain liabilities are recorded at fair value on a recurring basis in accordance with applicable accounting standards. The Bank may also be required to record other assets at fair value on a nonrecurring basis, such as loans held for sale and impaired loans held for investment. These nonrecurring fair value adjustments typically involve application of lower of cost or fair value accounting or write-downs of individual assets.

The Bank values its assets and liabilities based on observable market prices or inputs. If observable prices or inputs are not available, fair values are measured using unobservable inputs based on the Bank's own assumptions about what market participants would use to price the asset or liability.

Fair value measurements are classified within one of three levels in a valuation hierarchy based upon the observability of significant inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs that are corroborated by observable market data.
- Level 3 inputs are unobservable inputs for the asset or liability for which there is limited or no market activity at the measurement date.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. See Note 15 for more information regarding fair value measurements.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated to the United States ("U.S.") dollar equivalent at the rate of exchange at the balance sheet dates. Transactions in foreign currencies are translated to the U.S. dollar equivalent at the rate of exchange in effect at the time of the transaction. Foreign currency gains and losses are included in the consolidated statements of income within other noninterest income in the period in which they occur.

Income Taxes

The Bank's income tax filing is included in the consolidated federal income tax return filed by BancWest. The Bank also files various combined and separate company state returns according to the laws of the particular state. Federal and state income taxes are generally allocated to individual subsidiaries as if each had filed a separate return. Amounts equal to income tax benefits of those subsidiaries having taxable losses or credits are reimbursed by other subsidiaries which would have incurred current income tax liabilities.

The Bank recognizes current income tax expense in an amount which approximates the tax to be paid or refunded for the current period. The Bank recognizes deferred income tax liabilities and assets for the expected future tax consequences of events that the Bank includes in our consolidated financial statements or tax returns based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the years in which the differences are expected to reverse. Deferred tax assets are recognized if it is more likely than not that they will be realized. Realization is dependent on generating sufficient taxable income prior to expiration of any loss carry forward balance. The Bank's net tax asset is presented as a component of other assets.

Tax benefits are recognized and measured based upon a two-step model: (1) a tax position must be more likely than not to be sustained based solely on its technical merits in order to be recognized, and (2) the benefit is measured as the largest dollar amount of that position that is more likely than not to be sustained upon settlement. The difference between the benefit recognized and the tax benefit claimed on the return is referred to as an unrecognized tax benefit. Foreign taxes paid are generally applied as credits to reduce federal income taxes payable. Tax-related interest is recognized as a component of income tax expense. Substantially all penalties are recognized as a component of other noninterest expense. The Bank recognizes interest and penalties related to unrecognized tax benefits within the income tax expense line in the accompanying consolidated statements of income.

Derivative Instruments and Hedging Activities

Derivatives are recognized on the consolidated balance sheets as Other assets or Other liabilities at fair value and are either designated as (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value" hedge), (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow" hedge) or (3) held for trading, customer accommodation or not designated for hedge accounting ("free-standing derivative instrument").

The Bank formally documents the relationship between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. The Bank also formally assesses both at the inception of the hedge and on a quarterly basis, whether the derivative instruments are considered effective in offsetting changes in fair values of or cash flows related to hedged items.

For derivatives designated as fair value hedges, changes in the fair value of the derivative instrument and changes in the fair value of the related hedged asset or liability or of an unrecognized firm commitment attributable to the hedged risk are recorded in noninterest income.

For derivatives designated as a cash flow hedge, in which derivatives hedge the variability of cash flows related to floating-rate assets and liabilities or forecasted transactions, the accounting treatment depends on the effectiveness of the hedge. To the extent that the hedge is considered effective in offsetting the variability of the hedged cash flows, changes in the fair value of the derivative instrument are recorded in AOCI. These changes in fair value are subsequently reclassified into consolidated statements of income in future periods when the hedged transaction affects earnings. To the extent the derivative instruments are not effective, any changes in the fair value of derivatives are immediately recognized in noninterest income. If a hedged forecasted transaction is not expected to occur, hedge accounting is ceased and any gains or losses remaining in AOCI are recognized through income immediately.

For free-standing derivative instruments, any changes in the fair value of the derivative instruments are reported in noninterest income.

The Bank occasionally purchases or originates financial instruments that contain embedded features that may require recognition as separate derivative instruments. Such embedded derivatives are separated from the hybrid financial instruments and carried at fair value with any changes in fair value recorded in income for the current period.

Valuations of derivative assets and liabilities reflect the value of the instrument including the values associated with counterparty risk, market risk and the Bank's own credit standing. See Note 14 for additional information.

Recent Accounting Standards

The following Accounting Standard Updates ("ASU") have been issued by the Financial Accounting Standards Board ("FASB") and are applicable to the Bank for the year ended December 31, 2013 or in future periods:

ASU 2013-02: *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*

In February 2013, the FASB issued revised guidance that requires an entity to present information about significant items reclassified out of AOCI by component either in the statement of income or as a separate disclosure in the notes to the consolidated financial statements. The guidance is effective for the Bank's consolidated financial statements as of December 31, 2013 on a comparative basis, and does not affect our consolidated financial results since it amends only the disclosure requirements for reclassification of AOCI. Refer to Note 17 for new disclosures required by the guidance.

ASU 2011-11: *Balance Sheet (Topic 210)—Disclosure about Offsetting Assets and Liabilities* and ASU No. 2013-01: *Balance Sheet (Topic 210)—Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*

In 2011 and 2013, the FASB issued new disclosure requirements about the nature of an entity's rights to setoff and related arrangements associated with its financial instruments and derivative instruments. Under the new guidance, companies must describe the nature of offsetting arrangements, for example, those subject to an enforceable master netting or similar arrangement, and provide quantitative information about those agreements, including the gross and net amounts of financial instruments that are recognized in the statement of financial position. This ASU is effective prospectively for the Bank beginning on January 1, 2013. This ASU did not affect the Bank's consolidated financial results since it amends only the disclosure requirements for offsetting financial instruments. Refer to Note 14 for new disclosures required by the guidance.

ASU 2013-04: *Liabilities (Topic 405)—Obligations Resulting from Joint and Several Liability Arrangements for which the Total Amount of the Obligation Is Fixed at the Reporting Date*

In February 2013, the FASB issued new accounting guidance that addresses the recognition, measurement, and disclosure of certain obligations resulting from joint and several liability arrangements including debt arrangements, other contractual obligations, and settled litigation and judicial rulings. The ASU is effective for the Bank beginning on January 1, 2014 and is not expected to have a material impact on the Bank's consolidated financial statements.

ASU 2013-10: *Derivatives and Hedging (Topic 815)—Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes*

In July 2013, the FASB issued guidance that allows the use of the Fed Funds Effective Swap Rate as a benchmark interest rate for hedge accounting purposes. The ASU also eliminates the provision that prohibits the use of different benchmark rates for similar hedges except in rare and justifiable circumstances. The ASU is effective beginning July 17, 2013 and may be applied to new hedge relationships and de-designated or re-designated hedge relationships. This ASU did not and is not expected to have a material impact on the Bank's consolidated financial statements.

2. Securities Available for Sale

The following table presents the amortized cost, unrealized gains, unrealized losses and fair values of securities available for sale:

<i>(dollars in thousands)</i>	As of December 31,							
	2013				2012			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury and other U.S. Government agencies and corporations	\$2,515,319	\$ 2,434	\$ (20,045)	\$2,497,708	\$1,777,345	\$ 22,098	\$ -	\$1,799,443
Government sponsored agencies	-	-	-	-	50,015	22	-	50,037
Mortgage and asset-backed securities:								
Government agencies ⁽¹⁾	3,366,169	7,915	(85,889)	3,288,195	4,126,161	195,212	(2,280)	4,319,093
Government sponsored agencies ⁽¹⁾	901,253	150	(81,471)	819,932	1,210,744	6,813	(4,564)	1,212,993
Collateralized debt obligations	11,236	-	(1,831)	9,405	13,552	-	(3,277)	10,275
Collateralized loan obligations	127,487	-	(8,021)	119,466	127,486	-	(15,883)	111,603
Other asset-backed securities	48	-	-	48	429	46	-	475
Collateralized mortgage obligations:								
Government agencies	1,042,812	306	(17,950)	1,025,168	7,647	176	-	7,823
Government sponsored agencies	362,281	137	(8,476)	353,942	42,213	526	-	42,739
States and political subdivisions	521,837	9,824	(9,086)	522,575	580,595	25,012	(2,499)	603,108
Corporate debt securities	43,084	-	(297)	42,787	-	-	-	-
Equity securities	6,160	622	(592)	6,190	6,160	588	(297)	6,451
Total securities available for sale	\$8,897,686	\$21,388	\$(233,658)	\$8,685,416	\$7,942,347	\$250,493	\$(28,800)	\$8,164,040

⁽¹⁾ Backed by residential real estate.

The following table presents gross realized gains and losses on securities available for sale:

<i>(dollars in thousands)</i>	Year ended December 31,	
	2013	2012
Realized gains	\$ 77,519	\$ 70,506
Realized losses ⁽¹⁾	(10,836)	(16,404)
Realized net gains	\$ 66,683	\$ 54,102

⁽¹⁾ Includes OTTI recognized in the consolidated statements of income of \$0.1 million and \$0.5 million for the years ended December 31, 2013 and 2012, respectively.

The fair value and amortized cost of debt securities available for sale as of December 31, 2013, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties.

<i>(dollars in thousands)</i>	Remaining Contractual Principal Maturity				
	Within One	After One But	After Five	After Ten Years	Total
	Year	Within Five	Years But		Amount
	Amount	Years	Within	Amount	Amount
		Amount	Ten Years	Amount	Amount
U.S. Treasury and other U.S. Government agencies and corporations	\$ -	\$2,497,612	\$ 18	\$ 78	\$2,497,708
Government sponsored agencies	-	-	-	-	-
Mortgage and asset-backed securities:					
Government agencies	-	-	-	3,288,195	3,288,195
Government sponsored agencies	-	-	3,624	816,308	819,932
Collateralized debt obligations	-	-	-	9,405	9,405
Collateralized loan obligations	-	-	119,466	-	119,466
Other asset-backed securities	-	20	9	19	48
Collateralized mortgage obligations:					
Government agencies	-	-	-	1,025,168	1,025,168
Government sponsored agencies	-	-	-	353,942	353,942
States and political subdivisions	32,560	94,366	59,005	336,644	522,575
Corporate debt securities	-	34,905	7,882	-	42,787
Estimated fair value of debt securities	\$32,560	\$2,626,903	\$190,004	\$5,829,759	\$8,679,226
Total amortized cost of debt securities	\$32,369	\$2,643,341	\$197,112	\$6,018,704	\$8,891,526

Securities with an aggregate carrying value of \$5.8 billion and \$4.9 billion were pledged to secure public deposits, repurchase agreements, borrowings from the Federal Reserve Bank (“FRB”), derivative liability positions and for other purposes as of December 31, 2013 and 2012, respectively. As of December 31, 2013 and 2012, there were no secured parties that had the right to repledge or resell these securities.

We held no securities of any single issuer (other than the U.S. Government and government sponsored agencies) which were in excess of 10% of consolidated stockholder’s equity as of December 31, 2013 and 2012.

Securities available for sale with a continuous unrealized loss position are shown below, separately for periods less than 12 months and 12 months or more:

<i>(dollars in thousands)</i>	As of December 31, 2013					
	Less Than 12 Months		12 Months or More		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
U.S. Treasury and other U.S. Government agencies and corporations	\$ (20,045)	\$2,041,188	\$ -	\$ -	\$ (20,045)	\$2,041,188
Mortgage and asset-backed securities:						
Government agencies ⁽¹⁾	(48,771)	2,211,284	(37,118)	342,308	(85,889)	2,553,592
Government sponsored agencies ⁽¹⁾	(17,589)	229,055	(63,882)	586,414	(81,471)	815,469
Collateralized debt obligations	-	-	(1,831)	9,405	(1,831)	9,405
Collateralized loan obligations	-	-	(8,021)	119,466	(8,021)	119,466
Collateralized mortgage obligations:						
Government agencies	(17,950)	980,165	-	-	(17,950)	980,165
Government sponsored agencies	(8,476)	296,442	-	-	(8,476)	296,442
States and political subdivisions	(4,844)	90,916	(4,242)	37,944	(9,086)	128,860
Corporate debt securities	(297)	42,787	-	-	(297)	42,787
Equity securities	-	-	(592)	5,408	(592)	5,408
Total securities available for sale	\$ (117,972)	\$5,891,837	\$ (115,686)	\$1,100,945	\$ (233,658)	\$6,992,782

⁽¹⁾ Backed by residential real estate.

As of December 31, 2012

<i>(dollars in thousands)</i>	Less Than 12 Months		12 Months or More		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
	Mortgage and asset-backed securities:					
Government agencies ⁽¹⁾	\$ (2,280)	\$ 345,512	\$ -	\$ -	\$ (2,280)	\$ 345,512
Government sponsored agencies ⁽¹⁾	(4,563)	557,663	(1)	3	(4,564)	557,666
Collateralized debt obligations	-	-	(3,277)	10,275	(3,277)	10,275
Collateralized loan obligations	-	-	(15,883)	111,603	(15,883)	111,603
States and political subdivisions	(2,273)	64,585	(226)	2,882	(2,499)	67,467
Equity securities	-	-	(297)	5,704	(297)	5,704
Total securities available for sale	\$(9,116)	\$967,760	\$(19,684)	\$130,467	\$(28,800)	\$1,098,227

⁽¹⁾ Backed by residential real estate.

For the debt securities in the above tables, at year-end we did not have the intent to sell and determined it was more likely than not that we would not be required to sell the securities prior to recovery of the amortized cost basis. We frequently monitor the credit performance of individual investments within our portfolio and believe that our unrealized loss positions are due to changes in interest rates and liquidity spreads within the markets. The Bank may occasionally sell securities at a loss when it decides to restructure portions of the portfolio due to changing market conditions. We have also determined that limited sales of debt securities during the year do not impact the OTTI assessment on the remaining securities. For equity securities, we consider numerous factors in determining whether impairment exists, including our intent and ability to hold the securities for a period of time sufficient to recover the securities' cost basis.

The Bank has assessed the impact on the collateralized debt obligations and collateralized loan obligations portfolios in relation to the Volcker Rule and determined no OTTI impairment is required at December 31, 2013. The Bank will continue to reassess this determination on an on-going basis.

The following is a description of the unrealized losses and OTTI losses for our material security categories within our portfolio:

U.S. Treasury and other U.S. Government agencies and corporations

The unrealized losses associated with U.S. Treasury and federal agency securities are driven primarily by changes in interest rates. We do not estimate any credit losses due to explicit guarantees provided by the U.S. Government.

Mortgage and asset-backed securities:

Government agencies and government sponsored agencies

The unrealized losses associated with federal agency mortgage-backed securities are primarily driven by changes in interest rates. These securities are issued by U.S. Government or government sponsored entities and do not have any expected credit losses given government guarantees.

Collateralized debt and loan obligations

The unrealized losses associated with collateralized debt for securities backed by trust preferred hybrid capital issued by other financial institutions and collateralized loan obligations backed by commercial loans and individual corporate debt obligations are driven primarily by changes in interest rates and liquidity spreads. We assess credit impairment using a cash flow model that incorporates default rates, loss severities and prepayment rates. Based upon our assessment of expected credit losses and credit enhancement level of the securities, we expect to recover the entire amortized cost basis of these securities.

Collateralized mortgage obligations:

Government agencies and government sponsored agencies

The unrealized losses associated with federal agency collateralized mortgage obligations are primarily driven by changes in interest rates. These securities are issued by U.S. Government or government sponsored entities and do not have any expected credit losses given government guarantees.

States and political subdivisions

The unrealized losses associated with securities of U.S. states and political subdivisions are primarily driven by changes in interest rates. The slow economic recovery continues to negatively affect the creditworthiness of some state and local governments. Additionally, potential reduced federal and state funding to state and local governments could place additional strain on state and local governments. These factors could result in impairment as the Bank holds bonds issued from various local governments. We expect to fully recover the cost basis of these securities for which unrealized losses that have existed for longer than 12 months are not material to the consolidated financial statements of the Bank.

Other-Than-Temporary Impairment Losses

During the years ended December 31, 2013 and 2012, there were two interest-only strips classified as other asset-backed securities that were other-than-temporarily impaired, primarily due to a decrease in expected cash flows of the securities based on changes in the prepayment rates of underlying collateral. These securities did not have any OTTI losses for which a portion remained in OCI at December 31, 2013 and 2012.

3. Loan Sales and Servicing Activity

Loans held for sale primarily consist of consumer loans that we originate for sale to FNMA. These loans are sold to FNMA on a non-recourse basis, and we retain the rights to service these loans. Periodically, we may identify certain commercial and non-performing consumer loans which we no longer intend to hold to maturity. These loans are generally sold to non-affiliated parties on a non-recourse basis. Except for loans that are originated for sale to FNMA, we do not have any continuing involvement in the loans after their sale.

The following table summarizes the activity for the loans held for sale:

<i>(dollars in thousands)</i>	Year ended December 31,			
	2013		2012	
	Commercial	Consumer	Commercial	Consumer
Loans originated for sale	\$ -	\$1,097,834	\$ -	\$1,527,447
Loans transferred to held for sale ⁽¹⁾	\$ 288	\$ 601	\$145,293	\$ 71,980
Loans sold during the year	\$42,184	\$1,285,691	\$183,039	\$1,456,292
Net gains on sales of loans	\$ 6,506	\$ 23,941	\$ 21,813	\$ 51,447

⁽¹⁾ Balances reflect after-transferred basis. See Note 5 for charge-offs upon transfer to held for sale.

Net gains on sales of consumer loans include forward loan sale commitments and related interest rate lock commitments.

Our consumer loan servicing activities include collecting principal, interest, tax and insurance payments from borrowers while accounting for and remitting payments to investors, taxing authorities and insurance companies. We also monitor delinquencies and administer foreclosure proceedings.

Consumer loan servicing income is recorded in noninterest income as a part of other service charges and fees and is reported net of the amortization of the servicing assets. The unpaid principal amount of consumer loans serviced for others was \$3.8 billion and \$3.2 billion for the years ended December 31, 2013 and 2012, respectively. Gross servicing fees include contractually specified fees, late charges and ancillary fees, and were \$12.5 million and \$7.8 million for the years ended December 31, 2013 and 2012, respectively.

The changes in MSRs using the amortization method including valuation allowance were:

<i>(dollars in thousands)</i>	2013	2012
Carrying amount, balance as of January 1,	\$24,740	\$19,234
Additions ⁽¹⁾ :		
Assumption of servicing obligations resulting from asset transfers	12,588	14,272
Subtractions ⁽¹⁾ :		
Amortization	(8,729)	(8,750)
Application of valuation allowance to adjust carrying values of servicing assets	1,148	(16)
Carrying amount, balance as of December 31,	\$29,747	\$24,740
Valuation allowance for servicing assets:		
Beginning as of January 1,	\$ 1,150	\$ 1,134
Provisions	(1,148)	16
Balance as of December 31,	\$ 2	\$ 1,150

⁽¹⁾ The Bank did not purchase or sell any servicing obligations during the years ended December 31, 2013 and 2012. Additionally, there was no OTTI recorded and no other changes that affected the balance during the years ended December 31, 2013 and 2012.

The MSR assets are stratified based on predominant risk characteristics such as loan category or maturity and interest rate for purposes of determining impairment. Each stratum is evaluated to determine if the amortized cost basis of the MSR exceeds the fair value. The fair value of each stratum is determined using a discounted cash flow model by projecting the expected cash flows for each strata based upon assumptions for estimated servicing income and expense. Within the fair value hierarchy, the MSR assets are classified as Level 3 as the model used to determine the fair value incorporates use of significant unobservable inputs. These inputs reflect assumptions that market participants use in estimating future net servicing income such as future prepayment speeds, discount rate, cost to service the assets including expected delinquency and foreclosure related costs, escrow account earnings, contractual servicing fee income, late fees, and other ancillary income. The model is operated and maintained by a third-party service provider. The Bank reviews the valuation assumptions against market data for reasonableness. Additionally, the Bank has a Secondary Marketing Committee (“SMC”) comprised of key members of management from National Finance Group, Market Risk and Treasury. The SMC is responsible for reviewing changes in assumptions and valuation results from the third-party service provider on a monthly basis. The fair value of MSRs is sensitive to changes in projected interest rates and their effect on prepayment speeds. MSRs typically decrease in value when interest rates decline as the declining interest rates tend to increase prepayments which reduce the expected average life of the net servicing cash flows that comprise the MSR asset. Conversely, during periods of rising interest rates, the value of MSRs generally increases due to reduced prepayment rates.

The fair value of the MSRs was as follows:

<i>(dollars in thousands)</i>	2013	2012
Balance as of January 1,	\$25,181	\$19,245
Balance as of December 31,	\$38,742	\$25,181

The quantitative assumptions used in determining the lower of cost or fair value of the Bank’s MSRs were as follows:

	2013		2012	
	Range	Weighted-Average	Range	Weighted-Average
Conditional prepayment rate	4.60%–17.65%	10.83%	7.62%–34.41%	17.27%
Life in years (of the MSR)	2.84–11.08	6.09	2.24– 7.96	4.56
Note rate	2.61%– 5.38%	3.84%	2.85%– 6.02%	4.28%
Discount rate	9.50%–12.50%	10.10%	10.50%–10.50%	10.50%

In addition to loans originated for sale and certain loans which we no longer intend to hold to maturity, the Bank participates out certain commercial loans in transactions negotiated with other financial institutions. The Bank continues to maintain the servicing relationship with borrowers for the entire loan and receives a nominal fee from these borrowers to cover the costs of servicing activities. As of December 31, 2013 and 2012, the Bank recognized \$361 million and \$314 million (net of charge-offs), respectively, as its retained interest in the unpaid principal balance of the loans. The unpaid principal balance of loans sold as participating interests as of December 31, 2013 and 2012 was \$336 million and \$313 million, respectively. As the Bank sold the participating interests concurrently with the loan origination, there was no difference between the fair value and carrying amount of the loans transferred and therefore no gain or loss on sale was recognized for the years ended December 31, 2013 and 2012.

4. Loans and Leases

Loans and leases were comprised of the following:

<i>(dollars in thousands)</i>	As of December 31,			
	2013		2012	
	Outstanding	Commitments ⁽¹⁾	Outstanding	Commitments ⁽¹⁾
Commercial:				
Commercial and industrial	\$ 7,632,152	\$ 8,916,014	\$ 6,890,094	\$ 7,653,166
Commercial real estate	11,428,670	366,996	11,059,676	423,398
Construction	948,293	837,976	645,395	736,903
Equipment leases	3,119,094	279,757	2,799,131	233,673
Agriculture	2,416,163	1,502,696	2,356,658	1,413,753
Consumer:				
Installments and lines	12,751,667	1,426,436	11,882,759	1,177,454
Residential secured—closed-end	6,954,496	11,130	7,230,292	8,081
Residential secured—revolving, open-end	2,079,196	2,472,046	2,127,526	2,172,745
Total loans and leases	\$47,329,731	\$15,813,051	\$44,991,531	\$13,819,173

⁽¹⁾ Commitments to extend credit represent unfunded amounts and are reported net of participations sold to other lenders.

Outstanding loan balances as of December 31, 2013 and 2012 are net of unearned income, including net deferred loan fees, of \$215.5 million and \$183.1 million, respectively.

Loans totaling \$29.4 billion were pledged to collateralize the Bank's borrowing capacity at the FRB and FHLB as of December 31, 2013.

Our leasing activities consist primarily of leasing automobiles and commercial equipment. Generally, lessees are responsible for all maintenance, taxes and insurance on the leased property.

The following table presents details of the Bank's net investment in financing leases, which includes equipment and consumer leases:

<i>(dollars in thousands)</i>	As of December 31,	
	2013	2012
Total minimum lease payments to be received	\$3,231,253	\$2,888,610
Estimated residual values of leased property	217,951	229,139
Less: Unearned income	229,376	217,665
Net investment in financing leases⁽¹⁾	\$3,219,828	\$2,900,084

⁽¹⁾ Includes auto leases of \$101 million as of December 31, 2013 and 2012.

Minimum lease receivables for the five succeeding years and thereafter as of December 31, 2013 were as follows:

<i>(dollars in thousands)</i>	
2014	\$1,099,330
2015	894,777
2016	642,381
2017	415,259
2018	235,693
2019 and thereafter	161,764
Gross minimum payments	3,449,204
Less: Unearned income	229,376
Net minimum receivable	\$3,219,828

In the normal course of business, the Bank makes loans to executive officers and directors of the Bank and to entities and individuals affiliated with those executive officers and directors. The aggregate amount of all such extensions of credit was \$3.6 million and \$3.5 million as of December 31, 2013 and 2012, respectively. Such loans are made on terms no less favorable to the Bank than those prevailing at the time for comparable transactions with other persons or, in the case of certain residential real estate loans, on terms that were widely available to employees of the Bank who were not directors or executive officers.

In the course of evaluating the credit risk presented by a customer and the pricing that will adequately compensate the Bank for assuming that risk, management may require a certain amount of collateral support. The type of collateral held varies, but may include accounts receivable, inventory, land, buildings, equipment, income-producing commercial properties and residential real estate. The Bank has the same collateral policy for loans whether they are funded immediately or on a delayed basis (loan commitments).

A commitment to extend credit is a legally binding agreement to lend funds to a customer usually at a stated interest rate and for a specified purpose. Such commitments have fixed expiration dates and generally require a fee. The extension of a commitment gives rise to credit risk. The actual liquidity requirements or credit risk that the Bank will experience will be lower than the contractual amount of commitments to extend credit because a significant portion of those commitments are expected to expire without being drawn upon. Additionally, certain commitments are subject to loan agreements containing covenants regarding the financial performance of the customer that must be met before the Bank is required to fund the commitment. For our consumer loan commitments, the Bank may reduce or cancel such commitments as legally permitted.

The Bank further manages the potential credit risk in commitments to extend credit by limiting the total amount of arrangements, both by individual customer and in the aggregate, by monitoring the size and maturity structure of these portfolios and by applying the same credit standards maintained for all of its related credit activities. A significant portion of our loan and lease portfolio is located in California and, to a lesser extent, the remaining states within our footprint. The risk inherent in our loan and lease portfolio is dependent upon the economic stability of those states, which affects property values, and the financial well-being and creditworthiness of the borrowers.

Standby letters of credit totaled \$1.1 billion as of December 31, 2013 and 2012. Standby letters of credit are issued on behalf of customers in connection with contracts between the customers and third parties. Under standby letters of credit, the Bank assures that the third parties will receive specified funds if customers fail to meet their contractual obligations. The liquidity requirement and subsequent credit risk to the Bank arises from its obligation to make payment in the event of a customer's contractual default. The Bank also had commitments for commercial and similar letters of credit of \$30.8 million and \$21.3 million as of December 31, 2013 and 2012, respectively. The commitments outstanding as of December 31, 2013 have maturities ranging from January 1, 2014 to November 1, 2027. In connection with the issuance of such commitments, fees are charged based on contract terms and recognized into income when they are earned.

Credit Quality

We monitor credit quality by evaluating various attributes and utilize such information in our evaluation of the adequacy of the allowance for credit losses. The following sections provide the credit quality indicators we most closely monitor. A significant portion of our loan and lease portfolio consists of high credit quality loans.

Commercial Credit Quality Indicators

The Bank assesses the credit quality of its commercial loans and leases with an internal credit risk grading system using a ten-point credit risk scale and categorizes the loans and leases consistent with industry guidelines in the following grades: pass, special mention, and classified.

Risk grades one through six (or Pass grades) represent loans with strong to acceptable credit quality where the loan is protected by adequate collateral and the borrower is not facing financial difficulties. Risk grade seven (or Special Mention grade) represents loans with borrowers that have potential credit weaknesses which, if not checked or corrected, will weaken the Bank's repayment prospects. Risk grades eight through ten (or Classified grades) represent loans characterized by the distinct possibility that the Bank will sustain partial or entire loss. In particular, risk grade eight represents borrowers who have a well-defined weakness but no loss in principal balance is currently anticipated. Risk grade nine represents loans with doubtful borrowers but partial loss is probable based on facts existing at the time of assessment. Risk grade ten represents loans with borrowers who are incapable of repayment or loans that are considered uncollectable and are therefore, charged off. All loans in risk grades nine and ten and certain loans in risk grade eight that are on nonaccrual status are considered impaired loans. Risk grades of commercial loans are reviewed on an ongoing basis and upon a credit event.

The following tables represent the credit quality of each class of commercial loans and leases based on our internal risk grading system:

<i>(dollars in thousands)</i>	As of December 31, 2013			
	Pass	Special Mention	Classified	Total
Commercial and industrial	\$ 7,272,593	\$167,313	\$192,246	\$ 7,632,152
Commercial real estate	10,584,371	414,192	430,107	11,428,670
Construction	865,457	51,786	31,050	948,293
Equipment leases	3,064,967	20,378	33,749	3,119,094
Agriculture	2,153,338	124,819	138,006	2,416,163
Total Commercial	\$23,940,726	\$778,488	\$825,158	\$25,544,372

<i>(dollars in thousands)</i>	As of December 31, 2012			
	Pass	Special Mention	Classified	Total
Commercial and industrial	\$ 6,504,769	\$176,694	\$208,631	\$ 6,890,094
Commercial real estate	9,985,153	517,357	557,166	11,059,676
Construction	532,870	38,343	74,182	645,395
Equipment leases	2,712,004	29,900	57,227	2,799,131
Agriculture	2,166,614	139,229	50,815	2,356,658
Total Commercial	\$21,901,410	\$901,523	\$948,021	\$23,750,954

Consumer Credit Quality Indicators

Consumer loans are assessed for credit quality by delinquency status and are placed into one of two categories. The first category is for borrowers who are current in their payments in accordance with their contractual terms and the second category is for borrowers who have missed one or more payments and are past due 30 days or more. The following table represents the credit quality of each class of consumer loans and leases based on the delinquency status:

<i>(dollars in thousands)</i>	Residential secured – closed-end	Residential secured – revolving, open-end	Installments and lines	Total
As of December 31, 2013:				
Current ⁽¹⁾	\$6,771,396	\$2,057,359	\$12,643,554	\$21,472,309
Past Due	183,100	21,837	108,113	313,050
Total	\$6,954,496	\$2,079,196	\$12,751,667	\$21,785,359
As of December 31, 2012:				
Current ⁽¹⁾	\$7,021,766	\$2,100,676	\$11,762,304	\$20,884,746
Past Due	208,526	26,850	120,455	355,831
Total	\$7,230,292	\$2,127,526	\$11,882,759	\$21,240,577

⁽¹⁾ Includes loans that are contractually current but on nonaccrual status.

5. Allowance for Credit Losses

The allowance for credit losses reflects management's estimate of credit losses inherent in the loan and lease portfolio and reserve for unfunded lending commitments. We consider the allowance for credit losses at the end of 2013 to be adequate to cover such losses. Changes in the allowance for credit losses were:

<i>(dollars in thousands)</i>	December 31,	
	2013	2012
Balance as of January 1,	\$ 746,661	\$ 893,947
Provision for credit losses	44,686	169,462
Charge-offs:		
Commercial:		
Commercial and industrial	(47,459)	(50,060)
Commercial real estate	(12,742)	(81,743)
Construction	(7,001)	(17,920)
Equipment leases	(12,420)	(11,957)
Agriculture	(20,127)	(27,562)
Total Commercial ⁽¹⁾	(99,749)	(189,242)
Consumer:		
Installments and lines	(92,421)	(143,959)
Residential secured – closed-end	(32,411)	(112,441)
Residential secured – revolving, open-end	(8,861)	(27,004)
Total Consumer ⁽¹⁾	(133,693)	(283,404)
Total charge-offs	(233,442)	(472,646)
Recoveries:		
Commercial:		
Commercial and industrial	28,610	17,498
Commercial real estate	15,976	41,694
Construction	12,037	18,202
Equipment leases	10,296	12,687
Agriculture	1,257	6,810
Total Commercial	68,176	96,891
Consumer:		
Installments and lines	34,163	28,922
Residential secured – closed-end	9,713	28,551
Residential secured – revolving, open-end	1,778	1,534
Total Consumer	45,654	59,007
Total recoveries	113,830	155,898
Net charge-offs	(119,612)	(316,748)
Balance as of December 31,	\$ 671,735	\$ 746,661
Components:		
Allocated loans and leases	\$ 589,573	\$ 665,703
Unallocated loans and leases	45,000	45,000
Total allowance for loans and leases	634,573	710,703
Reserve for unfunded commitments	37,162	35,958
Allowance for credit losses	\$ 671,735	\$ 746,661

⁽¹⁾ There were no charge-offs due to commercial or consumer loans transferred to held for sale for the year ended December 31, 2013. Charge-offs due to commercial and consumer loans transferred to held for sale for the year ended December 31, 2012 were \$112.5 million and \$42.4 million, respectively.

The following table summarizes the activity in the allowance for loan and lease losses by commercial and consumer portfolio segments:

<i>(dollars in thousands)</i>	Year ended December 31, 2013			
	Commercial	Consumer	Unallocated	Total
Balance as of January 1,	\$309,258	\$ 356,445	\$45,000	\$ 710,703
Provision for loan and lease losses	2,130	41,352	-	43,482
Charge-offs	(99,749)	(133,693)	-	(233,442)
Recoveries	68,176	45,654	-	113,830
Net charge-offs	(31,573)	(88,039)	-	(119,612)
Balance as of December 31,	\$279,815	\$ 309,758	\$45,000	\$ 634,573

The following table disaggregates our allocated component of the allowance for loan and lease losses and recorded investment in loans by impairment methodology:

<i>(dollars in thousands)</i>	As of December 31, 2013					
	Allocated allowance for loan and lease losses			Recorded investment in loans		
	Commercial	Consumer	Total	Commercial	Consumer	Total
Collectively evaluated	\$264,266	\$280,775	\$545,041	\$25,073,020	\$21,456,017	\$46,529,037
Individually evaluated	15,549	28,983	44,532	471,352	329,342	800,694
Total	\$279,815	\$309,758	\$589,573	\$25,544,372	\$21,785,359	\$47,329,731

The following table summarizes the activity in the allowance for loan and lease losses by commercial and consumer portfolio segments:

<i>(dollars in thousands)</i>	Year ended December 31, 2012			
	Commercial	Consumer	Unallocated	Total
Balance as of January 1,	\$ 331,730	\$ 443,458	\$ 95,000	\$ 870,188
Provision for loan and lease losses	69,879	137,384	(50,000)	157,263
Charge-offs	(189,242)	(283,404)	-	(472,646)
Recoveries	96,891	59,007	-	155,898
Net charge-offs	(92,351)	(224,397)	-	(316,748)
Balance as of December 31,	\$ 309,258	\$ 356,445	\$ 45,000	\$ 710,703

The following table disaggregates our allocated component of the allowance for loan and lease losses and recorded investment in loans by impairment methodology:

<i>(dollars in thousands)</i>	As of December 31, 2012					
	Allocated allowance for loan and lease losses			Recorded investment in loans		
	Commercial	Consumer	Total	Commercial	Consumer	Total
Collectively evaluated	\$279,125	\$327,945	\$607,070	\$23,263,202	\$20,916,533	\$44,179,735
Individually evaluated	30,133	28,500	58,633	487,752	324,044	811,796
Total	\$309,258	\$356,445	\$665,703	\$23,750,954	\$21,240,577	\$44,991,531

The Bank's total allowance for credit losses decreased compared to the prior year reflecting continued improvements in the current economic conditions for most sectors. The improvement is reflected through our estimate of a lower provision for credit losses for 2013 compared to 2012. While there are signs of improvement in economic conditions, there remains considerable underlying potential volatility. Continued high unemployment and commodity volatility may continue to negatively influence certain portfolios.

Impaired Loans

The following tables present information related to impaired loans and leases that are individually evaluated:

<i>(dollars in thousands)</i>	As of December 31, 2013						
	Commercial Product						Consumer Product
	Commercial & industrial	Commercial real estate	Construction	Equipment leases	Agriculture	Total	Residential secured – closed-end
Recorded investment in impaired loans:							
Impaired loans and leases with related allowance	\$ 17,656	\$ 70,099	\$ -	\$ 372	\$ 9,738	\$ 97,865	\$199,396
Impaired loans and leases with no related allowance	83,999	142,765	58,615	3,341	84,767	373,487	129,946
Total impaired loans	\$101,655	\$212,864	\$58,615	\$3,713	\$ 94,505	\$471,352	\$329,342
Allowance for loan and lease losses on impaired loans	\$ 8,061	\$ 4,045	\$ -	\$ 159	\$ 3,284	\$ 15,549	\$ 28,983
Total unpaid principal balance	\$123,164	\$225,933	\$80,608	\$3,713	\$114,127	\$547,545	\$364,765
Average recorded investment in impaired loans and leases	\$105,775	\$208,454	\$83,634	\$4,789	\$ 68,906	\$471,558	\$327,389

<i>(dollars in thousands)</i>	As of December 31, 2012						
	Commercial Product						Consumer Product
	Commercial & industrial	Commercial real estate	Construction	Equipment leases	Agriculture	Total	Residential secured – closed-end
Recorded investment in impaired loans:							
Impaired loans and leases with related allowance	\$ 28,446	\$ 34,581	\$ 24,905	\$4,374	\$ 5,687	\$ 97,993	\$196,628
Impaired loans and leases with no related allowance	89,672	192,191	73,629	3,662	30,605	389,759	127,416
Total impaired loans	\$118,118	\$226,772	\$ 98,534	\$8,036	\$36,292	\$487,752	\$324,044
Allowance for loan and lease losses on impaired loans	\$ 18,478	\$ 6,445	\$ 168	\$2,559	\$ 2,483	\$ 30,133	\$ 28,500
Total unpaid principal balance	\$137,486	\$246,459	\$123,346	\$8,036	\$40,782	\$556,109	\$356,382
Average recorded investment in impaired loans and leases	\$128,878	\$265,998	\$126,328	\$8,958	\$45,182	\$575,344	\$266,710

Impaired loans without a related allowance for credit losses are generally collateralized by assets with fair values (on an “as-is” basis) in excess of the recorded investment in the loans. For commercial loans, payments on impaired loans are generally applied to reduce the outstanding principal balance of such loans. Interest income recognized on impaired loans was \$0.9 million and \$17.0 million for the commercial and consumer portfolios for 2013, respectively and \$2.8 million and \$16.5 million for the commercial and consumer portfolios for 2012, respectively.

Troubled Debt Restructuring

In situations where 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, the related loan is classified as a TDR. For the commercial loan portfolio, concessions granted by the Bank generally include term extensions, renewals, forbearances of principal and interest payments, and interest rate modifications for each of the classes shown below. In addition, for smaller balance nonperforming loans, we may use third-party collection agencies who generally enter into payment or settlement arrangements with the borrowers in order to protect as much of the Bank’s investment in the loan as possible. For our consumer loan portfolio, concessions generally include term extensions, interest rate changes, payment deferrals and temporary payment reductions. The Bank had \$18.7 million and \$30.6 million of commitments to lend additional funds and letters of credit to customers whose troubled debt has been restructured as of December 31, 2013 and 2012, respectively.

The following tables provide a summary of the financial effects of the modifications during the years ended December 31, 2013 and 2012, as well as the related outstanding balance as of December 31, 2013 and 2012. In addition, the tables provide a summary of loans outstanding at December 31, 2013 and 2012 that were modified as TDRs within the previous 12 months for which there was a subsequent payment default during the period. A payment default is defined as 90 days past due for the commercial portfolio and 60 days past due for the consumer portfolio.

<i>(dollars in thousands)</i>	2013				
	Financial Effects			Subsequent Defaults ⁽¹⁾	
	Pre-Modification Loan Balance	Post-Modification Loan Balance	Balance as of December 31, 2013	Number of Contracts	Balance as of December 31, 2013
Commercial TDRs:					
Commercial and industrial	\$ 21,554	\$ 20,175	\$ 12,782	1	\$ 179
Commercial real estate	58,409	57,573	53,615	7	12,420
Construction	-	-	-	-	-
Equipment leases	174	167	152	-	-
Agriculture	23,364	21,194	20,168	1	536
Consumer TDRs:					
Installments and lines	16,545	12,132	11,015	22	391
Residential secured—closed-end	83,342	83,407	75,868	86	12,906
Residential secured—revolving, open-end	9,583	8,480	8,284	6	427
Total	\$212,971	\$203,128	\$181,884	123	\$26,859

⁽¹⁾ Subsequent defaults exclude commercial loans for which we forbore our rights to take legal action in relation to past due payments.

<i>(dollars in thousands)</i>	2012				
	Financial Effects			Subsequent Defaults ⁽²⁾	
	Pre-Modification Loan Balance	Post-Modification Loan Balance	Balance as of December 31, 2012 ⁽¹⁾	Number of Contracts	Balance as of December 31, 2012
Commercial TDRs:					
Commercial and industrial	\$ 22,157	\$ 21,501	\$ 17,212	8	\$ 739
Commercial real estate	76,348	74,488	29,897	12	4,052
Construction	22,015	20,000	-	-	-
Equipment leases	1,283	1,236	924	6	656
Agriculture	36,261	34,284	23,266	5	4,798
Consumer TDRs:					
Installments and lines	19,866	14,767	14,767	16	666
Residential secured—closed-end	93,318	94,280	84,766	80	11,956
Residential secured—revolving, open-end	7,681	6,721	6,721	1	30
Total	\$278,929	\$267,277	\$177,553	128	\$22,897

⁽¹⁾ Consumer TDRs include \$25.0 million due to the adoption of interpretive guidance issued by the Office of the Comptroller of the Currency in July 2012.

⁽²⁾ Subsequent defaults exclude commercial loans for which we forbore our rights to take legal action in relation to past due payments.

Nonaccrual and Past Due Loans and Leases

The following tables present information relating to the past due and nonaccrual status of our loans and leases by class, which we monitor as part of our credit risk management practices:

<i>(dollars in thousands)</i>	As of December 31, 2013					
	Current ⁽¹⁾	30 - 89 days past due ⁽¹⁾	More than 90 days past due ⁽¹⁾	Total loans and leases ⁽¹⁾	Loans and leases on nonaccrual status	Past due 90 days or more but still accruing
Commercial:						
Commercial and industrial	\$ 7,546,904	\$ 28,472	\$ 56,776	\$ 7,632,152	\$ 83,013	\$16,570
Commercial real estate	11,282,173	66,533	79,964	11,428,670	169,935	8,001
Construction	929,450	260	18,583	948,293	18,708	-
Equipment leases	3,103,842	10,322	4,930	3,119,094	10,451	-
Agriculture	2,354,394	3,092	58,677	2,416,163	84,117	10,145
Consumer:						
Installments and lines	12,643,554	100,530	7,583	12,751,667	17,967	-
Residential secured – closed-end	6,771,396	96,752	86,348	6,954,496	144,247	-
Residential secured – revolving, open-end	2,057,359	11,703	10,134	2,079,196	19,391	-
Total	\$46,689,072	\$317,664	\$322,995	\$47,329,731	\$547,829	\$34,716

⁽¹⁾ Includes both accruing and nonaccruing balances.

<i>(dollars in thousands)</i>	As of December 31, 2012					
	Current ⁽¹⁾	30 - 89 days past due ⁽¹⁾	More than 90 days past due ⁽¹⁾	Total loans and leases ⁽¹⁾	Loans and leases on nonaccrual status	Past due 90 days or more but still accruing
Commercial:						
Commercial and industrial	\$ 6,805,737	\$ 36,474	\$ 47,883	\$ 6,890,094	\$ 99,989	\$ 6,791
Commercial real estate	10,941,212	51,672	66,792	11,059,676	203,040	4,068
Construction	621,243	-	24,152	645,395	42,116	3,046
Equipment leases	2,775,706	12,643	10,782	2,799,131	24,453	-
Agriculture	2,288,244	15,261	53,153	2,356,658	50,596	10,499
Consumer:						
Installments and lines	11,762,304	111,542	8,913	11,882,759	19,805	-
Residential secured – closed-end	7,021,766	123,373	85,153	7,230,292	132,616	-
Residential secured – revolving, open-end	2,100,676	15,798	11,052	2,127,526	20,103	-
Total	\$44,316,888	\$366,763	\$307,880	\$44,991,531	\$592,718	\$24,404

⁽¹⁾ Includes both accruing and nonaccruing balances.

6. Premises and Equipment

The premises and equipment were comprised of the following:

<i>(dollars in thousands)</i>	As of December 31,	
	2013	2012
Premises	\$703,964	\$715,627
Equipment ⁽¹⁾	288,026	276,863
Total premises and equipment	991,990	992,490
Less: Accumulated depreciation and amortization	570,249	551,560
Net book value	\$421,741	\$440,930

⁽¹⁾ Includes in process equipment not subject to depreciation of \$3.2 million and \$2.6 million as of December 31, 2013 and 2012, respectively.

Occupancy and equipment expenses include depreciation and amortization expenses of \$51.8 million and \$52.6 million for 2013 and 2012, respectively. The Bank recognized an impairment of \$1.3 million and \$1.4 million for the years ended December 31, 2013 and 2012, respectively.

The Bank has obligations under a number of capital and noncancelable operating leases for premises and equipment. The remaining lease terms are up to 49 years, and many provide for periodic adjustment of rentals based on changes in various economic indicators. Certain leases include renewal options, with the longest up to 58 years. Under the premises leases, we are also required to pay real property taxes, insurance and maintenance. The following table shows future minimum payments under leases with terms in excess of one year, excluding future renewal options:

<i>(dollars in thousands)</i>	As of December 31, 2013			
	Capital Leases	Operating Leases	Less Sublease Income	Net Lease Payments
2014	\$ 1,993	\$ 72,054	\$3,203	\$ 70,844
2015	2,100	65,199	2,160	65,139
2016	2,024	58,586	1,484	59,126
2017	2,044	50,970	845	52,169
2018	1,821	40,995	431	42,385
2019 and thereafter	13,630	178,348	124	191,854
Total minimum payments	\$23,612	\$466,152	\$8,247	\$481,517
Less: Interest on capital leases	10,207			
Present value of minimum lease payments on capital leases ⁽¹⁾	\$13,405			

⁽¹⁾ Excludes purchase accounting adjustments of \$4.3 million.

Rental expense, net of rental income, for all operating leases was \$70.5 million and \$71.9 million for 2013 and 2012, respectively.

The Bank did not enter into any sale-leaseback transactions during the years ended December 31, 2013 and 2012. The Bank amortized \$5.9 million of deferred gains relating to its prior sale-leaseback transactions into income in each of the years ended December 31, 2013 and 2012. The Bank has no obligations or circumstances which require our continuing involvement with any of these properties.

7. Goodwill and Identifiable Intangible Assets

The Bank has \$4.2 billion in goodwill from acquisitions prior to 2012. Goodwill is allocated to the Retail and Commercial reporting units. We assess goodwill for impairment on an annual basis. We deemed it unnecessary to perform the optional qualitative assessment of changes in circumstances that may result in goodwill impairment and instead directly performed the quantitative assessment that first requires determining whether the carrying values of our reporting units exceed their respective fair values. No impairment of goodwill was deemed necessary in 2013 and 2012. Our estimates of fair value of reporting units were based upon factors such as projected future cash flows, discount rates, and other uncertain elements that require significant judgments. While we use available information to prepare our estimates and perform impairment evaluations, actual results in the future could differ significantly. Impairment tests in future periods may result in impairment charges, which could materially impact our future reported results.

The details of our finite-lived intangible assets are presented below:

<i>(dollars in thousands)</i>	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Balance as of December 31, 2013:			
Core Deposits ⁽¹⁾	\$195,059	\$150,996	\$ 44,063
Software ⁽²⁾	281,088	170,224	110,864
Other Intangible Assets ⁽³⁾	79,811	41,375	38,436
Total	\$555,958	\$362,595	\$193,363
Balance as of December 31, 2012:			
Core Deposits ⁽¹⁾	\$195,059	\$138,441	\$ 56,618
Software ⁽²⁾	228,889	149,372	79,517
Other Intangible Assets ⁽³⁾	66,971	32,353	34,618
Total	\$490,919	\$320,166	\$170,753

⁽¹⁾ Does not include fully amortized assets.

⁽²⁾ Includes in process software not subject to amortization of \$43.2 million and \$23.7 million as of December 31, 2013 and 2012, respectively.

⁽³⁾ Includes mortgage servicing rights. See Note 3 for additional information.

Intangible amortization expense included in noninterest expense was \$36.7 million and \$37.2 million for the years ended December 31, 2013 and 2012, respectively. For the years ended December 31, 2013 and 2012, the Bank's review did not result in any material impairment. See Note 3 for valuation allowance related to MSRs.

The table below presents the estimated future annual amortization expense for finite-lived intangible assets for the years ending December 31:

<i>(dollars in thousands)</i>	Core Deposits	Software	Other Intangibles	Total
2014	\$12,536	\$22,880	\$6,092	\$41,508
2015	\$12,517	\$18,243	\$5,375	\$36,135
2016	\$12,498	\$14,586	\$4,864	\$31,948
2017	\$ 6,392	\$ 9,211	\$4,198	\$19,801
2018	\$ 117	\$ 2,712	\$3,764	\$ 6,593

8. Variable Interest Entities

A VIE is an entity that has either a total equity investment that is insufficient to finance its activities without additional subordinated financial support or whose equity investors lack the ability to control the entity's activities. Under existing accounting guidance, a VIE is consolidated by its primary beneficiary, the party that has both the power to direct the activities that most significantly impact the VIE and a variable interest that could potentially be significant to the VIE.

The Bank evaluates whether an entity is a VIE upon its creation and upon the occurrence of significant events such as a change in an entity's assets or activities. The determination of whether the Bank is the primary beneficiary involves performing a qualitative analysis of the VIE that includes its capital structure, contractual terms including the rights of each variable interest holder, the activities of the VIE that most significantly impact its economic performance, whether the Bank has the power to direct those activities and our obligation to absorb losses or the right to receive benefits significant to the VIE.

Limited liability companies

The Bank has formed CLAAS Financial Services, LLC with the purpose of providing lease and loan financing to commercial entities acquiring agricultural equipment. The Bank owns 51% interest in the LLC and has the obligation to absorb losses that could be potentially significant to this LLC. The Bank also has the power to direct key activities of this LLC that significantly drive its performance through control of the Board of Directors. The Bank is the primary beneficiary of this LLC, and it is consolidated in our consolidated financial statements.

In addition to the investment in CLAAS Financial Services, LLC, the Bank has investments in limited liability companies ("LLCs") for the purpose of managing foreclosed properties seized to mitigate losses to the Bank and its partners by selling the collateral. As of December 31, 2013, these LLCs had nominal assets.

Tax credit investments

The Bank owns several limited partnership interests in low-income housing developments in conjunction with the Community Reinvestment Act. The Bank is not the primary beneficiary of these entities and in most instances, the Bank is one of many limited partners and our interest in the partnerships may decrease as new limited partners are added. Limited partners do not participate in the control of the partnerships' businesses. The general partners, which are either developers or nonprofit organizations, exercise the day-to-day control and management of the projects. The general partners have exclusive control over the partnerships' businesses and have all of the rights, powers, and authority generally conferred by law or necessary, advisable or consistent with accomplishing the partnerships' businesses. As a limited partner, the Bank does not have an active role in any of the partnerships, and our involvement is limited to providing financial support, as stated within the contractual agreements and, therefore, we are not the primary beneficiary.

The business purpose of these entities is to provide affordable housing within the Bank's service area in return for tax credits and tax loss deductions. The Bank has not received additional income or incurred additional expenses as a result of our involvement with these entities. As we are a limited partner, our maximum exposure to loss will never

exceed our total investment in these entities, including our subscription amount. In the unlikely event that the general partners do not adhere to their contractual obligations to provide financial support to low-income housing, the Bank may be subject to tax credit recapture rules and would record income or expense related to the project, including recognition of a gain or loss on the disposition or termination of its partnership interest. Bargain purchase options are available for the general partners to purchase the Bank's portion of interests in the limited partnerships.

Consolidated VIEs

The following table presents information on assets and liabilities of the consolidated VIEs as they are included in these line items in our consolidated balance sheets:

<i>(dollars in thousands)</i>	As of December 31,	
	2013	2012
Assets		
Cash and due from banks	\$ -	\$ 2,039
Loans and leases:		
Loans and leases	301,705	260,184
Less: Allowance for loan and lease losses	1,347	1,427
Net loans and leases	300,358	258,757
Other assets	22	887
Total Assets	\$300,380	\$261,683
Liabilities		
Long-term debt	\$ 12,800	\$ 33,700
Other liabilities	1,637	567
Total liabilities	\$ 14,437	\$ 34,267

The assets of the VIEs consolidated by the Bank can only be used to settle the liabilities of the VIEs. The creditors of these VIEs do not have any recourse to assets of the Bank.

Unconsolidated VIEs

The following tables present the carrying amount of assets, liabilities and our maximum exposure to loss related to the Bank's unconsolidated VIEs in the consolidated balance sheets:

<i>(dollars in thousands)</i>	Total Assets ⁽¹⁾	Total Liabilities ⁽¹⁾	Maximum Exposure to Loss
December 31, 2013			
Tax credit investments	\$187,966	\$56,795	\$364,484
Limited liability company	\$ -	\$ -	\$ -
December 31, 2012			
Tax credit investments	\$177,133	\$73,262	\$324,484
Limited liability company	\$ 502	\$ -	\$ 502

⁽¹⁾ Reported in Other assets or Other liabilities.

9. Regulatory Capital Requirements

The Bank is subject to various regulatory capital requirements administered by federal banking agencies. If the Bank fails to meet minimum capital requirements, these agencies can initiate certain discretionary and mandatory actions. Such regulatory actions could have a material effect on the Bank's consolidated financial statements. The Bank constantly monitors its regulatory capital levels and, if necessary, may obtain capital from its parent company through BNP Paribas or by other means.

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets and certain off-balance sheet items as calculated under regulatory accounting practices. These capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain adequate levels of Tier 1 and Total capital to risk-weighted assets and Tier 1 capital to average assets. The table below sets forth those ratios as follows:

<i>(dollars in thousands)</i>	Actual		For Capital Adequacy Purposes		To be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2013						
Tier 1 capital to risk-weighted assets	\$7,603,919	14.42%	\$2,108,970	4.00%	\$3,163,455	6.00%
Total capital to risk-weighted assets	\$8,263,142	15.67	\$4,217,940	8.00	\$5,272,425	10.00
Tier 1 leverage ratio ⁽¹⁾	\$7,603,919	12.38	\$2,457,597	4.00	\$3,071,996	5.00
As of December 31, 2012						
Tier 1 capital to risk-weighted assets	\$7,321,452	14.69%	\$1,993,194	4.00%	\$2,989,791	6.00%
Total capital to risk-weighted assets	\$7,945,984	15.95	\$3,986,388	8.00	\$4,982,985	10.00
Tier 1 leverage ratio ⁽¹⁾	\$7,321,452	12.46	\$2,351,141	4.00	\$2,938,926	5.00

⁽¹⁾ The leverage ratio consists of a ratio of Tier 1 capital to average assets, excluding goodwill and certain other items.

Pursuant to applicable laws and regulations, the Bank is deemed to be well-capitalized. To be well-capitalized, a bank must have a total risk-based capital ratio of 10.00% or greater, a Tier 1 risk-based capital ratio of 6.00% or greater, a leverage ratio of 5.00% or greater and not be subject to any agreement, order or directive to meet a specific capital level for any capital measure.

10. Deposits

As of December 31, 2013, the following table represents the maturity distribution of time certificates of deposit:

<i>(dollars in thousands)</i>	
2014	\$5,013,803
2015	1,103,095
2016	727,302
2017	314,724
2018	219,910
2019 and thereafter	356,080
Total	\$7,734,914

Time certificates with a denomination of \$100,000 and greater totaled \$4.2 billion and \$5.7 billion as of December 31, 2013 and 2012, respectively. Total brokered time certificates of deposit totaled \$1.4 billion as of December 31, 2013 and 2012.

Total deposits reclassified to loans due to overdrafts as of December 31, 2013 and 2012 were \$8.0 million and \$5.9 million, respectively.

In March 2010, the Bank received noninterest-bearing cash deposits of \$1.1 billion from BancWest under the Collateralized Credit Guarantee Derivative Agreement (the "Guarantee"). The deposits on hand were \$769.0 million and \$785.7 million as of December 31, 2013 and 2012, respectively. See Note 20 for additional information.

11. Short-Term Borrowings

The Bank's borrowings with original maturities of one year or less are classified as short term. Short-term borrowings include securities sold under repurchase agreement, FHLB advances and other borrowings with a maturity of one year or less. A summary of short-term borrowings and weighted-average rates follows:

<i>(dollars in thousands)</i>	2013		2012	
	Rate	Amount	Rate	Amount
As of December 31,				
Federal funds purchased and securities sold under agreements to repurchase	0.05%	\$ 405,633	0.05%	\$324,797
Advances from FHLB and other short-term borrowings	0.21%	2,650,169	-%	3,393
Total short-term borrowings		\$3,055,802		\$328,190
Average daily balance for the years ended December 31,				
Federal funds purchased and securities sold under agreements to repurchase	0.06%	\$ 488,269	0.05%	\$417,396
Advances from FHLB and other short-term borrowings	0.20%	\$1,127,337	0.02%	\$ 1,389
Maximum month-end balance for the years ended December 31,				
Federal funds purchased and securities sold under agreements to repurchase		\$ 529,604		\$525,153
Advances from FHLB and other short-term borrowings		\$2,713,793		\$ 10,560

The Bank treats securities sold under agreements to repurchase as collateralized financings. The Bank reflects the obligations to repurchase the identical securities sold as liabilities, with the dollar amount of securities underlying the agreements remaining in the asset accounts. As of December 31, 2013, the outstanding balance of these agreements was \$405.6 million with a weighted-average maturity of 2 days. Of this amount, \$404.4 million had an overnight maturity and \$1.2 million had a maturity of less than 30 days.

As of December 31, 2013, the Bank had \$7.1 billion of credit lines available. Of this amount, \$0.9 billion was available from First Hawaiian Bank and \$1.8 billion was available from BNP Paribas New York. As of December 31, 2013, the Bank had drawn on the available lines of credit by \$12.8 million from BNP Paribas New York as long-term debt.

12. Long-Term Debt

Long-term debt consists of borrowings having an original maturity of one year or more. These issuances have both fixed and floating interest rates. The following table provides details of the long-term debt. The interest rates shown in the table below represent the range of the contract rates in effect as of December 31, 2013 and do not include the effects of any associated derivatives designated in hedge accounting relationships.

<i>(dollars in thousands)</i>	Interest payment	Interest rate	Maturities	As of December 31,	
				2013	2012
Advances from the FHLB:					
Fixed-rate	quarterly	1.22% to 3.37%	2014-2018	\$1,149,182	\$1,156,340
Fixed-rate ⁽¹⁾	monthly	0.34% to 7.96%	2014-2035	1,033,334	219,820
Floating-rate				-	1,100,000
Floating-rate	monthly	LIBOR +0.12%	2014	100,000	450,000
Fixed-rate unsecured lines of credit with BNP Paribas	monthly	2.89% to 4.71%	2014-2015	12,800	33,700
Capital leases	monthly		2014-2030	17,662	14,940
Total long-term debt				\$2,312,978	\$2,974,800

⁽¹⁾ Includes \$33.3 million that requires partial monthly repayments of principal to FHLB.

Amounts in the above table are net of unamortized discounts and adjustments related to hedging with derivative financial instruments. As a part of our overall interest rate risk management strategy, we often use derivatives to manage our interest rate risk. As of December 31, 2013, \$1.2 billion of the total fixed-rate advances from the FHLB were hedged with fair value hedges.

The advances from FHLB are secured by securities or real estate loans (see Notes 4 and 2 for additional information). FHLB floating-rate advances of \$1.5 billion and fixed-rate advances of \$0.1 billion matured during the year ended December 31, 2013. The Bank terminated FHLB fixed-rate advances of \$1.1 billion and recorded a loss of \$33.7 million related to these terminations in the year ended December 31, 2012.

As part of long-term and short-term borrowing arrangements, the Bank was subject to various covenants. The Bank was in compliance with all the covenants as of December 31, 2013 and 2012.

As of December 31, 2013, the aggregate annual maturities due on long-term debt were as follows:

<i>(dollars in thousands)</i>	
2014	\$1,561,558
2015	452,966
2016	1,324
2017	1,710
2018	251,390
2019 and thereafter	44,030
Total	\$2,312,978

13. Litigation

In the course of normal business, the Bank is subject to asserted and unasserted legal actions which may seek substantial relief or damages. While the Bank is not able to predict whether the outcome of such actions will materially affect our results of operations for a particular period, based upon consultation with counsel, management does not expect that the aggregate liability, if any, resulting from these proceedings would have a material effect on the Bank's consolidated balance sheets, consolidated statements of income or liquidity.

14. Derivative Financial Instruments

The Bank enters into derivative contracts primarily to manage its interest rate risk, as well as for customer accommodation purposes. The derivatives are recognized on the consolidated balance sheets either as assets or liabilities at fair value. Derivatives can be measured in terms of their notional amounts, but this amount is not recorded in the consolidated balance sheets and is not, when viewed in isolation, a meaningful measure of the risk profile of the instruments. The notional amount is generally not exchanged, but is used only as the basis on which interest and other payments are determined.

Credit and market risks are inherent in derivative instruments. Credit risk is defined as the possibility that a loss may occur from the failure of another party to perform in accordance with the terms of the contract, which exceeds the value of the existing collateral, if any. Market risk is defined as the risk of loss arising from an adverse change in the market value of the derivative instrument caused by fluctuations in market prices or rates.

The following table summarizes information on derivative notional or contract amounts, receivables (asset derivatives) and payables (liability derivatives) by accounting designation and contract types:

	As of December 31,					
	2013			2012		
	Notional or contract amount	Fair Value ⁽¹⁾		Notional or contract amount	Fair Value ⁽¹⁾	
Asset derivatives		Liability derivatives	Asset derivatives		Liability derivatives	
<i>(dollars in thousands)</i>						
Derivatives designated as hedging instruments:						
Fair value hedges:						
Interest rate contracts	\$ 1,200,000	\$ 3,979	\$ 3,662	\$ 1,175,000	\$ 7,357	\$ -
Cash flow hedges:						
Interest rate contracts	2,150,000	9,723	13,660	1,700,000	18,038	60
Subtotal	3,350,000	13,702	17,322	2,875,000	25,395	60
Derivatives not designated as hedging instruments:						
Free-standing derivatives:						
Interest rate contracts ⁽²⁾	9,716,302	257,110	247,878	10,899,781	427,192	391,217
Market-linked swaps and options ⁽³⁾	1,716,184	36,833	36,944	1,463,514	37,384	37,545
Foreign exchange contracts	600,912	4,303	4,552	700,445	10,775	8,816
Credit guarantee derivative	130,960	3,570	-	239,225	6,143	-
Subtotal	12,164,358	301,816	289,374	13,302,965	481,494	437,578
Total derivatives	\$15,514,358	\$315,518	\$306,696	\$16,177,965	\$506,889	\$437,638

⁽¹⁾ Asset derivatives and liability derivatives are recorded in other assets and other liabilities, respectively, on the consolidated balance sheets.

⁽²⁾ Includes derivatives related to mortgage sale activity with notional amount of \$46.8 million and \$625.5 million as of December 31, 2013 and 2012, respectively. The fair value of asset derivatives was \$0.4 million and \$8.9 million and fair value of liability derivative was nil and \$0.5 million as of December 31, 2013 and 2012, respectively.

⁽³⁾ Includes bifurcated derivatives embedded in market-linked instruments. The asset derivatives represent market-linked swaps and purchased options and the liability derivatives represent written market-linked options.

Fair Value Hedges

The Bank uses interest rate swap contracts to hedge changes in fair value from interest rate changes of underlying fixed-rate debt instruments, including fixed-rate certificates of deposit and certain fixed-rate FHLB advances. As of December 31, 2013, the weighted-average remaining life of the currently active fair value hedges was approximately 1.3 years.

The following table shows the effect of fair value hedging on the Bank's pre-tax income:

	Years ended December 31,			
	2013		2012	
	Deposits	Long-term debt	Deposits	Long-term debt
<i>(dollars in thousands)</i>				
Gains (losses) recorded in net interest income	\$ 143	\$ 5,782	\$ (261)	\$ 2,646
Gains (losses) recorded in noninterest income:				
Recognized on derivatives	(108)	(6,785)	1,978	6,576
Recognized on hedged items	122	7,159	(1,805)	(8,135)
Recognized as ineffective portion	14	374	173	(1,559)
Total	\$ 157	\$ 6,156	\$ (88)	\$ 1,087

The total impact of amortization related to the carrying value adjustments of hedged items due to fair value hedges terminated prior to 2012 was nil and a loss of \$1.1 million for the years ended December 31, 2013 and 2012, respectively.

Cash Flow Hedges

Interest rate swap contracts are used to hedge the forecasted cash flows of underlying floating-rate debt and floating-rate loans, including floating-rate FHLB advances. Changes in the fair values of derivatives designated as cash flow hedges, to the extent effective, are recorded in AOCI until income from the cash flows of the hedged items is realized. Any ineffectiveness arising during the hedging relationship is recognized in income in the period in which it arises. As of December 31, 2013, the weighted-average remaining life of the currently active cash flow hedges was approximately 2.9 years.

The following table shows the effect of the effective portion of cash flow hedging on the Bank's pre-tax, other comprehensive income and net income:

<i>(dollars in thousands)</i>	Years ended December 31,	
	2013	2012
Net unrealized (loss) gain recognized in OCI	\$ (9,205)	\$23,576
Net (gain) reclassified from AOCI to net income	\$(13,277)	\$(6,328)

The estimated amount to be reclassified from AOCI into noninterest income during the next 12 months is a gain of \$14.1 million. This amount could differ from amounts actually realized due to changes in interest rates and the addition of other hedges subsequent to December 31, 2013.

Free-Standing Derivatives

Free-standing derivative instruments include derivative transactions entered into for purposes for which hedge accounting does not apply. These derivatives include interest rate swaps, interest rate collars, interest rate floors, market-linked swaps and purchased options, written market-linked options and forward commitments to fund and sell residential mortgage loans. The Bank acts as a seller and buyer of interest rate derivatives and foreign exchange contracts to accommodate customers. To mitigate the market and liquidity risk associated with these derivatives, the Bank generally enters into similar offsetting positions.

Under the Guarantee, the Credit guarantee derivative is recorded at fair value in other assets in the consolidated balance sheets. See Note 20 for additional details.

The following table shows the net gains recorded in noninterest income relating to free-standing derivatives not recognized as hedging instruments, held by the Bank:

<i>(dollars in thousands)</i>	As of December 31,	
	2013	2012
Interest rate contracts	\$10,711	\$17,420
Credit guarantee derivative	4,396	38,257
Market-linked swaps and options	2	198
Foreign exchange contracts	12,662	12,296
Total net gains	\$27,771	\$68,171

Offsetting Assets and Liabilities

The Bank primarily enters into derivative contracts with counterparties utilizing a standard International Swaps and Derivatives Association master netting agreement ("ISDA") and Collateral Support Annex ("CSA") agreements to reduce its exposure to credit risk. The ISDA agreement allows for the right of setoff in the event of either a default or an additional termination event. CSA agreements govern the terms of daily collateral posting practices. Collateral practices mitigate the potential loss impact to affected parties by requiring liquid collateral to be posted on a scheduled basis to secure the aggregate net unsecured exposure.

The Bank has elected to present assets and liabilities related to derivatives on a gross basis in the consolidated balance sheets. The following table provides details for which netting is permissible as of:

<i>(dollars in thousands)</i>	Gross Amounts of Recognized Assets/ Liabilities	Gross Amounts Offset in the Balance Sheet	Net Amounts Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet		Net Amount
				Financial Instruments	Cash Collateral Received/ Pledged	
December 31, 2013						
Derivatives Assets	\$315,518	\$-	\$315,518	\$ (89,517)	\$ -	\$226,001
Derivative Liabilities	\$306,696	\$-	\$306,696	\$ (224,257)	\$ (2,300)	\$ 80,139
December 31, 2012						
Derivatives Assets	\$506,889	\$-	\$506,889	\$ (25,537)	\$ -	\$481,352
Derivative Liabilities	\$437,638	\$-	\$437,638	\$ (205,093)	\$ (122,430)	\$110,115

15. Fair Value

The Bank determines the fair value of certain assets and liabilities based on the fair value hierarchy established under applicable accounting guidance, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Recurring Fair Value Measurements:

The Bank measures certain financial instruments at fair value on a recurring basis. These instruments are primarily securities available for sale and derivatives. The Bank has an organized and established process for determining and reviewing recurring fair value measurements reported in our consolidated financial statements. The fair value of assets and liabilities is determined using several methods including third-party pricing services, purchased valuation software or internally-developed models in accordance with the Bank's policy.

The fair value measurements are reviewed to ensure they are reasonable and in line with market experience in similar asset classes. For example, we perform one or more of the following procedures to validate the fair value measurement:

- Corroborate pricing by reference to other independent market data such as broker quotes, market transactions and relevant benchmark indices;
- Review pricing by Bank personnel familiar with market liquidity and other market-related conditions;
- Compare to other pricing vendors (if available); and
- Challenge vendor pricing and investigate prices on a specific instrument-by-instrument basis

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value on a recurring basis, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy:

Trading assets

Trading assets consist of U.S. Treasury securities. The U.S. Treasury securities are classified as Level 1 and fair value is determined using quoted market prices (unadjusted) in active markets for identical securities.

Securities

The Bank has an Impairment and Valuation Steering Committee ("IVSC") to oversee its valuation framework for measuring the fair value of securities available for sale. The Bank utilizes third-party pricing services in determining the fair value of substantially all securities. IVSC consists of senior executive management and other relevant employees who meet on a quarterly basis and monitor the use of pricing sources and other valuation processes. In addition, a cross-functional team comprised of representatives from our Treasury, Risk and Controllers groups, reviews and approves the fair value measurements on a monthly basis. This management team also analyzes changes in fair value from period to period.

Securities classified as Level 1 are priced using quoted market prices (unadjusted) in active markets for identical securities, and consist of U.S. Treasury securities, money market funds and equity securities. When quoted market prices are not available, fair values are classified as Level 2 using quoted prices for similar assets in markets that are either active or not active and through model-based techniques in which all significant inputs are observable for the asset, either directly or indirectly, for substantially the full term of the financial instrument. Examples of such instruments include agency mortgage-backed securities, collateralized debt obligations, collateralized loan obligations, municipal securities and corporate debt securities.

If relevant market prices are limited or unavailable, fair value measurements may require use of significant unobservable inputs, in which case the fair values are classified as Level 3. Level 3 securities primarily consist of Community Reinvestment Act (“CRA”) bonds, which are categorized within states and political subdivisions, and are valued using proprietary discounted cash flow models from a third-party service provider. The significant input to the valuation model is a bond yield, which consists of interest rate yield curves, credit spreads and liquidity spreads. This requires judgment due to the absence of available market prices and lack of liquidity. An increase or decrease in any of the factors that comprise the bond yields would result in lower or higher fair values for CRA bonds, respectively.

Derivatives

All of our derivatives are private transactions where quoted market prices are not readily available. Therefore, the Bank values these derivatives using internal valuation techniques, primarily discounted cash flows. Valuation techniques and inputs to internally-developed models depend on the type of derivative and nature of the underlying rate, price or index upon which the derivative’s value is based. Key inputs can include yield curves, credit curves, foreign-exchange rates, volatility measurements and other market parameters. Where model inputs can be observed in a liquid market and the model does not require significant judgment, such derivatives are typically classified as Level 2. Level 2 derivatives include interest rate swaps, foreign currency and forward contracts and certain options.

We also measure the fair value of certain derivatives using an option-pricing model with significant unobservable inputs, which are classified as Level 3. The derivatives are embedded written options linking the returns on host certificates of deposit to the performance of baskets of equity securities, equity indices or commodity indices. We purchase offsetting options to minimize the related market risk. The fair value of the derivative instruments would increase or decrease based on the performance of the underlying equity securities, equity indices or commodity indices. The primary unobservable inputs to the values of these options are the volatility of option prices for the underlying securities in the basket or market indices and correlation of underlying individual securities in the basket or market indices.

An increase in the volatility or correlation factor would generally increase the fair value of the option. A decrease in the volatility or correlation factor would generally decrease the fair value of the option. The correlation factor is considered independent from movements in other significant unobservable inputs for the derivative instruments.

The fair value of the credit guarantee derivative is also classified as a Level 3 asset since the Bank estimates its fair value using an internally-developed discounted cash flow valuation model. The key assumptions in the model and the drivers of changes in fair value are credit loss forecasts to project the future potential payoffs from the Guarantee and the rate to discount the estimated claims under the Guarantee. The credit loss forecast is an internally-developed estimate that cannot be directly corroborated by observable market data. A significant increase or decrease in the credit loss forecast would result in a significantly higher or lower fair value measurement. See Note 20.

In addition, the fair value for derivatives may include an adjustment for estimated counterparty and Bank credit risk.

Deferred compensation plan and Other assets

Assets for deferred compensation plans are classified as Level 1 assets and consist of money market funds held within a nonqualified deferred compensation trust. Fair value measurement of these assets is based upon quoted prices.

The following tables present the financial assets and financial liabilities measured at fair value on a recurring basis by category and by valuation hierarchy level:

<i>(dollars in thousands)</i>	As of December 31, 2013			
	Level 1	Level 2	Level 3	Total
Trading assets	\$ 6,499	\$ -	\$ -	\$ 6,499
Securities available for sale:				
U.S. Treasury and other U.S. Government agencies and corporations	2,497,581	127	-	2,497,708
Mortgage and asset-backed securities:				
Government agencies ⁽¹⁾	-	3,288,195	-	3,288,195
Government sponsored agencies ⁽¹⁾	-	819,932	-	819,932
Collateralized debt obligations	-	9,405	-	9,405
Collateralized loan obligations	-	119,466	-	119,466
Other asset-backed securities	-	46	2	48
Collateralized mortgage obligations:				
Government agencies	-	1,025,168	-	1,025,168
Government sponsored agencies	-	353,942	-	353,942
States and political subdivisions	-	473,203	49,372	522,575
Corporate debt securities	-	42,787	-	42,787
Equity securities	6,190	-	-	6,190
Total securities available for sale	\$2,503,771	\$6,132,271	\$49,374	\$8,685,416
Derivative assets ⁽²⁾				
Interest rate contracts	-	270,812	-	270,812
Foreign exchange contracts	-	4,303	-	4,303
Market-linked swaps and purchased options	-	-	36,833	36,833
Credit guarantee derivative	-	-	3,570	3,570
Total derivative assets	-	275,115	40,403	315,518
Deferred compensation plan and other assets	34,014	63	19	34,096
Total assets measured at fair value on a recurring basis	\$2,544,284	\$6,407,449	\$89,796	\$9,041,529
Derivative liabilities ⁽²⁾				
Interest rate contracts	\$ -	\$ 265,200	\$ -	\$ 265,200
Foreign exchange contracts	-	4,552	-	4,552
Written market-linked options	-	-	36,944	36,944
Total derivative liabilities	-	269,752	36,944	306,696
Other liabilities	-	60	-	60
Total liabilities measured at fair value on a recurring basis	\$ -	\$ 269,812	\$36,944	\$ 306,756

⁽¹⁾ Backed by residential real estate.

⁽²⁾ These amounts are reflected in other assets and other liabilities on the consolidated balance sheets.

As of December 31, 2012

<i>(dollars in thousands)</i>	As of December 31, 2012			
	Level 1	Level 2	Level 3	Total
Trading assets	\$ 6,498	\$ -	\$ -	\$ 6,498
Securities available for sale:				
U.S. Treasury and other U.S. Government agencies and corporations	1,798,631	812	-	1,799,443
Government sponsored agencies	-	50,037	-	50,037
Mortgage and asset-backed securities:				
Government agencies ⁽¹⁾	-	4,319,093	-	4,319,093
Government sponsored agencies ⁽¹⁾	-	1,212,993	-	1,212,993
Collateralized debt obligations	-	10,275	-	10,275
Collateralized loan obligations	-	111,603	-	111,603
Other asset-backed securities	-	323	152	475
Collateralized mortgage obligations:				
Government agencies	-	7,823	-	7,823
Government sponsored agencies	-	42,739	-	42,739
States and political subdivisions	-	555,187	47,921	603,108
Equity securities	6,451	-	-	6,451
Total securities available for sale	\$1,805,082	\$6,310,885	\$48,073	\$8,164,040
Derivative assets ⁽²⁾				
Interest rate contracts	-	452,587	-	452,587
Foreign exchange contracts	-	10,775	-	10,775
Market-linked swaps and purchased options	-	-	37,384	37,384
Credit guarantee derivative	-	-	6,143	6,143
Total derivative assets	-	463,362	43,527	506,889
Deferred compensation plan and other assets	30,966	138	33	31,137
Total assets measured at fair value on a recurring basis	\$1,842,546	\$6,774,385	\$91,633	\$8,708,564
Derivative liabilities ⁽²⁾				
Interest rate contracts	\$ -	\$ 391,277	\$ -	\$ 391,277
Foreign exchange contracts	-	8,816	-	8,816
Written market-linked options	-	-	37,545	37,545
Total derivative liabilities	-	400,093	37,545	437,638
Other liabilities	-	148	-	148
Total liabilities measured at fair value on a recurring basis	\$ -	\$ 400,241	\$37,545	\$ 437,786

⁽¹⁾ Backed by residential real estate.

⁽²⁾ These amounts are reflected in other assets and other liabilities on the consolidated balance sheets.

The Bank's policy is to recognize the fair value of transfers among Levels 1, 2 and 3 as of the end of the reporting period. There were no transfers between Levels 1 and 2 for the year ended December 31, 2013 and 2012, respectively.

The changes for 2013 in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized in the table below. Net unrealized losses of \$10.2 million were included in net income for the year relating to assets held as of December 31, 2013. Net unrealized gains of \$10.2 million were included in net income for the year relating to liabilities held as of December 31, 2013.

(dollars in thousands)	Balance of asset (liability) as of January 1, 2013	Total net gains (losses) included in net income ⁽¹⁾	Total net gains (losses) included in OCI ⁽²⁾	Purchases/ Issuances	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Balance of asset (liability) as of December 31, 2013
Securities available for sale:									
Other asset-backed securities	\$ 152	\$ -	\$ (25)	\$ -	\$ -	\$ (125)	\$ -	\$-	\$ 2
States and political subdivisions	47,921	-	(1,173)	2,279	-	(6,221)	6,566	-	49,372
Total securities available for sale	\$ 48,073	\$ -	\$ (1,198)	\$ 2,279	\$ -	\$ (6,346)	\$ 6,566	\$-	\$ 49,374
Market-linked swaps and purchased options	\$ 37,384	\$ (9,866)	\$ -	\$ 18,314	\$ (3,815)	\$ (5,184)	\$ -	\$-	\$ 36,833
Credit guarantee derivative	6,143	4,396	-	-	-	(6,969)	-	-	3,570
Deferred compensation plan and Other assets	33	-	-	-	-	(14)	-	-	19
Total assets	\$ 91,633	\$ (5,470)	\$ (1,198)	\$ 20,593	\$ (3,815)	\$ (18,513)	\$ 6,566	\$-	\$ 89,796
Written market-linked options	\$ (37,545)	\$ 9,866	\$ -	\$ (18,314)	\$ 3,837	\$ 5,212	\$ -	\$-	\$ (36,944)
Total liabilities	\$ (37,545)	\$ 9,866	\$ -	\$ (18,314)	\$ 3,837	\$ 5,212	\$ -	\$-	\$ (36,944)

⁽¹⁾ Included in noninterest income in the consolidated statements of income.

⁽²⁾ Included in net change in unrealized gains on securities available for sale in the statements of comprehensive income.

The changes for 2012 in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized in the table below. There were no net unrealized gains or losses included in net income for the year relating to assets or liabilities held as of December 31, 2012.

(dollars in thousands)	Balance of asset (liability) as of January 1, 2012	Total net gains (losses) included in net income ⁽¹⁾	Total net gains (losses) included in OCI ⁽²⁾	Purchases/ Issuances	Sales	Settlements	Transfers into Level 3 ⁽⁴⁾	Transfers out of Level 3 ⁽³⁾	Balance of asset (liability) as of December 31, 2012
Securities available for sale:									
Collateralized debt obligations	\$ 45,133	\$ (11,692)	\$ 16,783	\$-	\$ (35,809)	\$ (4,140)	\$ -	\$ (10,275)	\$ -
Collateralized loan obligations	128,655	(3,716)	26,970	-	(40,412)	106	-	(111,603)	-
Other asset-backed securities	177	-	(3)	-	-	(22)	-	-	152
States and political subdivisions	-	-	-	-	-	-	47,921	-	47,921
Total securities available for sale	\$ 173,965	\$ (15,408)	\$ 43,750	\$-	\$ (76,221)	\$ (4,056)	\$ 47,921	\$ (121,878)	\$ 48,073
Market-linked swaps and purchased options	-	-	-	-	-	-	37,384	-	37,384
Credit guarantee derivative	23,883	38,257	-	-	-	(55,997)	-	-	6,143
Deferred compensation plan and Other assets	33	-	-	-	-	-	-	-	33
Total assets	\$ 197,881	\$ 22,849	\$ 43,750	\$-	\$ (76,221)	\$ (60,053)	\$ 85,305	\$ (121,878)	\$ 91,633
Written market-linked options	\$ -	\$ -	\$ -	\$-	\$ -	\$ -	\$ (37,545)	\$ -	\$ (37,545)
Total liabilities	\$ -	\$ -	\$ -	\$-	\$ -	\$ -	\$ (37,545)	\$ -	\$ (37,545)

⁽¹⁾ Included in noninterest income in the consolidated statements of income.

⁽²⁾ Included in net change in unrealized gains on securities available for sale in the statements of comprehensive income.

⁽³⁾ Transferred out of Level 3 to Level 2 at the end of the reporting period due to an increase in the volume of trading activity for certain securities, which resulted in increased occurrences of observable market prices.

⁽⁴⁾ Transferred into Level 3 from Level 2 at the end of the period due to consideration of market factors used in pricing these instruments, accordingly, there is no Level 3 activity presented.

Nonrecurring Fair Value Measurements:

We may be required, from time to time, to measure certain other assets at fair value on a nonrecurring basis in accordance with applicable accounting guidance. These assets are subject to fair value adjustments that result from the application of lower of cost or fair value accounting or write-downs of individual assets to fair value. The following is a description of valuation methodologies used for assets and liabilities recorded at fair value on a nonrecurring basis.

Loans held for sale

Loans that are classified as held for sale are recorded at the lower of cost or fair value. For loans originated as held for sale, the fair value is based on quoted prices or rates for similar assets traded in active markets; accordingly, these are classified as Level 2. The fair value of the loans transferred to held for sale is obtained from pricing provided by independent sales facilitators and considers a number of factors including value of collateral, credit quality of the loan, guarantees, anticipated cash flows as well as assumptions about investor return requirements and is therefore classified as Level 3.

Impaired Loans

A large portion of the Bank's impaired loans are collateral dependent and are measured at fair value on a nonrecurring basis using the collateral value as a practical expedient. The fair values of collateral for impaired loans are primarily based on real estate appraisal reports prepared by third-party appraisers. The Bank has a real estate valuation services group that manages the real estate appraisal solicitation and evaluation process for commercial real estate. The Bank reviews the third-party's appraisal to ensure that the methods, assumptions, data sources, and conclusions are reasonable and appraised values may be adjusted for management's judgment. The appraised values consider factors such as capitalization rates, conditions of sales, physical characteristics of the property, rental income and other expenses associated with the property. Impaired loans are classified as Level 3 based on significant unobservable inputs in the fair value measurements. The fair values of impaired loans are reviewed and evaluated quarterly for additional impairment and adjusted accordingly.

OREO

OREO assets include foreclosed properties securing residential and commercial loans. OREO assets are adjusted to lower of cost or fair value less costs to sell. The amount by which the recorded investment in the loan exceeds the fair value (less estimated costs to sell) is charged off against the Allowance for loans and leases. Subsequently, OREO assets are carried at the lower of carrying value or fair value less costs to sell. Any subsequent declines in fair value and recoveries in those declines of the assets are recognized in a valuation allowance through noninterest income.

Fair value for OREO is generally determined using appraised values of the collateral, which may be considered to be largely unobservable and accordingly, we classify OREO assets as Level 3. For residential OREO assets, the Bank engages a third-party to assist in the real estate appraisal solicitation process. The Bank then performs an appraisal review process to ensure the methods, assumptions, data sources and conclusions are reasonable, well-supported and appropriate for the property and market.

MSRs

MSRs are measured at fair value on a nonrecurring basis, when they become impaired. MSRs do not trade in an active market with readily observable prices. Accordingly, the fair value of these assets is classified as Level 3. See Note 3 for further information.

The following table provides the level of valuation inputs used to determine each fair value adjustment, the fair value of the related individual assets or portfolios for assets subject to fair value adjustments on a nonrecurring basis, and total losses for the year ended:

<i>(dollars in thousands)</i>	Level 1	Level 2	Level 3	Total Losses for the Year Ended
December 31, 2013:				
Impaired loans	\$-	\$ -	\$ 96,768	\$51,513
Other Real Estate Owned	\$-	\$ -	\$ 7,477	\$ 577
Loans held for sale ⁽¹⁾	\$-	\$ 13,959	\$ -	\$ -
Mortgage servicing rights	\$-	\$ -	\$ 38,742	\$ -
December 31, 2012:				
Impaired loans	\$-	\$ -	\$109,599	\$28,880
Other Real Estate Owned	\$-	\$ -	\$ 18,873	\$ 5,533
Loans held for sale ⁽¹⁾	\$-	\$217,084	\$ 44,017	\$34,161
Mortgage servicing rights	\$-	\$ -	\$ 25,181	\$ 16

⁽¹⁾ See Note 5 for related charge-offs at time of transfer to held for sale for Level 2 assets.

The following table provides information about the valuation techniques and significant unobservable inputs used in the valuation of the Bank's significant Level 3 assets and liabilities measured at fair value.

<i>(dollars in thousands)</i>	Fair Value	Valuation Technique(s)	Significant Unobservable Input	Range	Weighted-Average
December 31, 2013:					
State and political subdivisions and others	\$ 49,372	Discounted cash flow	Yield	1.00% - 6.50%	3.13%
Market-linked swaps and purchased options	\$ 36,833	Option model	Volatility factor	24.98% - 56.91%	33.83%
Written market-linked options	\$ 36,944		Correlation factor	15.56% - 61.70%	39.53%
Impaired Loans ⁽¹⁾	\$ 96,768	Appraised/Marketable value	Appraised/Marketable value	n/m ⁽²⁾	n/m(2)
Other Real Estate Owned ⁽¹⁾	\$ 7,477	Appraised value	Appraised value	n/m ⁽²⁾	n/m(2)
December 31, 2012:					
State and political subdivisions and others	\$ 47,921	Discounted cash flow	Yield	2.66% - 6.50%	4.52%
Market-linked swaps and purchased options	\$ 37,384	Option model	Volatility factor	25.00% - 40.50%	29.00%
Written market-linked options	\$ 37,545		Correlation factor	30.40% - 65.30%	46.50%
Impaired Loans ⁽¹⁾	\$109,599	Appraised/Marketable value	Appraised/Marketable value	n/m(2)	n/m(2)
Other Real Estate Owned ⁽¹⁾	\$ 18,873	Appraised value	Appraised value	n/m(2)	n/m(2)

⁽¹⁾ The fair value of these assets is determined based on appraised values of collateral or broker price opinions, the range of which is not meaningful to disclose.

⁽²⁾ Not meaningful.

Fair Value of Financial Instruments

We are required to disclose estimated fair values and classification within the fair value hierarchy for certain financial instruments that are not carried at fair value in the Bank's consolidated financial statements. Financial instruments include such items as cash and due from banks, loans, deposits, short-term borrowings and long-term debt. Disclosure of fair values is not required for certain items such as lease financing, investments accounted for under the equity method of accounting, obligations for pension and other postretirement benefits, premises and equipment, prepaid expenses, goodwill and identifiable intangible assets, and income tax assets and liabilities.

Reasonable comparisons of our fair value information to other financial institutions cannot necessarily be made as the fair value disclosure standard permits many alternative calculation techniques which require numerous assumptions used to estimate fair values. The following is a description of valuation methodologies used for estimating fair value for financial instruments not recorded at fair value on a recurring basis:

Cash and due from banks

Cash and due from banks include amounts due from other financial institutions and interest-bearing deposits in other banks. We use their carrying amounts as a proxy for fair values due to their short-term nature, and they are classified as Level 1.

Loans, net

The fair value of loans is determined by discounting the future expected cash flows, adjusted for prepayment and credit loss estimates, based on current rates offered for loans with similar characteristics and remaining maturity. The valuation requires significant judgment because significant inputs such as prepayment rates and credit losses are not observable due to the absence of documented market prices. Loans, net are classified as Level 3.

Deposits

The fair value of deposits with no maturity date (e.g., interest and noninterest-bearing checking, regular savings, and certain types of money market savings accounts) is equal to the amount payable on demand at the reporting date.

Accordingly, these are classified as Level 1. Fair values of fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits. Accordingly, these are classified as Level 2.

Short-term borrowings

Short-term borrowings are carried at cost and include Federal funds purchased and securities sold under agreements to repurchase. The carrying amount is considered to be their fair value due to their short-term nature. These are classified as Level 2.

Long-term debt

The fair values are estimated generally using discounted cash flow analyses based on our current incremental borrowing rates for similar types of borrowing arrangements and are inclusive of our current credit spread levels. As the significant inputs are market observable, long-term debt is classified as Level 2.

Off-balance sheet financial instruments

During the normal course of business, the Bank has various loan commitments and standby letters of credit outstanding. The Bank's pricing of such financial instruments is based largely on credit quality, probability of funding and other requirements. Letters of credit and commitments to fund loans generally have short-term, floating-rate features and contain clauses that limit the Bank's exposure to changes in credit quality. A reasonable estimate of the fair value of these instruments is the carrying value of deferred fees. As of December 31, 2013 and 2012, the fair value was immaterial.

The following tables present the carrying values and estimated fair values of certain financial instruments, and their classification within the fair value hierarchy:

<i>(dollars in thousands)</i>	As of December 31, 2013				
	Carrying Value	Level 1	Level 2	Level 3	Total
Financial Assets					
Cash and due from banks	\$ 825,492	\$ 825,492	\$ -	\$ -	\$ 825,492
Loans, net ⁽¹⁾	\$43,513,964	\$ -	\$ -	\$43,640,156	\$43,640,156
Financial Liabilities					
Deposits	\$48,372,468	\$40,637,554	\$7,847,419	\$ -	\$48,484,973
Short-term borrowings	\$ 3,055,802	\$ -	\$3,055,802	\$ -	\$ 3,055,802
Long-term debt ⁽²⁾	\$ 2,295,317	\$ -	\$2,272,575	\$ -	\$ 2,272,575

⁽¹⁾ Excludes net leases of \$3,181.1 million as of December 31, 2013.

⁽²⁾ Excludes capital leases of \$17.7 million as of December 31, 2013.

<i>(dollars in thousands)</i>	As of December 31, 2012				
	Carrying Value	Level 1	Level 2	Level 3	Total
Financial Assets					
Cash and due from banks	\$ 1,054,216	\$ 1,054,216	\$ -	\$ -	\$ 1,054,216
Loans, net ⁽¹⁾	\$41,429,515	\$ -	\$ -	\$41,664,050	\$41,664,050
Financial Liabilities					
Deposits	\$47,107,437	\$37,768,548	\$9,476,923	\$ -	\$47,245,471
Short-term borrowings	\$ 328,190	\$ -	\$ 328,190	\$ -	\$ 328,190
Long-term debt ⁽²⁾	\$ 2,959,861	\$ -	\$3,014,609	\$ -	\$ 3,014,609

⁽¹⁾ Excludes net leases of \$2,851.0 million as of December 31, 2012.

⁽²⁾ Excludes capital leases of \$14.9 million as of December 31, 2012.

16. Cash and Dividend Restrictions

Federal Reserve Board regulations require the Bank to maintain reserve balances against certain deposit liabilities with the Federal Reserve Bank. The average required reserve balance was \$210.7 million and \$194.0 million for the years ended December 31, 2013 and 2012, respectively.

California statutes limit the amount of dividends the Bank may declare or pay to the lesser of the Bank's retained earnings or the net income of the Bank for the prior three years less any dividends paid during those three years. The amount available for payment of dividends without prior regulatory approval was \$1.1 billion and \$1.0 billion as of December 31, 2013 and 2012 respectively.

17. Other Comprehensive (Loss) Income

Comprehensive income (loss) is defined as the change in equity from all transactions other than those with stockholders, and is comprised of net income and OCI. The following table provides the details for OCI:

	For the years ended December 31,					
	2013			2012		
	Pretax Amount	Income Tax (Expense) Benefit	After-tax Amount	Pretax Amount	Income Tax (Expense) Benefit	After-tax Amount
<i>(dollars in thousands)</i>						
Pension and other benefits adjustment:						
Net actuarial gains (losses) arising during the period	\$ 94,983	\$ (38,563)	\$ 56,420	\$ (19,786)	\$ 8,032	\$ (11,754)
Reclassification of amounts to net periodic benefit costs: ⁽¹⁾						
Amortization of net loss	23,853	(9,684)	14,169	24,760	(10,052)	14,708
Amortization of net prior service credit	(46)	19	(27)	(1,035)	421	(614)
Subtotal reclassifications to net periodic benefit costs	23,807	(9,665)	14,142	23,725	(9,631)	14,094
Net change in pension and other benefits adjustment	118,790	(48,228)	70,562	3,939	(1,599)	2,340
Securities available for sale:						
Unrealized net (losses) gains arising during the year	(367,280)	149,115	(218,165)	138,634	(56,285)	82,349
Reclassifications to net income:						
Net (gains) on debt securities available for sale	(66,683)	27,073	(39,610)	(54,102)	21,965	(32,137)
Subtotal reclassifications to net income	(66,683)	27,073	(39,610)	(54,102)	21,965	(32,137)
Net change in unrealized (losses) gains on securities available for sale	(433,963)	176,188	(257,775)	84,532	(34,320)	50,212
Cash flow derivative hedges:						
Unrealized net (losses) gains arising during the year	(9,205)	3,738	(5,467)	23,576	(9,572)	14,004
Reclassifications to net income:						
Interest income – Loans	(13,468)	5,468	(8,000)	(6,489)	2,634	(3,855)
Interest expense – Deposits	191	(78)	113	161	(65)	96
Subtotal reclassifications to net income	(13,277)	5,390	(7,887)	(6,328)	2,569	(3,759)
Net change in unrealized (losses) gains on cash flow derivative hedges	(22,482)	9,128	(13,354)	17,248	(7,003)	10,245
OCI for the year	\$(337,655)	\$137,088	\$(200,567)	\$105,719	\$(42,922)	\$ 62,797

⁽¹⁾ These items are included in the computation of net periodic benefit cost which is recorded in salaries and employee benefits see Note 18 for additional details.

The following table summarizes the changes in AOCI balances, net of tax:

	Pension and Other Benefits	Securities Available for Sale	Cash Flow Derivative Hedges	Total AOCI
Balance as of January 1, 2012:	\$(92,221)	\$ 81,474	\$ 83	\$ (10,664)
OCI before reclassifications	(11,754)	82,349	14,004	84,599
Amounts reclassified from AOCI	14,094	(32,137)	(3,759)	(21,802)
Balance as of December 31, 2012:	\$(89,881)	\$ 131,686	\$10,328	\$ 52,133
OCI before reclassifications	56,420	(218,165)	(5,467)	(167,212)
Amounts reclassified from AOCI	14,142	(39,610)	(7,887)	(33,355)
Balance as of December 31, 2013	\$(19,319)	\$(126,089)	\$ (3,026)	\$(148,434)

18. Benefit Plans

The Bank has the following pension and other postretirement benefit plans:

Pension Benefits:

Funded Pension Plans

The Bank had previously offered the Employees' Retirement Plan ("ERP") of BancWest Corporation to its employees, which is a noncontributory defined benefit pension plan. The ERP was created from the merger of two separate plans: the First Hawaiian Bank Employee Plan and the Bank of the West Employee Plan. The Bank of the West Employee Plan was a cash balance pension plan that was frozen on January 1, 2010. At the freeze date, the plan stopped accruing benefits and was closed to new participants. However, existing participants of the plan continue to earn interest until distributions are made in accordance with the plan requirements.

Additionally, in connection with the acquisition of United California Bank ("UCB") in 2002, the Bank assumed the pension obligations of UCB. UCB employees participated in a funded noncontributory final average pay defined benefit pension plan ("UCBP") that was frozen on June 30, 2003 to new participants and benefit accruals.

Unfunded Pension Plans

The Bank also sponsored an unfunded excess benefit pension plan covering employees whose pay or benefits exceed certain regulatory limits and, for certain key executives, an unfunded supplemental executive retirement plan ("SERP"). The unfunded excess plan was frozen on January 1, 2010 to new participants and benefit accruals. The SERP was frozen in 2002 to new participants; however benefits continue to accrue for existing plan participants.

Additionally, in connection with the acquisition of UCB in 2002, the Bank assumed the pension obligations of UCB's unfunded supplemental pension benefit plan ("UCB SEP") which was available to eligible key executives if certain requirements were met. The UCB SEP was frozen on June 30, 2003 to new participants and benefit accruals.

Other Postretirement Benefits:

Postretirement Medical and Life Insurance Plan

The Bank offers an unfunded postretirement medical and life insurance plan. The benefits include access to medical benefits and the payment of premiums for medical and life insurance benefits.

Executive Life Insurance Plan

The Bank also offered pre-and postretirement life insurance benefits for certain executives under the unfunded Executive Life Insurance Plan (the "ELIP"). The accumulated benefit obligation and expense amounts for the ELIP are included in Other Benefits in the tables that follow.

Pension Accounting

Accounting for defined benefit pension plans involves four key variables that are utilized in the calculation of the Bank's annual pension costs. These factors include: (1) size of the employee population and their estimated compensation increases for active plans, (2) actuarial assumptions and estimates, (3) expected long-term rate of return on plan assets and (4) the discount rate.

Pension expense is directly affected by the number of employees eligible for pension benefits, their estimated compensation increases for active plans and economic conditions, which include the actual return on plan assets. With the help of an actuary, management is able to estimate future expenses and plan obligations based on factors such as compensation increases, discount rate, mortality, turnover, retirement and disability rates.

The Bank uses a building block method to calculate the expected return on plan assets based on the balance of the pension asset portfolio at the beginning of the year and the expected long-term rate of return on that portfolio. The method requires (1) the percentage of total plan assets be multiplied by the expected asset return for each component of the plan asset mix, (2) the resulting weighted expected rates of return for each component be added together to determine the total rate of return and (3) the total adjusted by considering the active management of the portfolio. Under this approach, forward-looking expected returns for each invested asset class are determined. Forward-looking capital market assumptions are typically developed by using historical returns as a starting point and applying a combination of macroeconomics, econometrics, statistical, and other technical analysis, such as spread differentials, to forecast the expected return going forward.

The following table shows the amount of pension and other postretirement benefits recognized in OCI:

<i>(dollars in thousands)</i>	Pension Benefits		Other Benefits	
	2013	2012	2013	2012
Amounts arising during the period:				
Net gain on pension assets	\$ 24,727	\$ 16,880	\$ -	\$ -
Net gain (loss) on obligations	61,441	(36,263)	6,865	(403)
Amendment	-	-	1,950	-
Reclassification adjustments recognized as components of net periodic benefit cost during the period:				
Net loss	23,636	24,711	217	49
Net prior service cost (credit)	34	34	(80)	(1,069)
Amounts recognized in OCI	\$109,838	\$ 5,362	\$8,952	\$(1,423)

The following table shows the amounts within AOCI that have not yet been recognized as components of net periodic benefit costs:

<i>(dollars in thousands)</i>	Pension Benefits		Other Benefits	
	2013	2012	2013	2012
Net loss (gain)	\$34,192	\$143,997	\$ (5)	\$7,077
Net prior service cost (credit)	206	239	(1,870)	-
Ending balance within AOCI	\$34,398	\$144,236	\$(1,875)	\$7,077

The following table shows the amounts within AOCI expected to be recognized as components of net periodic costs during 2014:

<i>(dollars in thousands)</i>	Pension Benefits	Other Benefits
Amortization of net loss	\$4,151	\$ -
Amortization of net prior service cost (credit)	34	(159)
Total	\$4,185	\$(159)

The following table summarizes the changes to the projected benefit obligation, fair value of plan assets, and the funded status for all plans of the Bank:

<i>(dollars in thousands)</i>	Pension Benefits		Other Benefits	
	2013	2012	2013	2012
Projected benefit obligation at January 1,	\$551,975	\$ 519,562	\$ 51,136	\$ 48,985
Service cost	1,291	1,119	1,944	1,844
Interest cost	20,987	22,776	2,098	2,123
Actuarial (gain) loss	(61,441)	36,263	(5,516)	865
Change in plan provisions	-	-	(1,950)	-
Benefit payments	(28,924)	(27,745)	(9,499)	(2,681)
Projected benefit obligation as of December 31,	\$483,888	\$ 551,975	\$ 38,213	\$ 51,136
Fair value of plan assets as of January 1,	\$381,205	\$ 365,980	\$ -	\$ -
Actual return on plan assets	46,815	38,175	-	-
Employer contributions	40,000	-	-	-
Benefit payments	(23,761)	(22,950)	-	-
Fair value of plan assets as at December 31,	\$444,259	\$ 381,205	\$ -	\$ -
Funded status ⁽¹⁾	\$(39,629)	\$(170,770)	\$(38,213)	\$(51,136)

⁽¹⁾Amounts recognized in the consolidated balance sheets are as follows:

<i>(dollars in thousands)</i>	2013	2012	2013	2012
Pension asset for overfunded plans	\$ 40,741	\$ -	\$ -	\$ -
Pension liability for underfunded plans	(80,370)	(170,770)	(38,213)	(51,136)
Total funded status	\$(39,629)	\$(170,770)	\$(38,213)	\$(51,136)

The projected benefit obligation and accumulated benefit obligation for the Bank's funded pension plans were \$403.5 million and \$463.5 million as of December 31, 2013 and 2012, respectively. The projected benefit obligation and accumulated benefit obligation for the Bank's unfunded pension plans was \$80.4 million and \$77.7 million as of December 31, 2013 and \$88.4 million and \$85.5 million as of December 31, 2012, respectively.

Amortization of the unrecognized net gain or loss is included as a component of net periodic benefit cost. If amortization results in an amount less than the minimum amortization required under GAAP, the minimum required amount is recorded. The amount recorded represents unrecognized net gains or losses that exceed 5% of the greater of the projected benefit obligation or the market-related value of plan assets as of the beginning of the year. The unrecognized amounts are amortized on a straight-line basis over the lesser of five years or the average remaining service period of active employees expected to receive benefits under the plan.

The following table sets forth the components of the net periodic benefit cost:

<i>(dollars in thousands)</i>	For the period ended December 31,			
	Pension Benefits		Other Benefits	
	2013	2012	2013	2012
Service cost	\$ 1,291	\$ 1,119	\$1,944	\$ 1,844
Interest cost	20,987	22,776	2,098	2,123
Expected return on plan assets	(22,087)	(21,295)	-	-
Amortization of prior service cost (credit)	34	34	(80)	(1,069)
Recognized net actuarial loss	23,636	24,711	676	511
Total periodic benefit cost	\$ 23,861	\$ 27,345	\$4,638	\$ 3,409

Assumptions

Weighted-average assumptions used to determine benefit obligations and net periodic benefit cost were as follows:

	Funded Pension Plans		Unfunded Pension Plans		Other Benefits ⁽¹⁾	
	2013	2012	2013	2012	2013	2012
Benefit obligations as of December 31:						
Discount rate	4.95%	3.90%	4.95%	3.90%	4.95%	4.50%
Rate of compensation increase	NA	NA	4.00%	4.00%	5.00%	5.00%
Net periodic benefit cost for the period ended December 31:						
Discount rate	3.90%	4.50%	3.90%	4.50%	4.95%	4.50%
Expected long-term return on plan assets	6.00%	6.00%	NA	NA	NA	NA
Rate of compensation increase	NA	NA	4.00%	4.00%	5.00%	5.00%

⁽¹⁾ Includes the postretirement medical and life insurance plan, which used a discount rate of 4.95% and 3.90% in 2013 and 2012, respectively, for benefit obligations and a discount rate of 3.90% and 4.50% in 2013 and 2012, respectively, for net periodic benefit cost. The rate of compensation increase is not applicable to the postretirement medical and life insurance plan.

The assumed discount rate reflects management's estimate of the rate at which the benefits could be effectively settled using a portfolio of high-quality corporate bonds. In selecting the discount rate, the Bank reviews the yield on high quality corporate bonds and resulting yield curves. A portfolio of high-quality corporate bonds is used in conjunction with the yield curve information and the plans' projected benefit cash flows to estimate an internal rate of return in order to select a single discount rate to calculate plan obligations for reporting purposes.

Assumed health care cost trend rates were as follows:

	As of December 31,	
	2013	2012
Health care cost trend rate assumed for next year	7.3%	7.0%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	2023	2017

Assumed health care cost trend rates have an impact on the amounts reported for the health care plans. A one-percentage-point change in the assumed health care cost trend rates would have the following pretax effect:

(dollars in thousands)	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on 2013 total of service and interest cost components	\$ 54	\$ (46)
Effect on postretirement benefit obligation as of December 31, 2013	\$693	\$(602)

Plan Assets

The assets within the ERP and UCB pension plans ("the Plans") are managed in accordance with the Employee Retirement Income Security Act of 1974 ("ERISA"). The Plans' assets consist mainly of fixed income and equity securities of U.S. and foreign issuers and may include alternative investments such as real estate, private equity and other absolute return strategies.

Investment Strategy and Risk Management for the Plans' Assets

The long-term investment objective of the Plans is to earn an investment return which meets or exceeds certain benchmarks. The Plans' assets are managed in accordance with the Retirement Committee's (the "Committee") guidelines. All transactions that utilize assets of the Trust will be undertaken for the sole benefit of the participants of the Plans.

The assets selected for the Plans may consist of individual security issues managed by the investment manager(s) or securities held in a well-diversified portfolio of a registered investment company or an exchange-traded fund. In addition, for the UCB plan, the assets selected for the plan must have readily ascertainable market value and must be marketable. The assets under this plan may also consist of a publicly traded mutual fund. Investment managers may be permitted to use derivative instruments to control portfolio risk.

The equity portion and debt portion of the Plans' assets may employ commingled assets or be individually invested expressly including the use of money market funds managed by a corporate trustee or by others. In its desire to protect the Plans' assets, the Committee imposes general guidelines on asset allocation. Asset allocations are based on the Committee's appraisal of current and long-term needs for liquidity and income of the Plans and its estimate of the investment returns from the various classes and types of investments. The asset allocations are likely to be the primary determinant of the Plans' returns and the associated volatility of returns for the Plans. The target asset allocations for the Plans are as follows:

	As of December 31,			
	ERP		UCB	
	2013	2012	2013	2012
Equity	50%	50%	45%	45%
Fixed Income	50	50	50	50
Other	-	-	5	5
Total	100%	100%	100%	100%

Concentration of Risk

The Bank describes "risk" as the possibility of not achieving the Plans' actuarial rates of return. Risks associated with the Plans' investments include systematic and nonsystematic risk, interest rate, yield curve, reinvestment and credit risk and the combination of these risks. The Bank mitigates the credit risk of investments by establishing guidelines with the investment managers. Both the Bank and our investment managers monitor the diversity of the Plans' assets to ensure that they meet ERISA requirements. Equity securities in the Plans did not include BancWest or BNP Paribas stock as of December 31, 2013 and 2012.

The tables below summarize the Bank's pension plan assets by investment category. The three-level hierarchy that describes the inputs used to measure assets at fair value is discussed in Note 1:

<i>(dollars in thousands)</i>	As of December 31, 2013			
	Fair Value	Level 1	Level 2	Level 3
Asset Category				
Cash and equivalents	\$ 2,710	\$ 2,710	\$ -	\$ -
Fixed income:				
U.S. Government agency and government sponsored agency securities and corporate securities	125,093	2,716	122,377	-
Mutual funds	68,757	68,757	-	-
Municipal bonds	8,745	-	8,745	-
Exchange-traded funds	3,754	3,754	-	-
Contracts/annuities	11,277	-	-	11,277
Equities:				
Mutual funds	121,727	121,701	26	-
Exchange-traded funds	57,891	57,891	-	-
Common stock	44,066	44,066	-	-
Multi-strategy mutual funds	2,792	2,792	-	-
Total plan investments	\$446,812	\$304,387	\$131,148	\$11,277
Net pending trades	(2,553)			
Total plan assets	\$444,259			

As of December 31, 2012

<i>(dollars in thousands)</i>	As of December 31, 2012			
	Fair Value	Level 1	Level 2	Level 3
Asset Category				
Cash and equivalents	\$ 4,440	\$ 4,440	\$ -	\$ -
Fixed income:				
U.S. Government agency and government sponsored agency securities and corporate securities	120,391	-	120,391	-
Mutual funds	18,256	18,256	-	-
Municipal bonds	7,682	-	7,682	-
Exchange-traded funds	4,147	4,147	-	-
Contracts/annuities	10,844	-	-	10,844
Equities:				
Mutual funds	127,103	120,186	6,917	-
Exchange-traded funds	42,354	42,354	-	-
Common stock	32,807	32,807	-	-
Multi-strategy mutual funds	13,181	13,181	-	-
Total plan investments	\$381,205	\$235,371	\$134,990	\$10,844

The changes in the Bank's Level 3 pension plan assets were as follows:

<i>(dollars in thousands)</i>	Contracts/Annuities
Beginning balance as of January 1, 2013	\$10,844
Actual return on plan assets	511
Distributions and settlements	(1,939)
Contributions	1,935
Service fees	(74)
Ending balance as of December 31, 2013	\$11,277

Valuation Methodologies

The following is a description of the valuation methodologies used for the Plans' assets measured at fair value:

- Cash and equivalents include cash and money market fund holdings. The fair values are based on a review of unadjusted quoted prices for identical assets in active markets and are classified as Level 1.
- Fixed income include Securities Exchange Commission (SEC) registered mutual funds, exchange-traded funds, U.S. Government agency and government sponsored agency securities, corporate securities, debt securities issued by a state, municipality or county, and an annuity contract (with interest guarantees) which participates in the general account of a major life insurance company. The fair values of assets classified as Level 1 are based on unadjusted quoted market prices for identical assets in active markets, and primarily consist of SEC registered mutual funds and exchange-traded funds. The fair values of assets classified as Level 2 are primarily determined using market-based pricing matrices using significant inputs observable in the market such as yield curves and trade prices for similar assets. Level 2 assets primarily consist of U.S. Government agency and government sponsored agency securities, corporate and municipal bonds. The determination of the value of the annuity contract requires significant judgment due to lack of market price and liquidity and is classified as Level 3 based on unobservable inputs.
- Equities include SEC registered mutual funds, exchange-traded funds tracking domestic or international equity indices, and individual equities held in the form of common stock of companies in the Standard and Poor's 500 Index. The fair values of Level 1 assets are based on a review of unadjusted quoted prices for identical assets in active markets. Where quoted market prices are not available, the fair values of Level 2 assets are determined using quoted market prices for similar assets.
- Multi-strategy mutual funds include SEC registered mutual funds investing in alternative asset classes. The fair values are based on a review of quoted prices for identical assets in active markets.

Contributions

Bank of the West contributed \$40.0 million to the qualified pension plans during 2013. The Bank expects to contribute \$5.4 million to its non-qualified defined benefit pension plans and \$3.0 million to its other postretirement benefit plans in 2014. Based on the funding requirements of the Pension Protection Act of 2006, the Bank does not anticipate contributing to the ERP during 2014.

Estimated Future Benefit Payments

The following table presents the expected benefit payments, for the periods indicated:

<i>(dollars in thousands)</i>	Pension Benefits	Other Benefits
2014	\$ 29,644	\$ 3,022
2015	\$ 27,509	\$ 4,158
2016	\$ 28,285	\$ 2,672
2017	\$ 29,452	\$ 3,852
2018	\$ 31,680	\$ 2,632
2019 – 2023	\$167,590	\$17,760

401(k) Match Plan

The Bank matches 100% of employee contributions up to 6% of pay to the BancWest Corporation 401(k) Savings Plan, a defined contribution plan. The plan covers all employees who satisfy eligibility requirements. Matching employer contributions to the 401(k) plan for the years ended December 31, 2013 and 2012 were \$28.4 million and \$25.3 million, respectively.

Incentive Plan for Key Executives and Officers' Incentive Plan

The Bank has two incentive plans under which awards of cash are made to certain employees. One plan is for key executives; the Incentive Plan for Key Executives ("IPKE"), and the other plan is for employees below the level of key executives; the Officers' Incentive Plan ("OIP"). The IPKE and OIP limit the aggregate and individual value of the awards that could be issued in any one fiscal year. Both plans have the same limits on individual awards. Salary and employee benefits expense includes IPKE and OIP expense of \$40.4 million and \$41.1 million for the years ended December 31, 2013 and 2012, respectively.

Long-Term Incentive Plans

The Bank has a Performance Share Plan ("PSP") which was designed to reward certain employees for their performance and BancWest's performance over a multi-year performance cycle. Salary and employee benefit expense for the Bank includes PSP expense of \$19.2 million and \$16.5 million for the years ended December 31, 2013 and 2012, respectively.

The Bank also has a Long-Term Incentive Plan ("LTIP") which rewards selected key executives for the Bank of the West performance assessed over a three year performance cycle on a relative and absolute basis. Salary and employee benefits expense for the Bank includes LTIP expense of \$9.2 million and \$10.8 million for the years ended December 31, 2013 and 2012, respectively.

Additionally, the Bank participates in a Global Stock Incentive Plan ("GSIP"), formerly known as the BNPP Stock Option Plan, in which certain members of the Bank's senior management team receive stock option awards from BNPP for shares of BNPP stock. See Note 20 for additional information.

In 2013, the BancWest Corporation International Sustainability and Incentive Scheme ("ISIS") was created to reward, retain and motivate certain employees and to fairly compensate them by aligning their interest with the operational performance of the BNP Paribas Group, including performance on Corporate Social Responsibility ("CSR"). The ISIS plan was created to replace the GSIP on a go-forward basis. See note 20 for additional information.

19. Income Taxes

The expense provision for income taxes was comprised of the following:

<i>(dollars in thousands)</i>	For the years ended December 31,	
	2013	2012
Current:		
Federal	\$212,423	\$228,881
States	59,270	39,981
Total current	271,693	268,862
Deferred:		
Federal	56,871	34,359
States	11,259	11,138
Total deferred	68,130	45,497
Total expense for income taxes	\$339,823	\$314,359

The components of the Bank's net deferred income tax asset were as follows:

<i>(dollars in thousands)</i>	As of December 31,	
	2013	2012
Assets		
Allowance for loan and lease losses and nonperforming assets	\$363,889	\$466,950
Deferred compensation expenses	139,934	186,240
Securities available for sale	92,924	-
Depreciation expense	3,310	-
State income and franchise taxes	21,526	17,458
Other	39,592	46,813
Total deferred income tax assets	\$661,175	\$717,461
Liabilities		
Leases	\$147,482	\$164,226
Securities available for sale	-	105,858
Intangible assets	30,057	26,721
Depreciation expense	-	1,644
Total deferred income tax liabilities	177,539	298,449
Net deferred income tax assets	\$483,636	\$419,012

Net deferred income tax assets are included within other assets in the consolidated balance sheets.

Deferred taxes related to net unrealized gains (losses) on securities available for sale, net unrealized gains (losses) on derivatives and employee benefit plan adjustments are recorded in AOCI (see Note 17). The deferred tax benefit (expense) associated with these adjustments was \$137.1 million and \$(42.9) million for the years ended December 31, 2013 and 2012, respectively.

For the year ended December 31, 2013, no valuation allowance exists. For the year ended December 31, 2012, the Bank recorded a full valuation allowance release of \$3.5 million on the basis that sufficient business capital gains were generated by another member of the California unitary tax return. Realization of deferred tax assets is dependent on generating sufficient taxable income in the future and, although realization is not assured, management believes it is more likely than not that all of the deferred tax assets will be realized.

The following analysis reconciles the federal statutory income tax expenses and rate to the effective income tax expense and rate for the periods indicated:

<i>(dollars in thousands)</i>	For the years ended December 31,			
	2013		2012	
	Amount	%	Amount	%
Federal statutory income tax expense and rate	\$315,965	35.0%	\$305,049	35.0%
Foreign, state and local taxes expense, net of federal effect	48,184	5.3	35,279	4.1
Bank-owned life insurance	(7,050)	(0.8)	(8,851)	(1.0)
Non-taxable income, net	(8,664)	(1.0)	(10,074)	(1.2)
Tax credits	(10,074)	(1.1)	(6,542)	(0.7)
Other	1,462	0.2	(502)	(0.1)
Effective income tax expense and rate	\$339,823	37.6%	\$314,359	36.1%

The Bank and its subsidiaries file income tax returns with the federal government and various state and local jurisdictions. The Internal Revenue Service (“IRS”) has completed the examination with respect to the Bank’s income tax returns for 2006, 2007 and 2008. During 2013, the IRS examination team issued an agreed-to Revenue Agent’s Report for tax years 2006-2008 and the IRS proposed no significant adjustments with respect to the Bank. With few exceptions, the Bank is no longer subject to federal, state, and local income tax examinations for years prior to 2009. As of December 31, 2013, the state and local tax jurisdictions have not proposed any significant adjustments. The Bank believes that there are no other jurisdictions in which the outcome of unresolved issues or claims is likely to be material to our results of operations, financial position or cash flows. The Bank further believes that it has made adequate provision for all income tax uncertainties.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows:

<i>(dollars in thousands)</i>	2013	2012
Beginning balance as of January 1,	\$15,424	\$19,195
Additions based on tax positions related to the current year	587	1,438
Additions for tax positions of prior years	73	826
Reductions for tax positions of prior years	(768)	(280)
Reductions as a result of a lapse of the applicable statute of limitations	-	(5,755)
Balance as of December 31,	\$15,316	\$15,424

Included in the balance of unrecognized tax benefits are \$10.0 million and \$10.1 million of tax benefits as of December 31, 2013 and 2012, respectively which, if recognized, will affect the effective tax rate.

The Bank recognizes interest accrued related to unrecognized tax benefits and penalties as income tax expense. Related to the unrecognized tax benefits notes above, the Bank accrued interest and penalties of \$0.6 million (\$0.4 million, net of federal and state tax benefit) during 2013, and in total, as of December 31, 2013, has recognized a liability for interest and penalties of \$4.6 million (\$3.5 million, net of federal and state benefit). During 2012, the Bank accrued interest and penalties of \$1.9 million (\$1.7 million net of federal and state tax benefit), and in total, as of December 31, 2012, had recognized a liability for interest and penalties of \$4.1 million (\$3.1 million, net of federal and state tax benefit).

The Bank does not believe that the total amounts of unrecognized tax benefits will decrease within twelve months of the reporting date with respect to certain state tax liabilities. The Bank does not expect any positions to be finalized with the tax jurisdictions during the next 12 months.

20. Transactions with Affiliates

The Bank participates in various transactions with its affiliates, including BancWest, First Hawaiian Bank, BNP Paribas and their affiliates.

These transactions are subject to federal and state statutory and regulatory restrictions and limitations which require, among other items, that certain transactions be collateralized, be subject to quantitative limitations, and be on

terms at least as favorable to the Bank as those prevailing at the time for similar non-affiliate transactions. These transactions have included the sales and purchases of assets, foreign exchange activities, financial guarantees, international services, interest rate swaps and intercompany deposits and borrowings.

The following table presents amounts due to and from affiliates and off-balance sheet transactions:

<i>(dollars in thousands)</i>	As of December 31,	
	2013	2012
Cash and due from banks	\$ 45,647	\$ 95,578
Loans	\$ -	\$ 53
Noninterest-bearing demand deposits	\$ 8,434	\$ 8,486
Money market deposits ⁽¹⁾	\$1,706,442	\$1,370,694
Time certificates of deposit	\$ 207,505	\$ 213,600
Other assets	\$ 54,305	\$ 66,895
Other liabilities	\$ 95,760	\$ 168,841
Short-term borrowings	\$ -	\$ 3,223
Fixed-rate unsecured lines of credit	\$ 12,800	\$ 33,700
Noncontrolling interest	\$ 15,004	\$ 18,160
Derivatives (notional or contract amounts):		
Credit guarantee derivative	\$ 130,960	\$ 239,225
Fair value hedge	\$ 200,000	\$ 75,000
Foreign exchange contracts	\$ 135,278	\$ 102,263
Interest rate contracts	\$3,205,211	\$3,248,975
Off-balance sheet transactions:		
Commitments and standby letters of credit	\$ 25,435	\$ 24,277
Guarantees received	\$ 132,690	\$ 135,369

⁽¹⁾ Includes cash deposit to collateralize and secure payments under the Guarantee.

Interest expense to affiliates for the years ended December 31, 2013 and 2012 was \$2.9 million and \$4.2 million, respectively. Noninterest income from affiliate transactions, which includes fair value adjustments related to derivatives, was a net gain of \$33.6 million and a net loss of \$21.5 million for the years ended December 31, 2013 and 2012, respectively.

Credit Guarantee Derivative

The Bank has the Guarantee with its parent, BancWest. Under the Guarantee, BancWest agreed to reimburse the Bank for principal charge-offs, write-downs on foreclosed assets and foregone interest for a specific portfolio of commercial loans and foreclosed properties through March 31, 2017. Under the Guarantee, BancWest makes payments to the Bank on a quarterly basis, and is not entitled to claim any recoveries for any payments made.

The decline in the fair value of the Guarantee asset since inception was primarily driven by decreases in the covered asset principal balances due to charge-offs and pay downs, and changes in credit forecasts.

The following table provides the net gain of the credit guarantee derivative on noninterest income:

<i>(dollars in thousands)</i>	As of December 31,	
	2013	2012
Payments for claims	\$ 6,969	\$ 55,997
Decrease in fair value	(2,573)	(17,740)
Net gain	\$ 4,396	\$ 38,257

Incentive Plans

The Bank participates in the GSIP where certain members of the Bank's senior management team receive stock option awards from BNPP for shares of BNPP stock. The last grants from the plan were made in March 2012. These grants will continue to vest and accrue benefits. GSIP expense was \$2.1 million and \$2.7 million for the years ended December 31, 2013 and 2012, respectively.

The Bank participates in the ISIS plan, which was created to replace the GSIP on a go-forward basis. Persons eligible for the ISIS plan and awards granted under the plan are determined by a compensation committee. Salary and employee benefits expense under the ISIS plan for the year ended December 31, 2013 was immaterial.

21. Subsequent Events

We have evaluated the effects of subsequent events that have occurred after December 31, 2013 through March 12, 2014, the date of our financial statement issuance, and there have been no material events that would require recognition in the consolidated financial statements or disclosures in the notes for the consolidated financial statements of the Bank.

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