CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-Bank)
501(c)(3) REVENUE BOND FINANCING PROGRAM

STAFF REPORT

EXECUTIVE SUMMARY

Applicant:	Catalina Island Museum (Museum or Borrower)	**Amount Requested:**	Not to exceed $5,000,000
Applicant Description:	A California nonprofit public benefit corporation operating since 1953 as a museum dedicated to collecting, preserving and sharing the unique cultural heritage of Santa Catalina Island, Avalon, CA (Catalina).		
Type of Financing:	New Issue of Variable Rate Demand Revenue Bonds		
Project:	The project consists of construction of a new museum building which will be called the Ada Blanche Wrigley Schreiner Building (the "Project"), and provide additional exhibition space, expanded vault area and museum store, digital theater, library and staff offices (the "Museum"). It will offer more than four times the square footage of the present location and expand the museum to over 11,000 square feet. Construction began November 2013 and is expected to be completed in Spring, 2015.		
Project Site:	217 Metropole Avenue, Avalon, CA 90704		
Plan of Finance:	The I-Bank will issue up to $5 million in variable rate demand revenue bonds with a 30 year maturity (the "Series 2014 Bonds"). Payment of interest and principal on the Bonds will be made under an irrevocable direct pay letter of credit issued by Bank of the West. The proceeds of the Series 2014 Bonds will be used to pay costs of the Project and pay costs of issuance.		
Type of Issue:	Public offering of Bonds with minimum denominations of $5,000		
Tax Status:	Tax-exempt 501(c)(3) bonds		
Term:	30 years		
Credit Enhancement:	Irrevocable Direct Pay Letter of Credit		
Credit Rating:	Conditioned on Fitch Ratings assigning an A-/F1 rating or better		
Fees:	App Fee $1,500; Issuance Fee $12,500 (STO $3,000); Annual Fee $500 per year		

Est. Sources of Funds:		**Est. Uses of Funds:**	
Donations	$3,750,036	Land	$1,896,329
Bond Proceeds	5,000,000	Building	6,357,207
		Equipment	290,000
		Costs of Issuance	206,500
TOTAL SOURCES	**$8,750,036**	**TOTAL USES**	**$8,750,036**

Financing Team:	
Bond Counsel:	Kutak Rock
Borrower's Counsel:	Jackson DeMarco Tidus Peckenpaugh
Financial Advisor:	Access to Capital, LLC
Underwriter:	Gates Capital Corporation
Letter of Credit Provider:	Bank of the West
Disclosure Counsel:	Kutak Rock

Public Benefits:	The financing will provide low-cost funds for the construction of the Museum which will serve the island's 4,000 permanent residents and the nearly 1,000,000 visitors to Catalina every year. The new Museum will be a cultural benefit as it will display Santa Catalina Island art, artifacts, and history as well as be able to host traveling art exhibits. The Museum will host special events such as weddings, receptions and fundraisers which will create year round jobs for the residents of Avalon. The Museum will continue to provide an internship program, providing full-time summer work opportunities for college students.

Date of Board Meeting:	**Resolution Number:**	**Prepared by:**
February 25, 2014	**14-01**	John Belmont

Staff Recommendation: Staff recommends approval of Resolution 14-01 authorizing the issuance of Tax-Exempt Bonds for an aggregate amount not to exceed $5,000,000 for the benefit of Catalina Island Museum.

BACKGROUND AND HISTORY

The Museum is the only museum on Catalina and the sole institution dedicated to the exhibition and conservation of the island's art, culture, and history. It was founded by Philip K. Wrigley and a group of community leaders in 1953. The museum is one of the oldest institutions on the island, and is one of its most popular venues. Since its founding, the museum has built an outstanding permanent collection related to the 8,000 years of human settlement on Catalina. The Museum is the repository for all archaeological digs on the island and its collection of archaeological artifacts related to the island is unrivaled.

The Museum currently occupies rented space on the ground floor of the Avalon Casino (Casino). The Museum has never had a permanent building. In 2003 the Museum's Board of Trustees developed a vision for the future that included the construction of a new museum building to provide additional exhibition space and an expanded vault area for the care of the permanent collection. The museum purchased property for a new museum in 2009, which is located near the center of Avalon.

The new museum building will be named Ada Blanche Wrigley Schreiner Building in honor of Phillip K. Wrigley's daughter. It will serve the island's 4,000 permanent residents and the nearly 1,000,000 visitors that come to the island every year. The construction of the Museum will be the largest and most ambitious project on Catalina since the Casino in 1929.

The Museum is governed by a Board of Directors (Board) and managed by an executive staff. See Attachment A – Governance and Management for a list of the members of the Board and executive staff.

PROJECT DESCRIPTION

The new Museum is designed by the architectural design firm of Marengo Morton Architects of La Jolla. It will offer more than four times the square footage of the present location and expand the Museum to over 11,000 square feet. The developer is Christopherhill Development, Inc.

The new building will offer a number of amenities including:

- Spacious entrance lobby and visitors center
- Digital theater equipped for films, presentations, and lectures
- Atrium and sculpture garden
- Rooftop garden that is equipped for museum events and special receptions
- Expansive museum store
- Exhibition galleries permanently dedicated to the exhibition of island history and special traveling exhibitions traveling to the island from around the world
- Gallery dedicated to the museum's collection of Plein Air painting
- Vault area that includes a storage area for archival material, a library, and staff offices

Construction began November 2013 and is expected to be completed in Spring 2015.

PLAN OF FINANCE

The Series 2014 Bonds will be issued pursuant to Section 63000 et seq. of the Government Code of the State of California, as amended (the "I-Bank Act"), an Indenture of Trust, dated as of March 1, 2014 (the "Indenture"), between the California Infrastructure and Economic Development Bank, as issuer (the "Issuer") and Wells Fargo Bank, National Association, as trustee (the "Trustee"), and a proposed resolution of the Issuer recommended for adoption on February 25, 2014.

The Letter of Credit is an irrevocable direct pay Letter of Credit (the "Letter of Credit") which will initially be issued by Bank of the West (the "Bank") in an amount equal to the aggregate principal amount of the Series 2014 Bonds plus 45 days' interest calculated at the rate of 12% per annum. The Letter of Credit, unless extended, will initially expire in five years in 2019, and will permit Wells Fargo Bank, the Trustee to draw on the Letter of Credit in amounts sufficient to pay (a) the principal of the Series 2014 Bonds when due at maturity, upon earlier redemption or upon acceleration, (b) regularly scheduled interest on the Series 2014 Bonds or payment of interest on a date established for the redemption or acceleration of the Series 2014 Bonds, and (c) the purchase price of Series 2014 Bonds tendered or subject to mandatory tender and not remarketed. If the Letter of Credit is not extended or an alternate Letter of Credit is not obtained by the Borrower, the Bonds will be subject to mandatory redemption. There can be no assurance that the Borrower will be able to obtain an extension of the Letter of Credit or an alternate Letter of Credit. The Bank is under no obligation to extend the Letter of Credit beyond the scheduled expiration thereof.

Pursuant to a loan agreement (the "Loan Agreement"), dated as of March 1, 2014, between I-Bank, as Issuer and Catalina, as borrower (the "Borrower"), I-Bank will loan the proceeds received from the sale of the Series 2014 Bonds to the Borrower to (i) refinance a portion of the cost of the Project and (ii) pay certain costs of issuance and credit enhancement costs in connection with the Series 2014 Bonds. The Series 2014 Bonds will be supported by the Letter of Credit issued by the Bank. Under the Letter of Credit, the Trustee will be permitted to draw amounts indicated in the Letter of Credit for the payments of principal of, purchase price of and interest on, the Series 2014 Bonds whether at maturity, prior redemption, upon acceleration, purchase, on an Interest Payment Date (as defined in the Indenture) or otherwise. The stated amount of the Letter of Credit on any date will be based upon the aggregate principal amount of the outstanding Series 2014 Bonds on such date and interest on such Series 2014 Bonds for 45 days calculated at a rate of 12% per annum based on a 365-day year, the maximum interest rate payable on the Series 2014 Bonds. In consideration for issuing the Letter of Credit, the Borrower will enter into a Reimbursement Agreement, dated as of March 1, 2014 (the "Reimbursement Agreement"), with the Bank.

This staff recommendation is conditioned on Fitch Ratings (Fitch) assigning a rating of "A-/F1" or better to the Series 2014 Bonds (a long-term rating of "A-" and a short-term rating of "F1"). The long term rating reflects Fitch's assessment of the likelihood of repayment of the Series 2014 Bonds to maturity based on the credit of the Letter of Credit Bank.

Neither the faith and credit nor the taxing power of the State or any political subdivision or agency of the State is pledged to the payment of the principal of, premium, if any, purchase price of, or interest on, the Series 2014 Bonds nor is the State of California or any political subdivision thereof in any manner obligated to make any appropriation for the payment thereof. The Series 2014 Bonds and the Indenture under which they will be issued will state that the principal of such Series 2014 Bonds, the premium, if any, and the interest thereon shall not be deemed to constitute a debt or liability of the State or any political subdivision or agency of the State, except to the extent they are limited obligations of the Issuer. The Series 2014 Bonds are special, limited obligations of the Issuer, and the Issuer shall under no circumstances be obligated to pay the

Series 2014 Bonds except from the revenues and other funds pledged therefor under the Indenture.

Bank of the West, founded in 1874, is a California banking corporation organized under the laws of the State of California and the largest subsidiary of BancWest Corporation (“BancWest”), which is a wholly owned subsidiary of BNP Paribas, a French corporation (“BNP Paribas”). BancWest is headquartered in Honolulu, Hawaii, with an administrative headquarters in San Francisco, California. Its principal subsidiaries are the Bank (nearly 700 commercial and retail banking locations in 19 states and First Hawaiian Bank. The Bank is the third largest commercial bank based in California. The Bank and other subsidiaries and affiliates of BancWest offer both consumer and business customers a broad range of banking products and services.

The Bank earned net income of $555 million in 2012, a 26 percent increase from the prior year. For the year 2012, BancWest earned $629 million, a 22 percent increase from 2011. The parent company BNP Paribas achieved a year 2012 profit of $8.8 billion.

Commercial lending grew by $1.8 billion, or 8 percent, in 2012. The Bank’s capital ratios exceed regulatory requirements. As of December 31, 2012, Tier 1 Leverage Ratio was 12.46% (well capitalized requirement is 5.0%); Tier 1 Risk Based Capital Ratio was 14.69% (well capitalized requirement is 6.0%); and Total Risk Based Capital Ratio was 15.95% (well capitalized requirement is 10.0%).

PUBLIC BENEFITS

The construction of a new museum building will provide additional exhibition space and an expanded vault area for the care of its permanent collection. The Museum possesses the single largest photographic archive related to island history. This material is critical to the museum's mission of relating island history to the over 1 million visitors that visit Catalina annually.

Renovation of the Museum will include state of the art climate control, security systems, added technology throughout the galleries, and additional gallery space. The latter allows for the exhibition of material often not related directly to the island’s history. The Museum's Board of Trustees believe that this represents a significant step towards the future of the Museum, expanding the Museum's audience and echoing the original intent of the institution's founders, to create a "well-rounded museum." An additional benefit of the Museum's renovation is the expansion of its Museum Store and Visitor's Center. The Museum Store carries an extensive collection of monographs and an additional array of products related to not only Catalina history but to the Museum's special exhibitions as well.

The Museum is supported primarily through contributions, admission ticket sales from visitors, membership dues and education programs.

Economic benefits:

The new Museum will bring tourists to Catalina for special museum traveling exhibits. The Museum will also be available for special events such as weddings, receptions, and fundraisers. These special events will create year round jobs for the residents that live in Avalon. The new Museum is expected to create 2 new jobs.

The Museum is the largest construction project in Catalina since the Casino was built in 1929. The project will create employment for many of Catalina’s construction workers.

Educational benefits:

For the past twenty years the Museum has received a grant from the Getty Foundation to fund an internship in the Collections Department. The Getty's Multicultural Undergraduate Internship program funds full-time summer work opportunities for students at Los Angeles-area museums and visual arts organizations, exposing the students to career possibilities in the arts. The Museum has worked with many wonderful students over the years. They have completed a variety of important projects for the Museum including the documentation of artifacts, research for exhibitions and publications, transcribing oral history interviews, and assisting with education programs.

Cultural benefits:

The Project will display Catalina art, artifacts, and history in addition to hosting traveling art exhibits. The new Museum will also be in a better position to acquire established state and federal grants for exhibitions and research. These grants are administered by the California council for the humanities and arts. The expansion of the exhibit space will allow for the opportunity of applying for art grants which were unavailable in the past. In honor of Catalina's history, the new Museum's exterior is inspired by the Avalon Casino and the mission-style architecture that is seen throughout the island.

The Project architectural renderings and plans are included in Attachment B.

OTHER PROJECT DATA

PERMITS AND APPROVAL	
Required?	☐ **NO** ☒ **YES, Describe:** Building permits will be required and obtained for the Project involving new construction.
TEFRA	
Date of TEFRA	2/24/2014
Publications	*The Sacramento Bee* *Catalina Islander*
Oral/Written Comments Received	☒ **NO** ☐ **YES, Explain:**
LEGAL QUESTIONNAIRE	
Completed?	☐ **NO** ☒ **YES**
Issues?	☒ **NO** ☐ **YES, Explain:**
ELIGIBILITY REVIEW	
Project meets Public Interest Criteria (per G.C. § 63046 and 63047(d)) ☒ **YES** ☐ **NO**	1. The financing is for a project in the State of California. 2. By providing an irrevocable letter of credit from Bank of the West, the Borrower is capable of meeting its obligations incurred under the proposed Loan Agreement. 3. The proposed financing is appropriate for the Project.
The Project meets the Policies and Procedures for Conduit Revenue Bond Financing for Economic Development Facilities established as guidelines for I-Bank Staff by the Board: ☒ **YES** ☐ **NO**	
INDUCEMENT CERTIFICATE	
Completed?	☐ **NO** ☐ **YES** Certificate No.: ☒ **N/A** Date:

RECOMMENDATION

Staff recommends approval of Resolution 14-01 authorizing the issuance of variable rate demand revenue bonds supported by the irrevocable demand letter of credit from Bank of the West for an aggregate amount not to exceed $5,000,000 for the benefit of Catalina Island Museum to finance the design and construction of an eligible project and to pay costs of issuance of the bonds.

ATTACHMENT A – GOVERNANCE AND MANAGEMENT

The current officers and members of the Board of Trustees and the Corporate Officers are listed below.

BOARD OF TRUSTEES	
Steve Mandel, MD	President
Steve Schreiner	Vice President
Marcelino Saucedo MSC	Treasurer
Judy Hibbs	Secretary
Margaret Bray	Trustee
Joyce Brown	Trustee
Michael Fields	Trustee
Lysa Grigorian	Trustee
Wendy Harp	Trustee
Randy Herrel	Trustee
Ann Hinchliffe	Trustee
Jessica Schreiner	Trustee
Chuck Wright	Trustee

CORPORATE OFFICERS	
Michael De Marsche, PhD	Executive Director
Devin Thompson	Director of Development and Membership
Gail Fornasiere	Director of Marketing and Public Relations

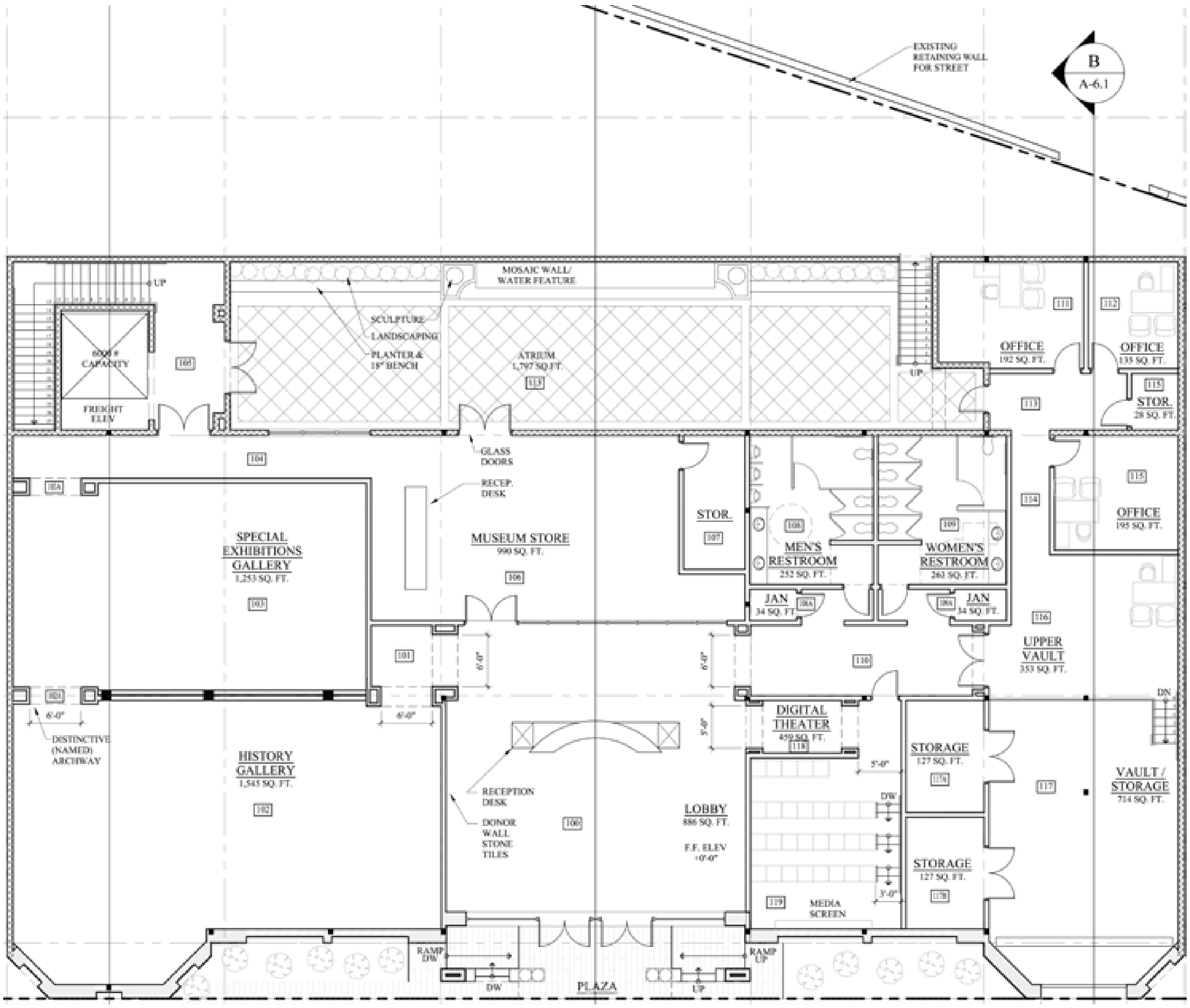
ATTACHMENT B –ARCHITECTURAL RENDERINGS, Plans and Photos

The Ada Blanche Wrigley Schreiner Building of the Catalina Island Museum

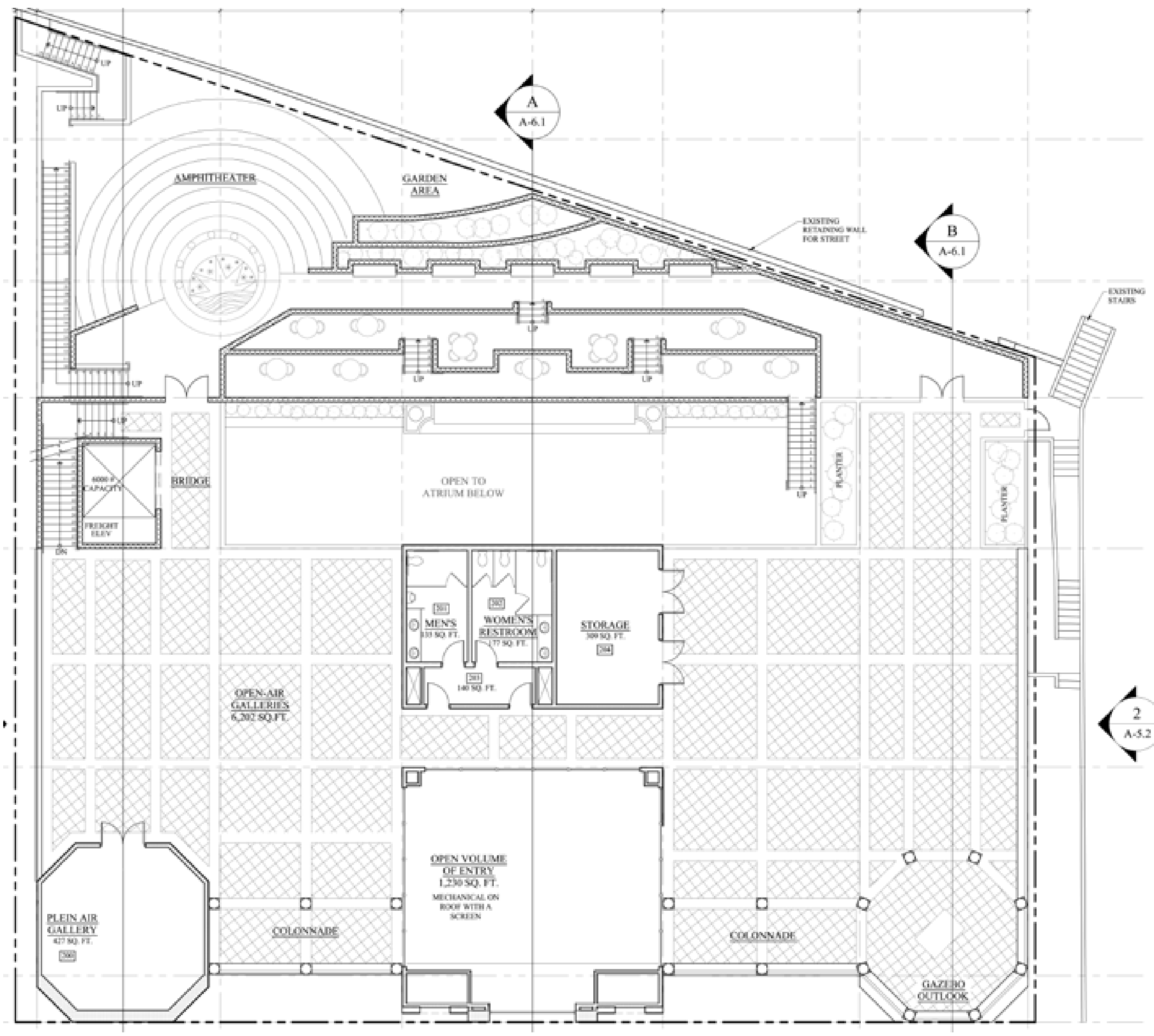
Interior Lobby Perspective

Exterior Atrium Perspective

First Floor Plan



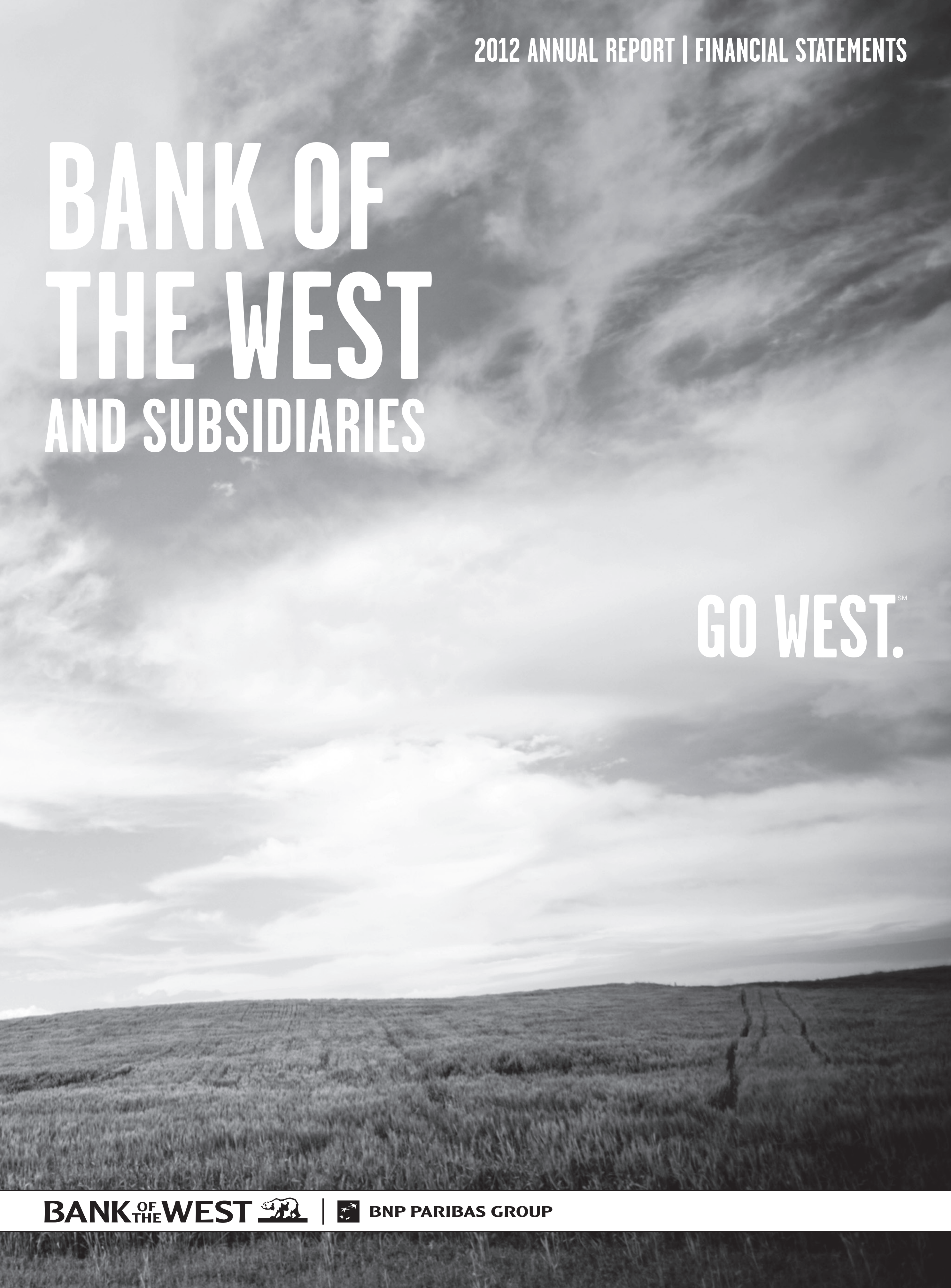
Second Floor Plan



Project Site

2012 ANNUAL REPORT | FINANCIAL STATEMENTS

BANK OF THE WEST AND SUBSIDIARIES



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BANK OF THE WEST | BNP PARIBAS GROUP

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	December 31, 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 Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Bank of the West Stockholder's Equity	Non-controlling Interest	Total Equity
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:

	2012				2011			
(dollars in thousands)	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:

	Year Ended December 31,	
(dollars in thousands)	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.

		Remaining Contractual Principal Maturity							
	Total	Within One Year		After One But Within Five Years		After Five Years But Within Ten Years		After Ten Years	
(dollars in thousands)	Amount	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
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.

	December 31, 2012					
	Less Than 12 Months		12 Months or More		Total	
(dollars in thousands)	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 Unrealized Losses	Fair Value	12 Months or More Unrealized Losses	Fair Value	Total 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:

	2012		2011	
(dollars in thousands)	**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	Weighted Average
Conditional prepayment rate	**7.62% – 34.41%**	**17.27%**	11.23%
Life in years (of the MSR)	**2.24 – 7.96**	**4.56**	5.66
Note rate	**2.85% – 6.02%**	**4.28%**	3.95%
Discount rate	**-**	**10.50%**	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:

	2012		2011	
(dollars in thousands)	**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:

	December 31, 2012			
(dollars in thousands)	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

	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

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:

	December 31,	
(dollars in thousands)	**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.

	December 31, 2012			
(dollars in thousands)	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.

	December 31, 2012					
	Allocated allowance for loan and lease losses			Recorded investment in loans		
(dollars in thousands)	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.

	December 31, 2011			
(dollars in thousands)	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.

	December 31, 2011					
	Allocated allowance for loan and lease losses			Recorded investment in loans		
(dollars in thousands)	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:

	December 31, 2012						
	Commercial Product						Consumer Product
(dollars in thousands)	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

	December 31, 2011					
	Commercial Product					
(dollars in thousands)	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.

	2012				
	Financial Effects			Subsequent Defaults(2)	
(dollars in thousands)	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.

	2011				
	Financial Effects			Subsequent Defaults(1)	
(dollars in thousands)	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:

	December 31, 2012		
(dollars in thousands)	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.

	December 31, 2011		
(dollars in thousands)	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.

	Actual		For Capital Adequacy Purposes		To be Well-Capitalized Under Prompt Corrective Action Provisions	
(dollars in thousands)	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 Notional Amount	December 31, 2012 Fair Value Asset derivatives(1)	December 31, 2012 Fair Value Liability derivatives(2)	December 31, 2011 Notional Amount	December 31, 2011 Fair Value Asset derivatives(1)	December 31, 2011 Fair Value 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:

	December 31, 2012 Interest rate contracts hedging		**December 31, 2011 Interest rate contracts hedging**	
(dollars in thousands)	**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	-	-	-	-	-	-	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 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			
Written market linked options	$ 37,545	Option model	Volatility factor	25.00% - 40.50% (29.00%)
			Correlation factor	30.40% - 65.30% (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.

	2012				
(dollars in thousands)	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.

	2011	
(dollars in thousands)	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:

	Pension Benefits		**Other Benefits**	
(dollars in thousands)	**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:

	Pension Benefits		**Other Benefits**	
(dollars in thousands)	**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:

	Pension Benefits		Other Benefits	
(dollars in thousands)	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:

	Pension Benefits		Other Benefits	
(dollars in thousands)	**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:

	2012			
(dollars in thousands)	**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**

	2011			
(dollars in thousands)	**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:

	2012		2011	
(dollars in thousands)	**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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