2009 Annual Report Financial Statements

Bank of the West and Subsidiaries

BANK OF THE WEST

Member BNP Paribas Group

REPORT OF INDEPENDENT AUDITORS

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, consolidated statements of changes in equity and comprehensive income and consolidated statements of cash flows present fairly, in all material respects, the financial position of Bank of the West and its subsidiaries ("the Bank") at December 31, 2009 and December 31, 2008, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
San Francisco, CA
March 17, 2010

BANK OF THE WEST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,	
(dollars in thousands)	**2009**	**2008**
Interest income		
Loans	**$2,145,955**	$2,500,775
Lease financing	**161,972**	170,786
Securities available for sale	**277,328**	374,558
Other	**8,386**	31,074
Total interest income	**2,593,641**	3,077,193
Interest expense		
Deposits	**465,414**	715,906
Short-term borrowings	**10,793**	92,153
Long-term debt	**412,789**	519,788
Total interest expense	**888,996**	1,327,847
Net interest income	**1,704,645**	1,749,346
Provision for loan and lease losses	**1,324,723**	704,034
Net interest income after provision for loan and lease losses	**379,922**	1,045,312
Noninterest income		
Service charges on deposit accounts	**214,088**	212,923
Trust and investment services income	**15,635**	17,384
Brokerage service fees	**43,162**	48,703
Credit and debit card fees	**67,787**	64,877
Other service charges and fees	**91,553**	101,828
Net losses on securities available for sale (includes impairment losses of $240,777, consisting of $309,765 of total other-than-temporary impairment losses, net of $68,988 recognized in other comprehensive income, for the year ended December 31, 2009)	**(311,863)**	(284,376)
Vehicle and equipment operating lease income	**3,612**	10,094
Income from bank-owned life insurance	**26,425**	42,358
Net gains from trading activities	**19,888**	47,718
Write-downs of other real estate owned assets	**(17,609)**	(2,378)
Other	**5,730**	19,885
Total noninterest income	**158,408**	279,016
Noninterest expense		
Salaries and employee benefits	**674,318**	695,246
Occupancy	**134,756**	136,928
Outside services	**126,155**	113,115
FDIC assessments	**83,348**	17,840
Intangible amortization	**37,499**	40,367
Equipment	**58,079**	61,360
Depreciation-vehicle and equipment operating leases	**3,001**	8,442
Advertising and marketing	**33,833**	42,058
Restructuring cost	**9,396**	-
Other	**169,328**	157,942
Total noninterest expense	**1,329,713**	1,273,298
(Loss) Income before income taxes and noncontrolling interest	**(791,383)**	51,030
Income tax benefit	**(388,252)**	(40,927)
Net (loss) income before noncontrolling interest	**(403,131)**	91,957
Net income (loss) attributable to noncontrolling interest	**225**	(186)
Net (loss) income attributable to Bank of the West	**$ (403,356)**	$ 92,143

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, 2009	2008
Assets		
Cash and due from banks	**$ 878,072**	$ 1,492,343
Interest-bearing deposits in other banks	**447,019**	1,964,414
Federal funds sold and securities purchased under agreements to resell	**320,000**	100,000
Long-term securities purchased under agreements to resell	-	100,000
Trading assets	**5,107**	5,145
Securities available for sale	**6,449,316**	8,387,213
Loans held for sale	**51,804**	95,136
Loans and leases:		
Loans and leases	**44,424,547**	47,099,375
Less allowance for loan and lease losses	**1,220,661**	742,845
Net loans and leases	**43,203,886**	46,356,530
Vehicle and equipment operating leases, net	**152**	20,201
Premises and equipment, net	**464,130**	497,794
Customers' acceptance liability	**3,362**	5,887
Goodwill	**4,198,945**	4,197,633
Other intangibles, net	**159,349**	190,654
Other real estate owned and repossessed personal property	**178,804**	93,821
Interest receivable	**181,266**	236,606
Bank-owned life insurance	**1,274,249**	1,251,999
Other assets	**2,185,129**	1,894,863
Total assets	**$60,000,590**	$66,890,239
Liabilities and Equity		
Deposits:		
Interest-bearing	**$30,797,431**	$28,407,017
Noninterest-bearing	**9,407,715**	8,854,154
Total deposits	**40,205,146**	37,261,171
Federal funds purchased and securities sold under agreements to repurchase	**520,516**	2,180,490
Short-term borrowings	**2,070**	6,110,524
Acceptances outstanding	**3,362**	5,887
Long-term debt	**9,561,677**	11,476,402
Liability for pension benefits	**141,273**	161,857
Other liabilities	**619,686**	970,578
Total liabilities	**51,053,730**	58,166,909
Equity:		
Preferred stock, par value $0.001		
Authorized — 1,000,000 shares		
Issued and outstanding — zero for 2009 and 2008	-	-
Common stock, par value $0.001 per share in 2009 and 2008		
Authorized — 20,000,000 shares		
Issued and outstanding — 5,039,194 and 4,773,943 shares at December 31, 2009 and 2008, respectively	**5**	5
Additional paid-in capital	**8,332,394**	7,729,444
Retained earnings	**843,271**	1,257,439
Accumulated other comprehensive loss	**(234,584)**	(267,392)
Total Bank of the West stockholder's equity	**8,941,086**	8,719,496
Noncontrolling interest	**5,774**	3,834
Total equity	**8,946,860**	8,723,330
Total liabilities and equity	**$60,000,590**	$66,890,239

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

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

(dollars in thousands)	Preferred Stock Shares	Preferred Stock Amount	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 as of January 1, 2008	-	$-	4,773,943	$5	$7,726,455	$1,408,242	$(105,805)	$9,028,897	$ -	$9,028,897
Comprehensive income:										
Net income (loss)	-	-	-	-	-	92,143	-	92,143	(186)	91,957
Other comprehensive income, net of tax:										
Pension	-	-	-	-	-	-	(55,658)	(55,658)	-	(55,658)
Unrealized net losses on securities available for sale arising during the year	-	-	-	-	-	-	(251,247)	(251,247)	-	(251,247)
Reclassification of net realized losses on securities available for sale included in net income	-	-	-	-	-	-	168,919	168,919	-	168,919
Unrealized net losses on cash flow derivative hedges arising during the year	-	-	-	-	-	-	(27,988)	(27,988)	-	(27,988)
Reclassification of net realized losses on cash flow derivative hedges included in net income	-	-	-	-	-	-	4,387	4,387	-	4,387
Comprehensive income (loss)	-	-	-	-	-	92,143	(161,587)	(69,444)	(186)	(69,630)
Stock options	-	-	-	-	2,989	-	-	2,989	-	2,989
Dividends	-	-	-	-	-	(242,946)	-	(242,946)	-	(242,946)
Noncontrolling interest	-	-	-	-	-	-	-	-	4,020	4,020
Balance, December 31, 2008	-	$-	4,773,943	$5	$7,729,444	$1,257,439	$(267,392)	$8,719,496	$3,834	$8,723,330
Comprehensive income:										
Net income (loss)	-	-	-	-	-	**(403,356)**	-	**(403,356)**	**225**	**(403,131)**
Cumulative effect from change in accounting for other-than-temporary impairment on debt securities, net of tax	-	-	-	-	-	**14,490**	**(14,490)**	-	-	-
Other comprehensive income, net of tax:										
Pension	-	-	-	-	-	-	**19,960**	**19,960**	-	**19,960**
Unrealized net losses on securities available for sale arising during the year	-	-	-	-	-	-	**(129,130)**	**(129,130)**	-	**(129,130)**
Unrealized losses related to factors other than credit	-	-	-	-	-	-	**(40,979)**	**(40,979)**	-	**(40,979)**
Reclassification of net realized losses on securities available for sale included in net income	-	-	-	-	-	-	**185,247**	**185,247**	-	**185,247**
Unrealized net losses on cash flow derivative hedges arising during the year	-	-	-	-	-	-	**(4,514)**	**(4,514)**	-	**(4,514)**
Reclassification of net realized losses on cash flow derivative hedges included in net income	-	-	-	-	-	-	**16,714**	**16,714**	-	**16,714**
Comprehensive income (loss)	-	-	-	-	-	**(388,866)**	**32,808**	**(356,058)**	**225**	**(355,833)**
Stock options	-	-	-	-	**2,949**	-	-	**2,949**	-	**2,949**
Dividends	-	-	-	-	-	**(25,302)**	-	**(25,302)**	-	**(25,302)**
Stock issuance	-	-	**265,251**	-	**600,001**	-	-	**600,001**	-	**600,001**
Noncontrolling interest	-	-	-	-	-	-	-	-	**1,715**	**1,715**
Balance, December 31, 2009	-	**$-**	**5,039,194**	**$5**	**$8,332,394**	**$ 843,271**	**$(234,584)**	**$8,941,086**	**$5,774**	**$8,946,860**

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, 2009	2008
Cash flows from operating activities		
Net income (loss)	**$ (403,356)**	$ 92,143
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**1,324,723**	704,034
Net losses on securities available for sale	**311,863**	284,376
Net gains on sale of loans	**(7,180)**	(2,056)
Net decrease in trading assets	**38**	977
Depreciation and amortization	**86,795**	86,263
Deferred income taxes	**(218,740)**	(239,803)
Increase in interest receivable and other assets	**(60,841)**	(667,787)
(Increase) decrease in interest payable and other liabilities	**(327,451)**	142,007
Net increase in loans held for sale	**(49,562)**	(11,060)
Other, net	**32,270**	477,732
Net cash provided by operating activities	**688,559**	866,826
Cash flows from investing activities		
Securities available for sale		
Proceeds from maturities and prepayments	**3,806,727**	1,875,941
Proceeds from sales	**622,817**	1,258,534
Purchases	**(2,820,604)**	(3,357,921)
Net decrease (increase) in loans resulting from originations and collections	**1,443,567**	(3,697,383)
Purchases of loans and leases	**(7,458)**	(234,126)
Proceeds from sales of loans	**354,170**	56,920
Decrease in vehicle and equipment operating leases resulting from collections	**17,048**	11,303
Purchase of premises and equipment	**(26,997)**	(39,244)
Decrease (increase) in bank-owned life insurance investments	**4,175**	(4,305)
Decrease in long-term securities purchased under agreements to resell	**100,000**	-
Other, net	**66,241**	(8,953)
Net cash used for investing activities	**3,559,686**	(4,139,234)
Cash flows from financing activities		
Net increase (decrease) increase in deposits	**2,943,975**	(794,280)
Net (decrease) increase in short-term borrowings under three months	**(7,061,428)**	5,543,238
Proceeds from issuance of short-term borrowings	**-**	1,407,000
Repayment of short-term borrowings	**(707,000)**	(2,000,000)
Proceeds from issuance of long-term debt	**1,152,509**	4,869,200
Repayment of long-term debt	**(3,064,606)**	(4,059,666)
Cash dividends paid	**(25,302)**	(242,946)
Proceeds from issuance of common stock	**600,001**	-
Noncontrolling interest	**1,940**	3,834
Net cash provided by financing activities	**(6,159,911)**	4,726,380
Net increase (decrease) in cash and cash equivalents	**(1,911,666)**	1,453,972
Cash and cash equivalents at beginning of year	**3,556,757**	2,102,785
Cash and cash equivalents at end of year	**$ 1,645,091**	$ 3,556,757
Supplemental disclosures		
Interest paid	**$ 676,206**	$ 1,390,734
Income taxes paid	**60,054**	205,423
Noncash investing and financing activities:		
Transfers from loans held for sale to loans and leases	**88,427**	-
Transfers from loans to foreclosed properties	**160,713**	62,461

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

1. Organization and Summary of Significant Accounting Policies

Bank of the West ("BOW") is a State of California chartered bank. BOW has 664 branch banking locations (648 full service retail branches and 16 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. Lending and other services focus on corporate, consumer and smaller middle market businesses. Bank of the West's principal subsidiaries include Essex Credit Corporation ("Essex"), BW Insurance ("BWI") and BancWest Investment Services, Inc. ("BWIS"). The terms "the Bank," "we," "our," "us" and similar terms as used in this report refer to Bank of the West and subsidiaries.

At December 31, 2009, BancWest Corporation ("BancWest"), a financial holding company, owned 81.5% of the outstanding common stock of the Bank. The balance of the Bank's common stock is held by BNP Paribas ("BNPP"). In 2009, the Bank received additional capital of approximately $600 million by issuing 265,251 shares of common stock to BancWest. BancWest's other bank subsidiary (wholly owned) is First Hawaiian Bank. The Bank has no preferred or non-voting stock outstanding. BancWest is a wholly owned subsidiary of BNPP.

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. The Bank maintains insurance on its customer deposit accounts with the FDIC, which requires quarterly payments of deposit insurance premiums. In December 2008, the Bank opted into the Debt Guarantee Program ("DGP") of the FDIC's Temporary Liquidity Guarantee Program ("TLGP") under which the FDIC guaranteed certain unsecured debt issued by the banks for an assessment fee based on the amount of debt issued and outstanding and the term of the debt. The amount that the Bank could have issued under the DGP was limited to 125 percent of the Bank's senior unsecured debt outstanding as of September 30, 2008, which was $1,727 million. On March 27, 2009 the Bank issued $1 billion in DGP guaranteed senior unsecured debt which matures on March 27, 2012. Except for a limited emergency guarantee facility, which requires formal application to and approval by the FDIC, the ability of the Bank to issue guaranteed debt under the FDIC's DGP terminated on October 31, 2009.

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") and to practices within the banking industry. The accompanying consolidated financial statements include the accounts of the Bank and all of its majority-owned subsidiaries. Companies in which the Bank holds more than a 50% voting equity interest or are a variable interest entity ("VIE") in which the Bank absorbs the majority of expected losses or receives a majority of the expected residual returns are consolidated. All material intercompany transactions among the Bank and its subsidiaries have been eliminated. For consolidated entities where it holds less than an 100% interest, the Bank reports income or loss attributable to noncontrolling shareholders in net income (loss) attributable to noncontrolling interest 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 accounting principles generally accepted in the United States ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Management bases its estimates on historical experience and various other assumptions believed to be reasonable. Although these estimates are based on management's best knowledge of current events and actions that may impact the Bank in the future, actual results may be different from the estimates.

Reclassifications

Certain amounts in the financial statements for the prior year may have been reclassified to conform with the current financial statement presentation.

Business Combinations

Business combinations are accounted for using the acquisition method of accounting and the net assets of the businesses acquired are recorded at their fair values at the date of acquisition.

Cash and Due from Banks

Cash and due from banks include amounts due from other financial institutions as well as in-transit clearings. Under the terms of the Depository Institutions Deregulation and Monetary Control Act, the Bank is required to maintain noninterest-earning reserves against certain deposit liabilities with the Federal Reserve Bank. The average amount of these reserve balances, including coin and currency, was $403 million and $382 million in 2009 and 2008, respectively.

For purposes of the consolidated statement of cash flows, the Bank considers 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) to be cash equivalents.

Securities

Financial instruments used for trading purposes are stated at fair value. Realized gains and losses and unrealized changes in fair value of financial instruments utilized in trading activities are included in "net gains from trading activities" in the consolidated statements of income.

Investments in debt securities and equity securities having readily determinable fair values and not used for trading purposes are classified as available for sale and stated at estimated fair value. Amortization of premiums and accretion of discounts for investment securities available for sale are included in interest income. Unrealized gains or losses on investment securities available for sale are reflected in accumulated other comprehensive income (loss), net of applicable income taxes. Realized gains and losses on the sales of investment securities available for sale are determined using the specific identification method.

Other securities include stock of the Federal Home Loan Banks of San Francisco and Topeka and are carried at cost.

The cost basis of individual securities is written down through a charge to earnings when declines in value below amortized cost are considered to be other-than-temporary. The Bank evaluates its investment securities portfolio on a quarterly basis for indicators of other-than-temporary impairment. This determination requires significant judgment. The Bank assesses whether other-than-temporary impairment has occurred when the fair value of a debt security is less than the amortized cost basis at the balance sheet date. Under these circumstances, an other-than-temporary impairment is considered to have occurred (a) if the Bank intends to sell the security; (b) if it is more likely than not the Bank will be required to sell the security before recovery of its amortized cost basis; or (c) if the Bank does not expect to recover the entire amortized cost basis of the security. For securities that the Bank expects to sell or will more likely than not be required to sell before recovery of its amortized cost basis, an other-than-temporary impairment is recognized in earnings equal to the entire difference between the security's amortized cost basis and its fair value at the balance sheet date. If the Bank does not expect to recover the entire amortized cost basis of the security, but does not plan to sell the security or it is not likely to be required to sell the security before the recovery of its entire amortized cost basis, then the other-than-temporary impairment is separated into (a) the amount representing the credit loss and (b) the amount related to all other factors. The amount of the other-than-temporary impairment related to credit loss is recognized in earnings while the amount related to other factors is recognized in other comprehensive income ("OCI"), net of applicable taxes. Subsequently, the Bank accounts for the other-than-temporarily impaired security as if the security had been purchased on the measurement date of the other-than-temporary impairment at an amortized cost basis equal to the previous amortized cost basis less the other-than-temporary impairment recognized in earnings.

Loans Held for Sale

Loans that the Bank has the intent to sell or securitize are classified as held for sale. Loans held for sale are carried at the lower of cost or fair value. Fair value is determined based on collateral value or estimated cash flows and prevailing market prices for loans with similar characteristics. Subsequent declines in fair value are recognized either as a charge-off or as noninterest income, depending upon the length of time the loan has been recorded as held for sale. If a loan that has been held for sale is subsequently determined to be held for investment, then the Bank transfers it to loans and leases.

Loans and Leases

Loans and leases, for which the Bank has the intent and the ability to hold for the foreseeable future, or until maturity or payoff, are classified as loans and leases. Loans are recorded at the principal amount outstanding, net of unamortized deferred loan origination fees and costs and net of unearned income. Deferred discounts and fees or deferred costs and premiums are accreted or amortized using the interest method over the contractual term of the loan adjusted for actual prepayments.

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

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

The Bank provides lease financing under a variety of arrangements, primarily consumer automobile leases, commercial equipment leases and leveraged leases.

- 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.

- Leveraged lease transactions are subject to outside financing through one or more participants, without recourse to the Bank. These transactions are accounted for by recording as the net investment in each lease the aggregate of rentals receivable (net of principal and interest on the related nonrecourse debt) and the estimated residual value of the equipment less the unearned income. Income from these lease transactions is recognized during the periods in which the net investment is positive.

Purchased Impaired Loans

The accounting for acquired impaired loans applies to individual loan purchases, portfolio purchases, and loans acquired in a purchase business combination. It does not apply to loans to borrowers in good standing under revolving credit agreements, such as credit cards and home equity loans, loans carried at fair value on the balance sheet, or leases.

For acquired loans for which the Bank does not expect to receive all contractual cash flows due, it initially records the loans at their fair values, which represent the present value of cash flows actually expected to be received. At the time of acquisition, no amount is included for these loans in the allowance for loan and lease losses. The difference between the contractual payments due and the cash flows expected to be received is considered the non-accretable difference and is not accreted into income. The difference between the total cash flows expected to be received and the fair value of the loans acquired is the accretable discount, which is accreted into interest income using the effective interest method over the period the loans are expected to be held. The Bank periodically updates its estimates of the cash flows expected to be received; increases in estimated cash flows are reflected as increases in the accretable difference and recorded as income over the remaining term of the loan; decreases in estimated cash flows are recognized as impairment through the allowance for loan and lease losses. Depending on the size and risk characteristics of the acquired loans, the loans may be accounted for individually or aggregated into pools.

Impaired and Nonaccrual Loans and Leases

The Bank evaluates certain loans for impairment on a case-by-case basis. Examples of such loans include commercial loans, commercial real estate loans and construction loans. The Bank considers a loan to be impaired when 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 based on the present value of the expected future cash flows discounted at the loan's effective interest rate, except for collateral-dependent loans.

For collateral-dependent loans, we measure impairment based on the fair value of the collateral less disposition costs. On a case-by-case basis, we may measure impairment based upon a loan's observable market price.

The Bank collectively evaluates for impairment, 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. For loans classified as having similar credit risks, the evaluation considers historical and projected default rates and loss severities, internal risk ratings, and geographic, industry and other environmental factors. In addition, management considers the current business strategy and credit process, including credit limit setting and compliance, credit approvals, loan underwriting criteria and loan workout procedures. Loss forecast estimates are utilized for consumer products, which consider a variety of factors including, but not limited to, historical loss experience, estimated defaults or foreclosures based on portfolio trends and delinquencies. These factors are updated to capture changes in the characteristics of subject portfolios and changes in the Bank's business strategies.

The Bank generally places a loan or lease on nonaccrual status:

- When management believes that collection of principal or interest has become doubtful; or

- When loans or leases are 90 days past due as to principal or interest, unless they are well secured and in the process of collection.

Not all impaired loans or leases are necessarily 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. Impaired loans or leases without a related allowance for loan and lease losses are generally collateralized by assets with fair values in excess of the recorded investment in the loans or leases.

When the Bank places a loan or lease on nonaccrual status, previously accrued and uncollected interest is reversed against interest income of the current period. When the Bank receives a cash interest payment on a nonaccrual loan or lease, it is applied as a reduction of the principal balance when there are doubts about the ultimate collection of the recorded balance. Otherwise, the Bank records such payments as income.

Nonaccrual loans and leases are generally returned to accrual status when they: (1) become current as to principal and interest and have demonstrated a sustained period of payment performance; or (2) become both well secured and in the process of collection.

Troubled debt restructuring occurs when the Bank for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider.

Residual value estimates for commercial leases are generally determined through internal or external reviews of the leased property. The Bank reviews commercial lease residual values at least annually and recognizes residual value impairments deemed to be other-than-temporary.

Allowance for Loan and Lease Losses

The Bank maintains the allowance for loan and lease losses (the "Allowance") at a level which, in management's judgment, is adequate to absorb probable losses that have been incurred in the Bank's loan and lease portfolio as of the balance sheet date. While the Bank has a formalized methodology for determining an adequate and appropriate level of the Allowance, estimates of inherent loan and lease losses involve judgment and assumptions as to various factors which deserve current recognition in the Allowance. Principal factors considered by management in determining the Allowance include historical loss experience, the value and adequacy of collateral, the level of nonperforming loans and leases, the growth and composition of the portfolio, periodic review of loan and lease delinquencies, results of examinations of individual loans and leases and/or evaluation of the overall portfolio by senior credit personnel, internal auditors and regulators, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay and general economic conditions.

The Allowance consists of two components, allocated and unallocated. The allocated portion of the Allowance includes reserves that are allocated based on impairment analyses of specific loans or pools of loans as described under "Impaired and Nonaccrual Loans and Leases" above. The unallocated portion of the Allowance for loan and lease losses is maintained to cover uncertainties in the range of probable outcomes inherent in the estimate of inherent losses. These uncertainties include the imprecision inherent in the forecasting methodologies and certain industry and geographic concentrations (including global economic uncertainty). Management assesses each of these components to determine the overall level of the unallocated portion. The relationship of the unallocated component to the total allowance for loan and lease losses may fluctuate from period to period. Management evaluates the adequacy of the allowance for loan and lease losses based on the combined total of allocated and unallocated components.

The Allowance is increased by provisions for loan and lease losses and reduced by charge-offs, net of recoveries. Consumer loans and leases are generally charged off upon reaching a predetermined delinquency status that ranges from 120 to 180 days and varies by product type. Other loans and leases may be charged off to the extent they are classified as loss, either internally or by the Bank's regulators. Recoveries of amounts that have previously been charged off are credited to the Allowance and are generally recorded only to the extent that cash is received.

The provision for loan and lease losses reflects management's judgment of the current period cost of credit risk inherent in the Bank's loan and lease portfolio. Specifically, the provision for loan and lease losses represents the amount charged against current period earnings to achieve an allowance for loan and lease losses that in management's judgment is adequate to absorb probable losses that have been incurred in the Bank's loan and lease portfolio as of the balance sheet date. Accordingly, the provision for loan and lease losses will vary from period to period based on management's ongoing assessment of the adequacy of the Allowance.

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 of 10-39 years for premises, 3-20 years for furniture and equipment and the shorter of the lease term or the estimated remaining life for leasehold improvements.

Operating Lease Assets

Operating lease rental income for leased assets, generally automobiles, is recognized on a straight-line basis. Related depreciation expense is recorded on a straight-line basis over the life of the lease taking into account the estimated residual value of the leased asset. On a periodic basis, leased assets are reviewed for impairment. Impairment loss is recognized if the carrying amount of leased assets exceeds their fair value and is not recoverable. The carrying amount of leased assets is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the lease payments and the estimated residual value upon the eventual disposition of the equipment. Auto lease receivables are generally charged off before they reach 149 days but no later than 239 days past due.

Goodwill and Other Intangible Assets

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

Goodwill and other indefinite-lived intangible assets are not amortized into income over an estimated life, but are tested for impairment on at least an annual basis. Under applicable accounting guidance, the goodwill impairment test has two steps. First, the Bank compares the fair value of identified reporting units with their carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying value, the goodwill of the reporting unit is not impaired. If the fair value of the reporting units is less than the carrying value, then the second step must be performed to determine the implied fair value of the reporting unit's goodwill and the amount of goodwill impairment.

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

The Bank's review did not result in an impairment of its indefinite-lived or finite-lived intangible assets for the years ended December 31, 2009 and 2008.

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. Upon acquisition of assets taken in satisfaction of a defaulted loan, the excess of the remaining loan balance over the asset's estimated fair value less costs to sell is charged-off against the allowance for loan and lease losses. Subsequent declines in value of the assets are recognized as "write-downs of other real estate owned assets" in the consolidated statements of income.

Transfers and Servicing of Financial Assets

The Bank enters into loan participations and loan sales, including the origination to sell conforming residential mortgage loans to U.S. Government sponsored entities for third party securitization. The Bank records these transactions as a sale when the transferred assets are legally isolated from its creditors and the other accounting criteria for a sale are met. Gains or losses recognized on the sale depend in part on the net carrying amount of the financial assets sold. At the date of transfer, retained servicing rights are recorded at fair value and the remaining carrying value of the transferred financial assets is allocated between the assets sold and remaining interests, if any, that may be held by the Bank based upon their relative fair values at the sale date.

The Bank generally retains the mortgage servicing on loans sold. Mortgage servicing rights are recorded in other assets in the consolidated balance sheets at the lower of cost or fair value and are amortized in proportion to, and over the estimated period that, net servicing income is expected to be received based on projections of the amount and timing of estimated future net cash flows. The amount and timing of estimated future net cash flows are updated based on actual results and updated projections. The Bank periodically evaluates its mortgage servicing rights for impairment stratified by loan category or asset type. The impairment assessment uses a present value of expected cash flows model based upon assumptions for estimated servicing income and expense. These assumptions incorporate estimates of the cost of servicing loans, loan default rates, an appropriate discount rate, and prepayment speeds. The amount of impairment, if any, is recognized as the amount by which the carrying value of the servicing right exceeds its estimated fair value, and is recognized through a valuation allowance.

In connection with its origination to sell conforming residential mortgage loans, the Bank enters into loan commitments to fund these assets at specified rates and for specified periods of time. To the extent that the Bank's interest rate lock commitments relate to loans that will be held for sale upon funding, they are also accounted for as derivatives with gains or losses recorded through noninterest income.

Securities purchased under agreements to resell and securities sold under agreements to repurchase generally qualify as financing transactions under generally accepted accounting principles. We carry such securities at the amounts at which they subsequently will be resold or reacquired as specified in the respective agreements, including accrued interest. It is our policy to take possession of securities purchased under agreements to resell. We monitor the fair value of the underlying securities as compared to the related receivable, including accrued interest, and as necessary, we request additional collateral. Where deemed appropriate, our sale and repurchase agreements with counterparties specify their rights to request additional collateral. 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. Trading assets, securities available for sale, certain other assets and certain other liabilities are recorded at fair value on a recurring basis. Also, from time to time, we may 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 initially elected to defer the adoption of fair value measurement for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value on a recurring basis, until January 1, 2009. There was no material impact on the Bank's financial statements from its adoption on January 1, 2009.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

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

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

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

See Note 15 for more information regarding fair value measurements.

Income Taxes

The Bank is included in a 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 income tax payments are generally allocated to individual subsidiaries as if each had filed a separate return. State taxes are also allocated to individual subsidiaries. Amounts equal to income tax benefits of those subsidiaries having taxable losses or credits are reimbursed by other subsidiaries which would have incurred current income tax liabilities.

The Bank recognizes current income tax expense in an amount which approximates the amount of tax to be paid or refunded for the current period. The Bank recognizes deferred income tax liabilities and assets for the expected future tax consequences of events that the Bank includes in our financial statements or tax returns. Under this method, the Bank determines deferred income tax liabilities and assets based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the years in which the differences are expected to reverse. Throughout the year, the Bank reviews for any necessary accruals or reversals of reserves for uncertain tax positions.

The Bank evaluates tax positions for recognition by determining if the available evidence indicates the likelihood that the position will be sustained upon examination and the amount that would be expected to be paid upon ultimate settlement. A tax position that meets the "more likely than not" recognition threshold is measured to determine the amount of benefit to be recognized. The tax position is measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement. The tax position would be derecognized when it is no longer more likely than not of being sustained. Foreign taxes paid are generally applied as credits to reduce federal income taxes payable. Interest and penalties are recognized as a component of income tax expense.

Stock-Based Compensation

The Bank uses the fair value recognition concept relating to its participation in share-based compensation plans. Compensation expense is recognized based on the fair value of unvested stock options and awards over the requisite service period. See Note 21 for information on the determination of the estimated fair value of stock-based awards used to calculate stock-based compensation expense.

Derivative Instruments and Hedging Activities

Derivatives are recognized on the consolidated balance sheet at fair value. On the date the Bank enters into a derivative contract, the Bank designates the derivative instrument 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 qualifying for or designated as intended for hedge accounting ("free-standing derivative instruments"). 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 and subsequently reclassified to net income in the same period(s) that the hedged transaction impacts net income in the same financial statement category as the hedged item. For freestanding derivative instruments, changes in the fair values are reported in current period income. 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. This process includes linking all derivative instruments that are designated as hedges to identified assets and liabilities on the consolidated balance sheet, an unrecognized firm commitment or a forecasted transaction. The Bank also formally assesses, both at the inception of the hedge and on a quarterly basis, whether the derivative instruments used are highly effective in offsetting changes in fair values of or cash flows related to hedged items. Any portion of the changes in fair value of derivatives designated as a hedge that is deemed ineffective is recorded in current period earnings.

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 14 Derivative Financial Instruments for additional information.

The Bank occasionally purchases or originates financial instruments that contain an embedded derivative instrument. At the inception of the financial instrument, the Bank assesses whether the economic characteristics of the embedded derivative instrument are clearly and closely related to the economic characteristics of the financial instrument (host contract), whether the financial instrument that embodies both the embedded derivative instrument and the host contract is currently measured at fair value with changes in fair value reported in earnings and whether a separate instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument. If the embedded derivative instrument is determined not to be clearly and closely related to the host contract, the combined instrument is not currently measured at fair value with changes in fair value reported in earnings, and the embedded derivative instrument would qualify as a derivative instrument, the embedded derivative instrument is separated from the host contract and carried at fair value with changes recorded in current period earnings.

Recent Accounting Standards

In April 2009, the Financial Accounting Standards Board ("FASB"), issued guidance that amended the previous other-than-temporary impairment guidance for debt securities and included additional presentation and disclosure requirements for debt and equity securities. This guidance was effective for interim periods and fiscal years ending after June 15, 2009, however, early adoption was permitted and the Bank adopted it in the first quarter of 2009. The adoption of this guidance resulted in a cumulative adjustment increase of $14.5 million to retained earnings and a corresponding decrease to accumulated other comprehensive income to reclassify non-credit related other-than-temporary impairment for securities that the Bank does not intend to sell and for which it is not more likely than not that the Bank will be required to sell; refer to Note 2 Securities Available for Sale for additional information.

In April 2009, the FASB issued guidance that reaffirms the exit price fair value measurement concept and also provides additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. This guidance was effective for fiscal years ending after June 15, 2009. The Bank adopted it in the first quarter of 2009. The adoption of this guidance did not have a material impact on the Bank's financial statements.

In May 2009, the FASB issued guidance that establishes general standards of accounting for and disclosure of subsequent events. Subsequent events are events that occur after the balance sheet date but before the financial statements are issued or available to be issued. This guidance was effective for fiscal years ending after June 15, 2009. The adoption of this guidance did not have a material impact on the Bank's financial statements.

In June 2009, the FASB issued guidance that identifies the FASB Accounting Standards Codification ("Codification") as the single source of authoritative generally accepted accounting standards recognized by the FASB to be applied by nongovernmental agencies. All existing standards that were used to create the Codification have been superseded. The guidance is effective for fiscal years ending after September 15, 2009. The adoption of the Codification did not have a material impact on the Bank's financial statements.

In June 2009, the FASB issued guidance that removes the concept of a qualifying special purpose entity and changes the requirements for derecognizing financial assets. Many types of transferred financial assets that would have been derecognized previously are no longer eligible for derecognition. This guidance is effective for fiscal years beginning after November 15, 2009, and early adoption is prohibited. The guidance applies prospectively to transfers of financial assets occurring on or after the effective date. The guidance will impact the structuring of securitizations and other transfers of financial assets in order to meet the amended sale treatment criteria.

In June 2009, the FASB issued guidance that amends the consolidation guidance applicable for variable interest entities. This guidance is effective for fiscal years beginning after November 15, 2009, and early adoption is prohibited. The Bank believes the total assets of previously unconsolidated entities that will be consolidated under this guidance are less than $50 million at the effective date. Based upon the current regulatory requirements, the Bank expects the adoption will result in a slight decrease to regulatory capital ratios.

In January 2010, the FASB issued guidance which provides new disclosure requirements and clarifies existing disclosure requirements over fair value measurements. New disclosures required include the amount of significant transfers in and out of levels 1 and 2 fair value measurements and the reasons for the transfers. In addition, the reconciliation for level 3 activity will be required on a gross rather than net basis. Finally, it provides additional guidance related to the level of desegregation in determining classes of assets and liabilities and disclosures about inputs and valuation techniques. This guidance is effective for fiscal years beginning after December 15, 2009, except for the requirement to provide the reconciliation for level 3 activity on a gross basis which will be effective for fiscal years beginning after December 15, 2010.

2. Securities Available for Sale

Amortized cost and fair value of securities available for sale at December 31, 2009 and 2008 were as follows:

	2009				2008			
(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	**$ 165,252**	**$ 295**	**$ (8)**	**$ 165,539**	$ 241,593	$ 1,170	$ (38)	$ 242,725
Government sponsored agencies	**734,969**	**3,846**	**(186)**	**738,629**	1,744,897	13,012	(9)	1,757,900
Mortgage and asset-backed securities:								
Government agencies[1]	**43,063**	**1,383**	**(41)**	**44,405**	52,308	506	(1,184)	51,630
Government sponsored agencies[1]	**2,093,656**	**82,511**	**(617)**	**2,175,550**	2,610,787	38,708	(4,681)	2,644,814
Non-government mortgage-backed securities[1]	**841,977**	**818**	**(149,889)**	**692,906**	1,102,856	2,424	(49,202)	1,056,078
Non-government commercial mortgage-backed securities	**-**	**-**	**-**	**-**	123,399	-	(10,660)	112,739
Collateralized debt obligations	**194,742**	**-**	**(114,989)**	**79,753**	413,846	-	(138,930)	274,916
Collateralized loan obligations	**230,517**	**8,112**	**(101,654)**	**136,975**	248,940	-	(64,599)	184,341
Other asset-backed securities	**29,219**	**49**	**(11,010)**	**18,258**	29,535	1,064	(2,705)	27,894
Collateralized mortgage obligations:								
Government agencies	**231,487**	**212**	**-**	**231,699**	-	-	-	-
Government sponsored agencies	**417,576**	**5,489**	**-**	**423,065**	181,772	2,185	(499)	183,458
Other	**75,998**	**21**	**(6,765)**	**69,254**	114,528	1	(25,118)	89,411
States and political subdivisions	**1,658,482**	**29,219**	**(20,509)**	**1,667,192**	1,792,052	15,362	(53,662)	1,753,752
Equity Securities	**6,244**	**129**	**(282)**	**6,091**	7,810	235	(490)	7,555
Total securities available for sale	**$6,723,182**	**$132,084**	**$(405,950)**	**$6,449,316**	$8,664,323	$74,667	$(351,777)	$8,387,213

[1] Backed by residential real estate

The Bank tests for other-than-temporary impairment of investment securities on a quarterly basis. During 2009, we recognized in earnings $240.8 million of net other-than-temporary impairment write-downs on our investment securities portfolio, including $0.3 million related to preferred equity securities of Fannie Mae and Freddie Mac. The Bank realized $71.1 million related to the losses on the sale of securities in 2009 and $16.4 million related to the gains on sale of securities in 2008, respectively.

During 2008, we recognized $300.8 million of other-than-temporary impairment write-downs on our investment securities portfolio, including $138.7 million related to preferred equity securities of Fannie Mae and Freddie Mac. Categories of securities written down in 2009 and 2008 also include collateralized debt obligations and other mortgage- and asset-backed securities. These write-downs coincided with the global economic downturn which has resulted in decreased liquidity, credit rating agency downgrades, increased credit spreads, bank failures and valuation declines within the real estate and secondary markets as our investment securities portfolio includes securities that are closely tied to the residential real estate and home builder (construction loan) markets.

The underlying collateral related to our residential mortgage-backed securities portfolio is primarily within California. Additional impairment may be necessary if there are continued declines in the real estate and home builder (construction loan) markets, particularly within California. Several other factors including increased unemployment, credit risks, decreased liquidity in the securities market, credit rating downgrades and the lack of credit could continue to negatively affect the real estate market and the value of our portfolio. In addition, the continued economic downturn has negatively affected the creditworthiness of state and local governments, particularly within California, and various monoline insurers who provide guarantees for these securities, which could result in impairment as the Bank holds bonds from various state and local governments.

Subsequent to year end the Bank sold municipal bonds issued by various government jurisdictions within California to third parties for approximately $21 million, which included the fair value of $20.6 million plus accrued interest. The Bank recorded $1.1 million in net losses on these sales. In March 2010, the Bank sold mortgage-backed securities with an amortized cost of approximately $314 million, and recorded a gain on sale of approximately $16 million.

The following table presents 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, 2009					
	Less Than 12 Months		12 Months or More		Total	
(dollars in thousands)	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
U.S. Treasury and other U.S. Government agencies and corporations	$ (2)	$ 104	$ (6)	$ 917	$ (8)	$ 1,021
Government sponsored agencies	(186)	97,342	-	-	(186)	97,342
Mortgage and asset-backed securities:						
Government agencies[1]	-	-	(41)	918	(41)	918
Government sponsored agencies[1]	(608)	82,872	(9)	579	(617)	83,451
Non-government mortgage-backed securities[1]	(10,732)	70,259	(139,157)	570,845	(149,889)	641,104
Non-government commercial mortgage-backed securities	-	-	-	-	-	-
Collateralized debt obligations	-	-	(114,989)	79,753	(114,989)	79,753
Collateralized loan obligations	(5,863)	13,260	(95,791)	109,217	(101,654)	122,477
Other asset-backed securities	(9,344)	4,884	(1,666)	4,719	(11,010)	9,603
Collateralized mortgage obligations:						
Government agencies	-	-	-	-	-	-
Government sponsored agencies	-	-	-	-	-	-
Other	-	-	(6,765)	67,525	(6,765)	67,525
State and political subdivisions	(9,688)	409,709	(10,821)	247,330	(20,509)	657,039
Equity securities	(36)	47	(246)	5,897	(282)	5,944
Total securities available for sale	$(36,459)	$678,477	$(369,491)	$1,087,700	$(405,950)	$1,766,177

[1] Backed by residential real estate

(dollars in thousands)	December 31, 2008					
	Less Than 12 Months		12 Months or More		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
U.S. Treasury and other U.S. Government agencies and corporations	$ (19)	$ 3,024	$ (19)	$ 983	$ (38)	$ 4,007
Government sponsored agencies	(9)	499,972	-	-	(9)	499,972
Mortgage and asset-backed securities:						
Government agencies[1]	(1,169)	37,186	(15)	408	(1,184)	37,594
Government sponsored agencies[1]	(3,079)	381,152	(1,602)	113,299	(4,681)	494,451
Non-government mortgage-backed securities[1]	(32,879)	750,766	(16,323)	270,019	(49,202)	1,020,785
Non-government commercial mortgage-backed securities	(7,272)	79,457	(3,388)	33,282	(10,660)	112,739
Collateralized debt obligations	-	-	(138,930)	234,037	(138,930)	234,037
Collateralized loan obligations	-	-	(64,599)	165,441	(64,599)	165,441
Other asset-backed securities	(2,696)	19,955	(9)	173	(2,705)	20,128
Collateralized mortgage obligations:						
Government agencies	-	-	-	-	-	-
Government sponsored agencies	-	8	(499)	45,163	(499)	45,171
Other	(11,788)	47,566	(13,330)	41,385	(25,118)	88,951
State and political subdivisions	(19,770)	555,107	(33,892)	508,244	(53,662)	1,063,351
Equity securities	(37)	5	(453)	5,647	(490)	5,652
Total securities available for sale	$(78,718)	$2,374,198	$(273,059)	$1,418,081	$(351,777)	$3,792,279

[1] Backed by residential real estate

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

The following is a description of our security categories, including a description of the nature of the unrealized losses and OTTI losses within our portfolio:

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

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

Government sponsored agencies

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

Mortgage-backed 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 explicit or implicit government guarantees.

Non-government mortgage-backed securities

The unrealized losses associated with non-government mortgage-backed securities are driven by changes in interest rates and illiquidity in their primary market. We estimate credit impairment using a cash flow model that incorporates default rates, loss severities, prepayment rates and projected collateral losses for the underlying mortgage loans in each transaction. The forecasted loan performance is used to project cash flows to the various tranches in the structure. We use third party vendors to estimate the default, prepayment, and home price factors.

Collateralized debt obligations

The unrealized losses associated with collateralized debt obligations for securities backed by residential or trust preferred hybrid capital issued by other financial institutions were driven primarily by changes in interest rates and market illiquidity. We estimate credit impairment using a cash flow model that incorporates collateral loss severities, the financial strength of the underlying financial institutions and likelihood of default over time. The losses are primarily driven by higher projected collateral losses and wider credit spreads. The key assumptions include default rates, severities and prepayment rates.

Collateralized loan obligations

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

Other asset-backed securities

The unrealized losses associated with other asset-backed securities were driven by changes in interest rates and market illiquidity. We estimate credit impairment using an internally developed cash flow model as well as tools provided by third party vendors. We use third party vendors primarily to determine market price.

Collateralized mortgage obligations:

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 explicit or implicit government guarantees.

Other

The unrealized loss associated with non-agency mortgage-backed securities are primarily driven by change in interest rates. We estimated credit impairment using a cash flow model that incorporates default rates, loss severities, prepayment rates, and projected collateral losses for the underlying mortgages in each transaction.

State and political subdivisions

The unrealized losses associated with securities of U.S. states and political subdivisions are primarily driven by changes in interest rates and not due to the credit quality of the securities. These securities will continue to be monitored as part of our ongoing portfolio review process, but are expected to perform, even if the rating agencies reduce the credit rating of the bond insurers. As a result, we expect to recover the entire amortized cost basis of these securities.

Equity Securities

The unrealized loss associated with equity securities is associated with changes in market prices for community reinvestment act-sponsored corporations and government sponsored entity stock. We estimate credit impairment based upon our assessment of future changes in market prices based upon collateral performance for community reinvestment act-sponsored corporations. We have written down the government sponsored entity stock to a nominal level.

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

	Year Ended December 31,	
(dollars in thousands)	**2009**	**2008**
Realized gains	**$ 20,336**	$ 20,179
Realized losses[1]	**(332,199)**	(304,555)
Realized net losses	**$(311,863)**	$(284,376)

[1] Includes other-than-temporary impairment recognized in the income statement of $240.8 million and $300.8 million for 2009 and 2008, respectively.

For 2009, we recognize OTTI for debt securities classified as available for sale which requires that we assess whether we intend to sell or it is more likely than not that we will be required to sell a security before recovery of its amortized cost basis less any current period credit losses. For a debt security that is considered other-than-temporarily impaired and that we do not intend to sell and will not be required to sell before recovery of its amortized cost basis less any current period credit losses, we separate the amount of the impairment into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in earnings and is the difference between the security's amortized cost basis and the present value of its expected future cash flows discounted at the security's original purchase yield. The remaining difference between the security's fair value and the present value of future expected cash flows is due to factors that are not credit related and, therefore, is not required to be recognized as losses in the income statement, but is recognized in OCI. We believe that we will fully collect the carrying value of securities on which we have recorded a non-credit-related impairment in OCI.

For 2008, when an investment was determined to be other-than-temporarily impaired, an impairment loss equal to the difference between the cost and the fair value of the investment security was recognized in earnings.

The table below presents a roll-forward of the credit loss component recognized in earnings for which a portion of other-than-temporary impairment was recognized in OCI. The credit loss component of the amortized cost represents the difference between the present value of expected future cash flows and the amortized cost basis of the security prior to considering credit losses. The beginning balance represents the credit loss component for debt securities for which OTTI occurred prior to January 1, 2009. OTTI recognized in earnings in 2009 for credit-impaired debt securities is presented as additions in two components based upon whether the current period is the first time the debt security was credit-impaired (initial credit impairment) or is not the first time the debt security was credit-impaired (subsequent credit impairments). The credit loss component is reduced if we sell, intend to sell or believe we will be required to sell previously credit-impaired debt securities. Additionally, the credit loss component is reduced if we receive or expect to receive cash flows in excess of what we previously expected to receive over the remaining life of the credit-impaired debt security, the security matures or is fully written down.

Changes in the credit loss component of credit-impaired debt securities are described in the table below:

(dollars in thousands)	December 31, 2009
Balance, beginning of period	$ 105,498
Additions to credit losses:	
Securities not previously impaired	135,773
Securities previously impaired	81,362
Reductions to credit losses:	
Securities sold	(175,118)
Balance, end of period	$ 147,515

The fair value, yield and amortized cost of securities available for sale at December 31, 2009, 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							
			Within One Year		After One But Within Five Years		After Five Years But Within Ten Years		After Ten Years	
(dollars in thousands)	Total Amount	Weighted Average Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. Treasury and other U.S. Government agencies and corporations	$ 165,539	0.45%	$161,749	0.38%	$ 1,433	2.82%	$ 2,175	3.78%	$ 182	2.81%
Government sponsored agencies	738,629	1.11	229,993	0.14	508,636	1.55	-	-	-	-
Mortgage and asset-backed Securities:										
Government agencies	44,405	4.11	-	-	1,589	4.43	5,438	4.87	37,378	3.99
Government sponsored agencies	2,175,550	4.42	76,380	3.56	44,391	4.19	130,903	4.56	1,923,876	4.45
Non-government mortgage-backed securities	692,906	5.02	-	-	-	-	127	5.20	692,779	5.02
Collateralized debt obligations	79,753	1.64	-	-	-	-	-	-	79,753	1.64
Collateralized loan obligations	136,975	0.98	-	-	-	-	43,583	0.83	93,392	1.05
Other asset-backed securities	18,258	4.02	-	-	395	9.25	15	8.91	17,848	3.95
Collateralized mortgage obligations:										
Government agencies	231,699	1.63	121,900	0.99	-	-	-	-	109,799	2.33
Government sponsored agencies	423,065	2.02	230,866	1.30	16,286	5.85	38,623	4.10	137,290	2.21
Other	69,254	5.63	-	-	-	-	359	7.40	68,895	5.62
State and political subdivisions(1)	1,667,192	6.26	19,341	5.80	99,395	6.00	316,862	6.05	1,231,594	6.34
Estimated fair value of debt securities(2)	$6,443,225	4.05%	$840,229	1.07%	$672,125	2.47%	$538,085	4.87%	$4,392,786	3.81%
Total amortized cost of debt securities	$6,716,938		$836,475		$660,910		$551,907		$4,667,646	

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

Securities with an aggregate carrying value of $5.4 billion and $8.2 billion were pledged to secure public deposits, repurchase agreements and Federal Home Loan Bank advances at December 31, 2009 and 2008, respectively. Of these amounts, the secured party had the right to repledge or resell $1.5 billion at December 31, 2009 and 2008.

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, 2009 and 2008.

3. Mortgage Sale and Servicing Activity

Beginning July 2009, the Mortgage Banking Division ("MBD") began selling fixed-rate 30-year 1-4 family conforming residential mortgage loans. The amount of loans held for sale on the balance sheet mainly represents these loans, which the Bank originated and intends to sell to third parties with the Bank maintaining the servicing relationship. When mortgage loans are sold with servicing retained, mortgage servicing rights ("MSRs") are recorded in other assets. The MSRs are amortized over the period of estimated net servicing income and then valued at the lower of cost or fair value on a nonrecurring basis.

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

(dollars in thousands)	**2009**
Carrying amount, balance at beginning of year	$ -
Additions:	
Assumption of servicing obligations resulting from asset transfers	7,177
Subtractions:	
Amortization	(237)
Application of valuation allowance to adjust carrying values of servicing assets	(11)
Carrying amount, balance at end of year	$6,929

Valuation allowance for servicing assets:	**2009**
Beginning balance	$ -
Provision/recoveries	11
Balance at end of year	$11

The fair value of the amortized MSRs was:

(dollars in thousands)	**2009**
Balance at beginning of year	$ -
Balance at end of year	$7,475

The Bank's model is based on significant unobservable inputs classified as Level 3, which reflects the Bank's assumptions about risk. The Bank utilizes a third-party service provider to model MSR valuations. The model incorporates assumptions that market participants use in estimating future net servicing income, including estimates of prepayment speeds, discount rate, cost to service, which includes expected delinquencies and foreclosure costs, escrow account earnings, contractual servicing fee income, ancillary income and late fees. To assess the reasonableness of the valuation, the Bank evaluates the model output in comparison to the market conditions.

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

	2009
Weighted average constant prepayment rate	10.96%
Weighted average life in years (of the MSR)	7.12
Weighted average note rate	5.09%
Weighted average discount rate	10.00%

A sensitivity analysis of the Bank's mortgage servicing rights to changes in certain key assumptions as of December 31, 2009 is presented in the following table:

(dollars in thousands)	2009
Constant prepayment rate	
Resulting fair value of 10% adverse change	$6,920
Resulting fair value of 20% adverse change	$6,625
Discount rate	
Resulting fair value of 10% adverse change	$6,957
Resulting fair value of 20% adverse change	$6,693

Changes in interest rates can have a significant impact on our assumptions and thus impact the fair value of MSR's. In declining interest rate environments, the demand for mortgage loan and refinancing activity tends to increase as borrowers are usually more likely to refinance their loan and thus adversely impact the estimated fair value of our mortgage servicing rights. In rising interest rate environments, the demand for mortgage loans and refinancing activity is generally lower which positively impacts the mortgage servicing rights. Additionally, increases in customer defaults and eventual mortgage foreclosures have a significant impact on the fair value of MSR's.

The Bank sold residential loans totaling $704.6 million to third parties in 2009. All mortgage loans were sold on a non-recourse basis. The unpaid principal amount of mortgage loans serviced was $682.5 million at December 31, 2009. The Bank's mortgage servicing activities for outside investors include collecting principal, interest, and escrow payments from borrowers; making tax and insurance payments on behalf of the borrowers; monitoring delinquencies and executing foreclosure proceedings; and accounting for and remitting principal and interest payments to investors. Servicing income is recorded in noninterest income as a part of Other Loan Servicing Fees and is reported net of the amortization of the servicing assets. At December 31, 2009, the only fees included in servicing income were $0.2 million of contractually specified servicing fees.

The Bank offers rate lock commitments to fund loans at a specified interest rate and enters into forward commitments for the future delivery of residential mortgage loans at a specified interest rate to reduce the interest rate risk associated with mortgage sales activities. The interest rate lock commitments and forward commitments are free-standing derivatives which are carried at estimated fair value with changes recorded as a component of gain on sale under other noninterest income. The notional amount of interest rate locks and forward sale commitments related to mortgage servicing activity totaled $103.6 million and $126.8 million, respectively, at December 31, 2009. Realized gains related to the sale of residential mortgage loans totaled $6.2 million at December 31, 2009.

4. Loans and Leases

At December 31, 2009 and 2008, loans and leases were comprised of the following:

	2009		2008	
(dollars in thousands)	**Outstanding**	**Commitments[(1)]**	**Outstanding**	**Commitments[(1)]**
Commercial, financial and agricultural	**$ 8,317,611**	**$5,974,208**	$ 8,699,538	$ 5,903,528
Real estate:				
Commercial	**8,751,518**	**124,483**	8,641,888	146,127
Construction	**2,172,228**	**405,607**	2,834,530	823,144
Residential	**12,592,702**	**2,205,168**	13,257,743	2,262,852
Total real estate	**23,516,448**	**2,735,258**	24,734,161	3,232,123
Consumer	**9,875,365**	**940,956**	10,645,635	908,227
Lease financing	**2,715,123**	**-**	3,020,041	-
Total loans and leases	**$44,424,547**	**$9,650,422**	$47,099,375	$10,043,878

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

Outstanding loan balances at December 31, 2009 and 2008 are net of unearned income, including net deferred loan fees, of $270.8 million and $332.6 million, respectively.

Real estate loans totaling $26.2 billion were pledged to collateralize the Bank's borrowing capacity at the Federal Home Loan Bank at December 31, 2009.

Our leasing activities consist primarily of leasing automobiles and commercial equipment. 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 at December 31:

(dollars in millions)	**2009**	**2008**
Total minimum lease payment to be received	**$2,709**	$3,049
Estimated residual values of leased property	**330**	373
Less: Unearned income	**324**	402
Net investment in financing leases	**$2,715**	$3,020

At December 31, 2009, minimum lease receivables for the five succeeding years and thereafter were as follows:

(dollars in millions)	**Lease Receivable**
2010	$ 887
2011	745
2012	607
2013	390
2014	189
2015 and thereafter	221
Gross minimum payments	3,039
Less: Unearned income	324
Net minimum receivable	$2,715

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. Those loans were 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. Changes in the loans, including the available balance of lines of credit and credit cards issued, to such executive officers, directors and affiliates during 2009 and 2008 were as follows:

(dollars in thousands)	2009	2008
Balance at beginning of year	**$6,954**	$7,259
New loans made	**1,165**	18
Less repayments and cancellations	**3,205**	323
Balance at end of year	**$4,914**	$6,954

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 (commitment).

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 shown in the table above because a significant portion of those commitments are expected to expire without being drawn upon. 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. The Bank uses the same credit policies in making commitments to extend credit as it does in making loans.

In addition, the Bank 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. At December 31, 2009 and 2008, the Bank did not have a concentration in any loan category or industry that exceeded 10% of total loans and unfunded commitments that are not already reflected in the table above. The loan and lease portfolio is principally located in California and, to a lesser extent, Arizona, Colorado, Idaho, Iowa, Kansas, Minnesota, Missouri, Nebraska, Nevada, New Mexico, Oklahoma, Oregon, South Dakota, North Dakota, Utah, Washington, Wisconsin and Wyoming. The risk inherent in the portfolio depends upon both 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 $910.7 million and $886.6 million at December 31, 2009 and 2008, respectively. Standby letters of credit are issued on behalf of customers in connection with contracts between the customers and third parties. Under standby letters of credit, the Bank assures that the third parties will receive specified funds if customers fail to meet their contractual obligations. The liquidity risk to the Bank arises from its obligation to make payment in the event of a customer's contractual default. Standby letters of credit are reported net of participations sold to other institutions. The Bank also had commitments for commercial and similar letters of credit of $41.9 million and $43.5 million at December 31, 2009 and 2008, respectively. The commitments outstanding as of December 31, 2009 have maturities ranging from January 1, 2010 to July 25, 2018. Substantially all fees received from the issuance of such commitments are deferred and amortized on a straight-line basis over the term of the commitment.

5. Allowance for Loan and Lease Losses

Changes in the allowance for loan and lease losses were as follows for the years ended December 31:

(dollars in thousands)	2009	2008
Balance at beginning of year	**$ 742,845**	$ 431,504
Provision for loan and lease losses	**1,324,723**	704,034
Loans and leases charged off:		
Commercial, financial and agricultural	**(153,081)**	(65,693)
Real estate:		
Commercial	**(45,938)**	(16,672)
Construction	**(242,388)**	(104,285)
Residential	**(133,318)**	(28,469)
Total real estate	**(421,644)**	(149,426)
Consumer	**(254,918)**	(170,091)
Lease financing	**(84,199)**	(40,767)
Total charge offs	**(913,842)**	(425,977)
Recoveries on loans and leases previously charged off:		
Commercial, financial and agricultural	**10,735**	4,919
Real estate:		
Commercial	**2,807**	2,419
Construction	**13,188**	91
Residential	**2,939**	2,553
Total real estate	**18,934**	5,063
Consumer	**23,823**	16,083
Lease financing	**13,443**	7,219
Total recoveries	**66,935**	33,284
Net charge offs	**(846,907)**	(392,693)
Balance at end of year	**$1,220,661**	$ 742,845

The economic downturn has affected the overall loan and lease portfolio causing an increase in credit losses. Declines in the housing markets due to falling home prices, increasing foreclosures and increasing unemployment, have negatively impacted the Bank's loan and lease portfolio and resulted in significant increase in allowance for loan and lease losses. In the current economic climate, there have been increased delinquencies in real estate and consumer lending, low consumer confidence and a widespread reduction of business activities. While construction loans comprise a relatively small percent of the overall loan and lease portfolio, the downturn in the residential housing market and decline in collateral values has caused an increase in credit losses to this sector. Similarly, while underwriting of the consumer portfolio has historically been conservative, the increase in unemployment is putting pressure on the consumer and the Bank has experienced an increase in credit losses for the installment loan products. The economic conditions were especially difficult in California, where approximately 52% and 48% of the collateral for the real estate portfolio was located at December 31, 2009 and 2008, respectively.

The factors noted above could cause the economy to deteriorate further, causing our estimated allowance for loan and lease losses to increase. Due to its inherent nature, the allowance amount is based upon management's judgment of the estimated losses in the loan portfolio. As such, management's estimation may differ from the actual losses incurred.

The Bank accounts for loans acquired where there is deterioration in credit quality since origination and it is probable that we would be unable to collect all contractually required payments as described under Purchased Impaired Loans in Note 1 to the financial statements. The outstanding balance of loans acquired where there is deterioration in credit quality since origination and it is probable that we would be unable to collect all contractually required payments at December 31, 2009 and 2008 was $4.1 million and $7.1 million, respectively. The carrying amount for these loans was $4.6 million, with nil in related allowance, and $6.7 million, with a related allowance of $0.3 million, at December 31, 2009 and 2008, respectively.

The following table presents information related to impaired loans:

	Year Ended December 31,	
(dollars in thousands)	**2009**	**2008**
Impaired loans with related allowance	**$ 727,242**	$400,346
Impaired loans with no related allowance	**374,754**	170,810
Total impaired loans	**$1,101,996**	$571,156
Total allowance for loan and lease losses on impaired loans	**$ 210,712**	$136,393
Average impaired loans	**878,491**	379,044
Interest income recognized on impaired loans	**31,641**	20,654

Impaired loans without a related allowance for loan and lease losses are generally collateralized by assets with fair values in excess of the recorded investment in the loans. Payments on impaired loans are generally applied to reduce the outstanding principal balance of such loans.

Total nonaccrual loans and leases were $1,545.4 million and $853.5 million as of December 31, 2009 and 2008, respectively. Loans and leases categorized as restructured and still accruing totaled $55.2 million and $2.3 million; nonaccrual restructured loans totaled $28.2 million and $3.0 million as of December 31, 2009 and 2008, respectively. Loans and leases that were 90 days or more past due, but still accruing were $105.1 million and $62.0 million as of December 31, 2009 and 2008, respectively.

A restructuring of a debt constitutes a troubled debt restructuring if the Bank, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. In determining if the Bank has granted a concession, it is deemed that a concession has been granted if the debtor's effective borrowing rate on the restructured debt is less than the effective borrowing rate of the old debt immediately prior to the restructuring. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. Troubled debt restructurings amounted to $83.4 million and $5.2 million at December 31, 2009 and 2008, respectively. The Bank had $0.7 million and nil of charge offs related to troubled debt restructuring at December 31, 2009 and 2008, respectively. The Bank had no commitments to lend additional funds to customers whose troubled debt has been restructured as of December 31, 2009 and 2008.

6. Premises and Equipment

At December 31, 2009 and 2008, premises and equipment were comprised of the following:

(dollars in thousands)	**2009**	**2008**
Premises	**$681,871**	$678,600
Equipment	**255,225**	293,554
Total premises and equipment	**937,096**	972,154
Less accumulated depreciation and amortization	**472,966**	474,360
Net book value	**$464,130**	$497,794

Occupancy and equipment expenses include depreciation and amortization expenses of $56.0 million and $54.6 million for 2009 and 2008, respectively.

The Bank is obligated under a number of capital and noncancelable operating leases for premises and equipment with terms, including renewal options, up to 50 years, many of which provide for periodic adjustment of rentals based on changes in various economic indicators. Under the premises leases, we are also required to pay real property taxes, insurance and maintenance. The following table shows future minimum payments under leases with terms in excess of one year as of December 31, 2009:

(dollars in thousands)	Capital Leases	Operating Leases	Less Sublease Income	Net Lease Payments
2010	$ 1,575	$ 59,021	$ 4,157	$ 56,439
2011	1,501	51,745	2,906	50,340
2012	1,479	45,452	1,887	45,044
2013	1,513	39,797	1,441	39,869
2014	1,546	30,214	1,103	30,657
2015 and thereafter	17,675	163,177	1,036	179,816
Total minimum payments	$25,289	$389,406	$12,530	$402,165
Less interest on capital leases	13,758			
Total principal payable on capital leases[1]	$11,531			

[1] Excludes purchase accounting adjustments of $5.9 million.

Rental expense, net of rental income, for all operating leases was $58.9 million and $61.2 million for 2009 and 2008, respectively.

The Bank did not enter into any sale-leaseback transactions in 2009. In 2008, the Bank entered into six sale-leaseback transactions in which it recognized $3.3 million of initial gains and $5.8 million of deferred gains. The initial gains were recorded in noninterest income and the deferred gains are being amortized as an offset to rent expense on a straight-line basis over the remaining life of each lease. The Bank amortized $5.8 million and $5.7 million of deferred gains relating to its prior sale-leaseback transactions into earnings for the years ended December 31, 2009 and 2008, respectively. The Bank has no obligations or circumstances which require our continuing involvement with any of these properties.

7. Goodwill and Intangible Assets

We performed impairment testing of goodwill in the second and fourth quarters of 2009 and the fourth quarter of 2008. The impairment analysis was performed using a discounted cash flows model and no impairment of goodwill was found. The table below provides the breakdown of goodwill by segment.

(dollars in millions)	Regional Banking	Commercial Banking	National Finance	Wealth Management	Total
Balance as of January 1, 2008:	$2,930	$840	$421	$12	$4,203
Bank of the West[1]	(1)	-	-	-	(1)
Community First[1]	(7)	-	-	-	(7)
United California Bank[1]	(1)	-	-	-	(1)
Purchase accounting adjustments:					
Insurance agency acquisitions	-	-	-	4	4
Balance as of December 31, 2008:	$2,921	$840	$421	$16	$4,198
Purchase accounting adjustments:					
Insurance agency acquisitions	-	-	-	1	1
Balance as of December 31, 2009:	**$2,921**	**$840**	**$421**	**$17**	**$4,199**

[1] Adjusted the recorded balance of preacquisition income taxes.

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, 2009:			
Core Deposits	**$397,630**	**$259,787**	**$137,843**
Other Intangible Assets	**32,733**	**11,227**	**21,506**
Total	**$430,363**	**$271,014**	**$159,349**
Balance as of December 31, 2008:			
Core Deposits	$397,630	$223,881	$173,749
Other Intangible Assets	25,552	8,647	16,905
Total	$423,182	$232,528	$190,654

Intangible amortization expense included in non-interest expense was $37.5 million and $40.4 million for 2009 and 2008, respectively. Additionally, amortization expense of $1.0 million and $0.5 million for 2009 and 2008, respectively, related to servicing rights were included in non-interest income.

The estimated annual amortization expense for finite-lived intangible assets, primarily core deposit intangibles, is:

(dollars in thousands)	
Estimate for the year ended December 31,	
2010	$35,346
2011	34,141
2012	16,680
2013	13,644
2014	13,626

8. Variable Interest Entities

The Bank is associated with entities that meet the definition of a VIE under the Variable Interest Entity ("VIE") GAAP disclosure requirements, but do not meet the requirements for consolidation.

The Bank owns several limited partnership interests in low-income housing developments in conjunction with the Community Reinvestment Act. 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 developer 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. 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. GAAP indicates that if an entity (e.g., limited partner) cannot sell, transfer, or encumber its interests in the VIE without the prior approval of an enterprise (e.g., general partner), the limited partner is deemed to be a de facto agent for the general partner. The Bank is considered to be a de facto agent for the general partner where the Bank has a limited partnership interest over 50%. The Bank is not the primary beneficiary for these partnerships or for those where its interest is less than 50%. 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. At December 31, 2009, our subscription amount for these investments was approximately $209.4 million with approximately $31.2 million as the residual contribution outstanding. We are not obligated to fund deficiencies of the limited partnerships and our maximum exposure to losses is limited to our subscription amount. Because we are the limited partners, there are no circumstances in which our maximum exposure would exceed our initial investment. 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. Bargain purchase options are available for the general partners to purchase the Bank's portion of interests in the limited partnerships. These commitments were entered into from 1991 through 2009.

In addition, the Bank has junior subordinated notes which are due to business trusts. These trusts are unconsolidated subsidiaries of the Bank and are described below.

On December 15, 2009, the Bank completed the redemption of the 25,000 outstanding shares of Commercial Federal Capital Trust II ("CFC Trust II") at a price of $1,000 per share plus accrued and unpaid interest. CFC Trust II was a Delaware statutory trust, which was formed in 2004 and issued $25 million of floating-rate capital securities. The proceeds of the offering were invested by CFC Trust II in junior subordinated debentures of Commercial Federal Bank, which were later assumed by the Bank following the merger of Commercial Federal Bank with and into the Bank. All of the common securities of CFC Trust II were owned by the Bank. The trust preferred securities did not qualify as Tier 1 capital as the rule that allows them to be included only applies to bank holding companies.

Commercial Federal Capital Trust III ("CFC Trust III"), a Delaware statutory trust, was formed in 2005 and issued $20 million of floating-rate capital securities. The proceeds of the offering were invested by CFC Trust III in junior subordinated debentures of Commercial Federal Bank, which were later assumed by the Bank following the merger of Commercial Federal Bank with and into the Bank. The capital securities and debentures bear interest equal to three-month LIBOR as of the applicable reset date plus 1.97% (or 2.24% at December 31, 2009). At December 31, 2009, CFC Trust III total assets were $20.7 million, comprised predominantly of the Bank's junior subordinated debentures. The debentures and the associated interest expense make up BOW's maximum exposure to losses for this trust. With regulatory approval, the new debentures may be redeemed no earlier than May 23, 2010, and mature May 23, 2035. All of the common securities of CFC Trust III are owned by the Bank. The trust preferred securities do not qualify as Tier 1 capital as the rule that allows them to be included only applies to bank holding companies.

At December 31, 2009 the Bank had a 50% ownership in Glendale Corporate Center Acquisition, LLC, an Arizona limited liability company, which was formed in August 2009. Glendale Corporate Center manages a multi-unit commercial property located in Glendale, AZ, which was seized by the Bank through foreclosure proceedings. The primary purpose of this entity is to manage the foreclosed property so the Bank and its partner can mitigate its losses by selling the collateral to third-party purchasers. Profits and losses are allocated to the Bank and its partner in accordance with their respective ownership percentage. The Bank's investment in this property at the balance sheet date was $5.8 million. If deemed necessary, the Bank may be required to provide additional financial support to fund the operations of this entity, however this is unlikely to happen. There are no circumstances in which the Bank's maximum exposure to losses associated with the property would exceed its investment in the property.

Subsequent to year end, the Bank obtained additional limited liability companies through foreclosure proceedings. For those entities in which the Bank became the primary beneficiary, we were required to consolidate at their total asset values due to newly issued accounting guidance by the FASB. The overall impact to our financial statements was deemed immaterial; refer to the Note 22 Subsequent Events for additional information.

9. Regulatory Capital Requirements

The Bank is subject to various regulatory capital requirements administered by the 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, requests capital from its Parent company through BNP Paribas. During 2009, the Bank received $600 million in capital to help ensure compliance with the regulatory capital requirements.

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain adequate levels of Tier 1 and Total capital to risk-weighted assets and Tier 1 capital to average assets. The table below sets forth those ratios at December 31, 2009 and 2008.

	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, 2009						
Tier I capital to risk-weighted assets	**$4,796,444**	**9.80%**	**$1,958,466**	**4.00%**	**$2,937,698**	**6.00%**
Total capital to risk-weighted assets	**$5,425,979**	**11.08%**	**$3,916,931**	**8.00%**	**$4,896,164**	**10.00%**
Tier I capital to average assets (leverage ratio)(1)	**$4,796,444**	**8.41%**	**$2,282,665**	**4.00%**	**$2,853,331**	**5.00%**
As of December 31, 2008						
Tier I capital to risk-weighted assets	$4,678,809	9.15%	$2,045,175	4.00%	$3,067,762	6.00%
Total capital to risk-weighted assets	$5,339,207	10.44%	$4,090,350	8.00%	$5,112,937	10.00%
Tier I capital to average assets (leverage ratio)(1)	$4,678,809	7.65%	$2,446,233	4.00%	$3,057,791	5.00%

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

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

In August 2009, the FASB issued guidance which requires the consolidation of certain VIEs that are currently not recorded in the Bank's balance sheet. This adoption is effective January 1, 2010 with an optional two-quarter delay, followed by an optional two quarter phase-in of the application of the agencies' regulatory limit on the inclusion of the allowance for loan and lease losses ("ALLL") in Tier 2 capital for the portion of the ALLL associated with the assets consolidated by the Bank. The Bank adopted the FASB's guidance on January 1, 2010, and opted out of the two-quarter delay and phase-in implementation as the Bank determined that the guidance had an immaterial impact to our risk-based capital ratios.

10. Deposits

The following table presents the maturity distribution of time certificates of deposits at December 31, 2009:

(dollars in thousands)	>=$100K	<$100K	Total
Domestic:			
Through March 31, 2010	$2,279,207	$ 906,077	$ 3,185,284
April 1 - June 30, 2010	1,087,962	1,182,194	2,270,156
July 1 - December 31, 2010	713,125	875,715	1,588,840
2011	338,549	473,943	812,492
2012	53,862	93,351	147,213
2013	88,012	87,539	175,551
2014	146,235	106,813	253,048
2015 and thereafter	4,615	1,283	5,898
Total Domestic	$4,711,567	$3,726,915	$ 8,438,482
Foreign:			
Through March 31, 2010	$ 420,204	$ 889	$ 421,093
April 1 - June 30, 2010	13,766	24	13,790
July 1 - December 31, 2010	217,153	25	217,178
2011	3,002,333	-	3,002,333
2012	250,000	-	250,000
Total Foreign	$3,903,456	$ 938	$ 3,904,394
Total	$8,615,023	$3,727,853	$12,342,876

Total brokered time certificate of deposits at December 31, 2009 totaled $309.7 million. Of this amount $72.1 million were in denominations of less than $100,000 and $237.6 million were in denominations of $100,000 and greater.

Total deposits reclassified to loans due to overdrafts at December 31, 2009 and 2008 were $11.6 million and $14.4 million, respectively.

11. Short-Term Borrowings

At December 31, 2009 and 2008, short-term borrowings were comprised of the following:

(dollars in thousands)	2009	2008
Federal Funds purchased and securities sold under agreements to repurchase	**$520,516**	$2,180,490
Advances from Federal Home Loan Banks and other short-term borrowings	**2,070**	6,110,524
Total short-term borrowings	**$522,586**	$8,291,014

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

(dollars in thousands)	2009	2008
Federal Funds purchased and securities sold under agreements to repurchase:		
Weighted average interest rate at December 31	**.10%**	.06%
Highest month-end balance	**$3,286,334**	$4,720,114
Average daily outstanding balance	**$1,667,897**	$3,602,619
Weighted average daily interest rate paid	**.12%**	2.24%
Advances from Federal Home Loan Banks and other short-term borrowings:		
Weighted average interest rate at December 31	-	.61%
Highest month-end balance	**$4,508,993**	$6,110,524
Average daily outstanding balance	**$2,969,721**	$1,251,222
Weighted average daily interest rate paid	**.30%**	.91%

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, 2009, the weighted average maturity of these agreements was 4 days. Maturities of these agreements at December 31 were as follows:

(dollars in thousands)	**2009**
Overnight	$470,348
Less than 30 days	625
30 days through 90 days	-
Over 90 days	-
Total	$470,973

The Bank has $25.1 billion in lines of credit available from other U.S. financial institutions. Of this amount, $0.7 billion is available from First Hawaiian Bank and $1.5 billion is available from BNP Paribas of New York. At December 31, 2009, the Bank had drawn down on the available lines of credit by less than $0.1 billion, none of which was from First Hawaiian Bank and BNP Paribas of New York.

12. Long-Term Debt

At December 31, 2009 and 2008, long-term debt was comprised of the following:

(dollars in thousands)	Rate(s)	2009	2008
Fixed-rate advances from the Federal Home Loan Bank due through 2035[1][2][13]	2.87%-7.96%	**$4,460,936**	$ 5,363,602
Fixed-rate advances from the Federal Home Loan Bank due through 2018[1][3][7][14]	2.85% to 5.23%	**1,395,000**	3,320,000
Floating-rate advances from the Federal Home Loan Bank due through 2013[1][2]	1 mo. LIBOR +.02 to .19%	**1,050,000**	1,050,000
Fixed-rate TLGP unsecured senior debt[4]	2.15%	**1,001,762**	-
Fixed-rate line of credit with BNP Paribas due 2015[2]	3.06%-4.71%	**83,700**	44,200
Fixed-rate subordinated note with BNP Paribas due 2009[8]	7.35%	-	50,226
Floating-rate subordinated note due 2011[4]	6 mo. LIBOR +3.75%	**32,032**	33,038
Fixed-rate subordinated note due 2011[4]	8.30%	**50,875**	51,661
Floating-rate junior subordinated note due 2034[3][5][8]	3 mo. LIBOR +2.08%	-	25,250
Floating-rate junior subordinated note due 2035[3][5]	3 mo. LIBOR +1.97%	**20,000**	20,192
Fixed-rate structured term repurchase agreements due 2010[1][3][6]	5.02% and 5.03%	**1,000,000**	1,000,000
Floating-rate structured term repurchase agreements due 2010[1][3][12]	3 mo. LIBOR -.05%	-	50,000
Floating-rate structured term repurchase agreements due 2010[1][3][9]	3 mo. LIBOR -.03%	**100,000**	100,000
Floating-rate BNP structured term repurchase agreement due 2010 [2][10]	1 mo. LIBOR -2.03% to -.03%	**150,000**	150,000
Floating-rate BNP structured term repurchase agreement due 2010 [2][11]	1 mo. LIBOR -2.20% to -.03%	**200,000**	200,000
Capital leases due through 2030[2]		**17,372**	18,233
Total long-term debt		**$9,561,677**	$11,476,402

(1) This debt is secured by real estate loans or securities. See Notes 2 and 4 to the financial statements for additional information.
(2) Interest is payable monthly.
(3) Interest is payable quarterly.
(4) Interest is payable semi-annually.
(5) These notes are related to the CFC Trusts. See Note 8 for additional terms.
(6) These agreements contain put options that are exercisable by the counterparties.
(7) Fixed rate with partial repayment quarterly.
(8) Settled in 2009.
(9) Includes a floor if the 3 month LIBOR falls below 4.20%. At December 31, 2009 the rate was 8.12%.
(10) Includes a floor if the 1 month LIBOR falls below 4.30%. At December 31, 2009 the rate was 8.18%.
(11) Includes a floor if the 1 month LIBOR falls below 4.25%. At December 31, 2009 the rate was 8.03%.
(12) In 2009, this agreement was terminated and the Bank recognized a $0.6 million gain on the termination.
(13) In 2009, the Bank terminated $339 million of these advances and recognized a $4.9 million loss on the termination.
(14) In 2009, the Bank terminated $500 million of these advances and recognized a $6.4 million loss on the termination.

As part of long-term and short-term borrowing arrangements, we were subject to various covenants. At December 31, 2009, we were in compliance with all the covenants.

As of December 31, 2009, the principal payments due on long-term debt were as follows:

(dollars in thousands)	
2010	$3,614,436
2011	1,870,396
2012	2,139,975
2013	1,582,550
2014	43,635
2015 and thereafter	296,552
Total	$9,547,544[1]

[1] Excludes fair valuation for debt that was hedged and purchase accounting adjustments totaling $14.1 million.

13. Litigation

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

14. Derivative Financial Instruments

The Bank primarily 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. The notional amount is generally not exchanged, but is used as the basis on which interest and other payments are determined.

Derivatives used for risk management purposes consist of interest rate swaps that are designated as either a fair value hedge or a cash flow hedge, which entitles the Bank to special accounting treatment in accordance with the applicable accounting pronouncements. These derivatives minimize significant, unplanned fluctuations in earnings, fair values of assets and liabilities, and cash flows caused by interest rate fluctuations. In a fair value hedging strategy, the effect of unrealized gains or losses will generally be offset by the gain or loss on the derivatives linked to the hedged assets and liabilities. In a cash flow hedging strategy, the Bank manages the variability of cash payments due to interest rate fluctuations by the effective use of derivatives linked to the cash-flows of the hedged assets and liabilities; increases/decreases in cash payments on hedged liabilities/assets will generally be offset by decreases/increases on linked derivatives.

Derivatives entered into for customer accommodation purposes consist of interest rate and foreign exchange derivative contracts. These customer swaps and any offsetting financial contracts are treated as free-standing derivatives. Free-standing derivatives also include derivatives we enter into for mortgage sales activities and risk management that do not otherwise qualify for hedge accounting.

Our derivative activities are monitored by the Bank's Asset/Liability Management Committee ("ALCO"). Our Treasury function, which includes asset/liability management, is responsible for various hedging strategies developed through analysis of data from financial models and other internal and industry sources.

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

(dollars in thousands)	December 31, 2009 Notional Amount	December 31, 2009 Fair Value Asset derivatives(1)	December 31, 2009 Fair Value Liability derivatives(2)	December 31, 2008 Notional Amount	December 31, 2008 Fair Value Asset derivatives(1)	December 31, 2008 Fair Value Liability derivatives(2)
Derivatives designated as hedging instruments:						
Interest Rate Swaps	**$ 402,167**	**$ -**	**$ 19,139**	$1,102,281	$ -	$ 43,238
Derivatives not designated as hedging instruments:						
Free-standing derivatives held for trading:						
Interest rate swaps	**8,957,872**	**309,157**	**247,183**	8,143,257	512,860	449,441
Purchased interest rate options	**419,182**	**3,344**	**-**	326,655	7,687	-
Written interest rate options	**419,182**	**-**	**3,344**	327,301	-	7,687
Commitments to purchase and sell foreign currencies	**526,785**	**8,099**	**6,730**	677,818	25,909	29,187
Purchased foreign exchange options	**12,650**	**332**	**-**	1,455	303	-
Written foreign exchange options	**12,650**	**-**	**332**	1,455	-	303
Commodity Contracts	**-**	**-**	**-**	405	51	51
Subtotal		**320,932**	**257,589**		546,810	486,669
Free-standing derivatives held for purposes other than trading(3):						
Forward contracts	**126,775**	**1,882**	**249**	-	-	-
Written interest rate options	**103,603**	**229**	**-**	-	-	-
Subtotal		**2,111**	**249**		-	-
Total derivatives not designated as hedging instruments		**$323,043**	**$257,838**		$546,810	$486,669
Total derivatives		**$323,043**	**$276,977**		$546,810	$529,907

(1) The positive fair value of derivative assets are included in other assets.
(2) The negative fair value of derivative liabilities are included in other liabilities.
(3) Includes free-standing derivatives resulting from mortgage sale activity.

Fair Value Hedges:

Loans

In February 2000, the Bank entered into an agreement with a notional amount of $2.2 million to hedge the fair value of a commercial loan, which is scheduled to mature in April 2011. The Bank receives one-month LIBOR plus 75 basis points and pays a fixed rate of 8.32%. This interest rate swap had a fair value loss of $0.2 million and $0.3 million at December 31, 2009 and 2008, respectively.

Deposits

The Bank executed $1,000 million of interest rate swaps to hedge Euro-dollar deposits against fair value changes due to fluctuations in one-month LIBOR. These contracts were entered into between March 2009 and June 2009 and they were originally scheduled to mature between May 2011 and November 2011. These contracts were terminated in 2009 due to a change in hedging strategy. The contracts involved three agreements where the Bank received fixed rates ranging from 3.63% to 4.46% and paid one-month LIBOR plus spreads ranging from 198 to 293 basis points. The net impact on earnings of the terminated hedges of Euro-dollar deposits was an increase of $1.7 million during 2009.

TLGP debt

The Bank executed a $1,000 million interest rate swap to hedge TLGP debt against fair value changes due to fluctuations in one-month LIBOR. The contract was entered into in March 2009 and was originally scheduled to mature in March 2012, however, the swap was terminated in September 2009 due to a change in hedging strategy. The Bank received a fixed rate of 2.15% and paid one-month LIBOR plus 53 basis points. The net impact on earnings of the terminated hedge of TLGP debt was an increase of $1.8 million during 2009.

FHLB debt

The Bank executed $3,215 million of interest rate swaps to hedge FHLB debt against fair value changes due to fluctuations in one-month LIBOR. The contracts were entered into between April 2009 and August 2009 and were originally scheduled to mature between December 2010 and September 2013; the contracts were terminated between June 2009 and August 2009. These contracts were terminated due to a change in hedging strategy. The contracts involved twenty six agreements where the Bank received fixed rates ranging from 2.98% to 5.05% and paid one-month LIBOR plus spreads ranging from 157 to 394 basis points. The net impact on earnings of the terminated hedges of FHLB debt was an increase of $5.0 million during 2009.

The following table shows the effect of fair value hedging on the Statement of Financial Performance for the year ended December 31, 2009:

	December 31, 2009 Interest rate contracts hedging	
(dollars in thousands)	Deposits	Long-term debt
Gains recorded in net interest income	$ 3,158	$15,310
Gains (losses) recorded in non-interest income		
Recognized on derivatives	5,203	(1,114)[1]
Recognized on hedged items	(6,648)	(7,423)[1]
Recognized on fair value hedges (ineffective portion)	(1,445)	(8,537)
Total	$ 1,713	$ 6,773

(1) A steeper yield-curve at termination of the TLGP hedge caused a larger fair valuation on TLGP debt versus a smaller offset on the related swap. In addition, due to late-term hedging, some swaps hedging FHLB advances did not provide an offsetting fair valuation in certain periods. This caused the fair value change on the swaps to move in the same direction as the related advances.

Cash Flow Hedges

At December 31, 2009, the Bank had outstanding interest rate swaps totaling $400 million with fair value losses of $19 million. These interest rate swaps involve four agreements where the Bank receives one-month LIBOR and pays fixed rates ranging from 3.96% to 4.16%. The Bank entered into these agreements in June 2008 to hedge floating-rate Federal Home Loan Bank (“FHLB”) borrowings and they are scheduled to mature between April 2010 and April 2012. The net settlement of these swaps linked to FHLB borrowings increased interest expense by $15.1 million during 2009. The Bank estimates that the total net settlement losses on all cash flow hedges, recorded as interest expense will be $16 million during 2010. In January 2009, the Bank terminated $700 million of the existing interest rate swaps that were hedging overall changes in cash outflows on Federal Funds borrowed. These contracts were entered into between January and March 2008 and they were originally scheduled to mature between January 2010 and March 2010. The contracts involved four agreements where the Bank received the Federal Funds rate and paid fixed rates ranging from 2.13% to 2.84%. The fair value loss amounts in other comprehensive income that are related to the Fed Funds swaps are being amortized over the duration of the previously linked Fed Funds borrowings. The amortization of the fair value captured in OCI on the terminated Federal Funds swaps increased interest expense by $13.0 million during 2009. All of our cash flow hedges were deemed effective at December 31, 2009.

At December 31, 2008, the Bank carried interest rate swaps totaling $1,100 million with combined fair value losses of $43 million. The outstanding interest rate swaps included the $400 million swaps hedging FHLB borrowings and the $700 million swaps that were hedging Fed Funds borrowings. During 2008, the net settlement on the swaps linked to FHLB borrowings increased interest expense by $2.9 million and the net settlement on the swaps linked to Fed Funds borrowings increased interest expense by $3.9 million. In May 2008, a $250 million interest rate swap hedging LIBOR-based time certificates of deposits matured. The swap was entered into during May 2006 and the Bank paid a fixed rate of 5.31% and received three-month LIBOR plus one basis point. The net settlement on this swap increased interest expense by $1.5 million in 2008. In October 2008, the Bank terminated a $100 million interest rate swap that was hedging certain LIBOR-based loans. This contract was entered into during December 2007 and was originally scheduled to mature in March 2011. Under the agreement, the Bank received a fixed rate of 3.92% and paid one-month LIBOR. The net settlement and amortization of fair value captured in OCI on the swap increased interest income by $0.9 million in 2008. The fair value losses in other comprehensive income that are related to the LIBOR-based loan swaps are being amortized over the duration of the previously linked LIBOR-based loans.

The following table summarizes the effect of cash flow hedging on the Statement of Financial Performance for the years ended December 31, 2009 and 2008:

(dollars in thousands)	**2009**	**2008**
Pretax loss recognized in OCI on derivatives (effective portion)	**$ 7,600**	$47,117
Pretax loss reclassified from cumulative OCI into net interest income (effective portion)(1)	**28,137**	7,385

(1) Includes net settlement of $15.1 million and $2.4 million, and amortization of fair value captured in OCI on terminated swaps of $13.0 million and $5.0 million for the years ending December 31, 2009 and 2008, respectively.

Free-standing Derivative Instruments

Free-standing derivative instruments include derivative transactions entered into for purposes for which hedge accounting does not apply. Trading activities primarily involve providing various free-standing interest rate and foreign exchange derivative products to customers.

The following table shows the net gains (losses) recognized as noninterest income relating to derivatives not recognized as hedging instruments, held by the Bank as of December 31, 2009 and 2008:

(dollars in thousands) **Free-standing derivatives**	**2009**	**2008**
Free-standing derivatives held for trading:		
Interest rate swaps	**$(1,445)**	$28,171
Purchased interest rate options	**(4,343)**	6,993
Written interest rate options	**4,343**	(6,993)
Commitments to purchase and sell foreign currencies	**4,647**	(4,734)
Purchased foreign exchange options	**29**	227
Written foreign exchange options	**(29)**	(227)
Commodity contracts	**-**	(9)
Subtotal	**3,202**	23,428
Free-standing derivatives held for purposes other than trading(1):		
Forward contracts	**1,633**	-
Written interest rate options	**229**	-
Subtotal	**1,862**	-
Total free-standing derivatives	**$ 5,064**	$23,428

(1) Includes free-standing derivatives resulting from mortgage sale activity.

15. Fair Value

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

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

Federal funds sold and securities purchased under agreements to resell: We do not record these assets at fair value. As such, valuation techniques discussed herein for these assets are primarily for estimations used in the fair value of financial instruments disclosure requirements. The carrying amount of these items is generally a reasonable estimate of fair value because of the relatively short time between the origination of the instrument and its expected realization. However, at December 31, 2008, the Bank had long-term agreements, in which the fair value was based upon quoted market prices or a discounted cash flow analysis that was based upon incremental funding rates for similar types of agreements.

Trading Assets: Trading assets are measured at fair value on a recurring basis. Fair values of trading assets are based on quoted market prices of comparable instruments and are classified as Level 2. Trading assets include US Treasury Notes.

Securities: Securities available for sale are measured at fair value on a recurring basis. Fair value measurement is based upon quoted prices if available. If quoted prices are not available for the specific security, the Bank may estimate the fair value of such instruments using a combination of observed transaction prices of comparables, independent pricing services, or other adjustments deemed necessary to properly reflect an exit price. Level 1 securities include certain equity securities that have quoted prices available in active markets. Level 2 securities primarily include U.S. Treasury securities that are not traded by dealers or brokers in active over-the-counter markets, U.S. Government agency securities, municipal bonds, and other equity securities, the pricing of which are derived using observable data such as prices on similar assets in active or inactive markets. Level 2 securities also include fixed-rate non-agency mortgage-backed securities, the pricing of which were based on third-party matrix pricing sources which were validated against other third-party pricing sources. Level 3 securities include variable-rate non-agency mortgage-backed securities representing 76% of the total whose pricing adjusted for market indications of illiquidity was provided by BNP Paribas, and the remaining 24% are collateralized debt obligations and collateralized loan obligations, where pricing was based on a third-party source that considers itself to be a Level 3 price provider.

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

Loans: Loans may be measured at fair value on a nonrecurring basis. As such, valuation techniques discussed herein for loans are primarily for estimations used in the fair value of financial instruments disclosure requirements. We use discounted cash flow analyses, which include a liquidity premium, that is based upon actual funding experience and utilize interest rates currently being offered for loans with similar terms and prepayment rates to borrowers of similar credit quality. For certain loans, we may estimate fair value based upon a loan's observable market price. The carrying amount of accrued interest approximates its fair value. For real estate secured loans and leases that are impaired, the Bank uses the fair value of collateral to determine the amount of impairment. The fair values of collateral for impaired loans are primarily based on real estate appraisal reports prepared by third party appraisers. The Bank reviews the third party's appraisal based on observable market data for reasonableness. As such, impaired loans are classified as Level 2.

Foreclosed Assets: Foreclosed assets are measured at fair value on a nonrecurring basis using lower-of-cost-or-fair value. Foreclosed assets include foreclosed properties securing residential and auto loans. Foreclosed assets are adjusted to fair value less costs to sell upon transfer of the loans to foreclosed assets. Subsequently, foreclosed assets are carried at the lower of carrying value or fair value less costs to sell. Fair value is generally determined using appraised values based on observable market data and, accordingly, we classify foreclosed assets as Level 2.

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

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

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

Derivatives: All of our derivatives are traded in over-the-counter markets where quoted market prices are not readily available. For those derivatives, we measure fair value using primarily market observable inputs, such as yield curves. In addition, the fair valuations for derivatives include an adjustment for estimated credit risk. As such, we classify derivatives as Level 2. Examples of Level 2 derivatives are interest rate swaps and forward contracts.

Off-balance sheet financial instruments: Valuation techniques discussed herein for off-balance sheet financial instruments are primarily for estimations used in the fair value of financial instruments disclosure requirements. The estimated fair value of unused commitments to extend credit and standby and commercial letters of credit is represented by the estimated cost to terminate or otherwise settle the obligations with the counterparties. This amount is approximated by the fees currently charged to enter into similar arrangements, considering the remaining terms of the agreements and any changes in the credit quality of the counterparties since the agreements were executed. This estimate of fair value does not take into account the significant value of the customer relationships and the future earnings potential involved in such arrangements as the Bank does not believe it would be practicable to estimate a representational fair value for these items. As such, we classify standby letters of credit as Level 3.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis at December 31, 2009:

(dollars in thousands)	Level 1	Level 2	Level 3	Total
Trading Assets	$ -	$ 5,107	$ -	$ 5,107
Securities available for sale:				
U.S. Treasury and other U.S. Government agencies and corporations	-	165,539	-	165,539
Government sponsored agencies	-	738,629	-	738,629
Mortgage and asset-backed securities:				
Government agencies(1)	-	44,405	-	44,405
Government sponsored agencies(1)	-	2,175,550	-	2,175,550
Non-government mortgage-backed securities(1)	-	-	692,906	692,906
Collateralized debt obligations	-	-	79,753	79,753
Collateralized loan obligations	-	-	136,975	136,975
Other asset-backed securities	-	12,289	5,969	18,258
Collateralized mortgage obligations:				
Government agencies	-	231,699	-	231,699
Government sponsored agencies	-	423,065	-	423,065
Other	-	69,239	15	69,254
State and political subdivisions and others	240	1,666,952	-	1,667,192
Equity securities	-	6,091	-	6,091
Total securities available for sale	240	5,533,458	915,618	6,449,316
Other assets(2)	13,536	323,281	3,673	340,490
Total	13,776	5,861,846	919,291	6,794,913
Other liabilities(2)	$ -	$ 277,053	$ -	$ 277,053

(1) Backed by residential real estate.
(2) Derivatives represent a major portion within these categories.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis at December 31, 2008:

(dollars in thousands)	Level 1	Level 2	Level 3	Total
Trading Assets	$ -	$ 5,145	$ -	$ 5,145
Securities available for sale:				
U.S. Treasury and other U.S. Government agencies and corporations	-	242,725	-	242,725
Government sponsored agencies	-	1,757,900	-	1,757,900
Mortgage and asset-backed securities:				
Government agencies[1]	-	51,630	-	51,630
Government sponsored agencies[1]	-	2,644,788	26	2,644,814
Non-government mortgage-backed securities[1]	-	-	1,056,078	1,056,078
Non-government commercial mortgage-backed securities	-	112,739	-	112,739
Collateralized debt obligations	-	-	274,916	274,916
Collateralized loan obligations	-	-	184,341	184,341
Other asset-backed securities	-	14,379	13,515	27,894
Collateralized mortgage obligations:				
Government sponsored agencies	-	183,458	-	183,458
Other	-	89,382	29	89,411
State and political subdivisions and others	5,620	1,748,132	-	1,753,752
Equity securities	-	7,555	-	7,555
Total securities available for sale	5,620	6,852,688	1,528,905	8,387,213
Other assets[2]	2,081	521,836	5,022	528,939
Total	7,701	7,379,669	1,533,927	8,921,297
Other liabilities[2]	$ -	$ 505,727	$ -	$ 505,727

(1) Backed by residential real estate.
(2) Derivatives represent a major portion within these categories.

The changes for 2009 in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows:

(dollars in thousands)	Beginning Balance	Total net gains (losses) included in net income[3]	Total net gains (losses) included in other comprehensive income	Purchases, Sales, issuances and settlements, net	Transfers into (out of) Level 3[1]	Ending Balance	Net unrealized gains (losses) included in net income for the year relating to assets held at year end
Year-ended December 31, 2009							
Securities available for sale:							
Mortgage and asset-backed securities:							
Government sponsored agencies[2]	$ 26	$ -	$ 2	$ (2)	$(26)	$ -	$ -
Non-government mortgage-backed securities[2]	1,056,078	(57,919)	(102,456)	(202,797)	-	692,906	(102,527)
Collateralized debt obligations	274,916	(134,975)	(33,229)	(26,959)	-	79,753	-
Collateralized loan obligations	184,341	(18,026)	(28,892)	(448)	-	136,975	(25,134)
Other asset-backed securities	13,515	2,940	(10,030)	(456)	-	5,969	(6,404)
Collateralized mortgage obligations:							
Other	29	-	(2)	(12)	-	15	-
Total securities available for sale	1,528,905	(207,980)	(174,607)	(230,674)	(26)	915,618	(134,065)
Other assets	$ 5,022	$ -	$ (1,265)	$ (84)	$ -	$ 3,673	$ -

(1) The Bank used the end of period convention for transfers into Level 3.
(2) Backed by residential real estate.
(3) Included in noninterest income in the income statement.

The changes for 2008 in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows:

(dollars in thousands)	Beginning Balance	Total net gains (losses) included in net income[3]	Total net gains (losses) included in other comprehensive income	Purchases, Sales, issuances and settlements, net	Transfers into (out of) Level 3[1]	Ending Balance	Net unrealized gains (losses) included in net income for the year relating to assets held at year end
Year-ended December 31, 2008							
Securities available for sale:							
U.S. Treasury and other U.S. Government agencies and corporations	$100,620	$ -	$ (821)	$ (99,799)	$ -	$ -	$ -
Mortgage and asset-backed securities:							
Government sponsored agencies[2]	-	-	-	-	26	26	-
Non-government mortgage-backed securities[2]	-	-	-	-	1,056,078	1,056,078	-
Collateralized debt obligations	564,023	(78,091)	(135,218)	(75,798)	-	274,916	(52,631)
Collateralized loan obligations	234,659	(18,523)	(31,795)	-	-	184,341	(18,523)
Other asset-backed securities	51,116	(24,241)	(1,002)	(12,358)	-	13,515	(19,456)
Collateralized mortgage obligations:							
Other	-	-	-	-	29	29	-
Total securities available for sale	950,418	(120,855)	(168,836)	(187,955)	1,056,133	1,528,905	(90,610)
Other assets	$ 4,996	$ -	$ 26	$ -	$ -	$ 5,022	$ -

(1) The Bank used the end of period convention for transfers into Level 3.
(2) Backed by residential real estate.
(3) Included in noninterest income in the income statement.

The following table presents gains or losses in level 3 assets from the above tables that were reported in net income for the period ended:

December 31, 2009:

(dollars in thousands)	Noninterest income
Total losses included in earnings	$(207,980)
Change in unrealized gains or losses relating to assets still held at reporting date	(134,065)

December 31, 2008:

(dollars in thousands)	Noninterest income
Total losses included in earnings	$(120,855)
Change in unrealized gains or losses relating to assets still held at reporting date	(90,610)

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

December 31, 2009:

	Carrying Value			Total Losses For
(dollars in thousands)	Level 1	Level 2	Level 3	Year Ended
Impaired loans	$-	**$891,284**[1]	$-	$ -
Foreclosed assets	-	**178,804**	-	**17,609**

[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.

December 31, 2008:

	Carrying Value			Total Losses For
(dollars in thousands)	Level 1	Level 2	Level 3	Year Ended
Impaired loans	$-	$434,763[1]	$-	$-

[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.

Fair Value of Financial Instruments

The Fair Value of Financial Instruments disclosure requires that we report estimated fair values for certain financial instruments. Financial instruments include such items as loans, deposits, securities, interest rate and foreign exchange contracts, swaps and other instruments as defined by the standard.

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

Because the standard permits many alternative calculation techniques and because numerous assumptions have been used to estimate our fair values, reasonable comparisons of our fair value information with that of other financial institutions cannot necessarily be made.

This table is a summary of financial instruments, requiring fair value of financial instruments disclosure under GAAP, excluding leases, short-term financial assets and liabilities, for which carrying amounts approximate fair value, trading assets, which are carried at fair value, securities available for sale (Note 2) and derivatives (Note 14).

	2009		2008	
(dollars in thousands)	Book Value	Fair Value	Book Value	Fair Value
Financial Assets				
Federal funds sold and securities purchased under agreements to resell	**$ 320,000**	**$ 320,000**	$ 200,000	$ 202,140
Loans held for sale	**51,804**	**51,804**	95,136	97,656
Loans, net[1]	**40,637,538**	**40,389,684**	43,413,548	43,243,211
Financial Liabilities				
Deposits	**$40,205,146**	**$40,397,753**	$37,261,171	$37,511,960
Short-term borrowings[2]	**522,586**	**522,586**	8,291,014	8,290,686
Long-term debt[3]	**9,544,305**	**9,719,572**	11,458,169	11,542,373

[1] Excludes net leases of $2,566 million and $2,943 million at December 31, 2009 and 2008, respectively.
[2] Includes federal funds purchased and securities sold under agreements to repurchase and short-term borrowings.
[3] Excludes capital leases of $17.4 million and $18.2 million at December 31, 2009 and 2008, respectively.

The following table presents a summary of the fair value of the Bank's off-balance sheet commitments and letters of credit excluding lease commitments:

(dollars in thousands)	2009	2008
Commitments to extend credit	**$50,972**	$68,713
Standby letters of credit	**9,945**	10,506
Commercial letters of credit	**460**	468

16. Limitations on Payment of Dividends

Regulations limit the amount of dividends the Bank may declare or pay. At December 31, 2009, the Bank cannot declare dividends without prior regulatory approval. In 2009, the Bank declared and paid cash dividends in the amount of $25.3 million to BancWest Corporation.

17. Accumulated Other Comprehensive Income

Comprehensive income is defined as the change in equity from all transactions other than those with stockholders, and is comprised of net income and other comprehensive income. Accumulated other comprehensive income for the periods ended December 31, 2009 and December 31, 2008 is presented below:

(dollars in thousands)	Pretax Amount	Income Tax (Expense) Benefit	After-tax Amount[1]
Accumulated other comprehensive income (loss), January 1, 2008	$(178,979)	$ 73,174	$(105,805)
Pension	(93,699)	38,041	(55,658)
Unrealized net losses on securities available for sale arising during the year	(422,975)	171,728	(251,247)
Reclassification of net realized losses on securities available for sale included in net income	284,376	(115,457)	168,919
Unrealized net losses on cash flow derivative hedges arising during the year	(47,117)	19,129	(27,988)
Reclassification of net realized losses on cash flow derivative hedges included in net income	7,385	(2,998)	4,387
Other comprehensive income (loss)	(272,030)	110,443	(161,587)
Accumulated other comprehensive income (loss), December 31, 2008	$(451,009)	$ 183,617	$(267,392)
Cumulative effect from change in accounting for other-than-temporary impairment on debt securities	**(24,394)**	**9,904**	**(14,490)**
Pension	**33,602**	**(13,642)**	**19,960**
Unrealized net losses on securities available for sale arising during the year	**(217,390)**	**88,260**	**(129,130)**
Unrealized net losses on securities available for sale related to factors other than credit	**(68,988)**	**28,009**	**(40,979)**
Reclassification of net realized losses on securities available for sale included in net income	**311,863**	**(126,616)**	**185,247**
Unrealized net losses on cash flow derivative hedges arising during the year	**(7,600)**	**3,086**	**(4,514)**
Reclassification of net realized losses on cash flow derivative hedges included in net income	**28,137**	**(11,423)**	**16,714**
Other comprehensive income (loss)	**55,230**	**(22,422)**	**32,808**
Accumulated other comprehensive income (loss), December 31, 2009	**$(395,779)**	**$ 161,195**	**$(234,584)**

[1] Accumulated other comprehensive income, net of tax, consisted of cumulative effect from change in accounting for other-than-temporary impairment of debt securities of $(14,490) and nil at December 31, 2009 and 2008, respectively; net unrealized losses on securities available for sale related to factors other than credit of $(40,979) and nil at December 31, 2009 and 2008, respectively; net unrealized losses on securities available for sale of $(108,478) and $(164,595) at December 31, 2009 and 2008, respectively; net unrealized losses on cash flow derivative hedges of $(11,844) and $(24,044) at December 31, 2009 and 2008, respectively; and pension adjustments of $(58,793) and $(78,753) at December 31, 2009 and 2008, respectively.

18. Benefit Plans

Pension and Other Postretirement Benefit Plan

The Bank participated in a noncontributory defined benefit pension plan, which resulted from the merger of two separate plans. The first plan, for First Hawaiian employees, was frozen at December 31, 1995. The second plan, for Bank of the West employees, was a cash balance pension plan and was frozen on January 1, 2010; refer to Note 22, Subsequent Events for additional information. As a result of that freeze of the two plans there will be no further benefit accruals. However, participants will continue to earn interest credits until distributions are made in accordance with the plan requirements. Through December 31, 2009, the employee retirement plan ("ERP") provided cash balance benefit accruals for eligible Bank of the West employees. Bank of the West 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 also frozen at January 1, 2010. In addition, Bank of the West offers an unfunded postretirement medical and life insurance plan. The benefits of the plan include access to medical benefits and the payment of premiums for medical and life insurance benefits.

In connection with the acquisition of United California Bank ("UCB") in 2002, the Bank assumed the pension and postretirement obligations of UCB. UCB employees participated in a noncontributory final pay defined benefit pension plan, an unfunded postretirement benefit plan, and a 401(k) savings plan. In addition, certain key executives were eligible for a supplemental pension benefit if they met certain age and service conditions. The UCB plans were frozen on June 30, 2003. The Bank integrated UCB employees into the Bank's existing benefit plan structure on July 1, 2003. UCB employees were guaranteed the benefits they acquired through the UCB plans up to the freeze date.

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 and economic conditions, which include the actual return on plan assets. As of January 1, 2010, only the SERP continues to accrue benefits for current participants, and as a result, future pension expense for the Bank will decrease significantly. With the help of an actuary, management is able to estimate future expenses and plan obligations based on factors such as compensation increases, mortality, turnover, retirement and disability rates.

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

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

	Pension Benefits		**Other Benefits**	
(dollars in thousands)	**2009**	**2008**	**2009**	**2008**
Amounts arising during the period:				
Net gain (loss) on pension assets	**$ 26,841**	$(81,708)	**$ -**	$ -
Net gain (loss) on obligations	**(18,536)**	(14,121)	**1,646**	(3,047)
Reclassification adjustments recognized as components of net periodic benefit cost during the period:				
Net loss (gain)	**24,745**	6,254	**(4)**	3
Net prior service cost (credit)	**34**	44	**(1,124)**	(1,124)
Amounts recognized in other comprehensive income	**$ 33,084**	$(89,531)	**$ 518**	$(4,168)

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)	**2009**	**2008**	**2009**	**2008**
Net loss	**$ (99,711)**	$(132,761)	**$(2,243)**	$(3,885)
Net prior service (cost) credit	**(340)**	(374)	**3,317**	4,441
Ending balance within accumulated other comprehensive income	**$(100,051)**	$(133,135)	**$ 1,074**	$ 556

The following table shows the amounts within accumulated other comprehensive income expected to be recognized as components of net periodic benefit costs during 2010:

(dollars in thousands)	Pension Benefits	Other Benefits
Amortization of net loss	**$15,516**	$ -
Amortization of net prior service cost (credit)	**34**	(1,124)
Total	**$15,550**	$(1,124)

There are no plan assets expected to be returned to the Bank during the next twelve month period.

The following table summarizes changes to the benefit obligation for all of the Bank of the West plans for the years indicated:

	Pension Benefits		Other Benefits	
(dollars in thousands)	2009	2008	2009	2008
Benefit obligation at beginning of year	**$412,610**	$390,391	**$39,943**	$34,106
Service cost	**11,901**	11,474	**2,642**	3,082
Interest cost	**24,252**	23,255	**2,308**	2,180
Actuarial (gain) loss	**18,535**	14,121	**(1,646)**	3,047
Benefit payments	**(25,421)**	(26,631)	**(2,880)**	(2,472)
Benefit obligation at end of year	**$441,877**	$412,610	**$40,367**	$39,943

The following table summarizes changes to the fair value of assets for the qualified Bank of the West pension plans for the years indicated:

	Pension Benefits	
(dollars in thousands)	2009	2008
Fair value of plan assets at beginning of year	**$290,696**	$369,457
Actual return on plan assets	**44,530**	(60,403)
Employer contributions	**26,000**	-
Benefit payments	**(20,255)**	(18,358)
Fair value of plan assets at end of year	**$340,971**	$290,696

The following table summarizes the funded status of the Bank of the West portion of the plans and amounts recognized in the Bank of the West consolidated balance sheets:

	Pension Benefits		Other Benefits	
(dollars in thousands)	2009	2008	2009	2008
Funded status	**$(100,906)**	$(121,914)	**$(40,367)**	$(39,943)
Unrecognized net loss	**99,711**	132,761	**2,243**	3,885
Unrecognized prior service cost (credit)	**340**	374	**(3,317)**	(4,441)
Net amount recognized	**$ (855)**	$ 11,221	**$(41,441)**	$(40,499)

Amounts recognized in the Bank of the West's statement of financial position consist of:

	Pension Benefits		Other Benefits	
(dollars in thousands)	**2009**	**2008**	**2009**	**2008**
Accrued benefit liability	**$(100,906)**	$(121,914)	**$(40,367)**	$(39,943)
Accumulated other comprehensive income	**100,051**	133,135	**(1,074)**	(556)
Net amount recognized	**$ (855)**	$ 11,221	**$(41,441)**	$(40,499)

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 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. 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 generally accepted accounting principles, the minimum required amount is recorded.

The accumulated benefit obligation for the Bank's defined benefit pension plans was $440.3 million and $410.0 million at December 31, 2009 and 2008, respectively.

The following table summarizes key provisions for the Bank's funded pension plans as of December 31:

(dollars in thousands)	**2009**	**2008**
Projected benefit obligation	**$375,477**	$347,386
Accumulated benefit obligation	**375,477**	347,386

Each of our pension plans had an accrued benefit liability at December 31, 2009 and 2008. The projected benefit obligations for the unfunded plans were $66.8 million and $65.2 million at December 31, 2009 and 2008, respectively. The accumulated benefit obligation for the unfunded plans was $64.8 million and $62.6 million at December 31, 2009 and 2008, respectively.

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)	**2009**	**2008**	**2009**	**2008**
Service cost	**$ 11,901**	$ 11,474	**$ 2,642**	$ 3,082
Interest cost	**24,252**	23,255	**2,508**	2,180
Expected return on plan assets	**(17,689)**	(21,641)	**-**	-
Amortization of prior service cost	**34**	44	**(1,124)**	(1,124)
Recognized net actuarial loss	**24,745**	6,254	**(4)**	3
Total benefit cost	**$ 43,243**	$ 19,386	**$ 4,022**	$ 4,141

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

(dollars in thousands)	Funded Pension Benefits 2009	2008
Service cost	**$ 11,599**	$ 10,761
Interest cost	**20,501**	19,549
Expected return on plan assets	**(17,689)**	(21,641)
Recognized net actuarial loss	**20,739**	2,030
Net periodic benefit cost	**$ 35,150**	$ 10,699

Assumptions

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

	ERP Pension Benefits		SERP Pension Benefits		Other Benefits(1)	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
Discount rate	**5.75%**	6.00%	**5.75%**	6.00%	**6.00%**	6.00%
Rate of compensation increase	**4.00%**	4.00%	**4.00%**	4.00%	**5.00%**	5.00%

(1) Includes the executive life insurance plan, which used a discount rate of 6.00% and 6.75% in 2009 and 2008, respectively. The rate of compensation increase is only applicable to the executive life insurance plan.

Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31:

	ERP Pension Benefits		SERP Pension Benefits		Other Benefits(1)	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
Discount rate	**6.00%**	6.00%	**6.00%**	6.00%	**6.00%**	6.00%
Expected long-term return on plan assets	**6.00%**	6.00%	**NA**	NA	**NA**	NA
Rate of compensation increase	**4.00%**	4.00%	**4.00%**	4.00%	**5.00%**	5.00%

(1) Includes the executive life insurance plan, which used a discount rate of 6.00% in 2009 and 2008, respectively. The rate of compensation increase is only applicable to the executive 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, such as the Citigroup Pension Discount Curve. This rate is adjusted for converting the yield to an annual discount rate basis and may be adjusted for the population of plan participants to reflect the expected duration of the benefit payments of the plan. The resulting selected rate is rounded to the nearest 25 basis points. The curtailment of the plans on January 1, 2010 did not have a significant impact to our discount rate.

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

	2009	**2008**
Health care cost trend rate assumed for next year	**8.5%**	9.0%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	**5.0%**	5.0%
Year that the rate reaches the ultimate trend rate	**2017**	2017

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

(dollars in thousands)	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on 2009 total of service and interest cost components	$ 61	$ (55)
Effect on postretirement benefit obligation at December 31, 2009	763	(682)

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 have a rate of return that meets or exceeds a compounded annual benchmark return while maintaining sufficient liquidity to meet the needs of periodic disbursements. The expected rate of return is based on historical rates, which are adjusted to reflect changes in expected market returns over the estimated obligation period. The Plans' assets are prudently invested in a manner that is consistent with generally accepted standards of fiduciary responsibility and conform to the Prudent Investors Act. In addition, any applicable laws or regulations specific to the investment of assets of the corporate retirement plans are immediately adhered to.

The Bank recognizes that capital markets can be unpredictable and that any investment could result in periods where the market value of the Plans' assets will decline in value. As a result, it is the Bank's policy to generally invest in assets that have a readily determinable market value. The assets may consist of individual securities, or securities of a well diversified portfolio or mutual fund. The use of derivative instruments are permitted to control risk within the portfolio, however they are not allowed for leverage or speculative purposes.

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

	Bank of the West Plan		UCB Plan	
	2009	**2008**	**2009**	**2008**
Equity securities	**45%**	53%	**45%**	47%
Debt securities	**50%**	31%	**50%**	52%
Other	**5%**	16%	**5%**	1%
Total	**100%**	100%	**100%**	100%

Concentration of Risk

The Bank describes "risk" as the possibility of not achieving the Plans' actuarial rate of return. Risks associated with the Plans' investments include 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. These guidelines are monitored for compliance both by the Bank and external managers in which diversification of the Plan assets shall meet ERISA requirements. Equity securities in the Plans' did not include BancWest or BNP Paribas stock at December 31, 2009 and 2008.

The table below summarizes the Bank's ERP pension plan assets using the fair value hierarchy, by investment category at December 31, 2009:

(dollars in thousands)	Fair Value	Level 1	Level 2	Level 3
Asset Category				
Cash and equivalents	$ 2,356	$ 2,356	$-	$ -
Fixed income - US corporate securities	350	350	-	-
Fixed income - mutual funds				
Core bond fund(1)	28,926	28,926	-	-
Fixed income - exchange traded funds				
TIPS ETF	3,840	3,840	-	-
Fixed income - insurance products				
Contracts/annuities(2)	9,609	-	-	9,609
Equity - mutual funds				
Large cap growth fund(3)	13,333	13,333	-	-
Large cap core fund(4)	11,547	11,547	-	-
International equity fund	7,944	7,944	-	-
Equity - exchange traded funds				
Mid cap ETF	5,527	5,527	-	-
Small cap ETF	3,503	3,503	-	-
Total pension plan assets	**$86,935**	**$77,326**	$-	**$9,609**

(1) This category includes an open-end fixed-income fund benchmarked to the Barclays Capital U.S. Government/Credit Bond Index. At least 80% of its assets are high-grade corporate bonds and US Government debt obligations.
(2) This category includes an annuity contract (with interest guarantees) which participates in the general account of a major life insurance company. The underlying fixed income investments are structured to align with the duration of contract liabilities.
(3) This category includes an open-end equity fund holding a diversified portfolio of large-cap domestic equity securities. The portfolio has a bias towards stocks with growth characteristics.
(4) This category includes an open-end equity fund holding a diversified portfolio of large-cap domestic equity securities.

The table below summarizes the Bank's UCB pension plan assets using the fair value hierarchy, by investment category at December 31, 2009:

(dollars in thousands)	Fair Value	Level 1	Level 2	Level 3
Asset Category				
Cash and equivalents	$ 3,006	$ 3,006	$ -	$-
Fixed income US Government/agency securities(1)	77,134	77,134	-	-
Fixed income municipal individual securities	2,880	2,880	-	-
Fixed income - US corporate securities(2)	42,013	42,013	-	-
Fixed income - corporate mortgage - backed securities	2,515	2,515	-	-
Fixed income - mutual funds				
High yield bond funds	49	49	-	-
Equity separate assets(3)	26,451	26,451	-	-
Equity - mutual funds				
Domestic large cap	16,095	16,095	-	-
Domestic mid/small cap	21,464	21,464	-	-
Developed international	19,850	19,850	-	-
Emerging markets	6,524	6,524	-	-
Frontier markets	2,432	2,432	-	-
Equity - exchange traded funds (ETF)				
Domestic large cap	15,934	15,934	-	-
Multi strategy mutual funds(4)	17,689	12,401	5,288	-
Total pension plan assets	**$254,036**	**$248,748**	**$5,288**	**$-**

(1) This category includes assets that are primarily of intermediate duration investment grade securities, which are benchmarked to the Barclays Capital U.S. Aggregate Index.
(2) This category includes assets that are primarily of intermediate duration investment grade securities, which are benchmarked to the Barclays Capital U.S. Aggregate Index.
(3) This category includes a broad range of diverse investment styles that incorporate the use of both U.S. and international securities, and involve value, core, and growth strategies. The assets are actively managed to popular mainstream market indices including the S&P 500 Index.
(4) This category consists of U.S. Large Capitalization equity investments incorporating a principal protection strategy and are benchmarked to the S&P 500 Index.

The changes in our Level 3 pension plan assets for the year ended December 31, 2009, were as follows:

(dollars in thousands)	Contracts/Annuities
Beginning balance at December 31, 2008	$ 9,262
Actual return on plan assets	458
Settlements	(1,602)
Purchases	1,553
Service fees	(62)
Ending balance at December 31, 2009	$ 9,609

Contributions

Bank of the West expects to contribute $4.8 million to its non-qualified defined benefit pension plans and $2.9 million to its other postretirement benefit plans in 2010. These contributions are the estimated benefit payments for the unfunded plans and may vary depending on retirements during 2010. Depending on the funding requirements of the Pension Protection Act of 2006, Bank of the West anticipates making a contribution of $7.5 million to the ERP during 2010.

Estimated Future Benefit Payments

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

(dollars in thousands)	Pension Benefits	Other Benefits
2010	$ 24,669	$ 2,918
2011	26,218	4,591
2012	28,106	4,672
2013	30,504	2,818
2014	31,515	6,910
2015 - 2019	184,779	17,898

401(k) Match Plan

The Bank matched employee contributions up to 3% of pay to the BancWest Corporation 401(k) Savings Plan, a defined contribution plan. On January 1, 2010 the Bank began matching employee contributions up to 6% of pay. The plan covers all employees who satisfy eligibility requirements. Matching employer contributions to the 401(k) plan for 2009 and 2008 were $10.8 million and $10.7 million, respectively.

Incentive Plan for Key Executives and Officer's Incentive Plan

The Bank has an Incentive Plan for Key Executives (the "IPKE"), under which awards of cash are made to key executives. The IPKE limits the aggregate and individual value of the awards that could be issued in any one fiscal year. In 2007, the bank created a separate plan for those employees below the level of key executives, the Officer's Incentive Plan ("OIP"). The OIP has the same limits on individual awards as the IPKE plan. Salary and employee benefits expense includes IPKE and OIP expense of $8.1 million and $36.8 million for 2009 and 2008, respectively.

Long-Term Incentive Plans

In 2006, the Bank created an incentive plan, The Phantom Stock Plan ("PSP"), that is designed to reward certain employees for their performance and BancWest's performance over a multi-year performance cycle. For the years ended December 31, 2009 and 2008, salary and employee benefits expense for the Bank was nil and $4.2 million, respectively. In 2008, the Bank created a long term incentive plan to replace the PSP on a go-forward basis.

In 2008, the Bank created a new Long Term Incentive Plan ("LTIP") to replace the BancWest LTIP on a go-forward basis. The plan rewards selected key executives for the Bank of the West performance assessed over a three year performance cycle on a relative and absolute basis. The first payments under this plan will not be until the end of the performance cycle. Salary and employee benefits expense for the Bank includes LTIP expense of $1.2 million and $2.0 million for 2009 and 2008, respectively.

Executive Life Insurance Plan

The Bank provides pre-and postretirement life insurance benefits for certain executives under the Executive Life Insurance Plan (the "ELIP"). Death benefits under the ELIP are equal to three times current salary while actively employed. Following a "qualified termination," the Bank will continue to provide death benefits to ELIP participants equal to three times final salary until their policy distribution date. On that date, the Bank will transfer to the participant ownership of a company-owned life insurance policy with sufficient cash value, based on reasonable actuarial assumptions, to provide a death benefit equal to three times final salary until the policy maturity date. At the date the policy is transferred to the participant, the Bank will also pay a cash bonus sufficient to cover the executive's estimated income taxes due as a result of transfer of the policy.

The policy distribution date is the later of termination from the Bank, age 65 or 7 years participation in the plan. A qualified termination includes termination of employment after attaining age 65, termination of employment after attaining age 55 with at least ten years of credited service, or termination of certain executives entitled to enhanced SERP benefits. The accumulated benefit obligation and expense amounts for the ELIP Plan are included in the tables above within Other Benefits.

19. Income Taxes

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

(dollars in thousands)	2009	2008
Current:		
Federal	**$(131,295)**	$ 153,517
States and other	**(38,217)**	45,359
Total current	**(169,512)**	198,876
Deferred:		
Federal	**(159,195)**	(174,225)
States and other	**(59,545)**	(65,578)
Total deferred	**(218,740)**	(239,803)
Total benefit for income taxes	**$(388,252)**	$ (40,927)

The components of the Bank's net deferred income tax asset at December 31, 2009 and 2008 were as follows:

(dollars in thousands)	2009	2008
Assets		
Allowance for loan and lease losses and nonperforming assets	**$575,545**	$354,478
Investment securities	**180,397**	237,658
Deferred compensation expenses	**103,322**	121,130
Depreciation expense	**5,930**	7,017
State income and franchise taxes	-	21,070
Other	**21,457**	15,115
Total deferred income tax assets	**886,651**	756,468
Liabilities		
Leases	**269,249**	304,102
Intangible assets	**23,507**	25,316
State income and franchise taxes	**6,354**	-
Total deferred income tax liabilities	**299,110**	329,418
Net deferred income tax assets	**$587,541**	$427,050

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

The tax effect of the State net operating loss carry forwards as of December 31, 2009 was approximately $1.1 million, which will be available to offset future taxable income and taxes. If not used, these State carry forwards will expire between 2014 and 2029. The Bank has no Federal net operating loss carryforwards due to the enacted 5-year net operating loss ("NOL") carryback provision. The tax effect of the Federal net operating loss as of December 31, 2009 is $116.2 million, all of which will be fully absorbed in the five carryback years.

The Bank has recorded deferred tax assets in the amount of $886.7 million. 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:

	2009		2008	
(dollars in thousands)	Amount	%	Amount	%
Federal statutory income tax (benefit) expense and rate	**$(276,984)**	**(35.0)%**	$ 17,860	35.0%
Foreign, state and local taxes (benefit), net of federal effect	**(61,135)**	**(7.7)**	(10,165)	(19.9)
Bank-owned life insurance	**(9,570)**	**(1.2)**	(17,104)	(33.5)
Non-taxable income, net	**(24,572)**	**(3.1)**	(25,792)	(50.5)
Tax credits	**(5,145)**	**(0.7)**	(5,434)	(10.7)
Other	**(10,846)**	**(1.4)**	(292)	(0.6)
Effective income tax benefit and rate	**$(388,252)**	**(49.1)%**	$(40,927)	(80.2)%

The Bank and its subsidiaries file income tax returns with the federal government and various state and local jurisdictions. The Internal Revenue Service ("IRS") is in the process of examining the Bank's income tax returns for 2003 through 2005. As of December 31, 2009, the IRS has not proposed any significant adjustments with respect to the Bank or its acquired entities. With few exceptions, the Bank and its acquired entities are no longer subject to state and local income tax examinations for years prior to 2003 and are no longer subject to federal income tax examinations for years prior to 2003. As of December 31, 2009 the state tax jurisdictions have not proposed any significant adjustments. The Bank believes that there are no other jurisdictions in which the outcome of unresolved issues or claims is likely to be material to the Bank's 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)	**2009**	**2008**
Balance at January 1,	**$30,467**	$38,463
Additions based on tax positions related to the current year	**507**	1,718
Additions for tax positions of prior years	**457**	277
Reductions relating to settlements with tax authorities	**(5,096)**	(2,615)
Reductions as a result of a lapse of the applicable statute of limitations	**(4,817)**	(7,376)
Balance at December 31,	**$21,518**	$30,467

Included in the balance of unrecognized tax benefits are $15.6 million and $21.5 million of tax benefits as of December 31, 2009 and 2008, respectively which, if recognized, will affect the effective tax rate.

During the year ended December 31, 2009, the Bank recognized approximately $1.5 million ($0.9 million, net of federal and state tax benefit) in interest and no penalties. The Bank balances do not include $4.0 million and $7.6 million of the net accruals for the payment of interest and penalties for the years ended December 31, 2009 and 2008, respectively.

It is reasonably possible that the total amounts of unrecognized tax benefits will decrease within twelve months of the reporting date with respect to certain state tax liabilities of acquired companies and certain merger costs that the Bank expects to be finalized with the tax jurisdictions. We estimate the possible change could be approximately $4.3 million, which, if recognized, will affect the effective tax rate.

20. 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 review by the FDIC and other regulatory authorities. The transactions are required to be on terms at least as favorable to the Bank as those prevailing at the time for similar non-affiliate transactions. These transactions have included the sales and purchases of assets, foreign exchange activities, financial guarantees, international services, interest rate swaps and intercompany deposits and borrowings.

Amounts due to and from affiliates and off-balance sheet transactions at December 31, 2009 and 2008 were as follows:

(dollars in thousands)	2009	2008
Cash and due from banks	**$ 46,738**	$ 46,744
Loans	**6,456**	14,112
Noninterest-bearing demand deposits	**36,678**	39,804
Money market deposits	**87,017**	700,197
Time certificates of deposit	**3,452,115**	3,424,458
Other liabilities	**9,170**	11,570
Short-term borrowings	**1,961**	1,506
Long-term debt	**83,700**	44,200
Subordinated debt[1]	-	50,226
Junior subordinated debt[1]	**20,000**	45,442
Structured repurchase agreement	**350,000**	350,000
Noncontrolling interest	**5,774**	3,834
Derivatives and off-balance sheet transactions:		
Standby letters of credit	**12,984**	22,405
Guarantees received	**130,970**	127,789
Fair value hedge[2]	**2,167**	2,281
Commitments to purchase foreign currencies[2]	**77,666**	92,790
Commitments to sell foreign currencies[2]	**18,645**	28,483
Interest rate contracts[2]	**1,971,304**	1,741,552

(1) Includes purchase accounting adjustments of nil and $0.7 million at December 31, 2009 and 2008, respectively.
(2) Represents the notional amount of derivative financial instruments that are carried on our balance sheet at fair value.

Junior subordinated debt of $20 million is owed to the Commercial Federal Capital III trusts (see Notes 8 and 12). Subordinated notes of $50 million that were sold directly to BNP Paribas by Bank of the West were paid off on June 24, 2009.

Interest expense to affiliates for 2009 and 2008 was $177.1 and $66.7 million, respectively. Noninterest income from affiliate transactions includes fair value adjustments related to derivatives and was a net increase to noninterest income of $41.1 million for 2009 and represented a decrease to noninterest income of $167.6 million in 2008.

21. Stock-based Compensation

Certain members of Bank of the West's senior management team received stock option awards from BNPP for shares of BNPP Stock. The stock options were awarded in the years 2003 through 2009. The options do not vest until after the fourth year, at which time they are exercisable from the fourth anniversary through the tenth anniversary date (the expiration date) for the 2003 and 2004 grants and through the eighth anniversary date for the 2005, 2006, 2007, 2008 and 2009 grants. The range of exercise prices for the 2003-2009 options were $50.36 through $109.82. As of December 31, 2009, no stock options were expired.

Annual stock option awards are recognized over the vesting period and reflected as compensation expense, which was $2.9 million and $3.0 million for the years ending December 31, 2009 and 2008, respectively. The related income tax benefit recognized in the income statement was $1.2 million for 2009 and 2008.

During 2009, BNPP performed a share-rights issuance which resulted in adjustments (modifications) to all unexercised stock options, whether vested or unvested. As a result of this modification, the strike (exercise) price of the options was adjusted downwards and the number of stock options was adjusted upwards, impacting all awarded years. The intent was to keep the plan participants whole, but due to units rounding and Fair Value Modifications under GAAP Accounting Standards, the Bank recognized a modest compensation expense of just under $0.1 million for the year ended December 31, 2009. The modification impacted a total of 93 employees with an additional 21,157 options granted.

The following table is a summary of stock option activity:

	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)
Options outstanding as of January 1, 2008	602,035	$95.59	6.21
Granted	164,100	93.18	
Exercised	(10,081)	69.58	
Forfeited	(26,781)	91.29	
Options outstanding as of December 31, 2008	729,273	$91.96	4.08
2009:			
Granted	**139,897**	**$50.36**	
Exercised	**(25,744)**	**76.42**	
Forfeited	**(38,215)**	**84.59**	
Options outstanding as of December 31, 2009	**805,211**	**$88.46**	4.79

The total fair value of vested options and options exercised was $5.9 million and $1.1 million in 2009 and $1.9 million and $0.1 million in 2008, respectively.

The fair value of each stock option was estimated on the date of grant using a trinomial tree pricing model. The weighted-average grant-date fair value of options granted during the years 2009 and 2008 was $46.98 and $21.79, respectively. Total unrecognized compensation costs related to nonvested shares was $5.5 million and $10.8 million and the weighted-average period in which these costs will be recognized is 1.51 and 1.83 years at December 31, 2009 and 2008, respectively. The following table presents the weighted-average assumptions used.

	2009	2008
Dividend Yield	**2.0%**	5.8%
Expected Volatility	**39.9**	30.0
Risk Free Interest Rate	**3.2**	4.1
Expected Life (in years)	**8**	8

A summary of the Bank's nonvested options and changes during the years ended December 31, 2009 and 2008 is presented below.

Nonvested Options Outstanding	Number	Weighted-Average Grant-Date Fair Value
Options outstanding at January 1, 2008	537,272	$15.46
Granted	164,100	21.79
Vested	(56,504)	10.57
Forfeited	(25,772)	17.82
Options outstanding at December 31, 2008	619,096	$17.47
2009:		
Granted	**104,320**	**$46.98**
Vested	**(137,216)**	**34.15**
Forfeited	**(13,236)**	**34.76**
Options outstanding at December 31, 2009	**572,964**	**$35.92**

A summary of the Bank's vested and exercisable options and changes during the years ended December 31, 2009 and 2008 is presented below.

Vested and Exercisable Options Outstanding	Number	Weighted-Average Grant-Date Fair Value	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (dollars in thousands)
Outstanding at January 1, 2008	64,763	$21.26	$38.73	5.22	$148.10
Vested	56,504	10.57			
Exercised	(10,081)	10.57			
Forfeited	(1,009)	10.57			
Vested and exercisable options outstanding at December 31, 2008	110,177	$16.86	$59.16	4.63	$172.24
2009:					
Vested	**167,202**	**$34.99**			
Exercised	**(25,744)**	**41.58**			
Forfeited	**(19,388)**	**40.79**			
Vested and exercisable options outstanding at December 31, 2009	**232,247**	**$36.55**	**$69.89**	**3.36**	**$ 99.16**

22. Subsequent Events

In May 2009, the FASB issued guidance that established general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The guidance was effective for interim or annual financial periods ending after June 15, 2009. Management has evaluated subsequent events through March 18, 2010, which is the date we issued our financial statements for the year ended December 31, 2009.

On January 1, 2010, the Bank curtailed the employee cash balance pension plan and the unfunded excess plan. The Bank did not incur gain or loss associated with the curtailment, but future pension expense will decrease significantly due to the curtailment.

In January 2010, the Bank's disallowed deferred tax assets used to compute our regulatory capital ratios increased by approximately $290 million, primarily due to a change in the Federal tax laws related to NOL carrybacks. The NOL carryback period in 2010 is now only two years, as compared with five years for 2009. Consequently, fewer deferred tax assets are carried back and utilized resulting in an increase of the total Federal and State disallowed deferred tax assets to approximately $380 million in January 2010. This increase had no impact to the Bank's financial statements, but it decreased regulatory capital Tier 1 Leverage Ratio by approximately 50 basis points, Tier 1 Risk Based Capital Ratio and Total Risk Based Capital Ratio by approximately 60 basis points.

On January 17, 2010, the Bank acquired deposits of approximately $265 million of two former Wachovia branches from Wells Fargo located in northern California.

In June 2009, the FASB issued guidance which amended the accounting for the consolidation of VIEs to require the Bank to qualitatively assess the determination of the primary beneficiary of a variable interest entity based on whether the reporting entity has the power to direct the activities that most significantly impact the variable interest entity's economic performance and has the obligation to absorb losses or the right to receive benefits of the variable interest entity that could potentially be significant to the variable interest entity. The Bank adopted this new guidance on January 1, 2010, which required the consolidation of several small entities into Bank of the West that resulted in an increase in total assets of approximately $30 million.

In February 2010, the Bank sold various municipal bonds in the state of California to third parties for approximately $21 million and recorded a net loss of $1.1 million on these sales. In March 2010, the Bank sold mortgage-backed securities with an amortized cost of approximately $314 million, and recorded a gain on sale of approximately $16 million.

BANK OF THE WEST

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