2011 ANNUAL REPORT FINANCIAL STATEMENTS

BANK OF THE WEST
AND SUBSIDIARIES

GO WEST.℠

BANK OF THE WEST | 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, 2011 and December 31, 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

BANK OF THE WEST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

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

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

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

BANK OF THE WEST AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

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

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

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

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

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

BANK OF THE WEST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

1. Organization and Summary of Significant Accounting Policies

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

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

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

Regulation

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

Basis of Presentation

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

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

Use of Estimates in the Preparation of Financial Statements

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

Reclassifications

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

Cash and Due from Banks

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

Securities

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

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

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

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

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

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

Loans Held for Sale

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

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

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

Loans and Leases

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

Commercial Loans

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

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

Consumer Loans

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

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

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

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

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

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

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

Nonaccrual Loans and Leases

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

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

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

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

Allowance for Credit Losses

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

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

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

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

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

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

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

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

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

Charge-off and Recovery Policies for Loans and Leases

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

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

Troubled Debt Restructurings

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

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

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

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

Premises and Equipment

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

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

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

Goodwill

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

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

Other Intangible Assets

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

Internal-use Software Development Costs

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

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

Other Real Estate Owned and Repossessed Personal Property

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

Transfers and Servicing of Financial Assets

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

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

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

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

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

Fair Value

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

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

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

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

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

Foreign Currency Translation

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

Lease Commitments

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

Income Taxes

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

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

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

Derivative Instruments and Hedging Activities

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

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

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

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

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

Recent Accounting Standards

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Securities Available for Sale

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

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

[1] Backed by residential real estate.

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

	December 31, 2011					
	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	$ (382)	$146,753	$ -	$ -	$ (382)	$146,753
Government sponsored agencies	(13)	50,368	-	-	(13)	50,368
Mortgage and asset-backed securities:						
Government agencies[1]	(283)	127,828	-	-	(283)	127,828
Government sponsored agencies[1]	(10)	47,216	(1)	23	(11)	47,239
Collateralized debt obligations	-	-	(20,059)	45,133	(20,059)	45,133
Collateralized loan obligations	-	-	(42,855)	128,655	(42,855)	128,655
Other asset-backed securities	(1)	47	-	-	(1)	47
State and political subdivisions	(360)	9,975	(3,841)	59,255	(4,201)	69,230
Equity securities	-	-	(318)	5,824	(318)	5,824
Total securities available for sale	$(1,049)	$382,187	$(67,074)	$238,890	$(68,123)	$621,077

[1] Backed by residential real estate.

	December 31, 2010					
	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	$ (75)	$ 90,839	$ (1)	$ 330	$ (76)	$ 91,169
Government sponsored agencies	(1,039)	330,445	-	-	(1,039)	330,445
Mortgage and asset-backed securities:						
Government agencies[1]	(1,069)	189,008	(47)	890	(1,116)	189,898
Government sponsored agencies[1]	(329)	97,620	-	-	(329)	97,620
Collateralized debt obligations	-	-	(60,682)	66,992	(60,682)	66,992
Collateralized loan obligations	-	-	(93,484)	129,906	(93,484)	129,906
Other asset-backed securities	-	-	(924)	3,492	(924)	3,492
Collateralized mortgage obligations:						
Government agencies	(828)	141,128	-	-	(828)	141,128
Government sponsored agencies	(19,699)	695,627	-	-	(19,699)	695,627
State and political subdivisions	(27,740)	550,576	(17,849)	165,041	(45,589)	715,617
Equity securities	-	-	(270)	5,957	(270)	5,957
Total securities available for sale	$(50,779)	$2,095,243	$(173,257)	$372,608	$(224,036)	$2,467,851

[1] Backed by residential real estate.

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

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

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

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

Government sponsored agencies

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

Mortgage and asset-backed securities:

Government agencies and government sponsored agencies

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

Collateralized debt obligations

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

Collateralized loan obligations

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

Other asset-backed securities

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

Collateralized mortgage obligations:

Government agencies and government sponsored agencies

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

State and political subdivisions

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

Equity securities

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

Assessment of Other-Than-Temporary Impairment

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

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

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

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

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

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

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

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

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

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

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

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

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

3. Loans Held for Sale and Servicing Activity

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

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

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

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

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

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

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

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

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

Valuation allowance for servicing assets:	**2011**	**2010**
Beginning balance	**$ 24**	$ 11
Provisions	**1,110**	13
Balance at end of year	**$ 1,134**	$ 24

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

The MSR asset class is stratified based on loan term and interest rate for purposes of determining impairment. Each stratum is evaluated to determine if the amortized cost basis of the MSR exceeds the fair value. The fair value of each stratum is determined using a present value of expected cash flows model, which is based upon assumptions for future net servicing income. The model incorporates significant inputs classified as Level 3. Those inputs reflect assumptions that market participants use in estimating future net servicing income such as future prepayment speeds, discount rate, cost to service the assets including expected delinquency and foreclosure related costs, escrow account earnings, contractual servicing fee income, late fees and other ancillary income. Impairment of an MSR stratum is recognized through a valuation allowance to the extent the estimated fair value of the stratum falls below its amortized cost basis.

The fair value of the amortized MSRs were:

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

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

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

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

4. Loans and Leases

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

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

(1) Commitments to extend credit represent unfunded amounts and are reported net of participations sold to other lenders.
(2) Certain reclassifications were made to prior year amounts to conform to current year presentation by loan class for all loans and allowance for credit loss tables.

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

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

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

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

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

[1] Includes auto leases of $126 million and $185 million at December 31, 2011 and 2010, respectively.

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

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

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

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

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

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

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

Credit Quality of Loans and Leases

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

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

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

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

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

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

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

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

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

5. Allowance for Credit Losses

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

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

[1] Includes $143.4 million of charge-offs due to loans transferred to HFS.

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

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

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

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

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

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

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

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

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

Impaired Loans

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

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

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

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

Troubled Debt Restructuring

In situations where for economic or legal reasons related to the borrower’s financial difficulties, the Bank grants a concession to the borrower that it would not otherwise consider, the related loan is classified as a TDR. At December 31, 2011 and 2010, loan modifications that qualified as TDRs amounted to $653.1 million and $354.1 million for commercial loans (including those that were held for sale) and $266.3 million and $190.8 million for consumer loans, respectively. The Bank had $19.5 million and $3.7 million of commitments to lend additional funds and letters of credit to customers whose troubled debt have been restructured as of December 31, 2011 and 2010, respectively.

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

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

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

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

Nonaccrual and Past Due Loans and Leases

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

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

(dollars in thousands)	December 31, 2010 Current	30 - 89 days past due	More than 90 days	Total loans and leases	Loans and leases on nonaccrual status	Past due 90 days or more but still accruing
Commercial:						
Commercial and industrial	$ 6,398,455	$ 49,378	$148,204	$ 6,596,037	$ 250,543	$15,127
Commercial real estate	8,820,776	135,674	392,610	9,349,060	603,417	23,483
Construction	820,476	49,379	149,759	1,019,614	258,990	7,648
Equipment leases	2,309,821	24,326	30,051	2,364,198	57,650	-
Agriculture	1,797,118	25,431	61,318	1,883,867	91,714	994
Consumer:						
Installments and lines	10,447,563	137,219	14,508	10,599,290	13,536	972
Residential secured – closed-end	8,558,994	164,937	182,938	8,906,869	200,433	724
Residential secured – revolving, open-end	2,258,386	22,271	8,128	2,288,785	8,128	-
Total	**$41,411,589**	**$608,615**	**$987,516**	**$43,007,720**	**$1,484,411**	**$48,948**

6. Premises and Equipment

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

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

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

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

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

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

[1] Excludes purchase accounting adjustments of $5.0 million.

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

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

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

7. Credit Guarantee Derivative

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

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

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

8. Goodwill and Other Intangible Assets

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

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

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

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

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

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

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

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

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

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

9. Variable Interest Entities

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

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

Limited liability companies

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

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

Tax credit investments

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

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

Consolidated VIEs

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

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

Unconsolidated VIEs

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

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

[1] Reported in other assets or other liabilities.

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

[1] Reported in other assets or other liabilities.

10. Regulatory Capital Requirements

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

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

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

	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, 2011						
Tier 1 capital to risk-weighted assets	**$6,679,424**	**14.20%**	**$1,882,089**	**4.00%**	**$2,823,133**	**6.00%**
Total capital to risk-weighted assets	**7,271,352**	**15.45**	**3,764,178**	**8.00**	**4,705,222**	**10.00**
Tier 1 leverage ratio[1]	**6,679,424**	**11.57**	**2,309,521**	**4.00**	**2,886,902**	**5.00**
As of December 31, 2010						
Tier 1 capital to risk-weighted assets	$5,979,172	13.32%	$1,795,229	4.00%	$2,692,843	6.00%
Total capital to risk-weighted assets	6,546,329	14.59	3,590,457	8.00	4,488,072	10.00
Tier 1 leverage ratio[1]	5,979,172	11.22	2,132,475	4.00	2,665,594	5.00

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

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

11. Deposits

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

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

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

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

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

12. Short-Term Borrowings

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

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

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

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

The Bank treats securities sold under agreements to repurchase as collateralized financings. The Bank reflects the obligations to repurchase the identical securities sold as liabilities, with the dollar amount of securities underlying the agreements remaining in the asset accounts. At December 31, 2011, the outstanding balance of these agreements was $327.5 million with a weighted average maturity of 4 days.

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

13. Long-Term Debt

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

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

(1) This debt is secured by real estate loans or securities. See Notes 2 and 4 to the financial statements for additional information.
(2) Interest is payable monthly.
(3) Interest is payable quarterly.
(4) Fixed rate with partial repayment monthly.
(5) Interest is payable semi-annually.
(6) In 2011, the Bank terminated $440 million of these advances and recognized a $0.8 million loss on the termination.

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

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

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

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

14. Litigation

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

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

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

15. Derivative Financial Instruments

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

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

Fair Value Hedges

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

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

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

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

In February 2000, the Bank entered into an agreement to hedge the fair value of a commercial loan which matured on April 2011. The Bank received one-month LIBOR plus 75 basis points and paid a fixed rate of 8.32%. This interest rate swap had a notional amount of $2 million and a fair value loss of $0.1 million at December 31, 2010.

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

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

Cash Flow Hedges

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

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

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

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

Free Standing Derivatives

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

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

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

(1) The positive fair values of derivative assets are included in other assets.
(2) The negative fair values of derivative liabilities are included in other liabilities.
(3) This relates to the Guarantee as described in Note 7.
(4) Includes bifurcated derivatives embedded in market linked instruments.

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

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

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

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

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

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

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

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

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

16. Fair Value

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

Short-term financial assets

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

Trading assets

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

Securities

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

Loans held for sale

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

Loans

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

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

Foreclosed assets

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

Assets for deferred compensation plans

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

Deposits

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

Short-term borrowings and long-term debt

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

Derivatives

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

Off-balance sheet financial instruments

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

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

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

(1) Backed by residential real estate.
(2) Largely represents assets for deferred compensation plans.

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

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

(1) Backed by residential real estate.
(2) Largely represents assets for deferred compensation plans.

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

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

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

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

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

(1) Included in noninterest income in the income statement.
(2) Backed by residential real estate.
(3) Related to the adoption of new accounting guidance for the consolidation of VIEs and transfers of financial assets.

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

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

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

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

(1) The fair value adjustment is not related to actual losses but is related to the allocation of the allowance in order to adjust the carrying amount of the loan to the fair value of the collateral.
(2) See Note 5, for related charge-offs at time of transfer to held for sale.

Fair Value of Financial Instruments

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

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

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

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

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

(1) Excludes net leases of $2,719 million and $2,490 million at December 31, 2011 and 2010, respectively.
(2) Includes federal funds purchased and securities sold under agreements to repurchase and short-term borrowings.
(3) Excludes capital leases of $15.7 million and $16.5 million at December 31, 2011 and 2010, respectively.

17. Cash and Dividend Restrictions

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

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

18. Accumulated Other Comprehensive Income (Loss)

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

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

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

19. Benefit Plans

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

Pension Benefits:

Funded Pension Plans

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

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

Unfunded Pension Plans

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

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

Other Postretirement Benefits:

Postretirement Medical and Life Insurance Plan

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

Executive Life Insurance Plan

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

Pension Accounting

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Assumptions

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

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

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

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

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

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

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

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

Plan Assets

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

Investment Strategy and Risk Management for the Plans' Assets

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

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

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

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

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

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

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

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

Concentration of Risk

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

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

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

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

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

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

Valuation Methodologies

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

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

Contributions

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

Estimated Future Benefit Payments

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

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

401(k) Match Plan

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

Incentive Plan for Key Executives and Officer's Incentive Plan

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

Long-Term Incentive Plans

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

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

20. Income Taxes

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

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

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

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

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

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

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

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

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

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

The Bank and its subsidiaries file income tax returns with the federal government and various state and local jurisdictions. The Internal Revenue Service ("IRS") is in the process of examining the Bank's income tax returns for 2006 and 2007. During 2011, the IRS issued an agreed Revenue Agent's Report for tax years 2003-2005 and the IRS proposed no significant adjustments with respect to the Bank or its acquired entities. With few exceptions, the Bank and its acquired entities are no longer subject to federal, state, and local income tax examinations for years prior to 2003. As of December 31, 2011, the state tax jurisdictions have not proposed any significant adjustments. The Bank believes that there are no other jurisdictions in which the outcome of unresolved issues or claims is likely to be material to our results of operations, financial position or cash flows. The Bank further believes that it has made adequate provision for all income tax uncertainties.

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

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

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

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

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

21. Transactions with Affiliates

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

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

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

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

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

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

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

22. Stock-based Compensation

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

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

The following table is a summary of stock option activity:

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

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

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

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

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

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

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

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

23. Subsequent Events

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

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Bank of the West
180 Montgomery Street
San Francisco, CA 94104
Phone: 415.765.4800
www.bankofthewest.com