BANK OF THE WEST

AND SUBSIDIARIES

GO WEST.℠

Independent Auditors' Report

To the Board of Directors and Stockholders of
Bank of the West and its Subsidiaries
San Francisco, California

We have audited the accompanying consolidated financial statements of Bank of the West and its subsidiaries (the "Bank"), which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bank of the West and its subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP
San Francisco, CA
March 12, 2014

BANK OF THE WEST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(dollars in thousands)	Year ended December 31, **2013**	2012
Interest income		
Loans	**$1,728,229**	$1,840,031
Lease financing	**125,857**	127,638
Securities available for sale	**160,304**	174,421
Other	**16,940**	10,398
Total interest income	**2,031,330**	2,152,488
Interest expense		
Deposits	**134,561**	151,030
Short-term borrowings	**271**	221
Long-term debt	**26,197**	100,765
Total interest expense	**161,029**	252,016
Net interest income	**1,870,301**	1,900,472
Provision for credit losses	**44,686**	169,462
Net interest income after provision for credit losses	**1,825,615**	1,731,010
Noninterest income		
Service charges on deposit accounts	**147,421**	151,381
Credit and debit card fees	**82,474**	78,718
Net gains on debt securities available for sale	**66,683**	54,102
Loan fees	**47,288**	38,471
Other service charges and fees	**42,417**	43,009
Net gains on sales of loans and leases	**43,327**	81,562
Insurance agency fees	**28,255**	25,901
Brokerage service fees	**23,675**	29,655
Net gains on customer accommodation derivatives	**22,817**	28,366
Income from bank-owned life insurance	**20,473**	25,645
Trust and investment services income	**20,455**	19,279
Gain on credit guarantee derivative	**4,396**	38,257
Write-downs of other real estate owned assets, net	**(4,274)**	(17,087)
Other	**7,106**	7,854
Total noninterest income	**552,513**	605,113
Noninterest expense		
Salaries and employee benefits	**862,999**	830,325
Contracted services and professional fees	**156,734**	136,203
Occupancy	**139,990**	139,619
Equipment	**62,524**	57,537
Advertising and marketing	**44,017**	41,401
Intangible amortization	**36,678**	37,152
Regulatory assessment and fees	**32,389**	42,042
Collection and repossession	**18,216**	36,672
Other	**121,825**	143,605
Total noninterest expense	**1,475,372**	1,464,556
Income before income taxes and noncontrolling interest	**902,756**	871,567
Income tax expense	**339,823**	314,359
Net income before noncontrolling interest	**562,933**	557,208
Net income attributable to noncontrolling interest	**2,328**	2,005
Net income attributable to Bank of the West	**$ 560,605**	$ 555,203

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

BANK OF THE WEST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in thousands)	Year ended December 31, **2013**	2012
Net income attributable to Bank of the West	**$ 560,605**	$555,203
Other comprehensive income (loss), before tax		
Net change in pension and other benefits adjustment	**118,790**	3,939
Net change in unrealized (losses) gains on securities available for sale	**(433,963)**	84,532
Net change in unrealized (losses) gains on cash flow derivative hedges	**(22,482)**	17,248
Other comprehensive (loss) income, before tax	**(337,655)**	105,719
Income tax benefit (expense) related to other comprehensive income	**137,088**	(42,922)
Other comprehensive (loss) income, net of tax	**(200,567)**	62,797
Comprehensive income attributable to Bank of the West	**360,038**	618,000
Comprehensive income attributable to noncontrolling interest	**2,328**	2,005
Total comprehensive income	**$ 362,366**	$620,005

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

BANK OF THE WEST AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except per share amounts)	As of December 31, **2013**	2012
Assets		
Cash and due from banks	**$ 825,492**	$ 1,054,216
Interest-bearing deposits in other banks	**2,442,252**	1,599,849
Trading assets	**6,499**	6,498
Securities available for sale	**8,685,416**	8,164,040
Loans held for sale	**13,959**	261,101
Loans and leases:		
Loans and leases	**47,329,731**	44,991,531
Less allowance for loan and lease losses	**634,573**	710,703
Net loans and leases	**46,695,158**	44,280,828
Premises and equipment, net	**421,741**	440,930
Other real estate owned and repossessed personal property	**25,497**	44,906
Interest receivable	**162,777**	172,025
Bank-owned life insurance	**1,327,950**	1,315,039
Identifiable intangible assets	**193,363**	170,753
Goodwill	**4,201,513**	4,201,513
Pension assets	**40,741**	-
Other assets	**1,425,423**	1,631,661
Total assets	**$66,467,781**	$63,343,359
Liabilities and Equity		
Deposits:		
Interest-bearing	**$34,375,898**	$32,838,841
Noninterest-bearing	**13,996,570**	14,268,596
Total deposits	**48,372,468**	47,107,437
Short-term borrowings	**3,055,802**	328,190
Long-term debt	**2,312,978**	2,974,800
Liability for pension benefits	**118,583**	221,906
Other liabilities	**895,157**	1,057,241
Total liabilities	**54,754,988**	51,689,574
Equity:		
Common stock, par value $0.001 per share:		
Authorized — 20,000,000 shares		
Issued and outstanding — 5,548,359 shares as of December 31, 2013 and 2012	**6**	6
Additional paid-in capital	**9,735,522**	9,733,396
Retained earnings	**2,110,695**	1,850,090
Accumulated other comprehensive (loss) income	**(148,434)**	52,133
Total Bank of the West stockholder's equity	**11,697,789**	11,635,625
Noncontrolling interest	**15,004**	18,160
Total equity	**11,712,793**	11,653,785
Total liabilities and equity	**$66,467,781**	$63,343,359

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

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

(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 as of January 1, 2012	5,548,359	$6	$9,730,732	$1,469,882	$ (10,664)	$11,189,956	$22,502	$11,212,458
Net income	-	-	-	555,203	-	555,203	2,005	557,208
Other comprehensive income (loss), net of tax	-	-	-	-	62,797	62,797	-	62,797
Contributed capital	-	-	2,664	-	-	2,664	-	2,664
Dividends	-	-	-	(174,995)	-	(174,995)	-	(174,995)
Other	-	-	-	-	-	-	(6,347)	(6,347)
Net change for the period	-	-	2,664	380,208	62,797	445,669	(4,342)	441,327
Balance as of December 31, 2012	5,548,359	$6	$9,733,396	$1,850,090	$ 52,133	$11,635,625	$18,160	$11,653,785
Net income	**-**	**-**	**-**	**560,605**	**-**	**560,605**	**2,328**	**562,933**
Other comprehensive income (loss), net of tax	**-**	**-**	**-**	**-**	**(200,567)**	**(200,567)**	**-**	**(200,567)**
Contributed capital	**-**	**-**	**2,126**	**-**	**-**	**2,126**	**-**	**2,126**
Dividends	**-**	**-**	**-**	**(300,000)**	**-**	**(300,000)**	**-**	**(300,000)**
Other	**-**	**-**	**-**	**-**	**-**	**-**	**(5,484)**	**(5,484)**
Net change for the period	**-**	**-**	**2,126**	**260,605**	**(200,567)**	**62,164**	**(3,156)**	**59,008**
Balance as of December 31, 2013	**5,548,359**	**$6**	**$9,735,522**	**$2,110,695**	**$(148,434)**	**$11,697,789**	**$15,004**	**$11,712,793**

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

BANK OF THE WEST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,	
(dollars in thousands)	**2013**	2012
Cash flows from operating activities		
Net income	**$ 560,605**	$ 555,203
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	**44,686**	169,462
Net gains on debt securities available for sale	**(66,683)**	(54,102)
Net gains on sales of loans and leases	**(43,327)**	(81,562)
Depreciation, amortization and accretion, net	**260,008**	264,476
Deferred income taxes	**68,130**	45,497
Decrease in interest receivable and other assets	**217,903**	61,091
Net (decrease) increase in interest payable and other liabilities	**(174,787)**	76,309
Change in fair value of credit guarantee derivative	**(4,396)**	(38,257)
Originations of loans held for sale	**(1,097,834)**	(1,527,447)
Proceeds from sales of loans held for sale	**1,315,926**	1,438,702
Other, net	**(30,695)**	17,413
Net cash provided by operating activities	**1,049,536**	926,785
Cash flows from investing activities		
Securities available for sale:		
Proceeds from maturities and prepayments	**1,047,996**	887,172
Proceeds from sales	**3,620,122**	2,639,552
Purchases	**(5,648,085)**	(3,931,146)
Net increase in loans resulting from originations and collections	**(2,537,808)**	(2,061,081)
Purchases of loans and leases	**(31,921)**	(84,387)
Proceeds from sales (including participations) of loans originated for investment	**71,959**	308,650
Proceeds from sales of foreclosed assets	**38,314**	133,028
Purchase of premises, equipment and software	**(102,534)**	(77,887)
Other, net	**59,280**	61,087
Net cash used in investing activities	**(3,482,677)**	(2,125,012)
Cash flows from financing activities		
Net increase in deposits	**1,272,000**	3,168,237
Net increase (decrease) in short-term borrowings	**2,727,612**	(25,430)
Proceeds from issuance of long-term debt	**918,679**	109,578
Repayment of long-term debt	**(1,571,471)**	(2,821,334)
Cash dividends paid	**(300,000)**	(174,995)
Net cash provided by financing activities	**3,046,820**	256,056
Net increase (decrease) in cash and cash equivalents	**613,679**	(942,171)
Cash and cash equivalents at beginning of year	**2,654,065**	3,596,236
Cash and cash equivalents at end of year	**$ 3,267,744**	$ 2,654,065
Supplemental disclosures		
Interest paid	**$ 166,198**	$ 268,745
Income taxes paid	**337,821**	250,937
Noncash investing and financing activities:		
Transfer from deposits for the settlement of credit guarantee derivative	**6,969**	55,996
Transfers into loans held for sale	**889**	217,273
Transfers from loans to other real estate owned	**25,606**	42,092

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

1. Organization and Summary of Significant Accounting Policies

Bank of the West ("BOW"), a State of California chartered bank has 614 retail branch banking locations (604 full service retail branches and 10 limited service retail offices) and other commercial banking offices, as of December 31, 2013, located in Arizona, California, Colorado, Idaho, Iowa, Kansas, Minnesota, Missouri, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Utah, Washington, Wisconsin and Wyoming providing a wide range of financial services to both consumers and businesses. BOW also has branches serving Pacific Rim customers, specializing in domestic and international products and services in predominantly Asian American communities. In addition, the Bank has a commercial banking office in New York and an offshore office in the Cayman Islands. The terms "the Bank," "we," "our," "us" and similar terms as used in this report refer to Bank of the West and its subsidiaries.

BancWest Corporation ("BancWest"), a financial holding company, as of December 31, 2013 and 2012, owned all of the outstanding common stock of BOW. BOW also had authorized 1,000,000 shares of preferred stock, none of which were issued or outstanding as of December 31, 2013 and 2012.

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

Regulation

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

Basis of Presentation

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

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

Use of Estimates

The preparation of the consolidated financial statements and related notes thereto in accordance with GAAP requires management to make judgments using estimates and assumptions. While management makes its best judgment, actual amounts or results could differ from those estimates.

Reclassifications

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

Cash and Due from Banks

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

Securities

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

Investments in debt securities and marketable equity securities having readily determinable fair values and not used for trading purposes are classified as available for sale ("AFS"). AFS securities are carried at estimated fair value with net unrealized gains and losses included in accumulated other comprehensive income (loss) ("AOCI"), net of applicable income taxes. Amortization of premiums and accretion of discounts for the available for sale securities are included in interest income. Upon sale, realized gains and losses are recognized in income. See Note 15 for information on fair value measurement of the securities.

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

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

Nonmarketable equity securities are carried at cost and included in other assets. FHLB stocks are evaluated for impairment on a quarterly basis while other nonmarketable equity securities are evaluated for impairment whenever changes in circumstances indicate that there may be impairment.

Loans Held for Sale

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

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

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

Loans and Leases

Loans and direct financing leases for which the Bank has the intent and the ability to hold for the foreseeable future or until maturity or payoff, are classified in the consolidated balance sheets as loans and leases. Loans are recorded at their outstanding principal balances net of any unearned income, cumulative charge-offs, unamortized deferred fees and costs on originated loans and unamortized premiums or discounts on purchased loans.

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

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

Direct financing leases are carried at the aggregate of minimum lease payments receivable, estimated residual value of the leased property and unamortized initial direct costs less unearned income. Unearned income net of initial direct costs on direct financing leases is accreted over the lives of the leases to provide a constant periodic rate of return on the net investment in the lease. The Bank reviews the estimated residual values of the lease properties for both commercial and consumer at least annually and recognizes through income any reduction in net investment resulting from a decline in estimated residual value that is deemed to be other-than-temporary.

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

Loan and Lease Portfolio Composition

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

Commercial Loans

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

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

Consumer Loans

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

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

Nonaccrual Loans and Leases

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

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

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

Not all impaired loans or leases are placed on nonaccrual status; for example, restructured loans that are performing under their modified terms may continue to accrue interest or may return to accrual status after the borrower demonstrates a sustained period of performance (see Allowance for Credit Losses and Troubled Debt Restructurings below).

Allowance for Credit Losses

The allowance for credit losses (the "Allowance") is management's estimate of probable credit losses inherent in the loan and lease portfolio, as well as unfunded credit commitments and is maintained at a level which, in management's judgment, is adequate to absorb probable losses that have been incurred and can be reasonably estimated as of the balance sheet dates. The Allowance is increased through provisions for credit losses charged to earnings and reduced by charge-offs, net of recoveries.

The Allowance consists of an allocated and an unallocated component. The Bank determines the allocated component of the Allowance by measuring credit impairment on (1) an individual basis for larger balance loans in the commercial portfolio that are on nonaccrual status and commercial and mortgage loans in a troubled debt restructuring, and (2) on a collective basis for groups of loans with similar risk characteristics and large groups or pools of homogeneous loans with smaller balances that are not evaluated on a case-by-case basis such as credit card, residential mortgages and consumer installment loans.

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

Loans that are not assessed individually for impairment are assessed on a collective basis, and the calculation of the allocated reserve considers quantitative historical loss experience for each type of loan and qualitative adjustments based on an analysis of portfolio-specific external factors, key performance indicators and other qualitative factors.

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

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

The Bank also maintains a reserve for losses on unfunded loan commitments and letters of credit, which is recorded within other liabilities. The Bank measures the amount of reserve based on estimates of the probability of the ultimate funding and losses related to credit exposures that exist at the balance sheet date similar to the methodology used for the loans and leases portfolio.

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

Charge-off and Recovery Policies for Loans and Leases

The Bank's policy is to fully charge-off or partially charge down to net realizable value when a loan or lease is deemed to be uncollectible and all commercially reasonable means of recovering those payments have been exhausted. A commercial loan or lease that is considered to be individually impaired is charged off, partially or fully, when potential recovery of the recorded loan balance is unlikely as a result of a shortfall in collateral value or the borrower's financial difficulty. Consumer installment loans and leases are generally charged off, partially or fully, upon reaching a predetermined delinquency status that ranges from 120 to 180 days depending on the type of consumer installment loans and leases.

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

Troubled Debt Restructurings

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

With the exception of the following, all loans modified in a TDR (including consumer loans that have been discharged in a Chapter 7 Bankruptcy) are placed or remain on nonaccrual status at the time of the restructuring. Certain accruing loans modified in a TDR that are current at the time of restructuring may remain on accrual status if payment in full under the restructured terms is expected.

Premises and Equipment

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

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

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

Lease Commitments

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

Goodwill

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

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

Identifiable Intangible Assets

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

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

Internal-use software development costs are amortized over their estimated useful lives of five to seven years. The Bank reviews internal-use software development costs for impairment annually or whenever changes in circumstances indicate that there may be impairment. If impairment is identified, it is measured as the amount by which the carrying basis of the asset exceeds its fair value and recognized immediately.

Other Real Estate Owned and Repossessed Personal Property

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

Transfers and Servicing of Financial Assets

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

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

The Bank retains the servicing on mortgage loans sold, which are recognized as mortgage servicing rights ("MSRs") on the consolidated balance sheets within identifiable intangible assets. MSRs are initially recognized at fair value at the date of transfer as a component of the sales proceeds and subsequently amortized and carried at the lower of cost or fair value. Fair value of MSRs is determined based on the present value of estimated future net servicing income. MSRs are amortized over the estimated period that net servicing income is expected to be received. Projections of the amount and timing of estimated future net cash flows are calculated using management's best estimates, including prepayment speeds, forward yield curves and default rates. These estimates are updated based on actual results, industry trends and other economic considerations.

The Bank periodically evaluates its MSRs for impairment by stratifying them based on predominant risk characteristics and comparing the carrying value of each strata to the estimated fair value measured using a discounted cash flow method as discussed in Note 3. Impairment is recognized through a valuation allowance and a charge to earnings if it is considered to be temporary or through a direct write-down of the asset and a charge to earnings if it is considered other than temporary.

Securities Purchased and Sold Agreements

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

Fair Value

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

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

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

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

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. See Note 15 for more information regarding fair value measurements.

Foreign Currency Translation

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

Income Taxes

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

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

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

Derivative Instruments and Hedging Activities

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

The Bank formally documents the relationship between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. The Bank also formally assesses both at the inception of the hedge and on a quarterly basis, whether the derivative instruments are considered effective in offsetting changes in fair values of or cash flows related to hedged items.

For derivatives designated as fair value hedges, changes in the fair value of the derivative instrument and changes in the fair value of the related hedged asset or liability or of an unrecognized firm commitment attributable to the hedged risk are recorded in noninterest income.

For derivatives designated as a cash flow hedge, in which derivatives hedge the variability of cash flows related to floating-rate assets and liabilities or forecasted transactions, the accounting treatment depends on the effectiveness of the hedge. To the extent that the hedge is considered effective in offsetting the variability of the hedged cash flows, changes in the fair value of the derivative instrument are recorded in AOCI. These changes in fair value are subsequently reclassified into consolidated statements of income in future periods when the hedged transaction affects earnings. To the extent the derivative instruments are not effective, any changes in the fair value of derivatives are immediately recognized in noninterest income. If a hedged forecasted transaction is not expected to occur, hedge accounting is ceased and any gains or losses remaining in AOCI are recognized through income immediately.

For free-standing derivative instruments, any changes in the fair value of the derivative instruments are reported in noninterest income.

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

Valuations of derivative assets and liabilities reflect the value of the instrument including the values associated with counterparty risk, market risk and the Bank's own credit standing. See Note 14 for additional information.

Recent Accounting Standards

The following Accounting Standard Updates ("ASU") have been issued by the Financial Accounting Standards Board ("FASB") and are applicable to the Bank for the year ended December 31, 2013 or in future periods:

ASU 2013-02: *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*

In February 2013, the FASB issued revised guidance that requires an entity to present information about significant items reclassified out of AOCI by component either in the statement of income or as a separate disclosure in the notes to the consolidated financial statements. The guidance is effective for the Bank's consolidated financial statements as of December 31, 2013 on a comparative basis, and does not affect our consolidated financial results since it amends only the disclosure requirements for reclassification of AOCI. Refer to Note 17 for new disclosures required by the guidance.

ASU 2011-11: *Balance Sheet (Topic 210)—Disclosure about Offsetting Assets and Liabilities and ASU No. 2013-01: Balance Sheet (Topic 210)—Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*

In 2011 and 2013, the FASB issued new disclosure requirements about the nature of an entity's rights to setoff and related arrangements associated with its financial instruments and derivative instruments. Under the new guidance, companies must describe the nature of offsetting arrangements, for example, those subject to an enforceable master netting or similar arrangement, and provide quantitative information about those agreements, including the gross and net amounts of financial instruments that are recognized in the statement of financial position. This ASU is effective prospectively for the Bank beginning on January 1, 2013. This ASU did not affect the Bank's consolidated financial results since it amends only the disclosure requirements for offsetting financial instruments. Refer to Note 14 for new disclosures required by the guidance.

ASU 2013-04: *Liabilities (Topic 405)—Obligations Resulting from Joint and Several Liability Arrangements for which the Total Amount of the Obligation Is Fixed at the Reporting Date*

In February 2013, the FASB issued new accounting guidance that addresses the recognition, measurement, and disclosure of certain obligations resulting from joint and several liability arrangements including debt arrangements, other contractual obligations, and settled litigation and judicial rulings. The ASU is effective for the Bank beginning on January 1, 2014 and is not expected to have a material impact on the Bank's consolidated financial statements.

ASU 2013-10: *Derivatives and Hedging (Topic 815)—Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes*

In July 2013, the FASB issued guidance that allows the use of the Fed Funds Effective Swap Rate as a benchmark interest rate for hedge accounting purposes. The ASU also eliminates the provision that prohibits the use of different benchmark rates for similar hedges except in rare and justifiable circumstances. The ASU is effective beginning July 17, 2013 and may be applied to new hedge relationships and de-designated or re-designated hedge relationships. This ASU did not and is not expected to have a material impact on the Bank's consolidated financial statements.

2. Securities Available for Sale

The following table presents the amortized cost, unrealized gains, unrealized losses and fair values of securities available for sale:

	As of December 31,							
	2013				2012			
(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	**$2,515,319**	**$ 2,434**	**$ (20,045)**	**$2,497,708**	$1,777,345	$ 22,098	$ -	$1,799,443
Government sponsored agencies	**-**	**-**	**-**	**-**	50,015	22	-	50,037
Mortgage and asset-backed securities:								
Government agencies[1]	**3,366,169**	**7,915**	**(85,889)**	**3,288,195**	4,126,161	195,212	(2,280)	4,319,093
Government sponsored agencies[1]	**901,253**	**150**	**(81,471)**	**819,932**	1,210,744	6,813	(4,564)	1,212,993
Collateralized debt obligations	**11,236**	**-**	**(1,831)**	**9,405**	13,552	-	(3,277)	10,275
Collateralized loan obligations	**127,487**	**-**	**(8,021)**	**119,466**	127,486	-	(15,883)	111,603
Other asset-backed securities	**48**	**-**	**-**	**48**	429	46	-	475
Collateralized mortgage obligations:								
Government agencies	**1,042,812**	**306**	**(17,950)**	**1,025,168**	7,647	176	-	7,823
Government sponsored agencies	**362,281**	**137**	**(8,476)**	**353,942**	42,213	526	-	42,739
States and political subdivisions	**521,837**	**9,824**	**(9,086)**	**522,575**	580,595	25,012	(2,499)	603,108
Corporate debt securities	**43,084**	**-**	**(297)**	**42,787**	-	-	-	-
Equity securities	**6,160**	**622**	**(592)**	**6,190**	6,160	588	(297)	6,451
Total securities available for sale	**$8,897,686**	**$21,388**	**$(233,658)**	**$8,685,416**	$7,942,347	$250,493	$(28,800)	$8,164,040

[1] Backed by residential real estate.

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

	Year ended December 31,	
(dollars in thousands)	**2013**	2012
Realized gains	**$ 77,519**	$ 70,506
Realized losses[1]	**(10,836)**	(16,404)
Realized net gains	**$ 66,683**	$ 54,102

[1] Includes OTTI recognized in the consolidated statements of income of $0.1 million and $0.5 million for the years ended December 31, 2013 and 2012, respectively.

The fair value and amortized cost of debt securities available for sale as of December 31, 2013, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties.

	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)	Amount	Amount	Amount	Amount	Total Amount
U.S. Treasury and other U.S. Government agencies and corporations	$ -	$2,497,612	$ 18	$ 78	$2,497,708
Government sponsored agencies	-	-	-	-	-
Mortgage and asset-backed securities:					
Government agencies	-	-	-	3,288,195	3,288,195
Government sponsored agencies	-	-	3,624	816,308	819,932
Collateralized debt obligations	-	-	-	9,405	9,405
Collateralized loan obligations	-	-	119,466	-	119,466
Other asset-backed securities	-	20	9	19	48
Collateralized mortgage obligations:					
Government agencies	-	-	-	1,025,168	1,025,168
Government sponsored agencies	-	-	-	353,942	353,942
States and political subdivisions	32,560	94,366	59,005	336,644	522,575
Corporate debt securities	-	34,905	7,882	-	42,787
Estimated fair value of debt securities	$32,560	$2,626,903	$190,004	$5,829,759	$8,679,226
Total amortized cost of debt securities	$32,369	$2,643,341	$197,112	$6,018,704	$8,891,526

Securities with an aggregate carrying value of $5.8 billion and $4.9 billion were pledged to secure public deposits, repurchase agreements, borrowings from the Federal Reserve Bank ("FRB"), derivative liability positions and for other purposes as of December 31, 2013 and 2012, respectively. As of December 31, 2013 and 2012, there were no secured parties that had the right to repledge or resell these securities.

We held no securities of any single issuer (other than the U.S. Government and government sponsored agencies) which were in excess of 10% of consolidated stockholder's equity as of December 31, 2013 and 2012.

Securities available for sale with a continuous unrealized loss position are shown below, separately for periods less than 12 months and 12 months or more:

	As of December 31, 2013					
	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	$ (20,045)	$2,041,188	$ -	$ -	$ (20,045)	$2,041,188
Mortgage and asset-backed securities:						
Government agencies[(1)]	(48,771)	2,211,284	(37,118)	342,308	(85,889)	2,553,592
Government sponsored agencies[(1)]	(17,589)	229,055	(63,882)	586,414	(81,471)	815,469
Collateralized debt obligations	-	-	(1,831)	9,405	(1,831)	9,405
Collateralized loan obligations	-	-	(8,021)	119,466	(8,021)	119,466
Collateralized mortgage obligations:						
Government agencies	(17,950)	980,165	-	-	(17,950)	980,165
Government sponsored agencies	(8,476)	296,442	-	-	(8,476)	296,442
States and political subdivisions	(4,844)	90,916	(4,242)	37,944	(9,086)	128,860
Corporate debt securities	(297)	42,787	-	-	(297)	42,787
Equity securities	-	-	(592)	5,408	(592)	5,408
Total securities available for sale	$(117,972)	$5,891,837	$(115,686)	$1,100,945	$(233,658)	$6,992,782

(1) Backed by residential real estate.

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

[1] Backed by residential real estate.

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

The Bank has assessed the impact on the collateralized debt obligations and collateralized loan obligations portfolios in relation to the Volcker Rule and determined no OTTI impairment is required at December 31, 2013. The Bank will continue to reassess this determination on an on-going basis.

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

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

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

Mortgage and asset-backed securities:

Government agencies and government sponsored agencies

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

Collateralized debt and loan obligations

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

Collateralized mortgage obligations:

Government agencies and government sponsored agencies

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

States and political subdivisions

The unrealized losses associated with securities of U.S. states and political subdivisions are primarily driven by changes in interest rates. The slow economic recovery continues to negatively affect the creditworthiness of some state and local governments. Additionally, potential reduced federal and state funding to state and local governments could place additional strain on state and local governments. These factors could result in impairment as the Bank holds bonds issued from various local governments. We expect to fully recover the cost basis of these securities for which unrealized losses that have existed for longer than 12 months are not material to the consolidated financial statements of the Bank.

Other-Than-Temporary Impairment Losses

During the years ended December 31, 2013 and 2012, there were two interest-only strips classified as other asset-backed securities that were other-than-temporarily impaired, primarily due to a decrease in expected cash flows of the securities based on changes in the prepayment rates of underlying collateral. These securities did not have any OTTI losses for which a portion remained in OCI at December 31, 2013 and 2012.

3. Loan Sales and Servicing Activity

Loans held for sale primarily consist of consumer loans that we originate for sale to FNMA. These loans are sold to FNMA on a non-recourse basis, and we retain the rights to service these loans. Periodically, we may identify certain commercial and non-performing consumer loans which we no longer intend to hold to maturity. These loans are generally sold to non-affiliated parties on a non-recourse basis. Except for loans that are originated for sale to FNMA, we do not have any continuing involvement in the loans after their sale.

The following table summarizes the activity for the loans held for sale:

	Year ended December 31,			
	2013		2012	
(dollars in thousands)	**Commercial**	**Consumer**	Commercial	Consumer
Loans originated for sale	**$ -**	**$1,097,834**	$ -	$1,527,447
Loans transferred to held for sale[1]	**$ 288**	**$ 601**	$145,293	$ 71,980
Loans sold during the year	**$42,184**	**$1,285,691**	$183,039	$1,456,292
Net gains on sales of loans	**$ 6,506**	**$ 23,941**	$ 21,813	$ 51,447

[1] Balances reflect after-transferred basis. See Note 5 for charge-offs upon transfer to held for sale.

Net gains on sales of consumer loans include forward loan sale commitments and related interest rate lock commitments.

Our consumer loan servicing activities include collecting principal, interest, tax and insurance payments from borrowers while accounting for and remitting payments to investors, taxing authorities and insurance companies. We also monitor delinquencies and administer foreclosure proceedings.

Consumer loan servicing income is recorded in noninterest income as a part of other service charges and fees and is reported net of the amortization of the servicing assets. The unpaid principal amount of consumer loans serviced for others was $3.8 billion and $3.2 billion for the years ended December 31, 2013 and 2012, respectively. Gross servicing fees include contractually specified fees, late charges and ancillary fees, and were $12.5 million and $7.8 million for the years ended December 31, 2013 and 2012, respectively.

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

(dollars in thousands)	**2013**	2012
Carrying amount, balance as of January 1,	**$24,740**	$19,234
Additions[1] :		
Assumption of servicing obligations resulting from asset transfers	**12,588**	14,272
Subtractions[1] :		
Amortization	**(8,729)**	(8,750)
Application of valuation allowance to adjust carrying values of servicing assets	**1,148**	(16)
Carrying amount, balance as of December 31,	**$29,747**	$24,740
Valuation allowance for servicing assets:		
Beginning as of January 1,	**$ 1,150**	$ 1,134
Provisions	**(1,148)**	16
Balance as of December 31,	**$ 2**	$ 1,150

[1] The Bank did not purchase or sell any servicing obligations during the years ended December 31, 2013 and 2012. Additionally, there was no OTTI recorded and no other changes that affected the balance during the years ended December 31, 2013 and 2012.

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

The fair value of the MSRs was as follows:

(dollars in thousands)	**2013**	2012
Balance as of January 1,	**$25,181**	$19,245
Balance as of December 31,	**$38,742**	$25,181

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

	2013		2012	
	Range	**Weighted-Average**	Range	Weighted-Average
Conditional prepayment rate	**4.60%–17.65%**	**10.83%**	7.62%–34.41%	17.27%
Life in years (of the MSR)	**2.84–11.08**	**6.09**	2.24– 7.96	4.56
Note rate	**2.61%– 5.38%**	**3.84%**	2.85%– 6.02%	4.28%
Discount rate	**9.50%–12.50%**	**10.10%**	10.50%–10.50%	10.50%

In addition to loans originated for sale and certain loans which we no longer intend to hold to maturity, the Bank participates out certain commercial loans in transactions negotiated with other financial institutions. The Bank continues to maintain the servicing relationship with borrowers for the entire loan and receives a nominal fee from these borrowers to cover the costs of servicing activities. As of December 31, 2013 and 2012, the Bank recognized $361 million and $314 million (net of charge-offs), respectively, as its retained interest in the unpaid principal balance of the loans. The unpaid principal balance of loans sold as participating interests as of December 31, 2013 and 2012 was $336 million and $313 million, respectively. As the Bank sold the participating interests concurrently with the loan origination, there was no difference between the fair value and carrying amount of the loans transferred and therefore no gain or loss on sale was recognized for the years ended December 31, 2013 and 2012.

4. Loans and Leases

Loans and leases were comprised of the following:

	As of December 31,			
	2013		2012	
(dollars in thousands)	**Outstanding**	**Commitments[1]**	Outstanding	Commitments[1]
Commercial:				
Commercial and industrial	**$ 7,632,152**	**$ 8,916,014**	$ 6,890,094	$ 7,653,166
Commercial real estate	**11,428,670**	**366,996**	11,059,676	423,398
Construction	**948,293**	**837,976**	645,395	736,903
Equipment leases	**3,119,094**	**279,757**	2,799,131	233,673
Agriculture	**2,416,163**	**1,502,696**	2,356,658	1,413,753
Consumer:				
Installments and lines	**12,751,667**	**1,426,436**	11,882,759	1,177,454
Residential secured—closed-end	**6,954,496**	**11,130**	7,230,292	8,081
Residential secured—revolving, open-end	**2,079,196**	**2,472,046**	2,127,526	2,172,745
Total loans and leases	**$47,329,731**	**$15,813,051**	$44,991,531	$13,819,173

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

Outstanding loan balances as of December 31, 2013 and 2012 are net of unearned income, including net deferred loan fees, of $215.5 million and $183.1 million, respectively.

Loans totaling $29.4 billion were pledged to collateralize the Bank's borrowing capacity at the FRB and FHLB as of December 31, 2013.

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

The following table presents details of the Bank's net investment in financing leases, which includes equipment and consumer leases:

	As of December 31,	
(dollars in thousands)	**2013**	2012
Total minimum lease payments to be received	**$3,231,253**	$2,888,610
Estimated residual values of leased property	**217,951**	229,139
Less: Unearned income	**229,376**	217,665
Net investment in financing leases[1]	**$3,219,828**	$2,900,084

[1] Includes auto leases of $101 million as of December 31, 2013 and 2012.

Minimum lease receivables for the five succeeding years and thereafter as of December 31, 2013 were as follows:

(dollars in thousands)	
2014	**$1,099,330**
2015	**894,777**
2016	**642,381**
2017	**415,259**
2018	**235,693**
2019 and thereafter	**161,764**
Gross minimum payments	**3,449,204**
Less: Unearned income	**229,376**
Net minimum receivable	**$3,219,828**

In the normal course of business, the Bank makes loans to executive officers and directors of the Bank and to entities and individuals affiliated with those executive officers and directors. The aggregate amount of all such extensions of credit was $3.6 million and $3.5 million as of December 31, 2013 and 2012, respectively. Such loans are made on terms no less favorable to the Bank than those prevailing at the time for comparable transactions with other persons or, in the case of certain residential real estate loans, on terms that were widely available to employees of the Bank who were not directors or executive officers.

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

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

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

Standby letters of credit totaled $1.1 billion as of December 31, 2013 and 2012. Standby letters of credit are issued on behalf of customers in connection with contracts between the customers and third parties. Under standby letters of credit, the Bank assures that the third parties will receive specified funds if customers fail to meet their contractual obligations. The liquidity requirement and subsequent credit risk to the Bank arises from its obligation to make payment in the event of a customer's contractual default. The Bank also had commitments for commercial and similar letters of credit of $30.8 million and $21.3 million as of December 31, 2013 and 2012, respectively. The commitments outstanding as of December 31, 2013 have maturities ranging from January 1, 2014 to November 1, 2027. In connection with the issuance of such commitments, fees are charged based on contract terms and recognized into income when they are earned.

Credit Quality

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

Commercial Credit Quality Indicators

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

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

The following tables represent the credit quality of each class of commercial loans and leases based on our internal risk grading system:

	As of December 31, 2013			
(dollars in thousands)	**Pass**	**Special Mention**	**Classified**	**Total**
Commercial and industrial	**$ 7,272,593**	**$167,313**	**$192,246**	**$ 7,632,152**
Commercial real estate	**10,584,371**	**414,192**	**430,107**	**11,428,670**
Construction	**865,457**	**51,786**	**31,050**	**948,293**
Equipment leases	**3,064,967**	**20,378**	**33,749**	**3,119,094**
Agriculture	**2,153,338**	**124,819**	**138,006**	**2,416,163**
Total Commercial	**$23,940,726**	**$778,488**	**$825,158**	**$25,544,372**

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

Consumer Credit Quality Indicators

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

(dollars in thousands)	**Residential secured – closed-end**	**Residential secured – revolving, open-end**	**Installments and lines**	**Total**
As of December 31, 2013:				
Current[(1)]	**$6,771,396**	**$2,057,359**	**$12,643,554**	**$21,472,309**
Past Due	**183,100**	**21,837**	**108,113**	**313,050**
Total	**$6,954,496**	**$2,079,196**	**$12,751,667**	**$21,785,359**
As of December 31, 2012:				
Current[(1)]	$7,021,766	$2,100,676	$11,762,304	$20,884,746
Past Due	208,526	26,850	120,455	355,831
Total	$7,230,292	$2,127,526	$11,882,759	$21,240,577

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

5. Allowance for Credit Losses

The allowance for credit losses reflects management's estimate of credit losses inherent in the loan and lease portfolio and reserve for unfunded lending commitments. We consider the allowance for credit losses at the end of 2013 to be adequate to cover such losses. Changes in the allowance for credit losses were:

	December 31,	
(dollars in thousands)	**2013**	2012
Balance as of January 1,	**$ 746,661**	$ 893,947
Provision for credit losses	**44,686**	169,462
Charge-offs:		
Commercial:		
Commercial and industrial	**(47,459)**	(50,060)
Commercial real estate	**(12,742)**	(81,743)
Construction	**(7,001)**	(17,920)
Equipment leases	**(12,420)**	(11,957)
Agriculture	**(20,127)**	(27,562)
Total Commercial[1]	**(99,749)**	(189,242)
Consumer:		
Installments and lines	**(92,421)**	(143,959)
Residential secured – closed-end	**(32,411)**	(112,441)
Residential secured – revolving, open-end	**(8,861)**	(27,004)
Total Consumer[1]	**(133,693)**	(283,404)
Total charge-offs	**(233,442)**	(472,646)
Recoveries:		
Commercial:		
Commercial and industrial	**28,610**	17,498
Commercial real estate	**15,976**	41,694
Construction	**12,037**	18,202
Equipment leases	**10,296**	12,687
Agriculture	**1,257**	6,810
Total Commercial	**68,176**	96,891
Consumer:		
Installments and lines	**34,163**	28,922
Residential secured – closed-end	**9,713**	28,551
Residential secured – revolving, open-end	**1,778**	1,534
Total Consumer	**45,654**	59,007
Total recoveries	**113,830**	155,898
Net charge-offs	**(119,612)**	(316,748)
Balance as of December 31,	**$ 671,735**	$ 746,661
Components:		
Allocated loans and leases	**$ 589,573**	$ 665,703
Unallocated loans and leases	**45,000**	45,000
Total allowance for loans and leases	**634,573**	710,703
Reserve for unfunded commitments	**37,162**	35,958
Allowance for credit losses	**$ 671,735**	$ 746,661

[1] There were no charge-offs due to commercial or consumer loans transferred to held for sale for the year ended December 31, 2013. Charge-offs due to commercial and consumer loans transferred to held for sale for the year ended December 31, 2012 were $112.5 million and $42.4 million, respectively.

The following table summarizes the activity in the allowance for loan and lease losses by commercial and consumer portfolio segments:

	Year ended December 31, 2013			
(dollars in thousands)	**Commercial**	**Consumer**	**Unallocated**	**Total**
Balance as of January 1,	**$309,258**	**$ 356,445**	**$45,000**	**$ 710,703**
Provision for loan and lease losses	**2,130**	**41,352**	**-**	**43,482**
Charge-offs	**(99,749)**	**(133,693)**	**-**	**(233,442)**
Recoveries	**68,176**	**45,654**	**-**	**113,830**
Net charge-offs	**(31,573)**	**(88,039)**	**-**	**(119,612)**
Balance as of December 31,	**$279,815**	**$ 309,758**	**$45,000**	**$ 634,573**

The following table disaggregates our allocated component of the allowance for loan and lease losses and recorded investment in loans by impairment methodology:

	As of December 31, 2013					
	Allocated allowance for loan and lease losses			**Recorded investment in loans**		
(dollars in thousands)	**Commercial**	**Consumer**	**Total**	**Commercial**	**Consumer**	**Total**
Collectively evaluated	**$264,266**	**$280,775**	**$545,041**	**$25,073,020**	**$21,456,017**	**$46,529,037**
Individually evaluated	**15,549**	**28,983**	**44,532**	**471,352**	**329,342**	**800,694**
Total	**$279,815**	**$309,758**	**$589,573**	**$25,544,372**	**$21,785,359**	**$47,329,731**

The following table summarizes the activity in the allowance for loan and lease losses by commercial and consumer portfolio segments:

	Year ended December 31, 2012			
(dollars in thousands)	Commercial	Consumer	Unallocated	Total
Balance as of January 1,	$ 331,730	$ 443,458	$ 95,000	$ 870,188
Provision for loan and lease losses	69,879	137,384	(50,000)	157,263
Charge-offs	(189,242)	(283,404)	-	(472,646)
Recoveries	96,891	59,007	-	155,898
Net charge-offs	(92,351)	(224,397)	-	(316,748)
Balance as of December 31,	$ 309,258	$ 356,445	$ 45,000	$ 710,703

The following table disaggregates our allocated component of the allowance for loan and lease losses and recorded investment in loans by impairment methodology:

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

The Bank’s total allowance for credit losses decreased compared to the prior year reflecting continued improvements in the current economic conditions for most sectors. The improvement is reflected through our estimate of a lower provision for credit losses for 2013 compared to 2012. While there are signs of improvement in economic conditions, there remains considerable underlying potential volatility. Continued high unemployment and commodity volatility may continue to negatively influence certain portfolios.

Impaired Loans

The following tables present information related to impaired loans and leases that are individually evaluated:

	As of December 31, 2013						
	Commercial Product						Consumer Product
(dollars in thousands)	**Commercial & industrial**	**Commercial real estate**	**Construction**	**Equipment leases**	**Agriculture**	**Total**	**Residential secured – closed-end**
Recorded investment in impaired loans:							
Impaired loans and leases with related allowance	**$ 17,656**	**$ 70,099**	**$ -**	**$ 372**	**$ 9,738**	**$ 97,865**	**$199,396**
Impaired loans and leases with no related allowance	**83,999**	**142,765**	**58,615**	**3,341**	**84,767**	**373,487**	**129,946**
Total impaired loans	**$101,655**	**$212,864**	**$58,615**	**$3,713**	**$ 94,505**	**$471,352**	**$329,342**
Allowance for loan and lease losses on impaired loans	**$ 8,061**	**$ 4,045**	**$ -**	**$ 159**	**$ 3,284**	**$ 15,549**	**$ 28,983**
Total unpaid principal balance	**$123,164**	**$225,933**	**$80,608**	**$3,713**	**$114,127**	**$547,545**	**$364,765**
Average recorded investment in impaired loans and leases	**$105,775**	**$208,454**	**$83,634**	**$4,789**	**$ 68,906**	**$471,558**	**$327,389**

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

Impaired loans without a related allowance for credit losses are generally collateralized by assets with fair values (on an "as-is" basis) in excess of the recorded investment in the loans. For commercial loans, payments on impaired loans are generally applied to reduce the outstanding principal balance of such loans. Interest income recognized on impaired loans was $0.9 million and $17.0 million for the commercial and consumer portfolios for 2013, respectively and $2.8 million and $16.5 million for the commercial and consumer portfolios for 2012, respectively.

Troubled Debt Restructuring

In situations where for economic or legal reasons related to the borrower's financial difficulties, the Bank grants a concession to the borrower that it would not otherwise consider, the related loan is classified as a TDR. For the commercial loan portfolio, concessions granted by the Bank generally include term extensions, renewals, forbearances of principal and interest payments, and interest rate modifications for each of the classes shown below. In addition, for smaller balance nonperforming loans, we may use third-party collection agencies who generally enter into payment or settlement arrangements with the borrowers in order to protect as much of the Bank's investment in the loan as possible. For our consumer loan portfolio, concessions generally include term extensions, interest rate changes, payment deferrals and temporary payment reductions. The Bank had $18.7 million and $30.6 million of commitments to lend additional funds and letters of credit to customers whose troubled debt has been restructured as of December 31, 2013 and 2012, respectively.

The following tables provide a summary of the financial effects of the modifications during the years ended December 31, 2013 and 2012, as well as the related outstanding balance as of December 31, 2013 and 2012. In addition, the tables provide a summary of loans outstanding at December 31, 2013 and 2012 that were modified as TDRs within the previous 12 months for which there was a subsequent payment default during the period. A payment default is defined as 90 days past due for the commercial portfolio and 60 days past due for the consumer portfolio.

	2013				
	Financial Effects			**Subsequent Defaults[1]**	
(dollars in thousands)	**Pre-Modification Loan Balance**	**Post-Modification Loan Balance**	**Balance as of December 31, 2013**	**Number of Contracts**	**Balance as of December 31, 2013**
Commercial TDRs:					
Commercial and industrial	**$ 21,554**	**$ 20,175**	**$ 12,782**	**1**	**$ 179**
Commercial real estate	**58,409**	**57,573**	**53,615**	**7**	**12,420**
Construction	**-**	**-**	**-**	**-**	**-**
Equipment leases	**174**	**167**	**152**	**-**	**-**
Agriculture	**23,364**	**21,194**	**20,168**	**1**	**536**
Consumer TDRs:					
Installments and lines	**16,545**	**12,132**	**11,015**	**22**	**391**
Residential secured—closed-end	**83,342**	**83,407**	**75,868**	**86**	**12,906**
Residential secured—revolving, open-end	**9,583**	**8,480**	**8,284**	**6**	**427**
Total	**$212,971**	**$203,128**	**$181,884**	**123**	**$26,859**

[1] Subsequent defaults exclude commercial loans for which we forbore our rights to take legal action in relation to past due payments.

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

[1] Consumer TDRs include $25.0 million due to the adoption of interpretive guidance issued by the Office of the Comptroller of the Currency in July 2012.

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

Nonaccrual and Past Due Loans and Leases

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

	As of December 31, 2013					
(dollars in thousands)	**Current[(1)]**	**30 - 89 days past due[(1)]**	**More than 90 days past due[(1)]**	**Total loans and leases[(1)]**	**Loans and leases on nonaccrual status**	**Past due 90 days or more but still accruing**
Commercial:						
Commercial and industrial	**$ 7,546,904**	**$ 28,472**	**$ 56,776**	**$ 7,632,152**	**$ 83,013**	**$16,570**
Commercial real estate	**11,282,173**	**66,533**	**79,964**	**11,428,670**	**169,935**	**8,001**
Construction	**929,450**	**260**	**18,583**	**948,293**	**18,708**	**-**
Equipment leases	**3,103,842**	**10,322**	**4,930**	**3,119,094**	**10,451**	**-**
Agriculture	**2,354,394**	**3,092**	**58,677**	**2,416,163**	**84,117**	**10,145**
Consumer:						
Installments and lines	**12,643,554**	**100,530**	**7,583**	**12,751,667**	**17,967**	**-**
Residential secured – closed-end	**6,771,396**	**96,752**	**86,348**	**6,954,496**	**144,247**	**-**
Residential secured – revolving, open-end	**2,057,359**	**11,703**	**10,134**	**2,079,196**	**19,391**	**-**
Total	**$46,689,072**	**$317,664**	**$322,995**	**$47,329,731**	**$547,829**	**$34,716**

(1) Includes both accruing and nonaccruing balances.

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

(1) Includes both accruing and nonaccruing balances.

6. Premises and Equipment

The premises and equipment were comprised of the following:

	As of December 31,	
(dollars in thousands)	**2013**	2012
Premises	**$703,964**	$715,627
Equipment[(1)]	**288,026**	276,863
Total premises and equipment	**991,990**	992,490
Less: Accumulated depreciation and amortization	**570,249**	551,560
Net book value	**$421,741**	$440,930

(1) Includes in process equipment not subject to depreciation of $3.2 million and $2.6 million as of December 31, 2013 and 2012, respectively.

Occupancy and equipment expenses include depreciation and amortization expenses of $51.8 million and $52.6 million for 2013 and 2012, respectively. The Bank recognized an impairment of $1.3 million and $1.4 million for the years ended December 31, 2013 and 2012, respectively.

The Bank has obligations under a number of capital and noncancelable operating leases for premises and equipment. The remaining lease terms are up to 49 years, and many provide for periodic adjustment of rentals based on changes in various economic indicators. Certain leases include renewal options, with the longest up to 58 years. Under the premises leases, we are also required to pay real property taxes, insurance and maintenance. The following table shows future minimum payments under leases with terms in excess of one year, excluding future renewal options:

	As of December 31, 2013			
(dollars in thousands)	**Capital Leases**	**Operating Leases**	**Less Sublease Income**	**Net Lease Payments**
2014	**$ 1,993**	**$ 72,054**	**$3,203**	**$ 70,844**
2015	**2,100**	**65,199**	**2,160**	**65,139**
2016	**2,024**	**58,586**	**1,484**	**59,126**
2017	**2,044**	**50,970**	**845**	**52,169**
2018	**1,821**	**40,995**	**431**	**42,385**
2019 and thereafter	**13,630**	**178,348**	**124**	**191,854**
Total minimum payments	**$23,612**	**$466,152**	**$8,247**	**$481,517**
Less: Interest on capital leases	**10,207**			
Present value of minimum lease payments on capital leases[1]	**$13,405**			

[1] Excludes purchase accounting adjustments of $4.3 million.

Rental expense, net of rental income, for all operating leases was $70.5 million and $71.9 million for 2013 and 2012, respectively.

The Bank did not enter into any sale-leaseback transactions during the years ended December 31, 2013 and 2012. The Bank amortized $5.9 million of deferred gains relating to its prior sale-leaseback transactions into income in each of the years ended December 31, 2013 and 2012. The Bank has no obligations or circumstances which require our continuing involvement with any of these properties.

7. Goodwill and Identifiable Intangible Assets

The Bank has $4.2 billion in goodwill from acquisitions prior to 2012. Goodwill is allocated to the Retail and Commercial reporting units. We assess goodwill for impairment on an annual basis. We deemed it unnecessary to perform the optional qualitative assessment of changes in circumstances that may result in goodwill impairment and instead directly performed the quantitative assessment that first requires determining whether the carrying values of our reporting units exceed their respective fair values. No impairment of goodwill was deemed necessary in 2013 and 2012. Our estimates of fair value of reporting units were based upon factors such as projected future cash flows, discount rates, and other uncertain elements that require significant judgments. While we use available information to prepare our estimates and perform impairment evaluations, actual results in the future could differ significantly. Impairment tests in future periods may result in impairment charges, which could materially impact our future reported results.

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

(dollars in thousands)	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Book Value**
Balance as of December 31, 2013:			
Core Deposits[1]	**$195,059**	**$150,996**	**$ 44,063**
Software[2]	**281,088**	**170,224**	**110,864**
Other Intangible Assets[3]	**79,811**	**41,375**	**38,436**
Total	**$555,958**	**$362,595**	**$193,363**
Balance as of December 31, 2012:			
Core Deposits[1]	$195,059	$138,441	$ 56,618
Software[2]	228,889	149,372	79,517
Other Intangible Assets[3]	66,971	32,353	34,618
Total	$490,919	$320,166	$170,753

[1] Does not include fully amortized assets.

[2] Includes in process software not subject to amortization of $43.2 million and $23.7 million as of December 31, 2013 and 2012, respectively.

[3] Includes mortgage servicing rights. See Note 3 for additional information.

Intangible amortization expense included in noninterest expense was $36.7 million and $37.2 million for the years ended December 31, 2013 and 2012, respectively. For the years ended December 31, 2013 and 2012, the Bank's review did not result in any material impairment. See Note 3 for valuation allowance related to MSRs.

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

(dollars in thousands)	Core Deposits	Software	Other Intangibles	Total
2014	**$12,536**	**$22,880**	**$6,092**	**$41,508**
2015	**$12,517**	**$18,243**	**$5,375**	**$36,135**
2016	**$12,498**	**$14,586**	**$4,864**	**$31,948**
2017	**$ 6,392**	**$ 9,211**	**$4,198**	**$19,801**
2018	**$ 117**	**$ 2,712**	**$3,764**	**$ 6,593**

8. Variable Interest Entities

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

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

Limited liability companies

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

In addition to the investment in CLAAS Financial Services, LLC, the Bank has investments in limited liability companies ("LLCs") for the purpose of managing foreclosed properties seized to mitigate losses to the Bank and its partners by selling the collateral. As of December 31, 2013, these LLCs had nominal assets.

Tax credit investments

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

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

Consolidated VIEs

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

	As of December 31,	
(dollars in thousands)	**2013**	2012
Assets		
Cash and due from banks	**$ -**	$ 2,039
Loans and leases:		
Loans and leases	**301,705**	260,184
Less: Allowance for loan and lease losses	**1,347**	1,427
Net loans and leases	**300,358**	258,757
Other assets	**22**	887
Total Assets	**$300,380**	$261,683
Liabilities		
Long-term debt	**$ 12,800**	$ 33,700
Other liabilities	**1,637**	567
Total liabilities	**$ 14,437**	$ 34,267

The assets of the VIEs consolidated by the Bank can only be used to settle the liabilities of the VIEs. The creditors of these VIEs do not have any recourse to assets of the Bank.

Unconsolidated VIEs

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

(dollars in thousands)	**Total Assets[(1)]**	**Total Liabilities[(1)]**	**Maximum Exposure to Loss**
December 31, 2013			
Tax credit investments	**$187,966**	**$56,795**	**$364,484**
Limited liability company	**$ -**	**$ -**	**$ -**
December 31, 2012			
Tax credit investments	$177,133	$73,262	$324,484
Limited liability company	$ 502	$ -	$ 502

(1) Reported in Other assets or Other liabilities.

9. Regulatory Capital Requirements

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

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain adequate levels of Tier 1 and Total capital to risk-weighted assets and Tier 1 capital to average assets. The table below sets forth those ratios as follows:

	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, 2013						
Tier 1 capital to risk-weighted assets	**$7,603,919**	**14.42%**	**$2,108,970**	**4.00%**	**$3,163,455**	**6.00%**
Total capital to risk-weighted assets	**$8,263,142**	**15.67**	**$4,217,940**	**8.00**	**$5,272,425**	**10.00**
Tier 1 leverage ratio(1)	**$7,603,919**	**12.38**	**$2,457,597**	**4.00**	**$3,071,996**	**5.00**
As of December 31, 2012						
Tier 1 capital to risk-weighted assets	$7,321,452	14.69%	$1,993,194	4.00%	$2,989,791	6.00%
Total capital to risk-weighted assets	$7,945,984	15.95	$3,986,388	8.00	$4,982,985	10.00
Tier 1 leverage ratio(1)	$7,321,452	12.46	$2,351,141	4.00	$2,938,926	5.00

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

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

10. Deposits

As of December 31, 2013, the following table represents the maturity distribution of time certificates of deposit:

(dollars in thousands)	
2014	**$5,013,803**
2015	**1,103,095**
2016	**727,302**
2017	**314,724**
2018	**219,910**
2019 and thereafter	**356,080**
Total	**$7,734,914**

Time certificates with a denomination of $100,000 and greater totaled $4.2 billion and $5.7 billion as of December 31, 2013 and 2012, respectively. Total brokered time certificates of deposit totaled $1.4 billion as of December 31, 2013 and 2012.

Total deposits reclassified to loans due to overdrafts as of December 31, 2013 and 2012 were $8.0 million and $5.9 million, respectively.

In March 2010, the Bank received noninterest-bearing cash deposits of $1.1 billion from BancWest under the Collateralized Credit Guarantee Derivative Agreement (the “Guarantee”). The deposits on hand were $769.0 million and $785.7 million as of December 31, 2013 and 2012, respectively. See Note 20 for additional information.

11. Short-Term Borrowings

The Bank's borrowings with original maturities of one year or less are classified as short term. Short-term borrowings include securities sold under repurchase agreement, FHLB advances and other borrowings with a maturity of one year or less. A summary of short-term borrowings and weighted-average rates follows:

	2013		2012	
(dollars in thousands)	**Rate**	**Amount**	Rate	Amount
As of December 31,				
Federal funds purchased and securities sold under agreements to repurchase	**0.05%**	**$ 405,633**	0.05%	$324,797
Advances from FHLB and other short-term borrowings	**0.21%**	**2,650,169**	-%	3,393
Total short-term borrowings		**$3,055,802**		$328,190
Average daily balance for the years ended December 31,				
Federal funds purchased and securities sold under agreements to repurchase	**0.06%**	**$ 488,269**	0.05%	$417,396
Advances from FHLB and other short-term borrowings	**0.20%**	**$1,127,337**	0.02%	$ 1,389
Maximum month-end balance for the years ended December 31,				
Federal funds purchased and securities sold under agreements to repurchase		**$ 529,604**		$525,153
Advances from FHLB and other short-term borrowings		**$2,713,793**		$ 10,560

The Bank treats securities sold under agreements to repurchase as collateralized financings. The Bank reflects the obligations to repurchase the identical securities sold as liabilities, with the dollar amount of securities underlying the agreements remaining in the asset accounts. As of December 31, 2013, the outstanding balance of these agreements was $405.6 million with a weighted-average maturity of 2 days. Of this amount, $404.4 million had an overnight maturity and $1.2 million had a maturity of less than 30 days.

As of December 31, 2013, the Bank had $7.1 billion of credit lines available. Of this amount, $0.9 billion was available from First Hawaiian Bank and $1.8 billion was available from BNP Paribas New York. As of December 31, 2013, the Bank had drawn on the available lines of credit by $12.8 million from BNP Paribas New York as long-term debt.

12. Long-Term Debt

Long-term debt consists of borrowings having an original maturity of one year or more. These issuances have both fixed and floating interest rates. The following table provides details of the long-term debt. The interest rates shown in the table below represent the range of the contract rates in effect as of December 31, 2013 and do not include the effects of any associated derivatives designated in hedge accounting relationships.

				As of December 31,	
(dollars in thousands)	**Interest payment**	**Interest rate**	**Maturities**	**2013**	2012
Advances from the FHLB:					
Fixed-rate	quarterly	1.22% to 3.37%	2014-2018	**$1,149,182**	$1,156,340
Fixed-rate(1)	monthly	0.34% to 7.96%	2014-2035	**1,033,334**	219,820
Floating-rate				**-**	1,100,000
Floating-rate	monthly	LIBOR +0.12%	2014	**100,000**	450,000
Fixed-rate unsecured lines of credit with BNP Paribas	monthly	2.89% to 4.71%	2014-2015	**12,800**	33,700
Capital leases	monthly		2014-2030	**17,662**	14,940
Total long-term debt				**$2,312,978**	$2,974,800

(1) Includes $33.3 million that requires partial monthly repayments of principal to FHLB.

Amounts in the above table are net of unamortized discounts and adjustments related to hedging with derivative financial instruments. As a part of our overall interest rate risk management strategy, we often use derivatives to manage our interest rate risk. As of December 31, 2013, $1.2 billion of the total fixed-rate advances from the FHLB were hedged with fair value hedges.

The advances from FHLB are secured by securities or real estate loans (see Notes 4 and 2 for additional information). FHLB floating-rate advances of $1.5 billion and fixed-rate advances of $0.1 billion matured during the year ended December 31, 2013. The Bank terminated FHLB fixed-rate advances of $1.1 billion and recorded a loss of $33.7 million related to these terminations in the year ended December 31, 2012.

As part of long-term and short-term borrowing arrangements, the Bank was subject to various covenants. The Bank was in compliance with all the covenants as of December 31, 2013 and 2012.

As of December 31, 2013, the aggregate annual maturities due on long-term debt were as follows:

(dollars in thousands)	
2014	**$1,561,558**
2015	**452,966**
2016	**1,324**
2017	**1,710**
2018	**251,390**
2019 and thereafter	**44,030**
Total	**$2,312,978**

13. Litigation

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

14. Derivative Financial Instruments

The Bank enters into derivative contracts primarily to manage its interest rate risk, as well as for customer accommodation purposes. The derivatives are recognized on the consolidated balance sheets either as assets or liabilities at fair value. Derivatives can be measured in terms of their notional amounts, but this amount is not recorded in the consolidated balance sheets and is not, when viewed in isolation, a meaningful measure of the risk profile of the instruments. The notional amount is generally not exchanged, but is used only as the basis on which interest and other payments are determined.

Credit and market risks are inherent in derivative instruments. Credit risk is defined as the possibility that a loss may occur from the failure of another party to perform in accordance with the terms of the contract, which exceeds the value of the existing collateral, if any. Market risk is defined as the risk of loss arising from an adverse change in the market value of the derivative instrument caused by fluctuations in market prices or rates.

The following table summarizes information on derivative notional or contract amounts, receivables (asset derivatives) and payables (liability derivatives) by accounting designation and contract types:

	As of December 31,					
	2013			2012		
		Fair Value[1]			Fair Value[1]	
(dollars in thousands)	**Notional or contract amount**	**Asset derivatives**	**Liability derivatives**	Notional or contract amount	Asset derivatives	Liability derivatives
Derivatives designated as hedging instruments:						
Fair value hedges:						
Interest rate contracts	**$ 1,200,000**	**$ 3,979**	**$ 3,662**	$ 1,175,000	$ 7,357	$ -
Cash flow hedges:						
Interest rate contracts	**2,150,000**	**9,723**	**13,660**	1,700,000	18,038	60
Subtotal	**3,350,000**	**13,702**	**17,322**	2,875,000	25,395	60
Derivatives not designated as hedging instruments:						
Free-standing derivatives:						
Interest rate contracts[2]	**9,716,302**	**257,110**	**247,878**	10,899,781	427,192	391,217
Market-linked swaps and options[3]	**1,716,184**	**36,833**	**36,944**	1,463,514	37,384	37,545
Foreign exchange contracts	**600,912**	**4,303**	**4,552**	700,445	10,775	8,816
Credit guarantee derivative	**130,960**	**3,570**	**-**	239,225	6,143	-
Subtotal	**12,164,358**	**301,816**	**289,374**	13,302,965	481,494	437,578
Total derivatives	**$15,514,358**	**$315,518**	**$306,696**	$16,177,965	$506,889	$437,638

(1) Asset derivatives and liability derivatives are recorded in other assets and other liabilities, respectively, on the consolidated balance sheets.

(2) Includes derivatives related to mortgage sale activity with notional amount of $46.8 million and $625.5 million as of December 31, 2013 and 2012, respectively. The fair value of asset derivatives was $0.4 million and $8.9 million and fair value of liability derivative was nil and $0.5 million as of December 31, 2013 and 2012, respectively.

(3) Includes bifurcated derivatives embedded in market-linked instruments. The asset derivatives represent market-linked swaps and purchased options and the liability derivatives represent written market-linked options.

Fair Value Hedges

The Bank uses interest rate swap contracts to hedge changes in fair value from interest rate changes of underlying fixed-rate debt instruments, including fixed-rate certificates of deposit and certain fixed-rate FHLB advances. As of December 31, 2013, the weighted-average remaining life of the currently active fair value hedges was approximately 1.3 years.

The following table shows the effect of fair value hedging on the Bank's pre-tax income:

	Years ended December 31,			
	2013		2012	
(dollars in thousands)	**Deposits**	**Long-term debt**	Deposits	Long-term debt
Gains (losses) recorded in net interest income	**$ 143**	**$ 5,782**	$ (261)	$ 2,646
Gains (losses) recorded in noninterest income:				
Recognized on derivatives	**(108)**	**(6,785)**	1,978	6,576
Recognized on hedged items	**122**	**7,159**	(1,805)	(8,135)
Recognized as ineffective portion	**14**	**374**	173	(1,559)
Total	**$ 157**	**$ 6,156**	$ (88)	$ 1,087

The total impact of amortization related to the carrying value adjustments of hedged items due to fair value hedges terminated prior to 2012 was nil and a loss of $1.1 million for the years ended December 31, 2013 and 2012, respectively.

Cash Flow Hedges

Interest rate swap contracts are used to hedge the forecasted cash flows of underlying floating-rate debt and floating-rate loans, including floating-rate FHLB advances. Changes in the fair values of derivatives designated as cash flow hedges, to the extent effective, are recorded in AOCI until income from the cash flows of the hedged items is realized. Any ineffectiveness arising during the hedging relationship is recognized in income in the period in which it arises. As of December 31, 2013, the weighted-average remaining life of the currently active cash flow hedges was approximately 2.9 years.

The following table shows the effect of the effective portion of cash flow hedging on the Bank's pre-tax, other comprehensive income and net income:

	Years ended December 31,	
(dollars in thousands)	**2013**	2012
Net unrealized (loss) gain recognized in OCI	**$ (9,205)**	$23,576
Net (gain) reclassified from AOCI to net income	**$(13,277)**	$ (6,328)

The estimated amount to be reclassified from AOCI into noninterest income during the next 12 months is a gain of $14.1 million. This amount could differ from amounts actually realized due to changes in interest rates and the addition of other hedges subsequent to December 31, 2013.

Free-Standing Derivatives

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

Under the Guarantee, the Credit guarantee derivative is recorded at fair value in other assets in the consolidated balance sheets. See Note 20 for additional details.

The following table shows the net gains recorded in noninterest income relating to free-standing derivatives not recognized as hedging instruments, held by the Bank:

	As of December 31,	
(dollars in thousands)	**2013**	2012
Interest rate contracts	**$10,711**	$17,420
Credit guarantee derivative	**4,396**	38,257
Market-linked swaps and options	**2**	198
Foreign exchange contracts	**12,662**	12,296
Total net gains	**$27,771**	$68,171

Offsetting Assets and Liabilities

The Bank primarily enters into derivative contracts with counterparties utilizing a standard International Swaps and Derivatives Association master netting agreement ("ISDA") and Collateral Support Annex ("CSA") agreements to reduce its exposure to credit risk. The ISDA agreement allows for the right of setoff in the event of either a default or an additional termination event. CSA agreements govern the terms of daily collateral posting practices. Collateral practices mitigate the potential loss impact to affected parties by requiring liquid collateral to be posted on a scheduled basis to secure the aggregate net unsecured exposure.

The Bank has elected to present assets and liabilities related to derivatives on a gross basis in the consolidated balance sheets. The following table provides details for which netting is permissible as of:

				Gross Amounts Not Offset in the Balance Sheet		
(dollars in thousands)	**Gross Amounts of Recognized Assets/ Liabilities**	**Gross Amounts Offset in the Balance Sheet**	**Net Amounts Presented in the Balance Sheet**	**Financial Instruments**	**Cash Collateral Received/ Pledged**	**Net Amount**
December 31, 2013						
Derivatives Assets	**$315,518**	**$-**	**$315,518**	**$ (89,517)**	**$ -**	**$226,001**
Derivative Liabilities	**$306,696**	**$-**	**$306,696**	**$(224,257)**	**$ (2,300)**	**$ 80,139**
December 31, 2012						
Derivatives Assets	$506,889	$-	$506,889	$ (25,537)	$ -	$481,352
Derivative Liabilities	$437,638	$-	$437,638	$(205,093)	$(122,430)	$110,115

15. Fair Value

The Bank determines the fair value of certain assets and liabilities based on the fair value hierarchy established under applicable accounting guidance, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Recurring Fair Value Measurements:

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

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

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

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

Trading assets

Trading assets consist of U.S. Treasury securities. The U.S. Treasury securities are classified as Level 1 and fair value is determined using quoted market prices (unadjusted) in active markets for identical securities.

Securities

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

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

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

Derivatives

All of our derivatives are private transactions where quoted market prices are not readily available. Therefore, the Bank values these derivatives using internal valuation techniques, primarily discounted cash flows. Valuation techniques and inputs to internally-developed models depend on the type of derivative and nature of the underlying rate, price or index upon which the derivative's value is based. Key inputs can include yield curves, credit curves, foreign-exchange rates, volatility measurements and other market parameters. Where model inputs can be observed in a liquid market and the model does not require significant judgment, such derivatives are typically classified as Level 2. Level 2 derivatives include interest rate swaps, foreign currency and forward contracts and certain options.

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

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

The fair value of the credit guarantee derivative is also classified as a Level 3 asset since the Bank estimates its fair value using an internally-developed discounted cash flow valuation model. The key assumptions in the model and the drivers of changes in fair value are credit loss forecasts to project the future potential payoffs from the Guarantee and the rate to discount the estimated claims under the Guarantee. The credit loss forecast is an internally-developed estimate that cannot be directly corroborated by observable market data. A significant increase or decrease in the credit loss forecast would result in a significantly higher or lower fair value measurement. See Note 20.

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

Deferred compensation plan and Other assets

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

The following tables present the financial assets and financial liabilities measured at fair value on a recurring basis by category and by valuation hierarchy level:

	As of December 31, 2013			
(dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Trading assets	**$ 6,499**	**$ -**	**$ -**	**$ 6,499**
Securities available for sale:				
U.S. Treasury and other U.S. Government agencies and corporations	**2,497,581**	**127**	**-**	**2,497,708**
Mortgage and asset-backed securities:				
Government agencies[1]	**-**	**3,288,195**	**-**	**3,288,195**
Government sponsored agencies[1]	**-**	**819,932**	**-**	**819,932**
Collateralized debt obligations	**-**	**9,405**	**-**	**9,405**
Collateralized loan obligations	**-**	**119,466**	**-**	**119,466**
Other asset-backed securities	**-**	**46**	**2**	**48**
Collateralized mortgage obligations:				
Government agencies	**-**	**1,025,168**	**-**	**1,025,168**
Government sponsored agencies	**-**	**353,942**	**-**	**353,942**
States and political subdivisions	**-**	**473,203**	**49,372**	**522,575**
Corporate debt securities	**-**	**42,787**	**-**	**42,787**
Equity securities	**6,190**	**-**	**-**	**6,190**
Total securities available for sale	**$2,503,771**	**$6,132,271**	**$49,374**	**$8,685,416**
Derivative assets[2]				
Interest rate contracts	**-**	**270,812**	**-**	**270,812**
Foreign exchange contracts	**-**	**4,303**	**-**	**4,303**
Market-linked swaps and purchased options	**-**	**-**	**36,833**	**36,833**
Credit guarantee derivative	**-**	**-**	**3,570**	**3,570**
Total derivative assets	**-**	**275,115**	**40,403**	**315,518**
Deferred compensation plan and other assets	**34,014**	**63**	**19**	**34,096**
Total assets measured at fair value on a recurring basis	**$2,544,284**	**$6,407,449**	**$89,796**	**$9,041,529**
Derivative liabilities[2]				
Interest rate contracts	**$ -**	**$ 265,200**	**$ -**	**$ 265,200**
Foreign exchange contracts	**-**	**4,552**	**-**	**4,552**
Written market-linked options	**-**	**-**	**36,944**	**36,944**
Total derivative liabilities	**-**	**269,752**	**36,944**	**306,696**
Other liabilities	**-**	**60**	**-**	**60**
Total liabilities measured at fair value on a recurring basis	**$ -**	**$ 269,812**	**$36,944**	**$ 306,756**

(1) Backed by residential real estate.

(2) These amounts are reflected in other assets and other liabilities on the consolidated balance sheets.

(dollars in thousands)	As of December 31, 2012 Level 1	Level 2	Level 3	Total
Trading assets	$ 6,498	$ -	$ -	$ 6,498
Securities available for sale:				
U.S. Treasury and other U.S. Government agencies and corporations	1,798,631	812	-	1,799,443
Government sponsored agencies	-	50,037	-	50,037
Mortgage and asset-backed securities:				
Government agencies[1]	-	4,319,093	-	4,319,093
Government sponsored agencies[1]	-	1,212,993	-	1,212,993
Collateralized debt obligations	-	10,275	-	10,275
Collateralized loan obligations	-	111,603	-	111,603
Other asset-backed securities	-	323	152	475
Collateralized mortgage obligations:				
Government agencies	-	7,823	-	7,823
Government sponsored agencies	-	42,739	-	42,739
States and political subdivisions	-	555,187	47,921	603,108
Equity securities	6,451	-	-	6,451
Total securities available for sale	$1,805,082	$6,310,885	$48,073	$8,164,040
Derivative assets[2]				
Interest rate contracts	-	452,587	-	452,587
Foreign exchange contracts	-	10,775	-	10,775
Market-linked swaps and purchased options	-	-	37,384	37,384
Credit guarantee derivative	-	-	6,143	6,143
Total derivative assets	-	463,362	43,527	506,889
Deferred compensation plan and other assets	30,966	138	33	31,137
Total assets measured at fair value on a recurring basis	$1,842,546	$6,774,385	$91,633	$8,708,564
Derivative liabilities[2]				
Interest rate contracts	$ -	$ 391,277	$ -	$ 391,277
Foreign exchange contracts	-	8,816	-	8,816
Written market-linked options	-	-	37,545	37,545
Total derivative liabilities	-	400,093	37,545	437,638
Other liabilities	-	148	-	148
Total liabilities measured at fair value on a recurring basis	$ -	$ 400,241	$37,545	$ 437,786

[1] Backed by residential real estate.
[2] These amounts are reflected in other assets and other liabilities on the consolidated balance sheets.

The Bank's policy is to recognize the fair value of transfers among Levels 1, 2 and 3 as of the end of the reporting period. There were no transfers between Levels 1 and 2 for the year ended December 31, 2013 and 2012, respectively.

The changes for 2013 in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized in the table below. Net unrealized losses of $10.2 million were included in net income for the year relating to assets held as of December 31, 2013. Net unrealized gains of $10.2 million were included in net income for the year relating to liabilities held as of December 31, 2013.

(dollars in thousands)	Balance of asset (liability) as of January 1, 2013	Total net gains (losses) included in net income[1]	Total net gains (losses) included in OCI[2]	Purchases/ Issuances	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Balance of asset (liability) as of December 31, 2013
Securities available for sale:									
Other asset-backed securities	$ 152	$ -	$ (25)	$ -	$ -	$ (125)	$ -	$-	$ 2
States and political subdivisions	47,921	-	(1,173)	2,279	-	(6,221)	6,566	-	49,372
Total securities available for sale	$ 48,073	$ -	$(1,198)	$ 2,279	$ -	$ (6,346)	$6,566	$-	$ 49,374
Market-linked swaps and purchased options	$ 37,384	$(9,866)	$ -	$ 18,314	$(3,815)	$ (5,184)	$ -	$-	$ 36,833
Credit guarantee derivative	6,143	4,396	-	-	-	(6,969)	-	-	3,570
Deferred compensation plan and Other assets	33	-	-	-	-	(14)	-	-	19
Total assets	$ 91,633	$(5,470)	$(1,198)	$ 20,593	$(3,815)	$(18,513)	$6,566	$-	$ 89,796
Written market-linked options	$(37,545)	$ 9,866	$ -	$(18,314)	$ 3,837	$ 5,212	$ -	$-	$(36,944)
Total liabilities	$(37,545)	$ 9,866	$ -	$(18,314)	$ 3,837	$ 5,212	$ -	$-	$(36,944)

(1) Included in noninterest income in the consolidated statements of income.
(2) Included in net change in unrealized gains on securities available for sale in the statements of comprehensive income.

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

(dollars in thousands)	Balance of asset (liability) as of January 1, 2012	Total net gains (losses) included in net income[1]	Total net gains (losses) included in OCI[2]	Purchases/ Issuances	Sales	Settlements	Transfers into Level 3[4]	Transfers out of Level 3[3]	Balance of asset (liability) as of December 31, 2012
Securities available for sale:									
Collateralized debt obligations	$ 45,133	$(11,692)	$16,783	$-	$(35,809)	$ (4,140)	$ -	$ (10,275)	$ -
Collateralized loan obligations	128,655	(3,716)	26,970	-	(40,412)	106	-	(111,603)	-
Other asset-backed securities	177	-	(3)	-	-	(22)	-	-	152
States and political subdivisions	-	-	-	-	-	-	47,921	-	47,921
Total securities available for sale	$173,965	$(15,408)	$43,750	$-	$(76,221)	$ (4,056)	$ 47,921	$(121,878)	$ 48,073
Market-linked swaps and purchased options	-	-	-	-	-	-	37,384	-	37,384
Credit guarantee derivative	23,883	38,257	-	-	-	(55,997)	-	-	6,143
Deferred compensation plan and Other assets	33	-	-	-	-	-	-	-	33
Total assets	$197,881	$ 22,849	$43,750	$-	$(76,221)	$(60,053)	$ 85,305	$(121,878)	$ 91,633
Written market-linked options	$ -	$ -	$ -	$-	$ -	$ -	$(37,545)	$ -	$(37,545)
Total liabilities	$ -	$ -	$ -	$-	$ -	$ -	$(37,545)	$ -	$(37,545)

(1) Included in noninterest income in the consolidated statements of income.
(2) Included in net change in unrealized gains on securities available for sale in the statements of comprehensive income.
(3) Transferred out of Level 3 to Level 2 at the end of the reporting period due to an increase in the volume of trading activity for certain securities, which resulted in increased occurrences of observable market prices.
(4) Transferred into Level 3 from Level 2 at the end of the period due to consideration of market factors used in pricing these instruments, accordingly, there is no Level 3 activity presented.

Nonrecurring Fair Value Measurements:

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

Loans held for sale

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

Impaired Loans

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

OREO

OREO assets include foreclosed properties securing residential and commercial loans. OREO assets are adjusted to lower of cost or fair value less costs to sell. The amount by which the recorded investment in the loan exceeds the fair value (less estimated costs to sell) is charged off against the Allowance for loans and leases. Subsequently, OREO assets are carried at the lower of carrying value or fair value less costs to sell. Any subsequent declines in fair value and recoveries in those declines of the assets are recognized in a valuation allowance through noninterest income.

Fair value for OREO is generally determined using appraised values of the collateral, which may be considered to be largely unobservable and accordingly, we classify OREO assets as Level 3. For residential OREO assets, the Bank engages a third-party to assist in the real estate appraisal solicitation process. The Bank then performs an appraisal review process to ensure the methods, assumptions, data sources and conclusions are reasonable, well-supported and appropriate for the property and market.

MSRs

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

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

(dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total Losses for the Year Ended**
December 31, 2013:				
Impaired loans	**$-**	**$ -**	**$ 96,768**	**$51,513**
Other Real Estate Owned	**$-**	**$ -**	**$ 7,477**	**$ 577**
Loans held for sale(1)	**$-**	**$ 13,959**	**$ -**	**$ -**
Mortgage servicing rights	**$-**	**$ -**	**$ 38,742**	**$ -**
December 31, 2012:				
Impaired loans	$-	$ -	$109,599	$28,880
Other Real Estate Owned	$-	$ -	$ 18,873	$ 5,533
Loans held for sale(1)	$-	$217,084	$ 44,017	$34,161
Mortgage servicing rights	$-	$ -	$ 25,181	$ 16

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

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

(dollars in thousands)	**Fair Value**	**Valuation Technique(s)**	**Significant Unobservable Input**	**Range**	**Weighted-Average**
December 31, 2013:					
State and political subdivisions and others	**$ 49,372**	**Discounted cash flow**	**Yield**	**1.00% - 6.50%**	**3.13%**
Market-linked swaps and purchased options	**$ 36,833**	**Option model**	**Volatility factor**	**24.98% - 56.91%**	**33.83%**
Written market-linked options	**$ 36,944**		**Correlation factor**	**15.56% - 61.70%**	**39.53%**
Impaired Loans[1]	**$ 96,768**	**Appraised/ Marketable value**	**Appraised/ Marketable value**	**n/m[2]**	**n/m(2)**
Other Real Estate Owned[1]	**$ 7,477**	**Appraised value**	**Appraised value**	**n/m[2]**	**n/m(2)**
December 31, 2012:					
State and political subdivisions and others	$ 47,921	Discounted cash flow	Yield	2.66% - 6.50%	4.52%
Market-linked swaps and purchased options	$ 37,384	Option model	Volatility factor	25.00% - 40.50%	29.00%
Written market-linked options	$ 37,545		Correlation factor	30.40% - 65.30%	46.50%
Impaired Loans[1]	$109,599	Appraised/ Marketable value	Appraised/ Marketable value	n/m(2)	n/m(2)
Other Real Estate Owned[1]	$ 18,873	Appraised value	Appraised value	n/m(2)	n/m(2)

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

(2) Not meaningful.

Fair Value of Financial Instruments

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

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

Cash and due from banks

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

Loans, net

The fair value of loans is determined by discounting the future expected cash flows, adjusted for prepayment and credit loss estimates, based on current rates offered for loans with similar characteristics and remaining maturity. The valuation requires significant judgment because significant inputs such as prepayment rates and credit losses are not observable due to the absence of documented market prices. Loans, net are classified as Level 3.

Deposits

The fair value of deposits with no maturity date (e.g., interest and noninterest-bearing checking, regular savings, and certain types of money market savings accounts) is equal to the amount payable on demand at the reporting date.

Accordingly, these are classified as Level 1. Fair values of fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits. Accordingly, these are classified as Level 2.

Short-term borrowings

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

Long-term debt

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

Off-balance sheet financial instruments

During the normal course of business, the Bank has various loan commitments and standby letters of credit outstanding. The Bank's pricing of such financial instruments is based largely on credit quality, probability of funding and other requirements. Letters of credit and commitments to fund loans generally have short-term, floating-rate features and contain clauses that limit the Bank's exposure to changes in credit quality. A reasonable estimate of the fair value of these instruments is the carrying value of deferred fees. As of December 31, 2013 and 2012, the fair value was immaterial.

The following tables present the carrying values and estimated fair values of certain financial instruments, and their classification within the fair value hierarchy:

	As of December 31, 2013				
(dollars in thousands)	**Carrying Value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial Assets					
Cash and due from banks	**$ 825,492**	**$ 825,492**	**$ -**	**$ -**	**$ 825,492**
Loans, net[(1)]	**$43,513,964**	**$ -**	**$ -**	**$43,640,156**	**$43,640,156**
Financial Liabilities					
Deposits	**$48,372,468**	**$40,637,554**	**$7,847,419**	**$ -**	**$48,484,973**
Short-term borrowings	**$ 3,055,802**	**$ -**	**$3,055,802**	**$ -**	**$ 3,055,802**
Long-term debt[(2)]	**$ 2,295,317**	**$ -**	**$2,272,575**	**$ -**	**$ 2,272,575**

(1) Excludes net leases of $3,181.1 million as of December 31, 2013.

(2) Excludes capital leases of $17.7 million as of December 31, 2013.

	As of December 31, 2012				
(dollars in thousands)	Carrying Value	Level 1	Level 2	Level 3	Total
Financial Assets					
Cash and due from banks	$ 1,054,216	$ 1,054,216	$ -	$ -	$ 1,054,216
Loans, net [(1)]	$41,429,515	$ -	$ -	$41,664,050	$41,664,050
Financial Liabilities					
Deposits	$47,107,437	$37,768,548	$9,476,923	$ -	$47,245,471
Short-term borrowings	$ 328,190	$ -	$ 328,190	$ -	$ 328,190
Long-term debt[(2)]	$ 2,959,861	$ -	$3,014,609	$ -	$ 3,014,609

(1) Excludes net leases of $2,851.0 million as of December 31, 2012.

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

16. Cash and Dividend Restrictions

Federal Reserve Board regulations require the Bank to maintain reserve balances against certain deposit liabilities with the Federal Reserve Bank. The average required reserve balance was $210.7 million and $194.0 million for the years ended December 31, 2013 and 2012, respectively.

California statutes limit the amount of dividends the Bank may declare or pay to the lesser of the Bank's retained earnings or the net income of the Bank for the prior three years less any dividends paid during those three years. The amount available for payment of dividends without prior regulatory approval was $1.1 billion and $1.0 billion as of December 31, 2013 and 2012 respectively.

17. Other Comprehensive (Loss) Income

Comprehensive income (loss) is defined as the change in equity from all transactions other than those with stockholders, and is comprised of net income and OCI. The following table provides the details for OCI:

	For the years ended December 31,					
	2013			2012		
(dollars in thousands)	**Pretax Amount**	**Income Tax (Expense) Benefit**	**After-tax Amount**	Pretax Amount	Income Tax (Expense) Benefit	After-tax Amount
Pension and other benefits adjustment:						
Net actuarial gains (losses) arising during the period	**$ 94,983**	**$ (38,563)**	**$ 56,420**	$ (19,786)	$ 8,032	$(11,754)
Reclassification of amounts to net periodic benefit costs:[1]						
Amortization of net loss	**23,853**	**(9,684)**	**14,169**	24,760	(10,052)	14,708
Amortization of net prior service credit	**(46)**	**19**	**(27)**	(1,035)	421	(614)
Subtotal reclassifications to net periodic benefit costs	**23,807**	**(9,665)**	**14,142**	23,725	(9,631)	14,094
Net change in pension and other benefits adjustment	**118,790**	**(48,228)**	**70,562**	3,939	(1,599)	2,340
Securities available for sale:						
Unrealized net (losses) gains arising during the year	**(367,280)**	**149,115**	**(218,165)**	138,634	(56,285)	82,349
Reclassifications to net income:						
Net (gains) on debt securities available for sale	**(66,683)**	**27,073**	**(39,610)**	(54,102)	21,965	(32,137)
Subtotal reclassifications to net income	**(66,683)**	**27,073**	**(39,610)**	(54,102)	21,965	(32,137)
Net change in unrealized (losses) gains on securities available for sale	**(433,963)**	**176,188**	**(257,775)**	84,532	(34,320)	50,212
Cash flow derivative hedges:						
Unrealized net (losses) gains arising during the year	**(9,205)**	**3,738**	**(5,467)**	23,576	(9,572)	14,004
Reclassifications to net income:						
Interest income – Loans	**(13,468)**	**5,468**	**(8,000)**	(6,489)	2,634	(3,855)
Interest expense – Deposits	**191**	**(78)**	**113**	161	(65)	96
Subtotal reclassifications to net income	**(13,277)**	**5,390**	**(7,887)**	(6,328)	2,569	(3,759)
Net change in unrealized (losses) gains on cash flow derivative hedges	**(22,482)**	**9,128**	**(13,354)**	17,248	(7,003)	10,245
OCI for the year	**$(337,655)**	**$137,088**	**$(200,567)**	$105,719	$(42,922)	$ 62,797

[1] These items are included in the computation of net periodic benefit cost which is recorded in salaries and employee benefits see Note 18 for additional details.

The following table summarizes the changes in AOCI balances, net of tax:

	Pension and Other Benefits	Securities Available for Sale	Cash Flow Derivative Hedges	Total AOCI
Balance as of January 1, 2012:	$(92,221)	$ 81,474	$ 83	$ (10,664)
OCI before reclassifications	(11,754)	82,349	14,004	84,599
Amounts reclassified from AOCI	14,094	(32,137)	(3,759)	(21,802)
Balance as of December 31, 2012:	$(89,881)	$ 131,686	$10,328	$ 52,133
OCI before reclassifications	**56,420**	**(218,165)**	**(5,467)**	**(167,212)**
Amounts reclassified from AOCI	**14,142**	**(39,610)**	**(7,887)**	**(33,355)**
Balance as of December 31, 2013	**$(19,319)**	**$(126,089)**	**$ (3,026)**	**$(148,434)**

18. Benefit Plans

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

Pension Benefits:

Funded Pension Plans

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

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

Unfunded Pension Plans

The Bank also sponsored an unfunded excess benefit pension plan covering employees whose pay or benefits exceed certain regulatory limits and, for certain key executives, an unfunded supplemental executive retirement plan ("SERP"). The unfunded excess plan was frozen on January 1, 2010 to new participants and benefit accruals. The SERP was frozen in 2002 to new participants; however benefits continue to accrue for existing plan participants.

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

Other Postretirement Benefits:

Postretirement Medical and Life Insurance Plan

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

Executive Life Insurance Plan

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

Pension Accounting

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

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

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

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

	Pension Benefits		**Other Benefits**	
(dollars in thousands)	**2013**	2012	**2013**	2012
Amounts arising during the period:				
Net gain on pension assets	**$ 24,727**	$ 16,880	**$ -**	$ -
Net gain (loss) on obligations	**61,441**	(36,263)	**6,865**	(403)
Amendment	**-**	-	**1,950**	-
Reclassification adjustments recognized as components of net periodic benefit cost during the period:				
Net loss	**23,636**	24,711	**217**	49
Net prior service cost (credit)	**34**	34	**(80)**	(1,069)
Amounts recognized in OCI	**$109,838**	$ $5,362	**$8,952**	$(1,423)

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

	Pension Benefits		**Other Benefits**	
(dollars in thousands)	**2013**	2012	**2013**	2012
Net loss (gain)	**$34,192**	$143,997	**$ (5)**	$7,077
Net prior service cost (credit)	**206**	239	**(1,870)**	-
Ending balance within AOCI	**$34,398**	$144,236	**$(1,875)**	$7,077

The following table shows the amounts within AOCI expected to be recognized as components of net periodic costs during 2014:

(dollars in thousands)	**Pension Benefits**	**Other Benefits**
Amortization of net loss	**$4,151**	$ -
Amortization of net prior service cost (credit)	**34**	(159)
Total	**$4,185**	$(159)

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

	Pension Benefits		Other Benefits	
(dollars in thousands)	**2013**	2012	**2013**	2012
Projected benefit obligation at January 1,	**$551,975**	$ 519,562	**$ 51,136**	$ 48,985
Service cost	**1,291**	1,119	**1,944**	1,844
Interest cost	**20,987**	22,776	**2,098**	2,123
Actuarial (gain) loss	**(61,441)**	36,263	**(5,516)**	865
Change in plan provisions	**-**	-	**(1,950)**	-
Benefit payments	**(28,924)**	(27,745)	**(9,499)**	(2,681)
Projected benefit obligation as of December 31,	**$483,888**	$ 551,975	**$ 38,213**	$ 51,136
Fair value of plan assets as of January 1,	**$381,205**	$ 365,980	**$ -**	$ -
Actual return on plan assets	**46,815**	38,175	**-**	-
Employer contributions	**40,000**	-	**-**	-
Benefit payments	**(23,761)**	(22,950)	**-**	-
Fair value of plan assets as at December 31,	**$444,259**	$ 381,205	**$ -**	$ -
Funded status[1]	**$ (39,629)**	$(170,770)	**$(38,213)**	$(51,136)

[1]Amounts recognized in the consolidated balance sheets are as follows:

(dollars in thousands)	**2013**	2012	**2013**	2012
Pension asset for overfunded plans	**$ 40,741**	$ -	**$ -**	$ -
Pension liability for underfunded plans	**(80,370)**	(170,770)	**(38,213)**	(51,136)
Total funded status	**$(39,629)**	$(170,770)	**$(38,213)**	$(51,136)

The projected benefit obligation and accumulated benefit obligation for the Bank's funded pension plans were $403.5 million and $463.5 million as of December 31, 2013 and 2012, respectively. The projected benefit obligation and accumulated benefit obligation for the Bank's unfunded pension plans was $80.4 million and $77.7 million as of December 31, 2013 and $88.4 million and $85.5 million as of December 31, 2012, respectively.

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

The following table sets forth the components of the net periodic benefit cost:

	For the period ended December 31,			
	Pension Benefits		Other Benefits	
(dollars in thousands)	**2013**	2012	**2013**	2012
Service cost	**$ 1,291**	$ 1,119	**$1,944**	$ 1,844
Interest cost	**20,987**	22,776	**2,098**	2,123
Expected return on plan assets	**(22,087)**	(21,295)	**-**	-
Amortization of prior service cost (credit)	**34**	34	**(80)**	(1,069)
Recognized net actuarial loss	**23,636**	24,711	**676**	511
Total periodic benefit cost	**$ 23,861**	$ 27,345	**$4,638**	$ 3,409

Assumptions

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

	Funded Pension Plans		Unfunded Pension Plans		Other Benefits[1]	
	2013	2012	**2013**	2012	**2013**	2012
Benefit obligations as of December 31:						
Discount rate	**4.95%**	3.90%	**4.95%**	3.90%	**4.95%**	4.50%
Rate of compensation increase	**NA**	NA	**4.00%**	4.00%	**5.00%**	5.00%
Net periodic benefit cost for the period ended December 31:						
Discount rate	**3.90%**	4.50%	**3.90%**	4.50%	**4.95%**	4.50%
Expected long-term return on plan assets	**6.00%**	6.00%	**NA**	NA	**NA**	NA
Rate of compensation increase	**NA**	NA	**4.00%**	4.00%	**5.00%**	5.00%

[1] Includes the postretirement medical and life insurance plan, which used a discount rate of 4.95% and 3.90% in 2013 and 2012, respectively, for benefit obligations and a discount rate of 3.90% and 4.50% in 2013 and 2012, respectively, for net periodic benefit cost. The rate of compensation increase is not applicable to the postretirement medical and life insurance plan.

The assumed discount rate reflects management's estimate of the rate at which the benefits could be effectively settled using a portfolio of high-quality corporate bonds. In selecting the discount rate, the Bank reviews the yield on high quality corporate bonds and resulting yield curves. A portfolio of high-quality corporate bonds is used in conjunction with the yield curve information and the plans' projected benefit cash flows to estimate an internal rate of return in order to select a single discount rate to calculate plan obligations for reporting purposes.

Assumed health care cost trend rates were as follows:

	As of December 31,	
	2013	2012
Health care cost trend rate assumed for next year	**7.3%**	7.0%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	**5.0%**	5.0%
Year that the rate reaches the ultimate trend rate	**2023**	2017

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

(dollars in thousands)	**One-Percentage-Point Increase**	**One-Percentage-Point Decrease**
Effect on 2013 total of service and interest cost components	$ 54	$ (46)
Effect on postretirement benefit obligation as of December 31, 2013	$693	$(602)

Plan Assets

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

Investment Strategy and Risk Management for the Plans' Assets

The long-term investment objective of the Plans is to earn an investment return which meets or exceeds certain benchmarks. The Plans' assets are managed in accordance with the Retirement Committee's (the "Committee") guidelines. All transactions that utilize assets of the Trust will be undertaken for the sole benefit of the participants of the Plans.

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

The equity portion and debt portion of the Plans' assets may employ commingled assets or be individually invested expressly including the use of money market funds managed by a corporate trustee or by others. In its desire to protect the Plans' assets, the Committee imposes general guidelines on asset allocation. Asset allocations are based on the Committee's appraisal of current and long-term needs for liquidity and income of the Plans and its estimate of the investment returns from the various classes and types of investments. The asset allocations are likely to be the primary determinant of the Plans' returns and the associated volatility of returns for the Plans. The target asset allocations for the Plans are as follows:

	As of December 31,			
	ERP		UCB	
	2013	2012	**2013**	2012
Equity	**50%**	50%	**45%**	45%
Fixed Income	**50**	50	**50**	50
Other	**-**	-	**5**	5
Total	**100%**	100%	**100%**	100%

Concentration of Risk

The Bank describes "risk" as the possibility of not achieving the Plans' actuarial rates of return. Risks associated with the Plans' investments include systematic and nonsystematic risk, interest rate, yield curve, reinvestment and credit risk and the combination of these risks. The Bank mitigates the credit risk of investments by establishing guidelines with the investment managers. Both the Bank and our investment managers monitor the diversity of the Plans' assets to ensure that they meet ERISA requirements. Equity securities in the Plans did not include BancWest or BNP Paribas stock as of December 31, 2013 and 2012.

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

	As of December 31, 2013			
(dollars in thousands)	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Asset Category				
Cash and equivalents	**$ 2,710**	**$ 2,710**	**$ -**	**$ -**
Fixed income:				
U.S. Government agency and government sponsored agency securities and corporate securities	**125,093**	**2,716**	**122,377**	**-**
Mutual funds	**68,757**	**68,757**	**-**	**-**
Municipal bonds	**8,745**	**-**	**8,745**	**-**
Exchange-traded funds	**3,754**	**3,754**	**-**	**-**
Contracts/annuities	**11,277**	**-**	**-**	**11,277**
Equities:				
Mutual funds	**121,727**	**121,701**	**26**	**-**
Exchange-traded funds	**57,891**	**57,891**	**-**	**-**
Common stock	**44,066**	**44,066**	**-**	**-**
Multi-strategy mutual funds	**2,792**	**2,792**	**-**	**-**
Total plan investments	**$446,812**	**$304,387**	**$131,148**	**$11,277**
Net pending trades	**(2,553)**			
Total plan assets	**$444,259**			

(dollars in thousands)	As of December 31, 2012 Fair Value	Level 1	Level 2	Level 3
Asset Category				
Cash and equivalents	$ 4,440	$ 4,440	$ -	$ -
Fixed income:				
U.S. Government agency and government sponsored agency securities and corporate securities	120,391	-	120,391	-
Mutual funds	18,256	18,256	-	-
Municipal bonds	7,682	-	7,682	-
Exchange-traded funds	4,147	4,147	-	-
Contracts/annuities	10,844	-	-	10,844
Equities:				
Mutual funds	127,103	120,186	6,917	-
Exchange-traded funds	42,354	42,354	-	-
Common stock	32,807	32,807	-	-
Multi-strategy mutual funds	13,181	13,181	-	-
Total plan investments	$381,205	$235,371	$134,990	$10,844

The changes in the Bank's Level 3 pension plan assets were as follows:

(dollars in thousands)	**Contracts/Annuities**
Beginning balance as of January 1, 2013	**$10,844**
Actual return on plan assets	**511**
Distributions and settlements	**(1,939)**
Contributions	**1,935**
Service fees	**(74)**
Ending balance as of December 31, 2013	**$11,277**

Valuation Methodologies

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

- Cash and equivalents include cash and money market fund holdings. The fair values are based on a review of unadjusted quoted prices for identical assets in active markets and are classified as Level 1.
- Fixed income include Securities Exchange Commission (SEC) registered mutual funds, exchange-traded funds, U.S. Government agency and government sponsored agency securities, corporate securities, debt securities issued by a state, municipality or county, and an annuity contract (with interest guarantees) which participates in the general account of a major life insurance company. The fair values of assets classified as Level 1 are based on unadjusted quoted market prices for identical assets in active markets, and primarily consist of SEC registered mutual funds and exchange-traded funds. The fair values of assets classified as Level 2 are primarily determined using market-based pricing matrices using significant inputs observable in the market such as yield curves and trade prices for similar assets. Level 2 assets primarily consist of U.S. Government agency and government sponsored agency securities, corporate and municipal bonds. The determination of the value of the annuity contract requires significant judgment due to lack of market price and liquidity and is classified as Level 3 based on unobservable inputs.
- Equities include SEC registered mutual funds, exchange-traded funds tracking domestic or international equity indices, and individual equities held in the form of common stock of companies in the Standard and Poor's 500 Index. The fair values of Level 1 assets are based on a review of unadjusted quoted prices for identical assets in active markets. Where quoted market prices are not available, the fair values of Level 2 assets are determined using quoted market prices for similar assets.
- Multi-strategy mutual funds include SEC registered mutual funds investing in alternative asset classes. The fair values are based on a review of quoted prices for identical assets in active markets.

Contributions

Bank of the West contributed $40.0 million to the qualified pension plans during 2013. The Bank expects to contribute $5.4 million to its non-qualified defined benefit pension plans and $3.0 million to its other postretirement benefit plans in 2014. Based on the funding requirements of the Pension Protection Act of 2006, the Bank does not anticipate contributing to the ERP during 2014.

Estimated Future Benefit Payments

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

(dollars in thousands)	Pension Benefits	Other Benefits
2014	**$ 29,644**	**$ 3,022**
2015	**$ 27,509**	**$ 4,158**
2016	**$ 28,285**	**$ 2,672**
2017	**$ 29,452**	**$ 3,852**
2018	**$ 31,680**	**$ 2,632**
2019 – 2023	**$167,590**	**$17,760**

401(k) Match Plan

The Bank matches 100% of employee contributions up to 6% of pay to the BancWest Corporation 401(k) Savings Plan, a defined contribution plan. The plan covers all employees who satisfy eligibility requirements. Matching employer contributions to the 401(k) plan for the years ended December 31, 2013 and 2012 were $28.4 million and $25.3 million, respectively.

Incentive Plan for Key Executives and Officers' Incentive Plan

The Bank has two incentive plans under which awards of cash are made to certain employees. One plan is for key executives; the Incentive Plan for Key Executives ("IPKE"), and the other plan is for employees below the level of key executives; the Officers' Incentive Plan ("OIP"). The IPKE and OIP limit the aggregate and individual value of the awards that could be issued in any one fiscal year. Both plans have the same limits on individual awards. Salary and employee benefits expense includes IPKE and OIP expense of $40.4 million and $41.1 million for the years ended December 31, 2013 and 2012, respectively.

Long-Term Incentive Plans

The Bank has a Performance Share Plan ("PSP") which was designed to reward certain employees for their performance and BancWest's performance over a multi-year performance cycle. Salary and employee benefit expense for the Bank includes PSP expense of $19.2 million and $16.5 million for the years ended December 31, 2013 and 2012, respectively.

The Bank also has a Long-Term Incentive Plan ("LTIP") which rewards selected key executives for the Bank of the West performance assessed over a three year performance cycle on a relative and absolute basis. Salary and employee benefits expense for the Bank includes LTIP expense of $9.2 million and $10.8 million for the years ended December 31, 2013 and 2012, respectively.

Additionally, the Bank participates in a Global Stock Incentive Plan ("GSIP"), formerly known as the BNPP Stock Option Plan, in which certain members of the Bank's senior management team receive stock option awards from BNPP for shares of BNPP stock. See Note 20 for additional information.

In 2013, the BancWest Corporation International Sustainability and Incentive Scheme ("ISIS") was created to reward, retain and motivate certain employees and to fairly compensate them by aligning their interest with the operational performance of the BNP Paribas Group, including performance on Corporate Social Responsibility ("CSR"). The ISIS plan was created to replace the GSIP on a go-forward basis. See note 20 for additional information.

19. Income Taxes

The expense provision for income taxes was comprised of the following:

(dollars in thousands)	For the years ended December 31, 2013	2012
Current:		
Federal	**$212,423**	$228,881
States	**59,270**	39,981
Total current	**271,693**	268,862
Deferred:		
Federal	**56,871**	34,359
States	**11,259**	11,138
Total deferred	**68,130**	45,497
Total expense for income taxes	**$339,823**	$314,359

The components of the Bank's net deferred income tax asset were as follows:

(dollars in thousands)	As of December 31, 2013	2012
Assets		
Allowance for loan and lease losses and nonperforming assets	**$363,889**	$466,950
Deferred compensation expenses	**139,934**	186,240
Securities available for sale	**92,924**	-
Depreciation expense	**3,310**	-
State income and franchise taxes	**21,526**	17,458
Other	**39,592**	46,813
Total deferred income tax assets	**$661,175**	$717,461
Liabilities		
Leases	**$147,482**	$164,226
Securities available for sale	**-**	105,858
Intangible assets	**30,057**	26,721
Depreciation expense	**-**	1,644
Total deferred income tax liabilities	**177,539**	298,449
Net deferred income tax assets	**$483,636**	$419,012

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

Deferred taxes related to net unrealized gains (losses) on securities available for sale, net unrealized gains (losses) on derivatives and employee benefit plan adjustments are recorded in AOCI (see Note 17). The deferred tax benefit (expense) associated with these adjustments was $137.1 million and $(42.9) million for the years ended December 31, 2013 and 2012, respectively.

For the year ended December 31, 2013, no valuation allowance exists. For the year ended December 31, 2012, the Bank recorded a full valuation allowance release of $3.5 million on the basis that sufficient business capital gains were generated by another member of the California unitary tax return. Realization of deferred tax assets is dependent on generating sufficient taxable income in the future and, although realization is not assured, management believes it is more likely than not that all of the deferred tax assets will be realized.

The following analysis reconciles the federal statutory income tax expenses and rate to the effective income tax expense and rate for the periods indicated:

	For the years ended December 31,			
	2013		2012	
(dollars in thousands)	**Amount**	**%**	**Amount**	**%**
Federal statutory income tax expense and rate	**$315,965**	**35.0%**	$305,049	35.0%
Foreign, state and local taxes expense, net of federal effect	**48,184**	**5.3**	35,279	4.1
Bank-owned life insurance	**(7,050)**	**(0.8)**	(8,851)	(1.0)
Non-taxable income, net	**(8,664)**	**(1.0)**	(10,074)	(1.2)
Tax credits	**(10,074)**	**(1.1)**	(6,542)	(0.7)
Other	**1,462**	**0.2**	(502)	(0.1)
Effective income tax expense and rate	**$339,823**	**37.6%**	$314,359	36.1%

The Bank and its subsidiaries file income tax returns with the federal government and various state and local jurisdictions. The Internal Revenue Service ("IRS") has completed the examination with respect to the Bank's income tax returns for 2006, 2007 and 2008. During 2013, the IRS examination team issued an agreed-to Revenue Agent's Report for tax years 2006-2008 and the IRS proposed no significant adjustments with respect to the Bank. With few exceptions, the Bank is no longer subject to federal, state, and local income tax examinations for years prior to 2009. As of December 31, 2013, the state and local tax jurisdictions have not proposed any significant adjustments. The Bank believes that there are no other jurisdictions in which the outcome of unresolved issues or claims is likely to be material to our results of operations, financial position or cash flows. The Bank further believes that it has made adequate provision for all income tax uncertainties.

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

(dollars in thousands)	**2013**	2012
Beginning balance as of January 1,	**$15,424**	$19,195
Additions based on tax positions related to the current year	**587**	1,438
Additions for tax positions of prior years	**73**	826
Reductions for tax positions of prior years	**(768)**	(280)
Reductions as a result of a lapse of the applicable statute of limitations	**-**	(5,755)
Balance as of December 31,	**$15,316**	$15,424

Included in the balance of unrecognized tax benefits are $10.0 million and $10.1 million of tax benefits as of December 31, 2013 and 2012, respectively which, if recognized, will affect the effective tax rate.

The Bank recognizes interest accrued related to unrecognized tax benefits and penalties as income tax expense. Related to the unrecognized tax benefits notes above, the Bank accrued interest and penalties of $0.6 million ($0.4 million, net of federal and state tax benefit) during 2013, and in total, as of December 31, 2013, has recognized a liability for interest and penalties of $4.6 million ($3.5 million, net of federal and state benefit). During 2012, the Bank accrued interest and penalties of $1.9 million ($1.7 million net of federal and state tax benefit), and in total, as of December 31, 2012, had recognized a liability for interest and penalties of $4.1 million ($3.1 million, net of federal and state tax benefit).

The Bank does not believe that the total amounts of unrecognized tax benefits will decrease within twelve months of the reporting date with respect to certain state tax liabilities. The Bank does not expect any positions to be finalized with the tax jurisdictions during the next 12 months.

20. Transactions with Affiliates

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

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

The following table presents amounts due to and from affiliates and off-balance sheet transactions:

	As of December 31,	
(dollars in thousands)	**2013**	2012
Cash and due from banks	**$ 45,647**	$ 95,578
Loans	**$ -**	$ 53
Noninterest-bearing demand deposits	**$ 8,434**	$ 8,486
Money market deposits[(1)]	**$1,706,442**	$1,370,694
Time certificates of deposit	**$ 207,505**	$ 213,600
Other assets	**$ 54,305**	$ 66,895
Other liabilities	**$ 95,760**	$ 168,841
Short-term borrowings	**$ -**	$ 3,223
Fixed-rate unsecured lines of credit	**$ 12,800**	$ 33,700
Noncontrolling interest	**$ 15,004**	$ 18,160
Derivatives (notional or contract amounts):		
Credit guarantee derivative	**$ 130,960**	$ 239,225
Fair value hedge	**$ 200,000**	$ 75,000
Foreign exchange contracts	**$ 135,278**	$ 102,263
Interest rate contracts	**$3,205,211**	$3,248,975
Off-balance sheet transactions:		
Commitments and standby letters of credit	**$ 25,435**	$ 24,277
Guarantees received	**$ 132,690**	$ 135,369

(1) Includes cash deposit to collateralize and secure payments under the Guarantee.

Interest expense to affiliates for the years ended December 31, 2013 and 2012 was $2.9 million and $4.2 million, respectively. Noninterest income from affiliate transactions, which includes fair value adjustments related to derivatives, was a net gain of $33.6 million and a net loss of $21.5 million for the years ended December 31, 2013 and 2012, respectively.

Credit Guarantee Derivative

The Bank has the Guarantee with its parent, BancWest. Under the Guarantee, BancWest agreed to reimburse the Bank for principal charge-offs, write-downs on foreclosed assets and foregone interest for a specific portfolio of commercial loans and foreclosed properties through March 31, 2017. Under the Guarantee, BancWest makes payments to the Bank on a quarterly basis, and is not entitled to claim any recoveries for any payments made.

The decline in the fair value of the Guarantee asset since inception was primarily driven by decreases in the covered asset principal balances due to charge-offs and pay downs, and changes in credit forecasts.

The following table provides the net gain of the credit guarantee derivative on noninterest income:

	As of December 31,	
(dollars in thousands)	**2013**	2012
Payments for claims	**$ 6,969**	$ 55,997
Decrease in fair value	**(2,573)**	(17,740)
Net gain	**$ 4,396**	$ 38,257

Incentive Plans

The Bank participates in the GSIP where certain members of the Bank's senior management team receive stock option awards from BNPP for shares of BNPP stock. The last grants from the plan were made in March 2012. These grants will continue to vest and accrue benefits. GSIP expense was $2.1 million and $2.7 million for the years ended December 31, 2013 and 2012, respectively.

The Bank participates in the ISIS plan, which was created to replace the GSIP on a go-forward basis. Persons eligible for the ISIS plan and awards granted under the plan are determined by a compensation committee. Salary and employee benefits expense under the ISIS plan for the year ended December 31, 2013 was immaterial.

21. Subsequent Events

We have evaluated the effects of subsequent events that have occurred after December 31, 2013 through March 12, 2014, the date of our financial statement issuance, and there have been no material events that would require recognition in the consolidated financial statements or disclosures in the notes for the consolidated financial statements of the Bank.

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