

CITY NATIONAL CORP

Form 10-Q

November 09, 2009

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED

For the quarterly period ended September 30, 2009

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 1-10521

CITY NATIONAL CORPORATION

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(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Delaware
(State of Incorporation)

95-2568550
(I.R.S. Employer Identification No.)

City National Plaza

555 South Flower Street, Los Angeles, California, 90071

(Address of principal executive offices)(Zip Code)

(213) 673-7700

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for at least the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act). (Check one):

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐
(Do not check if a smaller reporting company)

Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

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As of October 30, 2009, there were 51,503,312 shares of Common Stock outstanding.

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CITY NATIONAL CORPORATION
CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)	September 30, 2009 (Unaudited)	December 31, 2008	September 30, 2008 (Unaudited)
Assets			
Cash and due from banks	\$ 348,958	\$ 279,921	\$ 428,557
Due from banks - interest-bearing	767,362	144,344	95,993
Federal funds sold	240,000		
Securities available-for-sale - cost \$3,480,659, \$2,239,184, and \$2,230,192 at September 30, 2009, December 31, 2008 and September 30, 2008, respectively:			
Securities pledged as collateral	226,497	223,506	214,762
Held in portfolio	3,285,575	1,921,364	1,945,156
Trading securities	188,904	295,598	310,251
Loans and leases	12,168,490	12,444,259	12,278,517
Less: Allowance for loan and lease losses	265,005	224,046	208,046
Net loans and leases	11,903,485	12,220,213	12,070,471
Premises and equipment, net	126,097	131,294	127,361
Deferred tax asset	173,752	226,854	152,445
Goodwill	491,501	459,418	460,137
Customer-relationship intangibles, net	41,866	40,619	52,160
Bank-owned life insurance	76,155	74,575	73,930
Affordable housing investments	92,170	74,577	72,453
Customers' acceptance liability	3,476	1,714	2,954
Other real estate owned	43,969	11,388	2,279
Other assets	390,837	350,130	321,959
Total assets	\$ 18,400,604	\$ 16,455,515	\$ 16,330,868
Liabilities			
Demand deposits	\$ 7,441,898	\$ 6,140,619	\$ 5,744,863
Interest checking deposits	1,776,643	988,313	847,921
Money market deposits	4,220,737	3,699,900	3,822,418
Savings deposits	276,087	146,590	143,252
Time deposits-under \$100,000	210,344	234,669	233,173
Time deposits-\$100,000 and over	1,182,734	1,442,033	1,376,033
Total deposits	15,108,443	12,652,124	12,167,660
Federal funds purchased and securities sold under repurchase agreements	231,903	908,157	1,272,359
Other short-term borrowings	720	124,500	630,673
Subordinated debt	341,587	161,595	157,769
Long-term debt	233,536	246,554	231,321
Reserve for off-balance sheet credit commitments	19,576	22,703	23,384
Acceptances outstanding	3,476	1,714	2,954
Other liabilities	192,974	262,923	144,348
Total liabilities	16,132,215	14,380,270	14,630,468
Redeemable noncontrolling interest	49,897	44,811	52,556
Commitments and contingencies			

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Equity

Preferred Stock; 5,000,000 shares authorized; 400,000 shares issued; aggregate liquidation preference of \$400,000 as of September 30, 2009 and December 31, 2008, respectively	391,593	390,089	
Common Stock, par value \$1.00 per share; 75,000,000 shares authorized; 53,885,886, 50,961,457, and 50,966,264 shares issued at September 30, 2009, December 31, 2008 and September 30, 2008, respectively	53,886	50,961	50,966
Additional paid-in capital	514,904	389,077	371,279
Accumulated other comprehensive income (loss)	24,329	(48,022)	(38,071)
Retained earnings	1,363,176	1,379,624	1,396,400
Treasury shares, at cost - 2,386,899, 2,413,039 and 2,434,941 shares at September 30, 2009, December 31, 2008 and September 30, 2008, respectively	(154,245)	(156,736)	(158,193)
Total common shareholders' equity	1,802,050	1,614,904	1,622,381
Total shareholders' equity	2,193,643	2,004,993	1,622,381
Noncontrolling interest	24,849	25,441	25,463
Total equity	2,218,492	2,030,434	1,647,844
Total liabilities and equity	\$ 18,400,604	\$ 16,455,515	\$ 16,330,868

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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CITY NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(in thousands, except per share amounts)	For the three months ended September 30,		For the nine months ended September 30,	
	2009	2008	2009	2008
Interest Income				
Loans and leases	\$ 145,756	\$ 168,824	\$ 433,636	\$ 514,293
Securities available-for-sale	34,243	25,760	90,835	79,601
Trading securities	31	557	465	1,533
Due from banks - interest-bearing	259	440	705	1,491
Federal funds sold and securities purchased under resale agreements	130	25	145	147
Total interest income	180,419	195,606	525,786	597,065
Interest Expense				
Deposits	12,854	26,689	48,483	92,811
Federal funds purchased and securities sold under repurchase agreements	2,016	7,767	6,279	25,009
Subordinated debt	3,220	1,489	5,294	5,304
Other long-term debt	988	2,154	3,803	7,440
Other short-term borrowings		4,703	113	15,364
Total interest expense	19,078	42,802	63,972	145,928
Net interest income	161,341	152,804	461,814	451,137
Provision for credit losses	85,000	35,000	205,000	87,000
Net interest income after provision for credit losses	76,341	117,804	256,814	364,137
Noninterest Income				
Trust and investment fees	32,289	33,457	83,342	103,993
Brokerage and mutual fund fees	6,041	19,470	22,443	55,601
Cash management and deposit transaction charges	13,142	12,392	39,143	35,712
International services	7,895	8,202	22,416	24,065
Bank-owned life insurance	639	824	2,373	2,107
Loss on sale of other assets	(173)	(198)	(130)	(390)
Gain (loss) on sale of securities	3,445	(536)	3,795	16
Other	6,345	8,403	21,366	22,190
Impairment loss on securities:				
Total other-than-temporary impairment loss on securities	(20,588)	(31,936)	(34,161)	(31,936)
Less: Portion of loss recognized in other comprehensive income	19,810		19,810	
Net impairment loss recognized in earnings	(778)	(31,936)	(14,351)	(31,936)
Total noninterest income	68,845	50,078	180,397	211,358
Noninterest Expense				
Salaries and employee benefits	80,937	89,373	235,023	267,072
Net occupancy of premises	12,613	12,719	37,433	36,693
Legal and professional fees	8,545	8,332	24,014	24,423
Information services	7,342	6,576	20,814	19,170
Depreciation and amortization	6,472	5,502	18,417	16,464
Marketing and advertising	4,615	5,653	14,034	16,608
Office services and equipment	3,610	3,683	11,136	11,468
Amortization of intangibles	1,726	2,238	5,237	6,197
Other real estate owned	2,231	23	4,481	343

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FDIC assessments	5,308	2,188	22,237	4,358
Other operating	10,366	9,910	28,058	24,989
Total noninterest expense	143,765	146,197	420,884	427,785
Income before income taxes	1,421	21,685	16,327	147,710
Income taxes	(6,966)	3,974	(6,320)	44,960
Net income	\$ 8,387	\$ 17,711	\$ 22,647	\$ 102,750
Less: Net income attributable to noncontrolling interest	348	1,160	375	6,728
Net income attributable to City National Corporation	\$ 8,039	\$ 16,551	\$ 22,272	\$ 96,022
Less: Dividends on preferred stock	5,502		16,504	
Net income available to common shareholders	\$ 2,537	\$ 16,551	\$ 5,768	\$ 96,022
Net income per common share, basic	\$ 0.05	\$ 0.34	\$ 0.11	\$ 1.99
Net income per common share, diluted	\$ 0.05	\$ 0.34	\$ 0.11	\$ 1.98
Shares used to compute income per common share, basic	51,482	47,934	49,855	47,871
Shares used to compute income per common share, diluted	51,660	48,207	49,987	48,178
Dividends per common share	\$ 0.10	\$ 0.48	\$ 0.45	\$ 1.44

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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CITY NATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	For the nine months ended September 30,	
	2009	2008
Cash Flows From Operating Activities		
Net income attributable to City National Corporation	\$ 22,272	\$ 96,022
Adjustments to net income:		
Provision for credit losses	205,000	87,000
Amortization of intangibles	5,237	6,197
Depreciation and amortization	18,417	16,464
Amortization of cost and discount on long-term debt	436	457
Share-based employee compensation expense	10,786	10,862
Loss on sale of other assets	130	390
Gain on sale of securities	(3,795)	(16)
Impairment loss on securities	14,351	31,936
Other, net	2,460	27,938
Net change in:		
Trading securities	113,094	(16,896)
Deferred income tax benefit	(470)	(23,042)
Other assets and other liabilities, net	(143,336)	(101,692)
Net cash provided by operating activities	244,582	135,620
Cash Flows From Investing Activities		
Purchase of securities available-for-sale	(2,440,987)	(218,445)
Sales of securities available-for-sale	554,834	94,076
Maturities and paydowns of securities	618,141	346,583
Loan originations, net of principal collections	73,617	(699,027)
Net payments for premises and equipment	(10,432)	(25,758)
Acquisition of Lee Munder Capital Group, LLC, net of cash acquired	(18,328)	
Other investing activities, net	(894)	18,410
Net cash used in investing activities	(1,224,049)	(484,161)
Cash Flows From Financing Activities		
Net increase in deposits	2,456,319	345,155
Net decrease in federal funds purchased and securities sold under repurchase agreements	(676,254)	(272,052)
Net (decrease) increase in short-term borrowings, net of transfers from long-term debt	(123,780)	530,673
Net increase (decrease) in other borrowings	170,900	(116,854)
Proceeds from exercise of stock options	1,150	19,555
Tax benefit from exercise of stock options	141	3,821
Stock repurchases		(21,655)
Issuance of common stock	119,929	
Cash dividends paid	(36,883)	(69,621)
Net cash provided by financing activities	1,911,522	419,022
Net increase in cash and cash equivalents	932,055	70,481
Cash and cash equivalents at beginning of year	424,265	454,069

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Cash and cash equivalents at end of period	\$	1,356,320	\$	524,550
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Supplemental Disclosures of Cash Flow Information:

Cash paid during the period for:

Interest	\$	63,804	\$	159,427
Income taxes		17,689		93,015

Non-cash investing activities:

Transfer of loans to other real estate owned		47,715		14,891
Transfer from securities available-for-sale to trading securities		6,400		

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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CITY NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

AND COMPREHENSIVE INCOME

(Unaudited)

(in thousands, except share amounts)	City National Corporation Shareholders' Equity								
	Shares issued	Preferred stock	Common stock	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Treasury shares	Non-controlling interest	Total equity
Balance, January 1, 2008	50,824,178	\$	\$ 50,824	\$ 374,700	\$ (9,349)	\$ 1,369,999	\$ (176,035)	\$ 25,583	\$ 1,635,722
Net income						96,022		1,806	97,828
Other comprehensive loss, net of tax:									
Amortization of prior service cost					(39)				(39)
Net unrealized loss on securities available-for-sale, net of taxes of \$20.2 million and reclassification of \$0.1 million net gain included in net income					(27,937)				(27,937)
Net unrealized loss on cash flow hedges, net of taxes of \$0.5 million and reclassification of \$2.3 million net gain included in net income					(746)				(746)
Total comprehensive income								1,806	69,106
Dividends and distributions to noncontrolling interest								(1,926)	(1,926)
Issuance of shares under share-based compensation plans	142,086		142	(20,084)			39,497		19,555
Share-based employee compensation expense				10,698					10,698
Tax benefit from share-based compensation plans				3,821					3,821
Cash dividends paid						(69,621)			(69,621)
Repurchased shares, net							(21,655)		(21,655)
Net change in deferred compensation plans				745					745
Change in redeemable noncontrolling interest				1,399					1,399
Balance, September 30, 2008	50,966,264	\$	\$ 50,966	\$ 371,279	\$ (38,071)	\$ 1,396,400	\$ (158,193)	\$ 25,463	\$ 1,647,844
Balance, January 1, 2009	50,961,457	\$ 390,089	\$ 50,961	\$ 389,077	\$ (48,022)	\$ 1,379,624	\$ (156,736)	\$ 25,441	\$ 2,030,434
Net income						22,272		1,625	23,897
Other comprehensive income, net of tax:									
Amortization of prior service cost					119				119
Non-credit related impairment loss on investment securities, net of taxes of \$8.3 million					(11,523)				(11,523)
Net unrealized gain on securities available-for-sale, net of taxes of \$60.9 million and reclassification of \$2.0 million net loss included in net income					84,657				84,657
Net unrealized loss on cash flow hedges, net of taxes of \$0.6 million and reclassification of \$5.2 million net gain included in net income					(902)				(902)

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Total comprehensive income									1,625	96,248
Dividends and distributions to noncontrolling interest									(1,717)	(1,717)
Issuance of common stock	3,220,000		3,220	116,409						119,629
Issuance of shares under share-based compensation plans	(295,571)		(295)	(1,814)				2,491		382
Preferred stock accretion		1,504						(1,504)		
Share-based employee compensation expense				10,693						10,693
Tax benefit from share-based compensation plans				(714)						(714)
Cash dividends:										
Preferred								(15,000)		(15,000)
Common								(22,216)		(22,216)
Net change in deferred compensation plans				492						492
Change in redeemable noncontrolling interest				761						761
Other									(500)	(500)
Balance, September 30, 2009	53,885,886	\$ 391,593	\$ 53,886	\$ 514,904	\$ 24,329	\$ 1,363,176	\$ (154,245)	\$ 24,849	\$ 2,218,492	

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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CITY NATIONAL CORPORATION

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Summary of Significant Accounting Policies

Organization

City National Corporation (the Corporation) is the holding company for City National Bank (the Bank). The Bank delivers banking, trust and investment services through 63 offices in Southern California, the San Francisco Bay area, Nevada and New York City. Additionally, the Corporation delivers investment and wealth advisory services through its wealth advisory affiliates. The Corporation also has an unconsolidated subsidiary, Business Bancorp Capital Trust I. The Corporation is approved as a financial holding company pursuant to the Gramm-Leach-Bliley Act of 1999. References to the Company mean the Corporation, Bank, all subsidiaries and affiliates together.

Consolidation

The consolidated financial statements of the Company include the accounts of the Corporation, its non-bank subsidiaries, the Bank and the Bank's wholly owned subsidiaries, after the elimination of all material intercompany transactions. Preferred stock and equity ownership of others are reflected as Redeemable noncontrolling interest and Noncontrolling interest in the consolidated balance sheets. The related noncontrolling share of earnings is shown as Net income attributable to noncontrolling interest in the consolidated statements of income.

The Company's investment management and wealth advisory affiliates are organized as limited liability companies. The Corporation generally owns a majority position in each affiliate and certain management members of each affiliate own the remaining shares. The Corporation has contractual arrangements with its affiliates whereby a percentage of revenue is allocable to fund affiliate operating expenses (operating share) while the remaining portion of revenue (distributable revenue) is allocable to the Corporation and the noncontrolling owners. All majority-owned affiliates are consolidated. The Corporation's interest in one investment management affiliate in which it holds a noncontrolling share is accounted for using the equity method. Additionally, the Company has various interests in variable interest entities that are not required to be consolidated. See Note 13 for a more detailed discussion on variable interest entities.

Use of Estimates

The Company's accounting and reporting policies conform to generally accepted accounting principles (GAAP) and practices in the financial services industry. To prepare the financial statements in conformity with GAAP, management must make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and income and expenses during the reporting period.

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Circumstances and events that differ significantly from those underlying the Company's estimates and assumptions could cause actual financial results to differ from those estimates. The material estimates included in the financial statements relate to the allowance for loan and lease losses, the reserve for off-balance sheet credit commitments, valuation of stock options and restricted stock, income taxes, goodwill and intangible asset impairment, available-for-sale securities impairment and the valuation of financial assets and liabilities reported at fair value. The Company has applied its critical accounting policies and estimation methods consistently in all periods presented in these financial statements. The allowance for loan and lease losses reflects management's ongoing assessment of the credit quality of the Company's portfolio, which is affected by a broad range of economic factors, including weak valuations in commercial real estate. Additional factors affecting the provision include net loan charge-offs, nonaccrual loans, specific reserves, risk-rating migration and changes in the portfolio size. The Company's estimates and assumptions are expected to change as changes in market conditions and the Company's portfolio occur in subsequent periods.

Basis of Presentation

The Company is on the accrual basis of accounting for income and expense. The results of operations reflect any interim adjustments, all of which are of a normal recurring nature, unless otherwise disclosed in this Form 10-Q, and which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented. In accordance with the usual practice of banks, assets and liabilities of individual trust, agency and fiduciary funds have not been included in the financial statements. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

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Note 1. Summary of Significant Accounting Policies (continued)

The results for the 2009 interim period are not necessarily indicative of the results expected for the full year. The Company has not made any significant changes in its critical accounting policies or in its estimates and assumptions from those disclosed in its 2008 Annual Report other than the adoption of new accounting pronouncements and other authoritative guidance that became effective for the Company on January 1, 2009. Refer to *Accounting Pronouncements* below for discussion of accounting pronouncements adopted in 2009.

Certain prior period amounts have been reclassified or restated to conform to the current period presentation.

On July 1, 2009, the Financial Accounting Standards Board Accounting Standards Codification (ASC) became the official source of nongovernmental authoritative U.S. GAAP other than guidance issued by the Securities and Exchange Commission (SEC). The ASC organizes GAAP by Topic-Subtopic-Section-Paragraph. References to GAAP contained in this Form 10-Q reflect the ASC reference structure.

During the nine months ended September 30, 2009, the Company made certain changes to the following accounting policies as a result of the Company's adoption of new accounting pronouncements and other considerations:

Goodwill and Customer-Relationship Intangible Assets

The Company applies the acquisition method of accounting for acquisitions in accordance with the revised guidance under ASC Topic 805, *Business Combinations*, which became effective January 1, 2009. Previously, acquisitions were accounted for under the purchase method. Under the acquisition method, the acquiring entity in a business combination recognizes 100 percent of the assets acquired and liabilities assumed, including contingent consideration, in the transaction at their acquisition date fair values. Management utilizes valuation techniques based on discounted cash flow analysis to determine these fair values. Any excess of the purchase price over amounts allocated to acquired assets, including identifiable intangible assets, and liabilities assumed is recorded as goodwill. Intangible assets include core deposit intangibles and client advisory contract intangibles (combined, customer-relationship intangibles) originating from acquisitions of financial services firms. Core deposit intangibles are amortized over a range of four to eight years and client advisory contract intangibles are amortized over various periods ranging from four to 20 years. The weighted-average amortization period for the contract intangibles is 17.2 years.

Goodwill and customer-relationship intangibles are evaluated for impairment at least annually or more frequently if events or circumstances, such as changes in economic or market conditions, indicate that potential impairment exists. Given the volatility in the current economic environment, goodwill and customer-relationship intangibles are evaluated for impairment on a quarterly basis. Goodwill is tested for impairment at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment for which discrete financial information is available and regularly reviewed by management. Fair values of reporting units are determined using methods consistent with current market practices for valuing similar types of businesses. Valuations are generally based on market multiples of net income or gross revenue combined with an analysis of expected near and long-term financial performance. Management utilizes market information including market comparables and recent merger and acquisition transactions to validate the reasonableness of its valuations. If the fair value of the reporting unit, including goodwill, is determined to be less than the carrying amount of the reporting unit, a further test is required to measure the amount of impairment. If an impairment loss exists, the carrying amount of the goodwill is adjusted to a new cost basis. Subsequent reversal of a previously recognized goodwill impairment loss is prohibited.

Impairment testing of customer-relationship intangibles is performed at the individual asset level. Impairment exists when the carrying amount of an intangible asset is not recoverable and exceeds its fair value. The carrying amount of an intangible asset is not recoverable when the carrying amount of the asset exceeds the sum of undiscounted cash flows (cash inflows less cash outflows) associated with the use and/or disposition of the asset. An impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value. The fair value of core deposit intangibles is determined using market-based core deposit premiums from recent deposit sale transactions. The fair value of client advisory contracts is based on discounted expected future cash flows. Management makes certain estimates and assumptions in determining the expected future cash flows from customer-relationship intangibles including account attrition, expected lives, discount rates, interest rates, servicing costs and other factors. Significant changes in these estimates and assumptions could adversely impact the valuation of these intangible assets. If an impairment loss exists, the carrying amount of the intangible asset is adjusted to a new cost basis. The new cost basis is amortized over the remaining useful life of the asset.

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Note 1. Summary of Significant Accounting Policies (Continued)

Earnings per Common Share

The Company calculates earnings per common share (EPS) using the two-class method in accordance with ASC Topic 260, *Earnings per Share* (ASC 260), effective January 1, 2009 with retrospective application to all prior-period earnings per share data presented. Refer to *Accounting Pronouncements* below. The two-class method requires the Company to present EPS as if all of the earnings for the period are distributed to common shareholders and any participating securities, regardless of whether any actual dividends or distributions are made. Under ASC Topic 260, all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities. The Company grants restricted shares under a share-based compensation plan that qualify as participating securities. Restricted shares issued under the Company's share-based compensation plan are entitled to dividends at the same rate as common stock.

Basic EPS are computed by dividing distributed and undistributed earnings available to common shareholders by the weighted average number of common shares outstanding for the period. Distributed and undistributed earnings available to common shareholders represent net income reduced by preferred stock dividends and distributed and undistributed earnings available to participating securities. Common shares outstanding include common stock and vested restricted stock awards. Diluted EPS reflect the assumed conversion of all potential dilutive securities. Adoption of the two-class method resulted in a 2 cent per share reduction in basic EPS for the nine-month period ended September 30, 2008. Diluted EPS for 2008 were not impacted by the adoption. Prior-period EPS data presented has been restated retrospectively for comparability.

Accounting Pronouncements

During the nine months ended September 30, 2009, the following accounting pronouncements applicable to the Company were issued or became effective:

- The Company adopted the new guidance in ASC Topic 805, *Business Combinations* (ASC 805), and ASC Topic 810, *Consolidation* (ASC 810), effective January 1, 2009. ASC 805 requires the acquiring entity in a business combination to recognize 100 percent of the assets acquired and liabilities assumed in the transaction; establishes acquisition date fair value as the measurement objective for the assets acquired and liabilities assumed; requires recognition of contingent consideration arrangements at their acquisition date fair values; and expands required disclosures regarding the nature and financial effect of the business combination. It also requires that acquisition-related costs be expensed when incurred. The provisions of ASC 805 are to be applied for business combination transactions consummated after January 1, 2009. ASC 810 requires that noncontrolling interests in subsidiaries be initially measured at fair value and classified as a separate component of equity in the consolidated financial statements. Following adoption, the Company reports noncontrolling interests in subsidiaries, with the exception of certain redeemable noncontrolling interests, as a separate component of equity in the consolidated balance sheets, and noncontrolling interests share of subsidiary earnings is no longer recognized as an expense in the computation of consolidated net income. The expanded presentation and disclosure requirements of ASC 810 have been applied for the current period and retrospectively for prior periods presented. Redeemable noncontrolling interest continues to be reported in the mezzanine section of the consolidated balance sheets.

- On January 1, 2009, ASC Topic 820, *Fair Value Measurements and Disclosures* (ASC 820), became effective for the Company's non-financial assets and non-financial liabilities measured at fair value on a nonrecurring basis. The Company's non-financial assets within the

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scope of ASC 820, which include goodwill and customer-relationship intangible assets, are reported at fair value on a nonrecurring basis (generally as the result of an impairment assessment) during the period in which the remeasurement at fair value is recorded. The Company currently has no non-financial liabilities required to be reported at fair value.

- Effective January 1, 2009, the Company adopted the expanded disclosure requirements for derivative instruments and hedging activities under ASC Section 815-10-50, *Derivatives and Hedging - Disclosures* (ASC 815-50). The expanded disclosures address how derivative instruments are used, how derivatives and the related hedged items are accounted for, and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. In addition, companies are required to disclose the fair values of derivative instruments and their gains and losses in a tabular format. The disclosure requirements of ASC 815-50 have been applied for the current period and retrospectively for prior periods presented.

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Note 1. Summary of Significant Accounting Policies (continued)

- The new guidance in ASC Section 350-30-35, *Intangibles – Goodwill and Other – Subsequent Measurement* (ASC 350-35), pertaining to the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset became effective for the Company on January 1, 2009. The intent of the revised guidance is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset under ASC Topic 805 when the underlying arrangement includes renewal or extension terms. ASC 350-35 permits an entity to use its own assumptions, based on its historical experience, about the renewal or extension of an arrangement to determine the useful life of an intangible asset. Adoption of the new guidance did not have a significant impact on the Company's consolidated financial statements.

- ASC Section 260-10-55, *Earnings per Share – Implementation* (ASC 260-55), requires that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are considered to be participating securities, and the issuing entity is required to apply the two-class method of computing basic and diluted EPS. This guidance became effective for the Company on January 1, 2009. The Company grants restricted shares under a share-based compensation plan that qualify as participating securities. Accordingly, the Company calculates EPS using the two-class method. Prior period EPS and share data presented have been restated for comparability. The adoption of ASC 260-55 resulted in a 2 cent per share reduction in basic EPS for the nine-month period ended September 30, 2008. Diluted EPS for 2008 were not impacted.

- ASC Subtopic 815-40, *Derivatives and Hedging – Contracts in Entity's Own Equity* (ASC 815-40), requires an entity to evaluate an instrument's contingency provisions and the factors that affect its ultimate settlement amount (i.e., the payoff to the holder) when determining whether the instrument is indexed to the entity's own stock. This guidance became effective for the Company on January 1, 2009. Adoption of the new guidance did not have a significant impact on the Company's consolidated financial statements.

- On November 13, 2008, the Financial Accounting Standards Board (FASB) ratified a consensus on new guidance in ASC Subtopic 323-10, *Investments – Equity Method and Joint Ventures – Overall* (ASC 323-10), that clarifies the accounting for certain transactions and impairment considerations involving equity method investments. The guidance applies to all investments accounted for under the equity method and became effective for the Company, on a prospective basis, for annual and interim reporting periods beginning January 1, 2009. Adoption of the new guidance in ASC 323-10 did not have a significant impact on the Company's consolidated financial statements.

- On April 1, 2009, the FASB revised the guidance in ASC Subtopic 805-20, *Business Combinations – Identifiable Assets and Liabilities, and Any Noncontrolling Interest* (ASC 805-20), to amend the requirements associated with the initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. Under the revised guidance, an asset or liability assumed in a business combination that arises from a contingency is to be initially measured at fair value if fair value can be determined. If fair value cannot be determined, an asset or liability is to be recognized if it is probable that an asset existed or a liability had been incurred at the acquisition date and the amount can be reasonably estimated. An acquiring entity should develop a systematic and rational basis for subsequently measuring and accounting for assets and liabilities arising from contingencies. An acquirer is required to disclose information that enables users of its financial statements to evaluate the nature and financial effects of a business combination. The new guidance in ASC 805-20 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company has applied the revised guidance to the acquisition completed subsequent to January 1, 2009.

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- On April 9, 2009, the FASB revised ASC Section 825-10-50, *Financial Instruments - Disclosures* (ASC 825-50), to require disclosures about fair value of financial instruments in interim financial statements of publicly traded companies as well as in annual financial statements. ASC 825-50 requires entities to disclose the methods and significant assumptions used to estimate the fair value of financial instruments in interim financial statements and any changes in these methods and assumptions from prior periods. The requirement to provide interim disclosures became effective for the Company for June 30, 2009 reporting. In periods after initial adoption, the Company is required to provide comparative disclosures only for periods ending after initial adoption. The disclosure requirements of ASC 825-50 have been applied for the current period.

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Note 1. Summary of Significant Accounting Policies (continued)

- On April 9, 2009, the FASB revised ASC Section 320-10-35, *Investments - Debt and Equity Securities - Subsequent Measurement* (ASC 320-35) to amend the other-than-temporary impairment guidance for debt securities. The intent and ability indicator for recognizing other-than-temporary impairment was modified, and the trigger used to assess the collectibility of cash flows changed from probable that the investor will be unable to collect all amounts due to the entity does not expect to recover the entire amortized cost basis of the security. The new guidance changes the total amount recognized in earnings when there are credit losses associated with an impaired debt security and management asserts that it does not have the intent to sell the security and it is more likely than not that it will not have to sell the security before recovery of its cost basis. In those situations, impairment shall be separated into (a) the amount representing a credit loss and (b) the amount related to non-credit factors. The amount of impairment related to credit losses shall be recognized in earnings. The credit loss component of an other-than-temporary impairment, representing an increase in credit risk, shall be determined by the reporting entity using its best estimate of the present value of cash flows expected to be collected from the debt security. The amount of impairment related to non-credit factors shall be recognized in other comprehensive income. The previous cost basis less impairment recognized in earnings becomes the new cost basis of the security and shall not be adjusted for subsequent recoveries in fair value. However, the difference between the new amortized cost basis and the cash flows expected to be collected should be accreted as interest income. The total other-than-temporary impairment is presented in the consolidated statements of income with a reduction for the amount of the other-than-temporary impairment that is recognized in other comprehensive income, if any.

The cumulative effect of initial adoption is recorded as an adjustment to the opening balance of retained earnings with a corresponding adjustment to accumulated other comprehensive income. The amortized cost basis of a security for which an other-than-temporary impairment was previously recognized shall be adjusted by the amount of the cumulative effect adjustment before taxes. The difference between the new amortized cost basis and the cash flows expected to be collected shall be accreted as interest income. The new guidance became effective for the Company on April 1, 2009. The Company did not hold any available-for-sale debt securities on April 1, 2009 with previously recognized other-than-temporary impairment. Therefore, the Company was not required to record a cumulative effect adjustment upon adoption.

- On April 9, 2009, the FASB revised ASC Subtopic 820-10, *Fair Value Measurements and Disclosures - Overall* (ASC 820-10), to provide additional guidance for estimating fair value when the volume and level of activity for an asset or liability have significantly decreased, and identifying transactions that are not orderly. Several factors are identified that a reporting entity should evaluate to determine whether there has been a significant decrease in the volume and level of activity for an asset or liability. If the reporting entity concludes there has been a significant decrease in the volume and level of activity for the asset or liability in relation to normal market activity, transactions or quoted prices may not be determinative of fair value (for example, there may be increased instances of transactions that are not orderly), further analysis of the transactions or quoted prices is needed, and a significant adjustment to the transactions or quoted prices may be necessary to estimate fair value. The expanded guidance reiterates that even in circumstances where there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. The new guidance became effective for the Company for the June 30, 2009 reporting period. Adoption of the new guidance did not have a significant impact on the consolidated financial statements.

- On May 28, 2009, the FASB issued ASC Topic 855, *Subsequent Events* (ASC 855). ASC 855 provides authoritative accounting literature for a topic that was previously addressed only in the auditing literature. ASC 855 is similar to the current guidance with some

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modifications that are not intended to result in significant changes in practice. Under ASC 855, subsequent events are categorized as recognized (currently type I) or nonrecognized (currently type II). The definition of subsequent events is modified to refer to events or transactions that occur after the balance sheet date, but before the financial statements are issued (for public entities) or available to be issued (for nonpublic entities). Entities are required to disclose the date through which an entity has evaluated subsequent events and the basis for that date. ASC 855 is effective on a prospective basis for interim or annual financial periods ending after June 15, 2009 and became effective for the Company for the June 30, 2009 reporting period. Adoption of ASC 855 did not have a significant impact on the Company's consolidated financial statements.

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Note 1. Summary of Significant Accounting Policies (continued)

- On June 29, 2009, the FASB issued ASC Topic 105, *Generally Accepted Accounting Principles* (ASC 105). ASC 105 establishes the FASB Accounting Standards Codification (Codification) as the source of authoritative principles and standards recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the SEC under the authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification represents a major reorganization of GAAP but is not intended to change GAAP. ASC 105 became effective for the Company on July 1, 2009. Adoption of the Codification did not have a significant impact on the Company's consolidated financial statements.

The following accounting pronouncements were issued prior to or during the first nine months of 2009, but are not effective for the company until after September 30, 2009:

- On June 12, 2009, the FASB revised ASC Topic 860-10, *Transfers and Servicing* (ASC 860), to expand required disclosures about transfers of financial assets and a transferor's continuing involvement with transferred assets. It also removes the concept of qualifying special-purpose entity from U.S. GAAP. The new guidance is effective for financial asset transfers occurring after the beginning of an entity's first fiscal year that begins after November 15, 2009. Adoption of the new guidance is not expected to have a material effect on the Company's consolidated financial statements.
- On June 12, 2009, the FASB revised ASC 810-10-25, *Consolidation - Recognition (Variable Interest Entities)* (ASC 810-25). The revised guidance requires, among other things: that an entity perform a qualitative analysis to determine if it is the primary beneficiary of a variable interest entity (VIE), consideration of related party relationships in the determination of the primary beneficiary of a VIE, and enhanced disclosures about an enterprise's involvement with a VIE. The new guidance is effective as of the beginning of the first annual reporting period that begins after November 15, 2009, for interim reporting periods within that first annual reporting period and for interim and annual reporting periods thereafter. The Company is evaluating the impact of adoption on its consolidated financial statements.
- In August 2009, the FASB issued Accounting Standards Update (ASU) 2009-05 to provide guidance on measuring the fair value of liabilities under ASC Subtopic 820-10, *Fair Value Measurements and Disclosures-Overall*. ASU 2009-05 reaffirms that fair value measurement of a liability assumes the transfer of a liability to a market participant as of the measurement date; that is, the liability is presumed to continue and is not settled with the counterparty. In addition, ASU 2009-05 reemphasizes that a fair value measurement of a liability includes nonperformance risk and that such risk does not change after the transfer of the liability. The guidance clarifies that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using either (1) a valuation technique that uses the quoted price of the identical liability when traded as an asset, or quoted prices for similar liabilities or similar liabilities when traded as assets, or (2) another valuation technique that is consistent with ASC Topic 820 such as an income or market approach. ASU 2009-05 also states that a separate adjustment for the impact of a restriction on the transfer of a liability should not be made in the fair value measurement of a liability. The effect of a restriction on the transfer of a liability is presumed to be already factored into the transaction price of the liability at inception. ASU 2009-05 is effective for the Company on October 1, 2009. Adoption of the new guidance is not expected to have a significant impact on the Company's consolidated financial statements.

- In September 2009, the FASB issued ASU 2009-12 to provide guidance on measuring the fair value of investments in certain entities, such as hedge funds, private equity funds, venture capital funds, funds of funds and real estate funds that calculate net asset value per share. ASU 2009-12 amends ASC Topic 820, *Fair Value Measurements and Disclosures*. The guidance applies to investments that are required or permitted to be measured at fair value on a recurring or nonrecurring basis that do not have readily determinable fair values. If an investment is within scope of the ASU, a reporting entity is permitted but not required to use the investment's net asset value (NAV) or its equivalent to estimate its fair value, provided that the NAV is calculated as of the reporting entity's measurement date. ASU 2009-12 also requires enhanced disclosures about the nature and risks of investments within its scope that are measured at fair value on a recurring or nonrecurring basis. The ASU is effective for interim and annual periods ending after December 15, 2009. The Company does not expect adoption of the new guidance to have a significant impact on its consolidated financial statements.

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Note 2. Business Combination

On July 21, 2009, the Company acquired an approximate 57 percent majority interest in Lee Munder Capital Group, LLC (LMCG), a Boston-based investment firm that manages assets for corporations, pensions, endowments and affluent households. LMCG had approximately \$3.4 billion of assets under management at the date of acquisition. LMCG was merged with Independence Investments, a Boston-based institutional asset management firm in which the Company held a majority interest. The combined entity is the Company's primary institutional asset management affiliate, with more than \$4 billion of assets under management at acquisition date. It is operated under the Lee Munder Capital Group name and as an affiliate of Convergent Capital Management LLC, the Chicago-based asset management holding company that the Company acquired in 2003.

The Company recorded \$36.0 million of goodwill and a \$2.8 million client advisory contract intangible in association with its acquisition of LMCG. Although the Company only acquired an interest of approximately 57 percent, ASC Topic 805 requires the Company to account for the acquisition of 100 percent of LMCG. Under ASC Topic 805, the assets acquired, liabilities assumed and remaining noncontrolling interests are recognized at their full acquisition-date fair values. The \$36.0 million of goodwill recognized includes the \$14.7 million fair value of noncontrolling interest recorded at the acquisition date. The noncontrolling interest is recorded in Redeemable noncontrolling interest in the mezzanine section of the consolidated balance sheets.

Note 3. Fair Value Measurements

ASC 820, *Fair Value Measurements and Disclosures*, defines fair value for financial reporting purposes as the price that would be received to sell an asset or paid to transfer a liability in an orderly market transaction between market participants at the measurement date (reporting date). Fair value is based on an exit price in the principal market or most advantageous market in which the reporting entity could transact.

Fair Value Hierarchy

Management employs market standard valuation techniques in determining the fair value of assets and liabilities. Inputs used in valuation techniques are based on assumptions that market participants would use in pricing an asset or liability. The inputs used in valuation techniques are prioritized as follows:

Level 1 Quoted market prices in an active market for identical assets and liabilities.

Level 2 Observable inputs including quoted prices (other than Level 1) in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability such as interest rates, yield curves, volatilities and default rates, and inputs that are derived principally from or corroborated by observable market data.

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Level 3 Unobservable inputs reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available.

If the determination of fair value measurement for a particular asset or liability is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Management's assessment of the significance of a particular input to the fair value measurement requires judgment and considers factors specific to the asset or liability measured.

The Company records securities available-for-sale, trading securities and derivative contracts at fair value on a recurring basis. Certain other assets such as impaired loans, other real estate owned (OREO), goodwill, customer-relationship intangibles and private equity investments are recorded at fair value on a nonrecurring basis. Nonrecurring fair value measurements typically involve assets that are periodically evaluated for impairment and for which any impairment is recorded in the period in which the remeasurement is performed.

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Note 3. Fair Value Measurements (continued)

A distribution of asset and liability fair values according to the fair value hierarchy at September 30, 2009 is provided in the table below:

(in thousands)	Fair Value Measurements at Reporting Date Using				
	Balance as of September 30, 2009	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	
Measured on a Recurring Basis					
Assets					
Securities available-for-sale					
Debt securities	\$ 3,491,347	\$ 13,554	\$ 3,450,820	\$ 26,973	
Equity securities and mutual funds	20,725	20,725			
Trading securities	188,904	175,035	13,040		829
Mark-to-market derivatives (1)	64,414	5,337	59,077		
Total assets at fair value	\$ 3,765,390	\$ 214,651	\$ 3,522,937	\$ 27,802	
Liabilities					
Mark-to-market derivatives (2)	\$ 19,315	\$ 624	\$ 18,691	\$	
Total liabilities at fair value	\$ 19,315	\$ 624	\$ 18,691	\$	
Measured on a Nonrecurring Basis					
Assets					
Collateral dependent impaired					
loans (3)	\$ 224,684	\$	\$ 224,684	\$	
Other real estate owned (4)	32,758		32,758		
Private equity investments	4,954				4,954
Total assets at fair value	\$ 262,396	\$	\$ 257,442	\$ 4,954	

(1) Reported in Other assets in the consolidated balance sheets.

(2) Reported in Other liabilities in the consolidated balance sheets.

(3) Impaired loans for which fair value was calculated using the collateral valuation method.

(4) Includes other real estate owned that was measured at fair value during the nine months ended September 30, 2009.

For assets measured at fair value on a nonrecurring basis, the following table presents the total losses recognized in the three months and nine months ended September 30, 2009:

(in thousands)	Three months ended September 30, 2009	Nine months ended September 30, 2009
Impaired loans	\$ 51,844	\$ 106,606
Other real estate owned	4,199	9,537

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Private equity investments		1,396		1,799
Total losses recognized	\$	57,439	\$	117,942

Level 3 assets measured at fair value on a recurring basis are CDO senior notes, included in available-for-sale debt securities, and CDO income notes, included in trading securities, for which the market is inactive. The fair value of these securities is determined using an internal cash flow model that incorporates management's assumptions about risk-adjusted discount rates, prepayment expectations, projected cash flows and collateral performance. These assumptions are not directly observable in the market. Unrealized gains and losses on available-for-sale securities are reported as a component of Accumulated other comprehensive income in the consolidated balance sheets. Unrealized gains and losses on trading securities are reported in earnings.

Table of Contents**Note 3. Fair Value Measurements (continued)**

Activity in Level 3 assets measured on a recurring basis for the nine-months ended September 30, 2009 is summarized in the following table:

Level 3 Assets Measured on a Recurring Basis

(in thousands)	Securities Available-for- Sale	Trading Securities	Total Level 3 Assets
Balance of recurring Level 3 assets at January 1, 2009	\$ 32,419	\$	\$ 32,419
Total realized/unrealized gains (losses):			
Included in earnings	(9,281)	(1,618)	(10,899)
Included in other comprehensive income	7,068		7,068
Purchases, sales, issuances and settlements, net	(786)		(786)
Transfers between categories	(2,447)	2,447	
Balance of recurring Level 3 assets at September 30, 2009	\$ 26,973	\$ 829	\$ 27,802

Level 3 assets measured at fair value on a nonrecurring basis include private equity investments. Private equity investments do not have readily determinable fair values. These investments are carried at cost and evaluated for impairment on a quarterly basis. Due to the lack of readily determinable fair values for these investments, the impairment assessment was based primarily on a review of investment performance and the likelihood that the capital invested would be recovered. The Company recorded an impairment loss of \$1.4 million on two private equity investments for the three months ended September 30, 2009. This impairment is included in Other noninterest income in the consolidated statements of income.

There were no purchases or sales of Level 3 assets in 2009.

Note 4. Fair Value of Financial Instruments

A financial instrument is broadly defined as cash, evidence of an ownership interest in another entity, or a contract that imposes a contractual obligation on one entity and conveys a corresponding right to a second entity to require delivery or exchange of a financial instrument. The table below summarizes the estimated fair values for the Company's financial instruments as of September 30, 2009 and December 31, 2008. The disclosure does not include estimated fair value amounts for assets and liabilities which are not defined as financial instruments but which have significant value. These assets and liabilities include the value of customer-relationship intangibles, goodwill, private equity and affordable housing investments carried at cost, other assets, deferred taxes and other liabilities. Accordingly, the total of the fair values presented does not represent the underlying value of the Company.

Following is a description of the methods and assumptions used in estimating the fair values for each class of financial instrument:

Cash and due from banks, Due from banks interest bearing and Federal funds sold For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Securities available-for-sale and Trading securities For securities held as available-for-sale, the fair value is determined by quoted market prices, where available, or on observable market inputs appropriate for the type of security. If quoted market prices or observable market inputs are not available, discounted cash flows may be used to determine an appropriate fair value. See Note 3, *Fair Value Measurements*. Fair values for trading securities, with the exception of CDO income notes, are based on quoted market prices or dealer quotes. The fair value of CDO income notes is determined using a discounted cash flow model.

Loans and leases Loans are not recorded at fair value on a recurring basis. Nonrecurring fair value adjustments are periodically recorded on impaired loans that are measured for impairment based on the fair value of collateral. See Note 3, *Fair Value Measurements*. Due to the lack of activity in the secondary market for the types of loans in the Company's portfolio, a model-based approach is used for determining the fair value of loans for purposes of the disclosures in the table below. The fair value of loans is estimated by discounting future cash flows using discount rates that incorporate assumptions concerning current market yields, credit risk and liquidity premiums. Loan cash flow projections are based on contractual loan terms adjusted for the impact of current interest rate levels on borrower behavior, including prepayments. Loan prepayment assumptions are based on industry standards for the type of loans being valued. Projected cash flows are discounted using yield curves based on current market conditions. Yield curves are constructed by product type using the Bank's loan pricing model for like-quality credits.

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Note 4. Fair Value of Financial Instruments (continued)

Derivative Contracts The fair value of non-exchange traded (over-the-counter) derivatives are obtained from third party market sources. The Company provides client data to the third party source for purposes of calculating the credit valuation component of the fair value measurement of client derivative contracts. The fair values of interest rate contracts include interest receivable and payable and cash collateral, if any.

Deposits The fair value of demand and interest checking deposits, savings deposits, and certain money market accounts is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is determined by discounting expected future cash flows using the rates offered by the Bank for deposits of similar type and remaining maturity at the measurement date. This value is compared to the termination value of each CD given the bank's standard early withdrawal penalties. The fair value reported is the higher of the discounted present value of each CD and the termination value after the recovery of prepayment penalties. The Bank reviews pricing for its CD products weekly. This review gives consideration to market pricing for products of similar type and maturity offered by other financial institutions.

Federal funds purchased, Securities sold under repurchase agreements and Other short-term borrowings The carrying amount is a reasonable estimate of fair value.

Structured securities sold under repurchase agreements The fair value of structured repurchase agreements is based on market pricing for synthetic instruments with the same term and structure. These values are validated against dealer quotes for similar instruments.

Subordinated and long-term debt The fair value of subordinated and long-term debt is obtained through third-party pricing sources.

Commitments to extend credit The fair value of these commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. The Company does not make fixed-rate loan commitments. The fair value of commitments to extend credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date.

Commitments to private equity and affordable housing funds The fair value of commitments to invest in private equity and affordable housing funds is based on the estimated cost to terminate them or otherwise settle the obligation.

Table of Contents**Note 4. Fair Value of Financial Instruments (continued)**

The estimated fair values of financial instruments of the Company are as follows:

(in millions)	September 30, 2009		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and due from banks	\$ 349.0	\$ 349.0	\$ 279.9	\$ 279.9
Due from banks - interest bearing	767.4	767.4	144.3	144.3
Federal funds sold	240.0	240.0		
Securities available-for-sale	3,512.1	3,512.1	2,144.9	2,144.9
Trading securities	188.9	188.9	295.6	295.6
Loans and leases, net of allowance	11,903.5	12,058.1	12,220.2	12,515.8
Derivative contracts	64.4	64.4	48.2	48.2
Financial Liabilities:				
Deposits	\$ 15,108.4	\$ 15,112.5	\$ 12,652.1	\$ 12,663.7
Federal funds purchased and securities sold under repurchase agreements	31.9	31.9	708.2	708.2
Structured securities sold under repurchase agreements	200.0	210.1	200.0	218.0
Other short-term borrowings	0.7	0.7	124.5	124.5
Subordinated and long-term debt	575.1	571.8	408.1	369.6
Derivative contracts	19.3	19.3	21.0	21.0
Commitments to extend credit		(13.7)		(13.1)
Commitments to private equity and affordable housing funds		36.1		44.0

Note 5. Investment Securities

Securities are classified as trading, available-for-sale or held-to-maturity based on the Company's intent for holding a particular instrument. At September 30, 2009, all securities held other than trading securities were classified as available-for-sale and valued at fair value. Unrealized gains or losses on securities available-for-sale are excluded from net income, to the extent they are considered temporary, but are included as separate components of other comprehensive income, net of taxes. Premiums or discounts on securities available-for-sale are amortized or accreted into income using the interest method over the expected lives of the individual securities. For most of the Company's investments, fair values are determined based upon externally verifiable quoted prices or other observable inputs. Realized gains or losses on sales of securities available-for-sale are recorded using the specific identification method.

Table of Contents**Note 5. Investment Securities (continued)**

The following is a summary of amortized cost and estimated fair value for the major categories of securities available-for-sale:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2009				
U.S. Treasury	\$ 13,543	\$ 11	\$	\$ 13,554
Federal agency - Debt	358,928	1,464	(108)	360,284
Federal agency - MBS	564,193	17,804	(23)	581,974
CMOs - Federal agency	1,750,790	32,139	(1,263)	1,781,666
CMOs - Non-agency	314,583	88	(33,815)	280,856
State and municipal	384,999	18,476	(211)	403,264
Other debt securities	76,069	873	(7,193)	69,749
Total debt securities	3,463,105	70,855	(42,613)	3,491,347
Equity securities and mutual funds	17,554	3,171		20,725
Total securities	\$ 3,480,659	\$ 74,026	\$ (42,613)	\$ 3,512,072
December 31, 2008				
U.S. Treasury	\$ 45,709	\$ 488	\$	\$ 46,197
Federal agency - Debt	29,939	241		30,180
Federal agency - MBS	644,594	10,206	(886)	653,914
CMOs - Federal agency	563,310	6,966	(907)	569,369
CMOs - Non-agency	393,150		(87,434)	305,716
State and municipal	404,787	9,729	(1,486)	413,030
Other debt securities	98,419	139	(24,215)	74,343
Total debt securities	2,179,908	27,769	(114,928)	2,092,749
Equity securities and mutual funds	59,276	1,154	(8,309)	52,121
Total securities	\$ 2,239,184	\$ 28,923	\$ (123,237)	\$ 2,144,870
September 30, 2008				
U.S. Treasury	\$ 45,784	\$ 156	\$	\$ 45,940
Federal agency - Debt	29,933	202		30,135
Federal agency - MBS	650,616	1,414	(9,952)	642,078
CMOs - Federal agency	533,920	765	(5,668)	529,017
CMOs - Non-agency	418,417	76	(35,217)	383,276
State and municipal	370,118	2,024	(7,809)	364,333
Other debt securities	109,403	3,270	(15,942)	96,731
Total debt securities	2,158,191	7,907	(74,588)	2,091,510
Equity securities and mutual funds	72,001	271	(3,864)	68,408
Total securities	\$ 2,230,192	\$ 8,178	\$ (78,452)	\$ 2,159,918

Proceeds from sales of securities were \$108.8 million and \$554.8 million for the three months and nine months ended September 30, 2009, respectively, compared to \$6 thousand and \$0.1 million for the three months and nine months ended September 30, 2008, respectively. The following table shows the gross realized gains and losses on the sales of securities available-for-sale:

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(in thousands)	For the three months ended September 30,				For the nine months ended September 30,			
	2009		2008		2009		2008	
Gross realized gains	\$	3,555	\$	337	\$	12,218	\$	2,318
Gross realized losses		(109)		(873)		(8,423)		(2,302)
Net realized gains (losses)	\$	3,446	\$	(536)	\$	3,795	\$	16

Table of Contents**Note 5. Investment Securities (continued)**Impairment Assessment

Impairment exists when the fair value of a security is less than its cost. Cost includes adjustments made to the cost basis of a security for accretion, amortization and previous other-than-temporary impairments recognized in earnings. The Company performs a quarterly assessment of the debt and equity securities in its investment portfolio that have an unrealized loss to determine whether the decline in the fair value of these securities below their cost is other-than-temporary. Impairment is considered other-than-temporary when it becomes probable that an investor will be unable to recover the cost of an investment. The Company's impairment assessment takes into consideration factors such as the length of time and the extent to which the market value has been less than cost; the financial condition and near-term prospects of the issuer including events specific to the issuer or industry; defaults or deferrals of scheduled interest, principal or dividend payments; external credit ratings and recent downgrades; and the Company does not intend to sell the security and it is not more likely than not it will be required to sell the security prior to recovery of its amortized cost basis. If a decline in fair value is judged to be other than temporary, the cost basis of the individual security is written down to fair value which then becomes the new cost basis. The new cost basis is not adjusted for subsequent recoveries in fair value.

In accordance with ASC 320-35, when there are credit losses associated with an impaired debt security and the Company does not have the intent to sell the security and it is more likely than not that it will not have to sell the security before recovery of its cost basis, the Company will separate the amount of the impairment into the amount that is credit related and the amount related to non-credit factors. The credit-related impairment is recognized in Net impairment loss recognized in earnings in the consolidated statements of income. The non-credit-related impairment is recognized in Accumulated other comprehensive income (loss) (AOCI).

Securities Deemed to be Other-Than-Temporarily Impaired

Through the impairment assessment process, the Company determined that certain investments were other-than-temporarily impaired at September 30, 2009. The Company recorded credit loss impairment in earnings on available-for-sale securities of \$0.8 million and \$14.4 million for the three months and nine months ended September 30, 2009, respectively. The \$19.8 million non-credit portion of impairment recognized at September 30, 2009 was recorded in AOCI. The Company recorded a \$31.9 million impairment loss on available-for-sale securities for the three months and nine months ended September 30, 2008.

(in thousands) Impairment Losses on Other-Than-Temporarily Impaired Securities	For the three months ended September 30,		For the nine months ended September 30,	
	2009	2008	2009	2008
Non-agency CMOs	\$ 778	\$	\$ 2,315	\$
Collateralized debt obligation income notes		7,159	9,282	7,159
Perpetual preferred stock		21,884	1,124	21,884
Equity securities and mutual funds		2,893	1,630	2,893
Total	\$ 778	\$ 31,936	\$ 14,351	\$ 31,936

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The following table provides a rollforward of credit related other than-temporary impairment recognized in earnings for the three months and nine months ended September 30, 2009. Credit related other-than-temporary impairment that was recognized in earnings during the three months and nine months ending September 30, 2009 is reflected as an Initial credit-related impairment if the current period is the first time the security had a credit impairment. A credit related other-than-temporary impairment is reflected as a Subsequent credit-related impairment if the current period is not the first time the security had a credit impairment.

(in thousands)	Three months ended September 30, 2009	Nine months ended September 30, 2009
Balance, beginning of period	\$ 14,835	\$ 8,083
Subsequent credit-related impairment	696	5,215
Initial credit-related impairment	82	2,315
Balance, end of period	\$ 15,613	\$ 15,613

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Note 5. Investment Securities (continued)

Non-Agency CMOs

The Company identified seven non-agency collateralized mortgage obligation securities (CMOs) that had other than temporary impairment at September 30, 2009. These CMOs had an adjusted cost basis of \$65.1 million at September 30, 2009 and a fair value of \$45.3 million. The fair value of the CMOs is based on prices provided by an external pricing service. These securities are classified as Level 2 in the fair value hierarchy. The CMOs analyzed for impairment have a fixed interest rate for an initial period after which they become variable-rate instruments with annual rate resets. For purposes of projecting future cash flows, the current fixed coupon was used through the reset date for each security. The prevailing LIBOR/Treasury curve as of September 30, 2009 was used to project all future floating-rate cash flows based on the characteristics of each security. Other factors considered in the projection of future cash flows include the current level of subordination from other CMO classes, anticipated prepayment rates, cumulative defaults and loss given default. The present value of expected cash flows was less than cost by a total of \$0.8 million for the securities analyzed. The Company concluded that the \$0.8 million shortfall in expected cash flows represented a credit loss and recognized an impairment loss in earnings for this amount at September 30, 2009. The Company has recognized credit losses totaling \$2.3 million on its investments in non-agency CMOs year-to-date. The remaining other-than-temporary impairment of \$19.8 million was recognized in AOCI. This non-credit portion of other-than-temporary impairment is attributed to external market conditions, primarily the lack of liquidity in these securities, and risks of additional declines in the housing markets.

Collateralized Debt Obligation Income Notes

Collateralized debt obligation income notes (Income Notes) are equity interests in a multi-class, cash flow collateralized bond obligation backed by a collection of Trust Preferred securities issued by financial institutions. The equity interests represent ownership of all residual cash flow from the asset pools after all fees have been paid and debt issues have been serviced. Income Notes are collateralized by debt securities with stated maturities. Income Notes are classified as Level 3 in the fair value hierarchy. Refer to Note 3, *Fair Value Measurements*, for further discussion of fair value.

In response to unprecedented volatility in the credit markets, the Company reevaluated its investment strategy and risk tolerance with respect to its investments in Income Notes. Based on this reassessment, the Company determined that its intent was to sell these securities when the market recovers rather than hold them for the long term. The change in intent resulted in the Company transferring its holdings of Income Notes from available-for-sale to trading securities on April 1, 2009, at their fair value of \$2.4 million. There were no gross gains and gross losses included in earnings from the transfer of these securities. Trading securities are carried at fair value and unrealized holding gains and losses are included in earnings.

The Company recorded a \$9.3 million impairment loss, of which \$5.2 million represented a credit loss recognized in earnings, on its investment in Income Notes in the first quarter of 2009 prior to their transfer to trading securities. The Income Notes were evaluated for impairment under the guidance applicable to certain debt securities which are beneficial interests in securitized financial assets and not considered to be of high credit quality. For these securities, other-than-temporary impairment exists when it is probable there has been an adverse change in estimated cash flows since the date of acquisition. Due to lack of activity in the market for Income Notes, the fair value of these securities was determined using an internal cash flow model that incorporated management's assumptions about risk-adjusted discount rates, prepayment expectations, projected cash flows and collateral performance. The Company considered a number of factors in determining the discount rate used in the cash flow valuation model including the implied rate of return at the last date the market for Income Notes and similar securities was active, rates of return that market participants would consider in valuing the securities and indicative quotes from dealers.

Perpetual Preferred Stock

The adjusted cost basis of the Company's investment in perpetual preferred stock issued by Freddie Mac and Fannie Mae was \$0.6 million at September 30, 2009, compared with a fair value of \$1.6 million, indicating that these securities were not impaired at quarter end. The Company previously recorded impairment losses totaling \$23.0 million on these securities. Impairment losses of \$1.1 million and \$21.9 million were recognized for the quarters ending March 31, 2009 and September 30, 2008, respectively, following the action taken by the Federal Housing Finance Agency in September 2008 of placing these Government-Sponsored Agencies into conservatorship and eliminating the dividends on their preferred shares.

Table of Contents**Note 5. Investment Securities (continued)**Mutual Funds

The adjusted cost basis of available-for-sale mutual funds was \$16.9 million at September 30, 2009, compared with a fair value of \$19.1 million, indicating that these investments were not impaired at quarter end. The Company previously recognized a \$1.6 million impairment loss on its investment in one high-yield bond fund in the quarter ended March 31, 2009.

The following table provides a summary of the gross unrealized losses and fair value of investment securities aggregated by investment category and length of time that the securities have been in a continuous unrealized loss position as of September 30, 2009. The table includes investments for which an other-than-temporary impairment has not been recognized in earnings, along with investments that had a non-credit related impairment recognized in AOCI:

(in thousands)	Less than 12 months		12 months or greater		Total	
	Fair Value	Estimated Unrealized Loss	Fair Value	Estimated Unrealized Loss	Fair Value	Estimated Unrealized Loss
Federal agency - Debt	\$ 25,819	\$ 108	\$	\$	\$ 25,819	\$ 108
Federal agency - MBS	9,937	23			9,937	23
CMOs - Federal agency	129,042	1,263			129,042	1,263
CMOs - Non-agency			257,400	33,815	257,400	33,815
State and municipal	1,611	31	5,865	180	7,476	211
Other debt securities			45,089	7,193	45,089	7,193
Total securities	\$ 166,409	\$ 1,425	\$ 308,354	\$ 41,188	\$ 474,763	\$ 42,613

At September 30, 2009, total securities available-for-sale had a fair value of \$3.51 billion, which included the \$474.8 million of securities available-for-sale in an unrealized loss position as of September 30, 2009. This balance consists of \$429.5 million of temporarily impaired securities and \$45.3 million of securities that had non-credit related impairment recognized in AOCI. At September 30, 2009, the Company had 55 debt securities in an unrealized loss position. The debt securities in an unrealized loss position include 2 Federal agency debt securities, 1 Federal agency MBS, 7 Federal agency CMOs, 29 private label CMOs, 10 state and municipal securities and 6 other debt securities. The largest component of the unrealized loss at September 30, 2009 was \$33.8 million related to non-agency collateralized mortgage obligations. The Company monitors the performance of the mortgages underlying these bonds. Although there has been some deterioration in collateral performance during 2009 due to declines in the housing market, the Company only holds the most senior tranches of each issue which provides protection against defaults. The Company attributes the unrealized loss on CMOs held largely to the current absence of liquidity in the credit markets and not to deterioration in credit quality. The unrealized loss on the Company's holdings of non-agency CMOs decreased from \$57.0 million at June 30, 2009 to \$33.8 million at September 30, 2009 largely due to government-backed investment programs which have modestly increased demand and liquidity in these markets. Other than the \$2.3 million credit loss discussed in *Non-Agency CMOs* above, the Company expects to receive all contractual principal and interest payments due on its CMO debt securities. Additionally, the Company does not intend to sell the securities, and it is not more likely than not that it will be required to sell the securities before it recovers the cost basis of its investment. The mortgages in these asset pools are relatively large and have been made to borrowers with strong credit history and significant equity invested in their homes. They are well diversified geographically. Nonetheless, significant further weakening of economic fundamentals coupled with significant increases in unemployment and substantial deterioration in the value of high-end residential properties could extend distress to this borrower population. This could increase default rates and put additional pressure on property values. Should these conditions occur, the value of these securities could decline and trigger the recognition of further other-than-temporary impairment charges.

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Other debt securities include the Company's investments in highly rated corporate debt and collateralized bond obligations backed by trust preferred securities (CDOs) issued by a geographically diverse pool of small- and medium-sized financial institutions. Liquidity pressures in 2008 and in 2009 caused a general decline in the value of corporate debt. The CDOs held in available-for-sale securities at September 30, 2009 are the most senior tranches of each issue. The market for CDOs was inactive in 2008 and 2009, therefore, the fair values of these securities were determined using an internal pricing model that incorporates assumptions about discount rates in an illiquid market, projected cash flows and collateral performance. The Company attributes the \$4.7 million unrealized loss on CDOs at September 30, 2009 to the illiquid credit markets. The senior notes have collateral that exceeds the outstanding debt by approximately 35 percent. Security valuations

Table of Contents**Note 5. Investment Securities (continued)**

reflect the current and prospective performance of the issuers whose debt is contained in these asset pools. The Company expects to receive all contractual principal and interest payments due on its CDOs. Additionally, the Company does not intend to sell the securities, and it is not more likely than not that it will be required to sell the securities before it recovers the cost basis of its investment.

Excluding the investments which had non-credit related impairment, the Company does not consider the debt securities in the above table to be other than temporarily impaired at September 30, 2009.

The following table provides a summary of the gross unrealized losses and fair value of investment securities that are not deemed to be other-than-temporarily impaired aggregated by investment category and length of time that the securities have been in a continuous unrealized loss position as of December 31, 2008:

(in thousands)	Less than 12 months		12 months or greater		Total	
	Fair Value	Estimated Unrealized Loss	Fair Value	Estimated Unrealized Loss	Fair Value	Estimated Unrealized Loss
Federal agency - MBS	\$ 63,634	\$ 719	\$ 12,925	\$ 167	\$ 76,559	\$ 886
CMOs - Federal agency	29,133	111	41,041	796	70,174	907
CMOs - Non-agency	172,899	50,631	132,818	36,803	305,717	87,434
State and municipal	39,974	1,275	4,769	211	44,743	1,486
Other debt securities	43,844	17,661	25,910	6,554	69,754	24,215
Total debt securities	349,484	70,397	217,463	44,531	566,947	114,928
Equity securities and mutual funds	36,129	8,309			36,129	8,309
Total securities	\$ 385,613	\$ 78,706	\$ 217,463	\$ 44,531	\$ 603,076	\$ 123,237

At December 31, 2008, total securities available-for-sale had a fair value of \$2.14 billion, which included the temporarily impaired securities of \$603.1 million in the table above. As of December 31, 2008, the Company had 109 debt securities in an unrealized loss position, including 29 CMO securities, 10 mortgage-backed securities, 55 state and municipal securities and 15 other debt securities. As of December 31, 2008, the Company had 2,012 equity securities and 5 mutual funds in an unrealized loss position.

The following table provides the expected remaining maturities of debt securities included in the securities portfolio as of September 30, 2009, except for mortgage-backed securities which are allocated according to final maturities. Average expected maturities will differ from contractual maturities because mortgage debt issuers may have the right to repay obligations prior to contractual maturity.

Debt Securities Available-for-Sale

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(in thousands)	One year or less		Over 1 year thru 5 years		Over 5 years thru 10 years		Over 10 years		Total
U.S. Treasury	\$	13,554	\$		\$		\$		13,554
Federal agency - Debt		360,284							360,284
Federal agency - MBS		191		342,725		115,745		123,313	581,974
CMOs - Federal agency		47,660		1,209,560		375,447		148,999	1,781,666
CMOs - Non-agency		1,148		157,386		122,322			280,856
State and municipal		32,031		145,682		164,780		60,771	403,264
Other debt securities		10,002				59,747			69,749
Total debt securities	\$	464,870	\$	1,855,353	\$	838,041	\$	333,083	\$ 3,491,347
Amortized cost	\$	462,896	\$	1,820,675	\$	850,940	\$	328,594	\$ 3,463,105

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Note 6. Shareholders' Equity

There were no purchases by the Company of equity securities that are registered by the Company pursuant to Section 12 of the Securities and Exchange Act of 1934 during the three-month period ended September 30, 2009.

On November 21, 2008, City National Corporation received aggregate proceeds of \$400 million from the United States Department of the Treasury (Treasury) under the TARP Capital Purchase Program in exchange for 400,000 shares of cumulative perpetual preferred stock and a 10-year warrant to purchase up to 1,128,668 shares of the Company's common stock at an exercise price of \$53.16 per share. The preferred stock and warrant were recorded in equity on a relative fair value basis at the time of issuance. The preferred stock was valued by calculating the present value of expected cash flows and the warrant was valued using an option valuation model. The allocated values of the preferred stock and warrant were approximately \$389.9 million and \$10.1 million, respectively. The preferred stock will be accreted to the redemption price of \$400 million over five years. Cumulative dividends on the preferred stock are payable quarterly at the rate of 5 percent for the first five years and increasing to 9 percent thereafter. The effective pre-tax cost to the Company for participating in the TARP Capital Purchase Program is approximately 9.5 percent, consisting of 8.6 percent for dividends and 0.9 percent for the accretion on preferred stock, and is based on the statutory tax rate. The preferred stock may be redeemed by the Corporation after three years. Prior to the end of three years, subject to the provisions of the American Recovery and Reinvestment Act of 2009 (ARRA) signed into law on February 17, 2009, the preferred stock may be redeemed by the Corporation subject to the Treasury's consultation with the Corporation's regulatory agency. Following redemption of the preferred stock, the Treasury would liquidate the warrant at the current market price. The warrant has a 10-year term and is immediately exercisable upon its issuance, with an exercise price, subject to anti-dilution adjustments, equal to \$53.16 per share of the common stock. If the Company receives aggregate proceeds of at least \$400 million from sales of Tier 1 qualifying perpetual preferred stock prior to December 31, 2009, the number of shares to be delivered upon settlement of the warrant will be reduced by 50 percent.

On May 8, 2009, the Corporation completed an offering of 2.8 million common shares at \$39.00 per share. The net proceeds from the offering were \$104.3 million. On May 15, 2009, the underwriters exercised their over-allotment option to purchase an additional 420,000 shares of the Corporation's common stock at \$39.00 per share. The net proceeds from the exercise of the over-allotment option were \$15.6 million. Common stock qualifies as Tier 1 capital.

Note 7. Earnings per Common Share

The Company applies the two-class method of computing basic and diluted EPS. Under the two-class method, EPS is determined for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings. The Company grants restricted shares under a share-based compensation plan that qualify as participating securities.

Table of Contents**Note 7. Earnings per Common Share (continued)**

The computation of basic and diluted EPS is presented in the following table:

(in thousands, except per share amounts)	For the three months ended September 30,		For the nine months ended September 30,	
	2009	2008	2009	2008
Basic EPS:				
Net income attributable to City National Corporation	\$ 8,039	\$ 16,551	\$ 22,272	\$ 96,022
Less: Dividends on preferred stock	5,502		16,504	
Net income available to common shareholders	\$ 2,537	\$ 16,551	\$ 5,768	\$ 96,022
Less: Earnings allocated to participating securities	56	187	199	795
Earnings allocated to common shareholders	\$ 2,481	\$ 16,364	\$ 5,569	\$ 95,227
Weighted average common shares outstanding	51,482	47,934	49,855	47,871
Basic earnings per common share	\$ 0.05	\$ 0.34	\$ 0.11	\$ 1.99
Diluted EPS:				
Earnings allocated to common shareholders (1)	\$ 2,481	\$ 16,364	\$ 5,569	\$ 95,228
Weighted average common shares outstanding	51,482	47,934	49,855	47,871
Dilutive effect of equity awards	178	273	132	307
Weighted average diluted common shares outstanding	51,660	48,207	49,987	48,178
Diluted earnings per common share	\$ 0.05	\$ 0.34	\$ 0.11	\$ 1.98

(1) Earnings allocated to common shareholders for basic and diluted EPS may differ under the two-class method as a result of adding common stock equivalents for options and warrants to dilutive shares outstanding, which alters the ratio used to allocate earnings to common shareholders and participating securities for the purposes of calculating diluted EPS.

The average price of the Company's common stock for the period is used to determine the dilutive effect of outstanding stock options and common stock warrants. Antidilutive stock options and common stock warrants are not included in the calculation of basic or diluted EPS. There were 3,273,844 outstanding stock options and 1,128,668 common stock warrants that were antidilutive for the three-months ended September 30, 2009 compared to 1,643,305 outstanding stock options that were antidilutive for the same period in 2008. There were 3,468,015 outstanding stock options and 1,128,668 common stock warrants that were antidilutive for the nine-months ended September 30, 2009 compared to 2,604,726 outstanding stock options that were antidilutive for the same period in 2008.

Note 8. Share-Based Compensation

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On September 30, 2009, the Company had one share-based compensation plan, the City National Corporation 2008 Omnibus Plan (the Plan), which was approved by the Company's shareholders on April 23, 2008. No new awards will be granted under predecessor plans. A description of the Plan is provided below. The compensation cost that has been recognized for all share-based awards was \$3.6 million and \$10.8 million for the three months and nine months ended September 30, 2009, respectively, and \$3.6 million and \$10.8 million for the three months and nine months ended September 30, 2008, respectively. The Company received \$1.2 million and \$19.6 million in cash for the exercise of stock options during the nine-month periods ended September 30, 2009 and 2008, respectively. The tax expense recognized for share-based compensation arrangements in equity was \$0.7 million for the nine-months ended September 30, 2009, compared with a tax benefit of \$3.8 million for the nine months ended September 30, 2008.

Plan Description

The Plan permits the grant of stock options, restricted stock, restricted stock units, performance shares, performance share units, performance units and stock appreciation rights, or any combination thereof, to the Company's eligible employees and non-employee directors. No grants of performance shares, performance share units, performance units or stock appreciation rights had been made as of September 30, 2009. The purpose of the Plan is to promote the success of the Company by providing an additional means to attract, motivate, retain and reward key employees of the Company with awards and incentives for high levels of individual performance and improved financial performance of the Company, and to

Table of Contents**Note 8. Share-Based Compensation (continued)**

link non-employee director compensation to shareholder interests through equity grants. Stock option awards are granted with an exercise price equal to the market price of the Company's stock at the date of grant. These awards vest in four years and have 10-year contractual terms. Restricted stock awards granted under the Plan vest over a period of at least three years, as determined by the Compensation, Nominating and Governance Committee (Committee). The participant is entitled to dividends and voting rights for all shares issued even though they are not vested. Restricted stock awards issued under predecessor plans vest over five years. The Plan provides for acceleration of vesting if there is a change in control (as defined in the Plan) or a termination of service, which may include disability or death. Unvested options are forfeited upon termination of employment, except for those instances noted above, and the case of the retirement of a retirement-age employee for options granted prior to January 31, 2006. All unexercised options expire 10 years from the grant date. At September 30, 2009 there were approximately 2.2 million shares available for future grants.

Fair Value

The fair value of each option award is estimated on the date of grant using a Black-Scholes option valuation methodology that uses the assumptions noted in the following table. The Company evaluates exercise behavior and values options separately for executive and non-executive employees. Expected volatilities are based on the historical volatility of the Company's stock. As of February 2008, the Company began using a 20-year look back period to calculate the volatility factor. The longer look back period reduces the impact of the recent disruptions in the capital markets, and provides values that management believes are more representative of expected future volatility. Prior to this date, the Company used a look back period equal to the expected term of the options. The Company uses historical data to predict option exercise and employee termination behavior. The expected term of options granted is derived from the historical exercise activity over the past 20 years and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The dividend yield is equal to the dividend yield of the Company's stock at the time of the grant.

To estimate the fair value of stock option awards, the Company uses the Black-Scholes valuation method, which incorporates the assumptions summarized in the table below:

	For the three months ended September 30,		For the nine months ended September 30,	
	2009	2008	2009	2008
Weighted-average volatility	31.36%	29.91%	31.42%	29.32%
Dividend yield	1.08%	3.61%	3.36%	3.56%
Expected term (in years)	6.32	6.35	6.12	6.06
Risk-free interest rate	3.26%	4.57%	2.84%	4.01%

Using the Black-Scholes methodology, the weighted-average grant-date fair values of options granted during the nine-month periods ended September 30, 2009 and 2008 were \$6.83 and \$12.75, respectively. The total intrinsic values of options exercised during the nine-month periods ended September 30, 2009 and 2008 were \$0.6 million and \$11.2 million, respectively.

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Note 8. Share-Based Compensation (continued)

A summary of option activity and related information under the Plan for the nine-month period ended September 30, 2009 is presented below:

Options	Number of Shares (in thousands)	Weighted Average Exercise Price (per share)	Aggregate Intrinsic Value (in thousands) (1)	Weighted Average Remaining Contractual Term
Outstanding at January 1, 2009	4,029	\$ 55.28		
Granted	1,120	27.26		
Exercised	(44)	26.00		
Forfeited or expired	(186)	45.44		
Outstanding at September 30, 2009	4,919	\$ 49.53	\$ 15,738	5.80
Exercisable at September 30, 2009	3,024	\$ 54.18	\$ 2,929	3.91

(1) Includes in-the-money options only.

A summary of changes in unvested options and related information for the nine-month period ended September 30, 2009 is presented below:

Unvested Shares	Number of Shares (in thousands)	Weighted Average Grant Date Fair Value (per share)
Unvested at January 1, 2009	1,267	\$ 15.15
Granted	1,120	6.83
Vested	(441)	16.14
Forfeited	(51)	10.64
Unvested at September 30, 2009	1,895	\$ 10.12

The number of options vested during the nine-month periods ended September 30, 2009 and 2008 were 440,827 and 406,039, respectively. The total fair value of options vested during the nine-month periods ended September 30, 2009 and September 30, 2008 was \$7.1 million and \$6.9 million, respectively. As of September 30, 2009, there was \$13.8 million of unrecognized compensation cost related to unvested stock options granted under the Company's plans. That cost is expected to be recognized over a weighted-average period of 2.6 years.

A summary of changes in restricted stock and related information for the nine-month period ended September 30, 2009 is presented below:

Weighted Average

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Restricted Stock	Number of Shares (in thousands)	Grant Date Fair Value (per share)
Unvested at January 1, 2009	436	\$ 65.57
Granted	292	27.64
Vested	(99)	70.58
Forfeited	(14)	56.28
Unvested at September 30, 2009	615	\$ 47.00

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Note 8. Share-Based Compensation (continued)

Restricted stock is valued at the closing price of the Company's stock on the date of award. The weighted-average grant-date fair values of restricted stock granted during the nine-month periods ended September 30, 2009 and 2008 were \$27.64 and \$54.48, respectively. The number of restricted shares vested during the nine-month periods ended September 30, 2009 and 2008 were 98,512 and 104,146, respectively. The total fair value of restricted shares vested during the nine-month periods ended September 30, 2009 and 2008 were \$7.0 million and \$6.5 million, respectively. The compensation expense related to restricted stock for the first nine months of 2009 was \$5.5 million compared with \$4.5 million for the same period in 2008. As of September 30, 2009, the unrecognized compensation cost related to restricted shares granted under the Company's plans was \$18.4 million. That cost is expected to be recognized over a weighted-average period of 3.2 years.

Note 9. Derivative Instruments

The Company uses interest-rate swaps to mitigate interest-rate risk associated with changes to: 1) the fair value of certain fixed-rate deposits and borrowings (fair value hedges) and 2) certain cash flows related to future interest payments on variable-rate loans (cash flow hedges). Interest-rate swap agreements involve the exchange of fixed and variable-rate interest payments between counterparties based upon a notional principal amount and maturity date. The Company evaluates the creditworthiness of counterparties prior to entering into derivative contracts, and has established counterparty risk limits and monitoring procedures to reduce the risk of loss due to nonperformance. The Company's interest-rate risk management contracts qualify for hedge accounting treatment under ASC Topic 815, *Derivatives and Hedging*.

The following table presents the notional amount of interest-rate swap contracts held or issued for risk management purposes (hedging) as of September 30, 2009 and September 30, 2008. The notional amount of the contract is not recorded on the consolidated balance sheets, but is used as the basis for determining the amount of interest payments to be exchanged between the counterparties.

Notional Amount of Derivatives

Designated as Hedging Instruments

(in millions)	Notional Amount As of September 30,	
	2009	2008
Interest-rate swaps-fair value		
Receive-fixed/pay-variable		
Certificates of deposit	\$ 20.0	\$ 20.0
Long-term and subordinated debt	362.4	370.9
Total fair value contracts	\$ 382.4	\$ 390.9
Interest-rate swaps-cash flow		
Receive-fixed/pay-variable		
U.S. Dollar LIBOR based loans	\$ 200.0	\$ 200.0
Prime based loans	125.0	125.0
Total cash flow contracts	\$ 325.0	\$ 325.0
Total derivatives designated as hedging instruments	\$ 707.4	\$ 715.9

The following table presents the fair value and balance sheet classification for interest-rate swaps designated as hedging as of September 30, 2009 and September 30, 2008. Fair values are reported on a gross basis even when the swap contract is subject to a master netting agreement. Interest-rate swap contracts in a gain position are presented in the Asset Derivatives table. If a counterparty fails to perform, the Company's counterparty credit risk is equal to the amount reported as a derivative asset.

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Note 9. Derivative Instruments (continued)

Fair Value of Derivatives

Designated as Hedging Instruments

(in millions)	September 30, 2009		September 30, 2008	
	Location in Consolidated Balance Sheets	Fair Value (1)	Location in Consolidated Balance Sheets	Fair Value (1)
Asset Derivatives				
Interest-rate swaps-fair value				
Certificates of deposit	Other assets	\$ 1.4	Other assets	\$ 1.1
Long-term and subordinated debt	Other assets	30.9	Other assets	13.5
Total fair value contracts		\$ 32.3		\$ 14.6
Interest-rate swaps-cash flow				
U.S. Dollar LIBOR based loans	Other assets	\$ 8.6	Other assets	\$ 3.9
Prime based loans	Other assets	2.8	Other assets	1.1
Total cash flow contracts		\$ 11.4		\$ 5.0
Total derivatives designated as hedging instruments		\$ 43.7		\$ 19.6

(1) Fair value is the estimated gain to settle derivative contracts plus net interest receivable.

The Company had no swaps designated as hedging instruments that were in a loss position at September 30, 2009. At September 30, 2008, there was \$0.7 million recorded in other liabilities representing the estimated loss to settle certain swaps associated with Libor and prime-based loans.

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As of September 30, 2009, the Company had \$707.4 million notional amount of interest-rate swaps, of which \$382.4 million were designated as fair value hedges and \$325.0 million were designated as cash flow hedges. The positive fair value of the fair value hedges of \$32.3 million resulted in the recognition of other assets and an increase in hedged deposits and borrowings of \$30.3 million. The remaining \$2.0 million of fair value represents interest receivable. The positive fair value of \$11.4 million on cash flow hedges of variable-rate loans resulted in the recognition of other assets and an other comprehensive income before taxes of \$10.4 million. The remaining \$1.0 million of fair value represents interest receivable.

Amounts to be paid or received on the interest-rate swaps designated as cash flow hedges are reclassified into earnings upon receipt of interest payments on the underlying hedged loans, including amounts totaling \$3.0 million and \$8.9 million that were reclassified into interest income during the three months and nine months ended September 30, 2009. Within the next 12 months, \$9.4 million of other comprehensive income is expected to be reclassified into interest income.

As of September 30, 2008, the Company had \$715.9 million notional amount of interest-rate swaps, of which \$390.9 million were designated as fair value hedges and \$325.0 million were designated as cash flow hedges. The positive fair value of the fair value hedges of \$14.6 million resulted in the recognition of other assets and an increase in hedged deposits and borrowings of \$13.5 million. The remaining \$1.1 million of fair value represents interest receivable. The positive fair value of \$5.0 million on cash flow hedges of variable-rate loans resulted in the recognition of other assets and other comprehensive income before taxes of \$4.6 million. The remaining \$0.4 million of fair value represents interest receivable. The negative fair value of \$0.7 million on cash flow hedges of variable rate loans resulted in a recognition of an other liability.

The Company's swap agreements require the deposit of cash or marketable debt securities as collateral based on certain risk thresholds. These requirements apply individually to the Corporation and to the Bank. Additionally, certain of the Company's swap agreements contain credit-risk-related contingent features. For agreements that contain credit-risk features, the amount of collateral required to be delivered or received is impacted by the credit ratings of the Company and its counterparties. At September 30, 2009, the Company had no swap contracts that contain credit-risk contingent features in a net liability position.

The Company's interest-rate swaps had \$9.1 million and \$7.2 million of credit risk exposure at September 30, 2009 and 2008, respectively. The credit exposure represents the cost to replace, on a present value basis and at current market rates, all contracts by trading counterparty having an aggregate positive market value, net of margin collateral received. The Company enters into master netting agreements with swap counterparties to mitigate credit risk. Under these agreements, the net amount due from or payable to each counterparty is settled on the contract payment date. Collateral valued at \$16.6 million and \$10.7 million had been received from swap counterparties at September 30, 2009 and 2008, respectively.

Table of Contents**Note 9. Derivative Instruments (continued)**

The periodic net settlement of interest-rate swaps is recorded as an adjustment to interest income or interest expense. The impact of interest-rate swaps on interest income and interest expense for the three months and nine months ended September 30, 2009 and 2008 is provided below:

The Effect of Derivative Instruments on the Consolidated Statements of Income

(in millions)

Derivative Instruments Designated as Fair Value Hedges	Location in Consolidated Statements of Income	Income (Expense) Recognized on Derivatives Three Months Ended September 30,		Income (Expense) Recognized on Derivatives Nine Months Ended September 30,	
		2009	2008	2009	2008
Interest-rate swaps-fair value	Interest expense	\$ 4.2	\$ 2.2	\$ 11.1	\$ 5.0
Interest-rate swaps-cash flow	Interest income	3.0	1.4	8.9	4.0
Total income		\$ 7.2	\$ 3.6	\$ 20.0	\$ 9.0

Fair value and cash flow interest-rate swaps increased net interest income by \$7.2 million and \$20.0 million for the three months and nine months ended September 30, 2009, and increased net interest income by \$3.6 million and \$9.0 million for the same periods in 2008.

Changes in fair value of the effective portion of cash flow hedges are reported in AOCI. When the cash flows associated with the hedged item are realized, the gain or loss included in AOCI is recognized in Interest income on loans and leases, the same location in the consolidated statements of income as the income on the hedged item. Any ineffective portion of the changes of fair value of cash flow hedges is recognized immediately in Other noninterest income in the consolidated statements of income.

The amount of after-tax loss on the change in fair value of cash flow hedges recognized in AOCI for the three months ended September 30, 2009 was \$0.8 million (net of taxes of \$0.5 million) compared to an after-tax gain of \$0.9 million (net of taxes of \$0.7 million) for the same period in 2008. The amount of after-tax loss on the change in fair value of cash flow hedges recognized in AOCI for the nine months ended September 30, 2009 and 2008 was \$0.9 million (net of taxes of \$0.5 million) and \$0.7 million (net of taxes of \$0.3 million), respectively.

The amount of gains on cash flow hedges reclassified from AOCI to interest income for the three months ended September 30, 2009 and 2008 was \$3.0 million and \$1.4 million, respectively. The amount of gains on cash flow hedges reclassified from AOCI to interest income for the nine months ended September 30, 2009 and 2008 was \$8.9 million and \$4.0 million, respectively.

The amount of hedge ineffectiveness on cash flow hedges was nominal for the three months and nine months ended September 30, 2009 and 2008.

The Company also offers various derivative products to clients and enters into derivative transactions in due course. These derivative contracts are offset by paired trades with unrelated third parties. These transactions are not linked to specific Company assets or liabilities in the consolidated balance sheets or to forecasted transactions in a hedge relationship and, therefore, do not qualify for hedge accounting. The contracts are marked-to-market each reporting period with changes in fair value recorded as part of Other noninterest income in the consolidated statements of income. Fair values are obtained from verifiable third-party sources that have considerable experience with the derivative markets. The Company provides client data to the third party source for purposes of calculating the credit valuation component of the fair value measurement of client derivative contracts.

The Company enters into foreign currency option contracts with clients to assist them in hedging their economic exposures arising out of foreign-currency denominated commercial transactions. Foreign currency options allow the counterparty to purchase or sell a foreign currency at a specified date and price. These option contracts are offset by paired trades with third-party banks. The Company also takes proprietary currency positions within risk limits established by the Company's Asset/Liability Management Committee. Both the realized and unrealized gains and losses on foreign exchange contracts are recorded in Other noninterest income in the consolidated statements of income.

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Note 9. Derivative Instruments (continued)

The following table presents the notional balance of derivative contracts not designated as hedging instruments as of September 30, 2009 and 2008:

Notional Amount of Derivatives

Not Designated as Hedging Instruments

(in millions)	Notional Amount As of September 30,	
	2009	2008
Client Related, Trading and Other		
Interest-rate contracts:		
Swaps	\$ 978.6	\$ 274.0
Interest-rate caps, floors and collars	131.2	195.4
Options purchased	2.0	1.6
Options written	2.0	1.6
Total interest-rate contracts	\$ 1,113.8	\$ 472.6
Equity index futures	\$ 0.1	\$
Foreign exchange contracts:		
Spot and forward contracts	\$ 263.1	\$ 154.7
Options purchased	31.2	138.3
Options written	31.2	138.3
Total foreign exchange contracts	\$ 325.5	\$ 431.3
Total derivatives not designated as hedging instruments	\$ 1,439.4	\$ 903.9

The following tables present the fair values and balance sheet classification for derivative contracts not designated as hedging instruments as of September 30, 2009 and September 30, 2008. Fair values are reported on a gross basis. Contracts with a positive fair value (gain) are presented in the Asset Derivatives table, while those with a negative fair value (loss) are presented in the Liability Derivatives table:

Fair Value of Derivatives

Not Designated as Hedging Instruments

(in millions)	Asset Derivatives			
	September 30, 2009		September 30, 2008	
	Location in Consolidated Balance Sheets	Fair Value (1)	Location in Consolidated Balance Sheets	Fair Value (1)
Client Related, Trading and Other				
Interest-rate contracts	Other assets	\$ 19.3	Other assets	\$ 3.0
Foreign exchange contracts	Other assets	4.2	Other assets	3.0
Total derivatives not designated as hedging instruments		\$ 23.5		\$ 6.0

(1) Fair value is the estimated gain to settle derivative contracts plus interest receivable.

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Note 9. Derivative Instruments (continued)
Fair Value of Derivatives
Not Designated as Hedging Instruments

(in millions)	Liability Derivatives			
	September 30, 2009		September 30, 2008	
	Location in Consolidated Balance Sheets	Fair Value (1)	Location in Consolidated Balance Sheets	Fair Value (1)
Client Related, Trading and Other				
Interest-rate contracts	Other liabilities	\$ 18.7	Other liabilities	\$ 3.1
Foreign exchange contracts	Other liabilities	3.4	Other liabilities	3.0
Total derivatives not designated as hedging instruments		\$ 22.1		\$ 6.1

(1) Fair value is the estimated loss to settle derivative contracts plus interest payable.

The Company offers a certificate of deposit product (ELCD) which provides a return based on the performance of an equity index. Under the accounting guidance, a rate of return tied to a market index represents an embedded derivative. The embedded derivative associated with the certificate of deposit is treated as a written option contract with the depositor. The Company purchased offsetting options from a counterparty bank. These positions are not designated as hedges and are marked-to-market each reporting period. At September 30, 2009, the notional balance of both the written and purchased options was \$2.0 million. At September 30, 2008, the notional balance of both the written and purchased options was \$1.6 million.

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Derivative contracts not designated as hedges are marked-to-market each reporting period with changes in fair value recorded as part of Noninterest income in the consolidated statements of income. The table below provides the amount of gains and losses on these derivative contracts for the three months and nine months ended September 30, 2009 and 2008:

The Effect of Derivative Instruments on the Consolidated Statements of Income

(in millions)

Derivatives Not Designated as Hedging Instruments	Location in Consolidated Statements of Income	Gain (Loss) on Derivatives Three Months Ended September 30,		Gain (Loss) on Derivatives Nine Months Ended September 30,	
		2009	2008	2009	2008
Interest-rate contracts	Other noninterest income	\$ (0.1)	\$	\$ 1.2	\$ (0.2)
Equity index futures	Other noninterest income	(0.3)	0.3	(0.4)	0.6
Foreign exchange contracts	International services income	4.9	5.4	13.7	15.5
Total income		\$ 4.5	\$ 5.7	\$ 14.5	\$ 15.9

Note 10. Income Taxes

The Company recognizes accrued interest and penalties relating to unrecognized tax benefits as an income tax provision expense. The Company recognized approximately \$0.5 million of benefit on accrued interest and penalties for the nine-month period ended September 30, 2009 compared to \$1.3 million of interest and penalties expense for the nine-month period ended September 30, 2008. The Company had approximately \$5.8 million, \$6.3 million and \$10.3 million of accrued interest and penalties as of September 30, 2009, December 31, 2008 and September 30, 2008, respectively.

The Company and its subsidiaries file a consolidated federal income tax return and also file income tax returns in various state jurisdictions. The Internal Revenue Service (IRS) completed its audits of the Company for the tax years 2002-2007 resulting in no material financial statement impact. The Company is currently being audited by the IRS for 2008 and by the Franchise Tax Board for the years 1998-2004. The potential financial statement impact, if any, resulting from completion of these audits cannot be determined at this time.

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Note 10. Income Taxes (continued)

From time to time, there may be differences in opinion with respect to the tax treatment accorded transactions. If a tax position which was previously recognized on the consolidated financial statements is no longer more likely than not to be sustained upon a challenge from the taxing authorities, the tax benefit from the tax position will be derecognized. As of September 30, 2009, the Company does not have any tax positions which dropped below a more likely than not threshold.

Note 11. Retirement Plans

The Company has a profit-sharing retirement plan with an Internal Revenue Code Section 401(k) feature covering eligible employees. Employer contributions are made annually into a trust fund and are allocated to participants based on their salaries. The profit sharing contribution requirement is based on a percentage of annual operating income subject to a percentage of salary cap. The Company recorded profit sharing contributions expense of \$1.2 million and \$3.2 million for the three months and nine months ended September 30, 2009, respectively. Profit sharing contribution expense was \$3.9 million and \$12.4 million for the same periods in 2008, respectively.

The Company has a Supplemental Executive Retirement Plan (SERP) for one of its executive officers. The SERP meets the definition of a pension plan under ASC Topic 960, *Plan Accounting - Defined Benefit Pension Plans*. At September 30, 2009, there was a \$4.6 million unfunded pension liability related to the SERP. Pension expense for the three months and nine months ended September 30, 2009 was \$0.2 million and \$0.5 million, respectively. Pension expense was \$0.1 million and \$0.4 million for the same periods in 2008, respectively.

There is also a SERP covering three former executives of the Pacific Bank, which the Company acquired in 2000. As of September 30, 2009, there was an unfunded pension liability for this SERP of \$2.3 million. Expense for the three months ended September 30, 2009 and 2008 was insignificant. Expense for the nine months ended September 30, 2009 and 2008 was \$0.1 million.

The Company does not provide any other post-retirement employee benefits beyond the profit-sharing retirement plan and the SERPs.

Note 12. Guarantees

In connection with the liquidation of an investment acquired in a previous bank merger, the Company has an outstanding long-term guarantee. The maximum liability under the guarantee is \$23 million. The Company does not expect to make any payments under the terms of this guarantee, and accordingly, has not accrued for any portion of it.

Note 13. Variable Interest Entities

The Company holds ownership interests in certain special-purpose entities formed to provide affordable housing. The Company evaluates its interest in these entities to determine whether they meet the definition of a VIE and whether the Company is required to consolidate these entities. The Company is not the primary beneficiary of the affordable housing VIEs in which it holds interests and is therefore not required to consolidate these entities. The investment in these entities is initially recorded at cost, which approximates the maximum exposure to loss as a result of the Company's involvement with these unconsolidated entities. Subsequently, the carrying value is amortized over the stream of available tax credits and benefits. The Company expects to recover its investments over time, primarily through realization of federal low-income housing tax credits. The balance of the investments in these entities was \$92.2 million, \$74.6 million and \$72.5 million at September 30, 2009, December 31, 2008, and September 30, 2008, respectively, and is included in Affordable housing investments in the consolidated balance sheets. Unfunded commitments for affordable housing investments of \$17.4 million as of September 30, 2009 were recorded in Other liabilities in the consolidated balance sheets.

Of the affordable housing investments held as of September 30, 2009, the Company had a significant variable interest in four affordable housing partnerships. These interests were acquired at various times from 1998 to 2001. The Company's maximum exposure to loss as a result of its involvement with these entities is limited to the \$9.5 million aggregate carrying value of these investments as of September 30, 2009. There were no unfunded commitments for these affordable housing investments as of September 30, 2009.

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Note 13. Variable Interest Entities (continued)

The Company also has ownership interests in several private equity investment funds that are VIEs. The Company is not a primary beneficiary and, therefore, is not required to consolidate these VIEs. The investment in these entities is carried at cost, which approximates the maximum exposure to loss as a result of the Company's involvement with these entities. The Company expects to recover its investments over time, primarily through the allocation of fund income, gains or losses on the sale of fund assets, dividends or interest income. The balance in these entities was \$37.9 million, \$35.6 million and \$34.0 million at September 30, 2009, December 31, 2008, and September 30, 2008, respectively, and is included in Other assets in the consolidated balance sheets. Income associated with these investments is reported in Other noninterest income in the consolidated statements of income. The Company reviews these investments at least quarterly for possible other-than-temporary impairment. The review typically includes an analysis of the facts and circumstances of each investment, the expectations for the investment's cash flows and capital needs, the viability of its business model and the Company's exit strategy. If and when declines in value are considered to be other-than-temporary, the Company reduces the asset value. The estimated loss would be recognized as a loss in Other noninterest income in the consolidated statements of income. An impairment loss of \$1.4 million and \$1.8 million was recognized on private equity investments in the three months and nine months ended September 30, 2009.

In addition to the above, Convergent Wealth is the administrative manager of the Barlow Long-Short Equity Fund, a hedge fund that is a VIE. Convergent Wealth is not a primary beneficiary and, therefore, is not required to consolidate this entity.

Note 14. Noncontrolling Interest

The Bank has two wholly owned subsidiaries that have issued preferred stock to third-party investors. In 2001, the Bank formed and funded CN Real Estate Investment Corporation (CN), contributing cash and participation interests in certain loans in exchange for 100 percent of the common stock of CN. The net income and assets of CN are eliminated in consolidation for all periods presented. CN sold 33,933 shares of 8.50 percent Series A Preferred Stock to accredited investors for \$3.4 million in 2001, and 6,828 shares of 8.50 percent Series B Preferred Stock for \$6.8 million to accredited investors in 2002, both of which are included in Noncontrolling interest in the consolidated balance sheets. Dividends totaling \$868,811 will be paid on these preferred shares in 2009, and were paid each year for 2005 through 2008. Dividends paid are included in Net income attributable to noncontrolling interest in the consolidated statements of income. In 2002, the Bank also converted its former registered investment company to a real estate investment trust called City National Real Estate Investment Corporation II (CNII). The net income and assets of CNII are eliminated in consolidation for all periods presented. During 2002 and 2003 CNII sold shares of 8.50 percent Series A Preferred Stock to accredited investors for \$15.3 million, which is included in Noncontrolling interest in the consolidated balance sheets. Dividends totaling \$1,297,780 will be paid in 2009 and were paid each year for 2005 through 2008. Dividends paid are included in Net income attributable to noncontrolling interest in the consolidated statements of income.

In accordance with ASC 810, the Company reports noncontrolling interest in its majority-owned affiliates as a separate component of equity in Noncontrolling interest in the consolidated balance sheets. Net income attributable to noncontrolling interest is no longer deducted to arrive at consolidated net income. Instead, consolidated net income is attributed to controlling and noncontrolling interest in the consolidated statements of income. See Note 1, *Summary of Significant Accounting Policies*.

Redeemable Noncontrolling Interest

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The Corporation holds a majority ownership interest in eight and a noncontrolling interest in one investment management and wealth advisory affiliates. In general, the management of each majority-owned affiliate has a significant noncontrolling ownership position in their firm and supervises the day-to-day operations of the affiliate. The Corporation is in regular contact with each affiliate regarding their operations and is an active participant in the management of the affiliates through its position on each firm's board.

The Corporation's investment in each affiliate is governed by operating agreements and other arrangements which provide the Corporation certain rights, benefits and obligations. The Corporation determines the appropriate method of accounting based upon these agreements and the factors contained therein. All majority-owned affiliates have met the criteria for consolidation and are accordingly included in the consolidated financial statements. All material intercompany balances and transactions are eliminated. The Corporation applies the equity method of accounting to investments where it holds a noncontrolling interest. For equity method investments, the Corporation's portion of income before taxes is included in Trust and investment fees in the consolidated statements of income.

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Note 14. Noncontrolling Interest (continued)

Most of the affiliate operating agreements provide the affiliate noncontrolling owners the conditional right to require the parent company to purchase a portion of their ownership interests at certain intervals (put rights). These agreements also provide the parent company a conditional right to require affiliate owners to sell their ownership interests to it upon their death, permanent disability or termination of employment, and also provide affiliate owners a conditional right to require the parent company to purchase such ownership interests upon the occurrence of specified events. Additionally, in many instances the purchase of interests can be settled using a combination of cash and notes payable, and in all cases the parent company can consent to the transfer of these interests directly to other individuals.

As of September 30, 2009, affiliate noncontrolling owners held equity interests with an estimated fair value of \$49.9 million. This estimate reflects the maximum obligation to purchase equity interests in the affiliates. The events which would require the Company to purchase the equity interests may occur in the near term or over a longer period of time. The terms of the put provisions vary by agreement, but the value of the put is intended to equal or approximate the fair market value of the interests. The parent company carries key man life insurance policies to fund a portion of these conditional purchase obligations in the event of the death of an interest holder.

With the adoption of new guidance in ASC 810 effective January 1, 2009, the Company was required to apply the measurement guidance of EITF Topic D-98, *Classification and Measurement of Redeemable Securities* (Topic D-98), and record the redemption value of redeemable noncontrolling interest in the consolidated balance sheets for the current period as well as retrospectively for all prior periods presented. In accordance with the provisions of Topic D-98, the Company restated all prior periods presented by reflecting the redeemable noncontrolling interest at its estimated maximum redemption amount for that period-end, with an offset to additional paid-in capital.

Redeemable noncontrolling interest is not considered to be permanent equity and continues to be reported in the mezzanine section between liabilities and equity in the consolidated balance sheets.

Note 15. Segment Results

The Company has three reportable segments: Commercial and Private Banking, Wealth Management and Other. The factors considered in determining whether individual operating segments could be aggregated include that the operating segments: (i) offer the same products and services, (ii) offer services to the same types of clients, (iii) provide services in the same manner and (iv) operate in the same regulatory environment. The management accounting process measures the performance of the operating segments based on the Company's management structure and is not necessarily comparable with similar information for other financial services companies. If the management structures and/or the allocation process changes, allocations, transfers and assignments may change.

The Commercial and Private Banking reportable segment is the aggregation of the Commercial and Private Banking, Real Estate, Entertainment, Corporate Banking and Core Branch Banking operating segments. The Commercial and Private Banking segment provides banking products and services, including commercial and mortgage loans, lines of credit, deposits, cash management services, international trade finance and letters of credit to small and medium-sized businesses, entrepreneurs and affluent individuals. This segment primarily serves clients in California, New York and Nevada.

The Wealth Management segment includes the Corporation's investment advisory affiliates and the Bank's Wealth Management Services. The asset management affiliates and the Wealth Management division of the Bank make the following investment advisory and wealth management resources and expertise available to individual and institutional clients: investment management, wealth advisory services, brokerage, estate and financial planning and personal, business, custodial and employee trust services. The Wealth Management segment also advises and makes available mutual funds under the name of CNI Charter Funds. Both the asset management affiliates and the Bank's Wealth Management division provide proprietary and nonproprietary products to offer a full spectrum of investment solutions in all asset classes and investment styles, including fixed-income instruments, mutual funds, domestic and international equities and alternative investments such as hedge funds.

The Other segment includes all other subsidiaries of the Company, the portion of corporate departments, including the Treasury Department and the Asset Liability Funding Center, that have not been allocated to the other segments, and inter-segment eliminations for revenue recognized in multiple segments for management reporting purposes. The Company uses traditional matched-maturity funds transfer pricing methodology. However, both positive and negative variances occur over time when transfer pricing non-maturing balance sheet items such as demand deposits. These variances, offset in the Funding Center, are evaluated annually by management and allocated back to the business segments as deemed necessary.

Table of Contents**Note 15. Segment Results (continued)**

Business segment earnings are the primary measure of the segment's performance as evaluated by management. Business segment earnings include direct revenue and expenses of the segment as well as corporate and inter-company cost allocations. Allocations of corporate expenses, such as data processing and human resources, are calculated based on estimated activity levels for the fiscal year. Costs associated with intercompany support and services groups, such as Operational Services, are allocated to each business segment based on actual services used. Capital is allocated based on the estimated risk within each business segment. The methodology of allocating capital is based on each business segment's credit, market, and operational risk profile. If applicable, any provision for credit losses is allocated based on various credit factors, including but not limited to, credit risk ratings, credit rating fluctuation, charge-offs and recoveries and loan growth. Income taxes are charged to the business segments at the statutory rate. The Other segment includes an adjustment to reconcile to the Company's overall effective tax rate.

Exposure to market risk is managed in the Company's Treasury department. Interest rate risk is mostly removed from the Commercial and Private Banking segment and transferred to the Funding Center through a fund transfer pricing (FTP) methodology and allocating model. The FTP model records a cost of funds or credit for funds using a combination of matched maturity funding for fixed term assets and liabilities and a blended rate for the remaining assets and liabilities with varying maturities.

The Bank's investment portfolio and unallocated equity are included in the Other segment. Amortization expense associated with customer-relationship intangibles is charged to the affected operating segments.

Selected financial information for each segment is presented in the following tables. Commercial and Private Banking includes all revenue and costs from products and services utilized by clients of Commercial and Private Banking, including both revenue and costs for Wealth Management products and services. The revenues and costs associated with Wealth Management products and services that are allocated to Commercial and Private Banking for management reporting purposes are eliminated in the Other segment.

	For the three months ended September 30, 2009				
(in thousands)	Commercial and Private Banking	Wealth Management	Other	Consolidated Company	
Earnings Summary:					
Net interest income	\$ 157,107	\$ 317	\$ 3,917	\$ 161,341	
Provision for credit losses	85,000			85,000	
Noninterest income	38,886	39,031	(9,072)	68,845	
Depreciation and amortization	3,056	1,525	3,617	8,198	
Noninterest expense	111,213	37,404	(13,050)	135,567	
Income (loss) before income taxes	(3,276)	419	4,278	1,421	
Provision (benefit) for income taxes	(1,376)	176	(5,766)	(6,966)	
Net income (loss)	(1,900)	243	10,044	8,387	
Less: Net income attributable to noncontrolling interest			348	348	
Net income (loss) attributable to City National Corporation	\$ (1,900)	\$ 243	\$ 9,696	\$ 8,039	
Selected Average Balances:					
Loans and leases	\$ 12,277,241	\$	\$ 61,864	\$ 12,339,105	

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Total assets	12,409,344	548,549	4,980,338	17,938,231
Deposits	13,435,203	52,674	1,289,045	14,776,922
Goodwill	317,801	149,378		467,179
Customer-relationship intangibles, net	8,903	34,432		43,335

Table of Contents**Note 15. Segment Results (continued)**

(in thousands)	For the three months ended September 30, 2008				Consolidated Company
	Commercial and Private Banking	Wealth Management	Other		
Earnings Summary:					
Net interest income	\$ 159,707	\$ 630	\$ (7,533)	\$	152,804
Provision for credit losses	35,000				35,000
Noninterest income	48,812	53,633	(52,367)		50,078
Depreciation and amortization	3,309	1,302	3,129		7,740
Noninterest expense	116,188	36,828	(14,559)		138,457
Income (loss) before income taxes	54,022	16,133	(48,470)		21,685
Provision (benefit) for income taxes	22,689	6,776	(25,491)		3,974
Net income (loss)	31,333	9,357	(22,979)		17,711
Less: Net income attributable to noncontrolling interest			1,160		1,160
Net income (loss) attributable to City National Corporation	\$ 31,333	\$ 9,357	\$ (24,139)	\$	16,551

Selected Average Balances:					
Loans and leases	\$ 12,160,039	\$	\$ 70,540		12,230,579
Total assets	12,365,352	594,172	3,161,060		16,120,584
Deposits	10,762,677	64,589	909,854		11,737,120
Goodwill	318,547	141,639			460,186
Customer-relationship intangibles, net	13,610	39,813			53,423

(in thousands)	For the nine months ended September 30, 2009				Consolidated Company
	Commercial and Private Banking	Wealth Management	Other		
Earnings Summary:					
Net interest income	\$ 459,631	\$ 1,572	\$ 611	\$	461,814
Provision for credit losses	205,000				205,000
Noninterest income	120,754	107,788	(48,145)		180,397
Depreciation and amortization	9,556	4,140	9,958		23,654
Noninterest expense	333,373	102,424	(38,567)		397,230
Income (loss) before income taxes	32,456	2,796	(18,925)		16,327
Provision (benefit) for income taxes	13,632	1,175	(21,127)		(6,320)
Net income	18,824	1,621	2,202		22,647
Less: Net income attributable to noncontrolling interest			375		375
Net income attributable to City National Corporation	\$ 18,824	\$ 1,621	\$ 1,827	\$	22,272

Selected Average Balances:					
Loans and leases	\$ 12,300,738	\$	\$ 61,976	\$	12,362,714
Total assets	12,445,591	546,535	4,253,061		17,245,187
Deposits	12,516,268	66,954	1,304,303		13,887,525
Goodwill	317,801	144,255			462,056
Customer-relationship intangibles, net	9,806	30,589			40,395

Table of Contents**Note 15. Segment Results (continued)**

(in thousands)	For the nine months ended September 30, 2008				Consolidated Company
	Commercial and Private Banking	Wealth Management	Other		
Earnings Summary:					
Net interest income	\$ 467,575	\$ 2,804	\$ (19,242)	\$ 451,137	
Provision for credit losses	87,000			87,000	
Noninterest income	139,025	161,707	(89,374)	211,358	
Depreciation and amortization	10,008	3,392	9,261	22,661	
Noninterest expense	340,905	110,487	(46,268)	405,124	
Income (loss) before income taxes	168,687	50,632	(71,609)	147,710	
Provision (benefit) for income taxes	70,847	21,266	(47,153)	44,960	
Net income	97,840	29,366	(24,456)	102,750	
Less: Net income attributable to noncontrolling interest			6,728	6,728	
Net income (loss) attributable to City National Corporation	\$ 97,840	\$ 29,366	\$ (31,184)	\$ 96,022	
Selected Average Balances:					
Loans and leases	\$ 11,927,863	\$	\$ 65,942	\$ 11,993,805	
Total assets	12,155,581	571,181	3,247,523	15,974,285	
Deposits	10,726,756	65,148	859,370	11,651,274	
Goodwill	319,003	135,088		454,091	
Customer-relationship intangibles, net	15,035	46,305		61,340	

Note 16. Loan Concentration

The Company's lending activities are predominantly in California, and to a lesser extent, New York and Nevada. At September 30, 2009, California, Nevada and New York represented 90 percent, 4 percent and 3 percent of total loans outstanding, respectively. The remaining 3 percent of total loans outstanding represented other states. Concentrations of credit risk arise when a number of clients are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. Although the Company has a diversified loan portfolio, a substantial portion of the loan portfolio and credit performance depends on the economic stability of Southern California. Credit performance also depends, to a lesser extent, on economic conditions in the San Francisco Bay area, New York and Nevada.

Table of Contents**Note 17. Goodwill and Customer-Relationship Intangibles**

The following table summarizes the Company's goodwill and customer-relationship intangible assets at September 30, 2009, December 31, 2008 and September 30, 2008:

(in thousands)	September 30, 2009	December 31, 2008	September 30, 2008
Goodwill	\$ 525,481	\$ 493,398	\$ 494,117
Accumulated amortization	(33,980)	(33,980)	(33,980)
Net goodwill	\$ 491,501	\$ 459,418	\$ 460,137
Customer-Relationship Intangibles			
Core deposit intangibles	\$ 47,127	\$ 47,127	\$ 47,127
Accumulated amortization	(38,691)	(35,728)	(34,296)
Client advisory contracts	45,476	38,662	50,070
Accumulated amortization	(12,046)	(9,442)	(10,741)
Net intangibles	\$ 41,866	\$ 40,619	\$ 52,160

The Company recorded approximately \$39 million of goodwill and client advisory contract intangibles in association with its acquisition of LMCG in the third quarter of 2009. Refer to Note 2, *Business Combination*.

Management completed an interim review of goodwill for impairment at September 30, 2009. The goodwill assessment was completed at the reporting unit level. Fair values were determined using methods consistent with current industry practices for valuing similar types of companies. A market multiple of net income was used to value the Bank reporting unit. The fair values of the wealth management affiliates were largely based on multiples of distributable revenue. Based upon the analysis performed, the fair values of the reporting units exceeded their carrying value (including goodwill); therefore, management concluded that no impairment of goodwill existed at September 30, 2009. Overall, the market valuations of financial services companies continued to improve during the third quarter and activity in the credit markets increased. However, market valuations continue to be negatively impacted by continuing uncertainty over the impact of government programs and the timing and extent of an economic recovery. As a result, management believes it will be necessary to continue to evaluate goodwill for impairment on a quarterly basis. It is possible that a future conclusion could be reached that all or a portion of the Company's goodwill was impaired, in which case a non-cash charge for the amount of such impairment would be recorded in earnings. Such a charge, if any, would have no impact on tangible capital and would not affect the Company's well-capitalized designation.

The assessment of customer-relationship intangibles for impairment was completed at the individual asset level. The fair value of core deposit intangibles was determined using market-based core deposit premiums from recent deposit sale transactions. The fair value of core deposit intangibles exceeded their carrying amount at September 30, 2009. For client advisory contract intangibles recorded by the wealth management affiliates, the undiscounted projected future cash flows associated with the client contracts was compared to their carrying value to determine whether there was impairment. Management concluded that no impairment of customer-relationship intangibles existed at September 30, 2009.

Note 18. Subsequent Events

The Company has evaluated events that have occurred subsequent to September 30, 2009, and through November 9, 2009, the date that these consolidated financial statements were issued. There have been no subsequent events that have occurred during this period that would require recognition in the consolidated financial statements or its disclosures as of or for the three- and nine-month periods ending September 30, 2009.

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CITY NATIONAL CORPORATION

FINANCIAL HIGHLIGHTS

In thousands, except per share amounts (1)	At or for the three months ended			Percent change	
	September 30, 2009 (Unaudited)	June 30, 2009 (Unaudited)	September 30, 2008 (Unaudited)	September 30, 2009 from June 30, 2009	September 30, 2009 from September 30, 2008
For The Quarter					
Net income attributable to City National Corporation	\$ 8,039	\$ 6,773	\$ 16,551	19%	(51)%
Net income available to common shareholders	2,537	1,272	16,551	99	(85)
Net income per common share, basic	0.05	0.02	0.34	150	(85)
Net income per common share, diluted	0.05	0.02	0.34	150	(85)
Dividends per common share	0.10	0.10	0.48	0	(79)
At Quarter End					
Assets	\$ 18,400,604	\$ 17,660,785	\$ 16,330,868	4	13
Securities	3,700,976	3,468,463	2,470,169	7	50
Loans and leases	12,168,490	12,421,342	12,278,517	(2)	(1)
Deposits	15,108,443	14,498,251	12,167,660	4	24
Common shareholders' equity	1,802,050	1,757,438	1,622,381	3	11
Total equity	2,218,492	2,173,916	1,647,844	2	35
Book value per common share	34.99	34.14	33.69	2	4
Average Balances					
Assets	\$ 17,938,231	\$ 17,369,311	\$ 16,120,584	3	11
Securities	3,630,332	3,364,194	2,358,938	8	54
Loans and leases	12,339,105	12,354,260	12,230,579	(0)	1
Deposits	14,776,922	14,023,275	11,737,120	5	26
Common shareholders' equity	1,787,498	1,729,584	1,632,201	3	10
Total equity	2,204,220	2,145,859	1,657,813	3	33
Selected Ratios					
Return on average assets (annualized)	0.18%	0.16%	0.41%	13	(56)
Return on average common shareholders' equity (annualized)	0.56	0.29	4.03	93	(86)
Corporation's tier 1 leverage	9.66	10.16	8.01	(4)	24
Corporation's tier 1 risk-based capital	12.31	12.35	9.13	0	39
Corporation's total risk-based capital	15.11	14.05	11.04	8	40
Period-end common shareholders' equity to period-end assets	9.79	9.95	9.93	(2)	(1)
Period-end total equity to period-end assets	12.06	12.31	10.09	(2)	20
Dividend payout ratio, per common share	205.08	383.66	140.24	(47)	46

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Net interest margin	3.94	3.98	4.23	(1)	(7)
Expense to revenue ratio (2)	60.75	63.80	70.96	(5)	(14)

Asset Quality Ratios

Nonaccrual loans to total loans and leases	3.36%	3.05%	1.23%	10	173
Nonaccrual loans and OREO to total loans and leases and OREO	3.70	3.19	1.25	16	196
Allowance for loan and lease losses to total loans and leases	2.18	2.06	1.69	6	29
Allowance for loan and lease losses to nonaccrual loans	64.91	67.68	137.88	(4)	(53)
Net charge-offs to average loans (annualized)	(2.47)	(1.84)	(0.42)	34	488

At Quarter End

Assets under management (3)	\$	34,927,391	\$	30,286,415	\$	33,105,611	15	6
Assets under management or administration (3)		53,368,148		47,838,854		52,367,168	12	2

(1) Certain prior period amounts have been restated to conform to the current period presentation.

(2) The expense to revenue ratio is defined as noninterest expense excluding other real estate owned (OREO) expense divided by total revenue (net interest income on a fully taxable-equivalent basis and noninterest income).

(3) Excludes \$9.87 billion, \$7.48 billion and \$6.92 billion of assets under management for the asset manager in which the Company holds a noncontrolling interest as of September 30, 2009, June 30, 2009, and September 30, 2008, respectively.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

See Cautionary Statement for Purposes of the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995, on page 69 in connection with forward-looking statements included in this report.

RESULTS OF OPERATIONS

Critical Accounting Policies

The accounting and reporting policies of the Company conform with U.S. generally accepted accounting principles. The Company's accounting policies are fundamental to understanding management's discussion and analysis of results of operations and financial condition. The Company has identified seven policies as being critical because they require management to make estimates, assumptions and judgments that affect the reported amount of assets and liabilities, contingent assets and liabilities, and revenues and expenses included in the consolidated financial statements. The judgments and assumptions used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances. Circumstances and events that differ significantly from those underlying the Company's estimates, assumptions and judgments could cause the actual amounts reported to differ significantly from these estimates.

The Company's critical accounting policies include those that address the accounting for financial assets and liabilities reported at fair value, securities, allowance for loan and lease losses and reserve for off-balance sheet credit commitments, share-based compensation plans, goodwill and other intangible assets, derivatives and hedging activities and income taxes. The Company has not made any significant changes in its critical accounting policies or its estimates and assumptions from those disclosed in its 2008 Annual Report.

The Company, with the concurrence of the Audit & Risk Committee, has reviewed and approved these critical accounting policies, which are further described in Management's Discussion and Analysis and in Note 1, *Summary of Significant Accounting Policies*, of the Notes to Consolidated Financial Statements in the Company's Form 10-K as of December 31, 2008. Management has applied its critical accounting policies and estimation methods consistently in all periods presented in these financial statements.

Several new accounting pronouncements became effective for the Company on January 1, 2009. See Note 1 of the Notes to the Unaudited Consolidated Financial Statements in this Form 10-Q for a summary of the pronouncements and discussion of the impact of their adoption on the Company's consolidated financial statements.

References to net income and earnings per share in the discussion that follows are based on net income attributable to the Company after deducting net income attributable to noncontrolling interest.

RECENT DEVELOPMENTS

Recessionary conditions continue to affect the Company in the third quarter of 2009. California and Nevada, in particular, experienced declines in real estate values, rising unemployment rates and sluggish consumer spending. The weak economy, extraordinarily low interest rates, continuing credit costs, higher FDIC costs for all banks, and dividends on preferred stock held by the United States Department of the Treasury (Treasury), had a negative impact on third quarter earnings. Refer to Item 1A Risk Factors for further discussion of business and economic conditions.

On August 26, 2009, the Company announced plans to acquire a San Jose branch owned by Westamerica Bank. The Company will acquire the branch's deposits and a portion of its loan portfolio. The acquisition is expected to close in the fourth quarter of 2009.

On July 21, 2009, the Company acquired a majority interest in Lee Munder Capital Group (LMCG), a Boston-based investment firm that manages assets for corporations, pensions, endowments and affluent households. LMCG was merged with Independence Investments, a

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Boston-based institutional asset management firm in which the Company holds a majority interest. The combined company operates under the Lee Munder Capital Group name and as an affiliate of Convergent Capital Management LLC, the Chicago-based asset management holding company that the Company acquired in 2003.

On July 15, 2009, the Bank issued a \$50 million unsecured subordinated note to a third party investor. The subordinated note bears a 9 percent fixed rate of interest for five years, thereafter, the rate is reset at the Bank's option to either LIBOR plus 600 basis points or to prime plus 500 basis points. The note matures on July 15, 2019. On August 12, 2009, the Bank issued \$130 million in subordinated notes of which \$55 million were floating rate subordinated notes and \$75 million were

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fixed rate subordinated notes. The fixed rate subordinated notes bear a fixed interest rate of 9 percent. The floating rate subordinated notes bear a fixed interest rate of 9 percent for the initial five years from the date of issuance and thereafter bear an interest rate equal to the three-month LIBOR rate plus 6 percent. The rate is reset quarterly and is subject to an interest rate cap of 10 percent throughout the term of the notes. These subordinated notes mature on August 12, 2019. The subordinated notes qualify as Tier 2 capital for regulatory purposes.

The Company has extended through June 30, 2010 its participation in the Federal Deposit Insurance Corporation's (FDIC) Transaction Account Guarantee Program. Under this FDIC program, all non-interest bearing transaction accounts and certain interest bearing checking accounts where the interest rate cannot exceed 0.50 percent are fully guaranteed by the FDIC for the full amount in the account. Coverage under this program is in addition to and separate from the coverage available under the FDIC's general deposit insurance rules.

HIGHLIGHTS

- For the quarter ended September 30, 2009, consolidated net income was \$8.0 million and consolidated net income available to common shareholders was \$2.5 million, or \$0.05 per diluted common share. For the year-earlier quarter, consolidated net income and consolidated net income available to common shareholders was \$16.6 million, or \$0.34 per diluted common share. Net income available to common shareholders for 2009 reflects net income less dividends on preferred stock related to the Company's participation in the Treasury's Capital Purchase Program. The decrease in net income available to common shareholders is primarily due to a \$85.0 million provision for credit losses recorded during the third quarter of 2009, as compared to a \$35.0 million provision during the third quarter of 2008.
- Revenue for the third quarter of 2009 was \$230.2 million, an increase of 5 percent from the second quarter of 2009 and 13 percent from the third quarter of 2008, due principally to increased average securities balances, lower funding costs and a net securities gain.
- Fully taxable-equivalent net interest income amounted to \$164.9 million for the third quarter of 2009, up 5 percent from the same period last year and 4 percent from the second quarter of 2009.
- The Company's net interest margin was 3.94 percent in the third quarter of 2009, down 4 basis points from the second quarter of 2009.
- Noninterest income totaled \$68.8 million in the third quarter of 2009, an increase of 37 percent from \$50.1 million for the year-earlier quarter, reflecting significant securities losses in the year-earlier quarter compared to net securities gains in the third quarter of 2009. Noninterest income was up 7 percent from \$64.3 million in the second quarter of 2009, largely due to an increase in wealth management fees stemming from improved market conditions and the July 21, 2009 acquisition of LMCG, which manages assets primarily for institutional investors.

- Third quarter noninterest expense was down slightly from the second quarter of 2009 and down 2 percent from the third quarter of 2008.
- The Company recognized a tax benefit of \$7.0 million, which was primarily attributable to an updated effective tax rate based on lower expected taxable income for the year. The Company's effective tax rate for the third quarter of last year was 18.3 percent.
- Total assets grew to a record \$18.40 billion at September 30, 2009, up 4 percent from \$17.66 billion at June 30, 2009 and up 13 percent from \$16.33 billion at September 30, 2008, largely reflecting the Company's strong deposit growth. Total average assets increased to \$17.94 billion for the third quarter of 2009 from \$17.37 billion for the second quarter of 2009 and \$16.12 billion for the third quarter of 2008.
- Average loan and lease balances were \$12.34 billion for the third quarter of 2009, up 1 percent from \$12.23 billion for the year-earlier quarter, and down slightly from \$12.35 billion from the second quarter of 2009. In the third quarter of 2009, the Company renewed approximately \$1.3 billion of loans and made approximately \$675 million in new loan commitments. About \$386 million of these commitments were funded.
- The allowance for loan and lease losses increased to \$265.0 million at September 30, 2009, from \$256.0 million at June 30, 2009 and \$208.0 million at September 30, 2008. The Company's allowance equals 2.18 percent of total loans and leases at September 30, 2009, compared with 2.06 percent at June 30, 2009 and 1.69 percent at September 30, 2008. The Company also maintains an additional \$19.6 million in reserves for off-balance sheet credit commitments. At September 30, 2009, nonperforming assets amounted to \$452.2 million, compared with \$396.3 million at June 30, 2009.

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- Nonaccrual loans totaled \$408.3 million at September 30, 2009, up from \$378.3 million as of June 30, 2009, and \$150.9 million at September 30, 2008. Net loan charge-offs were \$76.9 million, or 2.47 percent of average total loans and leases on an annualized basis, for the third quarter of 2009, up from \$56.7 million, or 1.84 percent, in the second quarter of 2009 and \$12.8 million, or 0.42 percent, in the year-earlier quarter.
- Average securities for the third quarter of 2009 totaled \$3.63 billion, an increase of 8 percent from \$3.36 billion for the second quarter of 2009 and an increase of 54 percent from \$2.36 billion for the third quarter of 2008, as increased capital was invested in high-grade, fixed-income instruments.
- Average deposit balances grew to a record \$14.78 billion for the third quarter of 2009, up 26 percent from \$11.74 billion for the third quarter of 2008 and 5 percent from \$14.02 billion for the second quarter of 2009. Average core deposits of \$13.56 billion for the third quarter of 2009 grew 29 percent from the third quarter of 2008 and 7 percent from the second quarter of 2009 and amounted to 92 percent of total average deposit balances. Period-end deposits also grew to a record \$15.11 billion at September 30, 2009, up 24 percent from \$12.17 billion at September 30, 2008 and 4 percent from \$14.50 billion at June 30, 2009.
- The Company further strengthened its capital position in the third quarter of 2009 by completing the sale of approximately \$180 million of subordinated debt. Proceeds from the sales of these securities will qualify as Tier 2 capital for regulatory purposes. The subordinated debt sale followed the Company's second-quarter common equity offering, which raised \$120 million. The Company's ratio of Tier 1 common shareholders' equity to risk-based assets was 9.22 percent at September 30, 2009. Recent regulatory guidelines for the banking industry call for a minimum of 4.0 percent. Refer to the Capital Adequacy Requirement section starting on page 64 for further discussion of this non-GAAP measure. The Company's third quarter ratio of total equity to total assets was 12.06 percent, compared to 12.31 percent at June 30, 2009. The modest decline in this ratio reflects the growth of assets.

OUTLOOK

Management continues to expect that the Company will remain modestly profitable in 2009.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income is the difference between interest income (which includes yield-related loan fees) and interest expense. Net interest income on a fully taxable-equivalent basis expressed as a percentage of average total earning assets is referred to as the net interest margin, which represents the average net effective yield on earning assets. The following tables present the components of net interest income on a fully taxable-equivalent basis for the three months and nine months ended September 30, 2009 and 2008:

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Net Interest Income Summary						
(in thousands)	For the three months ended September 30, 2009			For the three months ended September 30, 2008		
	Average Balance	Interest income/ expense (1)(4)	Average interest rate	Average Balance	Interest income/ expense (1)(4)	Average interest rate
Assets (2)						
Interest-earning assets						
Loans and leases						
Commercial	\$ 4,723,633	\$ 50,691	4.26%	\$ 4,727,185	\$ 62,931	5.30%
Commercial real estate mortgages	2,144,631	29,660	5.49	2,094,914	34,344	6.52
Residential mortgages	3,528,055	48,533	5.50	3,335,160	46,882	5.62
Real estate construction	1,078,833	9,727	3.58	1,403,706	17,808	5.05
Equity lines of credit	687,143	6,072	3.51	513,061	5,592	4.34
Installment	176,810	2,263	5.08	156,553	2,318	5.89
Total loans and leases (3)	12,339,105	146,946	4.72	12,230,579	169,875	5.53
Due from banks - interest-bearing	204,255	259	0.50	94,459	440	1.85
Federal funds sold and securities purchased under resale agreements	338,044	130	0.15	5,242	24	1.88
Securities available-for-sale	3,559,512	35,849	4.03	2,240,698	27,814	4.97
Trading securities	70,820	32	0.18	118,240	576	1.94
Other interest-earning assets	75,999	721	3.76	78,629	1,168	5.92
Total interest-earning assets	16,587,735	183,937	4.40	14,767,847	199,897	5.39
Allowance for loan and lease losses	(260,223)			(182,183)		
Cash and due from banks	308,014			375,307		
Other non-earning assets	1,302,705			1,159,613		
Total assets	\$ 17,938,231			\$ 16,120,584		
Liabilities and Equity (2)						
Interest-bearing deposits						
Interest checking accounts	\$ 1,637,211	\$ 1,018	0.25	\$ 826,304	\$ 1,495	0.72
Money market accounts	4,231,706	7,029	0.66	3,780,027	15,961	1.68
Savings deposits	262,483	426	0.64	137,712	153	0.44
Time deposits - under \$100,000	210,968	560	1.05	213,436	1,549	2.89
Time deposits - \$100,000 and over	1,220,790	3,821	1.24	1,222,287	7,531	2.45
Total interest-bearing deposits	7,563,158	12,854	0.67	6,179,766	26,689	1.72
Federal funds purchased and securities sold under repurchase agreements						
Other borrowings	234,213	2,016	3.41	1,357,166	7,767	2.28
	510,826	4,208	3.27	1,116,500	8,346	2.97
Total interest-bearing liabilities	8,308,197	19,078	0.91	8,653,432	42,802	1.97
Noninterest-bearing deposits	7,213,764			5,557,354		
Other liabilities	212,050			251,985		
Total equity	2,204,220			1,657,813		
Total liabilities and equity	\$ 17,938,231			\$ 16,120,584		
Net interest spread						
			3.49%			3.42%
Fully taxable-equivalent net interest and dividend income		\$ 164,859			\$ 157,095	

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Net interest margin	3.94%	4.23%
Less: Dividend income		
included in other income	721	1,168
Fully taxable-equivalent net		
interest income	\$ 164,138	\$ 155,927

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- (1) Net interest income is presented on a fully taxable-equivalent basis.
 - (2) Certain prior period balances have been reclassified to conform to the current period presentation.
 - (3) Includes average nonaccrual loans of \$378,297 and \$128,221 for 2009 and 2008, respectively.
 - (4) Loan income includes loan fees of \$4,602 and \$4,785 for 2009 and 2008, respectively.

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Net Interest Income Summary						
(in thousands)	For the nine months ended September 30, 2009			For the nine months ended September 30, 2008		
	Average Balance	Interest income/ expense (1)(4)	Average interest rate	Average Balance	Interest income/ expense (1)(4)	Average interest rate
Assets (2)						
Interest-earning assets						
Loans and leases						
Commercial	\$ 4,733,345	\$ 149,710	4.23%	\$ 4,619,699	\$ 194,081	5.61%
Commercial real estate mortgages	2,173,984	91,687	5.64	2,026,798	100,417	6.62
Residential mortgages	3,463,277	143,648	5.53	3,261,983	137,028	5.60
Real estate construction	1,154,056	28,193	3.27	1,445,672	61,227	5.66
Equity lines of credit	663,905	17,153	3.45	474,050	16,962	4.78
Installment	174,147	6,617	5.08	165,603	7,561	6.10
Total loans and leases (3)	12,362,714	437,008	4.73	11,993,805	517,276	5.76
Due from banks - interest-bearing	178,146	705	0.53	89,173	1,491	2.23
Federal funds sold and securities purchased under resale agreements	122,536	145	0.16	7,371	147	2.66
Securities available-for-sale	3,042,393	95,772	4.20	2,345,649	85,950	4.89
Trading securities	99,276	467	0.63	99,496	1,598	2.15
Other interest-earning assets	75,264	2,007	3.57	76,329	3,219	5.63
Total interest-earning assets	15,880,329	536,104	4.51	14,611,823	609,681	5.57
Allowance for loan and lease losses	(247,285)			(170,055)		
Cash and due from banks	322,187			380,252		
Other non-earning assets	1,289,956			1,152,265		
Total assets	\$ 17,245,187			\$ 15,974,285		
Liabilities and Equity (2)						
Interest-bearing deposits						
Interest checking accounts	\$ 1,376,543	\$ 2,892	0.28	\$ 838,672	\$ 4,419	0.70
Money market accounts	4,081,099	25,506	0.84	3,709,868	53,974	1.94
Savings deposits	216,895	1,101	0.68	135,097	367	0.36
Time deposits - under \$100,000	221,873	2,626	1.58	213,693	4,976	3.11
Time deposits - \$100,000 and over	1,330,984	16,358	1.64	1,231,350	29,075	3.15
Total interest-bearing deposits	7,227,394	48,483	0.90	6,128,680	92,811	2.02
Federal funds purchased and securities sold under repurchase agreements						
Other borrowings	474,715	6,279	1.77	1,254,052	25,009	2.66
	510,057	9,210	2.41	1,142,866	28,108	3.29
Total interest-bearing liabilities	8,212,166	63,972	1.04	8,525,598	145,928	2.28
Noninterest-bearing deposits	6,660,131			5,522,594		
Other liabilities	238,833			257,707		
Total equity	2,134,057			1,668,386		
Total liabilities and equity	\$ 17,245,187			\$ 15,974,285		
Net interest spread						
			3.47%			3.29%
Fully taxable-equivalent net interest and dividend income		\$ 472,132			\$ 463,753	

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Net interest margin	3.97%	4.24%
Less: Dividend income		
included in other income	2,007	3,219
Fully taxable-equivalent net		
interest income	\$ 470,125	\$ 460,534

-
- (1) Net interest income is presented on a fully taxable-equivalent basis.
 - (2) Certain prior period balances have been reclassified to conform to the current period presentation.
 - (3) Includes average nonaccrual loans of \$338,383 and \$112,377 for 2009 and 2008, respectively.
 - (4) Loan income includes loan fees of \$13,068 and \$13,601 for 2009 and 2008, respectively.

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Net interest income was \$161.3 million for the third quarter of 2009, compared to \$152.8 million for the same quarter last year and \$155.6 million for the second quarter of 2009. Fully taxable-equivalent net interest and dividend income totaled \$164.9 million for the third quarter of 2009, compared with \$157.1 million for the same quarter last year and \$158.9 million for the second quarter of 2009.

(in millions)	For the three months ended September 30,			% Change	For the three months ended June 30, 2009		% Change
	2009	2008					
Average Loans and Leases	\$ 12,339.1	\$ 12,230.6		1	\$ 12,354.3		(0)
Average Total Securities	3,630.3	2,358.9		54	3,364.2		8
Average Earning Assets	16,587.7	14,767.8		12	16,003.3		4
Average Deposits	14,776.9	11,737.1		26	14,023.3		5
Average Core Deposits	13,556.1	10,514.8		29	12,711.8		7
Fully Taxable-Equivalent Net							
Interest Income	164.9	157.1		5	158.9		4
Net Interest Margin	3.94%	4.23%		(7)	3.98%		(1)

The Company's yield on earning assets for the third quarter of 2009 was 4.40 percent, down from 5.39 percent for the third quarter of 2008 and 4.49 percent for the second quarter of 2009. The Bank's average prime rate declined 175 basis points to 3.25 percent in the third quarter of 2009 from 5.00 percent for the year-earlier quarter, and remained unchanged from the second quarter of 2009. The net interest margin for the third quarter of 2009 was 3.94 percent, compared with 4.23 percent and 3.98 percent for the quarters ended September 30, 2008 and June 30, 2009, respectively. Lower funding costs and growth in noninterest-bearing deposits reduced the impact of the 99 basis point decrease in the yield on earning assets compared with the year-earlier quarter.

Average loan and lease balances grew to \$12.34 billion for the third quarter of 2009, an increase of 1 percent over \$12.23 billion for the year-earlier quarter and a slight decrease from \$12.35 billion for the second quarter of 2009. The following table provides information on average loan balances by type:

Average Loans (in millions)	For the three months ended September 30,			% Change	For the three months ended June 30, 2009		% Change
	2009	2008					
Commercial	\$ 4,723.6	\$ 4,727.2		(0)%	\$ 4,720.9		0%
Commercial real estate mortgages	2,144.6	2,094.9		2	2,177.7		(2)
Residential mortgages	3,528.1	3,335.2		6	3,454.1		2
Real estate construction	1,078.8	1,403.7		(23)	1,153.3		(6)
Equity lines of credit	687.2	513.1		34	674.1		2
Other loans	176.8	156.5		13	174.2		1
Total Loans	\$ 12,339.1	\$ 12,230.6		1%	\$ 12,354.3		(0)%

Average commercial loans were virtually unchanged from both the third quarter of 2008 and the second quarter of 2009. Average commercial real estate loans grew 2 percent from the third quarter of 2008 and decreased 2 percent from the second quarter of 2009. Average single family residential mortgage loans, nearly all of which are made to the Company's private banking clients, increased 6 percent from the third quarter of last year and 2 percent from the second quarter of 2009. The residential mortgage loan portfolio has an average loan-to-value ratio of 49 percent at origination and continues to perform well. Average construction loans decreased 23 percent from the same period a year ago and 6 percent from the second quarter of 2009. The construction portfolio is diverse in terms of geography and product type. It consists primarily of recourse loans to well-established real estate developers and are generally located in established urban markets. Most of these developers are clients with whom the Bank has significant long-term relationships. The construction loan portfolio which includes loans to developers of residential and non-residential properties, continued to show signs of weakness. In the commercial sector, sales and lease absorption rates slowed, and values

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and lease rates declined due to the economic slowdown. In the residential sector, the value of land continued to deteriorate even as new home sales activity in certain markets continues to strengthen. See Balance Sheet Analysis Loan and Lease Portfolio for further discussion of the loan portfolio.

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Average deposits totaled \$14.78 billion for the third quarter of 2009, a 26 percent increase from \$11.74 billion for the third quarter of 2008 and a 5 percent increase from average deposits of \$14.02 billion for the second quarter of 2009. Average core deposits totaled \$13.56 billion for the third quarter of 2009, a 29 percent increase from \$10.51 billion for the third quarter of 2008 and a 7 percent increase from \$12.71 billion for the second quarter of 2009.

As part of its long-standing asset and liability management strategies, the Company uses interest-rate swaps to mitigate interest-rate risk associated with changes to: 1) the fair value of certain fixed-rate deposits and borrowings (fair value hedges) and 2) certain cash flows related to future interest payments on variable-rate loans (cash flow hedges). The notional amount of interest-rate swaps designated as hedging instruments at September 30, 2009 was \$707.4 million, of which \$382.4 million were designated as fair value hedges and \$325.0 million were designated as cash flow hedges. At September 30, 2008 and December 31, 2008, the Company had \$715.9 million notional amount of interest-rate swaps, of which \$390.9 million were designated as fair value hedges and \$325.0 million were designated as cash flow hedges.

The periodic net settlement of interest-rate swaps is recorded as an adjustment to interest income or interest expense. The impact of interest-rate swaps on interest income and interest expense for the three months and nine months ended September 30, 2009 and 2008 is presented in the table below:

The Effect of Derivative Instruments on the Consolidated Statements of Income

(in millions)

Derivative Instruments Designated as Fair Value Hedges	Location in Consolidated Statements of Income	Amount of Income (Expense) Recognized on Derivatives Three Months Ended September 30,		Amount of Income (Expense) Recognized on Derivatives Nine Months Ended September 30,	
		2009	2008	2009	2008
Interest-rate swaps-fair value	Interest expense	\$ 4.2	\$ 2.2	\$ 11.1	\$ 5.0
Interest-rate swaps-cash flow	Interest income	3.0	1.4	8.9	4.0
Total income		\$ 7.2	\$ 3.6	\$ 20.0	\$ 9.0

The decline in market interest rates has led to a reduction in interest income on variable rate loans compared with the year-earlier periods. This reduction will be partially offset by the income from existing swaps qualifying as cash flow hedges. The net interest accrual on these swaps over the next 12 months is projected to be \$9.4 million based on current market conditions. Both the income for the quarter and the projected income for the next 12 months should be viewed in context with the benefit the Company has received from increases in interest rates in the past and the decline in income the Company will experience from decreases in interest rates.

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Net interest income is impacted by the volume (changes in volume multiplied by prior rate), interest rate (changes in rate multiplied by prior volume), and mix of interest-earning assets and interest-bearing liabilities. The following tables provide a breakdown of the changes in net interest income on a fully taxable-equivalent basis and dividend income due to volume and rate between the third quarters and first nine months of 2009 and 2008, as well as the third quarters and first nine months of 2008 and 2007:

(in thousands)	Changes In Net Interest Income					
	For the three months ended September 30, 2009 vs 2008			For the three months ended September 30, 2008 vs 2007		
	Increase (decrease) due to		Net increase (decrease)	Increase (decrease) due to		Net increase (decrease)
	Volume	Rate		Volume	Rate	
Interest earned on:						
Loans and leases	\$ 1,541	\$ (24,470)	\$ (22,929)	\$ 17,063	\$ (45,678)	\$ (28,615)
Securities available-for-sale	14,113	(6,078)	8,035	(6,246)	1,278	(4,968)
Due from banks - interest-bearing	284	(465)	(181)	(31)	(390)	(421)
Trading securities	(167)	(377)	(544)	336	(872)	(536)
Federal funds sold and securities purchased under resale agreements	150	(44)	106	(48)	(64)	(112)
Other interest-earning assets	(37)	(410)	(447)	149	(42)	107
Total interest-earning assets	15,884	(31,844)	(15,960)	11,223	(45,768)	(34,545)
Interest paid on:						
Interest checking deposits	889	(1,366)	(477)	80	76	156
Money market deposits	1,727	(10,659)	(8,932)	253	(14,124)	(13,871)
Savings deposits	182	91	273	(10)	(18)	(28)
Time deposits	(25)	(4,674)	(4,699)	(7,968)	(9,888)	(17,856)
Other borrowings	(13,525)	3,636	(9,889)	10,907	(12,846)	(1,939)
Total interest-bearing liabilities	(10,752)	(12,972)	(23,724)	3,262	(36,800)	(33,538)
	\$ 26,636	\$ (18,872)	\$ 7,764	\$ 7,961	\$ (8,968)	\$ (1,007)

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Changes In Net Interest Income							
	For the nine months ended September 30, 2009 vs 2008			For the nine months ended September 30, 2008 vs 2007			
	Increase (decrease) due to		Net increase (decrease)	Increase (decrease) due to		Net increase (decrease)	
(in thousands)	Volume	Rate		Volume	Rate		
Interest earned on:							
Loans and leases	\$ 15,343	\$ (95,611)	\$ (80,268)	\$ 52,856	\$ (109,331)	\$ (56,475)	
Securities available-for-sale	23,066	(13,244)	9,822	(18,279)	3,281	(14,998)	
Due from banks - interest-bearing	841	(1,627)	(786)	51	(437)	(386)	
Trading securities	(4)	(1,127)	(1,131)	895	(2,166)	(1,271)	
Federal funds sold and securities purchased under resale agreements	258	(260)	(2)	(257)	(236)	(493)	
Other interest-earning assets	(45)	(1,167)	(1,212)	756	(253)	503	
Total interest-earning assets	39,459	(113,036)	(73,577)	36,022	(109,142)	(73,120)	
Interest paid on:							
Interest checking deposits	1,939	(3,466)	(1,527)	280	805	1,085	
Money market deposits	4,894	(33,362)	(28,468)	1,795	(31,547)	(29,752)	
Savings deposits	299	435	734	(49)	(124)	(173)	
Time deposits	2,382	(17,449)	(15,067)	(23,204)	(21,191)	(44,395)	
Other borrowings	(25,208)	(12,420)	(37,628)	34,399	(31,469)	2,930	
Total interest-bearing liabilities	(15,694)	(66,262)	(81,956)	13,221	(83,526)	(70,305)	
	\$ 55,153	\$ (46,774)	\$ 8,379	\$ 22,801	\$ (25,616)	\$ (2,815)	

The impact of interest rate swaps, which affect interest income on loans and leases and interest expense on deposits and borrowings, is included in rate changes.

Provision for Credit Losses

The Company accounts for the credit risk associated with lending activities through its allowance for loan and lease losses, reserve for off-balance sheet credit commitments and provision for credit losses. The provision is the expense recognized in the consolidated income statement to adjust the allowance and the reserve for off-balance sheet credit commitments to the level deemed appropriate by management, as determined through application of the Company's allowance methodology procedures. See Critical Accounting Policies on page 39 of the Company's Form 10-K for the year ended December 31, 2008.

The Company recorded expense of \$85.0 million and \$35.0 million through the provision for credit losses in the three months ended September 30, 2009 and 2008, respectively. The provision for credit losses reflects management's continuing assessment of the credit quality of the Company's loan portfolio, which is affected by a broad range of economic factors, including weak valuations in commercial real estate. Additional factors affecting the provision include net loan charge-offs, nonaccrual loans, specific reserves, risk rating migration and changes in the portfolio size. See Balance Sheet Analysis Allowance for Loan and Lease Losses and Reserve for Off-Balance Sheet Credit Commitments for further information on factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for loan and lease losses.

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Nonaccrual loans totaled \$408.3 million at September 30, 2009, up from \$211.1 million as of December 31, 2008, and \$150.9 million at September 30, 2008. The majority of new nonaccrual loans are in the commercial, commercial real estate mortgages and real estate construction portfolios. Total nonperforming assets, consisting of nonaccrual loans and OREO, were \$452.2 million, or 3.70 percent of total loans and leases and OREO, at September 30, 2009. This compares with \$222.5 million, or 1.79 percent, at the end of 2008 and \$153.2 million, or 1.25 percent, at September 30, 2008.

Net loan charge-offs were \$76.9 million, or 2.47 percent of average total loans and leases on an annualized basis, for the third quarter of 2009, up from \$12.8 million, or 0.42 percent, in the year-earlier quarter. The increase in net charge-offs occurred primarily in the Company's commercial and real estate construction loan portfolios.

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Credit quality will be influenced by underlying trends in the economic cycle, particularly in California and Nevada, and other factors which are beyond management's control. Consequently, no assurances can be given that the Company will not sustain loan or lease losses, in any particular period, that are sizable in relation to the allowance for loan and lease losses.

Noninterest Income

Noninterest income was \$68.8 million in the third quarter of 2009, an increase of 7 percent from the second quarter of 2009, primarily due to higher wealth management fee income as market conditions improved, as well as a result of the LMCG acquisition. Noninterest income was up 37 percent from \$50.1 million for the year-earlier quarter, reflecting net securities gains of \$2.7 million in the third quarter of 2009 compared to net securities losses of \$32.5 million in the third quarter of 2008. Noninterest income accounted for 30 percent of the Company's revenue in the current quarter, an increase from 25 percent for the year-earlier quarter.

Wealth Management

The Bank provides various trust, investment and wealth advisory services to its individual and business clients. The Company delivers these services through the Bank's Wealth Management division as well as through its wealth management affiliates. Trust services are provided only by the Bank. Trust and investment fee revenue includes fees from trust, investment and asset management, and other wealth advisory services. A portion of these fees is based on the market value of client assets managed, advised, administered or held in custody. The remaining portion of these fees is based on the specific service provided, such as estate and financial planning services, or may be fixed fees. For those fees based on market valuations, the mix of assets held in client accounts impacts how closely changes in trust and investment fee income correlate with changes in the financial markets. Changes in market valuations are reflected in fee income primarily on a trailing-quarter basis. Trust and investment fees for the third quarter of 2009 were up 28 percent from the second quarter of 2009, as market conditions improved, but were down 3 percent from the third quarter of 2008, reflecting the year-over-year decline in market values. Money market mutual fund and brokerage fees were \$6.0 million, down 69 percent from \$19.5 million in the third quarter of 2008 and down 9 percent from \$6.6 million in the second quarter of this year, due to historically low interest rates on government and other quality short-term bonds. Additionally, brokerage fees declined from the year-ago period, reflecting reduced spreads and trading activity in this economic environment.

Assets under management (AUM) include assets for which the Company makes investment decisions on behalf of its clients and assets under advisement for which the Company receives advisory fees from its clients. Assets under administration (AUA) are assets the Company holds in a fiduciary capacity or for which it provides non-advisory services. The table below provides a summary of AUM and AUA for the dates indicated:

(in millions)	At September 30,		%	At June 30,	
	2009	2008	Change	2009	Change
Assets Under Management	\$ 34,927	\$ 33,106	6	\$ 30,286	15
Assets Under Administration					
Brokerage	5,338	7,277	(27)	5,281	1
Custody and other fiduciary	13,103	11,984	9	12,272	7
Subtotal	18,441	19,261	(4)	17,553	5
Total assets under management or administration (1)	\$ 53,368	\$ 52,367	2	\$ 47,839	12

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(1) Excludes \$9.87 billion, \$6.92 billion, and \$7.48 billion of assets under management for an asset manager in which the Company held a noncontrolling ownership interest as of September 30, 2009, September 30, 2008, and June 30, 2009, respectively.

Assets under management increased 6 percent from the year-earlier quarter and increased 15 percent from the second quarter of 2009. Assets under management or administration increased 2 percent from the year-earlier quarter and increased 12 percent from the second quarter of 2009. The increase in assets under management from September 30, 2008 to September 30, 2009 was primarily due to the addition of assets under management from the acquisition of LMCG, offset by significantly lower equity market values and decreases in money-market fund balances as a number of clients moved investment funds to FDIC-insured bank deposits and fixed-income securities. The 15 percent increase from prior quarter was primarily due to higher equity market values and the LMCG acquisition, which added \$3.36 billion of assets under management at the date of acquisition.

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A distribution of AUM by type of investment is provided in the following table:

Investment (1)	% of AUM September 30, 2009	% of AUM June 30, 2009	% of AUM September 30, 2008
Equities	32%	25%	34%
U.S. fixed income	25	27	20
Cash and cash equivalents	23	30	26
Other (2)	20	18	20
	100%	100%	100%

(1) Excludes assets under management for an asset manager in which the Company held a noncontrolling interest as of September 30, 2009, June 30, 2009 and September 30, 2008.

(2) Includes international equities, private equity and other alternative investments.

Historically, the investment mix of assets generally does not change significantly on a quarter to quarter basis. The mix of assets for the current quarter has changed compared to the prior year quarter primarily due to an increase in equity investments as a result of the LMCG acquisition in the third quarter of 2009 offset by decreases in the market value of equities. In addition, fixed income securities as a percentage of AUM increased as discussed above. The LMCG acquisition and increase in equity values during the third quarter of 2009 from second quarter levels contributed to the increase in equities as a percentage of AUM.

Other Noninterest Income

Cash management and deposit transaction fees for the third quarter of 2009 was \$13.1 million, up 6 percent from the same period last year. Cash management and deposit transaction fees increased 3 percent from the second quarter of 2009. The growth in deposit-related fee income from the year-earlier quarter is due to the sale of additional cash management services and the impact of declining interest rates on compensating deposit balances. The lower rates increased deposit service charge income.

International services income for the third quarter of 2009 was \$7.9 million, down 4 percent from the same period last year and 1 percent from the second quarter of 2009. International services income includes foreign exchange fees, fees on commercial letters of credit and standby letters of credit, foreign collection fees and gains and losses associated with fluctuations in foreign currency exchange rates. The decrease from the prior year quarter reflects the impact of the slowdown in the global economy on the demand for services.

Other income for the third quarter of 2009 was \$6.2 million, down 25 percent, from the year-earlier quarter, and down \$2.9 million or 32 percent from the second quarter of 2009. The decrease was largely due to a \$1.4 million impairment loss on private equity investments in the third quarter of 2009.

Impairment losses on securities available-for-sale that were recognized in earnings were \$0.8 million for the third quarter of 2009, compared with \$1.5 million for the second quarter of 2009, and \$31.9 million for the third quarter of 2008. The impairment losses recognized in the year-earlier quarter resulted from significant disruptions in the financial markets which included substantial declines in equity valuations.

Gains on sales of debt securities available-for-sale totaled \$3.4 million for the third quarter of 2009, compared with a \$3.3 million gain on sales of securities during the second quarter of 2009. Losses on sales of available-for-sale securities totaled \$0.5 million for the same period last year.

Noninterest Expense

Noninterest expense was \$143.8 million for the third quarter of 2009, a decrease of 2 percent from the year-earlier quarter and down slightly from the second quarter of 2009. The decrease from the year-earlier period was due to lower personnel cost offset by increased FDIC premiums, a lease write-off related to an affiliate and higher OREO expenses.

Salaries and employee benefits expense decreased to \$80.9 million for the current quarter, or 9 percent, from \$89.4 million for the year-earlier quarter. The decrease in expense from the year-earlier quarter is primarily due to a reduction in bonuses and personnel costs, as well as a decline in full-time equivalent staff. Full-time equivalent staff decreased to 2,891 at September 30, 2009, from 3,027 at September 30, 2008. Salaries and employee benefits expense increased 7 percent from

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the second quarter of 2009 due primarily to the addition of employees from the LMCG acquisition along with other increased personnel cost.

The remaining noninterest expense categories increased \$6.0 million, or 11 percent, for the third quarter of 2009 compared with the third quarter of 2008, and decreased 8 percent compared with the second quarter of 2009. The increase from the year-earlier quarter is due primarily to a \$3 million increase in FDIC premiums and a \$1.3 million lease write-off relating to an affiliate. The decrease from the second quarter of 2009 was due to the Company's \$7.6 million share of a FDIC special assessment fee levied against all FDIC-insured deposits that was recognized in the second quarter of 2009.

Share-Based Compensation Expense

On September 30, 2009, the Company had one share-based compensation plan, the City National Corporation 2008 Omnibus Plan (the Plan), which was approved by the Company's shareholders on April 23, 2008. The Company uses a Black-Scholes methodology to determine the share-based compensation expense for these plans. See Note 8, *Share-Based Compensation*, of the Notes to the Unaudited Consolidated Financial Statements included in this Form 10-Q for a description of the stock option plan and method of estimating the fair value of option awards.

The compensation cost that has been recognized for all share-based awards was \$3.6 million and \$10.8 million for the three months and nine months ended September 30, 2009, and \$3.6 million and \$10.8 million for the year-earlier periods, respectively. The Company received \$1.2 million and \$19.6 million in cash from the exercise of stock options during the nine-month periods ended September 30, 2009 and 2008, respectively. The tax expense recognized for share-based compensation arrangements in equity was \$0.7 million for the nine months ended September 30, 2009, compared with a tax benefit of \$3.8 million for the nine months ended September 30, 2008.

At September 30, 2009, there was \$13.8 million of unrecognized compensation cost related to unvested stock options granted under the Company's plans. That cost is expected to be recognized over a weighted average period of 2.6 years. At September 30, 2009, there was \$18.4 million of unrecognized compensation cost related to restricted shares granted under the Company's plans. That cost is expected to be recognized over a weighted average period of 3.2 years.

Segment Results

The Company's reportable segments are Commercial and Private Banking, Wealth Management and Other. For a more complete description of the segments, including summary financial information, see Note 15 to the Unaudited Consolidated Financial Statements.

Commercial and Private Banking

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The Commercial and Private Banking segment had a net loss of \$1.9 million for the quarter ended September 30, 2009 compared with net income of \$31.3 million for the year-earlier quarter. Net income for the first nine months of 2009 decreased to \$18.8 million from \$97.8 million for the year-earlier period. The decrease in net income for the quarter and year to date compared with the prior year periods is due to the higher provision for credit losses in 2009 and decrease in noninterest income. Refer to page 48 for further discussion of the provision for credit losses. Net interest income decreased to \$157.1 million for the third quarter of 2009 from \$159.7 million for the third quarter of 2008. Net interest income decreased to \$459.6 million for the nine months ended September 30, 2009, from \$467.6 million for the prior year period. For the quarter and year to date, a compressed net interest margin due to historically low interest rates offset the favorable impact of loan growth compared with the prior year periods. Average loans increased to \$12.28 billion, or by 1 percent, for the quarter ended September 30, 2009, compared with the year-earlier quarter. Average loans increased to \$12.30 billion, or by 3 percent, for the nine months ended September 30, 2009, compared with the prior year period. Average deposits increased by 25 percent to \$13.44 billion for the third quarter of 2009 from \$10.76 billion for the third quarter of 2008. Average deposits increased by 17 percent to \$12.52 billion for the nine months ended September 30, 2009 compared with the year-earlier period. Noninterest income decreased to \$38.9 million and \$120.8 million for the three months and nine months ended September 30, 2009 compared with \$48.8 million and \$139.0 million for the year-earlier periods, respectively. Increases in cash management and deposit transaction fees associated with the growth in deposits and increased demand for cash management services was offset by lower trust and brokerage fees and international services income for the quarter and year to date compared with the year-earlier periods. Noninterest expense, including depreciation and amortization, decreased to \$114.3 million, or by 4 percent, from \$119.5 million for the year-earlier quarter. Noninterest expense decreased to \$342.9 million for the nine months ended September 30, 2009, from \$350.9 million for the prior year period. Decreases in salaries and benefits expense for the quarter and year-to-date compared with the prior year periods was partially offset by increases in OREO expense and FDIC expense.

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Wealth Management

The Wealth Management segment had net income of \$0.2 million for the three months ended September 30, 2009, and net income of \$1.6 million for the nine months ended September 30, 2009, compared with net income of \$9.4 million and \$29.4 million for the year-earlier periods, respectively. The decrease in net income for the quarter and year to date compared with the prior year is largely due to declines in the equity market valuations, lower fees due to decreases in money market fund balances, and reduced trading activity. Refer to page 49 for a discussion of the factors impacting fee income for the Wealth Management segment. Noninterest expense, including depreciation and amortization, increased by 2 percent to \$38.9 million for the third quarter of 2009 compared with \$38.1 million for the year-earlier quarter. Noninterest expense, including depreciation and amortization, decreased by 6 percent to \$106.6 million for the first nine months of 2009 compared with \$113.9 million for the year-earlier period. Noninterest expense for the third quarter and year-to-date include LMCG, an institutional asset management firm that was acquired in July 2009. Refer to Recent Developments on page 40 for further discussion of this acquisition. The decrease in year-to-date noninterest expense is largely due to lower compensation costs and headcount reductions. This was partially offset by expenses associated with the hiring of two teams by Convergent Wealth Advisors.

Other

The Other segment had net income of \$9.7 million for the quarter ended September 30, 2009, compared with a net loss of \$24.1 million for the year-earlier quarter. Net income for the current quarter includes \$3.4 million, before tax, of gains on sales of securities and a \$43.3 million reduction in the elimination of inter-segment revenues (recorded in the Other segment) due to declines in trust, investment and brokerage fees. Additionally, securities impairment losses recognized in earnings declined to \$0.8 million, before tax, for the current quarter compared with \$31.9 million for the year-earlier quarter. Net income was \$1.8 million for the nine-month period ended September 30, 2009 compared with a net loss of \$31.2 million for the year-earlier period. The decrease in the net loss for the year-to-date period compared with the prior year is largely due to a \$41.2 reduction in the elimination of inter-segment revenues and a reduction in securities losses. Securities impairment losses recognized in earnings declined to \$14.4 million, before tax, for the nine months ended September 30, 2009 compared with \$31.9 million for the year-earlier period. Net income for the quarter and year-to-date was favorably impacted by a more closely matched net funding position in the Asset Liability Funding Center due to the considerable decline in interest rates since 2008, resulting in a reduction in net interest expense compared with the year-earlier periods.

Income Taxes

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The Company recognized a tax benefit of \$7.0 million during the third quarter of 2009, which was primarily attributable to an updated effective tax rate based on lower expected taxable income for the year. The Company's effective tax rate for the third quarter of 2008 was 18.3 percent. The effective tax rate for the first nine months of 2009 was a negative tax rate equal to 38.7 percent of pretax income, compared with an effective tax rate of 30.4 percent for the year-earlier period. Effective tax rates differ from the applicable statutory federal and state tax rates due to various factors, including tax benefits from investments in affordable housing partnerships and tax-exempt income on municipal bonds and bank-owned life insurance. Permanent tax differences do not vary directly with the level of income and therefore have a larger relative impact on the effective tax rate when earnings are lower. The effective tax rate for the current and year-earlier periods also reflects the adoption of new guidance related to accounting for noncontrolling interests that became effective January 1, 2009. The new guidance does not change the accounting for income taxes but it does change the presentation of income taxes in the consolidated financial statements. Noncontrolling interests' share of subsidiary earnings is no longer recognized as an expense in the computation of consolidated net income. A decline in the effective tax rate occurs because consolidated net income includes earnings allocable to the noncontrolling interest for which no tax expense is provided. The guidance requires that prior periods presented be restated retrospectively.

The Company recognizes accrued interest and penalties relating to unrecognized tax benefits as an income tax provision expense. The Company recognized approximately \$0.5 million of benefit on accrued interest and penalties for the nine-month period ended September 30, 2009 compared to \$1.3 million of interest and penalties expense for the nine-month periods ended September 30, 2008. The Company had approximately \$5.8 million, \$6.3 million and \$10.3 million of accrued interest and penalties as of September 30, 2009, December 31, 2008 and September 30, 2008, respectively.

The Company and its subsidiaries file a consolidated federal income tax return and also file income tax returns in various state jurisdictions. The Internal Revenue Service (IRS) completed its audits of the Company for the tax years 2002-2007 resulting in no material financial statement impact. The Company is currently being audited by the IRS for 2008 and by the Franchise Tax Board for the years 1998-2004. The potential financial statement impact, if any, resulting from completion of these audits cannot be determined at this time.

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From time to time, there may be differences in opinion with respect to the tax treatment accorded transactions. If a tax position which was previously recognized on the financial statements is no longer more likely than not to be sustained upon a challenge from the taxing authorities, the tax benefit from the tax position will be derecognized. As of September 30, 2009, the Company does not have any tax positions which dropped below a more likely than not threshold.

BALANCE SHEET ANALYSIS

Total assets increased by 12 percent to \$18.40 billion at September 30, 2009 from \$16.46 billion at December 31, 2008, and by 13 percent from \$16.33 billion at September 30, 2008. Average assets for the third quarter of 2009 increased to \$17.94 billion from \$16.12 billion for the third quarter of 2008. The increase in period-end and average assets is due to growth in the securities portfolio.

Total average interest-earning assets for the third quarter of 2009 increased to \$16.59 billion from \$14.84 billion for the fourth quarter of 2008 and \$14.77 billion for the third quarter of 2008.

Securities

Comparative period-end securities portfolio balances are presented below:

Securities Available-for-Sale

(in thousands)	September 30, 2009		December 31, 2008		September 30, 2008	
	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
U.S. Treasury	\$ 13,543	\$ 13,554	\$ 45,709	\$ 46,197	\$ 45,784	\$ 45,940
Federal agency - Debt	358,928	360,284	29,939	30,180	29,933	30,135
Federal agency - MBS	564,193	581,974	644,594	653,914	650,616	642,078
CMOs - Federal agency	1,750,790	1,781,666	563,310	569,369	533,920	529,017
CMOs - Non-agency	314,583	280,856	393,150	305,716	418,417	383,276
State and municipal	384,999	403,264	404,787	413,030	370,118	364,333
Other debt securities	76,069	69,749	98,419	74,343	109,403	96,731
Total debt securities	3,463,105	3,491,347	2,179,908	2,092,749	2,158,191	2,091,510
Equity securities and mutual funds	17,554	20,725	59,276	52,121	72,001	68,408
Total securities	\$ 3,480,659	\$ 3,512,072	\$ 2,239,184	\$ 2,144,870	\$ 2,230,192	\$ 2,159,918

The fair value of securities available-for-sale totaled \$3.51 billion, \$2.14 billion and \$2.16 billion at September 30, 2009, December 31, 2008 and September 30, 2008, respectively. Over the past nine months, deposit growth out-paced loan growth, and a portion of these funds were used to purchase Federal agency debt and CMO securities.

At September 30, 2009, the available-for-sale securities portfolio had a net unrealized gain of \$31.4 million, comprised of unrealized gains of \$74.0 million, net of \$42.6 million of unrealized losses, compared with a net unrealized loss of \$94.3 million at December 31, 2008 and \$70.3 million at September 30, 2008. Refer to the *Impairment Assessment* section for a discussion of management's assessment of the investment portfolio for other-than-temporary impairment.

The average duration of total available-for-sale securities at September 30, 2009 is 2.6 years. This duration compares with 2.7 years at December 31, 2008 and 3.4 years at September 30, 2008. Duration provides a measure of fair value sensitivity to changes in interest rates. The average duration is within the investment guidelines set by the Company's Asset/Liability Committee and the interest-rate risk guidelines set by the Board of Directors. See *Asset/Liability Management* for a discussion of the Company's interest rate position.

Dividend income included in interest income on securities available-for-sale in the consolidated statements of income for the three months and nine months ended September 30, 2009, was \$0.2 million and \$0.9 million, respectively, compared with \$1.9 million and \$5.6 million, for the year-earlier periods, respectively.

The following table provides the expected remaining maturities of debt securities included in the securities portfolio as of September 30, 2009, except for mortgage-backed securities which are allocated according to final maturities. Average expected maturities will differ from contractual maturities because mortgage debt issuers may have the right to repay obligations prior to contractual maturity.

Table of Contents**Debt Securities Available-for-Sale**

(in thousands)	One year or less	Over 1 year thru 5 years	Over 5 years thru 10 years	Over 10 years	Total
U.S. Treasury	\$ 13,554	\$	\$	\$	\$ 13,554
Federal agency - Debt	360,284				360,284
Federal agency - MBS	191	342,725	115,745	123,313	581,974
CMOs - Federal agency	47,660	1,209,560	375,447	148,999	1,781,666
CMOs - Non-agency	1,148	157,386	122,322		280,856
State and municipal	32,031	145,682	164,780	60,771	403,264
Other debt securities	10,002		59,747		69,749
Total debt securities	\$ 464,870	\$ 1,855,353	\$ 838,041	\$ 333,083	\$ 3,491,347
Amortized cost	\$ 462,896	\$ 1,820,675	\$ 850,940	\$ 328,594	\$ 3,463,105

Impairment Assessment

Impairment exists when the fair value of a security is less than its cost. Cost includes adjustments made to the cost basis of a security for accretion, amortization and previous other-than-temporary impairments recognized in earnings. The Company performs a quarterly assessment of the debt and equity securities in its investment portfolio that have an unrealized loss to determine whether the decline in the fair value of these securities below their cost is other-than-temporary. Impairment is considered other-than-temporary when it becomes probable that an investor will be unable to recover the cost of an investment. The Company's impairment assessment takes into consideration factors such as the length of time and the extent to which the market value has been less than cost; the financial condition and near-term prospects of the issuer including events specific to the issuer or industry; defaults or deferrals of scheduled interest, principal or dividend payments; external credit ratings and recent downgrades; and the Company does not intend to sell the security and it is not more likely than not it will be required to sell the security prior to recovery of its amortized cost basis. If a decline in fair value is judged to be other than temporary, the cost basis of the individual security is written down to fair value which then becomes the new cost basis. The new cost basis is not adjusted for subsequent recoveries in fair value.

In accordance with ASC 320-35, when there are credit losses associated with an impaired debt security and the Company does not have the intent to sell the security and it is more likely than not that it will not have to sell the security before recovery of its cost basis, the Company will separate the amount of the impairment into the amount that is credit related and the amount related to non-credit factors. The credit-related impairment is recognized in Net impairment loss recognized in earnings in the consolidated statements of income. The non-credit-related impairment is recognized in Accumulated other comprehensive income (loss) (AOCI).

Securities Deemed to be Other-Than-Temporarily Impaired

Through the impairment assessment process, the Company determined that certain investments were other-than-temporarily impaired at September 30, 2009. The Company recorded credit loss impairment in earnings on available-for-sale securities of \$0.8 million and \$14.4 million for the three months and nine months ended September 30, 2009, respectively. The \$19.8 million non-credit portion of impairment recognized at September 30, 2009 was recorded in AOCI. The Company recorded a \$31.9 million impairment loss on available-for-sale securities for the three months and nine months ended September 30, 2008.

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(in thousands)		For the three months ended		For the nine months ended	
Impairment Losses on		September 30,		September 30,	
Other-Than-Temporarily Impaired Securities		2009	2008	2009	2008
Non-agency CMOs	\$	778	\$	2,315	\$
Collateralized debt obligation income notes			7,159	9,282	7,159
Perpetual preferred stock			21,884	1,124	21,884
Equity securities and mutual funds			2,893	1,630	2,893
Total	\$	778	\$	14,351	\$
			31,936		31,936

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The following table provides a rollforward of credit related other than-temporary impairment recognized in earnings for the three months and nine months ended September 30, 2009. Credit related other-than-temporary impairment that was recognized in earnings during the three months and nine months ending September 30, 2009 is reflected as an Initial credit-related impairment if the current period is the first time the security had a credit impairment. A credit related other-than-temporary impairment is reflected as a Subsequent credit-related impairment if the current period is not the first time the security had a credit impairment.

(in thousands)	Three months ended September 30, 2009		Nine months ended September 30, 2009	
Balance, beginning of period	\$	14,835	\$	8,083
Subsequent credit-related impairment		696		5,215
Initial credit-related impairment		82		2,315
Balance, end of period	\$	15,613	\$	15,613

Non-Agency CMOs

The Company identified seven non-agency collateralized mortgage obligation securities (CMOs) that had other than temporary impairment at September 30, 2009. These CMOs had an adjusted cost basis of \$65.1 million at September 30, 2009 and a fair value of \$45.3 million. The fair value of the CMOs is based on prices provided by an external pricing service. These securities are classified as Level 2 in the fair value hierarchy. The CMOs analyzed for impairment have a fixed interest rate for an initial period after which they become variable-rate instruments with annual rate resets. For purposes of projecting future cash flows, the current fixed coupon was used through the reset date for each security. The prevailing LIBOR/Treasury curve as of September 30, 2009 was used to project all future floating-rate cash flows based on the characteristics of each security. Other factors considered in the projection of future cash flows include the current level of subordination from other CMO classes, anticipated prepayment rates, cumulative defaults and loss given default. The present value of expected cash flows was less than cost by a total of \$0.8 million for the securities analyzed. The Company concluded that the \$0.8 million shortfall in expected cash flows represented a credit loss and recognized an impairment loss in earnings for this amount at September 30, 2009. The Company has recognized credit losses totaling \$2.3 million on its investments in non-agency CMOs year-to-date. The remaining other-than-temporary impairment of \$19.8 million was recognized in AOCL. This non-credit portion of other-than-temporary impairment is attributed to external market conditions, primarily the lack of liquidity in these securities, and risks of additional declines in the housing markets.

Collateralized Debt Obligation Income Notes

Collateralized debt obligation income notes (Income Notes) are equity interests in a multi-class, cash flow collateralized bond obligation backed by a collection of Trust Preferred securities issued by financial institutions. The equity interests represent ownership of all residual cash flow from the asset pools after all fees have been paid and debt issues have been serviced. Income Notes are collateralized by debt securities with stated maturities. Income Notes are classified as Level 3 in the fair value hierarchy. Refer to Note 3, *Fair Value Measurements*, for further discussion of fair value.

In response to unprecedented volatility in the credit markets, the Company reevaluated its investment strategy and risk tolerance with respect to its investments in Income Notes. Based on this reassessment, the Company determined that its intent was to sell these securities when the market recovers rather than hold them for the long term. The change in intent resulted in the Company transferring its holdings of Income Notes from available-for-sale to trading securities on April 1, 2009, at their fair value of \$2.4 million. There were no gross gains and gross losses included in earnings from the transfer of these securities. Trading securities are carried at fair value and unrealized holding gains and losses are included in earnings.

The Company recorded a \$9.3 million impairment loss, of which \$5.2 million represented a credit loss recognized in earnings, on its investment in Income Notes in the first quarter of 2009 prior to their transfer to trading securities. The Income Notes were evaluated for impairment under the guidance applicable to certain debt securities which are beneficial interests in securitized financial assets and not considered to be of high credit quality. For these securities, other-than-temporary impairment exists when it is probable there has been an adverse change in estimated cash flows since the date of acquisition. Due to lack of activity in the market for Income Notes, the fair value of these securities was determined using an internal cash flow model that incorporated management's assumptions about risk-adjusted discount rates, prepayment expectations, projected cash flows and collateral performance. The Company considered a number of factors in determining the discount rate used in the cash flow valuation model including the implied rate of return at the last date the market for Income Notes and similar securities was active, rates of return that market participants would consider in valuing the securities and indicative quotes from dealers.

Table of ContentsPerpetual Preferred Stock

The adjusted cost basis of the Company's investment in perpetual preferred stock issued by Freddie Mac and Fannie Mae was \$0.6 million at September 30, 2009, compared with a fair value of \$1.6 million, indicating that these securities were not impaired at quarter end. The Company previously recorded impairment losses totaling \$23.0 million on these securities. Impairment losses of \$1.1 million and \$21.9 million were recognized for the quarters ending March 31, 2009 and September 30, 2008, respectively, following the action taken by the Federal Housing Finance Agency in September 2008 of placing these Government-Sponsored Agencies into conservatorship and eliminating the dividends on their preferred shares.

Mutual Funds

The adjusted cost basis of available-for-sale mutual funds was \$16.9 million at September 30, 2009, compared with a fair value of \$19.1 million, indicating that these investments were not impaired at quarter end. The Company previously recognized a \$1.6 million impairment loss on its investment in one high-yield bond fund in the quarter ended March 31, 2009.

The following table provides a summary of the gross unrealized losses and fair value of investment securities aggregated by investment category and length of time that the securities have been in a continuous unrealized loss position as of September 30, 2009. The table includes investments for which an other-than-temporary impairment has not been recognized in earnings, along with investments that had a non-credit related impairment recognized in AOCI:

(in thousands)	Less than 12 months		12 months or greater		Total	
	Fair Value	Estimated Unrealized Loss	Fair Value	Estimated Unrealized Loss	Fair Value	Estimated Unrealized Loss
Federal agency - Debt	\$ 25,819	\$ 108	\$	\$	\$ 25,819	\$ 108
Federal agency - MBS	9,937	23			9,937	23
CMOs - Federal agency	129,042	1,263			129,042	1,263
CMOs - Non-agency			257,400	33,815	257,400	33,815
State and municipal	1,611	31	5,865	180	7,476	211
Other debt securities			45,089	7,193	45,089	7,193
Total securities	\$ 166,409	\$ 1,425	\$ 308,354	\$ 41,188	\$ 474,763	\$ 42,613

At September 30, 2009, total securities available-for-sale had a fair value of \$3.51 billion, which included the \$474.8 million of securities available-for-sale in an unrealized loss position as of September 30, 2009. This balance consists of \$429.5 million of temporarily impaired securities and \$45.3 million of securities that had non-credit related impairment recognized in AOCI. At September 30, 2009, the Company had 55 debt securities in an unrealized loss position. The debt securities in an unrealized loss position include 2 Federal agency debt securities, 1 Federal agency MBS, 7 Federal agency CMOs, 29 private label CMOs, 10 state and municipal securities and 6 other debt securities. The largest component of the unrealized loss at September 30, 2009 was \$33.8 million related to non-agency collateralized mortgage obligations. The Company monitors the performance of the mortgages underlying these bonds. Although there has been some deterioration in collateral performance during 2009 due to declines in the housing market, the Company only holds the most senior tranches of each issue which provides protection against defaults. The Company attributes the unrealized loss on CMOs held largely to the current absence of liquidity in the credit markets and not to deterioration in credit quality. The unrealized loss on the Company's holdings of non-agency CMOs decreased from \$57.0 million at June 30, 2009 to \$33.8 million at September 30, 2009 largely due to government-backed investment programs which have modestly

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increased demand and liquidity in these markets. Other than the \$2.3 million credit loss discussed in *Non-Agency CMOs* above, the Company expects to receive all contractual principal and interest payments due on its CMO debt securities. Additionally, the Company does not intend to sell the securities, and it is not more likely than not that it will be required to sell the securities before it recovers the cost basis of its investment. The mortgages in these asset pools are relatively large and have been made to borrowers with strong credit history and significant equity invested in their homes. They are well diversified geographically. Nonetheless, significant further weakening of economic fundamentals coupled with significant increases in unemployment and substantial deterioration in the value of high-end residential properties could extend distress to this borrower population. This could increase default rates and put additional pressure on property values. Should these conditions occur, the value of these securities could decline and trigger the recognition of further other-than-temporary impairment charges.

Other debt securities include the Company's investments in highly rated corporate debt and collateralized bond obligations backed by trust preferred securities (CDOs) issued by a geographically diverse pool of small- and medium-sized financial institutions. Liquidity pressures in 2008 and in 2009 caused a general decline in the value of corporate debt.

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The CDOs held in available-for-sale securities at September 30, 2009 are the most senior tranches of each issue. The market for CDOs was inactive in 2008 and 2009, therefore, the fair values of these securities were determined using an internal pricing model that incorporates assumptions about discount rates in an illiquid market, projected cash flows and collateral performance. The Company attributes the \$4.7 million unrealized loss on CDOs at September 30, 2009 to the illiquid credit markets. The senior notes have collateral that exceeds the outstanding debt by approximately 35 percent. Security valuations reflect the current and prospective performance of the issuers whose debt is contained in these asset pools. The Company expects to receive all contractual principal and interest payments due on its CDOs. Additionally, the Company does not intend to sell the securities, and it is not more likely than not that it will be required to sell the securities before it recovers the cost basis of its investment.

Excluding the investments which had non-credit related impairment, the Company does not consider the debt securities in the above table to be other than temporarily impaired at September 30, 2009.

The following table provides a summary of the gross unrealized losses and fair value of investment securities that are not deemed to be other-than-temporarily impaired aggregated by investment category and length of time that the securities have been in a continuous unrealized loss position as of December 31, 2008:

(in thousands)	Less than 12 months		12 months or greater		Total	
	Fair Value	Estimated Unrealized Loss	Fair Value	Estimated Unrealized Loss	Fair Value	Estimated Unrealized Loss
Federal agency - MBS	\$ 63,634	\$ 719	\$ 12,925	\$ 167	\$ 76,559	\$ 886
CMOs - Federal agency	29,133	111	41,041	796	70,174	907
CMOs - Non-agency	172,899	50,631	132,818	36,803	305,717	87,434
State and municipal	39,974	1,275	4,769	211	44,743	1,486
Other debt securities	43,844	17,661	25,910	6,554	69,754	24,215
Total debt securities	349,484	70,397	217,463	44,531	566,947	114,928
Equity securities and mutual funds	36,129	8,309			36,129	8,309
Total securities	\$ 385,613	\$ 78,706	\$ 217,463	\$ 44,531	\$ 603,076	\$ 123,237

At December 31, 2008, total securities available-for-sale had a fair value of \$2.14 billion, which included the temporarily impaired securities of \$603.1 million in the table above. As of December 31, 2008, the Company had 109 debt securities in an unrealized loss position, including 29 CMO securities, 10 mortgage-backed securities, 55 state and municipal securities and 15 other debt securities. As of December 31, 2008, the Company had 2,012 equity securities and 5 mutual funds in an unrealized loss position.

Loan and Lease Portfolio

A comparative period-end loan and lease table is presented below:

Loans and Leases

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(in thousands)	September 30, 2009	December 31, 2008	September 30, 2008
Commercial	\$ 4,219,141	\$ 4,433,755	\$ 4,428,992
Commercial real estate mortgages	2,164,398	2,184,688	2,159,101
Residential mortgages	3,541,534	3,414,868	3,364,332
Real estate construction	999,045	1,252,034	1,313,735
Equity lines of credit	694,660	635,325	540,937
Installment	174,170	173,779	154,377
Lease financing	375,542	349,810	317,043
Total loans and leases, gross	12,168,490	12,444,259	12,278,517
Less allowance for loan and lease losses	(265,005)	(224,046)	(208,046)
Total loans and leases, net	\$ 11,903,485	\$ 12,220,213	\$ 12,070,471

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Total loans and leases were \$12.17 billion, \$12.44 billion and \$12.28 billion at September 30, 2009, December 31, 2008 and September 30, 2008, respectively. Total loans and leases at September 30, 2009 decreased 2 percent from year-end 2008 and 1 percent from September 30, 2008. Commercial loans, including lease financing, decreased by 4 percent from year-end 2008 and by 3 percent from the year-earlier quarter. Commercial real estate mortgage loans decreased by 1 percent from year-end 2008, and were virtually unchanged from the third quarter of 2008. Residential mortgages increased by 4 percent from year-end 2008 and by 5 percent from the year earlier quarter. Real estate construction loans declined by 20 percent and 24 percent for the same periods, respectively. Equity lines of credit increased by 9 percent from year-end 2008 and by 28 percent from the year-earlier quarter. Leases grew by 7 percent from year-end 2008 and by 18 percent from the year-earlier quarter.

As reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2008, the federal banking regulatory agencies issued final guidance on December 6, 2006 on risk management practices for financial institutions with high or increasing concentrations of commercial real estate (CRE) loans on their balance sheets. The regulatory guidance reiterates the need for sound internal risk management practices for those institutions that have experienced rapid growth in CRE lending, have notable exposure to specific types of CRE, or are approaching or exceeding the supervisory criteria used to evaluate the CRE concentration risk, but the guidance is not to be construed as a limit for CRE exposures. The supervisory criteria are: total reported loans for construction, land development and other land represent 100 percent of the institution's total risk-based capital and both total CRE loans represent 300 percent or more of the institution's total risk-based capital and the institution's CRE loan portfolio has increased 50 percent or more within the last 36 months. As of September 30, 2009, total loans for construction, land development and other land represented 55 percent of total risk-based capital; total CRE loans represented 147 percent of total risk-based capital and the total portfolio of loans for construction, land development, other land and CRE increased 4 percent over the last 36 months.

The Company's policy defines subprime loans as loans to applicants who typically have impaired credit histories, reduced repayment capacity, and a relatively higher default probability. Subprime credit risk characteristics may include:

- Two or more 30-day delinquencies in the last 12 months, or one or more 60-day delinquencies in the last 24 months;
- A judgment, foreclosure, repossession, or charge-off in the prior 24 months;
- A bankruptcy in the last five years;
- A credit bureau risk score (FICO) of 660 or less; and/or
- Debt-to-income ratio of 50 percent or greater

The Company does not, and has not, offered a subprime loan program. All loans are judgmentally underwritten by reviewing the client's credit history, payment capacity and collateral value. The Company does not consider loans with the above characteristics to be subprime if strong and verifiable mitigating factors exist. Mitigating factors include guarantees, low LTV ratios and verified liquidity. As of September 30, 2009, the Company did not have any subprime loans in its loan portfolio based on the Company's definition.

Asset Quality

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Allowance for Loan and Lease Losses and Reserve for Off-Balance Sheet Credit Commitments

At September 30, 2009, the allowance for loan and lease losses was \$265.0 million, or 2.18 percent, of outstanding loans and leases, and the reserve for off-balance sheet credit commitments was \$19.6 million. The process used for determining the adequacy of the reserve for off-balance sheet credit commitments is consistent with the process for the allowance for loan and lease losses.

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The following tables summarize the activity in the allowance for loan and lease losses and the reserve for off-balance sheet credit commitments for the three months and nine months ended September 30, 2009 and 2008:

Changes in Allowance for Loan and Lease Losses

(in thousands)	For the three months ended September 30		For the nine months ended September 30	
	2009	2008	2009	2008
Loans and leases outstanding	\$ 12,168,490	\$ 12,278,517	\$ 12,168,490	\$ 12,278,517
Average amount of loans and leases outstanding	\$ 12,339,105	\$ 12,230,580	\$ 12,362,714	\$ 11,993,805
Balance of allowance for loan and lease losses, beginning of period	\$ 256,018	\$ 185,070	\$ 224,046	\$ 168,523
Loans charged-off:				
Commercial	(31,664)	(4,870)	(69,078)	(12,711)
Commercial real estate mortgages	(3,372)		(3,372)	(552)
Residential mortgages	(698)		(1,880)	
Real estate construction	(43,216)	(8,669)	(93,517)	(31,796)
Equity lines of credit	(389)		(1,466)	
Installment	(985)	(122)	(3,315)	(775)
Total loans charged-off	(80,324)	(13,661)	(172,628)	(45,834)
Recoveries of loans previously charged-off:				
Commercial	2,812	539	4,484	1,610
Commercial real estate mortgages				
Residential mortgages	16	8	100	25
Real estate construction	565	299	628	326
Equity lines of credit	2		2	
Installment	70	21	246	76
Total recoveries	3,465	867	5,460	2,037
Net loans charged-off	(76,859)	(12,794)	(167,168)	(43,797)
Provision for credit losses	85,000	35,000	205,000	87,000
Transfers to reserve for off-balance sheet credit commitments	846	770	3,127	(3,680)
Balance, end of period	\$ 265,005	\$ 208,046	\$ 265,005	\$ 208,046
Net charge-offs to average loans and leases (annualized)	(2.47)%	(0.42)%	(1.81)%	(0.49)%
Ratio of allowance for loan and lease losses to total period-end loans and leases	2.18%	1.69%	2.18%	1.69%
Reserve for off-balance sheet credit commitments				
Balance, beginning of period	\$ 20,422	\$ 24,154	\$ 22,703	\$ 19,704
Provision for credit losses/transfers	(846)	(770)	(3,127)	3,680
Balance, end of period	\$ 19,576	\$ 23,384	\$ 19,576	\$ 23,384

Nonaccrual loans were \$408.3 million as of September 30, 2009, an increase of 93 percent from December 31, 2008 and 171 percent from September 30, 2008. Net charge-offs for the three months ended September 30, 2009 were \$76.9 million, an increase from net charge-offs of \$12.8 million from the same period last year. Net charge-offs for the nine months ended September 30, 2009 were \$167.2 million, an increase from net charge-offs of \$43.8 million from the same period last year. In accordance with the Company's allowance for loan and lease losses

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methodology and in response to increased non-accrual loans and net charge-offs, the Company increased its provision for loan and lease losses to \$85.0 million and \$205.0 million for the three months and nine months ended September 30, 2009, respectively, compared to provision of \$35.0 million and \$87.0 million for the same periods last year, respectively. The allowance for loan and lease losses increased to \$265.0 million as of September 30, 2009 from \$224.0 million as of December 31, 2008 and \$208.0 million as of September 30, 2008. The ratio of allowance for loan and lease losses as a percentage of total loans and leases increased to 2.18 percent at September 30, 2009 from 1.80 percent at December 31, 2008 and 1.69 percent at September 30, 2008. While there was a significant growth in non-accrual loans and net charge-offs, the Company believes that its allowance for loan and lease losses continues to be adequate.

Table of Contents*Nonaccrual, Past Due and Restructured Loans*

The table below presents information on nonaccrual loans, other real estate owned and loans which are contractually past due 90 days or more as to interest or principal payments and still accruing. Company policy requires that a loan be placed on nonaccrual status if either principal or interest payments are 90 days past due, unless the loan is both well secured and in process of collection, or if full collection of interest or principal becomes uncertain, regardless of the time period involved.

Nonaccrual Loans and OREO

(in thousands)	September 30, 2009	December 31, 2008	September 30, 2008
Nonaccrual loans:			
Commercial	\$ 90,744	\$ 46,238	\$ 26,184
Commercial real estate mortgages	60,833	8,924	5,878
Residential mortgages	12,961	3,171	266
Real estate construction	233,848	149,536	113,288
Equity lines of credit	2,507	1,921	1,380
Installment	7,373	1,352	3,890
Total	408,266	211,142	150,886
Other real estate owned	43,969	11,388	2,279
Total nonperforming assets	\$ 452,235	\$ 222,530	\$ 153,165
Total nonaccrual loans as a percentage of total loans and leases	3.36%	1.70%	1.23%
Total nonperforming assets as a percentage of total loans and leases and other real estate owned	3.70	1.79	1.25
Allowance for loan and lease losses to total loans and leases	2.18	1.80	1.69
Allowance for loan and lease losses to nonaccrual loans	64.91	106.11	137.88
Loans past due 90 days or more on accrual status:			
Commercial	\$ 3,019	\$	\$ 4,930
Commercial real estate mortgages	1,252		
Residential mortgages	6,123	663	
Other	1		
Total	\$ 10,395	\$ 663	\$ 4,930

Total nonperforming assets (nonaccrual loans and OREO) were \$452.2 million, or 3.70 percent of total loans and OREO at September 30, 2009, compared with \$222.5 million or 1.79 percent of total loans and OREO at December 31, 2008, and \$153.2 million, or 1.25 percent of total loans and OREO at September 30, 2008.

Loans are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement, including scheduled interest payments. The assessment for impairment occurs when and while such loans are on nonaccrual, or when the loan has been restructured. All non-accrual loans greater than \$500,000 are considered impaired and are analyzed individually under the guidance of ASC Topic 310, *Receivables*. When a loan with unique risk characteristics has been identified as being impaired, the amount of impairment will be measured by the Company using discounted cash flows, except when it is determined that the primary (remaining) source of repayment for the loan is the operation or liquidation of the underlying collateral. In these cases, the current fair value of the collateral, reduced by costs to sell, will be used in place of discounted cash flows. The Company does not maintain a reserve for impaired loans where the carrying value of the loan is less than the fair value of the collateral, reduced by costs to sell. As a final alternative, the observable market price of the debt may be used to assess impairment. Impaired loans of less than \$500,000 are aggregated for the purpose of measuring impairment using historical loss factors as a means of measurement. If the measurement of the impaired loan is less than the recorded investment in the loan (including accrued interest, net deferred loan fees or costs and unamortized premium or

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discount), an impairment allowance is recognized by creating or adjusting the existing allocation of the allowance for loan and lease losses to cover the deficiency. This analysis ensures that the non-accruing loans have been adequately reserved.

The Company's policy is to record cash receipts on impaired loans first as reductions in principal and then as interest income.

At September 30, 2009, there were \$394.8 million of impaired loans with an allowance of \$61.1 million allocated to them. The remaining \$13.5 million of nonaccrual loans at September 30, 2009 are loans under \$500,000 that are not individually evaluated for impairment. On a comparable basis, at December 31, 2008, there were \$204.5 million of impaired loans included in nonaccrual loans, which had an allowance of \$25.6 million allocated to them. At September 30, 2008, there were \$145.4 million of impaired loans included in nonaccrual loans with an allocated allowance of \$19.4 million.

The following table summarizes activity in nonaccrual loans for the three months and nine months ended September 30, 2009 and 2008:

Changes in Nonaccrual Loans

(in thousands)	For the three months ended September 30,		For the nine months ended September 30,	
	2009	2008	2009	2008
Balance, beginning of period	\$ 378,261	\$ 106,177	\$ 211,142	\$ 75,561
Loans placed on nonaccrual	211,737	81,753	545,801	178,298
Charge-offs	(71,604)	(13,417)	(152,982)	(32,983)
Loans returned to accrual status	(4,307)		(15,359)	
Repayments (including interest applied to principal)	(76,248)	(21,348)	(133,776)	(55,100)
Transfers to OREO	(29,573)	(2,279)	(46,560)	(14,890)
Balance, end of period	\$ 408,266	\$ 150,886	\$ 408,266	\$ 150,886

In addition to loans disclosed above as past due or nonaccrual, management has also identified \$95.0 million of loans to 42 borrowers as of October 28, 2009, where the ability to comply with the present loan payment terms in the future is questionable. However, the inability of the borrowers to comply with repayment terms was not sufficiently probable to place the loans on nonaccrual status at September 30, 2009, and the identification of these loans is not necessarily indicative of whether the loans will be placed on nonaccrual status. This amount was determined based on analysis of information known to management about the borrowers' financial condition and current economic conditions. Management's classification of loans as nonaccrual, restructured or problems does not necessarily indicate that the principal is uncollectible in whole or in part.

Goodwill and Intangibles

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The following table summarizes the Company's goodwill and customer-relationship intangible assets at September 30, 2009, December 31, 2008 and September 30, 2008:

(in thousands)	September 30, 2009	December 31, 2008	September 30, 2008
Goodwill	\$ 525,481	\$ 493,398	\$ 494,117
Accumulated amortization	(33,980)	(33,980)	(33,980)
Net Goodwill	\$ 491,501	\$ 459,418	\$ 460,137
Customer-Relationship Intangibles			
Core deposit intangibles	\$ 47,127	\$ 47,127	\$ 47,127
Accumulated amortization	(38,691)	(35,728)	(34,296)
Client advisory contracts	45,476	38,662	50,070
Accumulated amortization	(12,046)	(9,442)	(10,741)
Net intangibles	\$ 41,866	\$ 40,619	\$ 52,160

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The Company recorded approximately \$39 million of goodwill and client advisory contract intangibles in association with its acquisition of LMCG in the third quarter of 2009. Refer to Note 2, *Business Combination*.

Management completed an interim review of goodwill for impairment at September 30, 2009. The goodwill assessment was completed at the reporting unit level. Fair values were determined using methods consistent with current industry practices for valuing similar types of companies. A market multiple of net income was used to value the Bank reporting unit. The fair values of the wealth management affiliates were largely based on multiples of distributable revenue. Based upon the analysis performed, the fair values of the reporting units exceeded their carrying value (including goodwill); therefore, management concluded that no impairment of goodwill existed at September 30, 2009. Overall, the market valuations of financial services companies continued to improve during the third quarter and activity in the credit markets increased. However, market valuations continue to be negatively impacted by continuing uncertainty over the impact of government programs and the timing and extent of an economic recovery. As a result, management believes it will be necessary to continue to evaluate goodwill for impairment on a quarterly basis. It is possible that a future conclusion could be reached that all or a portion of the Company's goodwill was impaired, in which case a non-cash charge for the amount of such impairment would be recorded in earnings. Such a charge, if any, would have no impact on tangible capital and would not affect the Company's well-capitalized designation.

The assessment of customer-relationship intangibles for impairment was completed at the individual asset level. The fair value of core deposit intangibles was determined using market-based core deposit premiums from recent deposit sale transactions. The fair value of core deposit intangibles exceeded their carrying amount at September 30, 2009. For client advisory contract intangibles recorded by the wealth management affiliates, the undiscounted projected future cash flows associated with the client contracts was compared to their carrying value to determine whether there was impairment. Management concluded that no impairment of customer-relationship intangibles existed at September 30, 2009.

Other Assets

The following table presents information on other assets:

(in thousands)	September 30, 2009	December 31, 2008	September 30, 2008
Accrued interest receivable	\$ 63,102	\$ 59,206	\$ 62,522
Other accrued income	14,173	18,617	21,401
Deferred compensation fund assets	41,822	43,090	47,831
Stock in government agencies	54,163	54,163	56,493
Private equity and alternative investments	37,853	35,633	33,966
Mark-to-market on derivatives	64,414	69,588	23,312
Income tax receivable	43,327		
Other	71,983	69,833	76,434
Total other assets	\$ 390,837	\$ 350,130	\$ 321,959

Deposits

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Deposits totaled \$15.11 billion, \$12.65 billion and \$12.17 billion at September 30, 2009, December 31, 2008 and September 30, 2008, respectively. Deposit growth has been positively impacted by the turmoil in the financial markets as depositors place an increasing emphasis on safety. Core deposits, which include noninterest-bearing deposits and interest-bearing deposits excluding time deposits of \$100,000 and over, provide a stable source of low cost funding. Core deposits represented 92 percent, 89 percent and 89 percent of total deposits at September 30, 2009, December 31, 2008 and September 30, 2008, respectively. The Company estimates that approximately \$1.6 billion of its \$2.7 billion in year-to-date core deposit growth has come from new and existing clients, and that approximately \$1.1 billion has come from money market funds that had been held at City National Asset Management.

Average deposits totaled \$14.78 billion for the third quarter of 2009, an increase of 17 percent from \$12.64 billion for the fourth quarter of 2008 and an increase of 26 percent from \$11.74 billion for the third quarter of 2008. Average non-interest bearing deposits for the third quarter of 2009 increased 21 percent from the fourth quarter of 2008 and 30 percent from the year-earlier quarter. Treasury Services deposit balances, which consists primarily of title, escrow and property management deposits, averaged \$981.4 million, \$810.2 million and \$966.7 million for the quarters ended September 30, 2009, December 31, 2008 and September 30, 2008. The increase in Treasury Services deposits from prior periods was due to the addition of new client relationships and stable residential real estate activity.

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Borrowed Funds

Borrowed funds provide an additional source of funding for loan growth. Sources of short-term funding include federal funds purchased, securities sold under repurchase agreements, treasury tax and loan notes and FHLB borrowings. Long-term debt includes subordinated notes issued by the Bank and senior notes issued by the Corporation.

The average balance of short-term borrowed funds decreased to \$238.3 million for the third quarter of 2009 from \$1.10 billion for the fourth quarter of 2008 and \$2.08 billion for the third quarter of 2008. The reduction in short-term borrowed funds is attributed to the significant growth in deposits.

On July 15, 2009, the Bank issued a \$50 million unsecured subordinated note to a third party investor. The subordinated note bears a 9 percent fixed rate of interest for five years, thereafter, the rate is reset at the Bank's option to either LIBOR plus 600 basis points or to prime plus 500 basis points. The note matures on July 15, 2019. On August 12, 2009, the Bank issued \$130 million in subordinated notes of which \$55 million were floating rate subordinated notes and \$75 million were fixed rate subordinated notes. The fixed rate subordinated notes bear a fixed interest rate of 9 percent. The floating rate subordinated notes bear a fixed interest rate of 9 percent for the initial five years from the date of issuance and thereafter bear an interest rate equal to the three-month LIBOR rate plus 6 percent. The rate is reset quarterly and is subject to an interest rate cap of 10 percent throughout the term of the notes. These subordinated notes mature on August 12, 2019. The subordinated notes qualify as Tier 2 capital for regulatory purposes.

The average balance of long-term debt for the third quarter of 2009 was \$506.7 million compared with \$404.8 million for the prior quarter and \$390.5 million for the year-earlier quarter.

Off-Balance Sheet

In the normal course of business, the Company is a party to financial instruments with off-balance sheet risk. These financial instruments include commitments to extend credit, letters of credit, and financial guarantees; and to invest in private equity and affordable housing funds. These instruments involve elements of credit, foreign exchange and interest rate risk, to varying degrees, in excess of the amount reflected in the consolidated balance sheets.

Exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, letters of credit, and financial guarantees written is represented by the contractual notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a client as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each client's creditworthiness on a case-by-case basis.

The Company had off-balance sheet credit commitments aggregating \$4.98 billion at September 30, 2009, compared with \$5.34 billion and \$5.69 billion at December 31, 2008 and September 30, 2008, respectively. Substantially all of the Company's loan commitments are on a variable rate basis and consist of commercial and real estate loan commitments. In addition, the Company had \$597.9 million outstanding in bankers' acceptances and letters of credit of which \$585.6 million relate to standby letters of credit at September 30, 2009. At December 31, 2008, the Company had \$660.8 million in outstanding bankers' acceptances and letters of credit of which \$647.6 million relate to standby letters of credit. At September 30, 2008, the Company had \$688.7 million in outstanding bankers' acceptances and letters of credit of which \$674.6 million relate to standby letters of credit.

As of September 30, 2009, the Company had private equity fund, alternative investment fund and other commitments of \$68.7 million, of which \$50.0 million was funded. As of December 31, 2008 and September 30, 2008, the Company had private equity and alternative investment fund commitments of \$63.7 million and \$60.7 million, respectively, of which \$40.9 million and \$34.6 million was funded. In addition, the Company had unfunded affordable housing fund commitments of \$17.4 million, \$21.2 million, and \$21.8 million as of September 30, 2009, December 31, 2008, and September 30, 2008, respectively.

In connection with the liquidation of an investment acquired in a previous bank merger, the Company has an outstanding long-term guarantee. The maximum liability under the guarantee is \$23 million, but the Company does not expect to make any payments under the terms of this guarantee.

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Fair Value Measurements

Under ASC 820, *Fair Value Measurements and Disclosures*, fair value for financial reporting purposes is the price that would be received to sell an asset or paid to transfer a liability in an orderly market transaction between market participants at the measurement date (reporting date). Fair value is based on an exit price in the principal market or most advantageous market in which the reporting entity could transact.

For each asset and liability required to be reported at fair value, management has identified the unit of account and valuation premise to be applied for purposes of measuring fair value. The unit of account is the level at which an asset or liability is aggregated or disaggregated. The valuation premise is a concept that determines whether an asset is measured on a standalone basis or in combination with other assets. The Company measures its assets and liabilities on a standalone basis then aggregates assets and liabilities with similar characteristics for disclosure purposes.

Fair Value Hierarchy

Management employs market standard valuation techniques in determining the fair value of assets and liabilities. Inputs used in valuation techniques are based on assumptions that market participants would use in pricing an asset or liability. The inputs used in valuation techniques are prioritized as follows:

Level 1 Quoted market prices in an active market for identical assets and liabilities.

Level 2 Observable inputs including quoted prices (other than Level 1) in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability such as interest rates, yield curves, volatilities and default rates, and inputs that are derived principally from or corroborated by observable market data.

Level 3 Unobservable inputs reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available.

The Company utilizes quoted market prices to measure fair value to the extent available (Level 1). If market prices are not available, fair value measurements are based on models that use primarily market-based assumptions including interest rate yield curves, anticipated prepayment rates, default rates and foreign currency rates (Level 2). In certain circumstances, market observable inputs for model-based valuation techniques may not be available and the Company is required to make judgments about assumptions that market participants would use in estimating the fair value of a financial instrument (Level 3). Refer to Note 3, *Fair Value Measurements*, to the Unaudited Consolidated Financial Statements for additional information on fair value measurements.

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At September 30, 2009, \$3.76 billion, or approximately 20.5 percent, of the Company's total assets were recorded at fair value on a recurring basis. The majority of these financial assets were valued using Level 1 or Level 2 inputs. Less than 0.25 percent of total assets were measured using Level 3 inputs. At September 30, 2009, \$19.3 million of the Company's total liabilities were recorded at fair value on a recurring basis using Level 1 or Level 2 inputs.

At September 30, 2009, \$262.4 million, or 1.4 percent of the Company's total assets, were recorded at fair value on a nonrecurring basis. Assets measured on a nonrecurring basis include impaired loans, other real estate owned, and assets that are periodically evaluated for impairment which include goodwill, customer-relationship intangibles and private equity investments. These assets, excluding private equity investments, were measured using Level 2 inputs based on market-based information. No intangible assets were measured at fair value at September 30, 2009. Private equity investments were measured using Level 3 inputs. No liabilities were measured at fair value on a nonrecurring basis at September 30, 2009.

CAPITAL ADEQUACY REQUIREMENT

The following table presents the regulatory standards for well capitalized institutions and the capital ratios for the Corporation and the Bank at September 30, 2009, December 31, 2008 and September 30, 2008.

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	Regulatory Well-Capitalized Standards	September 30, 2009	December 31, 2008	September 30, 2008
City National Corporation				
Tier 1 leverage	N/A%	9.66%	10.44%	8.01%
Tier 1 risk-based capital	6.00	12.31	11.71	9.13
Total risk-based capital	10.00	15.11	13.40	11.04
Tangible common shareholders equity to tangible assets				
(1)	N/A	7.10	6.99	7.02
Tier 1 common shareholders' equity to risk-based assets (2)	N/A	9.22	8.38	8.52
City National Bank				
Tier 1 leverage	5.00%	8.25%	7.87%	7.87%
Tier 1 risk-based capital	6.00	10.51	8.81	8.98
Total risk-based capital	10.00	13.32	10.50	10.90

- (1) Tangible common shareholders' equity to tangible assets is a non-GAAP financial measure that represents common shareholders' equity less identifiable intangible assets and goodwill divided by total assets less identifiable assets and goodwill. Management reviews tangible common shareholders' equity to tangible assets in evaluating the Company's capital levels and has included this ratio in response to market participant interest in tangible common shareholders' equity as a measure of capital. See reconciliation of the GAAP financial measure to this non-GAAP financial measure below.
- (2) Tier 1 common shareholders' equity to risk-based assets is calculated by dividing (a) Tier 1 capital less non-common components including qualifying perpetual preferred stock, qualifying noncontrolling interest in subsidiaries and qualifying trust preferred securities by (b) risk-weighted assets. Tier 1 capital and risk-weighted assets are calculated in accordance with applicable bank regulatory guidelines. This ratio is a non-GAAP measure that is used by investors, analysts and bank regulatory agencies, including the Federal Reserve in the Supervisory Capital Assessment Program, to assess the capital position of financial services companies. Management reviews this measure in evaluating the Company's capital levels and has included this measure in response to market participant interest in the Tier 1 common shareholders' equity to risk based assets ratio. See reconciliation of the GAAP financial measure to this non-GAAP financial measure below.

Reconciliation of GAAP financial measure to non-GAAP financial measure:

(in thousands)	September 30, 2009	December 31, 2008	September 30, 2008
Common shareholders' equity	\$ 1,802,050	\$ 1,614,904	\$ 1,622,381
Less: Goodwill and other intangible assets	(533,367)	(500,037)	(512,297)
Tangible common shareholders' equity (A)	\$ 1,268,683	\$ 1,114,867	\$ 1,110,084
Total assets	\$ 18,400,604	\$ 16,455,515	\$ 16,330,868
Less: Goodwill and other intangible assets	(533,367)	(500,037)	(512,297)
Tangible assets (B)	\$ 17,867,237	\$ 15,955,478	\$ 15,818,571
Tangible common shareholders' equity to tangible assets (A)/(B)	7.10%	6.99%	7.02%
Tier 1 capital	1,682,155	1,588,254	1,193,772
Less: Preferred stock	(391,593)	(390,089)	
Less: Noncontrolling interest	(24,748)	(24,839)	(24,861)
Less: Trust preferred securities	(5,155)	(5,155)	(5,155)
Tier 1 common shareholders' equity (C)	\$ 1,260,659	\$ 1,168,171	\$ 1,163,756

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Risk-weighted assets (D)	\$	13,669,051	\$	13,943,007	\$	13,653,226
Tier 1 common shareholders' equity to risk-based assets (C)/(D)		9.22%		8.38%		8.52%

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Tier 1 capital ratios at September 30, 2009 and December 31, 2008 include preferred stock issued in the fourth quarter of 2008 under the Treasury's TARP Capital Purchase Program. All periods presented include \$25.4 million of preferred stock issued by real estate investment trust subsidiaries of the Bank, which is included in Noncontrolling interest in the consolidated balance sheets, and \$5.2 million of trust preferred securities issued by an unconsolidated capital trust subsidiary of the holding company.

On November 21, 2008, City National Corporation received aggregate proceeds of \$400 million from the Treasury under the TARP Capital Purchase Program in exchange for 400,000 shares of cumulative perpetual preferred stock and a 10-year warrant to purchase up to 1,128,668 shares of the Company's common stock at an exercise price of \$53.16 per share. The preferred stock and warrant were recorded in equity on a relative fair value basis at the time of issuance. The preferred stock was valued by calculating the present value of expected cash flows and the warrant was valued using an option valuation model. The allocated values of the preferred stock and warrant were approximately \$389.9 million and \$10.1 million, respectively. The preferred stock will be accreted to the redemption price of \$400.0 million over five years. Cumulative dividends on the preferred stock are payable quarterly at the rate of 5 percent for the first five years and increasing to 9 percent thereafter. The effective pre-tax cost to the Company for participating in the TARP Capital Purchase Program is approximately 9.5 percent, consisting of 8.6 percent for dividends and 0.9 percent for the accretion on preferred stock, and is based on the statutory tax rate. The preferred stock may be redeemed by the Corporation after three years. Prior to the end of three years, subject to the provisions of the American Recovery and Reinvestment Act of 2009 (ARRA) signed into law on February 17, 2009, the preferred stock may be redeemed by the Corporation subject to the Treasury's consultation with the Corporation's regulatory agency. Following redemption of the preferred stock, the Treasury would liquidate the warrant at the current market price. The warrant has a 10-year term and is immediately exercisable upon its issuance, with an exercise price, subject to anti-dilution adjustments, equal to \$53.16 per share of the common stock. If the Company receives aggregate proceeds of at least \$400 million from sales of Tier 1 qualifying perpetual preferred stock prior to December 31, 2009, the number of shares to be delivered upon settlement of the warrant will be reduced by 50 percent.

On May 8, 2009, the Corporation completed an offering of 2.8 million common shares at \$39.00 per share. The net proceeds from the offering were \$104.3 million. On May 15, 2009, the underwriters exercised their over-allotment option to purchase an additional 420,000 shares of the Corporation's common stock at \$39.00 per share. The net proceeds from the exercise of the over-allotment option were \$15.6 million. Common stock qualifies as Tier 1 capital.

The ratio of total equity to period-end assets as of September 30, 2009 was 12.06 percent, compared to 12.34 percent at December 31, 2008 and was 10.09 percent as of September 30, 2008.

The accumulated other comprehensive income, primarily related to available-for-sale securities and interest rate swaps, was \$24.3 million at September 30, 2009 compared with a loss of \$48.0 million at December 31, 2008 and a loss of \$38.1 million at September 30, 2008.

There were no purchases by the Company of equity securities that are registered by the Company pursuant to Section 12 of the Securities and Exchange Act of 1934 during the three-month period ended September 30, 2009.

LIQUIDITY MANAGEMENT

The Company continues to manage its liquidity through the combination of core deposits, certificates of deposits, short-term federal funds purchased, sales of securities under repurchase agreements, collateralized borrowing lines at the Federal Reserve Bank and the Federal Home Loan Bank of San Francisco and a portfolio of securities available-for-sale. Liquidity is also provided by maturities and pay downs on securities and loans.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ASSET/LIABILITY MANAGEMENT

Market risk results from the variability of future cash flows and earnings due to changes in the financial markets. These changes may also impact the fair values of loans, securities and borrowings. The values of financial instruments may fluctuate because of interest rate changes, foreign currency exchange rate changes or other market changes. The Company's asset/liability management process entails the evaluation, measurement and management of interest rate risk, market risk and liquidity risk. The principal objective of asset/liability management is to optimize net interest income subject to margin volatility and liquidity constraints over the long term. Margin volatility results when the rate reset (or repricing) characteristics of assets are materially different from those of the Company's liabilities. The Board of Directors approves asset/liability policies and annually reviews and approves the limits within which the risks must be managed. The

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Asset/Liability Management Committee (ALCO), which is comprised of senior management and key risk management individuals, sets risk management targets within the broader limits approved by the Board, monitors the risks and periodically reports results to the Board.

A quantitative and qualitative discussion about market risk is included on pages 56 to 61 of the Corporation's Form 10-K for the year ended December 31, 2008.

Net Interest Simulation: As part of its overall interest rate risk management process, the Company performs stress tests on net interest income projections based on a variety of factors, including interest rate levels, changes in the relationship between the prime rate and short-term interest rates, and the shape of the yield curve. The Company uses a simulation model to estimate the severity of this risk and to develop mitigation strategies, including interest-rate hedges. The magnitude of the change is determined from historical volatility analysis. The assumptions used in the model are updated periodically and reviewed and approved by ALCO. In addition, the Board of Directors has adopted limits within which interest rate exposure must be contained. Within these broader limits, ALCO sets management guidelines to further contain interest rate risk exposure.

The Company is naturally asset-sensitive due to its large portfolio of rate-sensitive commercial loans that are funded in part by noninterest bearing and rate-stable core deposits. As a result, if there are no significant changes in the mix of assets and liabilities, the net interest margin increases when interest rates increase and decreases when interest rates decrease. The Company uses on and off-balance sheet hedging vehicles to manage risk. The Company uses a simulation model to estimate the impact of changes in interest rates on net interest income. The model projects net interest income assuming no changes in loans or deposit mix as it stood at September 30, 2009. Interest rate scenarios include stable rates and 100 and 200 basis point parallel shifts in the yield curve occurring gradually over a twelve-month period. Loan yields and deposit rates change over the twelve-month horizon based on current spreads and adjustment factors that are statistically derived using historical rate and balance sheet data.

During the first nine months of 2009, the Company maintained a neutral to moderately asset-sensitive interest rate position. As of September 30, 2009, the Federal funds target rate was at a range of zero percent to 0.25 percent. Further declines in interest rates are not expected to significantly reduce earning asset yields but are expected to lower interest expense somewhat thus improving net interest margin slightly. This compares to a decrease in projected net interest income of 0.5 percent with a 100 basis point decline and 1.3 percent with a 200 basis point decline at September 30, 2008. At September 30, 2009, a gradual 100 basis point parallel increase in the yield curve over the next 12 months would result in an increase in projected net interest income of approximately 2.4 percent while a 200 basis point increase would increase projected net interest income by approximately 5.0 percent. This compares to an increase in projected net interest income of 0.3 percent with a 100 basis point increase and 0.6 percent with a 200 basis point increase at September 30, 2008. Interest rate sensitivity has increased due to changes in the mix of the balance sheet, primarily significant growth in non-rate sensitive deposits, reducing reliance on other rate-sensitive funding sources. The Company's interest rate risk exposure remains within Board limits and ALCO guidelines.

Market Value of Portfolio Equity: The market value of portfolio equity (MVPE) model is used to evaluate the vulnerability of the market value of shareholders' equity to changes in interest rates. The model indicates that the MVPE is somewhat vulnerable to a sudden and substantial increase in interest rates. As of September 30, 2009, a 200-basis-point increase in interest rates results in a 3.6 percent decline in MVPE. This compares to a 3.9 percent decline for the year-earlier quarter. The lower sensitivity is due to changes in the deposit mix and a slight decrease in the duration gap between earning assets and interest-bearing liabilities. Measurement of a 200 basis point decrease in rates as of September 30, 2009 is not meaningful due to the current low rate environment. As of September 30, 2008, the MVPE would have improved by 2.7 percent if rates decreased by 200 basis points.

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The following table presents the notional amount and fair value of the Company's interest rate swap agreements according to the specific asset or liability hedged:

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(in millions)	September 30, 2009			December 31, 2008			September 30, 2008		
	Notional Amount	Fair Value	Duration (Years)	Notional Amount	Fair Value	Duration (Years)	Notional Amount	Fair Value	Duration (Years)
Fair Value									
Interest Rate Swap									
Certificates of deposit	\$ 20.0	\$ 1.4	1.1	\$ 20.0	\$ 1.4	1.9	\$ 20.0	\$ 1.1	2.0
Long-term and subordinated debt	362.4	30.9	2.5	370.9	34.7	3.3	370.9	13.5	3.5
Total fair value hedge swaps	382.4	32.3	2.4	390.9	36.1	3.2	390.9	14.6	3.4
Cash Flow Hedge									
Interest Rate Swap									
US Dollar LIBOR based loans	200.0	8.6	1.1	200.0	8.4	1.8	200.0	3.9	2.0
Prime based loans	125.0	2.8	0.6	125.0	3.7	1.3	125.0	1.1	1.5
Total cash flow hedge swaps	325.0	11.4	0.9	325.0	12.1	1.6	325.0	5.0	1.8
Fair Value and Cash Flow Hedge									
Interest Rate Swaps	\$ 707.4	\$ 43.7(1)	1.7	\$ 715.9	\$ 48.2(1)	2.5	\$ 715.9	\$ 19.6(1)	2.7

(1) Net fair value is the estimated net gain (loss) to settle derivative contracts. The net fair value is the sum of the mark-to-market asset, mark-to-market liability (if applicable) and net interest receivable or payable.

The Company's swap agreements require the deposit of cash or marketable debt securities as collateral based on certain risk thresholds. These requirements apply individually to the Corporation and to the Bank. Additionally, certain of the Company's swap agreements contain credit-risk-related contingent features. For agreements that contain credit-risk features, the amount of collateral required to be delivered or received is impacted by the credit ratings of the Company and its counterparties. At September 30, 2009, the Company had no swap contracts that contain credit-risk contingent features in a net liability position.

Interest-rate swap agreements involve the exchange of fixed and variable-rate interest payments based upon a notional principal amount and maturity date. The Company's interest-rate swaps had \$9.1 million of credit risk exposure at September 30, 2009 and \$7.2 million as of September 30, 2008. The credit exposure represents the cost to replace, on a present value basis and at current market rates, all contracts by trading counterparty having an aggregate positive market value, net of margin collateral received. The Company enters into master netting agreements with swap counterparties to mitigate credit risk. Under these agreements, the net amount due from or payable to each counterparty is settled on the contract payment date. At September 30, 2009, collateral valued at \$16.6 million had been received from swap counterparties. At September 30, 2008, collateral valued at \$10.7 million had been received from counterparties.

The Company also offers various derivative products to clients and enters into derivative transactions in due course. These derivative contracts are offset by paired trades with unrelated third parties. These transactions are not linked to specific Company assets or liabilities in the consolidated balance sheets or to forecasted transactions in a hedge relationship and, therefore, do not qualify for hedge accounting. The contracts are marked-to-market each reporting period with changes in fair value recorded as part of Other noninterest income in the consolidated statements of income. Fair values are determined from verifiable third-party sources that have considerable experience with the derivative markets. The credit component of the fair value of these derivative contracts is calculated using an internal model. At September 30, 2009 and 2008, the Company had entered into derivative contracts with clients (and offsetting derivative contracts with counterparties) having a notional balance of \$1.11 billion and \$472.6 million, respectively.

ITEM 4. CONTROL AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

Under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rules 13a - 15(e) under the Securities and Exchange Act of 1934 (the "Exchange Act")). Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective.

INTERNAL CONTROL OVER FINANCIAL REPORTING

There was no change in the Company's internal control over financial reporting that occurred during the Company's third fiscal quarter that has materially affected, or was reasonably likely to materially affect, the Company's internal control over financial reporting.

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**CAUTIONARY STATEMENT FOR PURPOSES OF THE SAFE HARBOR PROVISIONS
OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

We have made forward-looking statements in this document about the Company, for which the Company claims the protection of the safe harbor provisions contained in the Private Securities Litigation Reform Act of 1995.

Forward-looking statements are based on management's knowledge and belief as of today and include information concerning the company's possible or assumed future financial condition, and its results of operations, business and earnings outlook. These forward-looking statements are subject to risks and uncertainties. A number of factors, some of which are beyond the company's ability to control or predict, could cause future results to differ materially from those contemplated by such forward-looking statements. These factors include (1) continuation or worsening of current recessionary conditions (2) continued volatility and disruption in the functioning of financial markets, including the capital and credit markets, (3) significant changes in banking laws or regulations, including without limitation, broad-based restructuring of financial industry regulation and as a result of the Emergency Economic Stabilization Act and the creation of and possible amendments to the Troubled Asset Relief Program (TARP), and rules and regulations issued thereunder, including the TARP Standards for Compensation and Corporate Governance, (4) the ongoing budget crisis in the State of California, (5) continued weakness in the real estate market, including the markets for commercial and residential real estate, which may affect, among other things, the level of nonperforming assets, charge-offs and provision expense, (6) continued volatility in equity, fixed income and other market valuations, (7) changes in market rates and prices which may adversely impact the value of financial products including securities, loans, deposits, debt and derivative financial instruments, and other similar financial instruments, (8) changes in the interest rate environment and market liquidity which may reduce interest margins and impact funding sources, (9) increased competition in the company's markets, (10) changes in the financial performance and/or condition of the company's borrowers, including changes in levels of unemployment, changes in customers' suppliers, and other counterparties' performance and creditworthiness, (11) a substantial and permanent loss of either client accounts and/or assets under management at the company's investment advisory affiliates or its wealth management division, (12) changes in consumer spending, borrowing and savings habits, (13) soundness of other financial institutions which could adversely affect the company, (14) increases and required prepayments in Federal Deposit Insurance Corporation premiums due to market developments and regulatory changes, (15) protracted labor disputes in the company's markets, (16) earthquake, fire or other natural disasters affecting the condition of real estate collateral, (17) the effect of acquisitions and integration of acquired businesses and de novo branching efforts, (18) the impact of changes in regulatory, judicial or legislative tax treatment of business transactions, (19) changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or regulatory agencies, and (20) the success of the company at managing the risks involved in the foregoing.

Forward-looking statements speak only as of the date they are made, and the company does not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the statements are made, or to update earnings guidance, including the factors that influence earnings.

For a more complete discussion of these risks and uncertainties, see the Company's Annual Report on Form 10-K for the year ended December 31, 2008 and particularly Part I, Item 1A, titled "Risk Factors."

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PART II OTHER INFORMATION

ITEM 1A. RISK FACTORS

Forward-looking statements are based on management's knowledge and belief as of today and include information concerning the company's possible or assumed future financial condition, and its results of operations, business and earnings outlook. These forward-looking statements are subject to risks and uncertainties. A number of factors, some of which are beyond the company's ability to control or predict, could cause future results to differ materially from those contemplated by such forward-looking statements. These factors include (1) continuation or worsening of current recessionary conditions (2) continued volatility and disruption in the functioning of financial markets, including the capital and credit markets, (3) significant changes in banking laws or regulations, including without limitation, broad-based restructuring of financial industry regulation and as a result of the Emergency Economic Stabilization Act and the creation of and possible amendments to the Troubled Asset Relief Program (TARP), and rules and regulations issued thereunder, including the TARP Standards for Compensation and Corporate Governance, (4) the ongoing budget crisis in the State of California, (5) continued weakness in the real estate market, including the markets for commercial and residential real estate, which may affect, among other things, the level of nonperforming assets, charge-offs and provision expense, (6) continued volatility in equity, fixed income and other market valuations, (7) changes in market rates and prices which may adversely impact the value of financial products including securities, loans, deposits, debt and derivative financial instruments, and other similar financial instruments, (8) changes in the interest rate environment and market liquidity which may reduce interest margins and impact funding sources, (9) increased competition in the company's markets, (10) changes in the financial performance and/or condition of the company's borrowers, including changes in levels of unemployment, changes in customers' suppliers, and other counterparties' performance and creditworthiness, (11) a substantial and permanent loss of either client accounts and/or assets under management at the company's investment advisory affiliates or its wealth management division, (12) changes in consumer spending, borrowing and savings habits, (13) soundness of other financial institutions which could adversely affect the company, (14) increases and required prepayments in Federal Deposit Insurance Corporation premiums due to market developments and regulatory changes, (15) protracted labor disputes in the company's markets, (16) earthquake, fire or other natural disasters affecting the condition of real estate collateral, (17) the effect of acquisitions and integration of acquired businesses and de novo branching efforts, (18) the impact of changes in regulatory, judicial or legislative tax treatment of business transactions, (19) changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or regulatory agencies, and (20) the success of the company at managing the risks involved in the foregoing.

Forward-looking statements speak only as of the date they are made, and the company does not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the statements are made, or to update earnings guidance, including the factors that influence earnings.

For a more complete discussion of these risks and uncertainties, see the Company's Annual Report on Form 10-K for the year ended December 31, 2008 and particularly Part I, Item 1A, titled "Risk Factors."

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) Purchase of Equity Securities by the Issuer and Affiliated Purchaser.

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The information required by subsection (c) of this item regarding purchases by the Company during the quarter ended September 30, 2009 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act is incorporated by reference from that portion of Part I, Item 1 of the report under Note 6.

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 6. EXHIBITS

No.

- | | |
|------|--|
| 12 | Statement Re: Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividend Requirements |
| 31.1 | Chief Executive Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Chief Financial Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.0 | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002 |

The registrant has not filed with this report copies of the instruments defining the rights of holders of long-term debt of the registrant and its subsidiaries for which consolidated or unconsolidated financial statements are required to be filed. The registrant agrees to furnish a copy of any such instrument to the Securities and Exchange Commission upon request.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CITY NATIONAL CORPORATION
(Registrant)

DATE: November 6, 2009

/s/ Christopher J. Carey

CHRISTOPHER J. CAREY
Executive Vice President and
Chief Financial Officer
(Authorized Officer and
Principal Financial Officer)