CITY NATIONAL CORP
Form 10-Q
August 06, 2010
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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 June 30, 2010

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

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Delaware	**95-2568550**
(State of Incorporation)	(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 x No o

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 x No o

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 x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o
(Do not check if a smaller reporting company)	

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

As of July 30, 2010, there were 52,102,417 shares of Common Stock outstanding.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CITY NATIONAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)	June 30, 2010 (Unaudited)	December 31, 2009	June 30, 2009 (Unaudited)
Assets			
Cash and due from banks	$ 184,277	$ 364,483	$ 350,931
Due from banks - interest-bearing	336,244	443,443	205,656
Federal funds sold	404,760	5,000	125,000
Securities available-for-sale - cost $4,668,089, $4,319,420, and $3,373,176 at June 30, 2010, December 31, 2009 and June 30, 2009, respectively:			
Securities pledged as collateral	198,577	226,985	226,961
Held in portfolio	4,562,566	4,079,773	3,103,365
Trading securities	129,287	154,302	138,137
Loans and leases, excluding covered loans	11,483,044	12,146,908	12,421,342
Less: Allowance for loan and lease losses	290,492	288,493	256,018
Loans and leases, excluding covered loans, net	11,192,552	11,858,415	12,165,324
Covered loans	2,034,591	1,851,821	
Net loans and leases	13,227,143	13,710,236	12,165,324
Premises and equipment, net	121,960	124,309	125,510
Deferred tax asset	99,894	164,038	204,303
Goodwill	479,982	479,982	459,454
Customer-relationship intangibles, net	44,838	45,601	37,108
Bank-owned life insurance	78,170	76,834	75,516
Affordable housing investments	101,999	93,429	96,389
Customers acceptance liability	2,515	2,951	6,094
Other real estate owned ($98,841 and $60,558 covered by FDIC loss share at June 30, 2010 and December 31, 2009, respectively)	153,292	113,866	18,064
FDIC indemnification asset	394,012	380,743	
Other assets	711,931	612,782	322,973
Total assets	$ 21,231,447	$ 21,078,757	$ 17,660,785
Liabilities			
Demand deposits	$ 8,173,386	$ 7,753,936	$ 7,118,660
Interest checking deposits	2,171,369	2,278,586	1,568,379
Money market deposits	5,742,069	4,546,532	4,108,607
Savings deposits	294,327	393,177	243,722
Time deposits-under $100,000	434,626	756,616	212,833
Time deposits-$100,000 and over	1,157,136	1,650,601	1,246,050
Total deposits	17,972,913	17,379,448	14,498,251
Federal funds purchased and securities sold under repurchase agreements	177,700	626,779	316,388
Other short-term borrowings	700	690	50,000

Subordinated debt	337,691	340,137	162,434
Long-term debt	473,283	471,029	233,456
Reserve for off-balance sheet credit commitments	19,310	17,340	20,422
Acceptances outstanding	2,515	2,951	6,094
Other liabilities	272,753	176,238	163,072
Total liabilities	19,256,865	19,014,612	15,450,117
Redeemable noncontrolling interest	47,622	51,381	36,752
Commitments and contingencies			
Equity			
Preferred stock; 5,000,000 shares authorized; 200,000 and 400,000 shares issued and aggregate liquidation preference of $200,000 and $400,000 at December 31, 2009 and June 30, 2009, respectively		196,048	391,091
Common stock, par value $1.00 per share; 75,000,000 shares authorized; 53,885,886 shares issued at June 30, 2010, December 31, 2009 and June 30, 2009	53,886	53,886	53,886
Additional paid-in capital	483,983	513,550	511,939
Accumulated other comprehensive gain (loss)	58,050	(3,049)	(18,110)
Retained earnings	1,418,486	1,377,639	1,365,842
Treasury shares, at cost - 1,796,485, 2,349,430 and 2,415,021 shares at June 30, 2010, December 31, 2009 and June 30, 2009, respectively	(112,634)	(151,751)	(156,119)
Total common shareholders equity	1,901,771	1,790,275	1,757,438
Total shareholders equity	1,901,771	1,986,323	2,148,529
Noncontrolling interest	25,189	26,441	25,387
Total equity	1,926,960	2,012,764	2,173,916
Total liabilities and equity	$ 21,231,447	$ 21,078,757	$ 17,660,785

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 June 30, 2010	For the three months ended June 30, 2009	For the six months ended June 30, 2010	For the six months ended June 30, 2009
Interest Income				
Loans and leases	$ 174,354	$ 143,705	$ 343,904	$ 287,880
Securities available-for-sale	32,866	31,492	65,066	56,593
Trading securities	24	379	(28)	433
Due from banks - interest-bearing	424	291	770	446
Federal funds sold and securities purchased under resale agreements	135	9	157	15
Total interest income	207,803	175,876	409,869	345,367
Interest Expense				
Deposits	12,584	16,068	25,748	35,629
Federal funds purchased and securities sold under repurchase agreements	1,704	2,084	3,639	4,263
Subordinated debt	4,664	873	9,304	2,073
Other long-term debt	6,845	1,222	13,666	2,816
Other short-term borrowings	8	53	9	113
Total interest expense	25,805	20,300	52,366	44,894
Net interest income	181,998	155,576	357,503	300,473
Provision for credit losses on loans and leases, excluding covered loans	32,000	70,000	87,000	120,000
Provision for losses on covered loans	46,516		46,516	
Net interest income after provision	103,482	85,576	223,987	180,473
Noninterest Income				
Trust and investment fees	33,976	25,184	67,485	51,053
Brokerage and mutual fund fees	5,461	6,645	10,742	16,402
Cash management and deposit transaction charges	12,008	12,778	24,584	26,001
International services	8,374	7,996	14,882	14,521
Bank-owned life insurance	658	871	1,336	1,734
FDIC loss sharing income, net	28,339		37,425	
(Loss) gain on disposal of assets	(2,814)	43	(1,423)	43
Gain on sale of securities	355	3,281	2,489	350
Gain on acquisition	25,228		25,228	
Other	11,448	8,996	18,161	15,021
Impairment loss on securities:				
Total other-than-temporary impairment loss on securities	(13,992)	(25,297)	(14,995)	(37,333)
Less: Portion of loss recognized in other comprehensive income	13,486	23,760	13,486	23,760
Net impairment loss recognized in earnings	(506)	(1,537)	(1,509)	(13,573)
Total noninterest income	122,527	64,257	199,400	111,552
Noninterest Expense				
Salaries and employee benefits	99,590	75,834	195,251	154,086
Net occupancy of premises	13,347	12,559	26,252	24,820
Legal and professional fees	13,274	7,736	22,255	15,469
Information services	7,538	6,992	15,054	13,472

Depreciation and amortization	6,363	5,953	12,710	11,945
Marketing and advertising	5,798	4,743	11,046	9,419
Office services and equipment	4,272	3,922	8,070	7,526
Amortization of intangibles	2,128	1,668	4,575	3,511
Other real estate owned	16,783	2,155	33,980	2,250
FDIC assessments	7,662	13,861	14,183	16,929
Other operating	9,823	8,711	19,136	17,692
Total noninterest expense	186,578	144,134	362,512	277,119
Income before income taxes	39,431	5,699	60,875	14,906
Income taxes	(2,859)	(986)	1,559	646
Net income	$ 42,290	$ 6,685	$ 59,316	$ 14,260
Less: Net income attributable to noncontrolling interest	972	(88)	2,300	27
Net income attributable to City National Corporation	$ 41,318	$ 6,773	$ 57,016	$ 14,233
Less: Dividends and accretion on preferred stock		5,501	5,702	11,002
Net income available to common shareholders	$ 41,318	$ 1,272	$ 51,314	$ 3,231
Net income per share, basic	$ 0.78	$ 0.02	$ 0.98	$ 0.06
Net income per share, diluted	$ 0.78	$ 0.02	$ 0.97	$ 0.06
Shares used to compute income per share, basic	52,012	50,416	51,852	49,028
Shares used to compute income per share, diluted	52,542	50,551	52,336	49,138
Dividends per share	$ 0.10	$ 0.10	$ 0.20	$ 0.35

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 six months ended June 30, 2010	2009
Cash Flows From Operating Activities		
Net income	$ 59,316	$ 14,260
Adjustments to net income:		
Provision for credit losses on loans and leases, excluding covered loans	87,000	120,000
Provision for losses on covered loans	46,516	
Amortization of intangibles	4,575	3,511
Depreciation and amortization	12,710	11,945
Amortization of cost and discount on long-term debt	412	306
Share-based employee compensation expense	8,109	7,193
Loss (gain) on disposal of assets	1,423	(43)
Gain on sale of securities	(2,489)	(350)
Gain on acquisition	(25,228)	
Impairment loss on securities	1,509	13,573
Other, net	(15,045)	(1,701)
Net change in:		
Trading securities	25,015	163,861
Deferred income tax benefit	17,813	(389)
Other assets and other liabilities, net	154,439	(97,945)
Net cash provided by operating activities	376,075	234,221
Cash Flows From Investing Activities		
Purchases of securities available-for-sale	(1,684,200)	(1,983,459)
Sales of securities available-for-sale	432,021	446,001
Maturities and paydowns of securities available-for-sale	907,157	378,688
Loan originations, net of principal collections	629,454	(77,410)
Net payments for premises and equipment	(10,361)	(6,161)
Net cash acquired in acquisitions	94,706	
Other investing activities, net	10,235	745
Net cash provided by (used in) investing activities	379,012	(1,241,596)
Cash Flows From Financing Activities		
Net increase in deposits	51,966	1,846,127
Net decrease in federal funds purchased and securities sold under repurchase agreements	(449,079)	(591,769)
Net decrease in short-term borrowings, net of transfers from long-term debt	(30,529)	(74,500)
Net decrease in other borrowings	(904)	(6,583)
Proceeds from exercise of stock options	17,761	540
Tax benefit from exercise of stock options	3,281	100
Redemption of preferred stock	(200,000)	
Issuance of common stock		119,929
Repurchase of common stock warrants	(18,500)	
Cash dividends paid	(13,467)	(26,680)
Other financing activities, net	(3,261)	(2,467)
Net cash (used in) provided by financing activities	(642,732)	1,264,697

Net increase in cash and cash equivalents		112,355		257,322
Cash and cash equivalents at beginning of year		812,926		424,265
Cash and cash equivalents at end of period	$	925,281	$	681,587
Supplemental Disclosures of Cash Flow Information:				
Cash paid during the period for:				
Interest	$	39,413	$	45,593
Income taxes				17,682
Non-cash investing activities:				
Transfer of loans to other real estate owned	$	66,653	$	17,179
Transfer from securities available-for-sale to trading securities				6,400
Assets acquired (liabilities assumed) in acquisitions:				
Securities available-for-sale	$	17,183	$	
Covered loans		330,566		
Covered other real estate owned		15,161		
Deposits		(541,499)		
Other borrowings		(30,539)		

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)

	City National Corporation Shareholders Equity								
(in thousands, except share amounts)	**Common 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, 2009	50,961,457	$ 390,089	$ 50,961	$ 389,077	$ (48,022)	$ 1,379,624	$ (156,736)	$ 25,441	$ 2,030,434
Net income (1)						14,233		1,083	15,316
Other comprehensive income, net of tax:									
Amortization of prior service cost					80				80
Non-credit related impairment loss on investment securities, net of taxes of $9.9 million					(13,821)				(13,821)
Net unrealized gain on securities available-for-sale, net of taxes of $31.5 million and reclassification of $1.1 million net loss included in net income					43,757				43,757
Net unrealized loss on cash flow hedges, net of taxes of $0.1 million and reclassification of $3.4 million net gain included in net income					(104)				(104)
Total comprehensive income								1,083	45,228
Dividends and distributions to noncontrolling interest								(1,137)	(1,137)
Issuance of common stock	3,220,000		3,220	116,409					119,629
Issuance of shares under share-based compensation plans	(295,571)		(295)	(525)			617		(203)
Preferred stock accretion		1,002				(1,002)			
Share-based employee compensation expense				7,138					7,138
Tax expense from share-based compensation plans				(661)					(661)
Cash dividends:									
Preferred						(10,000)			(10,000)
Common						(17,013)			(17,013)
Net change in deferred compensation plans				449					449
				52					52

Change in redeemable noncontrolling interest									
Balance, June 30, 2009	53,885,886	$ 391,091	$ 53,886	$ 511,939	$ (18,110)	$ 1,365,842	$ (156,119)	$ 25,387	$ 2,173,916
Balance, January 1, 2010	53,885,886	$ 196,048	$ 53,886	$ 513,550	$ (3,049)	$ 1,377,639	$ (151,751)	$ 26,441	$ 2,012,764
Net income (1)						57,016		1,070	58,086
Other comprehensive income, net of tax:									
Amortization of prior service cost					80				80
Non-credit related impairment loss on investment securities, net of taxes of $5.6 million					(7,844)				(7,844)
Net unrealized gain on securities available-for-sale, net of taxes of $49.9 million and reclassification of $1.2 million net gain included in net income					69,338				69,338
Net unrealized loss on cash flow hedges, net of taxes of $2.9 million and reclassification of $3.2 million net gain included in net income					(475)				(475)
Total comprehensive income								1,070	119,185
Dividends and distributions to noncontrolling interest								(1,070)	(1,070)
Issuance of shares under share-based compensation plans				(22,687)			39,109		16,422
Preferred stock accretion		3,952				(3,952)			
Redemption of preferred stock		(200,000)							(200,000)
Repurchase of common stock warrants				(18,500)					(18,500)
Share-based employee compensation expense				8,090					8,090
Tax benefit from share-based compensation plans				2,181					2,181
Cash dividends:									
Preferred						(1,750)			(1,750)
Common						(10,467)			(10,467)
Net change in deferred compensation plans				425			8		433
Change in redeemable noncontrolling interest				924					924
Other								(1,252)	(1,252)
Balance, June 30, 2010	53,885,886	$	$ 53,886	$ 483,983	$ 58,050	$ 1,418,486	$ (112,634)	$ 25,189	$ 1,926,960

(1) Net income excludes net income (loss) attributable to redeemable noncontrolling interest of $1,230 and ($1,056) for the six-month periods ended June 30, 2010 and 2009, respectively. Redeemable noncontrolling interest is reflected in the mezzanine section of the consolidated balance sheets. See Note 16 of the Notes to the Unaudited Consolidated Financial Statements.

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 more than 80 offices in Southern California, the San Francisco Bay area, Nevada and New York City. The Corporation has seven consolidated investment advisory affiliates and a noncontrolling interest in two other firms. The Corporation also has two unconsolidated subsidiaries, Business Bancorp Capital Trust I and City National Capital Trust I. Because the Bank comprises substantially all of the business of the Corporation, references to the Company mean the Corporation and the Bank together. The Corporation is approved as a financial holding company pursuant to the Gramm-Leach-Bliley Act of 1999.

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. The Company has both redeemable and non-redeemable noncontrolling interest. A noncontrolling interest is the portion of equity in a subsidiary not attributable to a parent. Preferred stock of consolidated bank affiliates that is owned by third parties is reflected as Noncontrolling interest in the equity section of the consolidated balance sheets. Redeemable noncontrolling interest includes noncontrolling ownership interests that are redeemable at the option of the holder or outside the control of the issuer. The redeemable equity ownership interests of third parties in the Corporation s investment advisory affiliates are not considered to be permanent equity and are reflected as Redeemable noncontrolling interest in the mezzanine section between liabilities and equity in the consolidated balance sheets. Noncontrolling interests share of subsidiary earnings is reflected 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 that meet the prescribed criteria for consolidation are consolidated. In November 2009, the Company deconsolidated one of its affiliates, but retained a noncontrolling interest in that affiliate. The Corporation s interests in two investment management affiliates in which it holds a noncontrolling share are accounted for using the equity method. Additionally, the Company has various interests in variable interest entities (VIEs) that are not required to be consolidated. See Note 15 for a more detailed discussion on VIEs.

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. 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, securities available-for-sale impairment, private equity and alternative investment impairment, valuation of assets and liabilities acquired in business combinations, subsequent valuation of covered loans, valuation of noncontrolling interest and the valuation of financial assets and liabilities reported at fair value.

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Note 1. Summary of Significant Accounting Policies (Continued)

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. Additional factors affecting the provision include net loan charge-offs, nonaccrual loans, specific reserves, risk-rating migration and changes in the portfolio size and composition. 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 expenses. The results of operations reflect any 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 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, 2009.

The results for the 2010 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 2009 Annual Report other than the adoption of new accounting pronouncements and other authoritative guidance that became effective for the Company on January 1, 2010. Refer to *Accounting Pronouncements* for discussion of accounting pronouncements adopted in 2010.

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

Accounting Pronouncements

During the six months ended June 30, 2010, the following accounting pronouncements applicable to the Company were issued or became effective:

- In December 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2009-16, which codifies FASB Statement No. 166, *Accounting for Transfers of Financial Assets* into Codification Topic 860. ASU 2009-16 represents a revision to former FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. ASU 2009-16 expands required disclosures about transfers of financial assets and the risks associated with 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 became effective for the Company on January 1, 2010. Adoption of the new guidance did not have a material effect on the Company s consolidated financial statements.

- In December 2009, the FASB issued ASU 2009-17, which codifies FASB Statement No. 167, *Amendments to FASB Interpretation No. 46(R)*, into Accounting Standards Codification (ASC) Topic 810, *Consolidations* (ASC 810). ASU 2009-17 revises former FASB Interpretation No. 46 (Revised December 2003), *Consolidation of Variable Interest Entities.* The revised guidance requires, among other things, that an entity perform both a quantitative and qualitative analysis to determine if it is the primary beneficiary of a VIE and therefore required to consolidate the VIE. The qualitative analysis includes determining whether an entity has the power to direct the most significant activities of the VIE. The amended guidance also requires 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 became effective for the Company on January 1, 2010. Adoption of the new guidance did not have a material effect on the Company s consolidated financial statements.

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Note 1. Summary of Significant Accounting Policies (Continued)

- In January 2010, the FASB issued ASU 2010-06, *Fair Value Measurements (Topic 820), Improving Disclosures about Fair Value Measurements* (ASU 2010-06). ASU 2010-06 enhances disclosure requirements under ASC Topic 820, *Fair Value Measurements and Disclosures* (ASC 820), to include disclosure of transfers in and out of Level 1 and 2, and detail of activity in Level 3 fair value measurements. The ASU also provides clarification of existing disclosure requirements pertaining to the level of disaggregation used in fair value measurements, and disclosures about inputs and valuation techniques used for both recurring and nonrecurring fair value measurements. The new guidance became effective for the Company on January 1, 2010. Adoption of the new guidance did not have a material effect on the Company s consolidated financial statements.

- In February 2010, the FASB issued ASU 2010-09, *Subsequent Events* (*Topic 855), Amendments to Certain Recognition and Disclosure Requirements* (ASU 2010-09). ASU 2010-09 addresses the interaction of the requirements of Subtopic 855-10 with the SEC s reporting requirements. The amendments in the ASU provide that an entity that is an SEC filer is required to evaluate subsequent events through the date that the financial statements are issued. An entity that is an SEC filer is not required to disclose the date through which subsequent events have been evaluated. The ASU also refines the scope of disclosure requirements pertaining to revised financial statements. The new guidance became effective for the Company upon issuance. Adoption of the new guidance did not have a material effect on the Company s consolidated financial statements.

- In February 2010, the FASB issued ASU 2010-10, *Consolidation (Topic 810), Amendments for Certain Investment Funds* (ASU 2010-10). ASU 2010-10 defers the effective date of the consolidation provisions contained in ASU 2009-17 for a reporting entity s interest in an entity: (1) that has attributes of an investment company; or (2) for which it is industry practice to apply measurement principles for financial reporting purposes that are consistent with those followed by investment companies. The ASU also clarifies how a related party s interests in an entity should be considered when evaluating the criteria for determining whether a decision maker or service provider fee represents a variable interest. In addition, the ASU clarifies that a quantitative calculation should not be the sole basis for evaluating whether a decision maker s or service provider s fee is a variable interest. The new guidance became effective for the Company on January 1, 2010. Adoption of the new guidance did not have a material effect on the Company s consolidated financial statements.

- In April 2010, the FASB issued ASU 2010-18, *Receivables (Topic 310), Effect of a Loan Modification When the Loan is Part of a Pool That is Accounted for as a Single Asset* (ASU 2010-18). ASU 2010-18 applies to loans that are currently accounted for under ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* (ASC 310-30), as part of a pool of loans that, when acquired, had deteriorated in credit quality. Under the guidance, modification of a loan that is part of a pool accounted for under ASC 310-30 should not result in removal of the loan from the pool. Such modifications would include those that would otherwise qualify as a troubled debt restructuring had the loan not been part of a pool. ASU 2010-18 is effective for any modifications of a loan accounted for within a pool in the first interim reporting period ending after July 15, 2010, and will be applied prospectively. Early application is permitted as long as an entity has not issued financial statements in that fiscal year. The Company elected to early adopt ASU 2010-18 effective with March 31, 2010 reporting. Adoption of the new guidance did not have a material effect on the Company s consolidated financial statements.

- In July 2010, the FASB issued ASU 2010-20, *Disclosures About the Credit Quality of Financing Receivables and the Allowance for Credit Losses* (ASU 2010-20) which requires new and enhanced disclosures about the credit quality of an entity s financing receivables and its allowance for credit losses. The new and amended disclosure requirements focus on such areas as nonaccrual and past due financing receivables, allowance for credit losses related to financing receivables, impaired loans, credit quality information and modifications. The ASU requires an entity to disaggregate new and existing disclosures based on how it develops its allowance for credit losses and how it manages credit exposures. The guidance is effective for an entity s first annual period that ends on or after December 15, 2010. The Company is evaluating the impact of adoption of ASU 2010-20 on its disclosures in the consolidated financial statements.

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Note 2. Business Combinations

1st Pacific Bank of California and Sun West Bank

On May 7, 2010, the Bank acquired the banking operations of 1st Pacific Bank of California (FPB) in a purchase and assumption agreement with the Federal Deposit Insurance Corporation (FDIC). Excluding the effects of acquisition accounting adjustments, the Bank acquired approximately $318.6 million in assets and assumed $264.2 million in liabilities. The Bank acquired most of FPB s assets, including loans with a fair value of $202.8 million and assumed deposits with a fair value of $237.2 million. The Bank paid $12.3 million in cash to the FDIC.

On May 28, 2010, the Bank acquired the banking operations of Sun West Bank (SWB) in Las Vegas, Nevada in a purchase and assumption agreement with the FDIC. Excluding the effects of acquisition accounting adjustments, the Bank acquired approximately $340.0 million in assets and assumed $310.1 million in liabilities. The Bank acquired most of SWB s assets, including loans and other real estate owned (OREO) with a fair value of $127.6 million and $12.1 million, respectively, and assumed deposits with a fair value of $304.3 million. The Bank received approximately $29.2 million in cash from the FDIC.

The Bank did not immediately acquire banking facilities, furniture or equipment as part of the purchase and assumption agreements, but has a 90 day option to purchase any or all owned bank premises including furniture, fixtures and equipment and to assume any or all leases for leased bank premises from the FDIC.

In connection with the acquisitions of FPB and SWB, the Bank entered into loss sharing agreements with the FDIC under which the FDIC will reimburse the Bank for 80 percent of eligible losses with respect to covered assets. Covered assets include acquired loans (covered loans) and OREO (covered OREO) that are covered under the loss sharing agreement with the FDIC. Under the FPB loss sharing agreement, the Company has a first loss tranche of $22.3 million that is not reimbursable by the FDIC. The Company will recognize losses of up to $22.3 million, and all subsequent losses above that threshold will then be subject to FDIC reimbursement of 80 percent. There is no first loss tranche under the SWB loss sharing agreement. The term of the loss share agreements is ten years for single family residential loans and five years for all other loans. The expected reimbursements under the loss sharing agreements were recorded as an indemnification asset at their estimated fair value of $36.5 million for FPB and $104.6 million for SWB. The difference between the fair value of the FDIC indemnification asset and the undiscounted cash flow the Bank expects to collect from the FDIC is accreted into noninterest income.

The Bank recognized a $3.8 million liability in the acquisition of FPB relating to a requirement that the Bank reimburse the FDIC if actual cumulative losses are lower than the cumulative losses originally estimated by the FDIC prior to the acquired bank s failure. There was no similar liability recognized in the acquisition of SWB.

The Bank recognized a gain of $0.5 million and $24.7 million on the acquisitions of FPB and SWB, respectively. The gain represents the amount by which the fair value of the assets acquired and consideration received from or paid to the FDIC exceeds the liabilities assumed. The gain is reported in Gain on acquisition in the consolidated statements of income. The Bank recognized approximately $1.7 million of acquisition-related expense. This expense is included in Other noninterest expense in the consolidated statements of income.

The consolidated income statement for 2010 includes the operating results produced by the acquired assets and assumed liabilities of FPB and SWB from their respective acquisition dates through June 30, 2010, which are not material to total operating results for the three and six month periods ended June 30, 2010. Due primarily to the Bank acquiring certain assets and liabilities of FPB and SWB which are not material to the Company s consolidated balance sheet, the significant amount of fair value adjustments, and the FDIC loss sharing agreement, the historical results of the acquired banks are not material to the Company s results, and as a result, no pro forma information is presented.

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Note 2. Business Combinations (Continued)

Imperial Capital Bank

On December 18, 2009, the Bank acquired the banking operations of Imperial Capital Bank (ICB) in a purchase and assumption agreement with the FDIC. Excluding the effects of acquisition accounting adjustments, the Company acquired approximately $3.25 billion in assets and assumed $3.09 billion in liabilities. The Bank acquired most of ICB s assets, including loans and OREO with a fair value of $1.86 billion and $58.8 million, respectively, and assumed deposits of $2.08 billion. The Bank received approximately $70.8 million in cash from the FDIC and recorded a receivable for an additional $5.3 million expected to be received in 2010. The acquisition of ICB added three new bank branches in California.

In connection with the acquisition, the Bank entered into a loss sharing agreement with the FDIC under which the FDIC will reimburse the Bank for 80 percent of eligible losses up to $649 million with respect to covered assets and 95 percent of eligible losses in excess of $649 million. The term of the loss share agreement is ten years for single family residential loans and seven years for all other loans. The expected reimbursements under the loss sharing agreement were recorded as an indemnification asset at their estimated fair value of $380.0 million at the acquisition date. The difference between the fair value of the FDIC indemnification asset and the undiscounted cash flow the Bank expects to collect from the FDIC is accreted into noninterest income.

In the last three quarters of the seventh year, the Bank has the right, without FDIC consent, to sell up to $400 million of the remaining covered loans provided the properties securing those loans have a current independent appraisal which supports a loan-to-value ratio of 75 percent or more of the covered loans book value.

The Bank recognized a gain of $38.2 million on the acquisition in 2009. The gain represents the amount by which the fair value of the assets acquired and consideration received from the FDIC exceeds the liabilities assumed.

Note 3. Fair Value Measurements

ASC 820 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.

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 for purposes of applying fair value measurement. 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.

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Note 3. Fair Value Measurements (Continued)

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, 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.

The following tables summarize assets and liabilities measured at fair value as of June 30, 2010, December 31, 2009 and June 30, 2009 by level in the fair value hierarchy:

		Fair Value Measurements at Reporting Date Using		
(in thousands)	Balance as of June 30, 2010	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				
U.S. Treasury	$ 19,145	$ 19,145	$	$
Federal agency - Debt	1,090,846		1,090,846	
Federal agency - MBS	466,713		466,713	
CMOs - Federal agency	2,528,237		2,528,237	
CMOs - Non-agency	217,078		217,078	
State and municipal	360,422		360,422	
Other debt securities	67,147		42,003	25,144
Equity securities and mutual funds	11,555	11,555		
Trading securities	129,287	113,483	15,804	
Mark-to-market derivatives (1)	60,619	4,976	55,643	
Total assets at fair value	$ 4,951,049	$ 149,159	$ 4,776,746	$ 25,144
Liabilities				
Mark-to-market derivatives (2)	$ 31,736	$ 1,629	$ 30,107	$
Total liabilities at fair value	$ 31,736	$ 1,629	$ 30,107	$
Measured on a Nonrecurring Basis				
Assets				
Collateral dependent impaired loans (3)				
Commercial	$ 2,996	$	$ 2,746	$ 250
Commercial real estate mortgages	35,656		21,243	14,413
Residential mortgages	7,364		6,985	379
Real estate construction	111,339		85,460	25,879
Other real estate owned (4)	50,797		43,592	7,205

Private equity investments	4,427			4,427
Total assets at fair value	$ 212,579	$	$ 160,026	$ 52,553

(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) OREO balance of $153.3 million in the consolidated balance sheets includes $98.8 million of covered OREO and is net of estimated disposal costs.

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Note 3. Fair Value Measurements (Continued)

(in thousands)	Balance as of December 31, 2009	Fair Value Measurements at Reporting Date Using: 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:				
U.S. Treasury	$ 73,597	$ 73,597	$	$
Federal agency - Debt	656,721		656,721	
Federal agency - MBS	555,157		555,157	
CMOs - Federal agency	2,306,111		2,306,111	
CMOs - Non-agency	241,329		241,329	
State and municipal	378,639		378,639	
Other debt securities	76,506		49,727	26,779
Equity securities and mutual funds	18,698	18,698		
Trading securities	154,302	154,302		
Mark-to-market derivatives (1)	52,309	5,335	46,974	
Total assets at fair value	$ 4,513,369	$ 251,932	$ 4,234,658	$ 26,779
Liabilities				
Mark-to-market derivatives (2)	$ 14,577	$ 1,080	$ 13,497	$
Total liabilities at fair value	$ 14,577	$ 1,080	$ 13,497	$
Measured on a Nonrecurring Basis				
Assets				
Collateral dependent impaired loans (3)				
Commercial	$ 450	$	$ 450	$
Commercial real estate mortgages	54,212		34,302	19,910
Residential mortgages	8,112		7,726	386
Real estate construction	176,202		98,387	77,815
Equity lines of credit	912		912	
Other real estate owned (4)	48,920		30,866	18,054
Private equity investments	4,374			4,374
Total assets at fair value	$ 293,182	$	$ 172,643	$ 120,539

(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) OREO balance of $113.9 million in the consolidated balance sheets includes $60.6 million of covered OREO and is net of estimated disposal costs.

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Note 3. Fair Value Measurements (Continued)

(in thousands)	Balance as of June 30, 2009	Fair Value Measurements at Reporting Date Using: 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				
U.S. Treasury	$ 15,831	$ 15,831	$	$
Federal agency - Debt	398,409		398,409	
Federal agency - MBS	584,932		584,932	
CMOs - Federal agency	1,550,675		1,550,675	
CMOs - Non-agency	292,669		292,669	
State and municipal	403,783		403,783	
Other debt securities	64,968		39,543	25,425
Equity securities and mutual funds	19,059	19,059		
Trading securities	138,137	102,802	33,532	1,803
Mark-to-market derivatives (1)	53,058	1,688	51,370	
Total assets at fair value	$ 3,521,521	$ 139,380	$ 3,354,913	$ 27,228
Liabilities				
Mark-to-market derivatives (2)	$ 11,175	$ 321	$ 10,854	$
Total liabilities at fair value	$ 11,175	$ 321	$ 10,854	$
Measured on a Nonrecurring Basis				
Assets				
Collateral dependent impaired loans (3)				
Commercial	$ 124	$	$ 124	$
Commercial real estate mortgages	28,080		28,080	
Residential mortgages	3,320		3,320	
Real estate construction	150,832		150,832	
Equity lines of credit	1,118		1,118	
Other real estate owned (4)	19,554		19,554	
Private equity investments	700			700
Total assets at fair value	$ 203,728	$	$ 203,028	$ 700

(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) OREO balance of $18.1 million in the consolidated balance sheets is net of estimated disposal costs.

At June 30, 2010, $4.95 billion, or approximately 23 percent, of the Company s total assets were recorded at fair value on a recurring basis, compared with $4.51 billion or 21 percent at December 31, 2009, and $3.52 billion or 20 percent at June 30, 2009. The majority of these financial assets were valued using Level 1 or Level 2 inputs. Less than a quarter of 1 percent of total assets was measured using Level 3 inputs. Approximately $31.7 million, $14.6 million and $11.2 million of the Company s total liabilities at June 30, 2010, December 31, 2009 and June 30, 2009, respectively, were recorded at fair value on a recurring basis using Level 1 or Level 2 inputs. At June 30, 2010, $212.6 million, or approximately 1 percent of the Company s total assets, were recorded at fair value on a nonrecurring basis, compared with $293.2 million or 1 percent at December 31, 2009, and $203.7 million or 1 percent at June 30, 2009. These assets were measured using Level 2 and Level 3 inputs. There were no transfers of assets or liabilities between Level 1 and Level 2 of the fair value hierarchy during the six months ended June 30, 2010.

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Note 3. Fair Value Measurements (Continued)

For assets measured at fair value on a nonrecurring basis, the following table presents the total losses (gains), which include charge-offs, specific reserves, valuation write-downs, and net losses on sales of other real estate owned, recognized in the three and six months ended June 30, 2010 and 2009:

(in thousands)	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Collateral dependent impaired loans				
Commercial	$ 4,279	$ 925	$ 6,896	$ 4,835
Commercial real estate mortgages	141	3,256	17,448	3,256
Residential mortgages	353	871	1,206	871
Real estate construction	(125)	33,377	10,120	45,452
Equity lines of credit	51	342	51	342
Other real estate owned	10,068	5,323	22,616	5,323
Private equity investments	30	403	428	403
Total losses recognized	$ 14,797	$ 44,497	$ 58,765	$ 60,482

Level 3 assets measured at fair value on a recurring basis include CDO senior notes in the current and prior year periods, and CDO income notes in the first quarter of 2009 only, 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 securities available-for-sale are reported as a component of Accumulated other comprehensive income (AOCI) in the consolidated balance sheets. Activity in Level 3 assets measured on a recurring basis for the six months ended June 30, 2010 and 2009 is summarized in the following table:

Level 3 Assets Measured on a Recurring Basis

(in thousands)	June 30, 2010 Securities Available-for-Sale	June 30, 2009 Securities Available-for-Sale	June 30, 2009 Trading Securities	June 30, 2009 Total Level 3 Assets
Balance, beginning of period	$ 26,779	$ 32,419	$	$ 32,419
Total realized/unrealized gains (losses):				
Included in earnings		(9,282)	(644)	(9,926)
Included in other comprehensive income	(1,358)	5,285		5,285
Purchases, sales, issuances and settlements, net	(277)	(550)		(550)
Transfers in and/or out of Level 3				
Transfers between categories		(2,447)	2,447	
Balance, end of period	$ 25,144	$ 25,425	$ 1,803	$ 27,228

Level 3 assets measured at fair value on a nonrecurring basis include certain collateral dependent impaired loans, OREO for which fair value is not solely based on market observable inputs, and certain private equity and alternative investments. Non-observable inputs related to valuing loans and OREO may include adjustments to external appraised values based on an internally generated discounted cash flow analysis or management s assumptions about market trends or other factors that are not directly observable. Private equity and alternative 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 is based primarily on a review of investment performance and the likelihood that the capital invested would be recovered.

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Note 3. Fair Value Measurements (Continued)

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 June 30, 2010 and June 30, 2009. 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, 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. Fair value for trading securities are based on quoted market prices or dealer quotes. The fair value of CDO income notes was 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. 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 the Company s 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. The discount rates used in the Company s model represent the rates the Bank would offer to current borrowers for like-quality credits. These rates could be different from what other financial institutions could offer for these loans.

Covered loans The fair value of covered loans is based on estimates of future loan cash flows and appropriate discount rates, which incorporate the Company s assumptions about market funding cost and liquidity premium. The estimates of future loan cash flows are determined using the Company s assumptions concerning the amount and timing of principal and interest payments, prepayments and credit losses.

FDIC indemnification asset The fair value of the FDIC indemnification asset was estimated by discounting estimated future cash flows based on estimated current market rates.

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.

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Note 3. Fair Value Measurements (Continued)

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.

The carrying amounts and fair values of the Company s financial instruments as of June 30, 2010 and June 30, 2009 were as follows:

	June 30, 2010		June 30, 2009	
(in millions)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial Assets:				
Cash and due from banks	$ 184.3	$ 184.3	$ 350.9	$ 350.9
Due from banks - interest bearing	336.2	336.2	205.6	205.6
Federal funds sold	404.8	404.8	125.0	125.0
Securities available-for-sale	4,761.1	4,761.1	3,330.3	3,330.3
Trading securities	129.3	129.3	138.1	138.1
Loans and leases, net of allowance	11,192.6	11,494.6	12,165.3	12,297.2
Covered loans, net of allowance	2,034.6	2,027.6		
FDIC indemnification asset	394.0	389.0		
Derivative contracts	60.6	60.6	53.1	53.1
Financial Liabilities:				
Deposits	$ 17,972.9	$ 17,977.1	$ 14,498.3	$ 14,502.6
Federal funds purchased and securities sold under repurchase agreements	2.7	2.7	116.4	116.4
Structured securities sold under repurchase agreements	175.0	185.3	200.0	208.7
Other short-term borrowings	0.7	0.7	50.0	50.0
Subordinated and long-term debt	811.0	842.7	395.9	367.5
Derivative contracts	31.7	31.7	11.2	11.2
Commitments to extend credit	7.1	21.0		13.2

Commitments to private equity and affordable housing funds	22.2	40.0	41.4

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Note 4. Investment Securities

The following is a summary of amortized cost and estimated fair value for the major categories of securities available-for-sale at June 30, 2010, December 31, 2009 and June 30, 2009:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2010				
U.S. Treasury.	$ 19,096	$ 50	$ (1)	$ 19,145
Federal agency - Debt.	1,084,703	6,432	(289)	1,090,846
Federal agency - MBS	447,363	19,350		466,713
CMOs - Federal agency	2,455,952	74,401	(2,116)	2,528,237
CMOs - Non-agency	234,330	1,753	(19,005)	217,078
State and municipal	347,469	13,120	(167)	360,422
Other debt securities	71,048	2,723	(6,624)	67,147
Total debt securities	4,659,961	117,829	(28,202)	4,749,588
Equity securities and mutual funds	8,128	3,427		11,555
Total securities	$ 4,668,089	$ 121,256	$ (28,202)	$ 4,761,143
December 31, 2009				
U.S. Treasury	$ 73,597	$ 2	$ (2)	$ 73,597
Federal agency - Debt.	659,716	651	(3,646)	656,721
Federal agency - MBS	552,691	6,521	(4,055)	555,157
CMOs - Federal agency	2,294,676	23,641	(12,206)	2,306,111
CMOs - Non-agency	272,262	304	(31,237)	241,329
State and municipal	368,454	10,915	(730)	378,639
Other debt securities	82,163	1,093	(6,750)	76,506
Total debt securities	4,303,559	43,127	(58,626)	4,288,060
Equity securities and mutual funds	15,861	2,837		18,698
Total securities	$ 4,319,420	$ 45,964	$ (58,626)	$ 4,306,758
June 30, 2009				
U.S. Treasury	$ 15,786	$ 45	$	$ 15,831
Federal agency - Debt.	397,859	1,417	(867)	398,409
Federal agency - MBS	575,184	10,887	(1,139)	584,932
CMOs - Federal agency	1,542,507	16,712	(8,544)	1,550,675
CMOs - Non-agency	349,687		(57,018)	292,669
State and municipal	398,584	7,042	(1,843)	403,783
Other	76,252	235	(11,519)	64,968
Total debt securities	3,355,859	36,338	(80,930)	3,311,267
Equity securities and mutual funds	17,317	1,742		19,059
Total securities	$ 3,373,176	$ 38,080	$ (80,930)	$ 3,330,326

Proceeds from sales of securities were $24.4 million and $432.0 million for the three and six months ended June 30, 2010, compared with $167.9 million and $446.0 million for the three and six months ended June 30, 2009, respectively. The following table provides the gross realized gains and losses on the sales of securities available-for-sale:

(in thousands)	For the three months ended June 30, 2010	For the three months ended June 30, 2009	For the six months ended June 30, 2010	For the six months ended June 30, 2009
Gross realized gains	$ 491	$ 3,432	$ 4,993	$ 8,664
Gross realized losses	(136)	(151)	(2,504)	(8,314)
Net realized gains	$ 355	$ 3,281	$ 2,489	$ 350

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Note 4. Investment Securities (Continued)

Impairment Assessment

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 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 whether the Company intends to sell the security and whether it is 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, *Investments Debt and Equity Securities Subsequent Measurement*, 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 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 June 30, 2010. The Company recorded impairment losses in earnings on securities available-for-sale of $0.5 million and $1.5 million for the three and six months ended June 30, 2010, respectively. Of the Company s total other-than-temporary impairment losses, $13.5 million related to non-credit-related impairment and was recorded in AOCI. The Company recorded impairment losses in earnings on securities available-for-sale of $1.5 million and $13.6 million for the three and six months ended June 30, 2009, respectively.

The following table provides total impairment losses recognized in earnings on other-than-temporarily impaired securities:

(in thousands) Impairment Losses on Other-Than-Temporarily Impaired Securities	For the three months ended June 30, 2010	For the three months ended June 30, 2009	For the six months ended June 30, 2010	For the six months ended June 30, 2009
Non-agency CMOs	$ 212	$ 1,537	$ 1,215	$ 1,537
Collateralized debt obligation income notes				9,282
Perpetual preferred stock	294		294	1,124
Mutual funds				1,630
Total	$ 506	$ 1,537	$ 1,509	$ 13,573

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Note 4. Investment Securities (Continued)

The following table provides a rollforward of credit-related other-than-temporary impairment recognized in earnings for debt securities for the three and six months ended June 30, 2010 and 2009. Credit-related other-than-temporary impairment that was recognized in earnings during the three and six months ending June 30, 2010 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)	For the three months ended June 30, 2010	For the three months ended June 30, 2009	For the six months ended June 30, 2010	For the six months ended June 30, 2009
Balance, beginning of period	$ 18,710	$ 13,298	$ 17,707	$ 8,083
Subsequent credit-related impairment	186		1,189	5,215
Initial credit-related impairment	26	1,537	26	1,537
Balance, end of period	$ 18,922	$ 14,835	$ 18,922	$ 14,835

Non-Agency CMOs

During the second quarter of 2010, the Company identified certain non-agency collateralized mortgage obligation securities (CMOs) that were considered to be other-than-temporarily impaired because the present value of expected cash flows was less than cost. These CMOs 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 forward curve as of the measurement date 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 Company concluded that the shortfall in expected cash flows represented a credit loss and recognized impairment losses in earnings totaling $0.2 million on its investments in CMOs in the second quarter. The Company has recognized credit losses totaling $1.2 million on its investments in non-agency CMOs year-to-date. The remaining other-than-temporary impairment for these securities 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 increases in interest rates.

Perpetual Preferred Stock

The adjusted cost basis of the Company s investment in perpetual preferred stock issued by Freddie Mac and Fannie Mae was $0.3 million at June 30, 2010. During the three months ended June 30, 2010, the Company recorded a $0.3 million impairment loss to adjust the costs basis of its investment to fair value. The Company previously recorded a $1.1 million impairment loss in 2009 and $21.9 million impairment loss in 2008 following the action taken by the Federal Housing Agency to place these government-sponsored agencies into conservatorship and eliminating the dividends on their preferred shares.

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Note 4. Investment Securities (Continued)

The following tables provide 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 June 30, 2010, December 31, 2009 and June 30, 2009. The tables include 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:

	Less than 12 months		12 months or greater		Total	
(in thousands)	Fair Value	Estimated Unrealized Loss	Fair Value	Estimated Unrealized Loss	Fair Value	Estimated Unrealized Loss
June 30, 2010						
U.S. Treasury	$ 4,029	$ 1	$	$	$ 4,029	$ 1
Federal agency - Debt	50,516	289			50,516	289
CMOs - Federal agency	293,008	2,116			293,008	2,116
CMOs - Non-agency	24,327	455	124,892	18,550	149,219	19,005
State and municipal	2,810	57	4,645	110	7,455	167
Other debt securities	4,585	31	16,933	6,593	21,518	6,624
Total securities	$ 379,275	$ 2,949	$ 146,470	$ 25,253	$ 525,745	$ 28,202
December 31, 2009						
U.S. Treasury	$ 59,995	$ 2	$	$	$ 59,995	$ 2
Federal agency - Debt	437,548	3,646			437,548	3,646
Federal agency - MBS	285,328	4,055			285,328	4,055
CMOs - Federal agency	634,732	12,206			634,732	12,206
CMOs - Non-agency	35,192	428	180,699	30,809	215,891	31,237
State and municipal	18,187	340	4,500	390	22,687	730
Other debt securities			36,315	6,750	36,315	6,750
Total securities	$ 1,470,982	$ 20,677	$ 221,514	$ 37,949	$ 1,692,496	$ 58,626
June 30, 2009						
Federal agency - Debt	$ 109,193	$ 867	$	$	$ 109,193	$ 867
Federal agency - MBS	125,930	1,139			125,930	1,139
CMOs - Federal agency	585,654	8,544			585,654	8,544
CMOs - Non-agency	25,355	4,674	267,314	52,344	292,669	57,018
State and municipal	58,795	965	10,382	878	69,177	1,843
Other debt securities	4,368	154	53,977	11,365	58,345	11,519
Total securities	$ 909,295	$ 16,343	$ 331,673	$ 64,587	$ 1,240,968	$ 80,930

At June 30, 2010, total securities available-for-sale had a fair value of $4.76 billion, which included $525.7 million of securities available-for-sale in an unrealized loss position as of June 30, 2010. This balance consists of $473.4 million of temporarily impaired securities and $52.3 million of securities that had non-credit related impairment recognized in AOCI. At June 30, 2010, the Company had 50 debt securities in an unrealized loss position. The debt securities in an unrealized loss position include 1 U.S. Treasury note, 1 Federal agency debt securities, 16 Federal agency CMOs, 21 private label CMOs, 9 state and municipal securities and 2 other debt securities.

The largest component of the unrealized loss at June 30, 2010 was $19.0 million related to non-agency collateralized mortgage obligations. The Company monitors the performance of the mortgages underlying these bonds. Collateral performance generally improved in the second quarter, though there was some additional deterioration in select securities which gave rise to additional credit impairment charges. 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 this sector of the credit markets. Other than the $1.2 million year-to-date 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.

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Note 4. Investment Securities (Continued)

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. The CDOs held in securities available-for-sale at June 30, 2010 are the most senior tranches of each issue. The market for CDOs has been inactive since 2008, 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 CDOs had a $6.6 million gross unrealized loss at June 30, 2010 which the Company attributes to the illiquid credit markets. The CDOs have collateral that exceeds the outstanding debt by over 29 percent at June 30, 2010. 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.

The Company does not consider the debt securities in the table above to be other than temporarily impaired at June 30, 2010.

At December 31, 2009, total securities available-for-sale had a fair value of $4.31 billion, which included $1.69 billion of securities available-for-sale in an unrealized loss position as of December 31, 2009. This balance consisted of $1.65 billion of temporarily impaired securities and $43.5 million of securities that had non-credit related impairment recognized in AOCI. At December 31, 2009, the Company had 155 debt securities in an unrealized loss position. The debt securities in an unrealized loss position included 1 U.S. Treasury bill, 15 Federal agency debt securities, 30 Federal agency MBS, 44 Federal agency CMOs, 29 private label CMOs, 32 state and municipal securities and 4 other debt securities.

At June 30, 2009, total securities available-for-sale had a fair value of $3.33 billion, which included $1.24 billion of securities available-for-sale in an unrealized loss position as of June 30, 2009. This balance consisted of $1.20 billion of temporarily impaired securities and $40.4 million of securities that had non-credit related impairment recognized in AOCI. At June 30, 2009, the Company had 181 debt securities in an unrealized loss position. The debt securities in an unrealized loss position included 5 Federal agency securities, 10 Federal agency MBS, 32 Federal agency CMOs, 33 private label CMOs, 91 state and municipal securities and 10 other debt securities.

The following table provides the expected remaining maturities of debt securities included in the securities portfolio as of June 30, 2010, except for mortgage-backed securities which are allocated according to the average life of expected cash flows. 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

(in thousands)	One year or less	Over 1 year through 5 years	Over 5 years through 10 years	Over 10 years	Total
U.S. Treasury	$ 14,072	$ 5,073	$	$	$ 19,145
Federal agency - Debt	870,162	220,684			1,090,846
Federal agency - MBS	335	155,355	282,765	28,258	466,713
CMOs - Federal agency	228,130	1,848,610	438,514	12,983	2,528,237
CMOs - Non-agency	21,903	133,846	61,329		217,078
State and municipal	32,978	155,900	121,138	50,406	360,422
Other	10,210	9,934	47,003		67,147
Total debt securities	$ 1,177,790	$ 2,529,402	$ 950,749	$ 91,647	$ 4,749,588
Amortized cost	$ 1,170,255	$ 2,462,359	$ 937,619	$ 89,728	$ 4,659,961

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Note 5. Other Investments

Federal Home Loan Bank and Federal Reserve Bank Stock

The Company s investment in stock issued by the Federal Home Loan Bank of San Francisco (FHLB) and Federal Reserve (FRB) totaled $128.1 million at June 30, 2010 compared to $123.2 million at December 31, 2009, and $54.2 million at June 30, 2009. Ownership of government agency securities is restricted to member banks, and the securities do not have readily determinable market values. The Company records investments in FHLB and FRB stock at cost in Other assets of the consolidated balance sheets and evaluates these investments for impairment.

At June 30, 2010, the Company held $97.3 million of FHLB stock. FHLB banks are cooperatives that provide products and services to member banks. The FHLB provides significant liquidity to the U.S. banking system through advances to its member banks in exchange for collateral. The purchase of stock is required in order to receive advances and other services. The Company completed an assessment of its investment in FHLB stock for impairment at June 30, 2010. Since 2009, the FHLB has experienced higher levels of other-than-temporary impairment in its investments in private label mortgage-backed securities due to continued weakness in the housing market. The FHLB has taken steps to preserve capital and increase the balance of restricted retained earnings available to protect members paid-in-capital from the effects of adverse credit events, and its capital-to-assets ratio was well above regulatory requirements at June 30, 2010. Additionally, the FHLB has access to a high level of government support to maintain liquidity and access to funding. The Company expects to recover the full amount invested in FHLB stock and does not consider its investment to be impaired at June 30, 2010.

Private Equity and Alternative Investments

The Company has ownership interests in a limited number of private equity, venture capital, real estate and hedge funds that are not publicly traded and do not have readily determinable fair values. These investments are carried at cost in the Other assets section of the consolidated balance sheets. The Company s investments in these funds totaled $37.5 million at June 30, 2010, $37.4 million at December 31, 2009 and $38.7 million at June 30, 2009. A summary of investments by fund type is provided below:

(in thousands) **Fund Type**	**June 30,** **2010**	**December 31,** **2009**	**June 30,** **2009**
Private equity and venture capital	$ 22,054	$ 22,530	$ 21,665
Real estate	9,545	8,148	10,133
Hedge	2,670	2,700	2,700
Other	3,198	4,038	4,192
Total	$ 37,467	$ 37,416	$ 38,690

Management reviews these investments quarterly for impairment. The impairment assessment includes a review of the most recent financial statements and investment reports for each fund and discussions with fund management. An impairment loss is recognized if it is deemed probable that the Company will not recover the cost of an investment. The impairment loss is recognized in Other noninterest income in the consolidated income statements. The new cost basis of the investment is not adjusted for subsequent recoveries in value.

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Note 5. Other Investments (Continued)

The Company recognized impairment totaling $30 thousand and $0.4 million on its investments in four funds during the three and six months ended June 30, 2010, respectively. The Company recognized $0.4 million of impairment on private equity and hedge fund investments for the same periods in 2009. The table below provides information as of June 30, 2010 on private equity and alternative investments measured at fair value on a nonrecurring basis due to the recognition of impairment:

Alternative Investments Measured at Fair Value on a Nonrecurring Basis

(in thousands) **Fund Type**		**Fair Value**		**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
Private equity and venture capital (2)	$	743	$	45	None (1)	N/A
Real estate (3)		3,014		1,411	None (1)	N/A
Hedge (4)		670			(4)	65 days
Total	$	4,427	$	1,456		

(1) Fund makes periodic distributions of income but does not permit redemptions prior to the end of the investment term.

(2) Fund invests in securities and other instruments of public and private companies, including corporations, partnerships, limited liability companies and joint ventures.

(3) Fund invests in commercial, industrial and retail projects and select multi-family housing opportunities which are part of mixed use projects in low and moderate income neighborhoods.

(4) Fund invests in hedge funds and other investment opportunities that may include funds with extended lock up periods, private equity funds, real estate funds or direct investments in private companies. Redemptions are subject to gates that restrict aggregate redemptions.

Note 6. Loans, Allowance for Loan and Lease Losses, and Reserve for Off-Balance Sheet Credit Commitments

The following is a summary of the major categories of loans:

Loans and Leases

(in thousands)		**June 30, 2010**		**December 31, 2009**		**June 30, 2009**
Commercial	$	3,935,544	$	4,335,052	$	4,375,161
Commercial real estate mortgages		2,078,003		2,161,451		2,162,294
Residential mortgages		3,577,894		3,533,453		3,511,598

Real estate construction		629,902		835,589		1,116,154
Equity lines of credit		742,071		734,182		691,226
Installment loans		169,070		172,566		175,315
Lease financing		350,560		374,615		389,594
Loans and leases, excluding covered loans		11,483,044		12,146,908		12,421,342
Less: Allowance for loan and lease losses		(290,492)		(288,493)		(256,018)
Loans and leases, excluding covered loans, net		11,192,552		11,858,415		12,165,324
Covered loans		2,080,846		1,851,821		
Less: Allowance for loan losses		(46,255)				
Covered loans, net		2,034,591		1,851,821		
Total loans and leases	$	13,563,890	$	13,998,729	$	12,421,342
Total loans and leases, net	$	13,227,143	$	13,710,236	$	12,165,324

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Note 6. Loans, Allowance for Loan and Lease Losses, and Reserve for Off-Balance Sheet Credit Commitments (Continued)

The Company s lending activities are predominantly in California, and to a lesser extent, New York and Nevada. Excluding covered loans, at June 30, 2010, California represented 88 percent of total loans outstanding and Nevada and New York represented 2 percent and 4 percent, respectively. The remaining 6 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.

Covered Loans

Covered loans represent loans acquired from the FDIC that are subject to loss sharing agreements and were $2.08 billion at June 30, 2010 and $1.85 billion as of December 31, 2009. Covered loans, net of allowance for loan losses, were $2.03 billion as of June 30, 2010. The increase in covered loans from December 31, 2009 was due to loans acquired in the FDIC-assisted acquisitions of FPB and SWB in the second quarter of 2010.

The Company evaluated the acquired loans from ICB, FPB and SWB and concluded that all loans, with the exception of a small population of acquired loans, would be accounted for under ASC 310-30. Loans are accounted for under ASC 310-30 when there is evidence of credit deterioration since origination and for which it is probable, at acquisition, that the Company would be unable to collect all contractually required payments. Total covered loans of $2.08 billion as of June 30, 2010 consist of acquired impaired loans of $2.07 billion that are within the scope of ASC 310-30 and $10.4 million of acquired loans that are outside the scope of ASC 310-30.

As of the respective acquisition dates, the preliminary estimates of the contractually required payments receivable for all acquired impaired loans of FPB and SWB were $643.3 million, the cash flows expected to be collected were $378.9 million, and the fair value of the loans was $330.6 million. These amounts were determined based on the estimated remaining life of the underlying loans, which included the effects of estimated prepayments. Fair value of the acquired loans include estimated credit losses, therefore, an allowance for loan losses is not recorded on the acquisition date. Interest income is recognized on all acquired impaired loans through accretion of the difference between the carrying amount of the loans and their expected cash flows. Certain amounts related to the acquired loans are preliminary estimates and adjustments to these amounts may occur as the Company finalizes its analysis of these loans.

Changes in the accretable yield for acquired impaired loans were as follows for the period from January 1, 2010 through June 30, 2010:

(in thousands)		**Accretable Yield**
Balance at January 1, 2010	$	687,126
Additions		48,644
Accretion		(58,776)
Reclassifications to nonaccretable yield		(114,883)

Disposals and other		5,926
Balance at June 30, 2010	$	568,037

Because of the short time period between the closing of the ICB acquisition and year-end 2009, certain 2009 amounts related to the acquired impaired ICB loans were preliminary estimates. In finalizing its analysis of these loans, the Company recorded adjustments to 2009 amounts that are reflected in the Disposals and other line of the above table.

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Note 6. Loans, Allowance for Loan and Lease Losses, and Reserve for Off-Balance Sheet Credit Commitments (Continued)

Covered loans accounted for under ASC 310-30 are generally considered accruing and performing loans as the loans accrete interest income over the estimated life of the loan when cash flows are reasonably estimable. Accordingly, acquired impaired loans that are contractually past due are still considered to be accruing and performing loans. If the timing and amount of future cash flows is not reasonably estimable, the loans may be classified as nonaccrual loans and interest income is not recognized until the timing and amount of future cash flows can be reasonably estimated. As of June 30, 2010, there were no nonaccrual covered loans.

The allowance for loan losses on covered loans was $46.3 million as of June 30, 2010. In the second quarter of 2010, the Company recorded a provision expense of $46.5 million on covered loans accounted for under ASC 310-30 as a result of a decrease in projected interest cash flows due to the Company s revised default forecasts, though the principal credit loss projections are expected to be in line with initial expectations. The revisions of the default forecasts in the second quarter were based on the results of management s review of the credit quality of the covered loans and the analysis of the loan performance data since the acquisition of covered loans. The Company will continue updating the cash flow projections on a quarterly basis.

At acquisition date, the Company recorded an FDIC indemnification asset for its FDIC-assisted acquisition of ICB in December 2009 and FPB and SWB in May 2010. The FDIC indemnification asset represents the present value of the expected reimbursement from the FDIC related to expected losses on acquired loans and OREO. The FDIC indemnification asset from all three acquisitions was $394.0 million at June 30, 2010. See Note 2, *Business Combination*, for further discussion of the FDIC indemnification asset.

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

The following is a summary of activity in the allowance for loan and lease losses on non-covered loans and reserve for off-balance sheet credit commitments:

(in thousands)	For the three months ended June 30, 2010	2009	For the six months ended June 30, 2010	2009
Allowance for loan and lease losses				
Balance, beginning of period	$ 292,799	$ 241,586	$ 288,493	$ 224,046
Provision for credit losses	32,000	70,000	87,000	120,000
Transfers (to) from reserve for off-balance sheet credit commitments	(812)	1,122	(1,970)	2,281
Charge-offs	(36,151)	(57,842)	(86,589)	(92,304)
Recoveries	2,656	1,152	3,558	1,995
Net loans charged-off	(33,495)	(56,690)	(83,031)	(90,309)
Balance, end of period	$ 290,492	$ 256,018	$ 290,492	$ 256,018
Reserve for off-balance sheet credit commitments				
Balance, beginning of period	$ 18,498	$ 21,544	$ 17,340	$ 22,703
Provision for credit losses/transfers	812	(1,122)	1,970	(2,281)

Balance, end of period	$	19,310	$	20,422	$	19,310	$	20,422

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Note 6. Loans, Allowance for Loan and Lease Losses, and Reserve for Off-Balance Sheet Credit Commitments (Continued)

Nonaccrual loans were $260.1 million at June 30, 2010, $388.7 million at December 31, 2009 and $378.3 million at June 30, 2009. Total impaired loans were $262.0 million at June 30, 2010, $375.7 million at December 31, 2009 and $365.3 million at June 30, 2009. At June 30, 2010, there were $251.8 million of impaired loans included in nonaccrual loans, with an allowance allocation of $26.5 million. The remaining $8.3 million of nonaccrual loans at June 30, 2010 are loans under $500,000 that are not individually evaluated for impairment. Impaired loans with commitments of less than $500,000 are aggregated for the purpose of measuring impairment using historical loss factors as a means of measurement. At December 31, 2009, there were $375.7 million of impaired loans which had an allowance of $55.8 million allocated to them. At June 30, 2009, there were $365.3 million of impaired loans which had an allowance of $51.6 million allocated to them. The average balance of impaired loans was $290.5 million and $318.9 million for the three and six months ended June 30, 2010, respectively. Interest income is not recognized on impaired loans until the principal balances of these loans are paid off.

Troubled debt restructured loans were $27.5 million, before specific reserves of $3.9 million, at June 30, 2010. Troubled debt restructured loans were $11.2 million, before specific reserves of $1.0 million, at December 31, 2009. At June 30, 2009, the Company had no troubled debt restructured loans. There were no related commitments to lend additional funds on restructured loans at June 30, 2010.

Note 7. Other Real Estate Owned

At June 30, 2010, OREO was $153.3 million and included $98.8 million of covered OREO. Covered OREO represents OREO covered by FDIC loss sharing agreements in the acquisitions of ICB, FPB and SWB. At December 31, 2009, OREO was $113.9 million and included $60.6 million of covered OREO. At June 30, 2009, OREO was $18.1 million. Excluding covered OREO, the Company recognized additions of $6.0 million, sales of $2.2 million, and valuation write-downs of $7.4 million in the three months ended June 30, 2010. For the six months ended June 30, 2010, the Company recognized additions of $27.1 million, sales of $7.6 million, and valuation write-downs of $18.4 million.

Covered OREO expenses and valuation write-downs are recorded in the noninterest expense section of the consolidated statements of income. Under the loss sharing agreements, 80 percent of covered OREO expenses and valuation write-downs are reimbursable to the Company from the FDIC. The portion of these expenses that are reimbursable is recorded in FDIC loss sharing income, net in the noninterest income section of the consolidated statements of income.

Note 8. 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 six-month period ended June 30, 2010.

At June 30, 2010, the Corporation had 1.1 million shares of common stock reserved for issuance and 0.7 million shares of unvested restricted stock granted to employees and directors under share-based compensation programs.

On November 21, 2008, the 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. Cumulative dividends on the preferred stock were payable quarterly at the rate of 5 percent for the first five years and increasing to 9 percent thereafter. 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.

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Note 8. Shareholders Equity (Continued)

In December 2009, the Corporation repurchased $200 million, or 200,000 shares, of the TARP preferred stock that it had sold to the Treasury. On March 3, 2010, the Corporation repurchased the remaining $200 million, or 200,000 shares, of TARP preferred stock. The repurchase on March 3, 2010 resulted in a one-time, after-tax, non-cash charge of $3.8 million.

On April 8, 2010, the Corporation repurchased its outstanding common stock warrant issued to the Treasury during the Corporation s participation in the TARP Capital Purchase Program. The repurchase price of $18.5 million was recorded as a charge to additional paid-in capital.

Note 9. 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.

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

	For the three months ended June 30,				For the six months ended June 30,			
(in thousands, except per share amounts)		**2010**		**2009**		**2010**		**2009**
Basic EPS:								
Net income attributable to City National Corporation	$	41,318	$	6,773	$	57,016	$	14,233
Less: Dividends on preferred stock				5,501		5,702		11,002
Net income available to common shareholders	$	41,318	$	1,272	$	51,314	$	3,231
Less: Earnings allocated to participating securities		535		55		635		143
Earning allocated to common shareholders	$	40,783	$	1,217	$	50,679	$	3,088
Weighted average common shares outstanding		52,012		50,416		51,852		49,028
Basic earnings per common share	$	0.78	$	0.02	$	0.98	$	0.06
Diluted EPS:								
Earnings allocated to common shareholders (1)	$	40,787	$	1,217	$	50,684	$	3,088
Weighted average common shares outstanding		52,012		50,416		51,852		49,028
Dilutive effect of equity awards		530		135		484		110
Weighted average diluted common shares outstanding		52,542		50,551		52,336		49,138

Diluted earnings per common share	$	0.78	$	0.02	$	0.97	$	0.06

(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 warrant. Antidilutive stock options and common stock warrant are not included in the calculation of basic or diluted EPS. There were 1.5 million average outstanding stock options that were antidilutive for the three months ended June 30, 2010 and an average 0.1 million warrant compared to 3.3 million outstanding stock options and a 1.1 million warrant that were antidilutive for the same period in 2009. On April 7, 2010, the Company repurchased the common stock warrant. There were 2.2 million average outstanding stock options and an average 0.6 million common stock warrant that were antidilutive for the six month period ended June 30, 2010 compared to 3.6 million outstanding stock options and a 1.1 million warrant that were antidilutive for the same period in 2009.

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Note 10. Share-Based Compensation

On June 30, 2010, 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 $4.2 million and $8.1 million for the three and six months ended June 30, 2010, respectively, and $3.7 million and $7.2 million for the three and six months ended June 30, 2009, respectively. The Company received $17.8 million and $0.5 million in cash for the exercise of stock options during the six months ended June 30, 2010 and 2009, respectively. The tax benefit recognized for share-based compensation arrangements in equity was $2.2 million for the six months ended June 30, 2010, compared with tax expense of $0.7 million for the six months ended June 30, 2009.

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 June 30, 2010. 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 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. The Company generally issues treasury shares upon share option exercises. All unexercised options expire 10 years from the grant date. At June 30, 2010, there were approximately 1.1 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. The Company uses a 20-year look back period to calculate the volatility factor. The length of the 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. The Company uses historical data to predict option exercise and employee termination behavior. The expected term of options granted is derived from historical exercise activity 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 June 30,		For the six months ended June 30,	
	2010	2009	2010	2009
Weighted-average volatility	31.38%	31.44%	31.41%	31.42%
Dividend yield	0.69%	1.09%	0.73%	3.51%
Expected term (in years)	5.80	5.74	6.08	6.10
Risk-free interest rate	2.83%	3.29%	2.99%	2.81%

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Note 10. Share-Based Compensation (Continued)

Using the Black-Scholes methodology, the weighted-average grant-date fair values of options granted during the six months ended June 30, 2010 and 2009 were $16.86 and $6.50, respectively. The total intrinsic values of options exercised during the six months ended June 30, 2010 and 2009 were $9.0 million and $125 thousand, respectively.

A summary of option activity and related information under the Plan for the six months ended June 30, 2010 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, 2010	4,862	$ 49.64		
Granted	539	50.28		
Exercised	(493)	36.03		
Forfeited or expired	(97)	45.05		
Outstanding at June 30, 2010	4,811	$ 51.19	$ 30,895	5.90
Exercisable at June 30, 2010	3,033	$ 56.54	$ 10,703	4.27

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

A summary of changes in unvested options and related information for the six months ended June 30, 2010 is presented below:

Unvested Options	Number of Shares (in thousands)	Weighted Average Grant Date Fair Value (per share)
Unvested at January 1, 2010	1,861	$ 10.14
Granted	539	16.86
Vested	(541)	12.11
Forfeited	(81)	11.02
Unvested at June 30, 2010	1,778	$ 11.54

The number of options vested during the six months ended June 30, 2010 and 2009 were 540,653 and 415,304, respectively. The total fair value of options vested during the six months ended June 30, 2010 and 2009 was $6.5 million and $6.7 million, respectively. As of June 30, 2010, there was $16.3 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.

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Note 10. Share-Based Compensation (Continued)

The Plan provides for granting of restricted shares of Company stock to employees. In general, twenty-five percent of the restricted stock vests two years from the date of grant, then twenty-five percent vests on each of the next three consecutive grant anniversary dates. The restricted stock is subject to forfeiture until the restrictions lapse or terminate. A summary of changes in restricted stock and related information for the six months ended June 30, 2010 is presented below:

Restricted Stock	Number of Shares (in thousands)		Weighted Average Grant Date Fair Value (per share)
Unvested at January 1, 2010	610	$	46.79
Granted	209		50.55
Vested	(110)		66.92
Forfeited	(26)		44.94
Unvested at June 30, 2010	683	$	44.78

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 six months ended June 30, 2010 and 2009 were $50.55 and $27.48, respectively. The number of restricted shares vested during the six months ended June 30, 2010 and 2009 were 110,071 and 95,007, respectively. The total fair value of restricted stock vested during the six months ended June 30, 2010 and 2009 was $7.4 million and $6.7 million, respectively. The compensation expense related to restricted stock for the six months ended June 30, 2010 and 2009 was $4.0 million and $3.7 million, respectively. As of June 30, 2010, the unrecognized compensation cost related to restricted stock granted under the Company s plans was $21.4 million. That cost is expected to be recognized over a weighted-average period of 3.2 years.

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Note 11. Derivative Instruments

The following table summarizes the fair value and balance sheet classification of derivative instruments as of June 30, 2010 and June 30, 2009. 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. If a counterparty fails to perform, the Company s counterparty credit risk is equal to the amount reported as a derivative asset.

Fair Values of Derivative Instruments

(in millions)	June 30, 2010 Notional Amount	June 30, 2010 Derivative Assets (1)	June 30, 2010 Derivative Liabilities (1)	June 30, 2009 Notional Amount	June 30, 2009 Derivative Assets (1)	June 30, 2009 Derivative Liabilities (1)
Derivatives designated as hedging instruments						
Interest rate swaps - fair value:						
Certificates of deposit	$ 10.0	$ 0.5	$	$ 20.0	$ 1.3	$
Long-term and subordinated debt	358.2	27.8		362.4	29.2	
Total fair value contracts	$ 368.2	$ 28.3	$	$ 382.4	$ 30.5	$
Interest rate swaps - cash flow:						
U.S. Dollar LIBOR based loans	$ 50.0	$ 0.3	$	$ 200.0	$ 9.2	$
Prime based loans	50.0	0.6		125.0	3.4	
Total cash flow contracts	$ 100.0	$ 0.9	$	$ 325.0	$ 12.6	$
Total derivatives designated as hedging instruments	$ 468.2	$ 29.2	$	$ 707.4	$ 43.1	$
Derivatives not designated as hedging instruments						
Interest rate contracts:						
Swaps	$ 979.2	$ 29.0	$ 29.6	$ 822.6	$ 11.0	$ 10.3
Interest-rate caps, floors and collars	179.3	0.4	0.4	133.2	0.4	0.4
Options purchased	2.0	0.1	0.1	2.0	0.1	0.1
Options written	2.0			2.0		
Total interest-rate contracts	$ 1,162.5	$ 29.5	$ 30.1	$ 959.8	$ 11.5	$ 10.8
Equity index futures	$	$	$	$ 1.7	$ 0.1	$
Foreign exchange contracts:						
Spot and forward contracts	$ 237.9	$ 6.0	$ 5.7	$ 222.4	$ 3.6	$ 3.3
Options purchased	71.9	0.1	0.1	10.3	0.3	0.3
Options written	71.9	1.5	1.5	10.3		
Total foreign exchange contracts	$ 381.7	$ 7.6	$ 7.3	$ 243.0	$ 3.9	$ 3.6
Total derivatives not designated as hedging instruments	$ 1,544.2	$ 37.1	$ 37.4	$ 1,204.5	$ 15.5	$ 14.4

(1) Derivative assets include the estimated gain to settle a derivative contract plus net interest receivable. Derivative liabilities include the estimated loss to settle a derivative contract.

Derivatives Designated as Hedging Instruments

As of June 30, 2010, the Company had $468.2 million notional amount of interest-rate swaps, of which $368.2 million were designated as fair value hedges and $100.0 million were designated as cash flow hedges. The positive fair value of the fair value hedges of $28.3 million resulted in the recognition of other assets and an increase in hedged deposits and borrowings of $26.6 million. The remaining $1.7 million of fair value represents net interest receivable. The net positive fair value of cash flow hedges of variable-rate loans of $0.9 million resulted in other assets of $0.6 million and other comprehensive income of $0.3 million, after tax, as of June 30, 2010. AOCI also includes a net deferred gain of $3.6 million related to cash flow hedges that were terminated prior to their maturity dates for which the hedged transactions have yet to occur. The remaining $0.3 million of fair value represents net interest receivable.

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Note 11. Derivative Instruments (Continued)

As of June 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 $30.5 million resulted in the recognition of other assets and an increase in hedged deposits and borrowings of $28.9 million. The remaining $1.6 million of fair value represents net interest receivable. The positive fair value of cash flow hedges of variable-rate loans of $12.6 million resulted in other assets of $11.7 million and other comprehensive income of $6.8 million, after tax, as of June 30, 2009. AOCI also included a net deferred gain of $0.2 million related to cash flow hedges that were terminated prior to their maturity dates for which the hedged transactions had yet to occur. The remaining $0.9 million of fair value represents net interest receivable.

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. Under these agreements, the collateral requirements are based on the Company s credit rating from the major credit rating agencies. The amount of collateral required varies by counterparty based on a range of credit ratings that correspond with exposure thresholds established in the derivative agreements. If the credit rating on the Company s debt were to fall below the level associated with a particular exposure threshold and the derivatives with a counterparty are in a net liability position that exceeds that threshold, the counterparty could request immediate payment or delivery of collateral for the difference between the net liability amount and the exposure threshold. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a net liability position on June 30, 2010 was $12.0 million. The Company was not required to deliver collateral because the net liability position did not exceed the exposure threshold amount at the Company s current credit rating.

The Company s interest-rate swaps had $6.0 million and $12.5 million of credit risk exposure at June 30, 2010 and June 30, 2009, 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 $14.1 million and $20.1 million had been received from swap counterparties at June 30, 2010 and June 30, 2009, respectively. Additionally, the Company had delivered collateral valued at $6.5 million to a counterparty at June 30, 2010.

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 and six months ended June 30, 2010 and 2009 is provided below:

(in millions) Derivative Instruments Designated as Hedging Instruments	Location in Consolidated Statements of Income	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Interest-rate swaps-fair value	Interest expense	$ (4.3)	$ (3.8)	$ (8.7)	$ (6.9)
Interest-rate swaps-cash flow	Interest income	2.6	2.9	5.6	5.8
Total income		$ 6.9	$ 6.7	$ 14.3	$ 12.7

Fair value and cash flow interest-rate swaps increased net interest income by $6.9 million and $14.3 million for the three and six months ended June 30, 2010, respectively, and increased net interest income by $6.7 million and $12.7 million for the same periods in 2009.

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. The amount of gains on cash flow hedges reclassified from AOCI to interest income for the three and six months ended June 30, 2010 was $2.6 million and $5.6 million, respectively, and $2.9 million and $5.8 million for the same periods in 2009. Within the next 12 months, $0.6 million of other comprehensive income is expected to be reclassified into interest income. 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.

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Note 11. Derivative Instruments (Continued)

The amount of after-tax loss on the change in fair value of cash flow hedges recognized in AOCI was $4.0 million (net of taxes of $2.9 million) for the six months ended June 30, 2010, compared with an after-tax gain of $0.1 million (net of taxes of $0.1 million) for the same period of 2009.

The amount of hedge ineffectiveness on cash flow hedges was nominal at June 30, 2010.

Derivatives Not Designated as Hedging Instruments

Derivative contracts not designated as hedges are marked-to-market each reporting period with changes in fair value recorded as a 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 six months ended June 30, 2010 and 2009:

(in millions) **Derivatives Not Designated as Hedging Instruments**	**Location in Consolidated Statements of Income**	**Three Months Ended June 30, 2010**	**Three Months Ended June 30, 2009**	**Six Months Ended June 30, 2010**	**Six Months Ended June 30, 2009**
Interest-rate contracts	Other noninterest income	$ (0.8)	$ 1.0	$ (0.9)	$ 1.3
Equity index futures	Other noninterest income		(0.4)	(0.1)	(0.1)
Foreign exchange contracts	International services income	5.8	4.9	10.5	8.8
Total income		$ 5.0	$ 5.5	$ 9.5	$ 10.0

Note 12. Income Taxes

The Company recognized an income tax benefit of $2.9 million and $1.0 million for the three-month period ended June 30, 2010 and 2009, respectively, and income tax expense of $1.6 million and $0.6 million for the six-month period ended June 30, 2010 and 2009, respectively. The income tax benefit for the second quarter of 2010 includes a $19 million tax litigation settlement with the California Franchise Tax Board, offset by expense of $4.3 million relating to revisions to certain deferred tax accounts. In May 2010, the Company and the California Franchise Tax Board closed its audits for the years 1998 through 2004 and settled litigation related to various refund claims and other pending matters under review. Under the terms of the settlement, the Company received $29 million in tax credits, which added approximately $19 million to the Company s net income in the second quarter of 2010. In the second quarter of 2010, the Company recorded an adjustment to correct certain deferred tax accounts related to revisions of book and tax basis differences established in previous years related to its wealth management affiliates, low income housing investments and fixed assets. The net effect of the adjustment was a reduction of the deferred tax asset and a corresponding tax expense of $4.3 million.

The Company recognizes accrued interest and penalties relating to uncertain tax positions as an income tax provision expense. The Company recognized approximately $0.6 million and $0.5 million of interest and penalties expense for the six months ended June 30, 2010 and 2009, respectively. The Company had approximately $2.1 million, $5.5 million and $6.7 million of accrued interest and penalties as of June 30, 2010, December 31, 2009 and June 30, 2009, 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 year 2008 resulting in no material financial statement impact. The Company is currently being audited by the IRS for 2009. The potential financial statement impact, if any, resulting from completion of these audits is expected to be minimal.

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 June 30, 2010, the Company does not have any tax positions which dropped below a more likely than not threshold.

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Note 13. 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. Eligible employees may contribute up to 50 percent of their salary to the 401(k) plan, but not more than the maximum allowed under Internal Revenue Service regulations. The Company matches 50 percent of the first 6 percent of covered compensation. The Company recorded total profit sharing and matching contribution expense of $2.3 million and $4.4 million for the three and six months ended June 30, 2010 respectively. Profit sharing and matching contribution expense was $1.3 million and $2.0 million for the same periods in 2009, 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 June 30, 2010, there was a $5.1 million unfunded pension liability related to the SERP. Pension expense for the three and six months ended June 30, 2010 was $0.2 million and $0.4 million, respectively. Pension expense for the three and six months ended June 30, 2009 was $0.2 million and $0.4 million, respectively.

There is also a SERP covering three former executives of the Pacific Bank, which the Company acquired in 2000. As of June 30, 2010, there was an unfunded pension liability for this SERP of $2.3 million. Expense for the three months ended June 30, 2010 and 2009 was insignificant. Expense for the six months ended June 30, 2010 and 2009 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 14. Contingencies

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

Note 15. 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 $102.0 million, $93.4 million and $96.4 million at June 30, 2010, December 31, 2009 and June 30, 2009, respectively, and is included in Affordable housing investments in the consolidated balance sheets.

Unfunded commitments for affordable housing investments were $22.2 million at June 30, 2010. These unfunded commitments are recorded in Other liabilities in the consolidated balance sheets.

Of the affordable housing investments held as of June 30, 2010, 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 $7.4 million aggregate carrying value of these investments at June 30, 2010. There were no unfunded commitments for these affordable housing investments at June 30, 2010.

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Note 15. 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 $37.5 million, $37.4 million and $38.7 million at June 30, 2010, December 31, 2009 and June 30, 2009, 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.

Note 16. Noncontrolling Interest

In accordance with ASC 810 and EITF Topic D-98, *Classification and Measurement of Redeemable Securities* (Topic D-98), the Company reports noncontrolling interest in its majority-owned affiliates as either a separate component of equity in Noncontrolling interest in the consolidated balance sheets or as Redeemable noncontrolling interest in the mezzanine section between liabilities and equity in the consolidated financial statements. Topic D-98 specifies that securities that are redeemable at the option of the holder or outside the control of the issuer are not considered permanent equity and should be classified in the mezzanine section.

Redeemable Noncontrolling Interest

The Corporation holds a majority ownership interest in seven investment management and wealth advisory affiliates that it consolidates and a noncontrolling interest in two other firms. 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 that have met the criteria for consolidation are 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.

As of June 30, 2010, affiliate noncontrolling owners held equity interests with an estimated fair value of $47.6 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.

The following is a reconciliation of redeemable noncontrolling interest for the six months ended June 30, 2010 and 2009:

	For the six months ended June 30,	
(in thousands)	**2010**	**2009**
Balance, beginning of period	$ 51,381	$ 44,811
Net income (loss)	1,230	(1,057)
Distributions to noncontrolling interest	(1,266)	(1,465)
Additions and redemptions, net	(4,771)	(5,252)
Adjustments to fair value	1,048	(285)
Balance, end of period	$ 47,622	$ 36,752

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Note 17. 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 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.

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.

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Note 17. Segment Results (Continued)

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. At year-end 2009, the methodology for allocating income taxes to the reportable segments was revised. Prior period segment results have been revised to conform with the current period presentation.

	For the three months ended June 30, 2010			
(in thousands)	**Commercial and Private Banking**	**Wealth Management**	**Other**	**Consolidated Company**
Earnings Summary:				
Net interest income	$ 172,521	$ 372	$ 9,105	$ 181,998
Provision for credit losses on loans and leases, excluding covered loans	32,000			32,000
Provision for losses on covered loans	46,516			46,516
Noninterest income	99,046	40,178	(16,697)	122,527
Depreciation and amortization	3,393	1,538	3,560	8,491
Noninterest expense	156,089	36,665	(14,667)	178,087
Income before income taxes	33,569	2,347	3,515	39,431
Provision (benefit) for income taxes	14,099	802	(17,760)	(2,859)
Net income	19,470	1,545	21,275	42,290
Less: Net income attributable to noncontrolling interest		437	535	972
Net income attributable to City National Corporation	$ 19,470	$ 1,108	$ 20,740	$ 41,318
Selected Average Balances:				
Loans and leases, excluding covered loans	$ 11,515,926	$	$ 65,994	$ 11,581,920
Covered loans	2,002,893			2,002,893
Total assets	14,174,269	555,816	6,069,102	20,799,187
Deposits	16,963,504	48,171	588,623	17,600,298
Goodwill	318,340	161,642		479,982
Customer-relationship intangibles, net	11,407	30,922		42,329

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Note 17. Segment Results (Continued)

(in thousands)	For the three months ended June 30, 2009 Commercial and Private Banking	Wealth Management	Other	Consolidated Company
Earnings Summary:				
Net interest income	$ 154,384	$ 798	$ 394	$ 155,576
Provision for credit losses	70,000			70,000
Noninterest income	39,818	32,501	(8,062)	64,257
Depreciation and amortization	3,079	1,400	3,142	7,621
Noninterest expense	116,909	32,269	(12,665)	136,513
Income (loss) before income taxes	4,214	(370)	1,855	5,699
Provision (benefit) for income taxes	1,770	110	(2,866)	(986)
Net income (loss)	2,444	(480)	4,721	6,685
Less: Net income (loss) attributable to noncontrolling interest		(630)	542	(88)
Net income attributable to City National Corporation	$ 2,444	$ 150	$ 4,179	$ 6,773
Selected Average Balances:				
Loans and leases	$ 12,295,358	$	$ 58,902	$ 12,354,260
Total assets	12,441,336	571,729	4,356,246	17,369,311
Deposits	12,711,298	72,929	1,239,048	14,023,275
Goodwill	317,801	141,617		459,418
Customer-relationship intangibles, net	9,763	28,306		38,069

(in thousands)	For the six months ended June 30, 2010 Commercial and Private Banking	Wealth Management	Other	Consolidated Company
Earnings Summary:				
Net interest income	$ 341,145	$ 705	$ 15,653	$ 357,503
Provision for credit losses on loans and leases, excluding covered loans	87,000			87,000
Provision for losses on covered loans	46,516			46,516
Noninterest income	144,306	80,251	(25,157)	199,400
Depreciation and amortization	6,694	3,507	7,084	17,285
Noninterest expense	301,446	71,923	(28,142)	345,227
Income before income taxes	43,795	5,526	11,554	60,875
Provision (benefit) for income taxes	18,394	1,804	(18,639)	1,559
Net income	25,401	3,722	30,193	59,316
Less: Net income attributable to noncontrolling interest		1,230	1,070	2,300
Net income attributable to City National Corporation	$ 25,401	$ 2,492	$ 29,123	$ 57,016
Selected Average Balances:				
Loans and leases, excluding covered loans	$ 11,698,338	$	$ 63,784	$ 11,762,122
Covered loans	1,918,481			1,918,481
Total assets	14,317,251	500,428	5,717,008	20,534,687
Deposits	16,604,189	47,771	582,300	17,234,260

Goodwill	318,340	161,642	479,982
Customer-relationship intangibles, net	12,041	31,544	43,585

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Note 17. Segment Results (Continued)

(in thousands)	Commercial and Private Banking	Wealth Management	Other	Consolidated Company
	For the six months ended June 30, 2009			
Earnings Summary:				
Net interest income	$ 303,230	$ 1,244	$ (4,001)	$ 300,473
Provision for credit losses	120,000			120,000
Noninterest income	81,883	68,757	(39,088)	111,552
Depreciation and amortization	6,501	2,614	6,341	15,456
Noninterest expense	223,216	65,028	(26,581)	261,663
Income (loss) before income taxes	35,396	2,359	(22,849)	14,906
Provision (benefit) for income taxes	14,866	1,435	(15,655)	646
Net income (loss)	20,530	924	(7,194)	14,260
Less: Net income (loss) attributable to noncontrolling interest		(1,056)	1,083	27
Net income (loss) attributable to City National Corporation	$ 20,530	$ 1,980	$ (8,277)	$ 14,233
Selected Average Balances:				
Loans and leases	$ 12,313,450	$	$ 61,264	$ 12,374,714
Total assets	12,464,990	584,280	3,843,652	16,892,922
Deposits	12,115,519	74,213	1,245,726	13,435,458
Goodwill	317,801	141,651		459,452
Customer-relationship intangibles, net	10,265	28,636		38,901

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CITY NATIONAL CORPORATION

FINANCIAL HIGHLIGHTS

(in thousands, except per share amounts) (1)	At or for the three months ended June 30, 2010 (Unaudited)	March 31, 2010 (Unaudited)	June 30, 2009 (Unaudited)	Percent change June 30, 2010 from March 31, 2010	June 30, 2009
For The Quarter					
Net income atrributable to City National Corporation	$ 41,318	$ 15,698	$ 6,773	163%	510%
Net income available to common shareholders	41,318	9,996	1,272	313	3,148
Net income per common share, basic	0.78	0.19	0.02	311	3,800
Net income per common share, diluted	0.78	0.19	0.02	311	3,800
Dividends per common share	0.10	0.10	0.10		
At Quarter End					
Assets	$ 21,231,447	$ 20,066,475	$ 17,660,785	6	20
Securities	4,890,430	3,996,886	3,468,463	22	41
Loans and leases, excluding covered loans	11,483,044	11,689,536	12,421,342	(2)	(8)
Covered loans (2)	2,034,591	1,803,048		13	NM
Deposits	17,972,913	16,963,729	14,498,251	6	24
Common shareholders equity	1,901,771	1,838,222	1,757,438	3	8
Total equity	1,926,960	1,863,411	2,173,916	3	(11)
Book value per common share	36.51	35.43	34.14	3	7
Average Balances					
Assets	$ 20,799,187	$ 20,267,248	$ 17,369,311	3	20
Securities	4,243,756	4,036,435	3,364,194	5	26
Loans and leases, excluding covered loans	11,581,920	11,944,326	12,354,260	(3)	(6)
Covered loans (2)	2,002,893	1,833,131		9	NM
Deposits	17,600,298	16,864,155	14,023,275	4	26
Common shareholders equity	1,856,446	1,843,808	1,729,584	1	7
Total equity	1,881,635	2,003,150	2,145,859	(6)	(12)
Selected Ratios					
Return on average assets (annualized)	0.80%	0.31%	0.16%	158	400
Return on average common shareholders equity (annualized)	8.93	2.20	0.29	306	2,979
Corporation s tier 1 leverage	7.96	8.03	10.16	(1)	(22)
Corporation s tier 1 risk-based capital	11.69	11.44	12.35	2	(5)
Corporation s total risk-based capital	14.68	14.42	14.18	2	4
Period-end common shareholders equity to period-end assets	8.96	9.16	9.95	(2)	(10)
Period-end total equity to period-end assets	9.08	9.29	12.31	(2)	(26)
Dividend payout ratio, per common share	12.71	52.16	383.66	(76)	(97)
Net interest margin	3.93	3.97	3.98	(1)	(1)

Expense to revenue ratio (3)	55.29	62.24	63.80	(11)	(13)
Asset Quality Ratios (4)					
Nonaccrual loans to total loans and leases	2.27%	2.82%	3.05%	(20)	(26)
Nonaccrual loans and OREO to total loans and leases and OREO	2.73	3.30	3.19	(17)	(14)
Allowance for loan and lease losses to total loans and leases	2.53	2.50	2.06	1	23
Allowance for loan and lease losses to nonaccrual loans	111.68	88.72	67.68	26	65
Net charge-offs to average loans (annualized)	(1.16)	(1.68)	(1.84)	(31)	(37)
At Quarter End					
Assets under management (5)	$ 34,172,272	$ 35,783,366	$ 30,286,415	(5)	13
Assets under management or administration (5)	54,613,807	55,844,305	47,838,854	(2)	14

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

(2) Covered loans represent acquired loans that are covered under a loss sharing agreement with the FDIC.

(3) 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).

(4) Excludes covered assets, which consists of acquired loans and OREO that are covered under a loss sharing agreement with the FDIC.

(5) Excludes $12.88 billion, $12.70 billion and $7.48 billion of assets under management for the asset manager in which the Company holds a noncontrolling ownership interest as of June 30, 2010, March 31, 2010, and June 30, 2009, respectively. Also excludes $1.94 billion and $2.09 billion of assets under management and administration as of June 30, 2010 and March 31, 2010, respectively, for an asset manager that the Company deconsolidated effective November 1, 2009.

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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 75 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 eleven 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 accounting for business combinations, noncontrolling interest, financial assets and liabilities reported at fair value, securities, acquired impaired loans, allowance for loan and lease losses and reserve for off-balance sheet credit commitments, other real estate owned (OREO), goodwill and other intangible assets, share-based compensation plans, income taxes and derivatives and hedging activities. The Company has not made any significant changes in its critical accounting policies or its estimates and assumptions from those disclosed in its 2009 Annual Report.

Several new accounting pronouncements became effective for the Company on January 1, 2010. 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

On April 8, 2010, the Company repurchased its outstanding common stock warrant issued to the United States Department of the Treasury (Treasury) during the Company s participation in the TARP Capital Purchase Program. The common stock warrant was originally issued in

November 2008. The repurchase price of $18.5 million was recorded as a charge to additional paid-in capital.

On May 7, 2010, the Bank acquired the banking operations of 1st Pacific Bank of California (FPB) in a purchase and assumption agreement with the Federal Deposit Insurance Corporation (FDIC). Excluding the effects of acquisition accounting adjustments, the Bank acquired approximately $318.6 million in assets and assumed $264.2 million in liabilities. The Bank acquired most of FPB s assets, including loans with a fair value of $202.8 million, and assumed deposits with a fair value of $237.2 million. The acquired loans and OREO are subject to a loss-sharing agreement with the FDIC.

On May 28, 2010, the Bank acquired the banking operations of Sun West Bank (SWB) in Nevada in a purchase and assumption agreement with the FDIC. Excluding the effects of acquisition accounting adjustments, the Bank acquired approximately $340.0 million in assets and assumed $310.1 million in liabilities. The Bank acquired most of SWB s assets, including loans with a fair value of $127.6 million, and assumed deposits with a fair value of $304.3 million. The acquired loans and OREO are subject to a loss-sharing agreement with the FDIC.

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Effective July 1, 2010, the Company will be ending its participation in the FDIC s 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. Effective July 1, 2010, the standard FDIC deposit insurance coverage became applicable again to all of the Company s depositors.

HIGHLIGHTS

- For the quarter ended June 30, 2010, consolidated net income attributable to City National Corporation and consolidated net income available to common shareholders was $41.3 million, or $0.78 per diluted common share. For the year-earlier quarter, consolidated net income attributable to City National Corporation was $6.8 million and consolidated net income available to common shareholders was $1.3 million, or $0.02 per diluted common share. The increase in net income available to common shareholders is primarily due to higher net interest income resulting from the Company s acquisition of Imperial Capital Bank (ICB) in December 2009 and acquisitions of FPB and SWB in May 2010, as well as a $25.2 million gain on acquisitions recognized in the second quarter of 2010. Net income available to common shareholders in the second quarter of 2010 also includes net tax benefits of $14.7 million, which are primarily related to a favorable tax litigation settlement. See the Income Taxes section of the Management s Discussion and Analysis for further discussion.

- Revenue, which consists of net interest income and noninterest income, was $304.5 million for the second quarter of 2010, an increase of 39 percent from $219.8 million in the year-earlier quarter. Revenue was up 21 percent from the first quarter of 2010.

- Fully taxable-equivalent net interest and dividend income increased to $185.3 million for the second quarter of 2010, up 17 percent from the same period last year and 4 percent from the first quarter of 2010.

- The Company s net interest margin was 3.93 percent for the second quarter of 2010, down from 3.97 percent for the first quarter of 2010 and 3.98 percent from the same quarter of 2009 due largely to strong growth in deposits, which were invested in lower-yielding assets.

- Noninterest income was $122.5 million for the second quarter of 2010, an increase of 91 percent from $64.3 million for the year-earlier quarter, due largely to gains recognized on the acquisition of FPB and SWB in the second quarter of 2010. It also included $28.3 million of income from the Company s loss sharing agreement with the FDIC for its acquisitions of ICB, FPB and SWB.

- In the second quarter of 2010, the Company recorded a non-cash net impairment charge of $24.4 million for FDIC-covered loans acquired from ICB.

- Second quarter noninterest expense was $186.6 million, up 29 percent from the second quarter of 2009 and 6 percent from the year-earlier quarter. The increase was due largely to the acquisitions of ICB, FPB and SWB. It also reflects increased compensation expense, legal and professional fees, and OREO expense.

- The Company recognized a tax benefit of $2.9 million compared to a tax provision of $4.4 million in the first quarter of 2010. The tax benefit for the second quarter of 2010 was primarily attributable to a favorable tax litigation settlement with the California Franchise Tax Board and revisions to certain deferred tax accounts.

- Total assets were $21.23 billion at June 30, 2010, up 1 percent from $21.08 billion at December 31, 2009, and up 20 percent from $17.66 billion at June 30, 2009. The increase from the year-ago period largely reflected the Company s strong deposit growth as well as its acquisitions of ICB, FPB and SWB. Total average assets increased to $20.80 billion for the second quarter of 2010 from $20.27 billion for the first quarter of 2010 and $17.37 billion for the second quarter of 2009.

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- Loans and leases, excluding loans covered by the Company s loss-sharing agreement with the FDIC, total $11.48 billion, a decrease of 5 percent from December 31, 2009 and 8 percent from June 30, 2009. Average loans for the second quarter of 2010, on the same basis, were $11.58 billion, down 3 percent from the first quarter of 2010 and 6 percent from the year-earlier quarter. The declines reflected low loan demand due to current business and economic conditions.

- The allowance for loan and lease losses on non-FDIC-covered loans was $290.5 million at June 30, 2010, compared with $292.8 million at March 31, 2010 and $256.0 million at June 30, 2009. The Company s allowance equals 2.53 percent of total loans and leases, excluding covered loans, at June 30, 2010, compared with 2.50 percent at March 31, 2010 and 2.06 percent at June 30, 2009.

- The Company recognized a provision for credit losses on loans and leases, excluding covered loans, of $32.0 million for the second quarter of 2010, 42 percent lower than the $55.0 million in the first quarter of 2010 and 54 percent lower than the $70.0 million in the year-ago period. Net loan charge-offs were $33.5 million, or 1.16 percent of average total loans and leases, excluding covered loans, on an annualized basis, for the second quarter of 2010, down from $49.5 million, or 1.68 percent, for the first quarter of 2010, and $56.7 million, or 1.84 percent, in the year-earlier quarter.

- Nonaccrual loans totaled $260.1 million at June 30, 2010, down from $330.0 million at March 31, 2010 and $378.3 million at June 30, 2009. At June 30, 2010, nonperforming assets, excluding covered assets, were $314.6 million, compared with $388.0 million at March 31, 2010, and $396.3 million at June 30, 2009.

- Average securities for the second quarter of 2010 totaled $4.24 billion, an increase of 5 percent from $4.04 billion for the first quarter of 2010 and an increase of 26 percent from $3.36 billion for the second quarter of 2009, as increased deposits and capital were invested in high-grade, fixed-income instruments.

- Period end deposits at June 30, 2010 were $17.97 billion, up 6 percent from $16.96 billion at March 31, 2010 and 24 percent from $14.50 billion at June 30, 2009. Average deposit balances for the second quarter of 2010 grew to $17.60 billion, up 4 percent from $16.86 billion for the first quarter of 2010 and up 26 percent from $14.02 billion for the second quarter of 2009. Average core deposits grew 29 percent from the second quarter of 2009, and now amount to approximately 93 percent of total average deposit balances. Increases in deposits from prior periods are primarily attributable to the deposits assumed in the acquisitions of ICB, FPB and SWB.

- The Company s ratio of total capital to risk-based assets at June 30, 2010 improved to 14.7 percent, from 14.2 percent at June 30, 2009, and 14.4 percent at March 31, 2010. The Company s ratio of Tier 1 common shareholders equity to risk-based assets was 9.7 percent at June 30, 2010 compared with 9.3 percent at June 30, 2009 and 9.4 percent at March 31, 2010. Refer to the Capital section of Management s Discussion and Analysis for further discussion of this non-GAAP measure.

OUTLOOK

Management expects significantly increased profitability in 2010 over 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 and six months ended June 30, 2010 and 2009:

Net Interest Income Summary

(in thousands)	For the three months ended June 30, 2010 Average Balance	Interest income/ expense (1)(4)	Average interest rate	For the three months ended June 30, 2009 Average Balance	Interest income/ expense (1)(4)	Average interest rate
Assets (2)						
Interest-earning assets						
Loans and leases						
Commercial	$ 4,339,027	$ 48,716	4.50%	$ 4,720,874	$ 49,562	4.21%
Commercial real estate mortgages	2,098,471	29,241	5.59	2,177,735	30,889	5.69
Residential mortgages	3,541,794	47,477	5.36	3,454,042	47,555	5.51
Real estate construction	690,576	6,733	3.91	1,153,336	8,744	3.04
Equity lines of credit	743,220	6,631	3.58	674,091	5,809	3.46
Installment	168,832	2,171	5.16	174,182	2,191	5.05
Total loans and leases, excluding covered loans (3)	11,581,920	140,969	4.88	12,354,260	144,750	4.70
Covered loans	2,002,893	34,540	6.90			0.00
Total loans and leases	13,584,813	175,509	5.18	12,354,260	144,750	4.70
Due from banks - interest-bearing	701,175	424	0.24	195,141	291	0.60
Federal funds sold and securities purchased under resale agreements	213,220	135	0.25	14,925	9	0.23
Securities available-for-sale	4,189,723	34,311	3.28	3,251,772	33,138	4.08
Trading securities	54,033	24	0.18	112,422	380	1.36
Other interest-earning assets	147,925	663	1.80	74,781	644	3.45
Total interest-earning assets	18,890,889	211,066	4.48	16,003,301	179,212	4.49
Allowance for loan and lease losses	(308,468)			(245,639)		
Cash and due from banks	240,871			323,944		
Other non-earning assets	1,975,895			1,287,705		
Total assets	$ 20,799,187			$ 17,369,311		
Liabilities and Equity (2)						
Interest-bearing deposits						
Interest checking accounts	$ 2,385,831	$ 1,413	0.24	$ 1,388,417	$ 1,008	0.29
Money market accounts	5,364,960	7,631	0.57	4,111,173	8,765	0.86
Savings deposits	300,720	338	0.45	221,564	409	0.74
Time deposits - under $100,000	413,636	859	0.83	220,489	783	1.42
Time deposits - $100,000 and over	1,146,787	2,343	0.82	1,311,472	5,103	1.56
Total interest-bearing deposits	9,611,934	12,584	0.53	7,253,115	16,068	0.89
Federal funds purchased and securities sold under repurchase agreements	182,936	1,704	3.74	472,246	2,084	1.77
Other borrowings	803,793	11,517	5.75	493,429	2,148	1.75
Total interest-bearing liabilities	10,598,663	25,805	0.98	8,218,790	20,300	0.99
Noninterest-bearing deposits	7,988,364			6,770,160		
Other liabilities	330,525			234,502		
Total equity	1,881,635			2,145,859		
Total liabilities and equity	$ 20,799,187			$ 17,369,311		
Net interest spread			3.50%			3.50%
Fully taxable-equivalent net interest and dividend income		$ 185,261			$ 158,912	
Net interest margin			3.93%			3.98%
Less: Dividend income included in other income		663			644	
Fully taxable-equivalent net interest income		$ 184,598			$ 158,268	

(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 $292,422 and $353,445 for 2010 and 2009, respectively.

(4) Loan income includes loan fees of $5,555 and $3,916 for 2010 and 2009, respectively.

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Net Interest Income Summary

(in thousands)	For the six months ended June 30, 2010 Average Balance	Interest income/ expense (1)(4)	Average interest rate	For the six months ended June 30, 2009 Average Balance	Interest income/ expense (1)(4)	Average interest rate
Assets (2)						
Interest-earning assets						
Loans and leases						
Commercial	$ 4,448,517	$ 97,359	4.41%	$ 4,738,282	$ 99,020	4.21%
Commercial real estate mortgages	2,124,539	58,358	5.54	2,188,903	62,027	5.71
Residential mortgages	3,532,018	94,973	5.38	3,430,351	95,115	5.55
Real estate construction	748,735	14,105	3.80	1,192,291	18,465	3.12
Equity lines of credit	738,989	13,074	3.57	652,093	11,080	3.43
Installment	169,324	4,324	5.15	172,794	4,354	5.08
Total loans and leases, excluding covered loans (3)	11,762,122	282,193	4.84	12,374,714	290,061	4.73
Covered loans	1,918,481	64,046	6.68			0.00
Total loans and leases	13,680,603	346,239	5.10	12,374,714	290,061	4.73
Due from banks - interest-bearing	489,140	770	0.32	164,875	446	0.54
Federal funds sold and securities purchased under resale agreements	129,902	157	0.24	12,997	15	0.23
Securities available-for-sale	4,082,539	68,001	3.33	2,779,547	59,924	4.31
Trading securities	58,129	(28)	(0.09)	113,740	435	0.77
Other interest-earning assets	147,337	1,299	1.78	74,890	1,287	3.46
Total interest-earning assets	18,587,650	416,438	4.52	15,520,763	352,168	4.58
Allowance for loan and lease losses	(301,618)					