BEAZER HOMES USA INC
Form 424B3
March 09, 2012
Table of Contents

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-179488

BEAZER HOMES USA, INC.

Offers To Exchange Common Stock of Beazer Homes USA, Inc. for

Any and All of its Outstanding 7.50% Mandatory Convertible Subordinated Notes Due 2013

and

Any and All of its Outstanding 7.25% Tangible Equity Units

Subject to the terms and conditions described in this prospectus

Beazer Homes USA, Inc., or the Company, hereby offers, upon the terms and subject to the conditions described in this prospectus and the accompanying letters of transmittal, to exchange newly issued shares of its common stock, $0.001 par value per share, or Common Stock, for (i) any and all of its outstanding 7.50% Mandatory Convertible Subordinated Notes due 2013, or the Notes, and (ii) any and all of its outstanding 7.25% Tangible Equity Units, or the Units. No fractional shares of Common Stock will be paid to holders of the Subject Securities in connection with the exchange offers. In the event that an exchange yields a fractional share, in lieu of the fraction of a share, the Company will round up to the next whole share of Common Stock. The offer to exchange the Notes (the Notes exchange offer) and the offer to exchange the Units (the Units exchange offer and together with the Notes exchange offer, the exchange offers) are two separate and distinct offers and neither offer is conditioned upon the consummation of the other offer or on any minimum aggregate principal amount of Notes or aggregate number of Units being tendered. The Notes and the Units are sometimes referred to collectively as the Subject Securities.

Each of the exchange offers will expire at 12:00 a.m., New York City time, March 12, 2012, unless either exchange offer is extended or earlier terminated by the Company. You may withdraw Subject Securities tendered in either exchange offer at any time prior to the expiration date of the applicable exchange offer. You should carefully review the procedures for tendering Subject Securities beginning on page 34.

Pursuant to the Notes exchange offer, holders who validly tender and do not validly withdraw their Notes will receive, for each $25 principal amount of Notes, 5.7348 shares of Common Stock. On January 15, 2013, which is the mandatory conversion date of the Notes, holders may be entitled to a maximum of 5.4348 shares per Note depending on the trading price of our Common Stock at such time. Accordingly, the Notes exchange offer allows tendering holders to receive the maximum number of shares of Common Stock they could receive on the mandatory conversion date, plus an additional 0.30 shares of Common Stock (the premium). Holders who tender their Notes in the Notes exchange offer will not receive any accrued and unpaid interest.

Pursuant to the Units exchange offer, holders who validly tender and do not validly withdraw their Units will receive, for each Unit, 4.9029 shares of Common Stock. Each Unit is comprised of a prepaid stock purchase contract and a senior amortizing note. As of February 28, 2012, each amortizing note had a remaining principal amount of $2.559. On August 15, 2013, the maturity date, each purchase contract will automatically settle for a maximum of 4.3029 shares of our Common Stock depending on the trading price of our Common Stock at such time. Accordingly, the Units exchange offer allows tendering holders to receive the maximum number of shares of Common Stock they could receive at maturity, plus an additional 0.60 shares of Common Stock. Holders who tender their Units in the Units exchange offer will not receive any accrued and unpaid interest on the amortizing notes that comprise a part of their tendered Units.

As of February 28, 2012, $57.5 million aggregate principal amount of Notes was outstanding and 3,000,000 Units were outstanding. The Notes are listed for trading on The New York Stock Exchange, or the NYSE, under the symbol BZMD. The Units are listed for trading on the NYSE under the symbol BZU. Our Common Stock is listed on the NYSE under the symbol BZH. The closing price of our Common Stock on February 27, 2012 was $3.23 per share. We expect the shares of Common Stock offered by this prospectus to be listed on the NYSE.

Consummation of each of the exchange offers is subject to the conditions described in The Exchange Offers Conditions of the Exchange Offers. The exchange offers are not conditioned on any minimum amount of Subject Securities being tendered.

See Risk Factors beginning on page 10 for a discussion of factors you should consider in evaluating each of the exchange offers.

You must make your own decision whether to tender Subject Securities in the exchange offers, and, if so, the amount of Subject Securities to tender. Neither we, the dealer managers, the information agent, the exchange agent, nor any other person is making any recommendation as to whether or not you should tender your Subject Securities for exchange in either of the exchange offers.

We are not asking you for a proxy and you are requested not to send us a proxy.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The dealer managers for each of the exchange offers are:

Citi **Credit Suisse**

The date of this prospectus is March 9, 2012.

Table of Contents

TABLE OF CONTENTS

WHERE YOU CAN FIND ADDITIONAL INFORMATION	iii
DOCUMENTS INCORPORATED BY REFERENCE	iii
SUMMARY	1
SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS	8
RISK FACTORS	10
QUESTIONS AND ANSWERS ABOUT THE EXCHANGE OFFERS	15
USE OF PROCEEDS	22
RATIO OF EARNINGS TO FIXED CHARGES	23
MARKET PRICES OF COMMON STOCK, NOTES AND UNITS AND DIVIDEND POLICY	24
CAPITALIZATION	25
SELECTED FINANCIAL DATA	26
CERTAIN UNAUDITED PRO FORMA SELECTED FINANCIAL DATA	28
THE EXCHANGE OFFERS	29
DESCRIPTION OF CAPITAL STOCK	40
MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS	46
INTERESTS OF DIRECTORS AND OFFICERS	52
LEGAL MATTERS	53
EXPERTS	53

IMPORTANT

As used in this prospectus, unless the context indicates otherwise, the terms Company, we, our and us refer to Beazer Homes USA, Inc. and its subsidiaries.

Unless otherwise indicated, the information contained in this prospectus does not reflect any additional shares of Common Stock that may be issued in connection with the rounding up of fractional shares to the next whole share of Common Stock as described herein, as the Company does not expect that such rounding will result in the issuance of a material number of additional shares of Common Stock.

All the Subject Securities were issued in book-entry form, and all the Subject Securities are currently represented by one or more global certificates held for the account of The Depository Trust Company, or DTC.

Should you have any questions as to the procedures for tendering your Subject Securities, please call your broker, dealer, commercial bank, trust company or other nominee, or call the information agent at its telephone number set forth on the back cover page of this prospectus.

You may tender your Subject Securities by transferring the Subject Securities through DTC s Automated Tender Offer Program, or ATOP, or following the other procedures described under The Exchange Offers Procedures for Tendering Subject Securities.

We are not providing for guaranteed delivery procedures and therefore you must allow sufficient time for the necessary tender procedures to be completed during normal business hours of DTC on or prior to the expiration date of the applicable exchange offer. If you hold your Subject Securities through a broker, dealer, commercial bank, trust company or other nominee, you should consider that such entity may require you to take action with respect to the exchange offers a number of days before the applicable expiration date in order for such entity to tender Subject Securities on your behalf on or prior to the applicable expiration date.

We are incorporating by reference into this prospectus important business and financial information that is not included in or delivered with this prospectus. This information is available without charge to security holders

Table of Contents

upon written or oral request. Requests should be directed to Beazer Homes USA, Inc., Attn: Secretary, 1000 Abernathy Road, Suite 260, Atlanta, Georgia 30328, Telephone: (770) 829-3700 or at our website at www.beazer.com. *In order to ensure timely delivery of such documents, security holders must request this information promptly. Accordingly, any request for documents should be made as soon as possible to ensure timely delivery of the documents prior to the applicable expiration date of each of the exchange offers.*

You should rely only on the information contained or incorporated by reference in this prospectus. The Company has not authorized any other person to provide you with different or additional information. If anyone provides you with different or additional information, you should not rely on it. The Company is not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information in this prospectus is accurate as of the date appearing on the front cover of this prospectus or the date of the document incorporated by reference only, as applicable. Our business, financial condition, results of operations and prospects may have changed since such applicable date.

Table of Contents

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission, or the SEC. You may obtain these materials from us at no cost by writing or telephoning us at Beazer Homes USA, Inc., Attn: Secretary, 1000 Abernathy Road, Suite 260, Atlanta, Georgia 30328, Telephone: (770) 829-3700 or at our website at www.beazer.com. **In order to ensure timely delivery of such documents, security holders must request this information promptly. Accordingly, any request for documents should be made as soon as possible to ensure timely delivery of the documents prior to the applicable expiration date of each of the exchange offers.** Except for the documents described below, information on our website is not incorporated by reference into this prospectus. In addition, the SEC maintains a web site, http://www.sec.gov, which contains reports, proxy and information statements and other information regarding registrants, including the Company, that file electronically with the SEC.

DOCUMENTS INCORPORATED BY REFERENCE

This prospectus incorporates important business and financial information about the Company from documents filed with the SEC that are not included in or delivered with this prospectus. We incorporate by reference important information by referring you to another document we filed separately with the SEC. This means that the information incorporated by reference is deemed to be part of this prospectus, unless superseded by information included in this prospectus or by information in subsequently filed documents that we incorporate by reference in this prospectus.

Specifically, we incorporate herein by reference the documents set forth below:

- Annual Report on Form 10-K for the year ended September 30, 2011;
- Quarterly Report on Form 10-Q for the quarter ended December 31, 2011;
- Current Reports on Form 8-K filed on November 22, 2011, February 8, 2012 and February 13, 2012;
- Definitive Proxy Statement on Schedule 14A filed on December 22, 2011;
- The description of the Notes, at pages S-28 to S-44 of our prospectus supplement filed pursuant to Rule 424(b) on January 7, 2010;
- The description of the Units, including the description of the purchase contracts and the description of the amortizing notes that comprise a part of the Units, at pages S-30 to S-52 of our prospectus supplement filed pursuant to Rule 424(b) on May 5, 2010; and
- The description of Beazer Homes USA, Inc. common stock contained in the Registration Statement on Form 8-A filed pursuant to Section 12 of the Exchange Act filed on January 28, 1994, and any subsequently filed amendments and reports updating such description.

In addition, we also incorporate by reference into this prospectus all documents that we file with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, from the date of this prospectus to the date that the exchange offers are completed (or the date that the exchange offers are terminated).

Unless specifically stated to the contrary, none of the information that we disclose under Items 2.02 or 7.01 (or information disclosed in Item 9.01 to the extent it relates to Items 2.02 or 7.01) of any Current Report on Form 8-K that we may from time to time furnish to the SEC will be incorporated by reference into, or otherwise included in, this prospectus.

You may obtain any of the documents incorporated by reference herein (excluding exhibits) as described above under Where You Can Find Additional Information.

Table of Contents

SUMMARY

The following summary contains basic information about each of the exchange offers. It is qualified in its entirety by, and should be read in conjunction with, the more detailed information included elsewhere or incorporated by reference in this prospectus. Because this is a summary, it may not contain all the information you should consider before deciding whether to participate in either of the exchange offers. You should read this entire prospectus carefully, including the section titled Risk Factors, before making an investment decision. In addition, certain statements include forward-looking information that involves risks and uncertainties. See Special Note Regarding Forward-Looking Statements.

Beazer Homes USA, Inc.

We are a geographically diversified homebuilder with active operations in 16 states. Our homes are designed to appeal to homeowners at various price points across various demographic segments and are generally offered for sale in advance of their construction. Our objective is to provide our customers with homes that incorporate exceptional value and quality while seeking to maximize our return on invested capital over time.

We are a Delaware corporation. Our principal executive offices are located at 1000 Abernathy Road, Suite 260, Atlanta, Georgia 30328, telephone (770) 829-3700.

Table of Contents

The Exchange Offers

We have summarized the material terms of each of the exchange offers below. Before you decide whether to tender your Subject Securities in the applicable exchange offer, you should read the entire prospectus, including the detailed descriptions under the headings The Exchange Offers and Risk Factors.

Offeror

Beazer Homes USA, Inc.

Securities Subject to the Exchange Offers

Any and all of our outstanding 7.50% Mandatory Convertible Subordinated Notes due 2013 and any and all of our outstanding 7.25% Tangible Equity Units. As of the date of this offer to purchase, $57.5 million aggregate principal amount of Notes is outstanding and 3,000,000 Units are outstanding.

On January 15, 2013, the mandatory conversion date of the Notes, holders may be entitled to a maximum of 5.4348 shares per Note depending on the trading price of our Common Stock at such time (the maximum conversion rate). The Notes bear interest at a rate of 7.50% per annum paid quarterly on January 15, April 15, July 15 and October 15 of each year until maturity. On January 15, 2013, the maturity date of the Notes, the Notes automatically convert into shares of Common Stock based on the conversion rates described therein. In addition to the Common Stock issuable upon conversion of the Notes at maturity, holders of Notes have the right to receive an amount in cash equal to all accrued and unpaid interest on their Notes up to but excluding the maturity date.

Each Unit is comprised of two parts:

- a prepaid stock purchase contract; and
- a senior amortizing note.

As of February 28, 2012, each amortizing note had a remaining principal amount of $2.559. On August 15, 2013, the mandatory settlement date of the Units, each purchase contract would automatically settle for a maximum of 4.3029 shares of Common Stock depending on the trading price of our Common Stock at such time.

Each amortizing note had an initial principal amount of $5.246, bears interest at the rate of 7.00% per annum and will have a scheduled final installment payment date on the mandatory settlement date. On each August 15, November 15, February 15 and May 15 until settlement, we pay equal installments of $0.453125 on each amortizing note. Each installment constitutes a payment of interest and a partial repayment of principal.

The Exchange Offers

The Company is offering, upon the terms and subject to the conditions described in this prospectus and the accompanying letters

Table of Contents

of transmittal, to exchange shares of Common Stock for any and all of its outstanding Notes and Units.

Pursuant to the Notes exchange offer, holders who validly tender and do not validly withdraw their Notes prior to 12:00 a.m., New York City time, on the applicable expiration date will receive 5.7348 shares of Common Stock for each $25 principal amount of Notes. Holders who tender their Notes in the Notes exchange offer will not receive any accrued and unpaid interest on tendered Notes.

The Notes exchange offer allows tendering holders to receive the maximum number of shares of Common Stock they could receive on the mandatory conversion date, plus an additional 0.30 shares of Common Stock.

Pursuant to the Units exchange offer, holders who validly tender and do not validly withdraw their Units prior to 12:00 a.m., New York City time, on the applicable expiration date will receive for each Unit 4.9029 shares of Common Stock.

The Units exchange offer allows tendering holders to receive the maximum number of shares of Common Stock they could receive upon settlement of a purchase contract at maturity, plus an additional 0.60 shares of Common Stock.

Holders who tender their Units in the Units exchange offer will not receive any accrued and unpaid interest on the amortizing notes that comprise a part of their tendered Units.

No fractional shares of Common Stock will be paid to holders of the Subject Securities in connection with the exchange offers. In the event that an exchange yields a fractional share, in lieu of the fraction of a share, the Company will round up to the next whole share of Common Stock. This rounded amount will be the number of shares of Common Stock such tendering holder will receive, and such tendering holder will not receive any cash in lieu of any fractional shares.

The Company will accept for exchange all Subject Securities validly tendered and not validly withdrawn prior to the expiration date of the applicable exchange offer, upon the terms and subject to the conditions described in this prospectus and the accompanying letters of transmittal.

As of the date of this prospectus, all of the Subject Securities are registered in the name of Cede & Co., which holds the Subject Securities for DTC participants. See The Exchange Offers Terms of the Notes Exchange Offer and The Exchange Offers Terms of the Units Exchange Offer.

Table of Contents

Conditions of the Exchange Offers	Among other conditions, the exchange offers are conditioned upon the effectiveness of the registration statement of which this prospectus forms a part, no stop order suspending the effectiveness of the registration statement and no proceeding for that purpose shall have been instituted or be pending, contemplated or threatened by the SEC and the other closing conditions described in The Exchange Offers Conditions of the Exchange Offers. The exchange offers are not conditioned on any minimum amount of Subject Securities being tendered. Except as to the requirements that the registration statement be declared effective by the SEC and there be no stop orders suspending the effectiveness of such registration statement, which the Company will not waive, the Company may waive the conditions to either of the exchange offers in its sole and absolute discretion. See The Exchange Offers Conditions of the Exchange Offers.
Purpose of the Exchange Offers	The purpose of the exchange offers is to exchange any and all outstanding Subject Securities for Common Stock in order to reduce our indebtedness and ongoing interest expense.
Accrued and Unpaid Interest	As described under The Exchange Offers above, security holders participating in the exchange offers will forgo accrued and unpaid interest on the Notes and the amortizing notes that comprise a part of the Units.
Expiration Date	The expiration date for each of the Notes exchange offer and the Units exchange offer will be 12:00 a.m., New York City time, on March 12, 2012, or the expiration date, unless extended or earlier terminated by the Company. The Company may extend the expiration date for either exchange offer for any reason in its sole and absolute discretion. If the Company decides to extend an expiration date, it will announce any extension by press release or other public announcement no later than 9:00 a.m., New York City time, on the business day after the scheduled expiration date of the applicable exchange offer. See The Exchange Offers Expiration Date; Extensions; Amendments.
	If a broker, dealer, commercial bank, trust company or other nominee holds your Subject Securities, such nominee may have an earlier deadline for accepting the offer. You should promptly contact the broker, dealer, commercial bank, trust company or other nominee that holds your Subject Securities to determine its deadline.
Settlement Date	The settlement date in respect of any Subject Securities that are validly tendered prior to the applicable expiration date is expected to be promptly following such expiration date and is anticipated to be March 20, 2012 for each exchange offer. See The Exchange Offers Settlement Date.

4

Termination of the Exchange Offers

The Company reserves the right to terminate either or both of the exchange offers at any time prior to the completion of such exchange offer in its sole and absolute discretion if any of the conditions under The Exchange Offers Conditions of the Exchange Offers have not been satisfied. See The Exchange Offers Termination of the Exchange Offers.

Procedures for Tendering Subject Securities

Holders of Subject Securities desiring to accept either of the exchange offers must tender their Subject Securities through DTC s Automated Tender Offer Program, or ATOP. A security holder who wishes to tender its Subject Securities must either deliver an Agent s Message or sign and return the applicable letter of transmittal, including all other documents required by the applicable letter of transmittal, as described under The Exchange Offers Procedures for Tendering Subject Securities. We are not providing for tenders of Subject Securities by guaranteed delivery procedures. See The Exchange Offers Procedures for Tendering Subject Securities.

If your Subject Securities are registered in the name of a broker, dealer, commercial bank, trust company or other nominee, you should contact that registered holder promptly and instruct him, her or it to tender your Subject Securities on your behalf.

You are urged to instruct your broker, dealer, commercial bank, trust company or other nominee as soon as possible in order to allow adequate processing time for your instruction.

WE ARE NOT PROVIDING FOR GUARANTEED DELIVERY PROCEDURES AND THEREFORE YOU MUST ALLOW SUFFICIENT TIME FOR THE NECESSARY TENDER PROCEDURES TO BE COMPLETED DURING NORMAL BUSINESS HOURS OF DTC PRIOR TO THE APPLICABLE EXPIRATION DATE.

Acceptance of Subject Securities and Delivery of Common Stock

The Company will, subject to the terms and conditions described in this prospectus, accept all Subject Securities that are validly tendered and not validly withdrawn prior to 12:00 a.m., New York City time, on the applicable expiration date. The shares of Common Stock issued as part of the exchange offers will be delivered promptly after the Company accepts the Subject Securities. See The Exchange Offers Acceptance of Subject Securities for Exchange; Delivery of Common Stock.

Withdrawal Rights

Holders may withdraw the Subject Securities they have tendered at any time prior to 12:00 a.m., New York City time, on the applicable expiration date. See The Exchange Offers Withdrawal Rights.

Consequences of Failure to Exchange Subject Securities	Subject Securities not exchanged in the exchange offers will remain outstanding after consummation of the applicable exchange offer and will continue to accrue any interest in accordance with their terms. Following completion of, and as a result of, the exchange offers, the trading market for the remaining outstanding Subject Securities may be less liquid and the Subject Securities may no longer be listed on the NYSE. See Risk Factors The liquidity of any trading market that currently exists for the Subject Securities may be adversely affected by the exchange offers, and holders of the Subject Securities who fail to tender their Subject Securities may find it more difficult to sell their Subject Securities.
	Holders of Subject Securities that remain outstanding will continue to have the same rights under the Subject Securities as they are entitled to today.
Use of Proceeds	The Company will not receive any proceeds from the exchange offers.
Risk Factors	You should carefully consider in its entirety all of the information set forth in this prospectus, as well as the information incorporated by reference in this prospectus, and, in particular the section entitled Risk Factors, before deciding whether to participate in either of the exchange offers.
U.S. Federal Income Tax Considerations	For a summary of the material U.S. federal income tax considerations of the offer, see Material U.S. Federal Income Tax Considerations. You should consult your own tax advisor for a full understanding of the tax consequences of participating in either of the exchange offers.
Market Price and Trading	On February 27, 2012, the closing price for our Common Stock on the NYSE was $3.23 per share, the closing price for the Notes on the NYSE was $18.47 per Note and the closing price for the Units on the NYSE was $15.92 per Unit. The Notes are currently traded on the NYSE under the symbol BZMD. The Units are currently traded on the NYSE under the symbol BZU. We expect the shares of our Common Stock offered by this prospectus to be listed on the NYSE under the symbol BZH prior to the settlement of the applicable exchange offer.
Brokerage Commissions	No brokerage commissions are payable by the holders of the Subject Securities to the dealer managers, the information agent, the exchange agent or us. If your Subject Securities are held through a broker, dealer, commercial bank, trust company or other nominee who tenders the Subject Securities on your behalf, such nominee may charge you a commission for doing so. You should consult with your broker, dealer, commercial bank, trust company or other nominee to determine whether any charges will apply.

Table of Contents

Dealer Managers	Citigroup Global Markets Inc. and Credit Suisse Securities (USA) LLC are the dealer managers for each of the exchange offers.
Exchange Agent	American Stock Transfer & Trust Company is the exchange agent for each of the exchange offers.
Information Agent	D.F. King & Co., Inc. is the information agent for each of the exchange offers.
Fees and Expenses	The Company will pay all fees and expenses it incurs in connection with each of the exchange offers. See The Exchange Offers Fees and Expenses.
Appraisal Rights	Holders who do not tender their Subject Securities pursuant to the exchange offers will have no appraisal rights under applicable state law or otherwise.
Questions	If you have any questions regarding the terms of the exchange offers, please contact the dealer managers. If you have questions regarding the procedures for tendering Subject Securities in the exchange offers, please contact the exchange agent. If you have any other questions or requests for assistance, or requests for additional copies of this prospectus or of the accompanying letters of transmittal, please contact the information agent. The contact information for the dealer managers, the exchange agent and the information agent is located on the back cover of this prospectus.

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

We have made statements in this prospectus and in the documents incorporated by reference herein that are not historical in nature and constitute forward-looking statements. These statements generally are accompanied by words such as intend, anticipate, believe, estimate, project, tar plan, expect, will, should, would or similar statements. You are cautioned not to put undue reliance on forward-looking statements, which sp only as of the date thereof. Such statements are based on current expectations and assumptions, are inherently uncertain, are subject to risks and should be viewed with caution. Actual results could differ materially from those expressed or implied in the forward-looking statements. Important factors that could cause actual results to differ materially from those suggested by the forward-looking statements include, but are not limited to:

the final outcome of various putative class action lawsuits, multi-party suits and similar proceedings as well as the results of any other litigation or government proceedings and fulfillment of the obligations in the deferred prosecution agreement and consent orders with governmental authorities and other settlement agreements;

additional asset impairment charges or writedowns;

economic changes nationally or in local markets, including changes in consumer confidence, declines in employment levels, volatility of mortgage interest rates and inflation;

the effect of changes in lending guidelines and regulations;

a slower economic rebound than anticipated, coupled with persistently high unemployment and additional foreclosures;

continued or increased downturn in the homebuilding industry;

estimates related to homes to be delivered in the future (backlog) are imprecise as they are subject to various cancellation risks which cannot be fully controlled;

continued or increased disruption in the availability of mortgage financing or number of foreclosures in the market;

our cost of and ability to access capital and otherwise meet our ongoing liquidity needs including the impact of any downgrades of our credit ratings or reductions in our tangible net worth or liquidity levels;

potential inability to comply with covenants in our debt agreements or satisfy such obligations through repayment or refinancing;

increased competition or delays in reacting to changing consumer preference in home design;

shortages of or increased prices for labor, land or raw materials used in housing production;

factors affecting margins such as decreased land values underlying land option agreements, increased land development costs on communities under development or delays or difficulties in implementing initiatives to reduce production and overhead cost structure;

the performance of our joint ventures and our joint venture partners;

the impact of construction defect and home warranty claims including those related to possible installation of drywall imported from China;

the cost and availability of insurance and surety bonds;

delays in land development or home construction resulting from adverse weather conditions;

potential delays or increased costs in obtaining necessary permits as a result of changes to, or complying with, laws, regulations, or governmental policies and possible penalties for failure to comply with such laws, regulations and governmental policies;

- potential exposure related to additional repurchase claims on mortgages and loans originated by Beazer Mortgage Corporation;
- estimates related to the potential recoverability of our deferred tax assets;
- effects of changes in accounting policies, standards, guidelines or principles;
- terrorist acts, acts of war and other factors over which the Company has little or no control; and
- those matters listed in our Annual Report on Form 10-K for the year ended September 30, 2011.

It is not possible to foresee or identify all such factors. We undertake no obligation to revise or update any forward-looking statement or disclose any facts, events or circumstances that occur after the date hereof that may affect the accuracy of any forward-looking statement.

Table of Contents

RISK FACTORS

Any investment in our securities involves a high degree of risk. You should carefully consider the risks described below, in the section titled Risk Factors in our Annual Report on Form 10-K for the year ended September 30, 2011 and elsewhere in our reports filed with the SEC before making an investment decision. Our results of operations, financial condition and business prospects could be harmed by any of these risks. This prospectus and the documents incorporated herein by reference also contain forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us described below and elsewhere in this prospectus and in the documents incorporated by reference into this prospectus. See Special Note Regarding Forward-Looking Statements.

Risks Related to the Exchange Offers

Upon consummation of the applicable exchange offer, holders who tender their Subject Securities will lose their rights under the Subject Securities, including, without limitation, rights to future interest and automatic conversion at maturity with respect to the Notes and rights to future principal and interest payments on the amortizing notes and settlement of the purchase contracts with respect to the Units, and rights as a creditor of the Company.

If you tender your Subject Securities pursuant to the applicable exchange offer, you will be giving up all of your rights as a noteholder or unitholder, as applicable, including, without limitation, as applicable, rights to future payments of interest on the Notes and the automatic conversion of the Notes at maturity and rights to future principal and interest payments on the amortizing notes and settlement of the purchase contracts with respect to the Units, and you will cease to be a creditor of the Company. You also will be giving up the right to convert your Subject Securities in accordance with their terms and the right to adjustments in the conversion or settlement rate, as applicable, for the Subject Securities in the event the Company pays dividends or engages in certain other transactions.

The liquidity of any trading market that currently exists for the Subject Securities may be adversely affected by the exchange offers, and holders of the Subject Securities who fail to tender their Subject Securities may find it more difficult to sell their Subject Securities.

If a significant percentage of the Subject Securities are exchanged in the exchange offers, the liquidity of the trading market for the Subject Securities, if any, after the completion of the exchange offers may be substantially reduced. Any Subject Securities exchanged will reduce the amount of Subject Securities outstanding. As a result, the Subject Securities may trade at a discount to the price at which they would trade if the applicable exchange offer was not consummated, subject to prevailing interest rates, the market for similar securities and other factors. The smaller outstanding amount of the Subject Securities may also make the trading prices of the Subject Securities more volatile. If the exchange offers are consummated, there might not be an active market in the Subject Securities and the absence of an active market could adversely affect your ability to trade the Subject Securities or the prices at which the Subject Securities may be traded. In addition, the NYSE will consider de-listing any outstanding Notes if, following the Notes exchange offer, the aggregate principal amount of publicly-held outstanding Notes is less than $2.5 million (such amount representing 100,000 tradable units of Notes in $25 denominations), the number of holders of outstanding Notes is less than 100, the aggregate market value of the outstanding Notes is less than $1 million, or for any other reason based on the suitability for the continued listing of the outstanding Notes in light of all pertinent facts as determined by the NYSE. The NYSE will consider de-listing any outstanding Units if, following the Units exchange offer, the number of publicly-held outstanding Units is less than 100,000, the number of holders of outstanding Units is less than 100, the aggregate market value of outstanding Units is less than $1 million, or for any other reason based on the suitability for the continued listing of the outstanding Units in light of all pertinent facts as determined by the NYSE. We do not intend to reduce the number of Subject Securities accepted in either of the exchange offers to prevent the de-listing of the Subject Securities from the NYSE.

Following the exchange offers, we may repurchase additional Notes or Units that remain outstanding, and the terms of such repurchases may be more or less favorable than the exchange offers.

Following completion of each of the exchange offers, we may repurchase additional Notes or Units that remain outstanding in the open market, in privately negotiated transactions or otherwise. Future purchases of Notes or Units that remain outstanding after the exchange offers may be on terms that are more or less favorable than the exchange offers. However, Exchange Act Rule 14e-5 and 13e-4 generally prohibit us and our affiliates from purchasing any Notes or Units other than pursuant to the applicable exchange offer until 10 business days after the expiration date of such exchange offer, although there are some exceptions. Future purchases, if any, will depend on many factors, which include market conditions and the condition of our business.

The Company has not made a recommendation with regard to whether or not you should tender your Subject Securities in either of the exchange offers, and the Company has not obtained a third-party determination that the exchange offers are fair to the holders of the Subject Securities.

None of the Company, the dealer managers, the information agent, or the exchange agent is making a recommendation as to whether holders of the Subject Securities should exchange their Subject Securities pursuant to either of the exchange offers. The Company has not retained and does not intend to retain any unaffiliated third party representative to act solely on behalf of the holders of the Subject Securities for purposes of negotiating the terms of these offers and/or preparing a report concerning the fairness of these offers. You must make your own independent decision regarding your participation in the exchange offers based upon your own assessment of the market value of the Subject Securities, the likely value of the Common Stock you will receive, your liquidity needs and your investment objectives.

The failure to timely complete the exchange offers successfully could negatively affect the market price of the Common Stock and the trading price of the Subject Securities.

Several conditions must be satisfied or waived before we may complete the exchange offers, including that no material adverse change to our business, operations, properties, condition, assets, liabilities, prospects or financial affairs occurs prior to 12:00 a.m., New York City time, on the applicable expiration date. In addition, to the extent permitted by law, we reserve the right to extend either or both of the exchange offers in our sole discretion. If either or both of the exchange offers is not timely completed, the market price of the Common Stock and the trading price of the Notes or Units, as applicable, may decline to the extent that such prices reflect the assumption that the applicable exchange offer will be completed on the scheduled expiration date. In addition, to the extent that we extend either or both of the exchange offers, many of the risks described elsewhere in these Risks Related to the Exchange Offers may be exacerbated.

The tax benefits of our net operating loss carryforwards and any future recognized built-in losses in our assets will be substantially limited if we experience an ownership change as defined in Section 382 of the Internal Revenue Code in connection with the exchange offers.

Based on recent impairments and our current financial performance, over the past few years we have generated and are currently carrying forward certain net operating losses and could possibly generate additional net operating losses in future years. In addition, we believe we have significant built-in losses in our assets (i.e. an excess tax basis over current fair market value) that may result in tax losses as such assets are sold. Net operating losses generally may be carried forward for a 20-year period to offset future earnings and reduce our federal income tax liability. Built-in losses, if and when recognized, generally will result in tax losses that may then be deducted or carried forward. However, if we experience an ownership change under Section 382 of the Internal Revenue Code, our ability to realize these tax benefits may be significantly

limited.

Section 382 contains rules that limit the ability of a company that undergoes an ownership change, which is generally defined as any change in ownership of more than 50% of its common stock over a three-year period, to utilize its net operating loss carryforwards and certain built-in losses or deductions, as of the ownership change

date, that are recognized during the five-year period after the ownership change. These rules generally operate by focusing on changes in the ownership among shareholders owning, directly or indirectly, 5% or more of the company s common stock (including changes involving a shareholder becoming a 5% shareholder) or any change in ownership arising from a new issuance of stock or share repurchases by the company.

If the exchange offers result in an ownership change for purposes of Section 382, our ability to use certain of our net operating loss carryforwards and recognize certain built-in losses or deductions would be limited by Section 382. Based on the resulting limitation, a significant portion of our net operating loss carryforwards and any future recognized built-in losses or deductions could expire before we would be able to use them. Our inability to utilize our net operating loss carryforwards and any future recognized built-in losses or deductions could have a material adverse effect on our financial condition, results of operations and cash flows.

Risks Related to the Common Stock

Our stock price is volatile and could further decline, which could result in substantial losses for stockholders.

The securities markets in general and our Common Stock in particular have experienced significant price and volume volatility over the past few years. The market price and volume of our Common Stock may continue to experience significant fluctuations due not only to general stock market conditions but also to a change in sentiment in the market regarding our industry, operations or business prospects. In addition to the other risk factors discussed in this prospectus and the documents incorporated by reference herein, the price and volume volatility of our Common Stock may be affected by:

- operating results that vary from the expectations of securities analysts and investors;
- factors influencing home purchases, such as availability of home mortgage loans and interest rates, credit criteria applicable to prospective borrowers, ability to sell existing residences, and homebuyer sentiment in general;
- the operating and securities price performance of companies that investors consider comparable to us;
- announcements of strategic developments, acquisitions and other material events by us or our competitors; and
- changes in global financial markets and global economies and general market conditions, such as interest rates, commodity and equity prices and the value of financial assets.

We cannot assure you that the market price of the Common Stock will not fluctuate or decline significantly in the future. In addition, the stock market in general can experience considerable price and volume fluctuations that may be unrelated to our performance.

Future sales of shares of Common Stock may depress the market price of the Common Stock.

Any sales of a substantial number of shares of Common Stock by us or our stockholders in the public market following the settlement of each of the exchange offers, or the perception that such sales might occur, may cause the market price of the Common Stock to decline following the settlement of the exchange offers. For example, if holders who tendered their Subject Securities for exchange immediately sell the shares of Common Stock they receive upon exchange, the price of the Common Stock may decline substantially soon after the settlement of the exchange offers. In addition, sales of a substantial number of shares of Common Stock by our stockholders before the settlement of the exchange offers, or the perception that such sales may occur, may reduce the value of the shares of Common Stock that we will deliver to holders who tender their Subject Securities for exchange.

Table of Contents

The Company may issue additional shares that may cause dilution and may depress the market price of the Common Stock.

The Company may issue additional shares of Common Stock or preferred stock in connection with future equity offerings or acquisitions of other companies or their assets. In addition, we may issue shares of preferred stock that have preference rights over the Common Stock with respect to dividends, liquidation, voting and other matters. The issuance of additional Common Stock could be substantially dilutive to your shares received in the exchange offers and may depress the market price of the Common Stock. The issuance of shares of preferred stock that have preference rights over the Common Stock may depress the price of the Common Stock.

All of our debt obligations will have priority over our Common Stock with respect to payment in the event of a liquidation or bankruptcy.

The shares of Common Stock that you receive in the exchange offers will not provide you with any priority on claims or any degree of protection to which holders of debt claims, such as the Notes or the Units, are entitled. If the Company were to file for bankruptcy, creditors, including any holders of the Subject Securities, would generally be entitled to be paid prior to holders of Common Stock. As a holder of Common Stock, however, your investment will be subordinate to debt claims against the Company and to all of the risks and liabilities affecting the Company s and its operating subsidiaries operations. As a result, if the Company were to file for bankruptcy before the maturity date of the Notes or the settlement date of the Units, a holder that decides not to tender its Subject Securities in the applicable exchange offer might receive greater value than a holder that decides to tender its Subject Securities in the applicable exchange offer. In addition, because the market price of the Common Stock that you would receive in exchange for your Subject Securities could decline as a result of various factors, including the results of operations, financial condition and business prospects of the Company, in the future the value of Common Stock that you receive in exchange for any Subject Securities that you tender may be less than the principal amount of your tendered Subject Securities.

Future offerings of debt securities, which would be senior to the Common Stock in liquidation, or equity securities, which would dilute our existing stockholders interests and may be senior to the Common Stock for the purposes of distributions, may depress the market price of the Common Stock.

In the future, we may seek to access the capital markets from time to time by making additional offerings of debt and/or equity securities, including commercial paper, medium-term notes, senior or subordinated notes, convertible debt, preferred stock or Common Stock. We are not precluded by the terms of our organizational documents from issuing additional debt or equity securities. Accordingly, we could become more highly leveraged, resulting in an increase in debt service that could harm our ability to make distributions to stockholders and in an increased risk of default on our obligations. If we were to liquidate, holders of our debt and lenders with respect to other borrowings will receive a distribution of our available assets before the holders of Common Stock. Additional equity offerings by us may dilute your interest in us or reduce the market price of your shares of Common Stock, or both. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Further, market conditions could require us to accept less favorable terms for the issuance of our securities in the future. Thus, you will bear the risk of our future offerings reducing the market price of your shares of Common Stock and diluting your interest in us.

We do not intend to pay cash dividends on our Common Stock in the foreseeable future.

We do not anticipate paying cash dividends on our Common Stock in the foreseeable future. Any payment of cash dividends will depend upon our financial condition, results of operations, capital requirements, earnings and other factors deemed relevant by our board of directors. Effective November 2, 2007, our board of directors suspended payment of quarterly dividends. The board concluded that suspending dividends,

which allows us to conserve approximately $16 million of cash annually, was a prudent effort in light of the continued deterioration

in the housing market. In addition, the indentures under which our senior notes were issued contain certain restrictive covenants, including limitations on payment of dividends. At December 31, 2011, under the most restrictive covenants of each indenture, none of our retained earnings was available for cash dividends. Hence, there were no dividends paid in the first three months of fiscal 2012 or in fiscal 2011. The agreements governing our current and future indebtedness may not permit us to pay dividends on our Common Stock in the foreseeable future.

Provisions in our amended and restated certificate of incorporation and bylaws, the agreements governing our indebtedness and Delaware law may discourage a takeover attempt even if doing so might be beneficial to our stockholders.

Provisions contained in our amended and restated certificate of incorporation and bylaws could impose impediments to the ability of a third party to acquire us even if a change of control would be beneficial to you. Provisions of our amended and restated certificate of incorporation and bylaws impose various procedural and other requirements, which could make it more difficult for stockholders to effect certain corporate actions. For example, our amended and restated certificate of incorporation authorizes our board of directors to determine the rights, preferences, privileges and restrictions of unissued series of preferred stock, without any vote or action by our stockholders. Thus, our board of directors can authorize and issue shares of preferred stock with voting or conversion rights that could adversely affect the voting or other rights of holders of our Common Stock. We are also subject to provisions of Delaware law that prohibit us from engaging in any business combination with any interested stockholder, meaning, generally, that a stockholder who beneficially owns more than 15% of our stock cannot acquire us for a period of three years from the date this person became an interested stockholder unless various conditions are met, such as approval of the transaction by our board of directors. These provisions may have the effect of delaying or deterring a change of control of the Company, and could limit the price that certain investors might be willing to pay in the future for shares of our Common Stock. See Description of Capital Stock herein.

Non-U.S. Holders who receive our Common Stock in the exchange offers and who own, or in certain cases have owned, directly or constructively, more than 5% of our Common Stock will generally be subject to U.S. federal income tax on gain realized on the disposition of such stock.

Because we have significant U.S. real estate holdings, we believe that we may currently be or become a United States real property holding corporation for U.S. federal income tax purposes. As a result, a non-U.S. holder (as defined in Material U.S. Federal Income Tax Considerations Non-U.S. Holders) will generally be subject to U.S. federal income tax on gain realized on a sale or other disposition of our Common Stock received in the exchange offers if such non-U.S. holder has owned, actually or constructively, more than 5% of our Common Stock at any time during the shorter of (a) the five-year period ending on the date of disposition and (b) the non-U.S. holder s holding period in such stock. Non-U.S. holders who may own, or may have owned, directly or constructively, more than 5% of our Common Stock should consult their own U.S. income tax advisors concerning the consequences of disposing of such stock.

Table of Contents

QUESTIONS AND ANSWERS ABOUT THE EXCHANGE OFFERS

These answers to questions that you may have as a holder of our Notes or Units are highlights of selected information included elsewhere or incorporated by reference in this prospectus. To fully understand the exchange offers and the other considerations that may be important to your decision whether to participate in either of them, you should carefully read this prospectus in its entirety, including the section entitled Risk Factors, as well as the information incorporated by reference in this prospectus. See Documents Incorporated by Reference. For further information about us, see the section of this prospectus entitled Where You Can Find Additional Information.

Why are we making the exchange offers?

We are making the exchange offers in order to reduce our indebtedness and ongoing interest expense.

What aggregate principal amount of Subject Securities is being sought in the exchange offers?

We are offering shares of Common Stock in exchange for any and all of our outstanding Notes and any and all of our outstanding Units. As of the date of this prospectus, $57.5 million aggregate principal amount of Notes is outstanding and 3,000,000 Units are outstanding.

What will I receive in the exchange offers if I tender my Subject Securities and they are accepted?

For each $25 principal amount of Notes that you validly tender and we accept for exchange pursuant to the Notes exchange offer, you will receive 5.7348 shares of Common Stock, which includes a premium of 0.30 shares over the maximum conversion rate of the Notes. You will not receive any accrued and unpaid interest for any tendered Notes. See The Exchange Offers Terms of the Notes Exchange Offer.

For each Unit that you validly tender and we accept for exchange pursuant to the Units exchange offer, you will receive 4.9029 shar width="70%" valign="bottom" style="padding:0in 0in 0in 0in;width:70.0%;">

Total interest expense

12,879

19,520

Net interest income	200,713	181,290
Provision for credit losses on loans and leases, excluding covered loans		
Provision for losses on covered loans	7,466	19,116
Net interest income after provision	193,247	162,174
Noninterest income		

Trust and investment fees	33,654	35,638
Brokerage and mutual fund fees	5,028	5,661
Cash management and deposit transaction charges	11,168	11,725
International services	8,785	8,316
FDIC loss sharing income, net		

	866
	8,605
Gain on disposal of assets	
	2,191
	2,424
Gain on sale of securities	
	449
	130
Other	
	13,559
	21,558
Impairment loss on securities:	

Total other-than-temporary impairment loss on securities	(2,432)	(4,510)
Less: Portion of loss recognized in other comprehensive income	2,432	4,346
Net impairment loss recognized in earnings		(164)
Total noninterest income	75,700	93,893
Noninterest expense		

Salaries and employee benefits	
	120,245
	111,012
Net occupancy of premises	
	13,686
	13,346
Legal and professional fees	
	11,880
	10,077
Information services	
	8,149
	7,497
Depreciation and amortization	

	7,428
	6,748
Amortization of intangibles	
	1,886
	2,168
Marketing and advertising	
	6,816
	6,518
Office services and equipment	
	3,948
	4,606
Other real estate owned	
	12,094
	14,489

FDIC assessments	4,479	9,806
Other operating	10,109	11,130
Total noninterest expense	200,720	197,397
Income before income taxes	68,227	58,670
Income taxes	21,719	

		17,886
Net income	$	46,508
	$	40,784
Less: Net income attributable to noncontrolling interest		243
		1,092
Net income attributable to City National Corporation	$	46,265
	$	39,692
Net income per share, basic	$	0.86

	$	0.75
Net income per share, diluted	$	0.86
	$	0.74
Shares used to compute net income per share, basic		52,741
		52,320
Shares used to compute net income per share, diluted		53,021
		52,894
Dividends per share	$	0.25

$	
	0.20

See accompanying Notes to the Unaudited Consolidated Financial Statements.

4

Table of Contents

CITY NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	For the three months ended March 31,	
(in thousands)	**2012**	**2011**
Net income	$ 46,508	$ 40,784
Other comprehensive income (loss), net of tax:		
Securities available for sale:		
Net unrealized gain (loss), net of taxes of $6,882 and ($5,167)	9,570	(7,185)
Reclassification adjustment for net gains included in net income, net of taxes of $165 and $37	(229)	(51)
Non-credit related impairment loss, net of taxes of ($1,017) and ($1,818)	(1,414)	(2,528)
Net change on cash flow hedges (1)	(42)	(586)
Pension liability adjustment	1,085	32
Total other comprehensive income (loss)	8,970	(10,318)
Comprehensive income	$ 55,478	$ 30,466
Less: Comprehensive income attributable to noncontrolling interest	243	1,092
Comprehensive income attributable to City National Corporation	$ 55,235	$ 29,374

(1) See Note 12 for additional information on other comprehensive income related to cash flow hedges.

Table of Contents

CITY NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)	For the three months ended March 31, 2012	2011
Cash Flows From Operating Activities		
Net income	$ 46,508	$ 40,784
Adjustments to net income:		
Provision for losses on covered loans	7,466	19,116
Amortization of intangibles	1,886	2,168
Depreciation and amortization	7,428	6,748
Share-based employee compensation expense	4,706	4,678
Deferred income tax benefit	297	(811)
Gain on disposal of assets	(2,191)	(2,424)
Gain on sale of securities	(449)	(130)
Impairment loss on securities		164
Other, net	(2,430)	(12,700)
Net change in:		
Trading securities	(20,559)	174,171
Other assets and other liabilities, net	(41,395)	35,560
Net cash provided by operating activities	1,267	267,324
Cash Flows From Investing Activities		
Purchase of securities available-for-sale	(629,049)	(598,336)
Sales of securities available-for-sale	5,173	6,094
Maturities and paydowns of securities available-for-sale	1,362,442	436,519
Purchase of securities held-to-maturity	(530,159)	
Maturities and paydowns of securities held-to-maturity	1,005	
Loan originations, net of principal collections	(346,887)	199,409
Net payments for premises and equipment	(7,025)	(9,567)
Net cash (paid) acquired in acquisitions	(850)	7,922
Other investing activities, net	20,592	16,624
Net cash (used in) provided by investing activities	(124,758)	58,665
Cash Flows From Financing Activities		
Net increase in deposits	400,155	292,671
Net decrease in federal funds purchased and securities sold under repurchase agreements	(40,000)	
Net (decrease) increase in short-term borrowings, net of transfers from long-term debt	(1,500)	70
Proceeds from exercise of stock options	2,000	4,015
Tax benefit from exercise of stock options	770	920
Cash dividends paid	(13,302)	(10,576)
Other financing activities, net	(1,272)	(609)
Net cash provided by financing activities	346,851	286,491
Net increase in cash and cash equivalents	223,360	612,480
Cash and cash equivalents at beginning of year	244,814	434,689

Cash and cash equivalents at end of period	$	468,174	$	1,047,169
Supplemental Disclosures of Cash Flow Information:				
Cash paid during the period for:				
Interest	$	22,386	$	32,666
Income taxes		27,163		2
Non-cash investing activities:				
Transfer of loans to other real estate owned	$	8,292	$	34,139
Transfer of SERP liability to equity		8,348		

See accompanying Notes to the Unaudited Consolidated Financial Statements.

Table of Contents

CITY NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited)

	City National Corporation Shareholders Equity							
(in thousands, except share amounts)	**Common shares issued**	**Common stock**	**Additional paid-in capital**	**Accumulated other comprehensive income (loss)**	**Retained earnings**	**Treasury shares**	**Non-controlling interest**	**Total equity**
Balance, January 1, 2011	53,885,886	$ 53,886	$ 487,868	$ 36,853	$ 1,482,037	$ (101,065)	$ 25,139	$ 1,984,718
Net income (1)					39,692		534	40,226
Other comprehensive loss, net of tax				(10,318)				(10,318)
Dividends and distributions to noncontrolling interest							(534)	(534)
Issuance of shares under share-based compensation plans			(11,820)			14,111		2,291
Share-based employee compensation expense			4,629					4,629
Tax benefit from share-based compensation plans			1,037					1,037
Common stock dividends					(10,576)			(10,576)
Net change in deferred compensation plans			26					26
Change in redeemable noncontrolling interest			(822)					(822)
Other							(50)	(50)
Balance, March 31, 2011	53,885,886	$ 53,886	$ 480,918	$ 26,535	$ 1,511,153	$ (86,954)	$ 25,089	$ 2,010,627
Balance, January 1, 2012	53,885,886	$ 53,886	$ 489,200	$ 72,372	$ 1,611,969	$ (82,578)	$	$ 2,144,849
Net income (1)					46,265			46,265
Other comprehensive income, net of tax				8,970				8,970
Issuance of shares under share-based compensation plans			(12,175)			12,337		162
Share-based employee compensation expense			4,549					4,549
Tax expense from share-based compensation plans			(136)					(136)
Common stock dividends					(13,373)			(13,373)
Net change in deferred compensation plans			42					42
Change in redeemable noncontrolling interest			(111)					(111)
Other (2)			8,348					8,348
Balance, March 31, 2012	53,885,886	$ 53,886	$ 489,717	$ 81,342	$ 1,644,861	$ (70,241)	$	$ 2,199,565

(1) Net income excludes net income attributable to redeemable noncontrolling interest of $243 and $558 for the three-month periods ended March 31, 2012 and 2011, respectively. Redeemable noncontrolling interest is reflected in the mezzanine section of the consolidated balance sheets. See Note 17 of the Notes to the Unaudited Consolidated Financial Statements.

(2) Conversion of pension liability to equity due to SERP amendment. See Note 14 for additional information.

See accompanying Notes to the Unaudited Consolidated Financial Statements.

Table of Contents

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 79 offices in Southern California, the San Francisco Bay area, Nevada, New York City, Nashville, Tennessee and Atlanta, Georgia. As of March 31, 2012, the Corporation had five consolidated investment advisory affiliates and one unconsolidated subsidiary, Business Bancorp 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. It also includes noncontrolling interest, which 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. This preferred stock was liquidated or redeemed in full by the Bank in the third quarter of 2011. 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. The Corporation s interests in 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 16 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 impairment, private equity and alternative investment impairment, valuation of assets and liabilities acquired in business combinations, subsequent valuations of acquired impaired loans, Federal Deposit Insurance Corporation (FDIC) indemnification assets, valuation of noncontrolling interest and the valuation of financial assets and liabilities reported at fair value.

Table of Contents

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 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, 2011.

The results for the 2012 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 2011 Annual Report other than the adoption of new accounting pronouncements and other authoritative guidance that became effective for the Company on or after January 1, 2012. Refer to *Accounting Pronouncements* for discussion of accounting pronouncements adopted in 2012.

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

Accounting Pronouncements

During the three months ended March 31, 2012, the following accounting pronouncements applicable to the Company were issued or became effective:

- In April 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-03, *Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements* (ASU 2011-03). Accounting Standards Codification (ASC) Topic 860, *Transfers and Servicing*, provides the criteria for determining whether a transfer of financial assets under a repurchase agreement is accounted for as a secured borrowing or as a sale. In a typical repurchase transaction, an entity transfers financial assets to a counterparty in exchange for cash with an agreement for the counterparty to return the same or equivalent financial assets for a fixed price in the future. Under the guidance, an entity that maintains effective control over transferred assets must account for the transfer as a secured borrowing. ASU 2011-03 eliminates the requirement for entities to consider whether a transferor has the ability to repurchase the financial assets in a repurchase agreement for purposes of determining whether the transferor has maintained effective control. The ASU does not change the other criteria applicable to the assessment of effective control. Adoption of ASU 2011-03 on January 1, 2012 did not have a material effect on the Company s consolidated financial statements.

- In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04). ASU 2011-04 represents the converged guidance of the FASB and International Accounting Standards Board on fair value. The new guidance establishes a common framework for measuring fair value and for disclosing information about fair value measurements. While ASU 2011-04 is largely consistent with existing fair value measurement principles, it does expand disclosure requirements and amends certain guidance. Under the revised guidance, the highest and best use and valuation premise concepts only apply to measuring the fair value of nonfinancial assets. The highest and best use of a nonfinancial asset is one that is physically possible, legally permissible and financially feasible. The valuation premise guidance provides that the highest and best use of a nonfinancial asset is either on a stand-alone basis or in combination with other assets as a group. The ASU provides a framework for considering whether a premium or discount can be applied in a fair value measurement, and provides a model for measuring the fair value of an instrument classified in shareholders equity. ASU 2011-04 requires entities to make an accounting policy election regarding fair value measurements of financial assets and liabilities, such as derivatives, for which the exposure to market or counterparty credit risks is managed on a net or portfolio basis. The Company elected to continue measuring derivative instruments that are subject to master netting agreements on the net risk exposure at the measurement date.

Table of Contents

Note 1. Summary of Significant Accounting Policies (Continued)

The expanded disclosure requirements include more detailed disclosures about the valuation processes used in fair value measurements within Level 3 of the fair value hierarchy, and categorization by level of the fair value hierarchy for items that are not measured at fair value in the statement of financial position but for which fair value is required to be disclosed in accordance with ASC Topic 825, *Financial Instruments*. The Company adopted ASU 2011-04 for first quarter 2012 reporting. Adoption of the new guidance did not have a significant impact on the Company s consolidated financial statements.

• In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220), Presentation of Comprehensive Income* (ASU 2011-05). ASU 2011-05 revises the manner in which entities present comprehensive income in their financial statements. The new guidance requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. Under the two-statement approach, the first statement would include components of net income, which is consistent with the income statement format used today, and the second statement would include components of other comprehensive income. In December 2011, the FASB issued ASU 2011-12, *Comprehensive Income (Topic 220), Deferral of the Effective Date for Amendments to the Presentation of Reclassification of Items out of Accumulated Other Comprehensive Income in ASU 2011*-05 (ASU 2011-12). ASU 2011-12 indefinitely defers the provision of ASU 2011-05 that would have required entities to present reclassification adjustments out of accumulated other comprehensive income (AOCI) by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented. ASU 2011-05 and ASU 2011-12 became effective for the Company for first quarter 2012 reporting. The Company elected to report components of comprehensive income in two separate but consecutive statements. The new guidances were applied retrospectively for all periods presented.

Note 2. Business Combinations

Nevada Commerce Bank

On April 8, 2011, the Bank acquired the banking operations of Nevada Commerce Bank (NCB), based in Las Vegas, Nevada, in a purchase and assumption agreement with the FDIC. Excluding the effects of acquisition accounting adjustments, the Bank acquired approximately $138.9 million in assets and assumed $121.9 million in liabilities. The Bank acquired most of NCB s assets, including loans and other real estate owned (OREO) with a fair value of $56.4 million and $7.5 million, respectively, and assumed deposits with a fair value of $118.4 million. The Bank received approximately $2.7 million in cash from the FDIC at acquisition and recognized a gain of $8.2 million on the acquisition of NCB in the second quarter of 2011.

In connection with the acquisition of NCB, 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 loss-sharing agreements with the FDIC. The term of the loss-sharing agreements is 10 years for single-family residential loans and eight 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 $33.8 million. 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.

San Jose, California Branch

On February 11, 2011, the Company purchased a branch banking office in San Jose, California from another financial institution. The Company acquired approximately $8.4 million in deposits, and recorded goodwill and core deposit intangibles of $0.3 million and $0.1 million, respectively.

Table of Contents

Note 3. Fair Value Measurements

The following tables summarize assets and liabilities measured at fair value as of March 31, 2012 and December 31, 2011 by level in the fair value hierarchy:

(in thousands)	Balance as of March 31, 2012	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	$ 19,202	$ 19,202	$	$
Federal agency - Debt	1,051,348		1,051,348	
Federal agency - MBS	720,590		720,590	
CMOs - Federal agency	4,400,318		4,400,318	
CMOs - Non-agency	68,587		68,587	
State and municipal	395,723		395,723	
Other debt securities	181,792		162,783	19,009
Equity securities and mutual funds	1,150	1,150		
Trading securities	82,589	80,527	2,062	
Mark-to-market derivatives (1)	57,891	3,239	54,652	
Total assets at fair value	$ 6,979,190	$ 104,118	$ 6,856,063	$ 19,009
Liabilities				
Mark-to-market derivatives (2)	$ 49,384	$ 1,574	$ 47,810	$
Other liabilities	290		290	
Total liabilities at fair value	$ 49,674	$ 1,574	$ 48,100	$
Measured on a Nonrecurring Basis				
Assets				
Collateral dependent impaired loans (3):				
Commercial (4)	$ 1,878	$	$	$ 1,878
Commercial real estate mortgages	3,170		3,170	
Residential mortgages	5,988		5,525	463
Real estate construction	14,300		7,500	6,800
Equity lines of credit	904			904
Installment	550		550	
Other real estate owned (5)	27,347		23,269	4,078
Private equity and alternative investments	258			258
Total assets at fair value	$ 54,395	$	$ 40,014	$ 14,381

(1) Reported in Other assets in the consolidated balance sheets.
(2) Reported in Other liabilities in the consolidated balance sheets.
(3) Impaired loans for which fair value was calculated using the collateral valuation method.
(4) Includes lease financing.
(5) Other real estate owned balance of $107.5 million in the consolidated balance sheets includes $78.5 million of covered OREO and is net of estimated disposal costs.

11

Table of Contents

Note 3. Fair Value Measurements (Continued)

		Fair Value Measurements at Reporting Date Using		
(in thousands)	Balance as of December 31, 2011	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	$ 19,182	$ 19,182	$	$
Federal agency - Debt	1,973,862		1,973,862	
Federal agency - MBS	681,044		681,044	
CMOs - Federal agency	4,326,907		4,326,907	
CMOs - Non-agency	69,001		69,001	
State and municipal	401,604		401,604	
Other debt securities	99,074		79,491	19,583
Equity securities and mutual funds	1,227	1,227		
Trading securities	61,975	61,922	53	
Mark-to-market derivatives (1)	62,230	2,552	59,678	
Total assets at fair value	$ 7,696,106	$ 84,883	$ 7,591,640	$ 19,583
Liabilities				
Mark-to-market derivatives (2)	$ 52,881	$ 1,542	$ 51,339	$
Other liabilities	263		263	
Total liabilities at fair value	$ 53,144	$ 1,542	$ 51,602	$
Measured on a Nonrecurring Basis				
Assets				
Collateral dependent impaired loans (3):				
Commercial (4)	$ 2,484	$	$	$ 2,484
Commercial real estate mortgages	6,830		6,830	
Residential mortgages	5,555		5,084	471
Real estate construction	18,528		9,680	8,848
Equity lines of credit	3,471		2,588	883
Installment	675		675	
Collateral dependent impaired covered loans (3):				
Commercial	422			422
Other real estate owned (5)	66,837		56,898	9,939
Private equity and alternative investments	6,558			6,558
Total assets at fair value	$ 111,360	$	$ 81,755	$ 29,605

(1) Reported in Other assets in the consolidated balance sheets.
(2) Reported in Other liabilities in the consolidated balance sheets.
(3) Impaired loans for which fair value was calculated using the collateral valuation method.
(4) Includes lease financing.
(5) Other real estate owned balance of $129.3 million in the consolidated balance sheets includes $98.6 million of covered OREO and is net of estimated disposal costs.

Table of Contents

Note 3. Fair Value Measurements (Continued)

At March 31, 2012, $6.98 billion, or approximately 29 percent, of the Company s total assets were recorded at fair value on a recurring basis, compared with $7.70 billion, or 33 percent, at December 31, 2011. The majority of these financial assets were valued using Level 1 or Level 2 inputs. Less than 1 percent of total assets were measured using Level 3 inputs. At March 31, 2012, $49.7 million of the Company s total liabilities were recorded at fair value using Level 1 or Level 2 inputs, compared with $53.1 million at December 31, 2011. There were no transfers between Level 1 and Level 2 of the fair value hierarchy for assets or liabilities measured on a recurring basis during the first quarter of 2012. At March 31, 2012, $54.4 million, or approximately 0.2 percent of the Company s total assets, were recorded at fair value on a nonrecurring basis, compared with $111.4 million, or approximately 0.5 percent, at December 31, 2011. These assets were measured using Level 2 and Level 3 inputs.

Recurring Fair Value Measurements

Assets and liabilities for which fair value measurement is based on significant unobservable inputs are classified as Level 3 in the fair value hierarchy. Level 3 assets measured at fair value on a recurring basis consist of collateralized debt obligation senior notes that are included in securities available-for-sale. These securities totaling $19.0 million at March 31, 2012 were valued using the discounted cash flow method with the following unobservable inputs: (1) risk-adjusted discount rate consistent with similarly rated securities, (2) prepayment rate of 2 percent, (3) default rate of 0.75 percent of performing collateral, and (4) 15 percent recovery rate with a 2-year lag. The Company had no liabilities with fair value measurements categorized as Level 3 at March 31, 2012 or 2011.

The following table provides a reconciliation of the beginning and ending balances for Level 3 assets measured at fair value on a recurring basis for the three months ended March 31, 2012 and 2011. Unrealized gains and losses on securities available-for-sale are reported as a component of AOCI in the consolidated balance sheets.

Level 3 Assets Measured on a Recurring Basis

(in thousands)	March 31, 2012 Securities Available-for-Sale	March 31, 2011 Securities Available-for-Sale
Balance, beginning of period	$ 19,583	$ 20,982
Total realized/unrealized gains (losses):		
Included in other comprehensive income	964	1,690
Settlements	(1,562)	(1,707)
Other (1)	24	(53)
Balance, end of period	$ 19,009	$ 20,912

(1) Other rollforward activity consists of amortization of premiums and accretion of discounts recognized on the initial purchase of the securities available-for-sale.

There were no purchases, sales, or transfers in and/or out of Level 3 assets measured on a recurring basis during the three months ended March 31, 2012 and 2011. Paydowns of $1.6 million and $1.7 million were received on Level 3 assets measured on a recurring basis for the three months ended March 31, 2012 and 2011, respectively. There were no gains or losses for the three months ended March 31, 2012 and 2011 included in earnings that were attributable to the change in unrealized gains or losses relating to assets still held as of March 31, 2012 and 2011.

Table of Contents

Note 3. Fair Value Measurements (Continued)

Nonrecurring Fair Value Measurements

Assets measured at fair value on a nonrecurring basis using significant unobservable inputs 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. 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.

The table below provides information about valuation method, inputs and assumptions for nonrecurring Level 3 fair value measurements. The weight assigned to each input is based on the facts and circumstances that exist at the date of measurement.

Information About Nonrecurring Level 3 Fair Value Measurements

(in thousands)		**Fair Value at March 31, 2012**	**Valuation Method**	**Unobservable Inputs**
Collateral dependent impaired loans	$	10,045	Market	- Adjustments to external or internal appraised values - Probability weighting of broker price opinions - Management assumptions regarding market trends or other relevant factors
Other real estate owned	$	4,078	Market	- Adjustments to external or internal appraised values - Probability weighting of broker price opinions - Management assumptions regarding market trends or other relevant factors
Private equity and alternative investments	$	258	Cost Recovery	- Management s assumptions regarding recoverability of investment based on fund financial performance, market conditions and other relevant factors

Market-based valuation methods use prices and other relevant information generated by market transactions involving identical or comparable assets. Under the cost recovery approach, fair value represents an estimate of the amount of an asset expected to be recovered. The Company only employs the cost recovery approach for assets that are not readily marketable and for which minimal market-based information exists.

For assets measured at fair value on a nonrecurring basis, the following table presents the total net (losses) gains, which include charge-offs, recoveries, specific reserves, OREO valuation write-downs and write-ups, gains and losses on sales of OREO, and impairment write-downs on private equity investments, recognized in the three months ended March 31, 2012 and 2011:

(in thousands)	For the three months ended March 31, 2012	2011
Collateral dependent impaired loans:		
Commercial	$ (368)	$ (606)
Commercial real estate mortgages	(365)	7,114
Residential mortgages	(582)	(142)
Real estate construction	(6,472)	2,217
Equity lines of credit	54	36
Installment	(107)	(4,514)
Other real estate owned (1)	(8,465)	(9,122)
Private equity and alternative investments	(127)	
Total net losses recognized	$ (16,432)	$ (5,017)

(1) Net losses on OREO includes $7.6 million and $8.2 million of net losses related to covered OREO for the three months ended March 31, 2012 and 2011, respectively, a significant portion of which is reimbursable by the FDIC.

Table of Contents

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 March 31, 2012 and December 31, 2011. The table also provides information on the level in the fair value hierarchy for inputs used in the fair value of financial assets and financial liabilities. Refer to Note 1, *Summary of Significant Accounting Policies,* in the Company s 2011 Form 10-K for additional information on fair value measurements. Financial assets and financial liabilities for which carrying amount equals fair value are considered by the Company to be Level 1 in the fair value hierarchy. Additional detail on assets and liabilities that are categorized in multiple levels of the fair value hierarchy is provided in the above tables of this Note.

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, 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, Securities held-to-maturity and Trading securities For securities held as available-for-sale and held-to-maturity, 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 values for trading securities are based on quoted market prices or dealer quotes. The fair value of trading securities for which quoted prices are not available is based on observable market inputs.

Loans and leases Loans and leases, excluding covered 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 following table. 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 is estimated by discounting estimated future cash flows based on estimated current market rates.

Investment in FHLB and FRB stock Investments in government agency stock are recorded at cost. Ownership of these securities is restricted to member banks and the securities do not have a readily determinable market value. Purchases and sales of these securities are at par value with the issuer. The fair value of investments in FRB and FHLB stock is equal to the carrying amount.

Derivative contracts The fair value of non-exchange traded (over-the-counter) derivatives is 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.

Table of Contents

Note 3. Fair Value Measurements (Continued)

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 (CD) 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 and Securities sold under repurchase agreements The carrying amount is a reasonable estimate of fair value.

Other short-term borrowings The fair value of the current portion of long-term debt classified in short-term borrowings is obtained through third-party pricing sources. The carrying amount of the remaining other short-term borrowings is a reasonable estimate of fair value.

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

FDIC clawback liability The FDIC clawback liability represents an estimated payment by the Company to the FDIC if actual cumulative losses on acquired covered assets are lower than the cumulative losses originally estimated by the FDIC at the time of acquisition. The fair value of the FDIC clawback liability is estimated by discounting estimated future cash flows based on estimated current market rates.

Off-balance sheet commitments, which include commitments to extend credit, are excluded from the table below. A reasonable estimate of fair value for these instruments is the carrying amount of deferred fees and the reserve for any credit losses related to these off-balance sheet instruments. This estimate is not material to the Company s financial position.

		March 31, 2012		December 31, 2011	
(in millions)	**Fair Value Level**	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial Assets:					
Cash and due from banks	1	$ 210.8	$ 210.8	$ 168.4	$ 168.4
Due from banks - interest bearing	1	101.4	101.4	76.4	76.4
Federal funds sold	1	156.0	156.0		
Securities available-for-sale	1,2,3	6,838.7	6,838.7	7,571.9	7,571.9
Securities held-to-maturity	2	996.6	996.5	467.7	473.9
Trading securities	1,2	82.6	82.6	62.0	62.0
Loans and leases, net of allowance	3	12,481.8	12,909.0	12,046.8	12,400.5
Covered loans, net of allowance	3	1,335.7	1,388.7	1,417.3	1,472.6
FDIC indemnification asset	3	185.4	163.0	204.3	184.3
Investment in FHLB and FRB stock	1	103.8	103.8	107.4	107.4

Derivative assets	1,2	57.9	57.9	62.2	62.2
Financial Liabilities:					
Deposits	1,3	$ 20,787.7	$ 20,791.8	$ 20,387.6	$ 20,392.3
Federal funds purchased and securities sold under repurchase agreements	1	10.0	10.0	50.0	50.0
Other short-term borrowings	2	212.8	219.0		
Long-term debt	2	482.0	505.6	697.8	718.7
Derivative liabilities	1,2	49.4	49.4	52.9	52.9
FDIC clawback liability	3	8.7	8.7	8.1	8.1

16

Table of Contents

Note 4. Securities

At March 31, 2012, the Company had total securities of $7.92 billion, comprised of securities available-for-sale at fair value of $6.84 billion, securities held-to-maturity at amortized cost of $996.6 million and trading securities at fair value of $82.6 million. At December 31, 2011, the Company had total securities of $8.10 billion, comprised of securities available-for-sale at fair value of $7.57 billion, securities held-to-maturity at amortized cost of $467.7 million and trading securities at fair value of $62.0 million.

The following is a summary of amortized cost and estimated fair value for the major categories of securities available-for-sale and securities held-to-maturity at March 31, 2012 and December 31, 2011:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2012				
Securities available-for-sale:				
U.S. Treasury	$ 19,217	$ 8	$ (23)	$ 19,202
Federal agency - Debt	1,046,035	5,348	(35)	1,051,348
Federal agency - MBS	690,183	30,580	(173)	720,590
CMOs - Federal agency	4,304,148	97,498	(1,328)	4,400,318
CMOs - Non-agency	74,737	809	(6,959)	68,587
State and municipal	378,541	17,379	(197)	395,723
Other debt securities	185,968	3,417	(7,593)	181,792
Total debt securities	6,698,829	155,039	(16,308)	6,837,560
Equity securities and mutual funds	352	798		1,150
Total securities available-for-sale	$ 6,699,181	$ 155,837	$ (16,308)	$ 6,838,710
Securities held-to-maturity (1):				
Federal agency - Debt	$ 104,268	$ 394	$ (66)	$ 104,596
Federal agency - MBS	173,380	1,794	(427)	174,747
CMOs - Federal agency	590,931	2,496	(3,918)	589,509
State and municipal	128,034	1,431	(1,862)	127,603
Total securities held-to-maturity	$ 996,613	$ 6,115	$ (6,273)	$ 996,455
December 31, 2011				
Securities available-for-sale:				
U.S. Treasury	$ 19,163	$ 24	$ (5)	$ 19,182
Federal agency - Debt	1,967,928	6,230	(296)	1,973,862
Federal agency - MBS	650,091	31,040	(87)	681,044
CMOs - Federal agenc	4,239,205	89,926	(2,224)	4,326,907
CMOs - Non-agency	79,999	322	(11,320)	69,001
State and municipal	383,210	18,767	(373)	401,604
Other debt securities	106,051	1,896	(8,873)	99,074
Total debt securities	7,445,647	148,205	(23,178)	7,570,674
Equity securities and mutual funds	352	875		1,227
Total securities available-for-sale	$ 7,445,999	$ 149,080	$ (23,178)	$ 7,571,901
Securities held-to-maturity (1):				
Federal agency - Debt	$ 40,423	$ 780	$	$ 41,203
Federal agency - MBS	75,231	1,632		76,863

CMOs - Federal agency	292,547	2,580	(195)	294,932
State and municipal	59,479	1,463	(37)	60,905
Total securities held-to-maturity	$ 467,680	$ 6,455	$ (232)	$ 473,903

(1) Securities held-to-maturity are presented in the consolidated balance sheets at amortized cost.

Table of Contents

Note 4. Securities (Continued)

Proceeds from sales of securities available-for-sale were $5.2 million and $6.1 million for the three months ended March 31, 2012 and 2011, respectively. There were no sales of securities held-to-maturity during the three months ended March 31, 2012. The following table provides the gross realized gains and losses on the sales and calls of securities:

(in thousands)	For the three months ended March 31, 2012	2011
Gross realized gains	$ 496	$ 160
Gross realized losses	(47)	(30)
Net realized gains	$ 449	$ 130

Interest income on securities (including trading securities) for the three months ended March 31, 2012 and 2011 is comprised of: (i) taxable interest income of $41.5 million and $34.3 million, respectively (ii) nontaxable interest income of $3.8 million and $2.9 million, respectively, and (iii) dividend income of $0.1 million and $0.2 million, respectively.

The following table provides the expected remaining maturities of debt securities included in the securities portfolio at March 31, 2012. The maturities of mortgage-backed securities are allocated according to the average life of expected cash flows. Average expected maturities will differ from contractual maturities because of the amortizing nature of the loan collateral and prepayment behavior of borrowers.

(in thousands)	One year or less	Over 1 year through 5 years	Over 5 years through 10 years	Over 10 years	Total
Securities available-for-sale:					
U.S. Treasury	$ 10,013	$ 9,189	$	$	$ 19,202
Federal agency - Debt	847,374	203,974			1,051,348
Federal agency - MBS	14	447,143	273,433		720,590
CMOs - Federal agency	181,389	4,040,298	178,631		4,400,318
CMOs - Non-agency	8,286	33,100	27,201		68,587
State and municipal	53,996	209,947	80,836	50,944	395,723
Other	3,383	136,042	42,367		181,792
Total debt securities available-for-sale	$ 1,104,455	$ 5,079,693	$ 602,468	$ 50,944	$ 6,837,560
Amortized cost	$ 1,099,279	$ 4,965,611	$ 583,091	$ 50,848	$ 6,698,829
Securities held-to-maturity:					
Federal agency - Debt	$ 10,950	$ 33,669	$	$ 59,649	$ 104,268
Federal agency - MBS			173,380		173,380
CMOs - Federal agency		45,373	545,558		590,931
State and municipal		8,259	79,468	40,307	128,034
Total debt securities held-to-maturity at amortized	$ 10,950	$ 87,301	$ 798,406	$ 99,956	$ 996,613

cost

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 length of time and the extent to which the market value has been less than cost; the financial condition and near-term prospects of the issuer, including events

Table of Contents

Note 4. Securities (Continued)

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.

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

The Company determined through its impairment assessment process that none of the securities held had a credit loss impairment at March 31, 2012. Accordingly, there were no impairment losses recognized in earnings on securities available-for-sale for the three months ended March 31, 2012. The Company recognized an impairment loss of $0.2 million in earnings related to non-agency CMOs for the three months ended March 31, 2011. The Company recognized $2.4 million and $4.3 million of non-credit-related other-than-temporary impairment in AOCI on securities available-for-sale at March 31, 2012 and 2011, respectively. There were no impairment losses recognized in earnings or AOCI for securities held-to-maturity during the three months ended March 31, 2012.

The following table summarizes the changes in cumulative credit-related other-than-temporary impairment recognized in earnings for debt securities for the three months ended March 31, 2012 and 2011. Credit-related other-than-temporary impairment that was recognized in earnings is reflected as an Initial credit-related impairment if the period reported 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 period reported is not the first time the security had a credit impairment. Cumulative impairment is reduced for securities with previously recognized credit-related impairment that were sold during the period. Cumulative impairment is further reduced for increases in expected cash flows.

	For the three months ended March 31,	
(in thousands)	2012	2011
Balance, beginning of period	$ 17,531	$ 17,923
Subsequent credit-related impairment		164
Net increase in expected cash flows on securities for which OTTI was previously recognized	(162)	(537)
Balance, end of period	$ 17,369	$ 17,550

Non-Agency CMOs

The Company held $44.7 million of variable rate non-agency CMOs at March 31, 2012. These CMOs have a fixed interest rate for an initial period after which they become variable-rate instruments with annual rate resets. The variable rate non-agency securities held include $10.8 million of securities that had non-credit-related impairment recognized in AOCI. There were no credit-related impairment losses recognized in earnings in the first quarter of 2012. The non-credit portion of other-than-temporary impairment for these securities at March 31, 2012 was recognized in AOCI, and is attributed to external market conditions, primarily the lack of liquidity in these securities, and increases in interest rates. The Company recognized credit-related impairment losses in earnings on its investments in certain variable rate non-agency CMOs totaling $0.2 million in the first quarter of 2011. The Company also holds $23.9 million in fixed rate non-agency CMOs at March 31, 2012, none of which have experienced any other-than-temporary impairment.

Table of Contents

Note 4. Securities (Continued)

The following table provides a summary of the gross unrealized losses and fair value of investment securities that are not deemed to be other-than-temporarily impaired aggregated by investment category and length of time that the securities have been in a continuous unrealized loss position as of March 31, 2012 and December 31, 2011. The table also includes investment securities that had both a credit-related impairment recognized in earnings and 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
March 31, 2012						
Securities available-for-sale:						
U.S. Treasury	$ 9,189	$ 23	$	$	$ 9,189	$ 23
Federal agency - Debt	45,807	35			45,807	35
Federal agency - MBS	44,771	173			44,771	173
CMOs - Federal agency	368,373	1,328			368,373	1,328
CMOs - Non-agency	9,795	16	34,099	6,943	43,894	6,959
State and municipal	4,795	64	2,010	133	6,805	197
Other debt securities	29,225	199	15,626	7,394	44,851	7,593
Total securities available-for-sale	$ 511,955	$ 1,838	$ 51,735	$ 14,470	$ 563,690	$ 16,308
Securities held-to-maturity:						
Federal agency - Debt	$ 9,935	$ 66	$	$	$ 9,935	$ 66
Federal agency - MBS	76,985	427			76,985	427
CMOs - Federal agency	358,386	3,918			358,386	3,918
State and municipal	66,525	1,862			66,525	1,862
Total securities held-to-maturity	$ 511,831	$ 6,273	$	$	$ 511,831	$ 6,273
December 31, 2011						
Securities available-for-sale:						
U.S. Treasury	$ 4,145	$ 5	$	$	$ 4,145	$ 5
Federal agency - Debt	409,129	296			409,129	296
Federal agency - MBS	24,519	87			24,519	87
CMOs - Federal agency	744,737	2,224			744,737	2,224
CMOs - Non-agency	20,094	833	31,400	10,487	51,494	11,320
State and municipal	42,164	268	2,023	105	44,187	373
Other debt securities	34,153	508	14,718	8,365	48,871	8,873
Total securities available-for-sale	$ 1,278,941	$ 4,221	$ 48,141	$ 18,957	$ 1,327,082	$ 23,178
Securities held-to-maturity:						
CMOs - Federal agency	$ 32,256	$ 195	$	$	$ 32,256	$ 195
State and municipal	5,784	37			5,784	37
Total securities held-to-maturity	$ 38,040	$ 232	$	$	$ 38,040	$ 232

At March 31, 2012, the Company had $563.7 million of securities available-for-sale in an unrealized loss position, consisting of $552.9 million of temporarily impaired securities and $10.8 million of securities that had non-credit-related impairment recognized in AOCI. The Company had

$511.8 million of securities held-to-maturity in an unrealized loss position. At March 31, 2012, the Company had 175 debt securities available-for-sale and held-to-maturity in an unrealized loss position. The debt securities in an unrealized loss position include 3 U.S. Treasury securities, 3 federal agency debt securities, 10 federal agency MBS, 36 federal agency CMOs, 10 non-agency CMOs, 109 state and municipal securities and 4 other debt securities.

Note 4. Securities (Continued)

The unrealized loss on non-agency CMOs reflects the lack of liquidity in this sector of the market. The Company only holds the most senior tranches of each non-agency issue which provides protection against defaults. The Company expects to receive principal and interest payments equivalent to or greater than the current cost basis of its portfolio of 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. Over the past year, the real estate market has stabilized somewhat, though performance varies substantially by geography and borrower. Though reduced, a significant weakening of economic fundamentals coupled with a return to elevated unemployment rates and substantial deterioration in the value of high-end residential properties could increase the probability of default and related credit losses. These conditions could cause the value of these securities to 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. The CDOs held in securities available-for-sale at March 31, 2012 are the most senior tranches of each issue. Trading activity for the type of CDO held by the Company has been limited since 2008. Accordingly, 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 $7.3 million net unrealized loss at March 31, 2012, which the Company attributes to the illiquid credit markets. The CDOs have collateral that well exceeds the outstanding debt. 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.

At December 31, 2011, the Company had $1.33 billion of securities available-for-sale in an unrealized loss position consisting of $1.32 billion of temporarily impaired securities and $9.2 million of securities that had non-credit-related impairment recognized in AOCI. The Company had $38.0 million of securities held-to-maturity in an unrealized loss position. At December 31, 2011, the Company had 90 debt securities available-for-sale and held-to-maturity in an unrealized loss position. The debt securities in an unrealized loss position included 2 U.S. Treasury securities, 12 federal agency debt securities, 3 federal agency MBS, 36 federal agency CMOs, 12 non-agency CMOs, 19 state and municipal securities and 6 other debt securities.

Note 5. Other Investments

Federal Home Loan Bank of San Francisco 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 Bank (FRB) totaled $103.8 million and $107.4 million at March 31, 2012 and December 31, 2011, respectively. 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. The Company expects to recover the full amount invested in FHLB and FRB stock and does not consider its investments to be impaired at March 31, 2012.

21

Table of Contents

Note 5. Other Investments (Continued)

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 and are net of impairment write-downs, if applicable. The Company s investments in these funds totaled $40.1 million at March 31, 2012 and $39.9 million at December 31, 2011. A summary of investments by fund type is provided below:

(in thousands) Fund Type		March 31, 2012		December 31, 2011
Private equity and venture capital	$	23,271	$	23,093
Real estate		10,551		10,541
Hedge		2,883		2,883
Other		3,378		3,402
Total	$	40,083	$	39,919

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 statements of income. The new cost basis of the investment is not adjusted for subsequent recoveries in value. The Company recognized impairment losses totaling $0.1 million on its investments during the three months ended March 31, 2012. No impairment losses were recognized on these investments during the three months ended March 31, 2011.

The table below provides information as of March 31, 2012 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)	$	258	$		None (1)	N/A

(1) Funds make periodic distributions of income but do not permit redemptions prior to the end of the investment term.

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

22

Table of Contents

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)		March 31, 2012		December 31, 2011
Commercial	$	5,175,396	$	4,846,594
Commercial real estate mortgages		2,213,114		2,110,749
Residential mortgages		3,805,807		3,763,218
Real estate construction		313,409		315,609
Equity lines of credit		715,997		741,081
Installment		125,793		132,647
Lease financing		398,386		399,487
Loans and leases, excluding covered loans		12,747,902		12,309,385
Less: Allowance for loan and lease losses		(266,077)		(262,557)
Loans and leases, excluding covered loans, net		12,481,825		12,046,828
Covered loans		1,397,156		1,481,854
Less: Allowance for loan losses		(61,471)		(64,565)
Covered loans, net		1,335,685		1,417,289
Total loans and leases	$	14,145,058	$	13,791,239
Total loans and leases, net	$	13,817,510	$	13,464,117

The loan amounts above include unamortized fees, net of deferred costs, of $8.2 million and $7.5 million as of March 31, 2012 and December 31, 2011, respectively.

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. The Company s lending activities are predominantly in California, and to a lesser extent, New York and Nevada. Excluding covered loans, at March 31, 2012, California represented 82 percent of total loans outstanding and Nevada and New York represented 3 percent and 6 percent, respectively. The remaining 9 percent of total loans outstanding represented other states. 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. Within the Company s covered loan portfolio at March 31, 2012, the five states with the largest concentration were California (39 percent), Texas (11 percent), Nevada (7 percent), New York (5 percent) and Arizona (4 percent). The remaining 34 percent of total covered loans outstanding represented other states.

Covered Loans

Covered loans represent loans acquired from the FDIC that are subject to loss-sharing agreements. Covered loans were $1.40 billion as of March 31, 2012 and $1.48 billion as of December 31, 2011. Covered loans, net of allowance for loan losses, were $1.34 billion at March 31, 2012 and $1.42 billion at December 31, 2011.

Table of Contents

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

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

(in thousands)	**March 31, 2012**	**December 31, 2011**
Commercial	$ 22,395	$ 30,911
Commercial real estate mortgages	1,219,923	1,288,352
Residential mortgages	13,378	14,931
Real estate construction	135,065	140,992
Equity lines of credit	5,210	5,167
Installment	1,185	1,501
Covered loans	1,397,156	1,481,854
Less: Allowance for loan losses	(61,471)	(64,565)
Covered loans, net	$ 1,335,685	$ 1,417,289

The Company evaluated the acquired loans from its FDIC-assisted acquisitions and concluded that all loans, with the exception of a small population of acquired loans, would be accounted for under ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* (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. 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.

As of NCB s acquisition date in 2011, the estimates of the contractually required payments receivable for all acquired impaired covered loans of NCB were $107.4 million, the cash flows expected to be collected were $66.2 million, and the fair value of the acquired impaired loans was $55.3 million. The above amounts were determined based on the estimated performance over the remaining life of the underlying loans, which included the effects of estimated prepayments. Fair value of the acquired loans included estimated credit losses.

Changes in the accretable yield for acquired impaired loans were as follows for the three months ended March 31, 2012 and 2011:

	For the three months ended March 31,	
(in thousands)	**2012**	**2011**
Balance, beginning of period	$ 436,374	$ 562,826
Accretion	(22,225)	(27,572)
Reclassifications to nonaccretable yield	(21,468)	(2,448)
Disposals and other	(16,213)	(11,248)
Balance, end of period	$ 376,468	$ 521,558

At acquisition date, the Company recorded an indemnification asset for its FDIC-assisted acquisitions. The FDIC indemnification asset represents the present value of the expected reimbursement from the FDIC related to expected losses on acquired loans, OREO and unfunded commitments. The FDIC indemnification asset from all FDIC-assisted acquisitions was $185.4 million at March 31, 2012 and $204.3 million at December 31, 2011.

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

Credit Quality on Loans and Leases, Excluding Covered Loans

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

The Company accounts for the credit risk associated with lending activities through its allowance for loan and lease losses, reserve for off-balance sheet credit commitments and provision for credit losses. The provision is the expense recognized in the consolidated statements of income to adjust the allowance and reserve to the levels deemed appropriate by management, as determined through application of the Company s allowance methodology procedures. The provision for credit losses reflects management s judgment of the adequacy of the allowance for loan and lease losses and the reserve for off-balance sheet credit commitments. It is determined through quarterly analytical reviews of the loan and commitment portfolios and consideration of such other factors as the Company s loan and lease loss experience, trends in problem loans, concentrations of credit risk, underlying collateral values, and current economic conditions, as well as the results of the Company s ongoing credit review process. As conditions change, the Company s level of provisioning and the allowance for loan and lease losses and reserve for off-balance sheet credit commitments may change.

For commercial, non-homogenous loans that are not impaired, the Bank derives loss factors via a process that begins with estimates of probable losses inherent in the portfolio based upon various statistical analyses. The factors considered in the analysis include loan type, migration analysis, in which historical delinquency and credit loss experience is applied to the current aging of the portfolio, as well as analyses that reflect current trends and conditions. Each portfolio of smaller balance homogeneous loans, including residential first mortgages, installment, revolving credit and most other consumer loans, is collectively evaluated for loss potential. Management also establishes a qualitative reserve that considers overall portfolio indicators, including current and historical credit losses; delinquent, nonperforming and criticized loans; portfolio concentrations, trends in volumes and terms of loans; and economic trends in the broad market and in specific industries.

The allowance for loan and lease losses attributed to impaired loans considers all available evidence, including as appropriate, the probability that a specific loan will default, the expected exposure of a loan at default, an estimate of loss given default, the present value of expected future cash flows discounted using the loan s contractual effective rate, the secondary market value of the loan and the fair value of collateral.

The quantitative portion of the allowance for loan and lease losses is adjusted for qualitative factors to account for model imprecision and to incorporate the range of probable outcomes inherent in the estimates used for the allowance. The qualitative portion of the allowance attempts to incorporate the risks inherent in the portfolio, economic uncertainties, competition, regulatory requirements and other subjective factors including industry trends, changes in underwriting standards, and existence of concentrations.

The relative significance of risk considerations vary by portfolio segment. For commercial loans, the primary risk consideration is a borrower s ability to generate sufficient cash flows to repay their loan. Secondary considerations include the creditworthiness of guarantors and the valuation of collateral. In addition to the creditworthiness of a borrower, the type and location of real estate collateral is an important risk factor for commercial real estate and real estate construction loans. The primary risk considerations for consumer loans are a borrower s personal cash flow and liquidity, as well as collateral value.

Generally, commercial, commercial real estate and real estate construction loans are charged off immediately when it is determined that advances to the borrower are in excess of the calculated current fair value of the collateral or if a borrower is deemed incapable of repayment of unsecured debt, there is little or no prospect for near term improvement and no realistic strengthening action of significance pending. Consumer loans are charged-off based on delinquency, ranging from 60 days for overdrafts to 180 days for secured consumer loans, or earlier when it is determined that the loan is uncollectible due to a triggering event, such as bankruptcy, fraud or death.

Table of Contents

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

The following tables provide a summary of activity in the allowance for loan and lease losses and the period-end recorded investment balances of loans evaluated for impairment, excluding covered loans, for the three months ended March 31, 2012 and 2011. Activity is provided by loan type which is consistent with the Company s methodology for determining the allowance for loan and lease losses.

(in thousands)	Commercial (1)	Commercial Real Estate Mortgages	Residential Mortgages	Real Estate Construction	Equity Lines of Credit	Installment	Unallocated	Total
Three months ended March 31, 2012								
Allowance for loan and lease losses:								
Beginning balance	$ 82,965	$ 45,967	$ 14,029	$ 23,347	$ 8,024	$ 1,959	$ 86,266	$ 262,557
Provision for credit losses (2)	(4,161)	1,285	268	(1,355)	162	(438)	3,269	(970)
Charge-offs	(8,917)	(692)	(554)	(1,601)	(189)	(209)		(12,162)
Recoveries	14,200	26	60	1,705	35	626		16,652
Net (charge-offs) recoveries	5,283	(666)	(494)	104	(154)	417		4,490
Ending balance	$ 84,087	$ 46,586	$ 13,803	$ 22,096	$ 8,032	$ 1,938	$ 89,535	$ 266,077
Ending balance of allowance:								
Individually evaluated for impairment	$ 3,335	$ 1,019	$ 331	$ 9,395	$ 38	$	$	$ 14,118
Collectively evaluated for impairment	80,752	45,567	13,472	12,701	7,994	1,938	89,535	251,959
Loans and leases, excluding covered loans								
Ending balance of loans and leases:								
Loans and leases, excluding covered loans	$ 5,573,782	$ 2,213,114	$ 3,805,807	$ 313,409	$ 715,997	$ 125,793	$	$ 12,747,902
Individually evaluated for impairment	40,415	22,306	13,000	67,686	6,980	550		150,937
Collectively evaluated for impairment	5,533,367	2,190,808	3,792,807	245,723	709,017	125,243		12,596,965
Three months ended March 31, 2011								
Allowance for loan and lease losses:								
Beginning balance	$ 82,451	$ 52,516	$ 16,753	$ 40,824	$ 7,229	$ 3,931	$ 53,303	$ 257,007
Provision for credit losses (2)	(4,853)	(11,209)	(2,611)	(7,957)	(27)	1,716	24,763	(178)
Charge-offs	(3,238)	(2,799)	(647)	(566)	(793)	(324)		(8,367)
Recoveries	1,301	9,011	32	4,392	36	122		14,894
Net (charge-offs) recoveries	(1,937)	6,212	(615)	3,826	(757)	(202)		6,527
Ending balance	$ 75,661	$ 47,519	$ 13,527	$ 36,693	$ 6,445	$ 5,445	$ 78,066	$ 263,356
Ending balance of allowance:								
Individually evaluated for impairment	$ 2,291	$ 1,060	$ 384	$ 334	$ 72	$ 4,514	$	$ 8,655
Collectively evaluated for impairment	73,370	46,459	13,143	36,359	6,373	931	78,066	254,701

Loans and leases, excluding covered loans								
Ending balance of loans and leases:								
Loans and leases, excluding covered loans	$ 4,468,177	$ 1,902,862	$ 3,603,058	$ 415,241	$ 733,567	$ 146,779	$	$ 11,269,684
Individually evaluated for impairment	14,431	25,790	12,476	81,604	4,249	6,938		145,488
Collectively evaluated for impairment	4,453,746	1,877,072	3,590,582	333,637	729,318	139,841		11,124,196

(1) Includes lease financing loans.

(2) Provision for credit losses in the allowance rollforward for the three months ended March 31, 2012 includes total transfers from the reserve for off-balance sheet credit commitments of $1.0 million. Provision for credit losses for the three months ended March 31, 2011 includes total transfers to the reserve for off-balance sheet credit commitments of $0.2 million. There was no other provision for credit losses recognized for the three months ended March 31, 2012 and 2011.

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

Off-balance sheet credit exposures include loan commitments and letters of credit. The following table provides a summary of activity in the reserve for off-balance sheet credit commitments for the three months ended March 31, 2012 and 2011:

	For the three months ended March 31,	
(in thousands)	**2012**	**2011**
Balance, beginning of period	$ 23,097	$ 21,529
Transfers from allowance for loan and lease losses	970	178
Balance, end of period	$ 24,067	21,707

Table of Contents

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

Impaired Loans and Leases

Information on impaired loans, excluding covered loans, at March 31, 2012, December 31, 2011 and March 31, 2011 is provided in the following tables:

(in thousands)	Recorded Investment	Unpaid Contractual Principal Balance	Related Allowance	For the three months ended March 31, 2012 Average Recorded Investment	Interest Income Recognized
March 31, 2012					
With no related allowance recorded:					
Commercial	$ 27,822	$ 36,069	$	$ 18,988	$
Commercial real estate mortgages	14,008	19,022		16,938	69
Residential mortgages:					
Fixed	2,666	3,194		3,080	
Variable	6,567	7,240		5,128	
Total residential mortgages	9,233	10,434		8,208	
Real estate construction:					
Construction	21,045	34,381		24,240	116
Land	24,090	27,340		26,541	
Total real estate construction	45,135	61,721		50,781	116
Equity lines of credit	6,035	7,185		5,688	
Installment:					
Consumer	550	927		604	
Total installment	550	927		604	
Lease financing				14	
Total with no related allowance	$ 102,783	$ 135,358	$	$ 101,221	$ 185
With an allowance recorded:					
Commercial	$ 12,593	$ 17,643	$ 3,335	$ 14,110	$
Commercial real estate mortgages	8,298	8,715	1,019	9,555	
Residential mortgages:					
Fixed	2,341	2,367	287	1,428	
Variable	1,426	1,476	44	1,438	
Total residential mortgages	3,767	3,843	331	2,866	
Real estate construction:					
Land	22,551	34,312	9,395	20,968	
Total real estate construction	22,551	34,312	9,395	20,968	
Equity lines of credit	945	985	38	1,119	
Total with an allowance	$ 48,154	$ 65,498	$ 14,118	$ 48,618	$
Total impaired loans by type:					
Commercial	$ 40,415	$ 53,712	$ 3,335	$ 33,098	$
Commercial real estate mortgages	22,306	27,737	1,019	26,493	69
Residential mortgages	13,000	14,277	331	11,074	

Real estate construction		67,686		96,033		9,395		71,749		116
Equity lines of credit		6,980		8,170		38		6,807		
Installment		550		927				604		
Lease financing								14		
Total impaired loans	$	150,937	$	200,856	$	14,118	$	149,839	$	185

Table of Contents

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

(in thousands)	Recorded Investment	Unpaid Contractual Principal Balance (1)	Related Allowance
December 31, 2011			
With no related allowance recorded:			
Commercial	$ 10,153	$ 11,588	$
Commercial real estate mortgages	19,867	23,983	
Residential mortgages:			
Fixed	3,493	4,035	
Variable	3,689	4,000	
Total residential mortgages	7,182	8,035	
Real estate construction:			
Construction	27,435	40,605	
Land	28,991	32,335	
Total real estate construction	56,426	72,940	
Equity lines of credit	5,341	6,325	
Installment:			
Consumer	658	976	
Total installment	658	976	
Lease financing	28	5,225	
Total with no related allowance	$ 99,655	$ 129,072	$
With an allowance recorded:			
Commercial	$ 15,627	$ 21,377	$ 7,135
Commercial real estate mortgages	10,811	11,215	1,551
Residential mortgages:			
Fixed	515	535	40
Variable	1,449	1,476	68
Total residential mortgages	1,964	2,011	108
Real estate construction:			
Land	19,385	29,381	4,377
Total real estate construction	19,385	29,381	4,377
Equity lines of credit	1,292	1,461	91
Total with an allowance	$ 49,079	$ 65,445	$ 13,262
Total impaired loans by type:			
Commercial	$ 25,780	$ 32,965	$ 7,135
Commercial real estate mortgages	30,678	35,198	1,551
Residential mortgages	9,146	10,046	108
Real estate construction	75,811	102,321	4,377
Equity lines of credit	6,633	7,786	91
Installment	658	976	
Lease financing	28	5,225	
Total impaired loans	$ 148,734	$ 194,517	$ 13,262

(1) The table has been revised to present unpaid contractual principal balances, whereas the Company had previously disclosed unpaid contractual principal balances that were net of charge-offs.

Table of Contents

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

				For the three months ended March 31, 2011	
(in thousands)	Recorded Investment	Unpaid Contractual Principal Balance (1)	Related Allowance	Average Recorded Investment	Interest Income Recognized
March 31, 2011					
With no related allowance recorded:					
Commercial	$ 6,400	$ 15,721	$	$ 6,848	$
Commercial real estate mortgages	18,491	24,047		20,994	130
Residential mortgages:					
Fixed	6,238	7,324		8,590	145
Variable	3,271	3,280		3,659	10
Total residential mortgages	9,509	10,604		12,249	155
Real estate construction:					
Construction	49,258	83,788		62,518	230
Land	23,528	24,296		23,630	
Total real estate construction	72,786	108,084		86,148	230
Equity lines of credit	3,292	3,830		3,149	
Installment:					
Commercial				569	
Consumer	41	41		41	
Total installment	41	41		610	
Lease financing	1,108	6,243		554	99
Total with no related allowance	$ 111,627	$ 168,570	$	$ 130,552	$ 614
With an allowance recorded:					
Commercial	$ 6,923	$ 16,314	$ 2,291	$ 7,745	$
Commercial real estate mortgages	7,299	8,386	1,060	13,219	
Residential mortgages:					
Fixed	1,553	1,549	103	1,060	
Variable	1,414	1,508	281	1,424	
Total residential mortgages	2,967	3,057	384	2,484	
Real estate construction:					
Construction	8,818	8,991	334	8,834	
Total real estate construction	8,818	8,991	334	8,834	
Equity lines of credit	957	963	72	1,412	3
Installment:					
Commercial	6,897	7,417	4,514	3,448	
Total installment	6,897	7,417	4,514	3,448	
Total with an allowance	$ 33,861	$ 45,128	$ 8,655	$ 37,142	$ 3
Total impaired loans by type:					
Commercial	$ 13,323	$ 32,035	$ 2,291	$ 14,593	$
Commercial real estate mortgages	25,790	32,433	1,060	34,213	130
Residential mortgages	12,476	13,661	384	14,733	155
Real estate construction	81,604	117,075	334	94,982	230
Equity lines of credit	4,249	4,793	72	4,561	3
Installment	6,938	7,458	4,514	4,058	
Lease financing	1,108	6,243		554	99
Total impaired loans	$ 145,488	$ 213,698	$ 8,655	$ 167,694	$ 617

(1) The table has been revised to present unpaid contractual principal balances, whereas the Company had previously disclosed unpaid contractual principal balances that were net of charge-offs.

Table of Contents

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

Additional detail on the components of impaired loans, excluding covered loans, is provided below:

(in thousands)		March 31, 2012		December 31, 2011
Nonaccrual loans (1)	$	104,441	$	101,873
Troubled debt restructured loans on accrual		46,111		46,647
Deferred fees, accrued interest, and premiums and discounts, net		385		214
Total recorded investment in impaired loans, excluding covered loans	$	150,937	$	148,734

(1) Impaired loans exclude $8.4 million and $10.2 million of nonaccrual loans under $500,000 that are not individually evaluated for impairment at March 31, 2011 and December 31, 2011, respectively.

Impaired loans at March 31, 2012 and December 31, 2011 included $46.1 million and $46.6 million, respectively, of restructured loans that are on accrual status. With the exception of restructured loans on accrual status and a limited number of loans on cash basis nonaccrual for which the full collection of principal and interest is expected, interest income is not recognized on impaired loans until the principal balance of these loans is paid off.

Troubled Debt Restructured Loans

The following table provides a summary of loans modified in a troubled debt restructuring during the three months ended March 31, 2012:

	For the three months ended March 31, 2012						
(in thousands)	Number of Contracts		Pre-Modification Outstanding Principal		Period-End Outstanding Principal		Financial Effects (1)
Commercial	5	$	16,982	$	16,903	$	
Residential mortgages:							
Fixed	1		655		655		
Real estate construction:							
Construction	1		5,532		5,532		
Total troubled debt restructured loans	7	$	23,169	$	23,090	$	

(1) Financial effects are comprised of charge-offs and specific reserves recognized on TDR loans at modification date.

The following table provides a summary of troubled debt restructured (TDR) loans that subsequently defaulted during the three months ended March 31, 2012, that had been modified as a troubled debt restructuring during the 12 months prior to their default:

(in thousands)	Number of Contracts	Period-End Outstanding Principal	Period-End Specific Reserve
Commercial	1	$ 26	$ 10
Real estate construction:			
Land	2	6,339	3,318
Total TDR loans that subsequently defaulted	3	$ 6,365	$ 3,328

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

A restructuring constitutes a troubled debt restructuring when a lender, for reasons related to a borrower s financial difficulties, grants a concession to the borrower it would not otherwise consider. Loans with pre-modification outstanding balances totaling $23.2 million were modified in troubled debt restructurings during the three months ended March 31, 2012. The concessions granted in the restructurings completed in 2012 largely consisted of interest rate concessions on commercial and construction loans. The unpaid principal balance of TDR loans was $88.1 million, before specific reserves of $4.5 million, at March 31, 2012 and $89.4 million, before specific reserves of $1.7 million, at December 31, 2011. Loans modified in troubled debt restructurings are impaired loans at the time of restructuring and subject to the same measurement criteria as all other impaired loans.

During the three months ended March 31, 2012, two land loans and one commercial loan that had been restructured within the preceding 12 months were not performing in accordance with their new terms. One land loan comprises the majority of the $6.4 million balance of restructured loans that subsequently defaulted. This loan went into technical default when the borrower failed to sell the collateral by the date specified in the restructuring agreement. All other TDR loans were performing in accordance with their restructured terms at March 31, 2012. As of March 31, 2012, there were no commitments to lend additional funds on restructured loans.

Past Due and Nonaccrual Loans and Leases

Loans are considered past due following the date when either interest or principal is contractually due and unpaid. The following tables provide a summary of past due and nonaccrual loans, excluding covered loans, at March 31, 2012 and December 31, 2011 based upon the length of time the loans have been past due:

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days and Accruing	Nonaccrual	Total Past Due and Nonaccrual Loans	Current	Total Loans and Leases
March 31, 2012							
Commercial	$ 10,267	$ 980	$ 7	$ 19,584	$ 30,838	$ 5,144,558	$ 5,175,396
Commercial real estate mortgages	3,953			21,071	25,024	2,188,090	2,213,114
Residential mortgages:							
Fixed	525		379	5,657	6,561	1,531,537	1,538,098
Variable		1,519		7,971	9,490	2,258,219	2,267,709
Total residential mortgages	525	1,519	379	13,628	16,051	3,789,756	3,805,807
Real estate construction:							
Construction				15,453	15,453	206,184	221,637
Land	16,288			33,511	49,799	41,973	91,772
Total real estate construction	16,288			48,964	65,252	248,157	313,409
Equity lines of credit	248	74	268	8,831	9,421	706,576	715,997
Installment:							
Commercial						489	489

Consumer	137	400		729	1,266	124,038	125,304
Total installment	137	400		729	1,266	124,527	125,793
Lease financing						398,386	398,386
Total	$ 31,418	$ 2,973	$ 654	$ 112,807	$ 147,852	$ 12,600,050	$ 12,747,902

Table of Contents

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

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days and Accruing	Nonaccrual	Total Past Due and Nonaccrual Loans	Current	Total Loans and Leases
December 31, 2011							
Commercial	$ 6,817	$ 1,003	$	$ 19,888	$ 27,708	$ 4,818,886	$ 4,846,594
Commercial real estate mortgages	5,838			21,948	27,786	2,082,963	2,110,749
Residential mortgages:							
Fixed	662	525	379	5,572	7,138	1,574,658	1,581,796
Variable		2,983		4,199	7,182	2,174,240	2,181,422
Total residential mortgages	662	3,508	379	9,771	14,320	3,748,898	3,763,218
Real estate construction:							
Construction				15,582	15,582	202,279	217,861
Land				35,294	35,294	62,454	97,748
Total real estate construction				50,876	50,876	264,733	315,609
Equity lines of credit			74	8,669	8,743	732,338	741,081
Installment:							
Commercial				4	4	601	605
Consumer	150			870	1,020	131,022	132,042
Total installment	150			874	1,024	131,623	132,647
Lease financing						399,487	399,487
Total	$ 13,467	$ 4,511	$ 453	$ 112,026	$ 130,457	$ 12,178,928	$ 12,309,385

Credit Quality Monitoring

The Company closely monitors and assesses credit quality and credit risk in the loan and lease portfolio on an ongoing basis. Loan risk classifications are continuously reviewed and updated. The following tables provide a summary of the loan and lease portfolio, excluding covered loans, by loan type and credit quality classification as of March 31, 2012 and December 31, 2011. Nonclassified loans generally include those loans that are expected to be repaid in accordance with contractual loan terms. Classified loans are those loans that are classified as substandard or doubtful consistent with regulatory guidelines.

	March 31, 2012			December 31, 2011		
(in thousands)	Nonclassified	Classified	Total	Nonclassified	Classified	Total
Commercial	$ 5,068,902	$ 106,494	$ 5,175,396	$ 4,732,663	$ 113,931	$ 4,846,594
Commercial real estate mortgages	2,080,452	132,662	2,213,114	1,930,001	180,748	2,110,749
Residential mortgages:						
Fixed	1,526,029	12,069	1,538,098	1,565,420	16,376	1,581,796
Variable	2,257,505	10,204	2,267,709	2,163,458	17,964	2,181,422
Total residential mortgages	3,783,534	22,273	3,805,807	3,728,878	34,340	3,763,218
Real estate construction:						
Construction	165,761	55,876	221,637	147,916	69,945	217,861
Land	39,579	52,193	91,772	43,717	54,031	97,748

Total real estate construction		205,340		108,069		313,409		191,633		123,976		315,609
Equity lines of credit		700,363		15,634		715,997		724,045		17,036		741,081
Installment:												
Commercial		489				489		601		4		605
Consumer		124,094		1,210		125,304		130,921		1,121		132,042
Total installment		124,583		1,210		125,793		131,522		1,125		132,647
Lease financing		395,497		2,889		398,386		396,256		3,231		399,487
Total	$	12,358,671	$	389,231	$	12,747,902	$	11,834,998	$	474,387	$	12,309,385

Table of Contents

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

Credit Quality on Covered Loans

The following is a summary of activity in the allowance for loan losses on covered loans:

	For the three months ended March 31,			
(in thousands)		**2012**		**2011**
Balance, beginning of period	$	64,565	$	67,389
Provision for losses		7,466		19,116
Reduction in allowance due to loan removals		(10,560)		(4,489)
Balance, end of period	$	61,471	$	82,016

The allowance for loan losses on covered loans was $61.5 million, $64.6 million and $82.0 million as of March 31, 2012, December 31, 2011 and March 31, 2011, respectively. The Company recorded provision expense of $7.5 million and $19.1 million on covered loans for the three months ended March 31, 2012 and 2011, respectively. The Company updates its cash flow projections for covered loans accounted for under ASC 310-30 on a quarterly basis, and may recognize provision expense and an allowance for loan losses as a result of that analysis. The loss on covered loans is the result of changes in expected cash flows, both amount and timing, due to loan payments and the Company s revised loss forecasts, though overall estimated credit losses decreased as compared with previous expectations. The revisions of the loss forecasts were based on the results of management s review of the credit quality of the outstanding covered loans and the analysis of the loan performance data since the acquisition of covered loans. The allowance for loan losses on covered loans is reduced for any loan removals. A loan is removed when it has been fully paid-off, fully charged off, sold or transferred to OREO.

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. At March 31, 2012 and December 31, 2011, there were no acquired impaired covered loans accounted for under ASC 310-30 that were on nonaccrual status. Of the population of covered loans that are accounted for outside the scope of ASC 310-30, the Company had $0.4 million of acquired covered loans that were on nonaccrual status and were considered to be impaired as of March 31, 2012 and December 31, 2011.

At March 31, 2012, covered loans that were 30 to 89 days delinquent totaled $59.4 million and covered loans that were 90 days or more past due on accrual status totaled $265.2 million. At December 31, 2011, covered loans that were 30 to 89 days delinquent totaled $49.1 million and covered loans that were 90 days or more past due on accrual status totaled $330.2 million.

Note 7. Other Real Estate Owned

The following table provides a summary of OREO activity for the three months ended March 31, 2012 and 2011:

	For the three months ended March 31, 2012			For the three months ended March 31, 2011		
(in thousands)	**Non-Covered OREO**	**Covered OREO**	**Total**	**Non-Covered OREO**	**Covered OREO**	**Total**
Balance, beginning of period	$ 30,790	$ 98,550	$ 129,340	$ 57,317	$ 120,866	$ 178,183
Additions	2,217	6,075	8,292	6,562	27,577	34,139
Sales	(2,877)	(18,362)	(21,239)	(6,064)	(18,317)	(24,381)
Valuation adjustments	(1,056)	(7,807)	(8,863)	(1,473)	(8,304)	(9,777)
Balance, end of period	$ 29,074	$ 78,456	$ 107,530	$ 56,342	$ 121,822	$ 178,164

Table of Contents

Note 7. Other Real Estate Owned (Continued)

At March 31, 2012, OREO was $107.5 million and included $78.5 million of covered OREO. At December 31, 2011, OREO was $129.3 million and included $98.6 million of covered OREO. The balance of OREO at March 31, 2012 and December 31, 2011 is net of valuation allowances of $36.4 million and $37.4 million, respectively.

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

Note 8. Borrowed Funds

Short-term borrowings consist of funds with remaining maturities of one year or less and long-term debt consists of borrowings with remaining maturities greater than one year. The components of short-term borrowings and long-term debt as of March 31, 2012 and December 31, 2011 are provided below:

(in thousands) (1)		March 31, 2012		December 31, 2011
Short-term borrowings				
Current portion of senior notes:				
City National Corporation - 5.125% Senior Notes Due February 2013	$	212,776	$	
Federal funds purchased		10,000		50,000
Total short-term borrowings	$	222,776	$	50,000
Long-term debt				
Senior notes:				
City National Corporation - 5.125% Senior Notes Due February 2013	$		$	215,848
City National Corporation - 5.25% Senior Notes Due September 2020		297,385		297,308
Subordinated debt:				
City National Bank - 9.00% Subordinated Notes Due July 2019 (2)		49,727		49,718
City National Bank - 9.00% Subordinated Notes Due August 2019		74,862		74,858
City National Bank - Fixed and Floating Subordinated Notes due August 2019 (3)		54,899		54,895
Junior subordinated debt:				
Floating Rate Business Bancorp Capital Trust I Securities due November 2034 (4)		5,151		5,151
Total long-term debt	$	482,024	$	697,778

(1) The carrying value of certain borrowed funds is net of discount and issuance costs, which are being amortized into interest expense, as well as the impact of fair value hedge accounting, if applicable.
(2) These notes bear a fixed interest rate of 9 percent for the initial five years from the date of issuance (July 15, 2009) and thereafter the rate is reset at the Bank s option to either LIBOR plus 600 basis points or to prime plus 500 basis points.
(3) These notes bear a fixed interest rate of 9 percent for the initial five years from the date of issuance (August 12, 2009) and thereafter bear an interest rate equal to the three-month LIBOR rate plus 6 percent. The rate is reset quarterly and is subject to an interest rate cap of 10

percent throughout the term of the notes.

(4) These floating rate securities pay interest of three-month LIBOR plus 1.965 percent which is reset quarterly. As of March 31, 2012, the interest rate was 2.46 percent.

Table of Contents

Note 9. Shareholders Equity

The components of AOCI at March 31, 2012 and December 31, 2011 are as follows:

(in thousands)	March 31, 2012	December 31, 2011
Net unrealized gain on securities available-for-sale	$ 81,162	$ 73,235
Net unrealized gain on cash flow hedges	180	222
Pension liability adjustment		(1,085)
Total accumulated other comprehensive income	$ 81,342	$ 72,372

The following table summarizes the Company s share repurchases for the three months ended March 31, 2012. All repurchases relate to shares withheld or previously owned shares used to pay taxes due upon vesting of restricted stock. There were no issuer repurchases of the Corporation s common stock as part of its repurchase plan for the three months ended March 31, 2012.

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)
January 1, 2012 to January 31, 2012	148	$ 48.86
February 1, 2012 to February 29, 2012	25,029	47.69
March 1, 2012 to March 31, 2012	13,817	46.12
	38,994	47.14

At March 31, 2012, the Corporation had 1.1 million shares of common stock reserved for issuance and 0.6 million shares of unvested restricted stock (excluding restricted stock units) granted to employees and directors under share-based compensation programs.

Note 10. 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 stock and restricted stock units under a share-based compensation plan that qualify as participating securities.

Table of Contents

Note 10. Earnings per Common Share (Continued)

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

(in thousands, except per share amounts)	For the three months ended March 31, 2012	2011
Basic EPS:		
Net income attributable to City National Corporation	$ 46,265	$ 39,692
Less: Earnings allocated to participating securities	738	578
Earnings allocated to common shareholders	$ 45,527	$ 39,114
Weighted average common shares outstanding	52,741	52,320
Basic earnings per common share	$ 0.86	$ 0.75
Diluted EPS:		
Earnings allocated to common shareholders (1)	$ 45,530	$ 39,119
Weighted average common shares outstanding	52,741	52,320
Dilutive effect of equity awards	280	574
Weighted average diluted common shares outstanding	53,021	52,894
Diluted earnings per common share	$ 0.86	$ 0.74

(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 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. Antidilutive stock options are not included in the calculation of basic or diluted EPS. There were 3.0 million and 1.7 million average outstanding stock options that were antidilutive for the three months ended March 31, 2012 and 2011, respectively.

Note 11. Share-Based Compensation

On March 31, 2012, the Company had one share-based compensation plan, the Amended and Restated 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 $4.7 million for the three months ended March 31, 2012 and 2011. The total income tax benefit recognized in the consolidated statements of income for share-based compensation arrangements was $2.0 million for the three months ended March 31, 2012 and 2011. The Company received $2.0 million and $4.0 million in cash for the exercise of stock options during the three months ended March 31, 2012 and 2011, respectively. The actual tax benefit realized for the tax deductions from stock option exercises was $0.4 million and $1.0 million for the three months ended March 31, 2012 and 2011, respectively.

Table of Contents

Note 11. Share-Based Compensation (Continued)

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 or stock appreciation rights had been made as of March 31, 2012. The purpose of the Plan is to promote the success of the Company by providing 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. 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 March 31, 2012, 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 methodology, which incorporates the assumptions summarized in the table below:

	For the three months ended March 31,	
	2012	**2011**
Weighted-average volatility	30.58%	30.91%
Dividend yield	2.14%	1.46%
Expected term (in years)	6.11	6.04
Risk-free interest rate	1.44%	2.98%

Using the Black-Scholes methodology, the weighted-average grant-date fair values of options granted during the three months ended March 31, 2012 and 2011 were $11.64 and $18.43, respectively. The total intrinsic values of options exercised during the three months ended March 31, 2012 and 2011 were $0.9 million and $2.3 million, respectively.

Table of Contents

Note 11. Share-Based Compensation (Continued)

A summary of option activity and related information for the three months ended March 31, 2012 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, 2012	4,990	$ 52.61		
Granted	603	46.66		
Exercised	(59)	34.24		
Forfeited or expired	(460)	50.83		
Outstanding at March 31, 2012	5,074	$ 52.28	$ 265,246	5.96
Exercisable at March 31, 2012	3,443	$ 54.54	$ 187,779	4.62

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

A summary of changes in unvested options and related information for the three months ended March 31, 2012 is presented below:

Unvested Options	Number of Shares (in thousands)	Weighted Average Grant Date Fair Value (per share)
Unvested at January 1, 2012	1,641	$ 13.57
Granted	603	11.64
Vested	(599)	12.22
Forfeited	(14)	13.43
Unvested at March 31, 2012	1,631	$ 13.35

The number of options vested during the three months ended March 31, 2012 and 2011 was 599,119 and 580,636, respectively. The total fair value of options vested during the three months ended March 31, 2012 and 2011 was $7.3 million and $6.8 million, respectively. As of March 31, 2012, there was $17.8 million of unrecognized compensation cost related to unvested stock options granted under the Company s plans. That cost is expected to be recognized over a weighted-average period of 2.9 years.

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 three months ended March 31, 2012 is presented below:

Restricted Stock (1)	Number of Shares (in thousands)		Weighted Average Grant Date Fair Value (per share)
Unvested at January 1, 2012	875	$	50.12
Granted	76		46.66
Vested	(170)		45.75
Forfeited	(5)		48.24
Unvested at March 31, 2012	776	$	50.75

(1) Includes restricted stock units.

Table of Contents

Note 11. Share-Based Compensation (Continued)

Restricted stock is valued at the closing price of the Company s stock on the date of award. The weighted-average grant-date fair values of restricted stock granted during the three months ended March 31, 2012 and 2011 were $46.66 and $60.86, respectively. The number of restricted shares vested during the three months ended March 31, 2012 and 2011 was 169,568 and 134,636, respectively. The total fair value of restricted stock vested during the three months ended March 31, 2012 and 2011 was $7.8 million and $6.2 million, respectively. The compensation expense related to restricted stock for the three months ended March 31, 2012 and 2011 was $2.5 million and $2.3 million, respectively. As of March 31, 2012, the unrecognized compensation cost related to restricted stock granted under the Company s plans was $26.3 million. That cost is expected to be recognized over a weighted-average period of 3.5 years.

In February 2012, the Company amended the Plan to permit the grant of cash-settled restricted stock units. In general, twenty-five percent of the cash-settled restricted stock units vests two years from the date of grant, then twenty-five percent vests on each of the next three consecutive grant anniversary dates. The units are subject to forfeiture until the restrictions lapse or terminate. Upon vesting, the units are converted to cash based on the closing stock price at vesting date and distributed to plan participants. Plan participants are entitled to dividends, which vest and are paid at the same time as the underlying cash-settled restricted stock units. Dividends are subject to forfeiture in the same manner as the underlying cash-settled restricted stock units. A summary of changes in cash-settled restricted stock units for the three months ended March 31, 2012 is presented below:

Cash-Settled Restricted Stock Units	**Number of Shares (in thousands)**
Unvested at January 1, 2012	
Granted	99
Forfeited	(1)
Unvested at March 31, 2012	98

Cash-settled restricted stock units are initially valued at the closing price of the Company s stock on the date of award and subsequently remeasured at each reporting date until settlement. The compensation expense related to cash-settled restricted stock units for the three months ended March 31, 2012 was $0.1 million.

Table of Contents

Note 12. Derivative Instruments

The following tables summarize the fair value and balance sheet classification of derivative instruments as of March 31, 2012 and December 31, 2011. 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.

Notional Amounts and Fair Values of Derivative Instruments

	March 31, 2012			December 31, 2011		
(in millions) (1)	**Notional Amount**	**Derivative Assets**	**Derivative Liabilities**	**Notional Amount**	**Derivative Assets**	**Derivative Liabilities**
Derivatives designated as hedging instruments						
Interest rate swaps - fair value:						
Long-term and subordinated debt	205.9	8.1		207.4	9.8	
Total derivatives designated as hedging instruments	$ 205.9	$ 8.1	$	$ 207.4	$ 9.8	$
Derivatives not designated as hedging instruments						
Interest rate contracts:						
Swaps	$ 1,551.4	$ 48.6	$ 49.1	$ 1,482.1	$ 51.3	$ 52.5
Interest-rate caps, floors and collars	243.9	0.1	0.1	267.1	0.3	0.3
Options purchased	2.0	0.2	0.2	2.0	0.1	0.1
Options written	2.0			2.0		
Total interest-rate contracts	$ 1,799.3	$ 48.9	$ 49.4	$ 1,753.2	$ 51.7	$ 52.9
Option contracts	$	$ 0.2	$	$	$ 0.7	$
Foreign exchange contracts:						
Spot and forward contracts	$ 277.7	$ 2.7	$ 2.2	$ 203.8	$ 2.1	$ 2.1
Options purchased	5.8					
Options written	5.8	0.1	0.1			
Total foreign exchange contracts	$ 289.3	$ 2.8	$ 2.3	$ 203.8	$ 2.1	$ 2.1
Total derivatives not designated as hedging instruments	$ 2,088.6	$ 51.9	$ 51.7	$ 1,957.0	$ 54.5	$ 55.0

(1) Derivative assets include the estimated gain to settle a derivative contract net of cash collateral received from counterparties plus net interest receivable. Derivative liabilities include the estimated loss to settle a derivative contract.

Derivatives Designated as Hedging Instruments

As of March 31, 2012, the Company had $205.9 million notional amount of interest-rate swap hedge transactions, all of which were designated as fair value hedges. There were no cash flow hedges at March 31, 2012. The positive fair value of the fair value hedges of $8.1 million is recorded in other assets. It includes a mark-to-market asset of $7.1 million and net interest receivable of $1.0 million. The balance of borrowings reported in the consolidated balance sheet includes a $7.1 million mark-to-market adjustment associated with interest-rate hedge transactions.

As of December 31, 2011, the Company had $207.4 million notional amount of interest-rate swap hedge transactions, all of which were designated as fair value hedges. There were no cash flow hedges outstanding at December 31, 2011. The positive fair value of the fair value hedges of $9.8 million is recorded in other assets. It includes a mark-to-market asset of $8.8 million and net interest receivable of $1.0 million. The balance of deposits and borrowings reported in the consolidated balance sheet include a $8.8 million mark-to-market adjustment associated with interest-rate hedge transactions.

Table of Contents

Note 12. Derivative Instruments (Continued)

The periodic net settlement of interest-rate swaps is recorded as an adjustment to interest income or interest expense. The impact of interest-rate swaps on interest income and interest expense for the three months ended March 31, 2012 and 2011 is provided below:

(in millions) Derivative Instruments Designated as Hedging Instruments	Location in Consolidated Statements of Income	For the three months ended March 31, 2012		2011	
Interest-rate swaps-fair value	Interest expense	$	(2.0)	$	(4.2)
Interest-rate swaps-cash flow	Interest income		0.1		0.6
Total income		$	2.1	$	4.8

Fair value interest-rate swaps increased net interest income by $2.1 million and $4.8 million for the three months ended March 31, 2012 and 2011, respectively.

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. There were no cash flow hedges outstanding during the three month periods ended March 31, 2012 and March 31, 2011. The $0.1 million and $0.6 million of gain on cash flow hedges reclassified from AOCI to interest income for the three months ended March 31, 2012 and 2011, respectively, represents the amortization of deferred gains on cash flow hedges that were terminated in 2010 prior to their respective maturity dates for which the hedge transactions had yet to occur. At March 31, 2012, the balance of deferred gain on terminated swaps reported in AOCI was $0.2 million. This balance will be amortized into interest income within the next 12 months.

Derivatives Not Designated as Hedging Instruments

Derivative contracts not designated as hedges are composed primarily of interest rate contracts with clients that are offset by paired trades with unrelated bank counterparties and foreign exchange contracts. 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 three months ended March 31, 2012 and 2011:

(in millions) Derivatives Not Designated as Hedging Instruments	Location in Consolidated Statements of Income	For the three months ended March 31, 2012		2011	
Interest-rate contracts	Other noninterest income	$	0.7	$	0.2
Option contracts	Other noninterest income		(0.6)		
Foreign exchange contracts	International services income		5.8		5.4
Total income		$	5.9	$	5.6

Table of Contents

Note 12. Derivative Instruments (Continued)

Credit Risk Exposure and Collateral

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 contracts contain security agreements that include 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 may vary by counterparty based on a range of credit ratings that correspond with exposure thresholds established in the derivative agreements. If the credit ratings 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 March 31, 2012 was $24.6 million. The Company delivered collateral valued at $20.0 million on swap agreements that had credit-risk contingent features and were in a net liability position at March 31, 2012.

The Company s interest-rate swaps had $4.0 million and $5.3 million of credit risk exposure at March 31, 2012 and December 31, 2011, 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 in the form of securities valued at $4.8 million and $5.0 million had been received from swap counterparties at March 31, 2012 and December 31, 2011, respectively. The Company delivered collateral valued at $18.8 million on swap agreements that did not have credit-risk contingent features at March 31, 2012.

Note 13. Income Taxes

The Company recognized income tax expense of $21.7 million and $17.9 million for the three months ended March 31, 2012 and 2011, respectively.

The Company recognizes accrued interest and penalties relating to uncertain tax positions as an income tax provision expense. The Company recognized interest and penalties expense of approximately $0.1 million and $0.3 million for the three months ended March 31, 2012 and 2011, respectively. The Company had approximately $3.2 million of accrued interest and penalties as of March 31, 2012 and December 31, 2011.

The Company and its subsidiaries file a consolidated federal income tax return and also file income tax returns in various state jurisdictions. The Company is currently being audited by the Internal Revenue Service for the tax years 2011 and 2012. The Company is also under audit with the California Franchise Tax Board for the tax years 2005 to 2007. 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 of certain 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. The Company did not have any tax positions for which previously recognized benefits were derecognized during the quarter ended March 31, 2012.

Table of Contents

Note 14. Employee Benefit Plans

Defined Contribution Plan

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 (IRS) 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 $4.7 million and $4.5 million for the three months ended March 31, 2012 and 2011, respectively.

Deferred Compensation Plan

The Company offers a deferred compensation plan for eligible employees and non-employee directors. Participants under the employee plan may make an annual irrevocable election to defer a portion of base salary and up to 100 percent of commission and incentive compensation while employed with the Company. Participants under the non-employee director plan also may make an annual irrevocable election to defer all or part of annual retainers, annual awards, committee chair retainers and meeting fees (collectively, directors fees) until board service with the Company ceases. The deferred compensation plans are nonqualified plans under IRS regulations. Deferrals are made on a pretax basis and are allocated among the investment options available under the plans as directed by the plan participants. The Company funds plan benefits through the purchase of life insurance policies which are recorded in Other assets on the consolidated balance sheets. Participant deferrals are recorded in Other liabilities on the consolidated balance sheets. Employee salaries and non-employee directors fees deferred under the plan are charged to Salaries and employee benefits and Other operating expense, respectively, on the consolidated statements of income. Earnings on plan assets, net of benefits payable to plan participants, are reported in Salaries and employee benefits on the consolidated statements of income, and was $0.1 million for the three months ended March 31, 2012 and 2011.

Other Plans

The Company administers a Supplemental Executive Retirement Plan (SERP) for one of its executive officers. On March 14, 2012, the SERP was amended. In exchange for cancellation of the executive officer s rights to receive supplemental retirement benefits under the SERP, the executive officer would receive fully vested interests in a deferred compensation stock fund under the amended plan. The present value of the accumulated SERP benefit under the amended plan at March 14, 2012 was deemed to be invested in the deferred compensation stock fund, with the number of units being determined by the closing price of the Company s stock on March 14, 2012. The benefit was converted to 167,423 units in the deferred compensation stock fund at March 14, 2012. Distributions to the executive officer from the stock fund will be made solely in Company stock upon termination of employment. As a result of this conversion, the Company reversed its $8.3 million pension liability related to the SERP, recorded the fully vested interests in the deferred compensation stock fund in equity for the same amount, and recognized expense of $1.7 million in the consolidated statements of income for the three months ended March 31, 2012. The Company recognized total expense related to this SERP of $1.9 million and $0.2 million for the three months ended March 31, 2012 and 2011, respectively.

The Company also has a SERP covering three former executives of Pacific Bank, which the Company acquired in 2000. As of March 31, 2012, there was an unfunded pension liability for this SERP of $2.3 million. Expense for the three months ended March 31, 2012 and 2011 was insignificant.

Note 15. 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 $23.0 million, but the Company does not expect to make any payments of more than nominal amounts under the terms of this indemnity.

In 2011, the Company received unfavorable judgments through arbitration on two legal claims totaling $7.2 million. Approximately $5.3 million of these judgments was covered by the Company s insurance policies and was received in full by the Company in 2011. Prior to finalizing these amounts in the second quarter of 2011, the Company had recognized estimated net charges of $1.4 million in Other operating expense in the noninterest expense section of the consolidated statements of income for the three months ended March 31, 2011.

Table of Contents

Note 16. 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 $143.9 million and $121.0 million at March 31, 2012 and December 31, 2011, respectively, and is included in Affordable housing investments in the consolidated balance sheets. Unfunded commitments for affordable housing investments were $54.7 million at March 31, 2012. These unfunded commitments are recorded in Other liabilities in the consolidated balance sheets.

Of the affordable housing investments held as of March 31, 2012, 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 $2.0 million aggregate carrying value of these investments at March 31, 2012. There were no unfunded commitments for these affordable housing investments at March 31, 2012.

The Company also has ownership interests in several private equity and alternative 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 $40.1 million and $39.9 million at March 31, 2012 and December 31, 2011, 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 17. Noncontrolling Interest

In accordance with ASC Topic 810, *Consolidation*, 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.

The Bank previously had two real estate investment trust subsidiaries that had issued preferred stock to third-party investors. The ownership interests of third-party investors were included in Noncontrolling interest in the equity section of the consolidated balance sheets. In July and August 2011, the Company liquidated or redeemed all outstanding shares of preferred stock held by noncontrolling interest owners.

Redeemable Noncontrolling Interest

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

Table of Contents

Note 17. Noncontrolling Interest (Continued)

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 Company applies the equity method of accounting for certain investments where it holds a noncontrolling interest. For equity method investments, the Company s portion of income before taxes is included in Trust and investment fees in the consolidated statements of income.

As of March 31, 2012, affiliate noncontrolling owners held equity interests with an estimated fair value of $43.4 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 at the approximate fair 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 certain key holders.

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

The following is a summary of activity for redeemable noncontrolling interest for the three months ended March 31, 2012 and 2011:

(in thousands)	For the three months ended March 31, 2012	2011
Balance, beginning of period	$ 44,643	$ 45,676
Net income	243	558
Distributions to redeemable noncontrolling interest	(289)	(484)
Additions and redemptions, net	(1,272)	(559)
Adjustments to fair value	111	822
Balance, end of period	$ 43,436	$ 46,013

Note 18. 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, Nevada, Tennessee and Georgia.

Table of Contents

Note 18. Segment Results (Continued)

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. This segment serves clients nationwide.

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.

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. The current period reflects any changes made in the process or methodology for allocations to the reportable segments. Prior period segment results have been revised to conform with current period presentation.

Table of Contents

Note 18. Segment Results (Continued)

(in thousands)		For the three months ended March 31, 2012		
	Commercial and Private Banking	Wealth Management	Other	Consolidated Company
Earnings Summary:				
Net interest income	$ 171,725	$ 764	$ 28,224	$ 200,713
Provision for credit losses on loans and leases, excluding covered loans				
Provision for losses on covered loans	7,466			7,466
Noninterest income	47,245	39,371	(10,916)	75,700
Depreciation and amortization	3,582	1,446	4,286	9,314
Noninterest expense	171,593	35,984	(16,171)	191,406
Income before income taxes	36,329	2,705	29,193	68,227
Provision (benefit) for income taxes	15,258	1,034	5,427	21,719
Net income	21,071	1,671	23,766	46,508
Less: Net income attributable to noncontrolling interest		243		243
Net income attributable to City National Corporation	$ 21,071	$ 1,428	$ 23,766	$ 46,265
Selected Average Balances:				
Loans and leases, excluding covered loans	$ 12,379,023	$	$ 53,269	$ 12,432,292
Covered loans	1,438,714			1,438,714
Total assets	14,137,481	537,732	8,969,686	23,644,899
Deposits	19,721,998	99,035	396,362	20,217,395
Goodwill	324,761	161,921		486,682
Customer-relationship intangibles, net	9,007	26,493		35,500

Table of Contents

Note 18. Segment Results (Continued)

(in thousands)		Commercial and Private Banking		Wealth Management		Other		Consolidated Company
		For the three months ended March 31, 2011						
Earnings Summary:								
Net interest income	$	172,687	$	567	$	8,036	$	181,290
Provision for credit losses on loans and leases, excluding covered loans								
Provision for losses on covered loans		19,116						19,116
Noninterest income		63,210		41,877		(11,194)		93,893
Depreciation and amortization		3,633		1,449		3,834		8,916
Noninterest expense		165,508		38,182		(15,209)		188,481
Income (loss) before income taxes		47,640		2,813		8,217		58,670
Provision (benefit) for income taxes		20,009		947		(3,070)		17,886
Net income		27,631		1,866		11,287		40,784
Less: Net income attributable to noncontrolling interest				558		534		1,092
Net income attributable to City National Corporation	$	27,631	$	1,308	$	10,753	$	39,692
Selected Average Balances:								
Loans and leases, excluding covered loans	$	11,197,583	$		$	58,304	$	11,255,887
Covered loans		1,810,986						1,810,986
Total assets		13,534,385		551,729		7,291,790		21,377,904
Deposits		17,750,931		46,566		386,071		18,183,568
Goodwill		325,211		161,642				486,853
Customer-relationship intangibles, net		12,411		28,941				41,352

Note 19. Subsequent Events

On April 25, 2012, the Company entered into a definitive agreement to acquire Rochdale Investment Management (Rochdale), a $4.8 billion New York City-based investment firm that manages assets for affluent and high-net-worth clients and their financial advisors across the nation. Rochdale will be combined with City National Asset Management to create an investment management firm called City National Rochdale Investment Management. It will offer a wide array of equity, fixed income and non-traditional investment alternatives. The new firm, a wholly owned subsidiary of the Bank, will operate separately as a registered investment advisor within the Bank s wealth management group. The acquisition is expected to close in the second quarter of 2012.

On April 30, 2012, the Company acquired First American Equipment Finance, a privately owned equipment leasing company. Headquartered in Rochester, New York, First American Equipment Finance leases technology and office equipment nationwide. Its clients include educational institutions, hospitals and health systems, large law firms, insurance underwriters, enterprise businesses, professional service businesses and nonprofit organizations. First American Equipment Finance will operate as a wholly owned subsidiary of the Bank. At the issuance date of these financial statements, the Company had not completed its initial accounting for this business combination.

Table of Contents

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

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

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

A number of factors, many of which are beyond the Company s ability to control or predict, could cause future results to differ materially from those contemplated by such forward looking statements. These factors include (1) changes in general economic, political, or industry conditions and the related credit and market conditions and the impact they have on the Company and its customers, (2) the impact on financial markets and the economy of the level of U.S. and European debt, (3) changes in the pace of economic recovery and related changes in employment levels, (4) the effect of the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the new rules and regulations to be promulgated by supervisory and oversight agencies implementing the new legislation, taking into account that the precise timing, extent and nature of such rules and regulations and the impact on the Company is uncertain, (5) significant changes in applicable laws and regulations, including those concerning taxes, banking and securities, (6) volatility in the municipal bond market, (7) changes in the level of nonperforming assets, charge-offs, other real estate owned and provision expense, (8) incorrect assumptions in the value of the loans acquired in FDIC-assisted acquisitions resulting in greater than anticipated losses in the acquired loan portfolios exceeding the losses covered by the loss-sharing agreements with the FDIC, (9) the effects of and changes in trade and monetary and fiscal policies and laws, including the interest rate policies of the Federal Reserve Board, (10) changes in inflation, interest rates, and market liquidity which may impact interest margins and impact funding sources, (11) adequacy of the Company s enterprise risk management framework, (12) the Company s ability to increase market share and control expenses, (13) the Company s ability to attract new employees and retain and motivate existing employees, (14) increased competition in the Company s markets, (15) changes in the financial performance and/or condition of the Company s borrowers, including adverse impact on loan utilization rates, delinquencies, defaults and customers ability to meet certain credit obligations, changes in customers suppliers, and other counterparties performance and creditworthiness, (16) a substantial and permanent loss of either client accounts and/or assets under management at the Company s investment advisory affiliates or its wealth management division, (17) changes in consumer spending, borrowing and savings habits, (18) soundness of other financial institutions which could adversely affect the Company, (19) protracted labor disputes in the Company s markets, (20) earthquake, fire or other natural disasters affecting the condition of real estate collateral, (21) the effect of acquisitions and integration of acquired businesses and de novo branching efforts, (22) the impact of changes in regulatory, judicial or legislative tax treatment of business transactions, (23) changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or regulatory agencies, (24) security breaches and disruptions to the Company s information systems, and (25) the success of the Company at managing the risks involved in the foregoing.

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

For a more complete discussion of these risks and uncertainties, see the Company s Annual Report on Form 10-K for the year ended December 31, 2011 and particularly, Item 1A, titled Risk Factors.

CITY NATIONAL CORPORATION

FINANCIAL HIGHLIGHTS

(in thousands, except per share amounts)	At or for the three months ended March 31, 2012 (Unaudited)	December 31, 2011 (Unaudited)	March 31, 2011 (Unaudited)	Percent change March 31, 2012 from December 31, 2011	March 31, 2011
For The Quarter					
Net income attributable to City National Corporation	$ 46,265	$ 43,860	$ 39,692	5%	17%
Net income per share, basic	0.86	0.82	0.75	5	15
Net income per share, diluted	0.86	0.82	0.74	5	16
Dividends per share	0.25	0.20	0.20	25	25
At Quarter End					
Assets	$ 24,038,489	$ 23,666,291	$ 21,635,932	2	11
Securities	7,917,912	8,101,556	5,930,677	(2)	34
Loans and leases, excluding covered loans	12,747,902	12,309,385	11,269,684	4	13
Covered loans (1)	1,397,156	1,481,854	1,766,085	(6)	(21)
Deposits	20,787,737	20,387,582	18,477,939	2	13
Shareholders equity	2,199,565	2,144,849	1,985,538	3	11
Total equity	2,199,565	2,144,849	2,010,627	3	9
Book value per share	41.77	40.86	37.86	2	10
Average Balances					
Assets	$ 23,644,899	$ 23,694,160	$ 21,377,904	(0)	11
Securities	7,929,312	7,641,512	5,693,322	4	39
Loans and leases, excluding covered loans	12,432,292	12,213,429	11,255,887	2	10
Covered loans (1)	1,438,714	1,554,223	1,810,986	(7)	(21)
Deposits	20,217,395	20,500,138	18,183,568	(1)	11
Shareholders equity	2,168,748	2,136,215	1,972,896	2	10
Total equity	2,168,748	2,136,215	1,998,006	2	9
Selected Ratios					
Return on average assets (annualized)	0.79%	0.73%	0.75%	8	5
Return on average shareholders equity (annualized)	8.58	8.15	8.16	5	5
Corporation s tier 1 leverage	6.98	6.77	7.09	3	(2)
Corporation s tier 1 risk-based capital	10.20	10.26	10.91	(1)	(7)
Corporation s total risk-based capital	12.71	12.83	13.68	(1)	(7)
Period-end shareholders equity to period-end assets	9.15	9.06	9.18	1	(0)
Period-end equity to period-end assets	9.15	9.06	9.29	1	(2)
Dividend payout ratio, per share	28.91	24.25	26.65	19	8
Net interest margin	3.74	3.70	3.84	1	(3)
Expense to revenue ratio (2)	67.27	62.73	65.62	7	3
Asset Quality Ratios (3)					
Nonaccrual loans to total loans and leases	0.88%	0.91%	1.40%	(3)	(37)
Nonaccrual loans and OREO to total loans and leases and OREO	1.11	1.16	1.89	(4)	(41)
	2.09	2.13	2.34	(2)	(11)

Allowance for loan and lease losses to total loans and leases							
Allowance for loan and lease losses to nonaccrual loans		235.87		234.37		167.32	1	41
Net recoveries/(charge-offs) to average total loans and leases (annualized)		0.15		(0.18)		0.24	NM	(38)
At Quarter End								
Assets under management (4)	$	32,535,021	$	31,326,318	$	37,852,450	4	(14)
Assets under management or administration (4)		57,837,897		54,492,355		60,113,143	6	(4)

NM - Not meaningful

(1) Covered loans represent acquired loans that are covered under loss-sharing agreements with the Federal Deposit Insurance Corporation (FDIC).

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

(3) Excludes covered assets, which consist of acquired loans and OREO that are covered under loss-sharing agreements with the FDIC.

(4) Excludes $18.48 billion, $15.95 billion and $20.43 billion of assets under management for asset managers in which the Company held a noncontrolling ownership interest as of March 31, 2012, December 31, 2011 and March 31, 2011, respectively.

Table of Contents

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 11 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, 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, OREO, goodwill and other intangible assets, noncontrolling interest, 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 2011 Annual Report. Mangement has applied its critical accounting policies and estimation methods consistently in all periods presented in these financial statements.

RECENT DEVELOPMENTS

On April 25, 2012, the Company entered into a definitive agreement to acquire Rochdale Investment Management (Rochdale), a $4.8 billion New York City-based investment firm that manages assets for affluent and high-net-worth clients and their financial advisors across the nation. Rochdale will be combined with City National Asset Management to create an investment management firm called City National Rochdale Investment Management. It will offer a wide array of equity, fixed income and non-traditional investment alternatives. The new firm, a wholly owned subsidiary of the Bank, will operate separately as a registered investment advisor within the Bank s wealth management group. The acquisition is expected to close in the second quarter of 2012.

On April 30, 2012, the Company acquired First American Equipment Finance, a privately owned, full-service mid-ticket equipment leasing company. Headquartered in Rochester, New York, First American Equipment Finance leases technology and office equipment nationwide. Its clients include educational institutions, hospitals and health systems, large law firms, insurance underwriters, enterprise businesses, professional service businesses and nonprofit organizations. First American Equipment Finance will operate as a wholly owned subsidiary of the Bank.

HIGHLIGHTS

- For the quarter ended March 31, 2012, consolidated net income attributable to City National Corporation was $46.3 million, or $0.86 per diluted share, compared to $39.7 million, or $0.74 per diluted share, for the year-earlier quarter. The growth in net income is primarily attributable to an increase in net interest income as a result of higher interest income from securities and covered loans and lower interest expense on deposits.

- Revenue, which consists of net interest income and noninterest income, was $276.4 million for the first quarter of 2012, down 4 percent from $288.0 million in the fourth quarter of 2011, but up slightly from $275.2 million in the year-earlier quarter.

- Fully taxable-equivalent net interest income, including dividend income, amounted to $205.4 million for the first quarter of 2012, up 11 percent from the year earlier period but virtually unchanged from the fourth quarter of 2011.

- The Company s net interest margin in the first quarter of 2012 was 3.74 percent, up from 3.70 percent in the fourth quarter of 2011 and down from 3.84 percent in the first quarter of 2011.

- Noninterest income was $75.7 million for the first quarter of 2012, down 12 percent from the fourth quarter of 2011 and 19 percent from the year-earlier quarter. The decrease from the prior quarters was due largely to lower net FDIC loss sharing income and lower gains on transfers of covered loans to OREO.

- Noninterest expense for the first quarter of 2012 was $200.7 million, up 1 percent from the fourth quarter of 2011 and 2 percent from the first quarter of 2011. The increases were due primarily to higher compensation costs and legal and professional services fees, which were offset in part by lower OREO expenses.

- The Company s effective tax rate was 31.8 percent for the first quarter of 2012 compared with 33.9 percent for the fourth quarter of 2011 and 30.5 percent from the year-earlier period.

- Total assets were $24.04 billion at March 31, 2012, up 2 percent from $23.67 billion at December 31, 2011 and 11 percent from $21.64 billion at March 31, 2011. Total average assets was $23.64 billion for the first quarter of 2012, compared to $23.69 billion for the fourth quarter of 2011 and $21.38 billion for the first quarter of 2011.

- Loans and leases, excluding covered loans, were $12.75 billion at March 31, 2012, an increase of 4 percent from December 31, 2011 and 13 percent from March 31, 2011. Average loans for the first quarter of 2012, excluding covered loans, were $12.43 billion, up 2 percent from the fourth quarter of 2011 and 10 percent from the first quarter of last year. Average commercial loan balances grew 2 percent from the fourth quarter of 2011 and 20 percent from the year-earlier period.

- Excluding covered loans, results for the first quarter of 2012 included no provision for loan and lease losses. The Company recorded no provision in the first quarter of 2011 and a $5.0 million provision in the fourth quarter of last year. The allowance for loan and lease losses on non-covered loans was $266.1 million at March 31, 2012, compared with $262.6 million at December 31, 2011 and $263.4 million at March 31, 2011. The Company remains adequately reserved at 2.09 percent of total loans and leases, excluding covered loans, at March 31, 2012, compared with 2.13 percent at December 31, 2011 and 2.34 percent at March 31, 2011.

- In the first quarter of 2012, net loan recoveries totaled $4.5 million, or 0.15 percent of average total loans and leases, excluding covered loans, on an annualized basis. The Company realized net charge-offs of $5.5 million, or 0.18 percent, in the fourth quarter of 2011 and net recoveries of $6.5 million, or 0.24 percent, in the year-earlier quarter. Nonaccrual loans, excluding covered loans, totaled $112.8 million at March 31, 2012, up slightly from $112.0 million at December 31, 2011 and down from $157.4 million at March 31, 2011. At March 31, 2012, nonperforming assets, excluding covered assets, were $141.9 million, down from $142.8 million at December 31, 2011 and $213.7 million at March 31, 2011.

- Average securities for the first quarter of 2012 totaled $7.93 billion, up 4 percent from the fourth quarter of 2011 and 39 percent from the first quarter of 2011, as deposit growth continued to outpace loan growth.

- Period-end deposits at March 31, 2012 grew to $20.79 billion, up 2 percent from $20.39 billion at December 31, 2011 and 13 percent from $18.48 billion at March 31, 2011. Average deposit balances for the first quarter of 2012 were $20.22 billion, down 1 percent from $20.50 billion for the fourth quarter of 2011 and up 11 percent from $18.18 billion for the first quarter of 2011. Average core deposits decreased 1 percent from the fourth quarter of 2011 and increased 12 percent from the first quarter of 2011. Core deposits account for 97 percent of average deposit balances.

- The Company s ratio of Tier 1 common shareholders equity to risk-based assets was 10.2 percent at March 31, 2012 compared with 10.2 percent at December 31, 2011 and 10.7 percent at March 31, 2011. Refer to the Capital section of Management s Discussion and Analysis for further discussion of this non-GAAP measure.

OUTLOOK

The Company s management continues to anticipate net income growth in 2012, as loans and deposits continue to increase and credit quality improves. Although the company recorded no provision in the first quarter, management still expects to record loan-loss provisions during the remainder of the year. This outlook reflects management s expectations for moderate economic growth in 2012 and continued low interest rates for the remainder of the year.

Table of Contents

RESULTS OF OPERATIONS

Net Interest Income

Net interest income is the difference between interest income (which includes yield-related loan fees) and interest expense. Net interest income on a fully taxable-equivalent basis expressed as a percentage of average total earning assets is referred to as the net interest margin, which represents the average net effective yield on earning assets. The following tables present the components of net interest income on a fully taxable-equivalent basis for the three months ended March 31, 2012 and 2011:

Table of Contents

Net Interest Income Summary

(in thousands) (1)	For the three months ended March 31, 2012 Average balance	Interest income/ expense (2)(4)	Average interest rate	For the three months ended March 31, 2011 Average balance	Interest income/ expense (2)(4)	Average interest rate
Assets						
Interest-earning assets						
Loans and leases						
Commercial	$ 5,318,652	$ 52,071	3.94%	$ 4,437,164	$ 46,998	4.30%
Commercial real estate mortgages	2,165,931	26,234	4.87	1,924,463	26,367	5.56
Residential mortgages	3,777,660	41,148	4.36	3,562,525	42,875	4.81
Real estate construction	313,681	4,159	5.33	448,089	5,034	4.56
Equity lines of credit	726,964	6,463	3.58	733,128	6,460	3.57
Installment	129,404	1,580	4.91	150,518	1,786	4.81
Total loans and leases, excluding covered loans (3)	12,432,292	131,655	4.26	11,255,887	129,520	4.67
Covered loans	1,438,714	38,224	10.63	1,810,986	35,240	7.78
Total loans and leases	13,871,006	169,879	4.93	13,066,873	164,760	5.11
Due from banks - interest-bearing	167,145	93	0.22	490,352	297	0.25
Federal funds sold and securities purchased under resale agreements	14,544	10	0.28	231,399	154	0.27
Securities	7,929,312	47,585	2.40	5,693,322	39,154	2.75
Other interest-earning assets	120,688	690	2.30	138,972	700	2.04
Total interest-earning assets	22,102,695	218,257	3.97	19,620,918	205,065	4.24
Allowance for loan and lease losses	(334,846)			(328,838)		
Cash and due from banks	141,435			201,040		
Other non-earning assets	1,735,615			1,884,784		
Total assets	$ 23,644,899			$ 21,377,904		
Liabilities and Equity						
Interest-bearing deposits						
Interest checking accounts	$ 1,952,181	$ 525	0.11	$ 1,771,724	$ 813	0.19
Money market accounts	6,017,601	2,202	0.15	6,452,245	7,153	0.45
Savings deposits	358,094	127	0.14	302,995	257	0.34
Time deposits - under $100,000	242,232	296	0.49	325,421	450	0.56
Time deposits - $100,000 and over	696,653	883	0.51	822,464	1,517	0.75
Total interest-bearing deposits	9,266,761	4,033	0.18	9,674,849	10,190	0.43
Federal funds purchased and securities sold under repurchase agreements	166,359	31	0.08			0.00
Other borrowings	696,617	8,815	5.09	858,550	9,330	4.41
Total interest-bearing liabilities	10,129,737	12,879	0.51	10,533,399	19,520	0.75
Noninterest-bearing deposits	10,950,634			8,508,719		
Other liabilities	395,780			337,780		
Total equity	2,168,748			1,998,006		
Total liabilities and equity	$ 23,644,899			$ 21,377,904		
Net interest spread			3.46%			3.49%
Fully taxable-equivalent net interest and dividend income		$ 205,378			$ 185,545	
Net interest margin			3.74%			3.84%
Less: Dividend income included in other income		690			700	
Fully taxable-equivalent net interest income		$ 204,688			$ 184,845	

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

(2) Net interest income is presented on a fully taxable-equivalent basis.

(3) Includes average nonaccrual loans of $114,688 and $171,229 for 2012 and 2011, respectively.

(4) Loan income includes loan fees of $5,039 and $4,241 for 2012 and 2011, respectively.

Table of Contents

Net interest income is impacted by the volume (changes in volume multiplied by prior rate), interest rate (changes in rate multiplied by prior volume), and mix of interest-earning assets and interest-bearing liabilities. The following table provides a breakdown of the changes in net interest income on a fully taxable-equivalent basis and dividend income due to volume and rate between the first quarter of 2012 and 2011. The impact of interest rate swaps, which affect interest income on loans and leases and interest expense on deposits and borrowings, is included in rate changes.

Changes In Net Interest Income

	For the three months ended March 31, 2012 vs 2011			For the three months ended March 31, 2011 vs 2010		
	Increase (decrease) due to		Net increase (decrease)	Increase (decrease) due to		Net increase (decrease)
(in thousands) (1)	**Volume**	**Rate**		**Volume**	**Rate**	
Interest earned on:						
Total loans and leases (2)	$ 10,850	$ (5,731)	$ 5,119	$ (8,716)	$ 2,746	$ (5,970)
Securities	13,859	(5,428)	8,431	12,001	(6,486)	5,515
Due from banks - interest-bearing	(179)	(25)	(204)	184	(233)	(49)
Federal funds sold and securities purchased under resale agreements	(153)	9	(144)	121	11	132
Other interest-earning assets	(96)	86	(10)	(35)	100	65
Total interest-earning assets	24,281	(11,089)	13,192	3,555	(3,862)	(307)
Interest paid on:						
Interest checking deposits	79	(367)	(288)	(253)	(254)	(507)
Money market deposits	(451)	(4,500)	(4,951)	2,065	(2,356)	(291)
Savings deposits	41	(171)	(130)	(115)	(258)	(373)
Time deposits	(319)	(469)	(788)	(1,185)	(618)	(1,803)
Total borrowings	48	(532)	(484)	(2,842)	(1,225)	(4,067)
Total interest-bearing liabilities	(602)	(6,039)	(6,641)	(2,330)	(4,711)	(7,041)
	$ 24,883	$ (5,050)	$ 19,833	$ 5,885	$ 849	$ 6,734

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

(2) Includes covered loans.

Net interest income was $200.7 million for the first quarter of 2012, a decrease from $201.6 million for the fourth quarter of 2011 and an increase from $181.3 million for the first quarter of 2011. The increase from the year-earlier quarter was largely due to higher interest income on total loans and an increase in interest income on securities. The decrease from the fourth quarter of 2011 was attributable to a decline in interest income on covered loans, partially offset by higher interest income on securities.

Interest income on total loans was $168.1 million for the first quarter of 2012, down 3 percent from the fourth quarter of 2011 and up 3 percent from the year-earlier quarter. The growth from the first quarter of 2011 was primarily due to a 10 percent increase in average non-covered loans and higher interest income from covered loans. The 3 percent decrease in interest income on total loans from the fourth quarter of 2011 largely reflects lower income from the accelerated accretable yield recognition on covered loans in the first quarter of 2012. Interest income from covered loans includes $15.7 million of income from the accelerated accretable yield recognition on covered loans that were paid off or fully charged off during the first quarter of 2012, compared to $18.9 million in the fourth quarter of 2011 and $7.4 million in the year-earlier quarter.

Interest income on securities was $45.4 million for the first quarter of 2012, a 10 percent increase from $41.3 million for the fourth quarter of 2011 and a 21 percent increase from $37.4 million for the first quarter of 2011. The growth in securities income from the year-earlier quarter is due to a 39 percent increase in average securities, partially offset by lower yields. The growth in securities income from the fourth quarter of 2011 is a result of a 4 percent growth in average securities and higher yields.

Total interest expense was $12.9 million for the first quarter of 2012, down from $13.7 million and $19.5 million for the fourth quarter of 2011 and first quarter of 2011, respectively. Interest expense on deposits was $4.0 million for the first quarter of 2012, down 18 percent from $4.9 million for the fourth quarter of 2011 and 60 percent from $10.2 million for the year-earlier quarter as a result of lower interest rates. Interest expense on borrowings was $8.8 million for the first quarter of 2012, relatively unchanged from the fourth quarter of 2011 and down 5 percent from $9.3 million for the same period in 2011.

Table of Contents

The net settlement of interest-rate swaps increased net interest income by $2.1 million for the first quarter of 2012, compared to $2.2 million for the fourth quarter of 2011 and $4.8 million for the year-earlier quarter.

The fully taxable net interest margin was 3.74 percent for the first quarter of 2012, up from 3.70 percent for the fourth quarter of 2011 and down from 3.84 percent for the first quarter of 2011. The average yield on earning assets for the first quarter of 2012 was 3.97 percent, up 2 basis points from 3.95 percent for the fourth quarter of 2011 and down 27 basis points from 4.24 percent for the year-earlier quarter. The average cost of interest-bearing liabilities decreased to 0.51 percent, or by 1 basis point, from 0.52 percent for the fourth quarter of 2011 and by 24 basis points from 0.75 percent for the same period in 2011. Fully taxable-equivalent net interest income, which includes amounts to convert nontaxable income to fully taxable-equivalent amounts, was $204.7 million for the first quarter of 2012 compared to $205.3 million for the fourth quarter of 2011 and $184.8 million for the first quarter of 2011. Fully taxable-equivalent net interest income and dividend income was $205.4 million for the first quarter of 2012 compared with $206.0 million for the fourth quarter of 2011 and $185.5 million for the same period in 2011. The $19.8 million increase in fully taxable-equivalent net interest and dividend income from the year-ago quarter was primarily generated through loans and securities growth (volume variance) and lower rates on interest-bearing liabilities, partially offset by lower yields on loans and securities (rate variance).

Average loans and leases, excluding covered loans, totaled $12.43 billion for the first quarter of 2012, an increase of 2 percent from $12.21 billion for the fourth quarter of 2011 and 10 percent from $11.26 billion for the first quarter of 2011. The increases were primarily driven by a growth in commercial loans, which grew 2 percent and 20 percent from the fourth quarter of 2011 and year-earlier quarter, respectively, and commercial real estate loans, which grew 4 percent and 13 percent for the same periods. Average covered loans were $1.44 billion for the first quarter of 2012, a decrease of 7 percent from $1.55 billion in the fourth quarter of 2011 and 21 percent from $1.81 billion for the year-ago quarter.

Average total securities, which include trading securities, were $7.93 billion for the first quarter of 2012, an increase of 4 percent from the fourth quarter of 2011 and 39 percent from the first quarter of 2011. The increases reflect the Company s strong deposit growth which continues to outpace loan growth.

Average deposits were $20.22 billion for the first quarter of 2012, a 1 percent decrease from $20.50 billion for the fourth quarter of 2011 and an 11 percent increase from $18.18 billion for the first quarter of 2011. Average core deposits, which do not include certificates of deposits of $100,000 or more, were $19.52 billion for the first quarter of 2012 and represented 97 percent of the total average deposit balance, compared to $19.78 billion and 96 percent in the fourth quarter of 2011 and $17.36 billion and 95 percent for the year-earlier quarter. Average interest-bearing deposits were $9.27 billion for the first quarter of 2012, down 4 percent from the fourth quarter of 2011 and the year-earlier quarter. Average noninterest-bearing deposits was $10.95 billion, up 1 percent from the fourth quarter of 2011 and 29 percent from the first quarter of 2011.

Provision for Credit Losses

The Company accounts for the credit risk associated with lending activities through its allowance for loan and lease losses, reserve for off-balance sheet credit commitments and provision for credit losses. The provision for credit losses on loans and leases, excluding covered loans, is the expense recognized in the consolidated statements of income to adjust the allowance and the reserve for off-balance sheet credit commitments to the levels deemed appropriate by management, as determined through application of the Company s allowance methodology procedures. See Critical Accounting Policies Allowance for Loan and Lease Losses and Reserve for Off-Balance Sheet Credit Commitments in the Company s Form 10-K for the year ended December 31, 2011.

The Company recorded no provision for credit losses on loans and leases, excluding covered loans, for the quarters ended March 31, 2012 and 2011. The provision reflects management s continuing assessment of the credit quality of the Company s loan portfolio, which is affected by a broad range of economic factors. 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. See Balance Sheet Analysis Allowance for Loan and Lease Losses and Reserve for Off-Balance Sheet Credit Commitments for further information on factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for loan and lease losses.

Nonaccrual loans, excluding covered loans, were $112.8 million at March 31, 2012, up from $112.0 million at December 31, 2011 but down from $157.4 million at March 31, 2011. Net loan recoveries on non-covered loans were $4.5 million, or 0.15 percent of total loans and leases, excluding covered loans, on an annualized basis, for the first quarter of 2012. Net loan charge-offs were $5.5 million, or 0.18 percent, for the fourth quarter of 2011 and net loan recoveries were $6.5 million, or 0.24 percent, in the year-earlier quarter. The net loan recoveries in the first quarter of 2012 were comprised principally of net recoveries in the Company s commercial loan portfolio.

Covered loans represent loans acquired from the FDIC that are subject to loss-sharing agreements, and are primarily accounted for as acquired impaired loans under ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* (ASC 310-30). The provision for losses on covered loans is the expense recognized in the consolidated statements of income related to impairment losses resulting from the Company s quarterly review and update of cash flow projections on its covered loan portfolio. The Company recorded provision for losses on covered loans of $7.5 million during the first quarter of 2012, compared to $19.1 million in the first quarter of 2011. The provision for losses on covered loans is the result of changes in expected cash flows, both amount and timing, due to loan payments and the Company s revised loss forecasts. The revisions of the loss forecasts were based on the results of management s review of the credit quality of the outstanding covered loans and the analysis of the loan performance data since the acquisition of covered loans. The Company will continue updating cash flow projections on covered loans on a quarterly basis. Due to the uncertainty in the future performance of the covered loans, additional impairments may be recognized in the future.

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

Refer to Loans and Leases Asset Quality on page 70 for further discussion of credit quality.

Noninterest Income

Noninterest income was $75.7 million in the first quarter of 2012, a decrease of 12 percent from the fourth quarter of 2011 and 19 percent from the first quarter of 2011. The decrease from the prior quarters was largely a result of lower net FDIC loss sharing income and a decrease in gains on the transfer of covered loans to OREO. Noninterest income represented 27 percent of the Company s revenue in the first quarter of 2012, a decrease from 30 percent in the fourth quarter of 2011 and 34 percent in the year-earlier quarter.

A following table provides a summary of noninterest income by category:

	For the three months ended		
(in thousands)	**March 31, 2012**	**December 31, 2011**	**March 31, 2011**
Trust and investment fees	$ 33,654	$ 32,995	$ 35,638
Brokerage and mutual fund fees	5,028	4,836	5,661
Total wealth management fees	38,682	37,831	41,299
Cash management and deposit transaction charges	11,168	10,689	11,725

International services		8,785		8,783		8,316
FDIC loss sharing income, net		866		7,633		8,605
Other noninterest income		13,559		17,476		21,558
Total noninterest income before gain (loss)		73,060		82,412		91,503
Gain on disposal of assets		2,191		4,263		2,424
Gain (loss) on sale of securities		449		(273)		130
Impairment loss on securities						(164)
Total noninterest income	$	75,700	$	86,402	$	93,893

Table of Contents

Wealth Management

The Company provides various trust, investment and wealth advisory services to its individual and business clients. The Company delivers these services through the Bank s wealth management division as well as through its wealth management affiliates. Trust services are provided only by the Bank. Trust and investment fee revenue includes fees from trust, investment and asset management, and other wealth advisory services. The majority of these fees are based on the market value of client assets managed, advised, administered or held in custody. The remaining portion of these fees is based on the specific service provided, such as estate and financial planning services, or may be fixed fees. For those fees based on market valuations, the mix of assets held in client accounts, as well as the type of managed account, impacts how closely changes in trust and investment fee income correlate with changes in the financial markets. Changes in market valuations are reflected in fee income primarily on a trailing-quarter basis. Also included in total trust and investment fees is the Company s portion of income from certain investments accounted for under the equity method. Trust and investment fees were $33.7 million for the first quarter of 2012, an increase of 2 percent from $33.0 million for the fourth quarter of 2011 and a decrease of 6 percent from $35.6 million for the first quarter of 2011. Money market mutual fund and brokerage fees were $5.0 million for the quarter, up 4 percent from $4.8 million for the fourth quarter of 2011 and down 11 percent from $5.7 million for the year-earlier quarter. The decline from the year-ago period was due primarily to the impact of extraordinarily low short-term interest rates.

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

(in millions)	March 31, 2012	March 31, 2011	% Change	December 31, 2011	% Change
Assets Under Management	$ 32,535	$ 37,852	(14)	31,326	4
Assets Under Administration					
Brokerage	5,560	6,114	(9)	5,320	5
Custody and other fiduciary	19,743	16,147	22	17,846	11
Subtotal	25,303	22,261	14	23,166	9
Total assets under management or administration (1)	$ 57,838	$ 60,113	(4)	$ 54,492	6

(1) Excludes $18.48 billion and $15.95 billion and $20.43 billion of assets under management for asset managers in which the Company held a noncontrolling ownership interest as of March 31, 2012, December 31, 2011 and March 31, 2011, respectively.

AUM totaled $32.54 billion as of March 31, 2012, down 14 percent from the year-earlier quarter and up 4 percent from the fourth quarter of 2011. Assets under management or administration were $57.84 billion at March 31, 2012, down 4 percent from the year-earlier quarter and up 6 percent from the fourth quarter of 2011. The decline in AUM from the year-earlier quarter was primarily attributable to the divestiture of certain institutional assets by one of the Company s wealth management affiliates in the third quarter of 2011 and the deconsolidation of another affiliate in the second quarter of 2011. This was partially offset by higher equity values in the first quarter of 2012.

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

	% of AUM		
Investment	**March 31, 2012**	**December 31, 2011**	**March 31, 2011**
Equities	41%	38%	42%
U.S. fixed income	26	28	24
Cash and cash equivalents	20	21	20
Other (1)	13	13	14
	100%	100%	100%

(1) Includes private equity and other alternative investments.

Other Noninterest Income

Cash management and deposit transaction fees for the first quarter of 2012 were $11.2 million, up 4 percent from the fourth quarter of 2011 and down 5 percent from the first quarter of 2011.

International services income for the first quarter of 2012 was $8.8 million, up 6 percent from the first quarter of 2011 and virtually unchanged from the fourth quarter of 2011. International services income includes foreign exchange fees, fees on commercial letters of credit and standby letters of credit, foreign collection fees and gains and losses associated with fluctuations in foreign currency exchange rates. The increase from the year-ago period was due primarily to increased client activity and the addition of new clients.

Net FDIC loss sharing income was $0.9 million for the first quarter of 2012, compared to $7.6 million for the fourth quarter of 2011 and $8.6 million for the year-earlier quarter. See Noninterest Income and Expense Related to Covered Assets for further discussion of FDIC loss sharing income and expense.

Net gain on disposal of assets was $2.2 million in the first quarter of 2012, compared with net gains of $4.3 million in the fourth quarter of 2011 and $2.4 million in the year-earlier quarter. The net gain is primarily due to gains recognized on the sale of covered and non-covered OREO.

The Company recognized $0.4 million of net gain on the sale of securities in the first quarter of 2012, compared with a net loss of $0.3 million for the fourth quarter of 2011 and a net gain of $0.1 million for the first quarter of 2011.

The Company did not recognize impairment losses on securities in earnings for the first quarter of 2012 and fourth quarter of 2011. Impairment losses on securities recognized in earnings were $0.2 million for the first quarter of 2011, See Balance Sheet Analysis Securities for a discussion of impairment on securities available-for-sale.

Other income for the first quarter of 2012 was $13.6 million, a decrease of 22 percent from $17.5 million for the fourth quarter of 2011 and 37 percent from $21.6 million for the first quarter of 2011. The decrease in other income from both quarters in 2011 was primarily attributable to lower net gains on the transfer of covered loans to OREO, which declined to $2.5 million from $6.8 million for the fourth quarter of 2011 and $10.3 million for the first quarter of 2011.

Noninterest Expense

Noninterest expense was $200.7 million for the first quarter of 2012, an increase of 1 percent from $198.2 million for the fourth quarter of 2011 and an increase of 2 percent from $197.4 million for the first quarter of 2011. The increases were due largely to higher compensation costs and legal and professional services fees, which were offset in part by lower OREO expenses.

Table of Contents

The following table provides a summary of noninterest expense by category:

(in thousands)	For the three months ended March 31, 2012	December 31, 2011	March 31, 2011
Salaries and employee benefits	$ 120,245	$ 112,822	$ 111,012
All other:			
Net occupancy of premises	13,686	13,616	13,346
Legal and professional fees	11,880	10,846	10,077
Information services	8,149	8,359	7,497
Depreciation and amortization	7,428	7,014	6,748
Amortization of intangibles	1,886	1,350	2,168
Marketing and advertising	6,816	8,101	6,518
Office services and equipment	3,948	4,234	4,606
Other real estate owned	12,094	15,233	14,489
FDIC assessments	4,479	4,480	9,806
Other operating	10,109	12,174	11,130
Total all other	80,475	85,407	86,385
Total noninterest expense	$ 200,720	$ 198,229	$ 197,397

Salaries and employee benefits expense was $120.2 million for the first quarter of 2012, an increase of 7 percent from $112.8 million for the fourth quarter of 2011 and an increase of 8 percent from $111.0 million for the year-earlier quarter. The growth in salaries and employee benefits from the fourth quarter of 2011 was primarily due to seasonally higher personnel cost, including higher employer taxes, and a one-time expense affiliated with an executive s supplemental employee retirement plan (SERP). See Note 14, *Employee Benefit Plans*, for further discussion of the SERP expense. Full-time equivalent staff was 3,235 at March 31, 2012, down from 3,256 at December 31, 2011 and 3,258 at March 31, 2011.

Salaries and employee benefits expense for the first quarter of 2012 includes $4.7 million of share-based compensation expense compared with $5.3 million for the fourth quarter of 2011 and $4.7 million for the year-earlier quarter. At March 31, 2012, there was $17.8 million of unrecognized compensation cost related to unvested stock options granted under the Company s plans. That cost is expected to be recognized over a weighted average period of 2.9 years. At March 31, 2012, there was $26.3 million of unrecognized compensation cost related to restricted shares granted under the Company s plans. That cost is expected to be recognized over a weighted average period of 3.5 years. In February 2012, the Company granted cash-settled restricted stock units to employees. Cash-settled restricted stock units are initially valued at the closing price of the Company s stock on the date of award and subsequently remeasured at each reporting date until settlement. See Note 11, *Share-Based Compensation*, of the Notes to the Unaudited Consolidated Financial Statements for further discussion.

The remaining noninterest expense categories totaled $80.5 million for the first quarter of 2012, down from $85.4 million for the fourth quarter of 2011 and $86.4 million for the first quarter of 2011. The decrease from the prior year quarters was due primarily to lower OREO expense and FDIC assessments, partially offset by higher legal and professional fees. OREO expense was $12.1 million for the first quarter of 2012, and was comprised mostly of expense related to covered OREO. Refer to the following table for further detail on OREO expense. Of the qualified covered asset-related expenses, 80 percent is reimbursable by the FDIC and reflected in FDIC loss sharing income (expense), net in the noninterest income section of the consolidated statements of income.

Table of Contents

The following table provides OREO expense for non-covered OREO and covered OREO:

(in thousands)	For the three months ended March 31, 2012	December 31, 2011	March 31, 2011
Non-covered OREO expense			
Valuation write-downs	$ 908	$ 633	$ 907
Holding costs and foreclosure expense (income)	171	(274)	784
Total non-covered OREO expense	$ 1,079	$ 359	$ 1,691
Covered OREO expense			
Valuation write-downs	$ 7,808	$ 9,984	$ 8,305
Holding costs and foreclosure expense	3,207	4,890	4,493
Total covered OREO expense	$ 11,015	$ 14,874	$ 12,798
Total OREO expense	$ 12,094	$ 15,233	$ 14,489

Legal and professional fees were $11.9 million for the first quarter of 2012, up 10 percent from $10.8 million in the fourth quarter of 2011 and 18 percent from $10.1 million in the year-earlier quarter. Legal and professional fees associated with covered loans and OREO were approximately $2.3 million for the first quarter of 2012, $2.6 million for the fourth quarter of 2011 and $1.8 million for the first quarter of 2011. Qualifying legal and professional fees for covered assets are also reimbursable by the FDIC at 80 percent.

Net income attributable to noncontrolling interest, representing noncontrolling ownership interests in the net income of affiliates, was $0.2 million for the first quarter of 2012, compared to $0.4 million for the fourth quarter of 2011 and $1.1 million for the year-earlier quarter.

Table of Contents

Noninterest Income and Expense Related to Covered Assets

The following table summarizes the components of noninterest income and noninterest expense related to covered assets for the three ended March 31, 2012, December 31, 2011 and March 31, 2011:

	For the three months ended		
(in thousands)	**March 31, 2012**	**December 31, 2011**	**March 31, 2011**
Noninterest income related to covered assets			
FDIC loss sharing income, net			
Gain on indemnification asset	$ 10,839	$ 17,675	$ 15,048
Indemnification asset accretion	(4,025)	(3,775)	(3,624)
Net FDIC reimbursement for OREO and loan expenses	10,441	13,858	11,118
Removal of indemnification asset for loans paid-off or fully charged-off	(6,516)	(5,955)	(3,513)
Removal of indemnification asset for unfunded loan commitments and loans transferred to OREO	(2,113)	(4,714)	(7,673)
Removal of indemnification asset for OREO and net reimbursement to FDIC for OREO sales	(2,656)	(1,543)	(1,282)
Loan recoveries shared with FDIC	(4,487)	(7,853)	(1,971)
Increase in FDIC clawback liability	(617)	(60)	(276)
Other			778
Total FDIC loss sharing income, net	866	7,633	8,605
Gain on disposal of assets			
Net gain on sale of OREO	2,137	1,927	1,628
Other income			
Net gain on transfers of covered loans to OREO	2,483	6,824	10,330
Amortization of fair value on acquired unfunded loan commitments	559	558	692
OREO income	905	406	661
Other	(1,018)	(745)	29
Total other income	2,929	7,043	11,712
Total noninterest income related to covered assets	$ 5,932	$ 16,603	$ 21,945
Noninterest expense related to covered assets (1)			
Other real estate owned			
Valuation write-downs	$ 7,808	$ 9,984	$ 8,305
Holding costs and foreclosure expense	3,207	4,890	4,493
Total other real estate owned	11,015	14,874	12,798
Legal and professional fees	2,278	2,609	1,819
Other operating expense			
Other covered asset expenses	9	13	92
Total noninterest expense related to covered assets (2)	$ 13,302	$ 17,496	$ 14,709

(1) OREO, legal and professional fees and other expenses related to covered assets must meet certain FDIC criteria in order for the expense amounts to be reimbursed. Certain amounts reflected in these categories may not be reimbursed by the FDIC.

(2) Excludes personnel and other corporate overhead expenses that the Company incurs to service covered assets and costs associated with the branches acquired in FDIC-assisted acquisitions.

Table of Contents

Noninterest Income

Income and expense from FDIC loss-sharing agreements is reflected in FDIC loss sharing income (expense), net. This balance includes FDIC indemnification asset accretion or amortization, gain or loss on the FDIC indemnification asset, and expense from the reduction of the FDIC indemnification asset upon the removal of loans, OREO and unfunded loan commitments. Loans are removed when they have been fully paid off, fully charged off, sold or transferred to OREO. Net FDIC loss sharing income (expense) also includes income recognized on the portion of expenses related to covered assets that are reimbursable by the FDIC, net of income due to the FDIC, as well as the income statement effects of other loss-share transactions.

Net FDIC loss sharing income was $0.9 million for the first quarter of 2012, compared to $7.6 million in the fourth quarter of 2011 and $8.6 million in the year-earlier quarter. The decline in net FDIC loss sharing income from the prior year quarters was primarily attributable to a lower gain on the indemnification asset from the revision of the Company s projected cash flows forecast on its covered loans. It also reflects lower FDIC reimbursement for covered OREO and loan expenses, due to lower levels of OREO and loan expense recognized in the current quarter.

The Company recognized a net gain on sales of covered OREO of $2.1 million in the first quarter of 2012 compared to $1.9 million in the fourth quarter of 2011 and $1.6 million in the first quarter of 2011. Other income related to covered assets was $2.9 million in the current quarter and consists primarily of net gain on transfers of covered loans to OREO, the amortization of fair value on acquired unfunded loan commitments and OREO income. The total balance decreased from $7.0 million in the fourth quarter of 2011 and $11.7 million in the year-earlier quarter primarily because of lower gains on transfers of covered loans to OREO. Refer to the above table for additional information on the components of other income related to covered assets for the three months ending March 31, 2012, December 31, 2011 and March 31, 2011.

Noninterest expense

Noninterest expense related to covered assets includes OREO expense, legal and professional expense and other covered asset-related expenses, and may be subject to FDIC reimbursement. Expenses must meet certain FDIC criteria in order for the expense amounts to be reimbursed. Certain amounts reflected in these balances may not be reimbursed by the FDIC if they do not meet the criteria. Total covered OREO expense, which includes valuation write-downs, holding costs and foreclosure expenses was $11.0 million for the first quarter of 2012, down from $14.9 million for the fourth quarter of 2011 and $12.8 million for the year-earlier quarter.

Segment Operations

The Company s reportable segments are Commercial and Private Banking, Wealth Management and Other. For a more complete description of the segments, including summary financial information, see Note 18 to the Unaudited Consolidated Financial Statements.

Commercial and Private Banking

Net income for the Commercial and Private Banking segment decreased to $21.1 million for the first quarter of 2012 from $27.6 million for the first quarter of 2011. The decrease in net income from the prior-year quarter was due to a decrease in noninterest income and an increase in noninterest expense, partially offset by lower provision for losses on covered loans. Net interest income decreased to $171.7 million for the first quarter of 2012 from $172.7 million for the year-earlier quarter. A decrease in net interest income due to lower funds transfer pricing income on deposits was largely offset by higher accelerated yield recognition on covered loans that were paid off or charged off during the quarter. See *Other* below for a discussion of funds transfer pricing. Average loans, excluding covered loans, increased to $12.38 billion, or by 11 percent, for the first quarter of 2012 compared with the year-earlier quarter. Average covered loans were $1.44 billion for the first quarter of 2012 compared to $1.81 billion for the first quarter of 2011. Average deposits increased by 11 percent to $19.72 billion for the first quarter of 2012 from $17.75 billion for the year-earlier quarter. The growth in average deposits compared with the prior-year period was driven by new client relationships and growth in liquidity of existing clients.

There was no provision for credit losses on loans and leases, excluding covered loans, for the three months ended March 31, 2012 and in the year-earlier quarter. Provision for losses on covered loans was $7.5 million for the first quarter of 2012, compared to $19.1 million in the year-earlier quarter. Refer to Results of Operations Provision for Credit Losses for further discussion of the provision.

Noninterest income for the first quarter of 2012 was $47.2 million, down 25 percent from $63.2 million for the prior-year quarter. The decrease is primarily due to lower FDIC loss sharing income and lower gains on the transfer of covered loans to OREO. Noninterest expense, including depreciation and amortization, increased to $175.2 million, or by 4 percent, for the first quarter of 2012 from $169.1 million for the year-earlier quarter. Noninterest expense increased from the prior year period primarily as a result of higher personnel costs and legal and professional services fees, which were offset in part by lower OREO and FDIC assessment expense.

Wealth Management

The Wealth Management segment had net income attributable to City National Corporation (CNC) of $1.4 million for the first quarter of 2012, an increase of 9 percent from $1.3 million for the year-earlier quarter. Noninterest income decreased to $39.4 million, or by 6 percent, for the first quarter of 2012 from $41.9 million for the year-earlier quarter. Refer to Results of Operations Noninterest Income Wealth Management for a discussion of the factors impacting fee income for the Wealth Management segment. Noninterest expense, including depreciation and amortization, was $37.4 million for the first quarter of 2012, down by 6 percent from $39.6 million for the year-earlier quarter. The reduction in expense compared with the year-earlier quarter is primarily due to lower legal fees,

Other

Net income attributable to CNC for the Other segment increased to $23.8 million for the first quarter of 2012, from $10.8 million for the first quarter of 2011. The Asset Liability Funding Center, which is included in the Other segment, is used for funds transfer pricing. The Funding Center charges the business line units for loans and pays them for generating deposits. In general, net interest income decreases in the Funding Center when loan and securities balances decrease or when deposit balances increase. However, in periods of extremely low interest rates, the funding credit given on deposits declines considerably which may cause net interest income in the Funding Center to increase. Net interest income was $28.2 million for the quarter ended March 31, 2012, an increase from $8.0 million for the year-earlier period. The increase in net interest income is due to higher funds transfer income due to loan and securities portfolio growth, and to a reduction in the funds transfer rate paid to business line units on deposit balances. Although deposits have increased from the prior-year quarter, the transfer pricing rate paid on deposits declined as a result of the continuing low interest rate environment. Noninterest income (loss) was ($10.9) million for the current quarter compared with ($11.2) million for the year-earlier quarter.

Income Taxes

The Company recognized income tax expense of $21.7 million during the first quarter of 2012, compared with tax expense of $22.8 million in the fourth quarter of 2011 and $17.9 million in the year-earlier quarter. The effective tax rate was 31.8 percent of pretax income for the first quarter of 2012, compared with 33.9 percent for the fourth quarter of 2011 and 30.5 percent for the year-earlier quarter. The effective tax rates differ from the applicable statutory federal and state tax rates due to various factors, including tax benefits from investments in affordable housing partnerships, tax-exempt income on municipal bonds, bank-owned life insurance and other adjustments.

The Company recognizes accrued interest and penalties relating to uncertain tax positions as an income tax provision expense. The Company recognized interest and penalties expense of approximately $64 thousand and $0.3 million for the three months ended March 31, 2012 and 2011, respectively. The Company had approximately $3.2 million of accrued interest and penalties as of March 31, 2012, December 31, 2011 and

March 31, 2011.

The Company and its subsidiaries file a consolidated federal income tax return and also file income tax returns in various state jurisdictions. The Company is currently being audited by the Internal Revenue Service for 2011 and 2012. The Company is also currently under audit with the California Franchise Tax Board for the tax years 2005 to 2007. 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 of certain 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. The Company did not have any tax positions for which previously recognized benefits were derecognized during the quarter ended March 31, 2012.

See Note 13 to the Consolidated Financial Statements for further discussion of income taxes.

Table of Contents

BALANCE SHEET ANALYSIS

Total assets were $24.04 billion at March 31, 2012, an increase of 11 percent from $21.64 billion at March 31, 2011 and 2 percent from $23.67 billion at December 31, 2011. Average assets for the first quarter of 2012 increased to $23.64 billion from $21.38 billion for the first quarter of 2011. The increase in period-end and average assets from the year-earlier quarter reflects the growth in loans and securities.

Total average interest-earning assets for the first quarter of 2012 were $22.10 billion, up from $19.62 billion for the first quarter of 2011.

Securities

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

	March 31, 2012		December 31, 2011		March 31, 2011	
(in thousands)	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Securities available-for-sale:						
U.S. Treasury	$ 19,217	$ 19,202	$ 19,163	$ 19,182	$ 14,051	$ 14,091
Federal agency - Debt	1,046,035	1,051,348	1,967,928	1,973,862	1,542,122	1,538,090
Federal agency - MBS	690,183	720,590	650,091	681,044	511,829	520,571
CMOs - Federal agency	4,304,148	4,400,318	4,239,205	4,326,907	3,236,969	3,275,555
CMOs - Non-agency	74,737	68,587	79,999	69,001	113,482	106,676
State and municipal	378,541	395,723	383,210	401,604	332,190	341,405
Other debt securities	185,968	181,792	106,051	99,074	48,816	43,885
Total available-for-sale debt securities	6,698,829	6,837,560	7,445,647	7,570,674	5,799,459	5,840,273
Equity securities and mutual funds	352	1,150	352	1,227	4,164	9,117
Total available-for-sale securities	$ 6,699,181	$ 6,838,710	$ 7,445,999	$ 7,571,901	$ 5,803,623	$ 5,849,390
Securities held-to-maturity (1):						
Federal agency - Debt	$ 104,268	$ 104,596	$ 40,423	$ 41,203	$	$
Federal agency - MBS	173,380	174,747	75,231	76,863		
CMOs - Federal agency	590,931	589,509	292,547	294,932		$
State and municipal	128,034	127,603	59,479	60,905		
Total held-to-maturity securities	$ 996,613	$ 996,455	$ 467,680	$ 473,903	$	$

(1) Securities held-to-maturity are presented in the consolidated balance sheets at amortized cost.

At March 31, 2012, the available-for-sale securities portfolio had a net unrealized gain of $139.5 million, comprised of $155.8 million of unrealized gains and $16.3 million of unrealized losses. At December 31, 2011, the available-for-sale securities portfolio had a net unrealized gain of $125.9 million, comprised of $149.1 million of unrealized gains and $23.2 million of unrealized losses. At March 31, 2011, the available-for-sale securities portfolio had a net unrealized gain of $45.8 million, comprised of $86.1 million of unrealized gains and $40.3 million of unrealized losses.

Table of Contents

The following table provides the expected remaining maturities of debt securities included in the securities portfolio at March 31, 2012. The maturities of mortgage-backed securities are allocated according to the average life of expected cash flows. Average expected maturities will differ from contractual maturities because of the amortizing nature of the loan collateral and prepayment behavior of borrowers.

(in thousands)	**One year or less**	**Over 1 year through 5 years**	**Over 5 years through 10 years**	**Over 10 years**	**Total**
Securities available-for-sale:					
U.S. Treasury	$ 10,013	$ 9,189	$	$	$ 19,202
Federal agency - Debt	847,374	203,974			1,051,348
Federal agency - MBS	14	447,143	273,433		720,590
CMOs - Federal agency	181,389	4,040,298	178,631		4,400,318
CMOs - Non-agency	8,286	33,100	27,201		68,587
State and municipal	53,996	209,947	80,836	50,944	395,723
Other	3,383	136,042	42,367		181,792
Total debt securities available-for-sale	$ 1,104,455	$ 5,079,693	$ 602,468	$ 50,944	$ 6,837,560
Amortized cost	$ 1,099,279	$ 4,965,611	$ 583,091	$ 50,848	$ 6,698,829
Securities held-to-maturity:					
Federal agency - Debt	$ 10,950	$ 33,669	$	$ 59,649	$ 104,268
Federal agency - MBS			173,380		173,380
CMOs - Federal agency		45,373	545,558		590,931
State and municipal		8,259	79,468	40,307	128,034
Total debt securities held-to-maturity at amortized cost	$ 10,950	$ 87,301	$ 798,406	$ 99,956	$ 996,613

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 length of time and the extent to which the market value has been less than cost; the financial condition and near-term prospects of the issuer, including events specific to the issuer or industry; defaults or deferrals of scheduled interest, principal or dividend payments; external credit ratings and recent downgrades; and 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.

The Company determined through its impairment assessment process that none of the securities held had a credit loss impairment at March 31, 2012. Accordingly, there were no impairment losses recognized in earnings on securities available-for-sale for the three months ended March 31, 2012. The Company recognized an impairment loss of $0.2 million in earnings related to non-agency CMOs for the three months ended March 31, 2011. The Company recognized $2.4 million and $4.3 million of non-credit-related other-than-temporary impairment in AOCI on securities available-for-sale at March 31, 2012 and 2011, respectively. There were no impairment losses recognized in earnings or AOCI for securities held-to-maturity during the three months ended March 31, 2012.

Of the total securities available-for-sale in an unrealized loss position at March 31, 2012, approximately $512.0 billion of securities with unrealized losses of $1.8 million were in a continuous unrealized loss position for less than 12 months and $51.7 million of securities with unrealized losses of $14.5 million were in a continuous loss position for more than 12 months. While the securities in a loss position at March 31, 2012 are comprised mostly of federal agency CMOs, a significant portion of the total gross unrealized loss relates to non-agency CMOs and collateralized debt obligation senior notes.

Table of Contents

At December 31, 2011, approximately $1.28 billion of securities with unrealized losses of $4.2 million were in a continuous unrealized loss position for less than 12 months and $48.1 million of securities with unrealized losses of $19.0 million were in a continuous loss position for more than 12 months. At March 31, 2011, approximately $2.18 billion of securities with unrealized losses of $25.1 million were in a continuous unrealized loss position for less than 12 months and $69.9 million of securities with unrealized losses of $15.2 million were in a continuous unrealized loss position for more than 12 months.

See Note 4, *Securities*, of the Notes to Consolidated Financial Statements for further disclosures related to the securities portfolio.

Loan and Lease Portfolio

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

Loans and Leases

(in thousands)	**March 31, 2012**	**December 31, 2011**	**March 31, 2011**
Commercial	$ 5,175,396	$ 4,846,594	$ 4,096,507
Commercial real estate mortgages	2,213,114	2,110,749	1,902,862
Residential mortgages	3,805,807	3,763,218	3,603,058
Real estate construction	313,409	315,609	415,241
Equity lines of credit	715,997	741,081	733,567
Installment	125,793	132,647	146,779
Lease financing	398,386	399,487	371,670
Loans and leases, excluding covered loans	12,747,902	12,309,385	11,269,684
Less: Allowance for loan and lease losses	(266,077)	(262,557)	(263,356)
Loans and leases, excluding covered loans, net	12,481,825	12,046,828	11,006,328
Covered loans	1,397,156	1,481,854	1,766,084
Less: Allowance for loan losses	(61,471)	(64,565)	(82,016)
Covered loans, net	1,335,685	1,417,289	1,684,068
Total loans and leases	$ 14,145,058	$ 13,791,239	$ 13,035,768
Total loans and leases, net	$ 13,817,510	$ 13,464,117	$ 12,690,396

Total loans and leases were $14.15 billion, $13.79 billion and $13.04 billion at March 31, 2012, December 31, 2011 and March 31, 2011, respectively. Total loans, excluding covered loans, were $12.75 billion, $12.31 billion and $11.27 billion at March 31, 2012, December 31, 2011 and March 31, 2011, respectively.

Total loans and leases, excluding covered loans, at March 31, 2012 increased 4 percent from December 31, 2011 and 13 percent from March 31, 2011. Commercial loans, including lease financing, were up 6 percent from year-end 2011 and 25 percent from the year-earlier quarter. Commercial real estate mortgage loans increased by 5 percent from year-end 2011 and 16 percent from the year-earlier quarter. Residential

mortgages grew by 1 percent from year-end 2011 and 6 percent from the year-earlier quarter. Real estate construction loans declined by 1 percent and 25 percent for the same periods, respectively.

Table of Contents

Covered Loans

Covered loans represent loans acquired from the FDIC that are subject to loss-sharing agreements and were $1.40 billion at March 31, 2012, $1.48 billion as of December 31, 2011 and $1.77 billion as of March 31, 2011. Covered loans, net of allowance for loan losses, were $1.34 billion as of March 31, 2012, $1.42 billion as of December 31, 2011 and $1.68 billion as of March 31, 2011.

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

(in thousands)	March 31, 2012	December 31, 2011	March 31, 2011
Commercial	$ 22,395	$ 30,911	$ 43,450
Commercial real estate mortgages	1,219,923	1,288,352	1,508,551
Residential mortgages	13,378	14,931	18,210
Real estate construction	135,065	140,992	188,344
Equity lines of credit	5,210	5,167	5,944
Installment	1,185	1,501	1,585
Covered loans	1,397,156	1,481,854	1,766,084
Less: Allowance for loan losses	(61,471)	(64,565)	(82,016)
Covered loans, net	$ 1,335,685	$ 1,417,289	$ 1,684,068

The Company evaluated the acquired loans from its FDIC-assisted acquisitions 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. 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.

At acquisition date, the Company recorded an indemnification asset for its FDIC-assisted acquisitions. The FDIC indemnification asset represents the present value of the expected reimbursement from the FDIC related to expected losses on acquired loans, OREO and unfunded loan commitments. The FDIC indemnification asset from all FDIC-assisted acquisitions was $185.4 million at March 31, 2012, $204.3 million at December 31, 2011 and $270.6 million as of March 31, 2011.

Other

To grow loans and diversify and manage concentration risk of the Company s loan portfolio, the Company purchases and sells participations in loans. Included in this portfolio are purchased participations in Shared National Credits (SNC). Purchased SNC commitments totaled $2.64 billion, or 14 percent of total loan commitments, at March 31, 2012, $2.24 billion or 12 percent at December 31, 2011 and $1.31 billion or 8 percent at March 31, 2011. Outstanding loan balances on purchased SNCs were $1.12 billion, or approximately 9 percent of total loans outstanding, excluding covered loans, at March 31, 2012, compared to $941.7 million or 8 percent at December 31, 2011 and $587.6 million or 5 percent at March 31, 2011.

Bank regulatory guidance on risk management practices for financial institutions with high or increasing concentrations of commercial real estate (CRE) loans on their balance sheets emphasizes the need for sound internal risk management practices for those institutions that have experienced rapid growth in CRE lending, have notable exposure to specific types of CRE, or are approaching or exceeding the supervisory criteria used to evaluate CRE concentration risk. The supervisory criteria are: total reported loans for construction, land development and other land represent 100 percent of the institution s total risk-based capital, and both total CRE loans represent 300 percent or more of the institution s total risk-based capital and the institution s CRE loan portfolio has increased 50 percent or more within the last 36 months. As of March 31, 2012, total loans for construction, land development and other land represented 20 percent of total risk-based capital; total CRE loans represented 139 percent of total risk-based capital and the total portfolio of loans for construction, land development, other land and CRE increased 14 percent over the last 36 months.

Asset Quality

Credit Risk Management

The Company has a comprehensive methodology to monitor credit quality and prudently manage credit concentration within each portfolio. The methodology includes establishing concentration limits to ensure that the loan portfolio is diversified. The limits are evaluated quarterly and are intended to mitigate the impact of any segment on the Company s capital and earnings. The limits cover major industry groups, geography, product type, loan size and customer relationship. Additional sub-limits are established for certain industries where the bank has higher exposure. The concentration limits are approved by the Bank s Credit Policy Committee and reviewed annually by the Audit & Risk Committee of the Board of Directors.

The loan portfolios are monitored through delinquency tracking and a dynamic risk rating process that is designed to detect early signs of deterioration. In addition, once a loan has shown signs of deterioration, it is transferred to a Special Assets Department that consists of professionals who specialize in managing problem assets. An oversight group meets monthly to review the progress of problem loans and OREO. Also, the Company has established portfolio review requirements that include a periodic review and risk assessment by the Risk Management Division that reports to the Audit & Risk Committee of the Board of Directors.

Through the recent economic down-turn, the Company has taken and continues to take steps to address deterioration in credit quality in various segments of its loan portfolio. Deterioration has been centered in the land, acquisition and development and construction portfolios with lesser deterioration in its commercial loans portfolio. These steps have included modifying underwriting standards, implementation of loss mitigation actions including curtailment of certain commitments and lending to certain sectors, and proactively identifying, managing, and resolving problem loans.

Geographic Concentrations and Economic Trends by Geographic Region

The Company s lending activities are predominately in California, and to a lesser extent, New York and Nevada. Excluding covered loans, at March 31, 2012, California represented 82 percent of total loans outstanding and Nevada and New York represented 3 percent and 6 percent, respectively. The remaining 9 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. California has experienced significant declines in real estate values and adverse effects of the recession. California s unemployment rate in March 2012 was 11 percent. The Company s loan portfolio has been affected by the economy, but the impact is lessened by the Company having most of its loans in large metropolitan California cities such as Los Angeles, San Francisco and San Diego rather than in the outlying suburban communities that have seen higher declines in real estate values. Within the Company s Commercial loan portfolio, the five California counties with the largest exposures are Los Angeles (66 percent), Orange (7 percent), San Diego (5 percent), San Francisco (4 percent) and Ventura (3 percent). Within the Commercial Real Estate Mortgage loan portfolio, the five California counties with the largest exposures are Los Angeles (39 percent), San Diego (12 percent), Orange (11 percent), Ventura (5 percent) and Riverside (4 percent). For the Real Estate Construction loan portfolio, the concentration in California is predominately in Los Angeles (26 percent), Ventura (10 percent), Santa Barbara (10 percent), San Diego (6 percent) and Riverside (5 percent).

Generally, loan portfolios related to borrowers or properties located within Nevada have fared worse than California and New York. The Nevada economy continues to struggle and the recovery is anticipated to be protracted and it is dependent on economic improvement at the national level such that Nevada tourism increases to a level that supports new jobs and real estate development. In March 2012, the Nevada unemployment rate was 12 percent. The consensus outlook for 2012 is that the Nevada economy will remain challenged in part due to its troubled real estate and tourism sectors. The Company s construction and land portfolios in Nevada, which had been affected by significant stress in prior years, now represent 0.4 percent of total loans, excluding covered loans. The Company has very few residential mortgage loans in Nevada. The New York loan portfolio primarily relates to private banking clients in the Entertainment and Legal industries which continue to perform well.

Table of Contents

Within the Company s covered loan portfolio at March 31, 2012, the five states with the largest concentration were California (39 percent), Texas (11 percent), Nevada (7 percent), New York (5 percent) and Arizona (4 percent). The remaining 34 percent of total covered loans outstanding represented other states.

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

A consequence of lending activities is that losses may be experienced. The amount of such losses will vary from time to time depending upon the risk characteristics of the loan portfolio as affected by economic conditions, changing interest rates, and the financial performance of borrowers. The allowance for loan and lease losses and the reserve for off-balance sheet credit commitments which provide for the risk of losses inherent in the credit extension process, are increased by the provision for credit losses charged to operating expense. The allowance for loan and lease losses is decreased by the amount of charge-offs, net of recoveries. There is no exact method of predicting specific losses or amounts that ultimately may be charged off on particular segments of the loan portfolio.

The Company has an internal credit risk analysis and review staff that issues reports to the Audit & Risk Committee of the Board of Directors and continually reviews loan quality. This analysis includes a detailed review of the classification and categorization of problem loans, potential problem loans and loans to be charged off, an assessment of the overall quality and collectibility of the portfolio, consideration of the credit loss experience, trends in problem loans and concentration of credit risk, as well as current economic conditions, particularly in California and Nevada. Management then evaluates the allowance, determines its appropriate level and the need for additional provisions, and presents its analysis to the Audit & Risk Committee which ultimately reviews and approves management s recommendation.

The provision is the expense recognized in the consolidated statements of income to adjust the allowance and reserve to the level deemed appropriate by management, as determined through application of the Company s allowance methodology procedures. See Critical Accounting Policies Allowance for Loan and Lease Losses and Reserve for Off-Balance Sheet Credit Commitments in the Company s 2011 Annual Report on Form 10-K. The process used for determining the adequacy of the reserve for off-balance sheet credit commitments is consistent with the process for the allowance for loan and lease losses.

Table of Contents

The following table summarizes the activity in the allowance for loan and lease losses and the reserve for off-balance sheet credit commitments, excluding covered loans, for the three months ended March 31, 2012 and 2011. Activity is provided by loan type which is consistent with the Company s methodology for determining the allowance for loan and lease losses:

Changes in Allowance for Loan and Lease Losses

(in thousands)	For the three months ended March 31, 2012	2011
Loans and leases outstanding, excluding covered loans	$ 12,747,902	$ 11,269,684
Average loans and leases outstanding, excluding covered loans	$ 12,432,292	$ 11,255,887
Allowance for loan and lease losses (1)		
Balance, beginning of period	$ 262,557	$ 257,007
Loans charged-off:		
Commercial	(8,917)	(3,238)
Commercial real estate mortgages	(692)	(2,799)
Residential mortgages	(554)	(647)
Real estate construction	(1,601)	(566)
Equity lines of credit	(189)	(793)
Installment	(209)	(324)
Total loans charged-off	(12,162)	(8,367)
Recoveries of loans previously charged-off:		
Commercial	14,200	1,301
Commercial real estate mortgages	26	9,011
Residential mortgages	60	32
Real estate construction	1,705	4,392
Equity lines of credit	35	36
Installment	626	122
Total recoveries	16,652	14,894
Net recoveries	4,490	6,527
Transfers to reserve for off-balance sheet credit commitments	(970)	(178)
Balance, end of period	$ 266,077	$ 263,356
Net recoveries to average loans and leases, excluding covered loans (annualized)	0.15%	0.24%
Allowance for loan and lease losses to total period-end loans and leases, excluding covered loans	2.09%	2.34%
Reserve for off-balance sheet credit commitments		
Balance, beginning of period	$ 23,097	$ 21,529
Transfers from allowance	970	178
Balance, end of period	$ 24,067	$ 21,707

(1) The allowance for loan and lease losses in this table excludes amounts related to covered loans.

Table of Contents

The following table summarizes the activity in the allowance for loan losses on covered loans for the three months ended March 31, 2012 and 2011:

(in thousands)	For the three months ended March 31, 2012	For the three months ended March 31, 2011
Balance, beginning of period	$ 64,565	$ 67,389
Provision for losses	7,466	19,116
Reduction in allowance due to loan removals	(10,560)	(4,489)
Balance, end of period	$ 61,471	$ 82,016

The allowance for loan losses on covered loans was $61.5 million as of March 31, 2012, compared to $64.6 million at December 31, 2011 and $82.0 million at March 31, 2011. The Company recorded provision expense of $7.5 million and $19.1 million on covered loans for the three months ended March 31, 2012 and 2011, respectively. The Company updates its cash flow projections for covered loans accounted for under ASC 310-30 on a quarterly basis, and may recognize provision expense and an allowance for loan losses as a result of that analysis. The loss on covered loans is the result of changes in expected cash flows, both amount and timing, due to loan payments and the Company s revised loss forecasts, though overall estimated credit losses decreased as compared with previous expectations. The revisions of the loss forecasts were based on the results of management s review of the credit quality of the outstanding covered loans and the analysis of the loan performance data since the acquisition of covered loans. The allowance for loan losses on covered loans is reduced for any loan removals. A loan is removed when it has been fully paid-off, fully charged off, sold or transferred to OREO

Impaired Loans

Loans, other than those included in large groups of smaller-balance homogeneous loans, are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement, including scheduled interest payments. The assessment for impairment occurs when and while such loans are on nonaccrual, or when the loan has been restructured. When a loan with unique risk characteristics has been identified as being impaired, the amount of impairment will be measured by the Company using discounted cash flows, except when it is determined that the primary (remaining) source of repayment for the loan is the operation or liquidation of the underlying collateral. In these cases, the current fair value of the collateral, reduced by costs to sell, will be used in place of discounted cash flows. As a final alternative, the observable market price of the debt may be used to assess impairment. In general, nonperforming loans under $500,000 are not individually evaluated for impairment. Instead, these loans are measured using historical loss factors which approximate the discounted cash flows method.

If the measurement of the impaired loan is less than the recorded investment in the loan (including accrued interest, net deferred loan fees or costs and unamortized premium or discount), an impairment allowance is recognized by creating or adjusting the existing allocation of the allowance for loan and lease losses. Interest payments received on impaired loans are generally applied as follows: (1) to principal if the loan is on nonaccrual principal recapture status, (2) to interest income if the loan is on cash basis nonaccrual and (3) to interest income if the impaired loan has been returned to accrual status.

Table of Contents

The following table presents information on impaired loans as of March 31, 2012, December 31, 2011 and March 31, 2011:

	March 31, 2012		December 31, 2011		March 31, 2011	
(in thousands)	Loans and Leases	Related Allowance	Loans and Leases	Related Allowance	Loans and Leases	Related Allowance
Impaired loans, excluding covered loans:						
Nonaccrual loans (1)	$ 104,441		$ 101,873		$ 145,113	
Troubled debt restructured loans on accrual.	46,111		46,647			
Deferred fees, accrued interest, and premiums and discounts, net	385		214		375	
Total recorded investment in impaired loans, excluding covered loans	$ 150,937		$ 148,734		$ 145,488	
Total impaired loans with an allowance	$ 48,154	$ 14,118	$ 49,079	$ 13,262	$ 33,861	$ 8,655
Total impaired loans with no related allowance	102,783		99,655		111,627	
Total impaired loans by loan type:						
Commercial	$ 40,415	$ 3,335	$ 25,780	$ 7,135	$ 13,323	$ 2,291
Commercial real estate mortgages	22,306	1,019	30,678	1,551	25,790	1,060
Residential mortgages	13,000	331	9,146	108	12,476	384
Real estate construction	67,686	9,395	75,811	4,377	81,604	334
Equity lines of credit	6,980	38	6,633	91	4,249	72
Installment	550		658		6,938	4,514
Lease financing			28		1,108	
Total impaired loans, excluding covered loans	$ 150,937	$ 14,118	$ 148,734	$ 13,262	$ 145,488	$ 8,655
Impaired covered loans	$ 422		$ 422		$ 2,343	

(1) Impaired loans exclude $8.4 million, $10.2 million and $12.3 million of nonaccrual loans under $500,000 that are not individually evaluated for impairment at March 31, 2012, December 31, 2011 and March 31, 2011, respectively.

The recorded investment in impaired loans, excluding covered loans, were $150.9 million at March 31, 2012, $148.7 million at December 31, 2011 and $145.5 million at March 31, 2011. Impaired covered loans were $0.4 million at March 31, 2012, $0.4 million at December 31, 2011 and $2.3 million at March 31, 2011, and are included in the Company s population of acquired covered loans that are accounted for outside the scope of ASC 310-30.

Nonaccrual, Past Due and Restructured Loans

Total nonperforming assets (nonaccrual loans and OREO), excluding covered assets, were $141.9 million, or 1.11 percent of total loans and OREO, excluding covered assets, at March 31, 2012, compared with $142.8 million, or 1.16 percent, at December 31, 2011, and $213.7 million, or 1.89 percent, at March 31, 2011. Total nonperforming covered assets (nonaccrual covered loans and covered OREO) were $78.9 million at

March 31, 2012, $99.0 million at December 31, 2011 and $124.2 million at March 31, 2011.

Troubled debt restructured loans were $88.1 million, before specific reserves of $4.5 million, at March 31, 2012. Troubled debt restructured loans were $89.4 million, before specific reserves of $1.7 million, at December 31, 2011. At March 31, 2011, troubled debt restructured loans were $10.1 million, before specific reserves of $1.6 million. Troubled debt restructured loans included $46.1 million and $46.6 million of restructured loans on accrual status at March 31, 2012 and December 31, 2011. There were no troubled debt restructured loans on accrual status at March 31, 2011. There were no commitments to lend additional funds on restructured loans at March 31, 2012.

Table of Contents

The following table presents information on nonaccrual loans and OREO as of March 31, 2012, December 31, 2011 and March 31, 2011:

(in thousands)		March 31, 2012		December 31, 2011		March 31, 2011
Nonperforming assets, excluding covered assets						
Nonaccrual loans, excluding covered loans						
Commercial	$	19,584	$	19,888	$	17,944
Commercial real estate mortgages		21,071		21,948		28,028
Residential mortgages		13,628		9,771		14,544
Real estate construction		48,964		50,876		81,448
Equity lines of credit		8,831		8,669		6,676
Installment		729		874		7,399
Lease financing						1,353
Total nonaccrual loans, excluding covered loans		112,807		112,026		157,392
OREO, excluding covered OREO		29,074		30,790		56,342
Total nonperforming assets, excluding covered assets	$	141,881	$	142,816	$	213,734
Nonperforming covered assets						
Nonaccrual loans	$	422	$	422	$	2,343
OREO		78,456		98,550		121,822
Total nonperforming covered assets	$	78,878	$	98,972	$	124,165
Ratios (excluding covered assets):						
Nonaccrual loans as a percentage of total loans		0.88%		0.91%		1.40%
Nonperforming assets as a percentage of total loans and OREO		1.11		1.16		1.89
Allowance for loan and lease losses to nonaccrual loans		235.87		234.37		167.32
Allowance for loan and lease losses to total nonperforming assets		187.54		183.84		123.22
Allowance for loan and lease losses to total loans and leases		2.09		2.13		2.34

Company policy requires that a loan be placed on nonaccrual status if either principal or interest payments are 90 days past due, unless the loan is both well secured and in process of collection, or if full collection of interest or principal becomes uncertain, regardless of the time period involved. 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 covered 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.

Loans are considered past due following the date when either interest or principal is contractually due and unpaid. A summary of past due is provided below:

(in thousands)	March 31, 2012	December 31, 2011	March 31, 2011
Past due loans, excluding covered loans			
30-89 days past due	$ 34,391	$ 17,978	$ 26,854
90 days or more past due on accrual status:			
Commercial	7		2,556
Residential mortgages	379	379	1,123
Equity lines of credit	268	74	
Total 90 days or more past due on accrual status	$ 654	$ 453	$ 3,679
Past due covered loans			
30-89 days past due	$ 59,426	$ 49,111	$ 89,263
90 days or more past due on accrual status	265,175	330,169	390,267

Nonaccrual loans, excluding covered loans, were $112.8 million at March 31, 2012, up slightly from $112.0 million at December 31, 2011 and a decrease from $157.4 million at March 31, 2011. Net loan recoveries in the first quarter of 2012 were $4.5 million, or 0.15 percent of average loans and leases, excluding covered loans, on an annualized basis, compared with net loan charge-offs of $5.5 million, or 0.18 percent, for the fourth quarter of 2011, and net loan recoveries of $6.5 million, or 0.24 percent, for the first quarter of 2011. In accordance with the Company s allowance for loan and lease losses methodology and in response to continuing credit quality improvement, the Company recorded no provision for loan and lease losses for the three months ending March 31, 2012. The Company recorded no provision in the first quarter of 2011 and a $5.0 million provision in the fourth quarter of 2011.

The allowance for loan and lease losses, excluding covered loans, was $266.1 million as of March 31, 2012, compared with $262.6 million as of December 31, 2011 and $263.4 million as of March 31, 2011. The ratio of the allowance for loan and lease losses as a percentage of total loans and leases, excluding covered loans, was 2.09 percent at March 31, 2012 compared to 2.13 percent at December 31, 2011 and 2.34 percent at March 31, 2011. The allowance for loan and lease losses as a percentage of nonperforming assets, excluding covered assets, was 187.5 percent, 183.8 percent, and 123.2 percent at March 31, 2012, December 31, 2011 and March 31, 2011, respectively. The Company believes that its allowance for loan and lease losses continues to be adequate.

All nonaccrual loans greater than $500,000 are considered impaired and are individually analyzed. The Company does not maintain a reserve for impaired loans where the carrying value of the loan is less than the fair value of the collateral, reduced by costs to sell. Where the carrying value of the impaired loan is greater than the fair value of the collateral, less costs to sell, the Company specifically establishes an allowance for loan and lease losses to cover the deficiency. This analysis ensures that the non-accruing loans have been adequately reserved.

At March 31, 2012, there were no acquired impaired covered loans accounted for under ASC 310-30 that were on nonaccrual basis. Of the population of covered loans that are accounted for outside the scope of ASC 310-30, the Company had $0.4 million of acquired covered loans that were on nonaccrual status at March 31, 2012 and December 31, 2011, and $2.3 million at March 31, 2011.

Table of Contents

The table below summarizes the total activity in non-covered and covered nonaccrual loans for the three months ended March 31, 2012 and 2011:

Changes in Nonaccrual Loans

(in thousands)	For the three months ended March 31, 2012	2011
Balance, beginning of the period	$ 112,448	$ 193,480
Loans placed on nonaccrual	19,732	18,695
Charge-offs	(11,126)	(5,694)
Loans returned to accrual status	(206)	(5,208)
Repayments (including interest applied to principal)	(5,603)	(33,584)
Transfers to OREO	(2,016)	(7,954)
Balance, end of the period	$ 113,229	$ 159,735

In addition to loans disclosed above as past due or nonaccrual, management has also identified $40.3 million of loans to 18 borrowers as of April 24, 2012, where the ability to comply with the present loan payment terms in the future is questionable. However, the inability of the borrowers to comply with repayment terms was not sufficiently probable to place the loan on nonaccrual status at March 31, 2012, and the identification of these loans is not necessarily indicative of whether the loans will be placed on nonaccrual status. This amount was determined based on analysis of information known to management about the borrowers financial condition and current economic conditions. In the 2011 Form 10-K, the Company reported that management had identified $35.7 million of loans to 19 borrowers where the ability to comply with the loan payment terms in the future was questionable. Management s classification of credits as nonaccrual, restructured or problems does not necessarily indicate that the principal is uncollectible in whole or part.

Other Real Estate Owned

The following tables provide a summary of OREO activity for the three months ended March 31, 2012 and 2011:

	For the three months ended March 31, 2012			For the three months ended March 31, 2011		
(in thousands)	Non-Covered	Covered OREO	Total	Non-Covered	Covered OREO	Total
Balance, beginning of period	$ 30,790	$ 98,550	$ 129,340	$ 57,317	$ 120,866	$ 178,183
Additions	2,217	6,075	8,292	6,562	27,577	34,139
Sales	(2,877)	(18,362)	(21,239)	(6,064)	(18,317)	(24,381)
Valuation adjustments	(1,056)	(7,807)	(8,863)	(1,473)	(8,304)	(9,777)
Balance, end of period	$ 29,074	$ 78,456	$ 107,530	$ 56,342	$ 121,822	$ 178,164

OREO was $107.5 million at March 31, 2012, $129.3 million at December 31 2011 and $178.2 million at March 31, 2011, respectively. The OREO balance at March 31, 2012 includes covered OREO of $78.5 million compared with $98.6 million at December 31, 2011 and $121.8 million at March 31, 2011. Covered OREO represents OREO from the FDIC-assisted acquisitions that is subject to loss-sharing agreements. The balance of OREO at March 31, 2012, December 31, 2011 and March 31, 2011 is net of valuation allowances of $36.4 million, $37.4 million and

$14.6 million, respectively.

The Company recognized $2.2 million in total net gain on the sale of OREO in the first quarter of 2012, compared with $4.2 million in the fourth quarter of 2011 and $2.5 million in the year-earlier quarter. Net gain on the sale of OREO in the first quarter of 2012 included $2.1 million of net gain related to the sale of covered OREO, compared to $1.9 million in the fourth quarter of 2011 and $1.6 million in the year-earlier quarter.

Table of Contents

Covered OREO expenses and valuation write-downs are recorded in the noninterest expense section of the consolidated statements of income and gains or losses on sale of covered OREO are recognized in the noninterest income section. Under the loss sharing agreements, 80 percent of eligible covered OREO expenses, valuation write-downs, and losses on sales are reimbursable to the Company from the FDIC and 80 percent of covered gains on sales are payable to the FDIC. The portion of these expenses that is reimbursable or income that is payable is recorded in FDIC loss sharing income (expense), net in the noninterest income section of the consolidated statements of income.

Other Assets

The following table presents information on other assets:

(in thousands)	March 31, 2012	December 31, 2011	March 31, 2011
Accrued interest receivable	$ 67,381	$ 67,257	$ 63,042
Deferred compensation fund assets	60,689	53,648	56,466
Stock in government agencies	103,762	107,423	117,097
Private equity and alternative investments	40,083	39,919	37,958
Bank-owned life insurance	81,025	80,337	80,257
Mark-to-market on derivatives	57,891	62,230	39,860
Income tax receivable	39,345	40,300	51,836
Prepaid FDIC assessment	33,117	36,975	51,567
FDIC receivable	22,919	19,763	39,914
Other	76,013	69,689	95,804
Total other assets	$ 582,225	$ 577,541	$ 633,801

Deposits

Deposits totaled $20.79 billion, $20.39 billion and $18.48 billion at March 31, 2012, December 31, 2011 and March 31, 2011, respectively. Average deposits totaled $20.22 billion for the first quarter of 2012, a decrease of 1 percent from $20.50 billion for the fourth quarter of 2011 and an increase of 11 percent from $18.18 billion for the first quarter of 2011. Core deposits, which include noninterest-bearing deposits and interest-bearing deposits excluding time deposits of $100,000 and over, provide a stable source of low cost funding. Average core deposits were $19.52 billion, $19.78 billion and $17.36 billion for the quarters ended March 31, 2012, December 31, 2011 and March 31, 2011, respectively, and represented 97 percent, 96 percent and 95 percent of total deposits for the same periods. Average noninterest-bearing deposits in the first quarter of 2012 increased 1 percent and 29 percent compared with the fourth quarter of 2011 and year-earlier quarter, respectively.

Treasury Services deposit balances, which consists primarily of title, escrow, community association and property management deposits, averaged $1.70 billion in the first quarter of 2012, compared with $1.67 billion in the fourth quarter of 2011 and $1.51 billion for the first quarter of 2011. The increases were due to the addition of new title and escrow clients and an increase in residential and commercial real estate activity by the company s title and escrow clients.

Borrowed Funds

Total borrowed funds were $704.8 million, $747.8 million and $854.8 million at March 31, 2012, December 31, 2011 and March 31, 2011, respectively. Total average borrowed funds were $863.0 million, $702.4 million and $858.6 million for the quarters ended March 31, 2012, December 31, 2011 and March 31, 2011, respectively.

Short-term borrowings consist of funds with remaining maturities of one year or less. Short-term borrowings were $222.8 million as of March 31, 2012 compared to $50.0 million as of December 31, 2011 and $151.7 million as of March 31, 2011. Short-term borrowings at March 31, 2012 consist primarily of the current portion of senior notes that mature in February 2013.

Long-term debt consists of borrowings with remaining maturities greater than one year and is primarily comprised of senior notes, subordinated debt and junior subordinated debt. Long-term debt was $482.0 million, $697.8 million and $703.2 million as of March 31, 2012, December 31, 2011 and March 31, 2011, respectively. The Company s long-term borrowings have maturity dates ranging from July 2019 to November 2034.

Off-Balance Sheet

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

Exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and letters of credit is represented by the contractual notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments, and will evaluate each client s creditworthiness on a case-by-case basis.

Commitments to extend credit are agreements to lend to a client as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company had off-balance sheet credit commitments totaling $5.96 billion at March 31, 2012, $5.67 billion at December 31, 2011 and $4.73 billion at March 31, 2011.

Standby letters of credit are commitments issued by the Company to guarantee the obligations of its customer to beneficiaries. Commercial letters of credit are issued on behalf of customers to ensure payment in connection with trade transactions. The Company had $715.1 million in letters of credit at March 31, 2012, of which $701.2 million relate to standby letters of credit and $13.9 million relate to commercial letters of credit. The Company had $723.5 million outstanding in letters of credit at December 31, 2011, of which $708.9 million relate to standby letters of credit and $14.7 million relate to commercial letters of credit. At March 31, 2011, the Company had $602.6 million outstanding in letters of credit of which $589.2 million relate to standby letters of credit and $13.4 million relate to commercial letters of credit.

As of March 31, 2012, the Company had private equity fund and alternative investment fund commitments of $68.9 million, of which $58.3 million was funded. As of December 31, 2011 and March 31, 2011, the Company had private equity and alternative investment fund commitments of $68.9 million and $65.9 million, of which $57.9 million and $53.0 million was funded, respectively.

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 $23.0 million, but the Company does not expect to make any payments of more than nominal amounts under the terms of this indemnity.

Fair Value Measurements

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

At March 31, 2012, $6.98 billion, or approximately 29 percent, of the Company s total assets were recorded at fair value on a recurring basis. The majority of these financial assets were valued using Level 1 or Level 2 inputs. Less than one percent of total assets is measured using Level 3 inputs. At March 31, 2012, $49.7 million of the Company s total liabilities were recorded at fair value on a recurring basis using Level 1 or Level 2 inputs.

Table of Contents

At March 31, 2012, $54.4 million, or less than 1 percent of the Company s total assets, were recorded at fair value on a nonrecurring basis. These assets were measured using Level 2 and Level 3 inputs. No liabilities were measured at fair value on a nonrecurring basis at March 31, 2012.

Capital

The ratio of period-end equity to period-end assets was 9.15 percent, 9.06 percent and 9.29 percent as of March 31, 2012, December 31, 2011 and March 31, 2011, respectively.

The following table presents the regulatory standards for well capitalized institutions and the capital ratios for the Corporation and the Bank at March 31, 2012, December 31, 2011 and March 31, 2011:

	Regulatory Well-Capitalized Standards	March 31, 2012	December 31, 2011	March 31, 2011
City National Corporation				
Tier 1 leverage		6.98%	6.77%	7.09%
Tier 1 risk-based capital	6.00%	10.20	10.26	10.91
Total risk-based capital	10.00	12.71	12.83	13.68
Tangible equity to tangible assets (1)		7.13	7.01	7.03
Tier 1 common shareholders equity to risk-based assets (2)		10.17	10.22	10.69
City National Bank				
Tier 1 leverage	5.00%	8.24%	8.07%	8.62%
Tier 1 risk-based capital	6.00	12.03	12.23	13.30
Total risk-based capital	10.00	14.44	14.68	15.91

(1) Tangible equity to tangible assets is a non-GAAP financial measure that represents total equity less identifiable intangible assets and goodwill divided by total assets less identifiable assets and goodwill. Management reviews tangible equity to tangible assets in evaluating the Company s capital levels and has included this ratio in response to market participants interest in tangible equity as a measure of capital. See reconciliation of the GAAP financial measure to this non-GAAP financial measure below.

(2) Tier 1 common shareholders equity to risk-based assets is calculated by dividing (a) Tier 1 capital less non-common components including qualifying noncontrolling interest in subsidiaries and qualifying trust preferred securities by (b) risk-weighted assets. Tier 1 capital and risk-weighted assets are calculated in accordance with applicable bank regulatory guidelines. This ratio is a non-GAAP measure that is used by investors, analysts and bank regulatory agencies to assess the capital position of financial services companies. Management reviews this measure in evaluating the Company s capital levels and has included this measure in response to market participants interest in the Tier 1 common shareholders equity to risk-based assets ratio. See reconciliation of the GAAP financial measure to this non-GAAP financial measure below.

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

(in thousands)	March 31, 2012	December 31, 2011	March 31, 2011
Total equity	$ 2,199,565	$ 2,144,849	$ 2,010,627
Less: Goodwill and other intangible assets	(521,717)	(522,753)	(527,419)
Tangible equity (A)	$ 1,677,848	$ 1,622,096	$ 1,483,208
Total assets	$ 24,038,489	$ 23,666,291	$ 21,635,932
Less: Goodwill and other intangible assets	(521,717)	(522,753)	(527,419)
Tangible assets (B)	$ 23,516,772	$ 23,143,538	$ 21,108,513
Tangible equity to tangible assets (A)/(B)	7.13%	7.01%	7.03%
Tier 1 capital	1,616,099	1,570,101	1,478,820
Less: Noncontrolling interest			(25,089)
Less: Trust preferred securities	(5,155)	(5,155)	(5,155)
Tier 1 common shareholders equity (C)	$ 1,610,944	$ 1,564,946	$ 1,448,576
Risk-weighted assets (D)	$ 15,839,944	$ 15,305,328	$ 13,551,318
Tier 1 common shareholders equity to risk-based assets (C)/(D)	10.17%	10.22%	10.69%

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ASSET/LIABILITY MANAGEMENT

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

A quantitative and qualitative discussion about market risk is included on pages 66 to 72 of the Corporation s Form 10-K for the year ended December 31, 2011.

Liquidity Risk

Liquidity risk results from the mismatching of asset and liability cash flows. Funds for this purpose can be obtained in cash markets, by borrowing, or by selling certain assets. The objective of liquidity management is to manage cash flow and liquidity reserves so that they are adequate to fund the Company s operations and meet obligations and other commitments on a timely basis and at a reasonable cost. The Company achieves this objective through the selection of asset and liability maturity mixes that it believes best meet its needs. The Company s liquidity position is enhanced by its ability to raise additional funds as needed in the wholesale markets. Liquidity risk management is an important element in the Company s ALCO process, and is managed within limits approved by the Board of Directors and guidelines set by management. Attention is also paid to potential outflows resulting from disruptions in the financial markets or to unexpected credit events. These factors are incorporated into the Company s contingency funding analysis, and provide the basis for the identification of primary and secondary liquidity reserves.

In recent years, the Company s core deposit base has provided the majority of the Company s funding requirements. This relatively stable and low-cost source of funds, along with shareholders equity, provided 92 percent and 90 percent of funding for average total assets in the quarters ended March 31, 2012 and 2011, respectively. Strong core deposits are indicative of the strength of the Company s franchise in its chosen markets and reflect the confidence that clients have in the Company. The Company places a very high priority in maintaining this confidence through conservative credit and capital management practices and by maintaining significant on-balance sheet liquidity reserves.

Funding obtained through short-term wholesale or market sources averaged $166.4 million and $0.7 million in the first quarter of 2012 and 2011, respectively, and ended the first quarter of 2012 at $10.0 million. The Company s liquidity position was also supported through longer-term borrowings which averaged $696.6 million for the first quarter of 2012 and $857.8 million for the year-earlier quarter. Market sources of funds comprise a modest portion of total Bank funding and are managed within concentration and maturity guidelines reviewed by

management and implemented by the Company s treasury department.

Liquidity is further provided by assets such as federal funds sold, balances held at the Federal Reserve Bank, and trading account securities, which may be immediately converted to cash at minimal cost. The aggregate of these assets averaged $176.9 million and $703.1 million in the first quarter of 2012 and 2011, respectively. In addition, the Company has committed and unutilized secured borrowing capacity of $4.05 billion as of March 31, 2012 from the Federal Home Loan Bank of San Francisco, of which the Bank is a member. The Company s investment portfolio also provides a substantial liquidity reserve. The portfolio of securities available-for-sale averaged $7.15 billion and $5.63 billion for the quarters ended March 31, 2012 and 2011, respectively. The unpledged portion of securities available-for-sale and held-to-maturity at fair value totaled $6.83 billion at March 31, 2012. These securities could be used as collateral for borrowing or a portion could be sold.

Table of Contents

Interest Rate Risk

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

The Company is naturally asset-sensitive due to its large portfolio of rate-sensitive commercial loans that are funded in part by noninterest bearing and rate-stable core deposits. As a result, if there are no significant changes in the mix of assets and liabilities, the net interest margin increases when interest rates increase and decreases when interest rates decrease. The Company uses on and off-balance sheet hedging vehicles to manage risk. The Company uses a simulation model to estimate the impact of changes in interest rates on net interest income. Interest rate scenarios include stable rates and a 400 basis point parallel shift in the yield curve occurring gradually over a two-year period. The model is used to project net interest income assuming no changes in loans or deposit mix as it stood at March 31, 2012, as well as a dynamic simulation that includes changes to balance sheet mix in response to changes in interest rates. In the dynamic simulation, loan and deposit balances are modeled based on experience in previous vigorous economic recovery cycles. Loans, excluding covered loans, increase 10 percent per year compared to the base case. Similarly, deposits decline 5 percent per year. Loan yields and deposit rates change over the simulation horizon based on current spreads and adjustment factors that are statistically derived using historical rate and balance sheet data.

As of March 31, 2012, the Federal funds target rate was at a range of zero percent to 0.25 percent. Further declines in interest rates are not expected to significantly reduce earning asset yields or liability costs, nor have a meaningful effect on net interest margin. At March 31, 2012, a gradual 400 basis point parallel increase in the yield curve over the next 24 months assuming a static balance sheet would result in an increase in projected net interest income of approximately 6.3 percent in year one and a 23.1 percent increase in year two. This compares to an increase in projected net interest income of 3.0 percent in year one and a 14.7 percent increase in year two at March 31, 2011. Interest rate sensitivity has increased due to changes in the mix of the balance sheet, primarily significant growth in non-rate sensitive deposits. The dynamic simulation incorporates balance sheet changes resulting from a gradual 400 basis point increase in rates. In combination, these rate and balance sheet effects result in an increase in projected net interest income of approximately 7.3 percent in year one and 25.8 percent increase in year two. The Company s interest rate risk exposure remains within Board limits and ALCO guidelines.

The Company s loan portfolio includes floating rate loans which are tied to short-term market index rates, adjustable rate loans for which the initial rate is fixed for a period from one year to as much as ten years, and fixed-rate loans whose interest rate does not change through the life of the transaction. The following table shows the composition of the Company s loan portfolio by major loan category as of March 31, 2012. Each loan category is further divided into Floating, Adjustable and Fixed rate components. Floating rate loans are generally tied to either the Prime rate or to a LIBOR based index.

	Floating Rate					Total
(in millions)	**Prime**	**LIBOR**	**Total**	**Adjustable**	**Fixed**	**Loans**
Commercial	$ 1,924	$ 2,515	$ 4,439	$ 77	$ 1,058	$ 5,574
Commercial real estate mortgages	246	739	985	70	1,158	2,213
Residential mortgages	30	28	58	2,214	1,534	3,806
Real estate construction	159	116	275		38	313

Equity lines of credit	716		716			716
Installment	72		72		54	126
Covered loans	108	144	252	808	337	1,397
Total loans and leases	$ 3,255	$ 3,542	$ 6,797	$ 3,169	$ 4,179	$ 14,145
Percentage of portfolio	23%	25%	48%	22%	30%	100%

Table of Contents

Certain floating rate loans have a floor rate which is absolute and below which the loan rate will not fall even though market rates may be unusually low. At March 31, 2012, $6.80 billion (48 percent) of the Company s loan portfolio was floating rate, of which $4.52 billion (67 percent) was not impacted by rate floors. This is because either the loan contract does not specify a minimum or floor rate, or because the contractual loan rate is above the minimum rate specified in the loan contract. Of the loans which were at their contractual minimum rate, $1.52 billion (22 percent) were within 0.75 percent of the contractual loan rate absent the effects of the floor. Thus, the rate on these loans will be relatively responsive to increases in the underlying Prime or LIBOR index, and all will adjust upwards should the underlying index increase by more than 0.75 percent. Only $94.7 million of floating rate loans have floors that are more than 2.00 percent above the contractual rate formula. Thus, the yield on the Company s floating rate loan portfolio is expected to be highly responsive to changes in market rates. The following table shows the balance of loans in the Floating Rate portfolio stratified by spread between the current loan rate and the floor rate as of March 31, 2012:

(in millions)	Loans with No Floor and Current Rate Greater than Floor	Interest Rate Increase Needed for Loans Currently at Floor Rate to Become Floating < 0.75%	0.76% - 2.00%	> 2.00%	Total
Prime	$ 1,585	$ 1,105	$ 531	$ 34	$ 3,255
LIBOR	2,931	419	131	61	3,542
Total floating rate loans	$ 4,516	$ 1,524	$ 662	$ 95	$ 6,797
% of total floating rate loans	67%	22%	10%	1%	100%

Economic Value of Equity: The economic value of equity (EVE) model is used to evaluate the vulnerability of the market value of shareholders equity to changes in interest rates. The EVE model calculates the expected cash flow of all of the Company s assets and liabilities under sharply higher and lower interest rate scenarios. The present value of these cash flows is calculated by discounting them using the interest rates for that scenario. The difference between the present value of assets and the present value of liabilities in each scenario is the EVE. The assumptions about the timing of cash flows, level of interest rates and shape of the yield curve are the same as those used in the net interest income simulation. They are updated periodically and are reviewed by ALCO at least annually.

As of March 31, 2012, an instantaneous 200 basis point increase in interest rates results in a 1.4 percent decline in EVE. This compares to a 3.5 percent decline a year-earlier. The decrease is due to changes in the mix of the balance sheet resulting from the historically low interest rate environment. Measurement of a 200 basis point decrease in rates as of March 31, 2012 and March 31, 2011 is not meaningful due to the current low rate environment.

Interest-Rate Risk Management

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

	March 31, 2012			December 31, 2011			March 31, 2011		
(in millions)	Notional Amount	Fair Value	Duration (Years)	Notional Amount	Fair Value	Duration (Years)	Notional Amount	Fair Value	Duration (Years)

Fair Value Hedge Interest Rate Swap									
Certificates of deposit	$	$		$	$		$ 10.0	$ 0.3	0.2
Long-term and subordinated debt	$ 205.9	$ 8.1	0.8	$ 207.4	$ 9.8	1.0	355.9	17.2	1.1
Total fair value hedge swaps	205.9	8.1(1)	0.8	207.4	9.8(1)	1.0	365.9	17.5(1)	1.1

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

Interest-rate swaps may be used to reduce cash flow variability and to moderate changes in the fair value of long-term financial instruments. Net interest income or expense associated with interest-rate swaps (the difference between the fixed and floating rates paid or received) is included in net interest income in the reporting periods in which they are earned. All derivatives are recorded on the consolidated balance sheets at their fair value. The treatment of changes in the fair value of derivatives depends on the character of the transaction.

At March 31, 2012, the Company had $205.9 million notional amount of interest-rate swap hedge transactions, all of which were designated as fair value hedges of long-term debt. There were no cash flow hedges outstanding at March 31, 2012. The positive fair value of the fair value hedges of $8.1 million is recorded in other assets. It consists of a positive mark-to-market of $7.1 million and net interest receivable of $1.0 million. The balance of debt reported in the consolidated balance sheet has been increased by a $7.1 million mark-to-market adjustment associated with interest-rate hedge transactions.

The hedged long-term debt consists of City National Corporation senior notes with a face value of $205.9 million due on February 15, 2013.

The Company has not entered into any hedge transactions involving any other interest-rate derivative instruments, such as interest-rate floors, caps, and interest-rate futures contracts for its own portfolio in 2012. Under existing policy, the Company could use such financial instruments in the future if deemed appropriate.

Other Derivatives

The Company also offers various derivative products to clients and enters into derivative transactions in due course. These derivative contracts are offset by paired trades with unrelated bank counterparties. These transactions are not linked to specific Company assets or liabilities in the consolidated balance sheets or to forecasted transactions in a hedge relationship and, therefore, do not qualify for hedge accounting. The contracts are marked-to-market each reporting period with changes in fair value recorded as part of Other noninterest income in the consolidated statements of income. Fair values are determined from verifiable first-party sources that have considerable experience with the derivative markets. The Company provides client data to the first-party source for purposes of calculating the credit valuation component of the fair value measurement of client derivative contracts. At March 31, 2012 and 2011, the Company had entered into derivative contracts with clients (and offsetting derivative contracts with counterparties) having a notional balance of $1.80 billion and $1.08 billion, respectively.

Counterparty Risk and Collateral

Interest-rate swap agreements involve the exchange of fixed and variable-rate interest payments based upon a notional principal amount and maturity date. The Company s interest-rate swaps had $4.0 million and $5.7 million of credit risk exposure at March 31, 2012 and 2011, respectively. The credit exposure represents the cost to replace, on a present value basis and at current market rates, all contracts outstanding by trading counterparty having an aggregate positive market value, net of margin collateral received. The Company s swap agreements require the deposit of cash or marketable debt securities as collateral for this risk if it exceeds certain market value thresholds. These requirements apply individually to the Corporation and to the Bank. Collateral in the form of securities valued at $4.8 million had been received from swap counterparties at March 31, 2012. At March 31, 2011, collateral valued at $9.5 million comprised of securities valued at $7.7 million and cash of $1.8 million, had been received from swap counterparties. Additionally, the Company delivered collateral valued at $38.8 million on swap agreements at March 31, 2012.

Market Risk Foreign Currency Exchange

The Company enters into foreign-exchange contracts with its clients and counterparty banks primarily for the purpose of offsetting or hedging clients transaction and economic exposures arising out of commercial transactions. The Company s policies also permit taking proprietary currency positions within certain approved limits. The Company actively manages its foreign exchange exposures within prescribed risk limits and controls. At March 31, 2012, the Company s outstanding foreign exchange contracts, both proprietary and for customer accounts, totaled $289.3 million. The mark-to-market on foreign exchange contracts included in other assets and other liabilities totaled $2.8 million and $2.3 million at March 31, 2012, respectively.

Table of Contents

ITEM 4. CONTROL AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Table of Contents

PART II OTHER INFORMATION

ITEM 1A. RISK FACTORS

Refer to Item 1A of Part I of the Company s Annual Report on Form 10-K for the year ended December 31, 2011 for a discussion of risk factors relating to the Company s business. There has been no material change in the Corporation s risk factors as previously disclosed in the Company s Form 10-K.

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

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

The information required by subsection (c) of this item regarding purchases by the Company during the quarter ended March 31, 2012 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act is incorporated by reference from that portion of Part I, Item 1 of the report under Note 9.

ITEM 6. EXHIBITS

No.	
10.1*	Amendment to Russell Goldsmith Amended and Restated Employment Agreement dated as March 14, 2012 by and among Russell Goldsmith, Registrant and City National Bank (Incorporated by reference from Exhibit 10.49 to the Registrant s Current Report on Form 8-K filed on March 16, 2012.)
10.2*	Form of Performance Unit Award Agreement Under the City National Corporation 2008 Omnibus Plan (EPS).
10.3*	Form of Performance Unit Award Agreement Addendum Under the City National Corporation 2008 Omnibus Plan (EPS).
10.4*	Form of Restricted Stock Unit Award Agreement (Cash Only) under the City National Corporation 2008 Omnibus Plan (Filed herewith in replacement of Exhibit 10.51 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2011.)
10.5*	Form of Restricted Stock Unit Award Agreement (Cash Only) Addendum under the City National Corporation 2008 Omnibus Plan (Filed herewith in replacement of Exhibit 10.52 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2011.)

31.1	Chief Executive Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Chief Financial Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
32.0	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document

Table of Contents

101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

* Management contract or compensatory plan or arrangement.

Table of Contents

SIGNATURES

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

CITY NATIONAL CORPORATION
(Registrant)

DATE: May 9, 2012

/s/ Christopher J. Carey

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