CITY NATIONAL CORP
Form 10-Q
May 06, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 1-10521

CITY NATIONAL CORPORATION

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Delaware	**95-2568550**
(State of Incorporation)	(I.R.S. Employer Identification No.)

City National Plaza

555 South Flower Street, Los Angeles, California, 90071

(Address of principal executive offices)(Zip Code)

(213) 673-7700

(Registrant s telephone number, including area code)

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

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

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

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

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

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

As of April 30, 2011, there were 53,178,300 shares of Common Stock outstanding (including unvested restricted shares).

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CITY NATIONAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)	March 31, 2011 (Unaudited)	December 31, 2010	March 31, 2010 (Unaudited)
Assets			
Cash and due from banks	$ 203,600	$ 126,882	$ 293,855
Due from banks - interest-bearing	743,569	142,807	429,157
Federal funds sold	100,000	165,000	50,000
Securities available-for-sale - cost $5,803,623, $5,658,120, and $3,897,750 at March 31, 2011, December 31, 2010 and March 31, 2010, respectively:			
Securities pledged as collateral			198,349
Held in portfolio	5,849,390	5,720,675	3,730,132
Trading securities	81,287	255,397	68,405
Loans and leases, excluding covered loans	11,269,684	11,386,628	11,689,536
Less: Allowance for loan and lease losses	263,356	257,007	292,799
Loans and leases, excluding covered loans, net	11,006,328	11,129,621	11,396,737
Covered loans, net of allowance for loan losses	1,684,068	1,790,133	1,803,048
Net loans and leases	12,690,396	12,919,754	13,199,785
Premises and equipment, net	131,345	128,426	123,178
Deferred tax asset	113,231	105,398	149,397
Goodwill	486,403	486,070	479,982
Customer-relationship intangibles, net	41,016	42,564	43,153
Affordable housing investments	111,583	99,670	90,304
Customers acceptance liability	1,571	1,715	3,267
Other real estate owned ($121,822, $120,866 and $77,526 covered by FDIC loss share at March 31, 2011, December 31, 2010 and March 31, 2010, respectively)	178,164	178,183	135,551
FDIC indemnification asset	270,576	295,466	325,356
Other assets	633,801	685,111	746,604
Total assets	$ 21,635,932	$ 21,353,118	$ 20,066,475
Liabilities			
Demand deposits	$ 8,756,877	$ 8,457,178	$ 7,881,959
Interest checking deposits	1,771,234	1,863,004	2,202,703
Money market deposits	6,521,767	6,344,749	4,939,662
Savings deposits	308,612	291,299	382,994
Time deposits-under $100,000	312,658	338,112	421,808
Time deposits-$100,000 and over	806,791	882,520	1,134,603
Total deposits	18,477,939	18,176,862	16,963,729
Short-term borrowings	151,663	153,444	9,614
Long-term debt	703,173	704,971	986,585
Reserve for off-balance sheet credit commitments	21,707	21,529	18,498
Acceptances outstanding	1,571	1,715	3,266
Other liabilities	223,239	264,203	174,707

Total liabilities		19,579,292		19,322,724		18,156,399
Redeemable noncontrolling interest		46,013		45,676		46,665
Commitments and contingencies						
Equity						
Common stock, par value $1.00 per share; 75,000,000 shares authorized; 53,885,886 shares issued at March 31, 2011, December 31, 2010 and March 31, 2010		53,886		53,886		53,886
Additional paid-in capital		480,918		487,868		505,330
Accumulated other comprehensive income		26,535		36,853		23,927
Retained earnings		1,511,153		1,482,037		1,382,421
Treasury shares, at cost - 1,446,355, 1,639,203 and 1,997,480 shares at March 31, 2011, December 31, 2010 and March 31, 2010, respectively		(86,954)		(101,065)		(127,342)
Total shareholders equity		1,985,538		1,959,579		1,838,222
Noncontrolling interest		25,089		25,139		25,189
Total equity		2,010,627		1,984,718		1,863,411
Total liabilities and equity	$	21,635,932	$	21,353,118	$	20,066,475

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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CITY NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(in thousands, except per share amounts)	**For the three months ended March 31, 2011**	**2010**
Interest Income		
Loans and leases	$ 162,939	$ 169,549
Securities available-for-sale	37,333	32,200
Trading securities	87	(51)
Due from banks - interest-bearing	297	346
Federal funds sold and securities purchased under resale agreements	154	22
Total interest income	200,810	202,066
Interest Expense		
Deposits	10,190	13,164
Federal funds purchased and securities sold under repurchase agreements		1,936
Subordinated debt	4,648	4,639
Other long-term debt	4,682	6,822
Total interest expense	19,520	26,561
Net interest income	181,290	175,505
Provision for credit losses on loans and leases, excluding covered loans		55,000
Provision for losses on covered loans	19,116	
Net interest income after provision	162,174	120,505
Noninterest Income		
Trust and investment fees	35,638	33,509
Brokerage and mutual fund fees	5,661	5,281
Cash management and deposit transaction charges	11,725	12,576
International services	8,316	6,508
FDIC loss sharing income, net	8,605	9,086
Gain on disposal of assets	2,424	1,391
Gain on sale of securities	130	2,134
Other	21,558	7,391
Impairment loss on securities:		
Total other-than-temporary impairment loss on securities	(4,510)	(15,208)
Less: Portion of loss recognized in other comprehensive income	4,346	14,205
Net impairment loss recognized in earnings	(164)	(1,003)
Total noninterest income	93,893	76,873
Noninterest Expense		
Salaries and employee benefits	111,012	95,459
Net occupancy of premises	13,346	12,905
Legal and professional fees	10,077	9,183
Information services	7,497	7,516
Depreciation and amortization	6,748	6,347
Amortization of intangibles	2,168	2,447
Marketing and advertising	6,518	5,248
Office services and equipment	4,606	3,798
Other real estate owned	14,489	17,197
FDIC assessments	9,806	6,521
Other operating	11,130	9,313
Total noninterest expense	197,397	175,934

Income before income taxes		58,670		21,444
Income taxes		17,886		4,418
Net income	$	40,784	$	17,026
Less: Net income attributable to noncontrolling interest		1,092		1,328
Net income attributable to City National Corporation	$	39,692	$	15,698
Less: Dividends and accretion on preferred stock				5,702
Net income available to common shareholders	$	39,692	$	9,996
Net income per share, basic	$	0.75	$	0.19
Net income per share, diluted	$	0.74	$	0.19
Shares used to compute net income per share, basic		52,320		51,690
Shares used to compute net income per share, diluted		52,894		52,092
Dividends per share	$	0.20	$	0.10

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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CITY NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)	For the three months ended March 31, 2011	2010
Cash Flows From Operating Activities		
Net income	$ 40,784	$ 17,026
Adjustments to net income:		
Provision for credit losses on loans and leases, excluding covered loans		55,000
Provision for losses on covered loans	19,116	
Amortization of intangibles	2,168	2,447
Depreciation and amortization	6,748	6,347
Share-based employee compensation expense	4,678	3,872
Deferred income tax benefit	(811)	(1,050)
Gain on disposal of assets	(2,424)	(1,391)
Gain on sale of securities	(130)	(2,134)
Impairment loss on securities	164	1,003
Other, net	(12,700)	12,914
Net change in:		
Trading securities	174,171	85,897
Other assets and other liabilities, net	35,560	4,406
Net cash provided by operating activities	267,324	184,337
Cash Flows From Investing Activities		
Purchase of securities available-for-sale	(598,336)	(398,372)
Sales of securities available-for-sale	6,094	407,611
Maturities and paydowns of securities available-for-sale	436,519	406,905
Loan originations, net of principal collections	199,409	410,291
Net payments for premises and equipment	(9,567)	(5,216)
Net cash acquired in acquisitions	7,922	
Other investing activities, net	16,624	12,967
Net cash provided by investing activities	58,665	834,186
Cash Flows From Financing Activities		
Net increase (decrease) in deposits	292,671	(415,719)
Net decrease in federal funds purchased and securities sold under repurchase agreements		(442,895)
Net increase in short-term borrowings, net of transfers from long-term debt	70	40
Net decrease in long-term debt		(353)
Proceeds from exercise of stock options	4,015	9,821
Tax benefit from exercise of stock options	920	2,142
Redemption of preferred stock		(200,000)
Cash dividends paid	(10,576)	(8,214)
Other financing activities, net	(609)	(3,259)
Net cash provided by (used in) financing activities	286,491	(1,058,437)
Net decrease in cash and cash equivalents	612,480	(39,914)
Cash and cash equivalents at beginning of year	434,689	812,926
Cash and cash equivalents at end of period	$ 1,047,169	$ 773,012
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	$ 32,666	$ 28,253
Income taxes	2	
Non-cash investing activities:		

Transfer of loans to other real estate owned	$	34,139	$	42,497

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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CITY NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

AND COMPREHENSIVE INCOME

(Unaudited)

	City National Corporation Shareholders Equity								
(in thousands, except share amounts)	**Common shares issued**	**Preferred stock**	**Common stock**	**Additional paid-in capital**	**Accumulated other comprehensive income (loss)**	**Retained earnings**	**Treasury shares**	**Non-controlling interest**	**Total equity**
Balance, January 1, 2010	53,885,886	$ 196,048	$ 53,886	$ 513,550	$ (3,049)	$ 1,377,639	$ (151,751)	$ 26,441	$ 2,012,764
Comprehensive income:									
Net income (1)						15,698		535	16,233
Other comprehensive income, net of tax (2)					26,976				26,976
Total comprehensive income								535	43,209
Dividends and distributions to noncontrolling interest								(535)	(535)
Issuance of shares under share-based compensation plans				(15,658)			24,409		8,751
Preferred stock accretion		3,952				(3,952)			
Redemption of preferred stock		(200,000)							(200,000)
Share-based employee compensation expense				3,849					3,849
Tax benefit from share-based compensation plans				1,413					1,413
Cash dividends:									
Preferred						(1,750)			(1,750)
Common						(5,214)			(5,214)
Net change in deferred compensation plans				27					27
Change in redeemable noncontrolling interest				2,149					2,149
Other								(1,252)	(1,252)
Balance, March 31, 2010	53,885,886	$	$ 53,886	$ 505,330	$ 23,927	$ 1,382,421	$ (127,342)	$ 25,189	$ 1,863,411
Balance, January 1, 2011	53,885,886	$	$ 53,886	$ 487,868	$ 36,853	$ 1,482,037	$ (101,065)	$ 25,139	$ 1,984,718
Comprehensive income:									
Net income (1)						39,692		534	40,226
Other comprehensive loss, net of tax (2)					(10,318)				(10,318)
Total comprehensive income								534	29,908
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
Cash dividends:									
Common						(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

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(1) Net income excludes net income attributable to redeemable noncontrolling interest of $558 and $793 for the three-month periods ended March 31, 2011 and 2010, 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) See Note 9 for additional information on other comprehensive income.

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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CITY NATIONAL CORPORATION

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Summary of Significant Accounting Policies

Organization

City National Corporation (the Corporation) is the holding company for City National Bank (the Bank). The Bank delivers banking, trust and investment services through 79 offices in Southern California, the San Francisco Bay area, Nevada and New York City. As of March 31, 2011, the Corporation had six consolidated investment advisory affiliates and a noncontrolling interest in two other firms. The Corporation also had 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. The Company has both redeemable and non-redeemable noncontrolling interest. A noncontrolling interest is the portion of equity in a subsidiary not attributable to a parent. Preferred stock of consolidated bank affiliates that is owned by third parties is reflected as Noncontrolling interest in the equity section of the consolidated balance sheets. Redeemable noncontrolling interest includes noncontrolling ownership interests that are redeemable at the option of the holder or outside the control of the issuer. The redeemable equity ownership interests of third parties in the Corporation s investment advisory affiliates are not considered to be permanent equity and are reflected as Redeemable noncontrolling interest in the mezzanine section between liabilities and equity in the consolidated balance sheets. Noncontrolling interests share of subsidiary earnings is reflected as Net income attributable to noncontrolling interest in the consolidated statements of income.

The Company s investment management and wealth advisory affiliates are organized as limited liability companies. The Corporation generally owns a majority position in each affiliate and certain management members of each affiliate own the remaining shares. The Corporation has contractual arrangements with its affiliates whereby a percentage of revenue is allocable to fund affiliate operating expenses (operating share) while the remaining portion of revenue (distributable revenue) is allocable to the Corporation and the noncontrolling owners. All majority-owned affiliates that meet the prescribed criteria for consolidation are consolidated. The Corporation s interests in two investment management affiliates in which it holds a noncontrolling share are accounted for using the equity method. Additionally, the Company has various interests in variable interest entities (VIEs) that are not required to be consolidated. See Note 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 available-for-sale impairment, private equity and alternative investment impairment, valuation of assets and liabilities acquired in business combinations, subsequent valuations of acquired impaired loans, FDIC indemnification assets, valuation of noncontrolling interest and the valuation of financial assets and liabilities reported at fair value.

The Company has applied its critical accounting policies and estimation methods consistently in all periods presented in these financial statements.

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Note 1. Summary of Significant Accounting Policies (Continued)

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, 2010.

The results for the 2011 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 2010 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, 2011. Refer to *Accounting Pronouncements* for discussion of accounting pronouncements adopted in 2011.

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

Accounting Pronouncements

During the three months ended March 31, 2011, the following accounting pronouncements applicable to the Company were issued or became effective:

- In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-06, *Fair Value Measurements (Topic 820), Improving Disclosures about Fair Value Measurements* (ASU 2010-06). ASU 2010-06 enhances disclosure requirements under Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures* (ASC 820), to include disclosure of transfers in and out of Level 1 and 2, and detail of activity in Level 3 fair value measurements. The ASU also provides clarification of existing disclosure requirements pertaining to the level of disaggregation used in fair value measurements, and disclosures about inputs and valuation techniques used for both recurring and nonrecurring fair value measurements. The new guidance, except for the requirement to provide the Level 3 activity on a gross basis, was adopted by the Company on January 1, 2010. The expanded disclosure requirements pertaining to Level 3 activity became effective for the Company on January 1, 2011. Adoption of the new guidance did not have a material effect on the Company s consolidated financial statements.

- In January 2011, the FASB issued ASU 2011-01, *Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20* (ASU 2011-01). The ASU temporarily delayed the effective date of the disclosures about troubled debt restructurings in ASU 2010-20 until the FASB completes its deliberations on what constitutes a troubled debt restructuring.

Currently, that guidance is anticipated to be effective for interim and annual periods ending after June 15, 2011 concurrent with the effective date of ASU 2011-02.

- In April 2011, the FASB issued ASU 2011-02, *Receivables (Topic 310), A Creditor s Determination of Whether a Restructuring is a Troubled Debt Restructuring* (ASU 2011-02). In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor (lender) must separately conclude that both of the following exist: (1) the restructuring constitutes a concession, and (2) the debtor (borrower) is experiencing financial difficulties. Determining whether a modification is a troubled debt restructuring requires significant judgment. ASU 2011-02 clarifies the guidance on whether a lender has granted a concession, and on the lender s evaluation of whether a borrower is experiencing financial difficulties. ASU 2011-02 is effective for interim and annual periods ending after June 15, 2011, and applies retrospectively to restructurings occurring on or after the beginning of the year. Thus, an entity will be required to apply the guidance to determine whether modifications that were not previously considered TDRs and that have occurred since the beginning of the year would now be considered TDRs. Adoption of the new guidance is not expected to have a significant effect on the Company s financial statements.

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Note 2. Business Combinations

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. The Company recorded $0.3 million of goodwill and a core deposit intangible of $0.1 million with its acquisition of the branch.

Datafaction, Inc.

On November 15, 2010, the Corporation acquired Datafaction Inc. (Datafaction), a provider of accounting and imaging software for business managers and professional services firms, in an all-cash transaction. Datafaction s product and service offerings are expected to complement the cash management solutions available to the Company s business clients. The Company recognized goodwill of approximately $6.2 million and a customer contract intangible of approximately $2.2 million related to the acquisition.

Sun West Bank and 1st Pacific Bank of California

On May 28, 2010, the Bank acquired the banking operations of Sun West Bank (SWB) in Las Vegas, Nevada in a purchase and assumption agreement with the Federal Deposit Insurance Corporation (FDIC). Excluding the effects of acquisition accounting adjustments, the Bank acquired approximately $340.0 million in assets and assumed $310.1 million in liabilities. The Bank acquired most of SWB s assets, including loans and other real estate owned (OREO) with a fair value of $127.6 million and $12.1 million, respectively, and assumed deposits with a fair value of $304.3 million. The Bank received approximately $29.2 million in cash from the FDIC at acquisition and recognized a gain of $24.7 million on the acquisition of SWB in the second quarter of 2010. The acquisition of SWB added three new bank branches in Nevada.

On May 7, 2010, the Bank acquired the banking operations of 1st Pacific Bank of California (FPB) in a purchase and assumption agreement with the FDIC. Excluding the effects of acquisition accounting adjustments, the Bank acquired approximately $318.6 million in assets and assumed $264.2 million in liabilities. The Bank acquired most of FPB s assets, including loans with a fair value of $202.8 million and assumed deposits with a fair value of $237.2 million. The Bank paid $12.3 million in cash to the FDIC at acquisition. During the second quarter of 2010, the Bank recognized a gain of $0.5 million on the acquisitions of FPB. During the third quarter of 2010, the Bank recognized an additional gain of $2.1 million when the first loss tranche under the FPB loss-sharing agreement was amended by the FDIC. The acquisition of FPB added five new bank branches in California.

In connection with the acquisitions of SWB and FPB, 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 subject to a loss-sharing agreement with the FDIC. The term of the loss-sharing agreements is 10 years for single-family residential loans and five years for all other loans. The expected reimbursements under the loss-sharing agreements were recorded as indemnification assets at their estimated fair value of $104.6 million for SWB and $36.5 million for FPB at acquisition date. The difference between the fair value of the FDIC indemnification asset and the undiscounted cash flows that the Bank expects to collect from the FDIC is accreted into noninterest income.

The Bank recognized a $3.6 million liability in the acquisition of FPB relating to a requirement that the Bank reimburse the FDIC if actual cumulative losses are lower than the cumulative losses originally estimated by the FDIC prior to the acquired bank s failure. There was no similar liability recognized in the acquisition of SWB.

Note 3. Fair Value Measurements

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

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Note 3. Fair Value Measurements (Continued)

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

Fair Value Hierarchy

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

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

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

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

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

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

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Note 3. Fair Value Measurements (Continued)

The following tables summarize assets and liabilities measured at fair value as of March 31, 2011, December 31, 2010 and March 31, 2010 by level in the fair value hierarchy:

(in thousands)	Balance as of March 31, 2011	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	$ 14,091	$ 14,091	$	$
Federal agency - Debt	1,538,090		1,538,090	
Federal agency - MBS	520,571		520,571	
CMOs - Federal agency	3,275,555		3,275,555	
CMOs - Non-agency	106,676		106,676	
State and municipal	341,405		341,405	
Other debt securities	43,885		22,973	20,912
Equity securities and mutual funds	9,117	9,117		
Trading securities	81,287	77,360	3,927	
Mark-to-market derivatives (1)	39,861	3,275	36,586	
Total assets at fair value	$ 5,970,538	$ 103,843	$ 5,845,783	$ 20,912
Liabilities				
Mark-to-market derivatives (2)	$ 22,126	$ 1,227	$ 20,899	$
Other liabilities	150		150	
Total liabilities at fair value	$ 22,276	$ 1,227	$ 21,049	$
Measured on a Nonrecurring Basis				
Assets				
Collateral dependent impaired loans (3)				
Commercial	$ 958	$ 958	$	$
Commercial real estate mortgages	1,888	1,888		
Residential mortgages	2,774	1,961	813	
Real estate construction	9,221	9,221		
Equity lines of credit	1,707	711	996	
Installment	2,800	2,800		
Other real estate owned (4)	30,230	22,565	7,665	
Total assets at fair value	$ 49,578	$ 40,104	$ 9,474	$

(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) Other real estate owned balance of $178.2 million in the consolidated balance sheets includes $121.8 million of covered OREO and is net of estimated disposal costs.

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Note 3. Fair Value Measurements (Continued)

(in thousands)	Balance as of December 31, 2010	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	$ 14,113	$ 14,113	$	$
Federal agency - Debt	1,142,328		1,142,328	
Federal agency - MBS	551,346		551,346	
CMOs - Federal agency	3,497,147		3,497,147	
CMOs - Non-agency	118,295		118,295	
State and municipal	343,380		343,380	
Other debt securities	43,630		22,648	20,982
Equity securities and mutual funds	10,436	10,436		
Trading securities	255,397	249,861	5,536	
Mark-to-market derivatives (1)	46,712	3,258	43,454	
Total assets at fair value	$ 6,022,784	$ 277,668	$ 5,724,134	$ 20,982
Liabilities				
Mark-to-market derivatives (2)	$ 26,437	$ 1,215	$ 25,222	$
Other liabilities	160		160	
Total liabilities at fair value	$ 26,597	$ 1,215	$ 25,382	$
Measured on a Nonrecurring Basis				
Assets				
Collateral dependent impaired loans (3)				
Commercial	$ 1,528	$	$ 1,528	$
Commercial real estate mortgages	31,684		21,236	10,448
Residential mortgages	9,061		8,210	851
Real estate construction	98,059		98,059	
Equity lines of credit	3,092		2,224	868
Collateral dependent impaired covered loans (3)				
Commercial	2,557			2,557
Other real estate owned (4)	88,993		65,605	23,388
Private equity investments	10,804			10,804
Total assets at fair value	$ 245,778	$	$ 196,862	$ 48,916

(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) Other real estate owned balance of $178.2 million in the consolidated balance sheets includes $120.9 million of covered OREO and is net of estimated disposal costs.

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Note 3. Fair Value Measurements (Continued)

(in thousands)	Balance as of March 31, 2010	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Measured on a Recurring Basis				
Assets				
Securities available-for-sale				
U.S. Treasury	$ 15,100	$ 15,100	$	$
Federal agency - Debt	611,317		611,317	
Federal agency - MBS	448,293		448,293	
CMOs - Federal agency	2,174,217		2,174,217	
CMOs - Non-agency	228,930		228,930	
State and municipal	365,826		365,826	
Other debt securities	70,600		45,607	24,993
Equity securities and mutual funds	14,198	14,198		
Trading securities	68,405	66,932	1,473	
Mark-to-market derivatives (1)	51,039	5,258	45,781	
Total assets at fair value	$ 4,047,925	$ 101,488	$ 3,921,444	$ 24,993
Liabilities				
Mark-to-market derivatives (2)	$ 19,567	$ 1,733	$ 17,834	$
Total liabilities at fair value	$ 19,567	$ 1,733	$ 17,834	$
Measured on a Nonrecurring Basis				
Assets				
Collateral dependent impaired loans (3)				
Commercial	$ 3,810	$	$ 3,810	$
Commercial real estate mortgages	46,267		32,889	13,378
Residential mortgages	7,450		7,065	385
Real estate construction	128,740		70,489	58,251
Other real estate owned (4)	36,532		27,394	9,138
Private equity investments	3,740			3,740
Total assets at fair value	$ 226,539	$	$ 141,647	$ 84,892

(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) Other real estate owned balance of $135.6 million in the consolidated balance sheets includes $77.5 million of covered OREO and is net of estimated disposal costs.

At March 31, 2011, $5.97 billion, or approximately 28 percent, of the Company s total assets were recorded at fair value on a recurring basis, compared with $6.02 billion or approximately 28 percent at December 31, 2010, and $4.05 billion or approximately 20 percent at March 31, 2010. 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. Approximately $22.3 million, $26.6 million and $19.6 million of the Company s total liabilities at March 31, 2011, December 31, 2010 and March 31, 2010, respectively, were recorded at fair value on a recurring basis using Level 1 or Level 2 inputs. At March 31, 2011, $49.6 million, or less than 1 percent of the Company s total assets, were recorded at fair value on a nonrecurring basis, compared with $245.8 million or 1 percent at December 31, 2010, and $226.5 million or 1 percent at March 31, 2010. These assets were measured using Level 2 and Level 3 inputs. There were no transfers of assets or liabilities between Level 1 and Level 2 of the fair value hierarchy during the three months ended March 31, 2011.

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Note 3. Fair Value Measurements (Continued)

For assets measured at fair value on a nonrecurring basis, the following table presents the total losses (gains), which include charge-offs, recoveries, specific reserves, OREO valuation write-downs, OREO valuation write ups and net losses on sales of OREO, recognized in the three months ended March 31, 2011 and 2010:

	For the three months ended March 31,	
(in thousands)	**2011**	**2010**
Collateral dependent impaired loans		
Commercial	$ 606	$ 2,618
Commercial real estate mortgages	(7,114)	17,307
Residential mortgages	142	852
Real estate construction	(2,217)	10,245
Equity lines of credit	(36)	
Installment	4,514	
Other real estate owned	9,122	12,548
Private equity investments		398
Total net losses recognized	$ 5,017	$ 43,968

Level 3 assets measured at fair value on a recurring basis in the current and prior period consist of collateralized debt obligation senior notes. The fair value of these securities is determined using an internal cash flow model that incorporates management s assumptions about risk-adjusted discount rates, prepayment expectations, projected cash flows and collateral performance. These assumptions are not directly observable in the market. Unrealized gains and losses on securities available-for-sale are reported as a component of Accumulated other comprehensive income (AOCI) in the consolidated balance sheets. Activity in Level 3 assets measured at fair value on a recurring basis for the three months ended March 31, 2011 is summarized in the following table:

Level 3 Assets Measured on a Recurring Basis

	For the three months ended	
	March 31, 2011	**March 31, 2010**
(in thousands)	**Securities Available-for-Sale**	**Securities Available-for-Sale**
Balance, beginning of period	$ 20,982	$ 26,779
Total realized/unrealized gains (losses):		
Included in other comprehensive income	1,690	(1,638)
Settlements	(1,707)	(120)
Other (1)	(53)	(28)
Balance, end of period	$ 20,912	$ 24,993

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

There were no purchases, sales or issuances of Level 3 assets measured on a recurring basis during the three months ended March 31, 2011 and 2010. Paydowns of $1.7 million and $0.1 million were received on Level 3 assets measured on a recurring basis for the three months ended March 31, 2011 and 2010, respectively. There were no gains or losses for the three months ended March 31, 2011 and 2010 included in earnings attributable to the change in unrealized gains or losses relating to assets still held as of March 31, 2011.

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Note 3. Fair Value Measurements (Continued)

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

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, 2011 and March 31, 2010. The disclosure does not include estimated fair value amounts for assets and liabilities which are not defined as financial instruments but which have significant value. These assets and liabilities include the value of customer-relationship intangibles, goodwill, and affordable housing investments carried at cost, other assets, deferred taxes and other liabilities. Accordingly, the total of the fair values presented does not represent the underlying value of the Company.

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

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

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

Loans and leases Loans are not recorded at fair value on a recurring basis. Nonrecurring fair value adjustments are periodically recorded on impaired loans that are measured for impairment based on the fair value of collateral. Due to the lack of activity in the secondary market for the types of loans in the Company s portfolio, a model-based approach is used for determining the fair value of loans for purposes of the disclosures in the 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.

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Note 3. Fair Value Measurements (Continued)

Investment in FRB and FHLB 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.

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 remaining other short-term borrowings is a reasonable estimate of fair value.

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

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.

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

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

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Note 3. Fair Value Measurements (Continued)

The carrying amounts and fair values of the Company s financial instruments as of March 31, 2011 and March 31, 2010 were as follows:

	March 31, 2011		March 31, 2010	
(in millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and due from banks	$ 203.6	$ 203.6	$ 293.9	$ 293.9
Due from banks - interest bearing	743.6	743.6	429.2	429.2
Federal funds sold	100.0	100.0	50.0	50.0
Securities available-for-sale	5,849.4	5,849.4	3,928.5	3,928.5
Trading securities	81.3	81.3	68.4	68.4
Loans and leases, net of allowance	11,006.3	11,245.6	11,396.7	11,616.9
Covered loans, net of allowance	1,684.1	1,661.2	1,803.0	1,803.0
FDIC indemnification asset	270.6	236.9	325.4	324.4
Investment in FHLB and FRB stock	117.1	117.1	123.2	123.2
Derivative contracts	39.9	39.9	51.0	51.0
Financial Liabilities:				
Deposits	$ 18,477.9	$ 18,482.5	$ 16,963.7	$ 16,968.1
Federal funds purchased and securities sold under repurchase agreements			8.9	8.9
Structured securities sold under repurchase agreements			175.0	184.4
Other short-term borrowings	151.7	155.1	0.7	0.7
Long-term debt	703.2	735.1	811.6	849.3
Derivative contracts	22.1	22.1	19.6	19.6
FDIC clawback liability	7.2	7.2		
Commitments to extend credit	4.8	19.8	2.0	16.6
Commitments to affordable housing funds, private equity funds and alternative investments	33.1	46.0	11.0	27.8

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Note 4. Investment Securities

The following is a summary of amortized cost and estimated fair value for the major categories of securities available-for-sale at March 31, 2011, December 31, 2010 and March 31, 2010:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2011				
U.S. Treasury	$ 14,051	$ 40	$	$ 14,091
Federal agency - Debt	1,542,122	4,140	(8,172)	1,538,090
Federal agency - MBS	511,829	12,194	(3,452)	520,571
CMOs - Federal agency	3,236,969	51,409	(12,823)	3,275,555
CMOs - Non-agency	113,482	1,071	(7,877)	106,676
State and municipal	332,190	9,903	(688)	341,405
Other debt securities	48,816	2,348	(7,279)	43,885
Total debt securities	5,799,459	81,105	(40,291)	5,840,273
Equity securities and mutual funds	4,164	4,953		9,117
Total securities	$ 5,803,623	$ 86,058	$ (40,291)	$ 5,849,390
December 31, 2010				
U.S. Treasury	$ 14,070	$ 47	$ (4)	$ 14,113
Federal agency - Debt	1,142,520	5,029	(5,221)	1,142,328
Federal agency - MBS	540,768	13,379	(2,801)	551,346
CMOs - Federal agency	3,442,238	65,494	(10,585)	3,497,147
CMOs - Non-agency	126,819	1,147	(9,671)	118,295
State and municipal	334,596	9,399	(615)	343,380
Other debt securities	50,564	2,018	(8,952)	43,630
Total debt securities	5,651,575	96,513	(37,849)	5,710,239
Equity securities and mutual funds	6,545	3,891		10,436
Total securities	$ 5,658,120	$ 100,404	$ (37,849)	$ 5,720,675
March 31, 2010				
U.S. Treasury	$ 15,097	$ 8	$ (5)	$ 15,100
Federal agency - Debt	610,506	1,396	(585)	611,317
Federal agency - MBS	440,082	8,858	(647)	448,293
CMOs - Federal agency	2,137,606	38,762	(2,151)	2,174,217
CMOs - Non-agency	252,343	765	(24,178)	228,930
State and municipal	356,076	10,282	(532)	365,826
Other debt securities	75,869	1,618	(6,887)	70,600
Total debt securities	3,887,579	61,689	(34,985)	3,914,283
Equity securities and mutual funds	10,171	4,027		14,198
Total securities	$ 3,897,750	$ 65,716	$ (34,985)	$ 3,928,481

Proceeds from sales of available-for-sale securities were $6.1 million and $407.6 million for the three months ended March 31, 2011 and 2010, respectively. The following table provides the gross realized gains and losses on the sales of securities:

For the three months ended

	March 31,	
(in thousands)	2011	2010
Gross realized gains	$ 160	$ 4,502
Gross realized losses	(30)	(2,368)
Net realized gains	$ 130	$ 2,134

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Note 4. Investment Securities (Continued)

Interest income on securities available-for-sale for the three months ended March 31, 2011 and 2010 is comprised of: (i) taxable interest income of $34.2 million and $28.8 million, respectively, (ii) nontaxable interest income of $2.9 million and $3.1 million, respectively, and (iii) dividend income of $0.2 million and $0.3 million, respectively.

The following table provides the expected remaining maturities of debt securities included in the securities portfolio at March 31, 2011, except for mortgage-backed securities which are allocated according to the average life of expected cash flows. Average expected maturities will differ from contractual maturities because mortgage debt issuers may have the right to repay obligations prior to contractual maturity.

Debt Securities Available-for-Sale

(in thousands)	One year or less	Over 1 year through 5 years	Over 5 years through 10 years	Over 10 years	Total
U.S. Treasury	$ 9,035	$ 5,056	$	$	$ 14,091
Federal agency - Debt	414,419	994,072	129,599		1,538,090
Federal agency - MBS	2,469	334,454	125,535	58,113	520,571
CMOs - Federal agency	468,437	2,365,152	372,379	69,587	3,275,555
CMOs - Non-agency	25,305	45,777	35,594		106,676
State and municipal	36,099	154,220	93,391	57,695	341,405
Other	4,901	10,193	28,791		43,885
Total debt securities	$ 960,665	$ 3,908,924	$ 785,289	$ 185,395	$ 5,840,273
Amortized cost	$ 956,701	$ 3,858,949	$ 795,129	$ 188,680	$ 5,799,459

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.

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

Securities Deemed to be Other-Than-Temporarily Impaired

Through the impairment assessment process, the Company determined that certain investments were other-than-temporarily impaired at March 31, 2011. The Company recorded impairment losses in earnings on securities available-for-sale of $0.2 million for the three months ended March 31, 2011. The non-credit portion of impairment of $0.5 million at March 31, 2011 was recorded in AOCI. The Company recorded impairment losses in earnings on securities available-for-sale of $1.0 million for the three months ended March 31, 2010. All impairment losses for the three months ending March 31, 2011 and 2010 related to non-agency collateralized mortgage obligation securities (CMOs).

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Note 4. Investment Securities (Continued)

The following table provides a rollforward of cumulative credit-related other-than-temporary impairment recognized in earnings for debt securities for the three months ended March 31, 2011 and 2010. 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. There were no initial credit-related impairments for the three months ended March 31, 2011 and 2010.

	For the three months ended March 31,	
(in thousands)	**2011**	**2010**
Balance, beginning of period	$ 19,445	$ 17,707
Subsequent credit-related impairment	164	1,003
Balance, end of period	$ 19,609	$ 18,710

Non-Agency CMOs

The Company identified certain non-agency CMOs that were considered to be other-than-temporarily impaired because the present value of expected cash flows was less than cost. These CMOs have a fixed interest rate for an initial period after which they become variable-rate instruments with annual rate resets. For purposes of projecting future cash flows, the current fixed coupon was used through the reset date for each security. The prevailing LIBOR/Treasury forward curve as of the measurement date was used to project all future floating-rate cash flows based on the characteristics of each security. Other factors considered in the projection of future cash flows include the current level of subordination from other CMO classes, anticipated prepayment rates, cumulative defaults and loss given default. The Company recognized credit-related impairment losses in earnings on its investments in certain non-agency CMOs totaling $0.2 million in the first quarter of 2011. The remaining other-than-temporary impairment for these securities at March 31, 2011 was recognized in AOCI. This non-credit portion of other-than-temporary impairment is attributed to external market conditions, primarily the lack of liquidity in these securities and increases in interest rates.

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Note 4. Investment Securities (Continued)

The following tables provide a summary of the gross unrealized losses and fair value of investment securities aggregated by investment category and length of time that the securities have been in a continuous unrealized loss position as of March 31, 2011, December 31, 2010 and March 31, 2010. The table includes investments for which an other-than-temporary impairment has not been recognized in earnings, along with investments that had a non-credit-related impairment recognized in AOCI:

	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, 2011						
Federal agency - Debt	$ 1,032,448	$ 8,172	$	$	$ 1,032,448	$ 8,172
Federal agency - MBS	123,602	3,452			123,602	3,452
CMOs - Federal agency	994,856	12,823			994,856	12,823
CMOs - Non-agency	2,683	1	53,214	7,876	55,897	7,877
State and municipal	24,738	613	691	75	25,429	688
Other debt securities			16,010	7,279	16,010	7,279
Total securities	$ 2,178,327	$ 25,061	$ 69,915	$ 15,230	$ 2,248,242	$ 40,291
December 31, 2010						
U.S. Treasury	$ 5,028	$ 4	$	$	$ 5,028	$ 4
Federal agency - Debt	561,205	5,221			561,205	5,221
Federal agency - MBS	109,381	2,801			109,381	2,801
CMOs - Federal agency	755,751	10,585			755,751	10,585
CMOs - Non-agency	7,718	18	61,571	9,653	69,289	9,671
State and municipal	25,845	558	700	57	26,545	615
Other debt securities			14,407	8,952	14,407	8,952
Total securities	$ 1,464,928	$ 19,187	$ 76,678	$ 18,662	$ 1,541,606	$ 37,849
March 31, 2010						
U.S. Treasury	$ 5,031	$ 5	$	$	$ 5,031	$ 5
Federal agency - Debt	168,703	585			168,703	585
Federal agency - MBS	111,762	647			111,762	647
CMOs - Federal agency	299,262	2,151			299,262	2,151
CMOs - Non-agency	19,947	104	155,810	24,074	175,757	24,178
State and municipal	13,208	245	5,828	287	19,036	532
Other debt securities			31,367	6,887	31,367	6,887
Total securities	$ 617,913	$ 3,737	$ 193,005	$ 31,248	$ 810,918	$ 34,985

At March 31, 2011, total securities available-for-sale had a fair value of $5.85 billion, which included $2.25 billion of securities available-for-sale in an unrealized loss position as of March 31, 2011. This balance consists of $2.23 billion of temporarily impaired securities and $22.6 million of securities that had non-credit related impairment recognized in AOCI. At March 31, 2011, the Company had 132 debt securities in an unrealized loss position. The debt securities in an unrealized loss position include 33 Federal agency debt securities, 8 Federal agency MBS, 46 Federal agency CMOs, 9 non-agency CMOs, 35 state and municipal securities and 1 other debt security. The Company does not consider the debt securities in the table above to be other than temporarily impaired at March 31, 2011.

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Note 4. Investment Securities (Continued)

The increase in unrealized losses on Federal agency securities and CMOs at March 31, 2011 compared with the earlier periods presented is primarily the result of higher market interest rates. Additionally, 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. Other than the $0.2 million credit loss recognized in 2011 on Non-agency CMOs, 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, 2011 are the most senior tranches of each issue. The market for CDOs has been inactive 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 $7.2 million net unrealized loss at March 31, 2011 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, 2010, total securities available-for-sale had a fair value of $5.72 billion, which included $1.54 billion of securities available-for-sale in an unrealized loss position as of December 31, 2010. This balance consisted of $1.51 billion of temporarily impaired securities and $27.4 million of securities that had non-credit related impairment recognized in AOCI. At December 31, 2010, the Company had 109 debt securities in an unrealized loss position. The debt securities in an unrealized loss position included 1 U.S. Treasury note, 22 Federal agency debt securities, 7 Federal agency MBS, 30 Federal agency CMOs, 12 non-agency CMOs, 36 state and municipal securities and 1 other debt securities.

At March 31, 2010, total securities available-for-sale had a fair value of $3.93 billion, which included $810.9 million of securities available-for-sale in an unrealized loss position as of March 31, 2010. This balance consisted of $768.3 million of temporarily impaired securities and $42.6 million of securities that had non-credit related impairment recognized in AOCI. At March 31, 2010, the Company had 88 debt securities in an unrealized loss position. The debt securities in an unrealized loss position included 1 U. S. Treasury note, 9 Federal agency debt securities, 8 Federal agency MBS, 17 Federal agency CMOs, 24 non-agency CMOs, 26 state and municipal securities and 3 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 (FRB) totaled $117.1 million, $120.7 million and $123.2 million at March 31, 2011, December 31, 2010 and March 31, 2010, 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.

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Note 5. Other Investments (Continued)

At March 31, 2011, the Company held $86.3 million of FHLB stock. FHLB banks are cooperatives that provide products and services to member banks. The FHLB provides significant liquidity to the U.S. banking system through advances to its member banks in exchange for collateral. The purchase of stock is required in order to receive advances and other services. FHLB stock is not publicly traded and is purchased and sold by member banks at its par value. The Company expects to recover the full amount invested in FHLB stock and does not consider its investment to be impaired at March 31, 2011.

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 $38.0 million at March 31, 2011, $37.5 million at December 31, 2010 and $37.4 million at March 31, 2010. A summary of investments by fund type is provided below:

(in thousands) **Fund Type**		**March 31,** **2011**		**December 31,** **2010**		**March 31,** **2010**
Private equity and venture capital	$	21,840	$	21,408	$	21,473
Real estate		10,180		10,053		9,193
Hedge		2,953		2,953		2,700
Other		2,985		3,040		3,997
Total	$	37,958	$	37,454	$	37,363

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. There were no impairment losses recognized on these investments during the three months ended March 31, 2011. The Company recognized impairment losses of $0.4 million for the year-earlier quarter.

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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, 2011	December 31, 2010	March 31, 2010
Commercial	$ 4,096,507	$ 4,136,874	$ 4,063,613
Commercial real estate mortgages	1,902,862	1,958,317	2,121,941
Residential mortgages	3,603,058	3,552,312	3,514,149
Real estate construction	415,241	467,785	730,734
Equity lines of credit	733,567	733,741	733,550
Installment	146,779	160,144	164,929
Lease financing	371,670	377,455	360,620
Loans and leases, excluding covered loans	11,269,684	11,386,628	11,689,536
Less: Allowance for loan and lease losses	(263,356)	(257,007)	(292,799)
Loans and leases, excluding covered loans, net	11,006,328	11,129,621	11,396,737
Covered loans	1,766,084	1,857,522	1,803,048
Less: Allowance for loan losses	(82,016)	(67,389)	
Covered loans, net	1,684,068	1,790,133	1,803,048
Total loans and leases	$ 13,035,768	$ 13,244,150	$ 13,492,584
Total loans and leases, net	$ 12,690,396	$ 12,919,754	$ 13,199,785

The loan amounts above include net unamortized fees and costs of $6.0 million, $7.0 million and $6.2 million as of March 31, 2011, December 31, 2010 and March 31, 2010, 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, 2011, California represented 86 percent of total loans outstanding and Nevada and New York represented 1 percent and 6 percent, respectively. The remaining 7 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, 2011, the five states with the largest concentration were California (41 percent), Texas (12 percent), Nevada (6 percent), New York (5 percent) and Arizona (4 percent). The remaining 32 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 $1.77 billion at March 31, 2011, $1.86 billion as of December 31, 2010 and $1.80 billion as of March 31, 2010. Covered loans, net of allowance for loan losses, were $1.68 billion as of March 31, 2011 and $1.79 billion at December 31, 2010. There was no allowance for loan losses on covered loans as of March 31, 2010.

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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, 2011	December 31, 2010	March 31, 2010
Commercial	$ 43,450	$ 55,082	$ 16,721
Commercial real estate mortgages	1,508,551	1,569,739	1,600,201
Residential mortgages	18,210	18,380	7,445
Real estate construction	188,344	204,945	178,681
Equity lines of credit	5,944	6,919	
Installment	1,585	2,457	
Total covered loans	1,766,084	1,857,522	1,803,048
Less: Allowance for loan losses	(82,016)	(67,389)	
Total covered loans, net	$ 1,684,068	$ 1,790,133	$ 1,803,048

The Company evaluated the loans acquired from its FDIC 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.

Changes in the accretable yield for acquired impaired loans were as follows for the three months ending March 31, 2011 and 2010:

(in thousands)	For the three months ended March 31, 2011	2010
Balance, beginning of period	$ 562,826	$ 687,126
Accretion	(27,572)	(28,881)
Reclassifications to nonaccretable yield	(2,448)	
Disposals and other	(11,248)	505
Balance, end of period	$ 521,558	$ 658,750

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 and OREO. The FDIC indemnification asset from all FDIC-assisted acquisitions was $270.6 million at March 31, 2011, $295.5 million at December 31, 2010 and $325.4 million at March 31, 2010.

Credit Quality on Loans and Leases, Excluding Covered Loans

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

The allowance for loan and lease losses and the reserve for off-balance sheet credit commitments are significant estimates that can and do change based on management s process of analyzing the loan and commitment portfolios and on management s assumptions about specific borrowers and applicable economic and environmental conditions, among other factors. 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.

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

The following is a summary of activity in the allowance for loan and lease losses and period end balances of loans evaluated for impairment, excluding covered loans, for the three month period ended March 31, 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, 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	14,408	25,670	12,415	81,448	4,234	6,938		145,113
Collectively evaluated for impairment	4,453,769	1,877,192	3,590,643	333,793	729,333	139,841		11,124,571

(1) Includes lease financing loans.
(2) There was no provision for credit losses for the first quarter of 2011. Net transfers to the reserve for off-balance sheet credit commitments were $0.2 million for the quarter.

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

The following is a summary of activity in the allowance for loan and lease losses on non-covered loans for the three months ended March 31, 2010:

(in thousands)	For the three months ended March 31, 2010
Balance, beginning of period	$ 288,493
Charge-offs	
Commercial	(18,070)
Commercial real estate mortgages	(14,975)
Residential mortgages	(1,460)
Real estate construction	(14,225)
Equity lines of credit	(213)
Installment	(1,496)
Total charge-offs	(50,439)
Recoveries	
Commercial	445
Commercial real estate mortgages	7
Residential mortgages	69
Real estate construction	43
Equity lines of credit	3
Installment	336
Total recoveries	903
Net charge-offs	(49,536)
Provision for credit losses	55,000
Transfers to reserve for off-balance sheet credit commitments	(1,158)
Balance, end of period	$ 292,799

Off-balance sheet credit exposures include loan commitments, letters of credit and financial guarantees. The following table provides a summary of activity in the reserve for off-balance sheet credit commitments for the three months ended March 31, 2011 and 2010:

	For the three months ended March 31,	
(in thousands)	2011	2010
Balance, beginning of period	$ 21,529	$ 17,340
Transfers from allowance for loan and lease losses	178	1,158
Balance, end of period	$ 21,707	$ 18,498

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

Nonaccrual Loans and Leases

The table below provides a summary of nonaccrual loans and leases, excluding covered loans, at March 31, 2011, December 31, 2010 and March 31, 2010:

(in thousands)	March 31, 2011	December 31, 2010	March 31, 2010
Commercial	$ 17,944	$ 19,498	$ 72,983
Commercial real estate mortgages	28,028	44,882	66,194
Residential mortgages:			
Fixed	9,869	13,253	5,645
Variable	4,675	5,468	6,400
Total residential mortgages	14,544	18,721	12,045
Real estate construction:			
Construction	57,920	74,446	116,563
Land	23,528	23,763	48,422
Total real estate construction	81,448	98,209	164,985
Equity lines of credit	6,676	6,782	4,089
Installment:			
Commercial	7,082	1,414	7,959
Consumer	317	282	906
Total installment	7,399	1,696	8,865
Lease financing	1,353	1,135	855
Total nonaccrual loans	$ 157,392	$ 190,923	$ 330,016

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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, 2011 and December 31, 2010 is provided in the following tables:

(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
March 31, 2011					
With no related allowance recorded:					
Commercial	$ 6,400	$ 6,400	$	$ 6,848	$
Commercial real estate mortgages	18,491	18,371		20,994	130
Residential mortgages:					
Fixed	6,238	6,198		8,590	145
Variable	3,271	3,266		3,659	10
Total residential mortgages	9,509	9,464		12,249	155
Real estate construction:					
Construction	49,258	49,102		62,518	230
Land	23,528	23,528		23,630	
Total real estate construction	72,786	72,630		86,148	230
Equity lines of credit	3,292	3,280		3,149	
Installment:					
Commercial				569	
Consumer	41	41		41	
Total installment	41	41		610	
Lease financing	1,108	1,074		554	99
Total with no related allowance	$ 111,627	$ 111,260	$	$ 130,552	$ 614
With an allowance recorded:					
Commercial	$ 6,923	$ 6,934	$ 2,291	$ 7,745	$
Commercial real estate mortgages	7,299	7,299	1,060	13,219	
Residential mortgages:					
Fixed	1,553	1,542	103	1,060	
Variable	1,414	1,409	281	1,424	
Total residential mortgages	2,967	2,951	384	2,484	
Real estate construction:					
Construction	8,818	8,818	334	8,834	
Land					
Total real estate construction	8,818	8,818	334	8,834	
Equity lines of credit	957	954	72	1,412	3
Installment:					
Commercial	6,897	6,897	4,514	3,448	
Consumer					
Total installment	6,897	6,897	4,514	3,448	
Lease financing					

Total with an allowance	$	33,861	$	33,853	$	8,655	$	37,142	$	3
Total impaired loans by type:										
Commercial	$	13,323	$	13,334	$	2,291	$	14,593	$	
Commercial real estate mortgages		25,790		25,670		1,060		34,213		130
Residential mortgages		12,476		12,415		384		14,733		155
Real estate construction		81,604		81,448		334		94,982		230
Equity lines of credit		4,249		4,234		72		4,561		3
Installment		6,938		6,938		4,514		4,058		
Lease financing		1,108		1,074				554		99
Total impaired loans	$	145,488	$	145,113	$	8,655	$	167,694	$	617

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

(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2010					
With no related allowance recorded:					
Commercial	$ 7,295	$ 7,293	$	$ 5,574	$ 624
Commercial real estate mortgages	23,496	23,426		28,320	352
Residential mortgages:					
Fixed	10,942	10,858		6,615	
Variable	4,048	4,040		6,747	
Total residential mortgages	14,990	14,898		13,362	
Real estate construction:					
Construction	75,778	75,639		50,936	797
Land	23,732	23,732		24,339	
Total real estate construction	99,510	99,371		75,275	797
Equity lines of credit	3,006	2,997		2,105	
Installment:					
Commercial	1,137	1,107		568	
Consumer	41	41		21	
Total installment	1,178	1,148		589	
Lease financing					
Total with no related allowance	$ 149,475	$ 149,133	$	$ 125,225	$ 1,773
With an allowance recorded:					
Commercial	$ 8,567	$ 8,567	$ 2,592	$ 37,265	$
Commercial real estate mortgages	19,139	19,154	1,889	30,737	
Residential mortgages:					
Fixed	566	563	69	1,172	
Variable	1,435	1,428	273	936	
Total residential mortgages	2,001	1,991	342	2,108	
Real estate construction:					
Construction	8,850	8,850	366	65,531	
Land				13,964	
Total real estate construction	8,850	8,850	366	79,495	
Equity lines of credit	1,868	1,862	255	934	
Installment:					
Commercial				3,962	
Consumer				75	
Total installment				4,037	
Lease financing	855	855		855	
Total with an allowance	$ 41,280	$ 41,279	$ 5,444	$ 155,431	$
Total impaired loans by type:					
Commercial	$ 15,862	$ 15,860	$ 2,592	$ 42,839	$ 624
Commercial real estate mortgages	42,635	42,580	1,889	59,057	352
Residential mortgages	16,991	16,889	342	15,470	
Real estate construction	108,360	108,221	366	154,770	797
Equity lines of credit	4,874	4,859	255	3,039	
Installment	1,178	1,148		4,626	
Lease financing	855	855		855	
Total impaired loans	$ 190,755	$ 190,412	$ 5,444	$ 280,656	$ 1,773

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

Information on impaired loans, excluding covered loans, at March 31, 2010 is provided in the following table:

(in thousands)	Unpaid Principal Balance With No Allowance Recorded	With Allowance Recorded	Total Impaired Loans	Related Allowance
March 31, 2010				
Commercial	$ 20,269	$ 48,460	$ 68,729	$ 14,950
Commercial real estate mortgage	18,611	46,205	64,816	6,743
Residental mortgages	10,145	431	10,576	78
Real estate construction	34,901	129,338	164,239	20,540
Equity lines of credit	1,200	899	2,099	552
Installment		7,649	7,649	1,652
Lease financing	855		855	
Total impaired loans	$ 85,981	$ 232,982	$ 318,963	$ 44,515

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

(in thousands)	March 31, 2011	December 31, 2010	March 31, 2010
Nonaccrual loans (1)	$ 145,113	$ 179,578	$ 318,963
Troubled debt restructured loans on accrual		10,834	
Total impaired loans, excluding covered loans	$ 145,113	$ 190,412	$ 318,963

(1) Impaired loans exclude $12.3 million, $11.3 million and $11.0 million of nonaccrual loans under $500,000 that are not individually evaluated for impairment at March 31, 2011, December 31, 2010 and March 31, 2010.

Impaired loans may include troubled debt restructured loans that have been returned to accrual status, but will continue to be reported as impaired until they have a demonstrated period of performance under their restructured terms. There were no such restructured loans in impaired loans at March 31, 2011 and 2010. Impaired loans at December 31, 2010 included $10.8 million of restructured loans that have been returned to accrual status.

The average balance of impaired loans was $167.7 million and $347.4 million for the three months ended March 31, 2011 and 2010, respectively. With the exception of restructured loans that have been returned to 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

Troubled debt restructured loans were $10.1 million, before specific reserves of $1.6 million, at March 31, 2011. Troubled debt restructured loans were $32.5 million, before specific reserves of $1.6 million, at December 31, 2010. Troubled debt restructured loans were $17.1 million, before specific reserves of $2.2 million at March 31, 2010. There were no commitments to lend additional funds on restructured loans at March 31, 2011.

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

Past Due 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 loans, excluding covered loans, at March 31, 2011, December 31, 2010 and March 31, 2010 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, 2011							
Commercial	$ 4,239	$ 1,019	$ 1,474	$ 17,944	$ 24,676	$ 4,071,831	$ 4,096,507
Commercial real estate mortgages	8,202	2,920		28,028	39,150	1,863,712	1,902,862
Residential mortgages:							
Fixed		1,575	1,123	9,869	12,567	1,664,806	1,677,373
Variable				4,675	4,675	1,921,010	1,925,685
Total residential mortgages		1,575	1,123	14,544	17,242	3,585,816	3,603,058
Real estate construction:							
Construction	3,498			57,920	61,418	229,217	290,635
Land	4,995			23,528	28,523	96,083	124,606
Total real estate construction	8,493			81,448	89,941	325,300	415,241
Equity lines of credit	74			6,676	6,750	726,817	733,567
Installment:							
Commercial	55			7,082	7,137	16,329	23,466
Consumer	277			317	594	122,719	123,313
Total installment	332			7,399	7,731	139,048	146,779
Lease financing			1,082	1,353	2,435	309,235	371,670
Total	$ 21,340	$ 5,514	$ 3,679	$ 157,392	$ 187,925	$ 11,081,759	$ 11,269,684
December 31, 2010							
Commercial	$ 9,832	$ 4,178	$ 904	$ 19,498	$ 34,412	$ 4,102,462	$ 4,136,874
Commercial real estate mortgages	15,112	3,996		44,882	63,990	1,894,327	1,958,317
Residential mortgages:							
Fixed		731	379	13,253	14,363	1,628,683	1,643,046
Variable				5,468	5,468	1,903,798	1,909,266
Total residential mortgages		731	379	18,721	19,831	3,532,481	3,552,312

Real estate construction:							
Construction	554			74,446	75,000	251,518	326,518
Land				23,763	23,763	117,504	141,267
Total real estate construction	554			98,209	98,763	369,022	467,785
Equity lines of credit	74	526		6,782	7,382	726,359	733,741
Installment:							
Commercial	63			1,414	1,477	29,684	31,161
Consumer	304			282	586	128,397	128,983
Total installment	367			1,696	2,063	158,081	160,144
Lease financing	7		1,216	1,135	2,358	375,097	377,455
Total	$ 25,946	$ 9,431	$ 2,499	$ 190,923	$ 228,799	$ 11,157,829	$ 11,386,628

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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
March 31, 2010							
Commercial	$ 8,724	$ 5,966	$ 165	$ 72,983	$ 87,838	$ 3,975,775	$ 4,063,613
Commercial real estate mortgages	12,014	1,510		66,194	79,718	2,042,223	2,121,941
Residential mortgages:							
Fixed	2,400	5,446	1,547	5,645	15,038	1,690,348	1,705,386
Variable	675	636		6,400	7,711	1,801,052	1,808,763
Total residential mortgages	3,075	6,082	1,547	12,045	22,749	3,491,400	3,514,149
Real estate construction:							
Construction	3,274			116,563	119,837	398,161	517,998
Land				48,422	48,422	164,314	212,736
Total real estate construction	3,274			164,985	168,259	562,475	730,734
Equity lines of credit	548	126		4,089	4,763	728,787	733,550
Installment:							
Commercial	555			7,959	8,514	27,119	35,633
Consumer	123			906	1,029	128,267	129,296
Total installment	678			8,865	9,543	155,386	164,929
Lease financing				855	855	359,765	360,620
Total	$ 28,313	$ 13,684	$ 1,712	$ 330,016	$ 373,725	$ 11,315,811	$ 11,689,536

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, 2011, December 31, 2010 and March 31, 2010. 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.

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

	March 31, 2011		
(in thousands)	**Nonclassified**	**Classified**	**Total**
Commercial	$ 3,989,842	$ 106,665	$ 4,096,507
Commercial real estate mortgages	1,678,846	224,016	1,902,862
Residential mortgages:			
Fixed	1,653,456	23,917	1,677,373
Variable	1,907,399	18,286	1,925,685
Total residential mortgages	3,560,855	42,203	3,603,058
Real estate construction:			
Construction	120,355	170,280	290,635
Land	51,644	72,962	124,606
Total real estate construction	171,999	243,242	415,241
Equity lines of credit	715,871	17,696	733,567
Installment:			
Commercial	14,064	9,402	23,466
Consumer	121,194	2,119	123,313
Total installment	135,258	11,521	146,779
Lease financing	367,286	4,384	371,670
Total	$ 10,619,957	$ 649,727	$ 11,269,684

	December 31, 2010			March 31, 2010		
(in thousands)	**Nonclassified**	**Classified**	**Total**	**Nonclassified**	**Classified**	**Total**
Commercial	$ 4,009,923	$ 126,951	$ 4,136,874	$ 3,808,459	$ 255,154	$ 4,063,613
Commercial real estate mortgages	1,727,353	230,964	1,958,317	1,913,141	208,800	2,121,941
Residential mortgages:						
Fixed	1,615,970	27,076	1,643,046	1,676,479	28,907	1,705,386
Variable	1,880,570	28,696	1,909,266	1,760,799	47,964	1,808,763
Total residential mortgages	3,496,540	55,772	3,552,312	3,437,278	76,871	3,514,149
Real estate construction:						
Construction	129,671	196,847	326,518	225,165	292,833	517,998
Land	53,400	87,867	141,267	94,090	118,646	212,736
Total real estate construction	183,071	284,714	467,785	319,255	411,479	730,734
Equity lines of credit	716,276	17,465	733,741	715,996	17,554	733,550
Installment:						
Commercial	21,349	9,812	31,161	27,066	8,567	35,633
Consumer	126,905	2,078	128,983	127,222	2,074	129,296
Total installment	148,254	11,890	160,144	154,288	10,641	164,929
Lease financing	371,684	5,771	377,455	352,707	7,913	360,620
Total	$ 10,653,101	$ 733,527	$ 11,386,628	$ 10,701,124	$ 988,412	$ 11,689,536

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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)		**2011**		**2010**
Balance, beginning of period	$	67,389	$	
Provision for losses		19,116		
Reduction in allowance due to loan removals		(4,489)		
Balance, end of period	$	82,016	$	

The allowance for loan losses on covered loans was $82.0 million as of March 31, 2011. The Company recorded provision expense of $19.1 million for the three months ended March 31, 2011. There was no allowance for loan losses or provision expense on covered loans at March 31, 2010. 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 mainly the result of lower projected interest cash flows due to loan prepayments and the Company s revised default forecasts, though credit losses decreased slightly as compared with previous expectations. The revisions of the default forecasts were based on the results of management s review of the credit quality of the covered loans and the analysis of the loan performance data since the acquisition of covered loans. The 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, 2011 and 2010, 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 $2.3 million and $2.6 million of acquired covered loans that were on nonaccrual status and were considered to be impaired as of March 31, 2011 and December 31, 2010, respectively.

At March 31, 2011, covered loans that were 30 to 89 days delinquent totaled $89.3 million and covered loans that were 90 days or more past due on accrual status totaled $390.3 million. At December 31, 2010, covered loans that were 30 to 89 days delinquent totaled $99.5 million and covered loans that were 90 days or more past due on accrual status totaled $399.0 million. At March 31, 2010, covered loans that were 30 to 89 days delinquent totaled $65.2 million and covered loans that were 90 days or more past due on accrual status totaled $323.6 million.

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Note 7. Other Real Estate Owned

The following table provides a summary of OREO activity for the three months ended March 31, 2011 and 2010:

(in thousands)	For the three months ended March 31, 2011 Non-Covered OREO	Covered OREO	Total	For the three months ended March 31, 2010 Non-Covered OREO	Covered OREO	Total
Balance, beginning of period	$ 57,317	$ 120,866	$ 178,183	$ 53,308	$ 60,558	$ 113,866
Additions	6,562	27,577	34,139	21,097	24,827	45,924
Sales	(6,064)	(18,317)	(24,381)	(5,403)	(3,835)	(9,238)
Valuation adjustments	(1,473)	(8,304)	(9,777)	(10,977)	(4,024)	(15,001)
Balance, end of period	$ 56,342	$ 121,822	$ 178,164	$ 58,025	$ 77,526	$ 135,551

At March 31, 2011, OREO was $178.2 million and included $121.8 million of covered OREO. At December 31, 2010, OREO was $178.2 million and included $120.9 million of covered OREO. At March 31, 2010, OREO was $135.6 million and included covered OREO of $77.5 million

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

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Note 8. Borrowed Funds

The components of short-term borrowings and long-term debt as of March 31, 2011, December 31, 2010 and March 31, 2010 are provided below:

(in thousands) (1)		March 31, 2011		December 31, 2010		March 31, 2010
Short-term borrowings						
Current portion of subordinated debt:						
City National Bank - 6.75% Subordinated Notes Due September 2011	$	150,973	$	152,824	$	
Federal funds purchased						8,884
Other short-term borrowings		690		620		730
Total short-term borrowings	$	151,663	$	153,444	$	9,614
Long-term debt						
Senior notes:						
City National Corporation - 5.125% Senior Notes Due February 2013	$	221,525	$	223,416	$	223,469
City National Corporation - 5.25% Senior Notes Due September 2020		297,079		297,003		
Subordinated debt:						
City National Bank - 6.75% Subordinated Notes Due September 2011						160,043
City National Bank - 9.00% Subordinated Notes Due July 2019 (2)		49,690		49,680		49,652
City National Bank - 9.00% Subordinated Notes Due August 2019		74,843		74,839		74,825
City National Bank - Fixed and Floating Subordinated Notes due August 2019 (3)		54,885		54,882		54,872
Junior subordinated debt:						
Floating Rate Business Bancorp Capital Trust I Securities Due November 2034 (4)		5,151		5,151		5,151
9.625% City National Capital Trust I Securities Due February 2040						243,573
Securities sold under repurchase agreements						175,000
Total long-term debt	$	703,173	$	704,971	$	986,585

(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 and is reset quarterly. As of March 31, 2011, the interest rate was approximately 2.25 percent.

Note 9. Shareholders Equity

The components of accumulated other comprehensive income, net of tax, at March 31, 2011, December 31, 2010 and March 31, 2010 are as follows:

(in thousands)	March 31, 2011	December 31, 2010	March 31, 2010
Net unrealized gain on securities available-for-sale	$ 26,622	$ 36,386	$ 17,876
Net unrealized gain on cash flow hedges	598	1,184	6,065
Pension liability adjustment	(685)	(717)	(14)
Total accumulated other comprehensive income	$ 26,535	$ 36,853	$ 23,927

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Note 9. Shareholders Equity (Continued)

The components of total comprehensive income for the three-months ended March 31, 2011 and 2010 are as follows:

(in thousands)	For the three months ended March 31, 2011	2010
Net income (1)	$ 40,226	$ 16,233
Other comprehensive income:		
Securities available for sale:		
Net unrealized (loss) gain, net of taxes of ($5,204) and $24,092 and reclassification of $51 and $1,394 included in net income	(7,236)	33,504
Non-credit related impairment loss, net of taxes of ($1,818) and ($5,942)	(2,528)	(8,262)
Net unrealized (loss) gain on cash flow hedges, net of taxes of $0 and $2,461 and reclassification of $341 and $1,744 included in net income	(586)	1,694
Pension liability adjustment	32	40
Total other comprehensive (loss) income	(10,318)	26,976
Total comprehensive income	$ 29,908	$ 43,209

(1) Net income excludes net income attributable to redeemable noncontrolling interest of $558 and $793 for the three-month periods ended March 31, 2011 and 2010, respectively. Redeemable noncontrolling interest is reflected in the mezzanine section of the consolidated balance sheets.

The following table summarizes the Company s share repurchases for the three months ended March 31, 2011. 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, 2011.

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)
January 1, 2011 to January 31, 2011	106	$ 62.66
February 1, 2011 to February 28, 2011	201	60.13
March 1, 2011 to March 31, 2011	28,826	59.17
	29,133	59.19

At March 31, 2011, the Corporation had 0.4 million shares of common stock reserved for issuance and 0.9 million shares of unvested restricted stock 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 shares under a share-based compensation plan that qualify as participating securities.

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Note 10. Earnings per Common Share (Continued)

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

	For the three months ended March 31,			
(in thousands, except per share amounts)	**2011**		**2010**	
Basic EPS:				
Net income attributable to City National Corporation	$	39,692	$	15,698
Less: Dividends and accretion on preferred stock				5,702
Net income available to common shareholders	$	39,692	$	9,996
Less: Earnings allocated to participating securities		578		113
Earnings allocated to common shareholders	$	39,114	$	9,883
Weighted average common shares outstanding		52,320		51,690
Basic earnings per common share	$	0.75	$	0.19
Diluted EPS:				
Earnings allocated to common shareholders (1)	$	39,119	$	9,883
Weighted average common shares outstanding		52,320		51,690
Dilutive effect of equity awards		574		402
Weighted average diluted common shares outstanding		52,894		52,092
Diluted earnings per common share	$	0.74	$	0.19

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

The average price of the Company s common stock for the period is used to determine the dilutive effect of outstanding stock options and common stock warrant. Antidilutive stock options and common stock warrant are not included in the calculation of basic or diluted EPS. There were 1.7 million average outstanding stock options that were antidilutive for the three months ended March 31, 2011 compared to 2.7 million outstanding stock options and a 1.1 million common stock warrant that were antidilutive for the same period in 2010. On April 8, 2010, the Company repurchased the common stock warrant.

Note 11. Share-Based Compensation

On March 31, 2011, the Company had one share-based compensation plan, the City National Corporation 2008 Omnibus Plan (the Plan), which was approved by the Company s shareholders on April 23, 2008. No new awards will be granted under predecessor plans. A description of the Plan is provided below. The compensation cost that has been recognized for all share-based awards was $4.7 million and $3.9 million for the three months ended March 31, 2011 and 2010, respectively. The Company received $4.0 million and $9.8 million in cash for the exercise of stock options during the three months ended March 31, 2011 and 2010, respectively. The tax benefit recognized for share-based compensation arrangements in equity was $1.0 million for the three months ended March 31, 2011, compared with $1.4 million for the three months ended March 31, 2010.

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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, performance units or stock appreciation rights had been made as of March 31, 2011. 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 (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, 2011, there were approximately 0.4 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,	
	2011	**2010**
Weighted-average volatility	30.91%	31.41%
Dividend yield	1.46%	0.73%
Expected term (in years)	6.04	6.08
Risk-free interest rate	2.98%	2.99%

Using the Black-Scholes methodology, the weighted-average grant-date fair values of options granted during the three months ended March 31, 2011 and 2010 were $18.43 and $16.86, respectively. The total intrinsic values of options exercised during the three months ended March 31, 2011 and 2010 were $2.3 million and $5.4 million, respectively.

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Note 11. Share-Based Compensation (Continued)

A summary of option activity and related information for the three months ended March 31, 2011 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, 2011	4,650	$	51.38			
Granted	481		60.84			
Exercised	(107)		37.49			
Forfeited or expired	(11)		45.28			
Outstanding at March 31, 2011	5,013	$	52.59	$	43,467	5.85
Exercisable at March 31, 2011	3,368	$	55.64	$	23,778	4.47

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

A summary of changes in unvested options and related information for the three months ended March 31, 2011 is presented below:

Unvested Options	Number of Shares (in thousands)		Weighted Average Grant Date Fair Value (per share)
Unvested at January 1, 2011	1,753	$	11.62
Granted	481		18.43
Vested	(581)		11.72
Forfeited	(8)		11.09
Unvested at March 31, 2011	1,645	$	13.57

The number of options vested during the three months ended March 31, 2011 and 2010 were 580,636 and 476,088, respectively. The total fair value of options vested during the three-month periods ended March 31, 2011 and 2010 was $6.8 million and $5.4 million, respectively. As of March 31, 2011, there was $18.6 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.

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Note 11. Share-Based Compensation (Continued)

The Plan provides for granting of restricted shares of Company stock to employees. In general, twenty-five percent of the restricted stock vests two years from the date of grant, then twenty-five percent vests on each of the next three consecutive grant anniversary dates. The restricted stock is subject to forfeiture until the restrictions lapse or terminate. A summary of changes in restricted stock and related information for the three months ended March 31, 2011 is presented below:

Restricted Stock (1)	Number of Shares (in thousands)	Weighted Average Grant Date Fair Value (per share)
Unvested at January 1, 2011	717	$ 45.04
Granted	330	60.86
Vested	(135)	46.06
Forfeited	(4)	45.84
Unvested at March 31, 2011	908	$ 50.63

(1) Includes restricted stock units.

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, 2011 and 2010 were $60.86 and $50.27, respectively. The number of restricted shares vested during the three months ended March 31, 2011 and 2010 were 134,636 and 92,664, respectively. The total fair value of restricted stock vested during the three months ended March 31, 2011 and 2010 was $6.2 million and $6.1 million, respectively. The compensation expense related to restricted stock for the three months ended March 31, 2011 and 2010 was $2.3 million and $1.9 million, respectively. As of March 31, 2011, the unrecognized compensation cost related to restricted stock granted under the Company s plans was $33.2 million. That cost is expected to be recognized over a weighted-average period of 4.0 years.

Note 12. Derivative Instruments

The following table summarizes the notional amounts of derivative instruments as of March 31, 2011, December 31, 2010 and March 31, 2010. 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.

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Note 12. Derivative Instruments (Continued)

Notional Amounts of Derivative Instruments

(in millions)		March 31, 2011		December 31, 2010		March 31, 2010
Derivatives designated as hedging instruments						
Interest rate swaps - fair value:						
Certificates of deposit	$	10.0	$	10.0	$	20.0
Long-term and subordinated debt		355.9		355.9		358.2
Total fair value contracts	$	365.9	$	365.9	$	378.2
Interest rate swaps - cash flow:						
U.S. Dollar LIBOR based loans	$		$		$	50.0
Prime based loans						75.0
Total cash flow contracts	$		$		$	125.0
Total derivatives designated as hedging instruments	$	365.9	$	365.9	$	503.2
Derivatives not designated as hedging instruments						
Interest rate contracts:						
Swaps	$	992.2	$	1,043.8	$	958.3
Interest-rate caps, floors and collars		81.7		84.5		127.2
Options purchased		2.0		2.0		2.0
Options written		2.0		2.0		2.0
Total interest-rate contracts	$	1,077.9	$	1,132.3	$	1,089.5
Equity index futures	$		$		$	0.5
Foreign exchange contracts:						
Spot and forward contracts	$	103.2	$	78.2	$	259.0
Options purchased						50.3
Options written						50.3
Total foreign exchange contracts	$	103.2	$	78.2	$	359.6
Total derivatives not designated as hedging instruments	$	1,181.1	$	1,210.5	$	1,449.6

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Note 12. Derivative Instruments (Continued)

The following table summarizes the fair value and balance sheet classification of derivative instruments as of March 31, 2011, December 31, 2010 and March 31, 2010. If a counterparty fails to perform, the Company s counterparty credit risk is equal to the amount reported as a derivative asset.

Fair Values of Derivative Instruments

	March 31, 2011		December 31, 2010		March 31, 2010	
(in millions)	Derivative Assets (1)	Derivative Liabilities (1)	Derivative Assets (1)	Derivative Liabilities (1)	Derivative Assets (1)	Derivative Liabilities (1)
Derivatives designated as hedging instruments						
Interest rate swaps - fair value:						
Certificates of deposit	$ 0.3	$	$ 0.3	$	$ 1.0	$
Long-term and subordinated debt	17.2		19.8		28.2	
Total fair value contracts	$ 17.5	$	$ 20.1	$	$ 29.2	$
Interest rate swaps - cash flow:						
U.S. Dollar LIBOR based loans	$	$	$	$	$ 1.0	$
Prime based loans					1.0	
Total cash flow contracts	$	$	$	$	$ 2.0	$
Total derivatives designated as hedging instruments	$ 17.5	$	$ 20.1	$	$ 31.2	$
Derivatives not designated as hedging instruments						
Interest rate contracts:						
Swaps	$ 21.6	$ 21.5	$ 25.7	$ 25.7	$ 17.4	$ 17.1
Interest-rate caps, floors and collars	0.4	0.4	0.5	0.5	0.5	0.5
Options purchased	0.2	0.2	0.2	0.2	0.2	0.2
Options written						
Total interest-rate contracts	$ 22.2	$ 22.1	$ 26.4	$ 26.4	$ 18.1	$ 17.8
Equity index futures	$	$	$	$	$	$
Foreign exchange contracts:						
Spot and forward contracts	$ 1.5	$ 1.3	$ 1.3	$ 1.0	$ 3.4	$ 3.4
Options purchased					1.1	1.1
Options written					0.6	0.6
Total foreign exchange contracts	$ 1.5	$ 1.3	$ 1.3	$ 1.0	$ 5.1	$ 5.1
Total derivatives not designated as hedging instruments	$ 23.7	$ 23.4	$ 27.7	$ 27.4	$ 23.2	$ 22.9

(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.

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Note 12. Derivative Instruments (Continued)

Derivatives Designated as Hedging Instruments

As of March 31, 2011, the Company had $365.9 million notional amount of interest-rate swap hedge transactions, all of which were designated as fair value hedges. There were no cash flow hedges outstanding at March 31, 2011. The $17.5 million positive fair value of the fair value hedges is recorded in other assets. It includes a mark-to-market asset of $17.4 million and net interest receivable of $1.9 million, less $1.8 million of cash collateral received from a counterparty. The balance of deposits and borrowings reported in the consolidated balance sheet include a $17.4 million mark-to-market adjustment associated with interest-rate hedge transactions. AOCI includes a net deferred gain of $0.6 million related to cash flow hedges that were terminated in 2010 prior to their maturity dates for which the hedged transactions had yet to occur.

As of December 31, 2010, the Company had $365.9 million notional amount of interest-rate swap hedge transactions, all of which were designated as fair value hedges. There were no cash flow hedges outstanding at December 31, 2010. The positive fair value of the fair value hedges of $20.1 million is recorded in other assets. It includes a mark-to-market asset of $21.4 million and net interest receivable of $1.8 million, less $3.1 million of cash collateral received from a counterparty. The balance of deposits and borrowings reported in the consolidated balance sheet include a $21.4 million mark-to-market adjustment associated with interest-rate hedge transactions. AOCI includes a net deferred gain of $1.2 million related to cash flow hedges that were terminated in 2010 prior to their maturity dates for which the hedged transactions had yet to occur.

As of March 31, 2010, the Company had $503.2 million notional amount of interest-rate swap hedge transactions, of which $378.2 million were designated as fair value hedges and $125.0 million were designated as cash flow hedges. The positive fair value of the fair value hedges of $29.2 million includes a mark-to-market asset of $27.2 million and net interest receivable of $2.0 million. The balance of deposits and borrowings reported in the consolidated balance sheet include a $27.2 million mark-to-market adjustment associated with interest-rate hedge transactions. The net positive fair value of cash flow hedges of variable-rate loans of $2.0 million includes a mark-to-market asset of $1.6 million and interest receivable of $0.4 million. AOCI includes $0.9 million, after tax, related to the net positive fair value of cash flow hedges at March 31, 2010. AOCI includes a net deferred gain of $5.1 million related to cash flow hedges that were terminated prior to their maturity dates for which the hedged transactions had yet to occur.

The Company s swap agreements require the deposit of cash or marketable debt securities as collateral based on certain risk thresholds. These requirements apply individually to the Corporation and to the Bank. Additionally, certain of the Company s swap agreements contain credit-risk-related contingent features. Under these agreements, the collateral requirements are based on the Company s credit rating from the major credit rating agencies. The amount of collateral required varies by counterparty based on a range of credit ratings that correspond with exposure thresholds established in the derivative agreements. If the credit rating on the Company s debt were to fall below the level associated with a particular exposure threshold and the derivatives with a counterparty are in a net liability position that exceeds that threshold, the counterparty could request immediate payment or delivery of collateral for the difference between the net liability amount and the exposure threshold. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a net liability position on March 31, 2011 was $8.8 million. The Company delivered collateral valued at $1.1 million on swap agreements that had credit-risk contingent features and were in a net liability position at March 31, 2011.

The Company s interest-rate swaps had $5.7 million, $5.3 million and $7.6 million of credit risk exposure at March 31, 2011, December 31, 2010 and March 31, 2010, 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 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 $7.7 million, $9.7 million and $13.0 million had been received from swap counterparties at March 31, 2011, December 31, 2010 and March 31, 2010, respectively. The Company delivered collateral valued at $7.5 million on swap agreements that did not have credit-risk contingent features at March 31, 2011.

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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, 2011 and 2010 is provided below:

(in millions) **Derivative Instruments Designated as Hedging Instruments**	**Location in Consolidated Statements of Income**	**For the three months ended March 31,** **2011**		**2010**	
Interest-rate swaps-fair value	Interest expense	$	(4.2)	$	(4.4)
Interest-rate swaps-cash flow	Interest income		0.6		3.0
Total income		$	4.8	$	7.4

Fair value and cash flow interest-rate swaps increased net interest income by $4.8 million and $7.4 million for the three months ended March 31, 2011 and 2010, 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. The amount of gains on cash flow hedges reclassified from AOCI to interest income was $0.6 million and $3.0 million for the three months ended March 31, 2011 and 2010, respectively. Within the next 12 months, $0.4 million of other comprehensive income, representing the amortization of deferred gains on terminated cash flow swaps, is expected to be reclassified into interest income. Any ineffective portion of the changes of fair value of cash flow hedges is recognized immediately in Other noninterest income in the consolidated statements of income.

The amount of after-tax loss on the change in fair value of cash flow hedges recognized in AOCI was $3.4 million (net of taxes of $2.5 million) for the three months ended March 31, 2010. In addition, $0.6 million of deferred gains on terminated cash flow hedges was reclassified from AOCI to income in the three months ended March 31, 2010. There were no cash flow hedges outstanding during the three months ended March 31, 2011.

Derivatives Not Designated as Hedging Instruments

Derivative contracts not designated as hedges are marked-to-market each reporting period with changes in fair value recorded as a part of Noninterest income in the consolidated statements of income. The table below provides the amount of gains and losses on these derivative contracts for the three months ended March 31, 2011 and 2010:

(in millions) **Derivatives Not Designated as Hedging Instruments**	**Location in Consolidated Statements of Income**	**For the three months ended March 31,** **2011**		**2010**	
Interest-rate contracts	Other noninterest income	$	0.2	$	(0.1)
Equity index futures	Other noninterest income				(0.1)

Foreign exchange contracts	International services income	5.4	4.6
Total income		$ 5.6	$ 4.4

Note 13. Income Taxes

The Company recognized income tax expense of $17.9 million and $4.4 million for the three months ended March 31, 2011 and 2010, 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 $0.3 million and $61 thousand for the three months ended March 31, 2011 and 2010, respectively. The Company had approximately $3.2 million, $2.9 million and $7.4 million of accrued interest and penalties as of March 31, 2011, December 31, 2010 and March 31, 2010, respectively.

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Note 13. Income Taxes (Continued)

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 year 2010. 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 accorded transactions. If a tax position which was previously recognized on the consolidated financial statements is no longer more likely than not to be sustained upon a challenge from the taxing authorities, the tax benefit from the tax position will be derecognized. As of March 31, 2011, the Company does not have any tax positions which dropped below a more likely than not threshold.

Note 14. Retirement Plans

The Company has a profit-sharing retirement plan with an Internal Revenue Code Section 401(k) feature covering eligible employees. Employer contributions are made annually into a trust fund and are allocated to participants based on their salaries. The profit sharing contribution requirement is based on a percentage of annual operating income subject to a percentage of salary cap. Eligible employees may contribute up to 50 percent of their salary to the 401(k) plan, but not more than the maximum allowed under Internal Revenue Service regulations. The Company matches 50 percent of the first 6 percent of covered compensation. The Company recorded total profit sharing and matching contribution expense of $4.5 million and $2.1 million for the three months ended March 31, 2011 and 2010, respectively.

The Company has a Supplemental Executive Retirement Plan (SERP) for one of its executive officers. The SERP meets the definition of a pension plan under ASC Topic 960, *Plan Accounting Defined Benefit Pension Plans.* At March 31, 2011, there was a $6.4 million unfunded pension liability related to the SERP. Expense for the three months ended March 31, 2011 and 2010 was $0.2 million.

There is also a SERP covering three former executives of the Pacific Bank, which the Company acquired in 2000. As of March 31, 2011, there was an unfunded pension liability for this SERP of $2.4 million. Expense for the three months ended March 31, 2011 and 2010 were $0.2 million and $33 thousand, respectively.

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

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.

During the quarter, the Company received unfavorable judgments through arbitration totaling $7.2 million on two dispute-related legal claims. Approximately $5.1 million of these judgments are covered by the Company s insurance policies. Net charges of $1.4 million and $0.7 million were included in Other operating expense in the noninterest expense section of the consolidated statements of income for the three-months ended March 31, 2011 and September 30, 2010, respectively.

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

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Note 16. Variable Interest Entities (Continued)

housing tax credits. The balance of the investments in these entities was $111.6 million, $99.7 million and $90.3 million at March 31, 2011, December 31, 2010 and March 31, 2010, respectively, and is included in Affordable housing investments in the consolidated balance sheets. Unfunded commitments for affordable housing investments were $33.1 million at March 31, 2011. These unfunded commitments are recorded in Other liabilities in the consolidated balance sheets.

Of the affordable housing investments held as of March 31, 2011, 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 $4.3 million aggregate carrying value of these investments at March 31, 2011. There were no unfunded commitments for these affordable housing investments at March 31, 2011.

The Company also has ownership interests in several private equity investment funds that are VIEs. The Company is not a primary beneficiary and, therefore, is not required to consolidate these VIEs. The investment in these entities is carried at cost, which approximates the maximum exposure to loss as a result of the Company s involvement with these entities. The Company expects to recover its investments over time, primarily through the allocation of fund income, gains or losses on the sale of fund assets, dividends or interest income. The balance in these entities was $38.0 million, $37.5 million and $37.4 million at March 31, 2011, December 31, 2010 and March 31, 2010, 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.

Redeemable Noncontrolling Interest

The Corporation holds a majority ownership interest in six investment management and wealth advisory affiliates that it consolidates and a noncontrolling interest in two other firms. In general, the management of each majority-owned affiliate has a significant noncontrolling ownership position in 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.

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

As of March 31, 2011, affiliate noncontrolling owners held equity interests with an estimated fair value of $46.0 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 an interest holder.

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Note 17. Noncontrolling Interest (Continued)

The following is a rollforward of redeemable noncontrolling interest for the three months ended March 31, 2011 and 2010:

(in thousands)	For the three months ended March 31, 2011	2010
Balance, beginning of period	$ 45,676	$ 51,381
Net income	558	793
Distributions to redeemable noncontrolling interest	(484)	(560)
Additions and redemptions, net	(559)	(4,771)
Adjustments to fair value	822	(178)
Balance, end of period	$ 46,013	$ 46,665

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 and Nevada.

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

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

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

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Note 18. Segment Results (Continued)

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.

	For the three months ended March 31, 2011			
(in thousands)	**Commercial and Private Banking**	**Wealth Management**	**Other**	**Consolidated Company**
Earnings Summary:				
Net interest income	$ 178,891	$ 558	$ 1,841	$ 181,290
Provision for losses on covered loans	19,116			19,116
Noninterest income	62,300	41,877	(10,284)	93,893
Depreciation and amortization	3,630	1,449	3,837	8,916
Noninterest expense	165,089	38,604	(15,212)	188,481
Income before income taxes	53,356	2,382	2,932	58,670
Provision (benefit) for income taxes	22,409	766	(5,289)	17,886
Net income	30,947	1,616	8,221	40,784
Less: Net income attributable to noncontrolling interest		558	534	1,092
Net income attributable to City National Corporation	$ 30,947	$ 1,058	$ 7,687	$ 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	13,525,675	551,729	7,300,500	21,377,904
Deposits	17,750,931	46,566	386,071	18,183,568
Goodwill	318,343	161,642	6,868	486,853

Customer-relationship intangibles, net	10,971	28,941	1,440	41,352

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Note 18. Segment Results (Continued)

(in thousands)	Commercial and Private Banking	Wealth Management	Other	Consolidated Company
	For the three months ended March 31, 2010			
Earnings Summary:				
Net interest income	$ 168,990	$ 333	$ 6,182	$ 175,505
Provision for credit losses on loans and leases, excluding covered loans	55,000			55,000
Noninterest income	46,535	40,073	(9,735)	76,873
Depreciation and amortization	3,313	1,958	3,523	8,794
Noninterest expense	145,624	35,268	(13,752)	167,140
Income before income taxes	11,588	3,180	6,676	21,444
Provision (benefit) for income taxes	4,867	1,003	(1,452)	4,418
Net income	6,721	2,177	8,128	17,026
Less: Net income attributable to noncontrolling interest		793	535	1,328
Net income attributable to City National Corporation	$ 6,721	$ 1,384	$ 7,593	$ 15,698
Selected Average Balances:				
Loans and leases, excluding covered loans	$ 11,907,992	$	$ 36,334	$ 11,944,326
Covered loans	1,833,131			1,833,131
Total assets	14,487,037	547,229	5,232,982	20,267,248
Deposits	16,240,882	47,367	575,906	16,864,155
Goodwill	318,340	161,642		479,982
Customer-relationship intangibles, net	12,682	32,174		44,856

Note 19. Subsequent Event

On April 8, 2011, the Bank acquired the banking operations of Nevada Commerce Bank, 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 $139 million in assets and assumed $118 million of deposits. At the issuance date of these financial statements, the Company had not completed its initial accounting for this business combination.

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

CITY NATIONAL CORPORATION

FINANCIAL HIGHLIGHTS

(in thousands, except per share amounts)	At or for the three months ended March 31, 2011 (Unaudited)	December 31, 2010 (Unaudited)	March 31, 2010 (Unaudited)	Percent change March 31, 2011 from December 31, 2010	March 31, 2010
For The Quarter					
Net income attributable to City National Corporation	$ 39,692	$ 39,743	$ 15,698	(0)%	153%
Net income available to common shareholders	39,692	39,743	9,996	(0)	297
Net income per common share, basic	0.75	0.75	0.19		295
Net income per common share, diluted	0.74	0.74	0.19		289
Dividends per common share	0.20	0.10	0.10	100	100
At Quarter End					
Assets	$ 21,635,932	$ 21,353,118	$ 20,066,475	1	8
Securities	5,930,677	5,976,072	3,996,886	(1)	48
Loans and leases, excluding covered loans	11,269,684	11,386,628	11,689,536	(1)	(4)
Covered loans (1)	1,766,085	1,857,522	1,803,048	(5)	(2)
Deposits	18,477,939	18,176,862	16,963,729	2	9
Common shareholders equity	1,985,538	1,959,579	1,838,222	1	8
Total equity	2,010,627	1,984,718	1,863,411	1	