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 June 30, 2012

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 1-10521

CITY NATIONAL CORPORATION

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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

City National Plaza

555 South Flower Street, Los Angeles, California, 90071

(Address of principal executive offices)(Zip Code)

(213) 673-7700

(Registrant s telephone number, including area code)

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

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

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

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

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

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

As of July 31, 2012, there were 53,570,205 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)		June 30, 2012 (Unaudited)		December 31, 2011
Assets				
Cash and due from banks	$	162,893	$	168,376
Due from banks - interest-bearing		106,109		76,438
Federal funds sold		162,000		
Securities available-for-sale - cost $6,723,761 and $7,445,999 at June 30, 2012 and December 31, 2011, respectively:				
Securities pledged as collateral		42,789		37,861
Held in portfolio		6,823,092		7,534,040
Securities held-to-maturity - fair value $1,127,053 and $473,903 at June 30, 2012 and December 31, 2011, respectively		1,100,229		467,680
Trading securities		62,585		61,975
Loans and leases, excluding covered loans		13,507,209		12,309,385
Less: Allowance for loan and lease losses		269,534		262,557
Loans and leases, excluding covered loans, net		13,237,675		12,046,828
Covered loans, net of allowance for loan losses		1,216,988		1,417,289
Net loans and leases		14,454,663		13,464,117
Premises and equipment, net		147,245		143,641
Deferred tax asset		147,503		155,529
Goodwill		556,149		486,383
Customer-relationship intangibles, net		32,965		36,370
Affordable housing investments		145,582		121,039
Customers acceptance liability		1,746		1,702
Other real estate owned ($82,834 and $98,550 covered by FDIC loss share at June 30, 2012 and December 31, 2011, respectively)		117,501		129,340
FDIC indemnification asset		170,654		204,259
Other assets		568,268		577,541
Total assets	$	24,801,973	$	23,666,291
Liabilities				
Demand deposits	$	12,187,075	$	11,146,627
Interest checking deposits		1,849,588		2,034,815
Money market deposits		5,714,258		5,954,886
Savings deposits		368,544		339,858
Time deposits-under $100,000		222,368		251,782
Time deposits-$100,000 and over		767,219		659,614
Total deposits		21,109,052		20,387,582
Short-term borrowings		322,077		50,000
Long-term debt		712,280		697,778
Reserve for off-balance sheet credit commitments		24,351		23,097
Acceptances outstanding		1,746		1,702
Other liabilities		335,203		316,640

Total liabilities		22,504,709		21,476,799
Redeemable noncontrolling interest		41,899		44,643
Commitments and contingencies				
Shareholders Equity				
Common stock, par value $1.00 per share; 75,000,000 shares authorized; 53,885,886 shares issued at June 30, 2012 and December 31, 2011		53,886		53,886
Additional paid-in capital		491,439		489,200
Accumulated other comprehensive income		82,807		72,372
Retained earnings		1,686,163		1,611,969
Treasury shares, at cost - 1,063,534 and 1,386,705 shares at June 30, 2012 and December 31, 2011, respectively		(58,930)		(82,578)
Total shareholders equity		2,255,365		2,144,849
Total liabilities and shareholders equity	$	24,801,973	$	23,666,291

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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CITY NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(in thousands, except per share amounts)	For the three months ended June 30, 2012	For the three months ended June 30, 2011	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Interest income				
Loans and leases	$ 186,071	$ 169,992	$ 354,173	$ 332,931
Securities	43,549	39,639	88,935	77,058
Due from banks - interest-bearing	173	407	266	705
Federal funds sold and securities purchased under resale agreements	96	98	107	252
Total interest income	229,889	210,136	443,481	410,946
Interest expense				
Deposits	3,566	10,016	7,599	20,206
Federal funds purchased and securities sold under repurchase agreements	1	2	32	2
Subordinated debt	4,308	4,635	8,369	9,283
Other long-term debt	5,535	4,656	10,289	9,338
Total interest expense	13,410	19,309	26,289	38,829
Net interest income	216,479	190,827	417,192	372,117
Provision for credit losses on loans and leases, excluding covered loans	1,000		1,000	
Provision for losses on covered loans	13,293	1,716	20,759	20,832
Net interest income after provision	202,186	189,111	395,433	351,285
Noninterest income				
Trust and investment fees	34,067	36,687	67,721	72,325
Brokerage and mutual fund fees	5,293	4,864	10,321	10,525
Cash management and deposit transaction charges	11,475	10,905	22,643	22,630
International services	10,017	9,015	18,802	17,331
FDIC loss sharing expense, net	(6,026)	(10,684)	(5,160)	(2,079)
Gain on disposal of assets	3,011	8,422	5,202	10,846
(Loss) gain on sale of securities	(279)	1,689	170	1,819
Gain on acquisition		8,164		8,164
Other	17,388	23,169	30,947	44,727
Impairment loss on securities:				
Total other-than-temporary impairment loss on securities	(4,129)	(4,132)	(4,129)	(4,296)
Less: Portion of loss recognized in other comprehensive income	3,951	3,838	3,951	3,838
Net impairment loss recognized in earnings	(178)	(294)	(178)	(458)
Total noninterest income	74,768	91,937	150,468	185,830
Noninterest expense				
Salaries and employee benefits	115,035	112,139	235,280	223,151
Net occupancy of premises	14,056	13,665	27,742	27,011
Legal and professional fees	11,359	14,790	23,239	24,867
Information services	8,539	8,335	16,688	15,832
Depreciation and amortization	8,013	6,904	15,441	13,652
Amortization of intangibles	1,518	2,104	3,404	4,272
Marketing and advertising	7,597	7,626	14,413	14,144
Office services and equipment	4,492	4,672	8,440	9,278
Other real estate owned	7,541	22,162	19,635	36,651

FDIC assessments		4,523		8,524		9,002		18,330
Other operating		11,843		10,911		21,952		22,041
Total noninterest expense		194,516		211,832		395,236		409,229
Income before income taxes		82,438		69,216		150,665		127,886
Income taxes		27,271		20,650		48,990		38,536
Net income	$	55,167	$	48,566	$	101,675	$	89,350
Less: Net income attributable to noncontrolling interest		409		1,095		652		2,187
Net income attributable to City National Corporation	$	54,758	$	47,471	$	101,023	$	87,163
Net income per share, basic	$	1.02	$	0.89	$	1.88	$	1.64
Net income per share, diluted	$	1.01	$	0.88	$	1.87	$	1.62
Shares used to compute net income per share, basic		53,105		52,462		52,923		52,392
Shares used to compute net income per share, diluted		53,373		52,977		53,217		52,931
Dividends per share	$	0.25	$	0.20	$	0.50	$	0.40

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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CITY NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(in thousands)	For the three months ended June 30, 2012	For the three months ended June 30, 2011	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Net income	$ 55,167	$ 48,566	$ 101,675	$ 89,350
Other comprehensive income, net of tax:				
Securities available for sale:				
Net unrealized gains arising during the period	3,815	33,254	11,971	23,541
Reclassification adjustment for net gains included in net income	(10)	(1,048)	(239)	(1,099)
Non-credit related impairment loss	(2,299)	(2,233)	(2,299)	(2,233)
Net change on cash flow hedges (1)	(41)	(248)	(83)	(834)
Pension liability adjustment		33	1,085	65
Total other comprehensive income	1,465	29,758	10,435	19,440
Comprehensive income	$ 56,632	$ 78,324	$ 112,110	$ 108,790
Less: Comprehensive income attributable to noncontrolling interest	409	1,095	652	2,187
Comprehensive income attributable to City National Corporation	$ 56,223	$ 77,229	$ 111,458	$ 106,603

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

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 six months ended June 30, 2012	2011
Cash Flows From Operating Activities		
Net income	$ 101,675	$ 89,350
Adjustments to net income:		
Provision for credit losses on loans and leases, excluding covered loans	1,000	
Provision for losses on covered loans	20,759	20,832
Amortization of intangibles	3,404	4,272
Depreciation and amortization	15,441	13,652
Share-based employee compensation expense	8,968	9,468
Deferred income tax benefit	1,276	2,686
Gain on disposal of assets	(5,202)	(10,846)
Gain on sale of securities	(170)	(1,819)
Gain on acquisition		(8,164)
Impairment loss on securities	178	458
Other, net	(19,467)	(9,418)
Net change in:		
Trading securities	(851)	129,818
Other assets and other liabilities, net	40,111	51,709
Net cash provided by operating activities	167,122	291,998
Cash Flows From Investing Activities		
Purchase of securities available-for-sale	(1,331,692)	(2,017,983)
Sales of securities available-for-sale	5,189	53,304
Maturities and paydowns of securities available-for-sale	2,031,596	1,367,512
Purchase of securities held-to-maturity	(638,006)	
Maturities and paydowns of securities held-to-maturity	4,617	
Loan originations, net of principal collections	(671,623)	(108,530)
Net payments for premises and equipment	(14,703)	(19,637)
Net cash (paid) acquired in acquisitions	(69,987)	28,066
Other investing activities, net	28,527	59,628
Net cash used in investing activities	(656,082)	(637,640)
Cash Flows From Financing Activities		
Net increase in deposits	721,470	961,463
Net increase in federal funds purchased and securities sold under repurchase agreements	60,000	
Net decrease in short-term borrowings, net of transfers from long-term debt	(95,691)	(3,105)
Net increase (decrease) in long-term debt	7,707	(757)
Proceeds from exercise of stock options	9,044	4,507
Tax benefit from exercise of stock options	1,180	992
Cash dividends paid	(26,632)	(21,211)
Other financing activities, net	(1,930)	(1,429)
Net cash provided by financing activities	675,148	940,460
Net increase in cash and cash equivalents	186,188	594,818
Cash and cash equivalents at beginning of year	244,814	434,689
Cash and cash equivalents at end of period	$ 431,002	$ 1,029,507
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	$ 25,674	$ 40,129

Income taxes		30,373		26,072
Non-cash investing activities:				
Transfer of loans to other real estate owned	$	41,728	$	64,191
Transfer of SERP liability to equity		8,348		
Assets acquired (liabilities assumed) in acquisitions:				
Securities available-for-sale	$		$	10,441
Loans and leases		318,301		
Covered loans				55,313
Covered other real estate owned				7,463
Deposits				(126,795)
Other borrowings		(320,856)		(3,165)

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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CITY NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited)

	City National Corporation Shareholders Equity							
(in thousands, except share amounts)	Common shares issued	Common stock	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Treasury shares	Non-controlling interest	Total equity
Balance, January 1, 2011	53,885,886	$ 53,886	$ 487,868	$ 36,853	$ 1,482,037	$ (101,065)	$ 25,139	$ 1,984,718
Net income (1)					87,163		1,067	88,230
Other comprehensive income, net of tax				19,440				19,440
Dividends and distributions to noncontrolling interest							(1,067)	(1,067)
Issuance of shares under share-based compensation plans			(14,229)			16,754		2,525
Share-based employee compensation expense			9,363					9,363
Tax benefit from share-based compensation plans			1,037					1,037
Common stock dividends					(21,211)			(21,211)
Net change in deferred compensation plans			600					600
Change in redeemable noncontrolling interest			349					349
Other			76				(50)	26
Balance, June 30, 2011	53,885,886	$ 53,886	$ 485,064	$ 56,293	$ 1,547,989	$ (84,311)	$ 25,089	$ 2,084,010
Balance, January 1, 2012	53,885,886	$ 53,886	$ 489,200	$ 72,372	$ 1,611,969	$ (82,578)	$	$ 2,144,849
Net income (1)					101,023			101,023
Other comprehensive income, net of tax				10,435				10,435
Issuance of shares under share-based compensation plans			(16,506)			23,646		7,140
Share-based employee compensation expense			8,502					8,502
Tax benefit from share-based compensation plans			400					400
Common stock dividends					(26,829)			(26,829)
Net change in deferred compensation plans			703			2		705
Change in redeemable noncontrolling interest			792					792
Other (2)			8,348					8,348
Balance, June 30, 2012	53,885,886	$ 53,886	$ 491,439	$ 82,807	$ 1,686,163	$ (58,930)	$	$ 2,255,365

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(1) Net income excludes net income attributable to redeemable noncontrolling interest of $652 and $1,120 for the six month periods ended June 30, 2012 and 2011, respectively. Redeemable noncontrolling interest is reflected in the mezzanine section of the consolidated balance sheets. See Note 17 of the Notes to the Unaudited Consolidated Financial Statements.

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

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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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 78 offices in Southern California, the San Francisco Bay area, Nevada, New York City, Nashville, Tennessee and Atlanta, Georgia. As of June 30, 2012, the Corporation had five consolidated investment advisory affiliates and one unconsolidated subsidiary, Business Bancorp Capital Trust I. Because the Bank comprises substantially all of the business of the Corporation, references to the Company mean the Corporation and the Bank together. The Corporation is approved as a financial holding company pursuant to the Gramm-Leach-Bliley Act of 1999.

Consolidation

The consolidated financial statements of the Company include the accounts of the Corporation, its non-bank subsidiaries, the Bank and the Bank s wholly owned subsidiaries, after the elimination of all material intercompany transactions. It also includes noncontrolling interest, which is the portion of equity in a subsidiary not attributable to a parent. Preferred stock of consolidated bank affiliates that is owned by third parties is reflected as Noncontrolling interest in the equity section of the consolidated balance sheets. This preferred stock was liquidated or redeemed in full by the Bank in the third quarter of 2011. Redeemable noncontrolling interest includes noncontrolling ownership interests that are redeemable at the option of the holder or outside the control of the issuer. The redeemable equity ownership interests of third parties in the Corporation s investment advisory affiliates are not considered to be permanent equity and are reflected as Redeemable noncontrolling interest in the mezzanine section between liabilities and equity in the consolidated balance sheets. Noncontrolling interests share of subsidiary earnings is reflected as Net income attributable to noncontrolling interest in the consolidated statements of income.

The Company s investment management and wealth advisory affiliates are organized as limited liability companies. The Corporation generally owns a majority position in each affiliate and certain management members of each affiliate own the remaining shares. The Corporation has contractual arrangements with its affiliates whereby a percentage of revenue is allocable to fund affiliate operating expenses (operating share) while the remaining portion of revenue (distributable revenue) is allocable to the Corporation and the noncontrolling owners. All majority-owned affiliates that meet the prescribed criteria for consolidation are consolidated. The Corporation s interests in investment management affiliates in which it holds a noncontrolling share are accounted for using the equity method. Additionally, the Company has various interests in variable interest entities (VIEs) that are not required to be consolidated. See Note 16 for a more detailed discussion on VIEs.

Use of Estimates

The Company s accounting and reporting policies conform to generally accepted accounting principles (GAAP) and practices in the financial services industry. To prepare the financial statements in conformity with GAAP, management must make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and income and expenses during the reporting period. Circumstances and events that differ significantly from those underlying the Company s estimates and assumptions could cause actual financial results to differ from those estimates. The material estimates included in the financial statements relate to the allowance for loan and lease losses, the reserve for off-balance sheet credit commitments, valuation of stock options and restricted stock, income taxes, goodwill and intangible asset impairment, securities impairment, private equity and alternative investment impairment, valuation of assets and liabilities acquired in business combinations, subsequent valuations of acquired impaired loans, Federal Deposit Insurance Corporation (FDIC) indemnification assets, valuation of noncontrolling interest and the valuation of financial assets and liabilities reported at fair value.

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Note 1. Summary of Significant Accounting Policies (Continued)

The Company has applied its critical accounting policies and estimation methods consistently in all periods presented in these financial statements. The Company s estimates and assumptions are expected to change as changes in market conditions and the Company s portfolio occur in subsequent periods.

Basis of Presentation

The Company is on the accrual basis of accounting for income and expenses. The results of operations reflect any adjustments, all of which are of a normal recurring nature, unless otherwise disclosed in this Form 10-Q, and which, in the opinion of management, are necessary for a fair presentation of the results for the periods presented. In accordance with the usual practice of banks, assets and liabilities of individual trust, agency and fiduciary funds have not been included in the financial statements. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011.

The results for the 2012 interim period are not necessarily indicative of the results expected for the full year. The Company has not made any significant changes in its critical accounting policies or in its estimates and assumptions from those disclosed in its 2011 Annual Report other than the adoption of new accounting pronouncements and other authoritative guidance that became effective for the Company on or after January 1, 2012. Refer to *Accounting Pronouncements* for discussion of accounting pronouncements adopted in 2012.

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

Accounting Pronouncements

During the six months ended June 30, 2012, the following accounting pronouncements applicable to the Company were issued or became effective:

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

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

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Note 1. Summary of Significant Accounting Policies (Continued)

The Company elected to continue measuring derivative instruments that are subject to master netting agreements on the net risk exposure at the measurement date.

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

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

Note 2. Business Combinations

First American Equipment Finance

The Company acquired First American Equipment Finance (FAEF), a privately owned equipment leasing company, in an all-cash transaction on April 30, 2012. Headquartered in Rochester, New York, FAEF leases technology and office equipment nationwide. Its clients include educational institutions, hospitals and health systems, large law firms, insurance underwriters, enterprise businesses, professional service businesses and nonprofit organizations. FAEF operates as a wholly owned subsidiary of the Bank.

Excluding the effects of acquisition accounting adjustments, the Company acquired approximately $343.0 million in assets and assumed $325.0 million in liabilities. The Company acquired lease receivables with a fair value of $318.3 million and assumed borrowings and nonrecourse debt with a fair value of $320.9 million. The Company recognized goodwill of approximately $68.4 million and acquisition-related expense of $0.6 million. This expense is included in Legal and professional fees in the consolidated statements of income.

The consolidated statement of income for 2012 includes the operating results produced by the acquired assets and assumed liabilities of FAEF from its acquisition date through June 30, 2012, which are not material to total operating results for the three and six month periods ended June 30, 2012. Further, the historical results of the acquired entity are not material to the Company s results, and consequently, no pro forma information is presented.

Nevada Commerce Bank

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

In connection with the acquisition of NCB, the Bank entered into loss-sharing agreements with the FDIC under which the FDIC will reimburse the Bank for 80 percent of eligible losses with respect to covered assets. Covered assets include acquired loans (covered loans) and OREO (covered OREO) that are covered under loss-sharing agreements with the FDIC.

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Note 2. Business Combinations (Continued)

The term of the loss-sharing agreements is 10 years for single-family residential loans and eight years for all other loans. The expected reimbursements under the loss-sharing agreements were recorded as an indemnification asset at their estimated fair value of $33.8 million. The difference between the fair value of the FDIC indemnification asset and the undiscounted cash flow the Bank expects to collect from the FDIC is accreted into noninterest income.

Note 3. Fair Value Measurements

The following tables summarize assets and liabilities measured at fair value as of June 30, 2012 and December 31, 2011 by level in the fair value hierarchy:

		Fair Value Measurements at Reporting Date Using		
(in thousands)	**Balance as of June 30, 2012**	**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	$ 17,208	$ 17,208	$	$
Federal agency - Debt	999,207		999,207	
Federal agency - MBS	691,672		691,672	
CMOs - Federal agency	4,477,264		4,477,264	
CMOs - Non-agency	65,466		65,466	
State and municipal	383,650		336,483	47,167
Other debt securities	229,908		210,724	19,184
Equity securities and mutual funds	1,506	1,506		
Trading securities	62,585	55,034	7,551	
Mark-to-market derivatives (1)	66,659	3,177	63,482	
Total assets at fair value	$ 6,995,125	$ 76,925	$ 6,851,849	$ 66,351
Liabilities				
Mark-to-market derivatives (2)	$ 61,400	$ 1,690	$ 59,710	$
Other liabilities	417		417	
Total liabilities at fair value	$ 61,817	$ 1,690	$ 60,127	$
Measured on a Nonrecurring Basis				
Assets				
Collateral dependent impaired loans (3):				
Commercial (4)	$ 1,671	$	$	$ 1,671
Commercial real estate mortgages	13,238		12,565	673
Residential mortgages	7,899		7,435	464
Real estate construction	7,499			7,499
Equity lines of credit	790			790
Installment	550		550	
Other real estate owned (5)	48,550		37,865	10,685

Private equity and alternative investments	3,455			3,455
Total assets at fair value	$ 83,652	$	$ 58,415	$ 25,237

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

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

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

(4) Includes lease financing.

(5) Other real estate owned balance of $117.5 million in the consolidated balance sheets includes $82.8 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, 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	$ 19,182	$ 19,182	$	$
Federal agency - Debt	1,973,862		1,973,862	
Federal agency - MBS	681,044		681,044	
CMOs - Federal agency	4,326,907		4,326,907	
CMOs - Non-agency	69,001		69,001	
State and municipal	401,604		401,604	
Other debt securities	99,074		79,491	19,583
Equity securities and mutual funds	1,227	1,227		
Trading securities	61,975	61,922	53	
Mark-to-market derivatives (1)	62,230	2,552	59,678	
Total assets at fair value	$ 7,696,106	$ 84,883	$ 7,591,640	$ 19,583
Liabilities				
Mark-to-market derivatives (2)	$ 52,881	$ 1,542	$ 51,339	$
Other liabilities	263		263	
Total liabilities at fair value	$ 53,144	$ 1,542	$ 51,602	$
Measured on a Nonrecurring Basis				
Assets				
Collateral dependent impaired loans (3):				
Commercial (4)	$ 2,484	$	$	$ 2,484
Commercial real estate mortgages	6,830		6,830	
Residential mortgages	5,555		5,084	471
Real estate construction	18,528		9,680	8,848
Equity lines of credit	3,471		2,588	883
Installment	675		675	
Collateral dependent impaired covered loans (3):				
Commercial	422			422
Other real estate owned (5)	66,837		56,898	9,939
Private equity and alternative investments	6,558			6,558
Total assets at fair value	$ 111,360	$	$ 81,755	$ 29,605

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

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

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

(4) Includes lease financing.

(5) Other real estate owned balance of $129.3 million in the consolidated balance sheets includes $98.6 million of covered OREO and is net of estimated disposal costs.

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Note 3. Fair Value Measurements (Continued)

At June 30, 2012, $7.00 billion, or approximately 28 percent, of the Company s total assets were recorded at fair value on a recurring basis, compared with $7.70 billion, or 33 percent, at December 31, 2011. The majority of these financial assets were valued using Level 1 or Level 2 inputs. Less than 1 percent of total assets were measured using Level 3 inputs. At June 30, 2012, $61.8 million of the Company s total liabilities were recorded at fair value using Level 1 or Level 2 inputs, compared with $53.1 million at December 31, 2011. There were no transfers between Level 1 and Level 2 of the fair value hierarchy for assets or liabilities measured on a recurring basis during the six months ended June 30, 2012. At June 30, 2012, $83.7 million, or approximately 0.3 percent, of the Company s total assets, were recorded at fair value on a nonrecurring basis, compared with $111.4 million, or approximately 0.5 percent, at December 31, 2011. These assets were measured using Level 2 and Level 3 inputs.

Recurring Fair Value Measurements

Assets and liabilities for which fair value measurement is based on significant unobservable inputs are classified as Level 3 in the fair value hierarchy. The following table provides a reconciliation of the beginning and ending balances for Level 3 assets measured at fair value on a recurring basis for the six months ended June 30, 2012 and 2011.

Level 3 Assets Measured on a Recurring Basis

	For the six months ended	
(in thousands)	**June 30, 2012 Securities Available-for-Sale**	**June 30, 2011 Securities Available-for-Sale**
Balance, beginning of period	$ 19,583	$ 20,982
Total realized/unrealized gains (losses):		
Included in other comprehensive income	1,221	1,585
Settlements	(1,664)	(1,728)
Transfers into Level 3	47,165	
Other (1)	46	(33)
Balance, end of period	$ 66,351	$ 20,806

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

Level 3 assets measured at fair value on a recurring basis consist of municipal auction rate securities and collateralized debt obligation senior notes that are included in securities available-for-sale. During the six months ended June 30, 2012, municipal auction rate securities totaling $47.2 million were transferred from Level 2 to Level 3 of the fair value hierarchy as a result of a change in the method used to value these securities. The valuation methodology was revised due to the prolonged period of inactivity in the market for auction rate securities. At June 30, 2012, these securities were valued using an average yield on California variable rate notes that were comparable in credit rating and maturity to the securities held, plus a liquidity premium. Senior notes totaling $19.2 million at June 30, 2012 were valued using the discounted cash flow

method with the following unobservable inputs: (1) risk-adjusted discount rate consistent with similarly-rated securities, (2) prepayment rate of 2 percent, (3) default rate of 0.75 percent of performing collateral, and (4) 15 percent recovery rate with a 2-year lag. The Company had no liabilities with fair value measurements categorized as Level 3 at June 30, 2012 or 2011.

There were no purchases, sales, or transfers out of Level 3 assets measured on a recurring basis during the six months ended June 30, 2012 and 2011. Paydowns of $1.7 million were received on Level 3 assets measured on a recurring basis for the six months ended June 30, 2012 and 2011, respectively. There were no gains or losses for the six months ended June 30, 2012 and 2011 included in earnings that were attributable to the change in unrealized gains or losses relating to Level 3 assets still held as of June 30, 2012 and 2011.

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Note 3. Fair Value Measurements (Continued)

Nonrecurring Fair Value Measurements

Assets measured at fair value on a nonrecurring basis using significant unobservable inputs include certain collateral dependent impaired loans, OREO for which fair value is not solely based on market observable inputs, and certain private equity and alternative investments. Private equity and alternative investments do not have readily determinable fair values. These investments are carried at cost and evaluated for impairment on a quarterly basis. Due to the lack of readily determinable fair values for these investments, the impairment assessment is based primarily on a review of investment performance and the likelihood that the capital invested would be recovered.

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

Information About Nonrecurring Level 3 Fair Value Measurements

(in thousands)		Fair Value at June 30, 2012	Valuation Method	Unobservable Inputs
Collateral dependent impaired loans	$	11,097	Market	- Adjustments to external or internal appraised values - Probability weighting of broker price opinions - Management assumptions regarding market trends or other relevant factors
Other real estate owned	$	10,685	Market	- Adjustments to external or internal appraised values - Probability weighting of broker price opinions - Management assumptions regarding market trends or other relevant factors
Private equity and alternative investments	$	3,455	Cost Recovery	- Management s assumptions regarding recoverability of investment based on fund financial performance, market conditions and other relevant factors

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

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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 net (losses) gains, which include charge-offs, recoveries, specific reserves, OREO valuation write-downs and write-ups, gains and losses on sales of OREO, and impairment write-downs on private equity investments, recognized in the three and six months ended June 30, 2012 and 2011:

	For the three months ended June 30,		For the six months ended June 30,	
(in thousands)	**2012**	**2011**	**2012**	**2011**
Collateral dependent impaired loans:				
Commercial	$	$	$ (367)	$ (606)
Commercial real estate mortgages	(1,572)	340	(1,937)	7,454
Residential mortgages	(540)	(47)	(1,122)	(189)
Real estate construction	(281)	(3,417)	(6,753)	(1,199)
Equity lines of credit	(115)	(546)	(62)	(510)
Installment		197	(107)	(4,317)
Other real estate owned (1)	(3,700)	(16,869)	(12,165)	(25,991)
Private equity and alternative investments	(333)	(200)	(460)	(200)
Total net losses recognized	$ (6,541)	$ (20,542)	$ (22,973)	$ (25,558)

(1) Net losses on OREO includes $3.5 million and $11.0 million of net losses related to covered OREO for the three and six months ended June 30, 2012, respectively, and $14.6 million and $22.8 million of net losses for the three and six months ended June 30, 2011, respectively. A significant portion of net losses on covered OREO is reimbursable by the FDIC.

Fair Value of Financial Instruments

A financial instrument is broadly defined as cash, evidence of an ownership interest in another entity, or a contract that imposes a contractual obligation on one entity and conveys a corresponding right to a second entity to require delivery or exchange of a financial instrument. The table below summarizes the estimated fair values for the Company s financial instruments as of June 30, 2012 and December 31, 2011. The table also provides information on the level in the fair value hierarchy for inputs used in the fair value of financial assets and financial liabilities. Refer to Note 1, *Summary of Significant Accounting Policies,* in the Company s 2011 Form 10-K for additional information on fair value measurements. Most financial assets and financial liabilities for which carrying amount equals fair value are considered by the Company to be Level 1 measurements in the fair value hierarchy. Additional detail on assets and liabilities that are categorized in multiple levels of the fair value hierarchy is provided in the above tables of this Note.

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

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

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

Securities available-for-sale, Securities held-to-maturity and Trading securities For securities held as available-for-sale and held-to-maturity, the fair value is determined by quoted market prices, where available, or on observable market inputs appropriate for the type of security. If quoted market prices or observable market inputs are not available, discounted cash flows or market valuations of comparable securities with similar credit risk and maturities may be used to determine an appropriate fair value. Fair values for trading securities are based on quoted market prices or dealer quotes. The fair value of trading securities for which quoted prices are not available is based on observable market inputs.

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Note 3. Fair Value Measurements (Continued)

Loans and leases Loans and leases, excluding covered loans, are not recorded at fair value on a recurring basis. Nonrecurring fair value adjustments are periodically recorded on impaired loans that are measured for impairment based on the fair value of collateral. Due to the lack of activity in the secondary market for the types of loans in the Company s portfolio, a model-based approach is used for determining the fair value of loans for purposes of the disclosures in the following table. The fair value of loans is estimated by discounting future cash flows using discount rates that incorporate the Company s assumptions concerning current market yields, credit risk and liquidity premiums. Loan cash flow projections are based on contractual loan terms adjusted for the impact of current interest rate levels on borrower behavior, including prepayments. Loan prepayment assumptions are based on industry standards for the type of loans being valued. Projected cash flows are discounted using yield curves based on current market conditions. Yield curves are constructed by product type using the Bank s loan pricing model for like-quality credits. The discount rates used in the Company s model represent the rates the Bank would offer to current borrowers for like-quality credits. These rates could be different from what other financial institutions could offer for these loans.

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

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

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

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

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 fair value of nonrecourse debt is determined by discounting estimated future cash flows based on estimated current market rates. The carrying amount of the remaining other short-term borrowings is a reasonable estimate of fair value.

Long-term debt The fair value of long-term debt, excluding nonrecourse debt, is obtained through third-party pricing sources. The fair value of nonrecourse debt is determined by discounting estimated future cash flows based on estimated current market rates.

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Note 3. Fair Value Measurements (Continued)

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

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

(in millions)	Fair Value Level	June 30, 2012 Carrying Amount	June 30, 2012 Fair Value	December 31, 2011 Carrying Amount	December 31, 2011 Fair Value
Financial Assets:					
Cash and due from banks	1	$ 162.9	$ 162.9	$ 168.4	$ 168.4
Due from banks - interest bearing	1	106.1	106.1	76.4	76.4
Federal funds sold	1	162.0	162.0		
Securities available-for-sale	1, 2, 3	6,865.9	6,865.9	7,571.9	7,571.9
Securities held-to-maturity	2	1,100.2	1,127.1	467.7	473.9
Trading securities	1, 2	62.6	62.6	62.0	62.0
Loans and leases, net of allowance	3	13,237.7	13,694.6	12,046.8	12,400.5
Covered loans, net of allowance	3	1,217.0	1,282.2	1,417.3	1,472.6
FDIC indemnification asset	3	170.7	149.4	204.3	184.3
Investment in FHLB and FRB stock	2	99.7	99.7	107.4	107.4
Derivative assets	1, 2	66.7	66.7	62.2	62.2
Financial Liabilities:					
Deposits	2, 3	$ 21,109.1	$ 21,112.9	$ 20,387.6	$ 20,392.3
Federal funds purchased and securities sold under repurchase agreements	1	110.0	110.0	50.0	50.0
Other short-term borrowings	2, 3	212.1	216.0		
Long-term debt	2, 3	712.3	758.2	697.8	718.7
Derivative liabilities	1, 2	61.4	61.4	52.9	52.9
FDIC clawback liability	3	9.2	9.2	8.1	8.1

Note 4. Securities

At June 30, 2012, the Company had total securities of $8.03 billion, comprised of securities available-for-sale at fair value of $6.87 billion, securities held-to-maturity at amortized cost of $1.10 billion and trading securities at fair value of $62.6 million. At December 31, 2011, the Company had total securities of $8.10 billion, comprised of securities available-for-sale at fair value of $7.57 billion, securities held-to-maturity at amortized cost of $467.7 million and trading securities at fair value of $62.0 million.

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Note 4. Securities (Continued)

The following is a summary of amortized cost and estimated fair value for the major categories of securities available-for-sale and securities held-to-maturity at June 30, 2012 and December 31, 2011:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2012				
Securities available-for-sale:				
U.S. Treasury	$ 17,223	$ 1	$ (16)	$ 17,208
Federal agency - Debt	994,268	4,954	(15)	999,207
Federal agency - MBS	655,384	36,288		691,672
CMOs - Federal agency	4,388,817	89,297	(850)	4,477,264
CMOs - Non-agency	70,702	839	(6,075)	65,466
State and municipal	365,236	18,515	(101)	383,650
Other debt securities	231,795	5,291	(7,178)	229,908
Total debt securities	6,723,425	155,185	(14,235)	6,864,375
Equity securities and mutual funds	336	1,170		1,506
Total securities available-for-sale	$ 6,723,761	$ 156,355	$ (14,235)	$ 6,865,881
Securities held-to-maturity (1):				
Federal agency - Debt	$ 103,439	$ 2,002	$	$ 105,441
Federal agency - MBS	200,763	5,520	(99)	206,184
CMOs - Federal agency	642,102	18,384	(22)	660,464
State and municipal	153,925	2,248	(1,209)	154,964
Total securities held-to-maturity	$ 1,100,229	$ 28,154	$ (1,330)	$ 1,127,053
December 31, 2011				
Securities available-for-sale:				
U.S. Treasury	$ 19,163	$ 24	$ (5)	$ 19,182
Federal agency - Debt	1,967,928	6,230	(296)	1,973,862
Federal agency - MBS	650,091	31,040	(87)	681,044
CMOs - Federal agency	4,239,205	89,926	(2,224)	4,326,907
CMOs - Non-agency	79,999	322	(11,320)	69,001
State and municipal	383,210	18,767	(373)	401,604
Other debt securities	106,051	1,896	(8,873)	99,074
Total debt securities	7,445,647	148,205	(23,178)	7,570,674
Equity securities and mutual funds	352	875		1,227
Total securities available-for-sale	$ 7,445,999	$ 149,080	$ (23,178)	$ 7,571,901
Securities held-to-maturity (1):				
Federal agency - Debt	$ 40,423	$ 780	$	$ 41,203
Federal agency - MBS	75,231	1,632		76,863
CMOs - Federal agency	292,547	2,580	(195)	294,932
State and municipal	59,479	1,463	(37)	60,905
Total securities held-to-maturity	$ 467,680	$ 6,455	$ (232)	$ 473,903

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

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Note 4. Securities (Continued)

Proceeds from sales of securities available-for-sale were $5.2 million for the three and six months ended June 30, 2012, respectively, compared with $47.2 million and $53.3 million for the three and six months ended June 30, 2011, respectively. There were no sales of securities held-to-maturity during the three and six months ended June 30, 2012 and June 30, 2011. The following table provides the gross realized gains and losses on the sales and calls of securities (including trading securities):

(in thousands)	For the three months ended June 30, 2012	For the three months ended June 30, 2011	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Gross realized gains	$ 40	$ 2,621	$ 536	$ 2,781
Gross realized losses	(319)	(932)	(366)	(962)
Net realized (losses) gains	$ (279)	$ 1,689	$ 170	$ 1,819

Interest income on securities (including trading securities) for the three months ended June 30, 2012 and 2011 is comprised of: (i) taxable interest income of $39.3 million and $36.3 million, respectively (ii) nontaxable interest income of $4.0 million and $2.9 million, respectively, and (iii) dividend income of $0.2 million and $0.4 million, respectively. Interest income on securities (including trading securities) for the six months ended June 30, 2012 and 2011 is comprised of: (i) taxable interest income of $80.9 million and $70.6 million, respectively (ii) nontaxable interest income of $7.8 million and $5.9 million, respectively, and (iii) dividend income of $0.2 million and $0.6 million, respectively.

The following table provides the expected remaining maturities of debt securities included in the securities portfolio at June 30, 2012. The maturities of mortgage-backed securities are allocated according to the average life of expected cash flows. Average expected maturities will differ from contractual maturities because of the amortizing nature of the loan collateral and prepayment behavior of borrowers.

(in thousands)	One year or less	Over 1 year through 5 years	Over 5 years through 10 years	Over 10 years	Total
Securities available-for-sale:					
U.S. Treasury	$ 5,003	$ 12,205	$	$	$ 17,208
Federal agency - Debt	663,719	335,488			999,207
Federal agency - MBS	11	455,069	236,592		691,672
CMOs - Federal agency	309,857	4,012,348	155,059		4,477,264
CMOs - Non-agency	12,442	20,992	32,032		65,466
State and municipal	47,369	218,736	67,047	50,498	383,650
Other	3,416	184,044	42,448		229,908
Total debt securities available-for-sale	$ 1,041,817	$ 5,238,882	$ 533,178	$ 50,498	$ 6,864,375
Amortized cost	$ 1,035,552	$ 5,130,739	$ 506,789	$ 50,345	$ 6,723,425
Securities held-to-maturity:					
Federal agency - Debt	$ 10,947	$	$	$ 92,492	$ 103,439
Federal agency - MBS		2,663	198,100		200,763
CMOs - Federal agency		92,378	549,724		642,102
State and municipal	500	10,386	96,733	46,306	153,925
	$ 11,447	$ 105,427	$ 844,557	$ 138,798	$ 1,100,229

Total debt securities held-to-maturity at amortized cost

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Note 4. Securities (Continued)

Impairment Assessment

The Company performs a quarterly assessment of the debt and equity securities in its investment portfolio that have an unrealized loss to determine whether the decline in the fair value of these securities below their cost is other-than-temporary. Impairment is considered other-than-temporary when it becomes probable that an investor will be unable to recover the cost of an investment. The Company s impairment assessment takes into consideration factors such as the 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 non-agency CMOs were other-than-temporarily impaired at June 30, 2012. See *Non-Agency CMOs* below. The Company recorded impairment losses in earnings on securities available-for-sale of $0.2 million for the three and six months ended June 30, 2012. Impairment losses recognized in earnings on securities available-for-sale during the three and six months ended June 30, 2011 were $0.3 million and $0.5 million, respectively. The Company recognized $4.0 million and $3.8 million of non-credit-related other-than-temporary impairment in AOCI on securities available-for-sale at June 30, 2012 and 2011, respectively. There were no impairment losses recognized in earnings or AOCI for securities held-to-maturity during the three and six months ended June 30, 2012.

The following table summarizes the changes in cumulative credit-related other-than-temporary impairment recognized in earnings for debt securities for the three and six months ended June 30, 2012 and 2011. Credit-related other-than-temporary impairment that was recognized in earnings is reflected as an Initial credit-related impairment if the period reported is the first time the security had a credit impairment. A credit-related other-than-temporary impairment is reflected as a Subsequent credit-related impairment if the period reported is not the first time the security had a credit impairment. Cumulative impairment is reduced for securities with previously recognized credit-related impairment that were sold during the period. Cumulative impairment is further reduced for increases in expected cash flows.

	For the three months ended June 30,		**For the six months ended June 30,**	
(in thousands)	**2012**	**2011**	**2012**	**2011**

Balance, beginning of period	$ 17,369	$ 17,550	$ 17,531	$ 17,923
Subsequent credit-related impairment	178	294	178	458
Reduction for securities sold		(455)		(455)
Reduction for net increase in expected cash flows on securities for which OTTI was previously recognized	(181)	(96)	(343)	(633)
Balance, end of period	$ 17,366	$ 17,293	$ 17,366	$ 17,293

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Note 4. Securities (Continued)

Non-Agency CMOs

The Company held $44.3 million of variable rate non-agency CMOs at June 30, 2012, of which $19.3 million of these securities were 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 variable rate non-agency CMOs totaling $0.2 million for the three and six months ended June 30, 2012. The Company recognized credit-related impairment losses of $0.3 million and $0.5 million in earnings for the three and six months ended June 30, 2011, respectively. The non-credit portion of other-than-temporary impairment for these securities at June 30, 2012 and 2011 was recognized in AOCI and is attributed to external market conditions, primarily the lack of liquidity in these securities, resulting in an increase in interest rate spreads for these securities. The Company also holds $21.2 million in fixed rate non-agency CMOs at June 30, 2012, none of which have experienced any other-than-temporary impairment.

The following table provides a summary of the gross unrealized losses and fair value of investment securities that are not deemed to be other-than-temporarily impaired aggregated by investment category and length of time that the securities have been in a continuous unrealized loss position as of June 30, 2012 and December 31, 2011. The table also includes investment securities that had both a credit-related impairment recognized in earnings and a non-credit-related impairment recognized in AOCI.

	Less than 12 months		12 months or greater		Total	
(in thousands)	Fair Value	Estimated Unrealized Loss	Fair Value	Estimated Unrealized Loss	Fair Value	Estimated Unrealized Loss
June 30, 2012						
Securities available-for-sale:						
U.S. Treasury	$ 12,206	$ 16	$ —	$ —	$ 12,206	$ 16
Federal agency - Debt	54,606	15	—	—	54,606	15
CMOs - Federal agency	416,059	850	—	—	416,059	850
CMOs - Non-agency	3,918	19	33,743	6,056	37,661	6,075
State and municipal	4,006	60	1,415	41	5,421	101
Other debt securities	13,244	3	15,768	7,175	29,012	7,178
Total securities available-for-sale	$ 504,039	$ 963	$ 50,926	$ 13,272	$ 554,965	$ 14,235
Securities held-to-maturity:						
Federal agency - MBS	$ 9,852	$ 99	$ —	$ —	$ 9,852	$ 99
CMOs - Federal agency	5,121	22	—	—	5,121	22
State and municipal	66,954	1,209	—	—	66,954	1,209
Total securities held-to-maturity	$ 81,927	$ 1,330	$ —	$ —	$ 81,927	$ 1,330

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Note 4. Securities (Continued)

(in thousands)	Less than 12 months Fair Value	Less than 12 months Estimated Unrealized Loss	12 months or greater Fair Value	12 months or greater Estimated Unrealized Loss	Total Fair Value	Total Estimated Unrealized Loss
December 31, 2011						
Securities available-for-sale:						
U.S. Treasury	$ 4,145	$ 5	$	$	$ 4,145	$ 5
Federal agency - Debt	409,129	296			409,129	296
Federal agency - MBS	24,519	87			24,519	87
CMOs - Federal agency	744,737	2,224			744,737	2,224
CMOs - Non-agency	20,094	833	31,400	10,487	51,494	11,320
State and municipal	42,164	268	2,023	105	44,187	373
Other debt securities	34,153	508	14,718	8,365	48,871	8,873
Total securities available-for-sale	$ 1,278,941	$ 4,221	$ 48,141	$ 18,957	$ 1,327,082	$ 23,178
Securities held-to-maturity:						
CMOs - Federal agency	$ 32,256	$ 195	$	$	$ 32,256	$ 195
State and municipal	5,784	37			5,784	37
Total securities held-to-maturity	$ 38,040	$ 232	$	$	$ 38,040	$ 232

At June 30, 2012, the Company had $555.0 million of securities available-for-sale in an unrealized loss position, consisting of $535.7 million of temporarily impaired securities and $19.3 million of securities that had non-credit-related impairment recognized in AOCI. The Company had $81.9 million of securities held-to-maturity in an unrealized loss position. At June 30, 2012, the Company had 141 debt securities available-for-sale and held-to-maturity in an unrealized loss position. The debt securities in an unrealized loss position include 4 U.S. Treasury securities, 2 federal agency debt securities, 1 federal agency MBS, 20 federal agency CMOs, 7 non-agency CMOs, 105 state and municipal securities and 2 other debt securities.

The unrealized loss on non-agency CMOs reflects the lack of liquidity in this sector of the market. The Company only holds the most senior tranches of each non-agency issue which provides protection against defaults. The Company expects to receive principal and interest payments equivalent to or greater than the current cost basis of its portfolio of debt securities. Additionally, the Company does not intend to sell the securities, and it is not more likely than not that it will be required to sell the securities before it recovers the cost basis of its investment. The mortgages in these asset pools are 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 June 30, 2012 are the most senior tranches of each issue. Trading activity for the type of CDO held by the Company has been limited since 2008. Accordingly, the fair values of these securities were determined using an internal pricing model that incorporates assumptions about discount rates in an illiquid market, projected cash flows and collateral performance. The CDOs had a $7.0 million net unrealized loss at June 30, 2012, which the Company attributes to the illiquid credit markets. The CDOs have collateral that well exceeds the outstanding debt. Security valuations reflect the current and prospective performance of the issuers whose debt is contained in these asset pools. The Company expects to receive all contractual principal and interest payments due on its CDOs. Additionally, the Company does not intend to sell the securities, and it is not more likely than not that it will be required to sell the securities before it recovers the cost basis of

its investment.

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Note 4. Securities (Continued)

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

Note 5. Other Investments

Federal Home Loan Bank of San Francisco and Federal Reserve Bank Stock

The Company s investment in stock issued by the Federal Home Loan Bank of San Francisco (FHLB) and Federal Reserve Bank (FRB) totaled $99.7 million and $107.4 million at June 30, 2012 and December 31, 2011, respectively. Ownership of government agency securities is restricted to member banks, and the securities do not have readily determinable market values. The Company records investments in FHLB and FRB stock at cost in Other assets of the consolidated balance sheets and evaluates these investments for impairment. The Company expects to recover the full amount invested in FHLB and FRB stock and does not consider its investments to be impaired at June 30, 2012.

Private Equity and Alternative Investments

The Company has ownership interests in a limited number of private equity, venture capital, real estate and hedge funds that are not publicly traded and do not have readily determinable fair values. These investments are carried at cost in the Other assets section of the consolidated balance sheets and are net of impairment write-downs, if applicable. The Company s investments in these funds totaled $40.2 million at June 30, 2012 and $39.9 million at December 31, 2011. A summary of investments by fund type is provided below:

(in thousands) **Fund Type**	**June 30,** **2012**	**December 31,** **2011**
Private equity and venture capital	$ 23,306	$ 23,093
Real estate	10,711	10,541
Hedge	2,866	2,883
Other	3,355	3,402
Total	$ 40,238	$ 39,919

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

recognized impairment losses totaling $0.3 million and $0.5 million on its investments during the three and six months ended June 30, 2012, respectively. The Company recognized impairment losses totaling $0.2 million on its investments during the three and six months ended June 30, 2011.

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Note 5. Other Investments (Continued)

The table below provides information as of June 30, 2012 on private equity and alternative investments measured at fair value on a nonrecurring basis due to the recognition of impairment:

Alternative Investments Measured at Fair Value on a Nonrecurring Basis

(in thousands) Fund Type	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equity and venture capital (2)	$ 42	$	None (1)	N/A
Real estate (3)	3,413	506	None (1)	N/A
Total	$ 3,455	$ 506		

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

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

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

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

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

Loans and Leases

(in thousands)	June 30, 2012	December 31, 2011
Commercial	$ 5,379,489	$ 4,846,594
Commercial real estate mortgages	2,424,333	2,110,749
Residential mortgages	3,822,630	3,763,218
Real estate construction	301,829	315,609
Equity lines of credit	741,270	741,081
Installment	130,200	132,647
Lease financing	707,458	399,487
Loans and leases, excluding covered loans	13,507,209	12,309,385

Less: Allowance for loan and lease losses		(269,534)	(262,557)
Loans and leases, excluding covered loans, net		13,237,675	12,046,828
Covered loans		1,260,135	1,481,854
Less: Allowance for loan losses		(43,147)	(64,565)
Covered loans, net		1,216,988	1,417,289
Total loans and leases	$	14,767,344	$ 13,791,239
Total loans and leases, net	$	14,454,663	$ 13,464,117

The loan amounts above include unamortized fees, net of deferred costs, of $5.0 million and $7.5 million as of June 30, 2012 and December 31, 2011, respectively.

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

Concentrations of credit risk arise when a number of clients are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. Although the Company s lending activities are predominantly in California, and to a lesser extent, New York and Nevada, the Company has various specialty lending businesses that lend to businesses located throughout the United States of America. Excluding covered loans, at June 30, 2012, California represented 81 percent of total loans outstanding and New York and Nevada represented 7 percent and 3 percent, respectively. The remaining 9 percent of total loans outstanding represented other states. Although the Company has a diversified loan portfolio, a substantial portion of the loan portfolio and credit performance depends on the economic stability of Southern California. Credit performance also depends, to a lesser extent, on economic conditions in the San Francisco Bay area, New York and Nevada. Within the Company s covered loan portfolio at June 30, 2012, the five states with the largest concentration were California (39 percent), Texas (12 percent), Nevada (8 percent), Arizona (4 percent) and Ohio (4 percent). The remaining 33 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 $1.26 billion as of June 30, 2012 and $1.48 billion as of December 31, 2011. Covered loans, net of allowance for loan losses, were $1.22 billion at June 30, 2012 and $1.42 billion at December 31, 2011.

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

(in thousands)	June 30, 2012	December 31, 2011
Commercial	$ 22,772	$ 30,911
Commercial real estate mortgages	1,135,071	1,288,352
Residential mortgages	5,766	14,931
Real estate construction	90,196	140,992
Equity lines of credit	5,265	5,167
Installment	1,065	1,501
Covered loans	1,260,135	1,481,854
Less: Allowance for loan losses	(43,147)	(64,565)
Covered loans, net	$ 1,216,988	$ 1,417,289

The Company evaluated the acquired loans from its FDIC-assisted acquisitions and concluded that all loans, with the exception of a small population of acquired loans, would be accounted for under ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* (ASC 310-30). Loans are accounted for under ASC 310-30 when there is evidence of credit deterioration since origination and for which it is probable, at acquisition, that the Company would be unable to collect all contractually required payments. Interest income is recognized on all acquired impaired loans through accretion of the difference between the carrying amount of the loans and their expected cash flows.

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

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

The excess of cash flows expected to be collected over the carrying value of the underlying acquired impaired loans is referred to as the accretable yield. This amount is not reported in the consolidated balance sheets, but is accreted into interest income at a level yield over the remaining estimated lives of the underlying pools of loans. Changes in the accretable yield for acquired impaired loans were as follows for the six months ended June 30, 2012 and 2011:

	For the six months ended June 30,	
(in thousands)	2012	2011
Balance, beginning of period	$ 436,374	$ 562,826
Additions		10,871
Accretion	(43,085)	(54,558)
Reclassifications (to) from nonaccretable yield	(10,212)	13,461
Disposals and other	(36,944)	(27,127)
Balance, end of period	$ 346,133	$ 505,473

The factors that most significantly affect estimates of cash flows expected to be collected, and accordingly the accretable yield balance, include: (i) changes in credit assumptions, including both credit loss amounts and timing; (ii) changes in prepayment assumptions; and (iii) changes in interest rates for variable-rate loans. Reclassifications between accretable yield and nonaccretable yield may vary from period to period as the Company periodically updates its cash flow projections. The reclassification of accretable yield to nonaccretable yield during 2012 was principally driven by negative changes in future cash flows, both timing and amount, which were primarily a result of changes in credit assumptions.

The Company recorded an indemnification asset related to its FDIC-assisted acquisitions, which represents the present value of the expected reimbursement from the FDIC for expected losses on acquired loans, OREO and unfunded commitments. The FDIC indemnification asset from all FDIC-assisted acquisitions was $170.7 million at June 30, 2012 and $204.3 million at December 31, 2011.

Credit Quality on Loans and Leases, Excluding Covered Loans

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

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

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

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

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

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

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

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

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

The following tables provide a summary of activity in the allowance for loan and lease losses and the period-end recorded investment balances of loans evaluated for impairment, excluding covered loans, for the three and six months ended June 30, 2012 and 2011. Activity is provided by loan type which is consistent with the Company s methodology for determining the allowance for loan and lease losses.

(in thousands)	Commercial (1)	Commercial Real Estate Mortgages	Residential Mortgages	Real Estate Construction	Equity Lines of Credit	Installment	Unallocated	Total
Three months ended June 30, 2012								
Allowance for loan and lease losses:								
Beginning balance	$ 84,087	$ 46,586	$ 13,803	$ 22,096	$ 8,032	$ 1,938	$ 89,535	$ 266,077
Provision for credit losses (2)	1,228	(51)	(846)	326	386	100	(427)	716
Charge-offs	(1,302)	(181)	(749)	(7,858)	(846)	(617)		(11,553)
Recoveries	9,394	1,294	206	3,019	38	343		14,294
Net (charge-offs) recoveries	8,092	1,113	(543)	(4,839)	(808)	(274)		2,741
Ending balance	$ 93,407	$ 47,648	$ 12,414	$ 17,583	$ 7,610	$ 1,764	$ 89,108	$ 269,534
Six months ended June 30, 2012								
Allowance for loan and lease losses:								
Beginning balance	$ 82,965	$ 45,967	$ 14,029	$ 23,347	$ 8,024	$ 1,959	$ 86,266	$ 262,557
Provision for credit losses (2)	(2,933)	1,234	(578)	(1,029)	548	(338)	2,842	(254)
Charge-offs	(10,219)	(873)	(1,303)	(9,459)	(1,035)	(826)		(23,715)
Recoveries	23,594	1,320	266	4,724	73	969		30,946
Net (charge-offs) recoveries	13,375	447	(1,037)	(4,735)	(962)	143		7,231
Ending balance	$ 93,407	$ 47,648	$ 12,414	$ 17,583	$ 7,610	$ 1,764	$ 89,108	$ 269,534
Ending balance of allowance:								
Individually evaluated for impairment	$ 2,850	$ 2,282	$ 398	$ 1,866	$ 154	$	$	$ 7,550
Collectively evaluated for impairment	90,557	45,366	12,016	15,717	7,456	1,764	89,108	261,984
Loans and leases, excluding covered loans								
Ending balance of loans and leases:								
Loans and leases, excluding covered loans	$ 6,086,947	$ 2,424,333	$ 3,822,630	$ 301,829	$ 741,270	$ 130,200	$	$ 13,507,209
Individually evaluated for impairment	43,144	45,491	13,634	66,529	4,434	550		173,782
Collectively evaluated for impairment	6,043,803	2,378,842	3,808,996	235,300	736,836	129,650		13,333,427

(1) Includes lease financing loans.
(2) Provision for credit losses in the allowance rollforward for the three months ended June 30, 2012 includes total provision expense of $1.0 million and total transfers to the reserve for off-balance sheet credit commitments of $0.3 million. Provision for credit losses for the six months ended June 30, 2012 includes total provision expense of $1.0 million and total transfers to the reserve for off-balance sheet credit commitments of $1.3 million.

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

(in thousands)	Commercial (1)	Commercial Real Estate Mortgages	Residential Mortgages	Real Estate Construction	Equity Lines of Credit	Installment	Unallocated	Total
Three months ended June 30, 2011								
Allowance for loan and lease losses:								
Beginning balance	$ 75,661	$ 47,519	$ 13,527	$ 36,693	$ 6,445	$ 5,445	$ 78,066	$ 263,356
Provision for credit losses (2)	7,440	272	(401)	(7,815)	343	(3,600)	2,143	(1,618)
Charge-offs	(3,446)	(98)	(375)	(1,897)	(128)	(131)		(6,075)
Recoveries	6,062	1,367	122	2,474	8	237		10,270
Net charge-offs (recoveries)	2,616	1,269	(253)	577	(120)	106		4,195
Ending balance	$ 85,717	$ 49,060	$ 12,873	$ 29,455	$ 6,668	$ 1,951	$ 80,209	$ 265,933
Six months ended June 30, 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)	2,587	(10,937)	(3,012)	(15,772)	316	(1,884)	26,906	(1,796)
Charge-offs	(6,684)	(2,897)	(1,022)	(2,463)	(921)	(455)		(14,442)
Recoveries	7,363	10,378	154	6,866	44	359		25,164
Net charge-offs (recoveries)	679	7,481	(868)	4,403	(877)	(96)		10,722
Ending balance	$ 85,717	$ 49,060	$ 12,873	$ 29,455	$ 6,668	$ 1,951	$ 80,209	$ 265,933
Ending balance of allowance:								
Individually evaluated for impairment	$ 7,605	$ 1,150	$ 56	$ 1,853	$ 404	$	$	$ 11,068
Collectively evaluated for impairment	78,112	47,910	12,817	27,602	6,264	1,951	80,209	254,865
Loans and leases, excluding covered loans								
Ending balance of loans and leases:								
Loans and leases excluding covered loans	$ 4,800,252	$ 1,930,269	$ 3,710,765	$ 355,014	$ 735,899	$ 130,924	$	$ 11,663,123
Individually evaluated for impairment	19,236	23,769	12,536	60,630	4,522	41		120,734
Collectively evaluated for impairment	4,781,016	1,906,500	3,698,229	294,384	731,377	130,883		11,542,389

(1) Includes lease financing loans.

(2) There was no provision for credit losses for the three and six months ended June 30, 2011. Net transfers to the reserve for off-balance sheet credit commitments were $1.6 million and $1.8 million for the three and six months ended June 30, 2011, respectively.

Off-balance sheet credit exposures include loan commitments and letters of credit. The following table provides a summary of activity in the reserve for off-balance sheet credit commitments for the three and six months ended June 30, 2012 and 2011:

	For the three months ended June 30,		For the six months ended June 30,	
(in thousands)	**2012**	**2011**	**2012**	**2011**
Balance, beginning of period	$ 24,067	$ 21,707	$ 23,097	$ 21,529
Transfers from allowance for loan and lease losses	284	1,618	1,254	1,796
Balance, end of period	$ 24,351	23,325	$ 24,351	23,325

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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 June 30, 2012, December 31, 2011 and June 30, 2011 is provided in the following tables:

				For the three months ended June 30, 2012		For the six months ended June 30, 2012	
(in thousands)	Recorded Investment	Unpaid Contractual Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
June 30, 2012							
With no related allowance recorded:							
Commercial	$ 32,378	$ 43,247	$	$ 30,100	$	$ 23,451	$
Commercial real estate mortgages	28,368	33,107		21,188	55	20,748	124
Residential mortgages:							
Fixed	1,830	2,518		2,248		2,663	
Variable	6,257	6,688		6,412	39	5,504	39
Total residential mortgages	8,087	9,206		8,660	39	8,167	39
Real estate construction:							
Construction	38,828	52,209		29,937	126	29,103	242
Land	18,936	22,101		21,513		24,006	
Total real estate construction	57,764	74,310		51,450	126	53,109	242
Equity lines of credit	3,207	4,245		4,621		4,861	
Installment:							
Consumer	550	927		550		586	
Total installment	550	927		550		586	
Lease financing						9	
Total with no related allowance	$ 130,354	$ 165,042	$	$ 116,569	$ 220	$ 110,931	$ 405
With an allowance recorded:							
Commercial	$ 10,766	$ 11,591	$ 2,850	$ 11,680	$	$ 12,995	$
Commercial real estate mortgages	17,123	18,266	2,282	12,711		12,077	
Residential mortgages:							
Fixed	2,291	2,353	236	2,316		1,716	
Variable	3,256	3,951	162	2,341		2,044	
Total residential mortgages	5,547	6,304	398	4,657		3,760	
Real estate construction:							
Land	8,765	18,575	1,866	15,658		16,900	
Total real estate construction	8,765	18,575	1,866	15,658		16,900	

Equity lines of credit	1,227	1,421	154	1,086		1,155	
Total with an allowance	$ 43,428	$ 56,157	$ 7,550	$ 45,792	$	$ 46,887	$
Total impaired loans by type:							
Commercial	$ 43,144	$ 54,838	$ 2,850	$ 41,780	$	$ 36,446	$
Commercial real estate mortgages	45,491	51,373	2,282	33,899	55	32,825	124
Residential mortgages	13,634	15,510	398	13,317	39	11,927	39
Real estate construction	66,529	92,885	1,866	67,108	126	70,009	242
Equity lines of credit	4,434	5,666	154	5,707		6,016	
Installment	550	927		550		586	
Lease financing						9	
Total impaired loans	$ 173,782	$ 221,199	$ 7,550	$ 162,361	$ 220	$ 157,818	$ 405

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

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

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

				For the three months ended June 30, 2011		For the six months ended June 30, 2011	
(in thousands)	Recorded Investment	Unpaid Contractual Principal Balance (1)	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
June 30, 2011							
With no related allowance recorded:							
Commercial	$ 4,007	$ 23,764	$	$ 5,204	$	$ 5,901	$
Commercial real estate mortgages	14,610	21,607		16,550	60	18,866	190
Residential mortgages:							
Fixed	7,834	8,678		7,036	17	8,338	162
Variable	4,163	4,595		3,717	24	3,827	34
Total residential mortgages	11,997	13,273		10,753	41	12,165	196
Real estate construction:							
Construction	39,184	73,136		44,221	175	54,740	405
Land	11,271	15,100		17,400		19,510	
Total real estate construction	50,455	88,236		61,621	175	74,250	405
Equity lines of credit	2,420	2,551		2,856		2,906	
Installment:							
Consumer	41	41		41		41	
Total installment	41	41		41		41	
Lease financing	762	6,279		935		1,002	99
Total with no related allowance	$ 84,292	$ 155,751	$	$ 97,960	$ 276	$ 115,131	$ 890
With an allowance recorded:							
Commercial	$ 14,467	$ 46,222	$ 7,605	$ 10,695	$	$ 9,986	$
Commercial real estate mortgages	9,159	10,960	1,150	8,229		11,866	
Residential mortgages:							
Fixed	539	549	56	1,046		886	
Variable				707		950	
Total residential mortgages	539	549	56	1,753		1,836	
Real estate construction:							
Construction				4,409		5,889	
Land	10,175	10,700	1,853	5,087		3,392	
Total real estate construction	10,175	10,700	1,853	9,496		9,281	
Equity lines of credit	2,102	2,555	404	1,530	3	1,642	6
Installment:							
Commercial				3,448		2,299	
Total installment				3,448		2,299	
Lease financing						285	
Total with an allowance	$ 36,442	$ 70,986	$ 11,068	$ 35,151	$ 3	$ 37,195	$ 6

Total impaired loans by type:							
Commercial	$ 18,474	$ 69,986	$ 7,605	$ 15,899	$	$ 15,887	$
Commercial real estate mortgages	23,769	32,567	1,150	24,779	60	30,732	190
Residential mortgages	12,536	13,822	56	12,506	41	14,001	196
Real estate construction	60,630	98,936	1,853	71,117	175	83,531	405
Equity lines of credit	4,522	5,106	404	4,386	3	4,548	6
Installment	41	41		3,489		2,340	
Lease financing	762	6,279		935		1,287	99
Total impaired loans	$ 120,734	$ 226,737	$ 11,068	$ 133,111	$ 279	$ 152,326	$ 896

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

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

Impaired loans at June 30, 2012 and December 31, 2011 included $72.8 million and $46.6 million, respectively, of restructured loans that are on accrual status. With the exception of restructured loans on accrual status and a limited number of loans on cash basis nonaccrual for which the full collection of principal and interest is expected, interest income is not recognized on impaired loans until the principal balance of these loans is paid off.

Troubled Debt Restructured Loans

The following tables provide a summary of loans modified in a troubled debt restructuring during the three and six months ended June 30, 2012:

(in thousands)	Number of Contracts	Pre-Modification Outstanding Principal	Period-End Outstanding Principal	Financial Effects (1)
Three months ended June 30, 2012				
Commercial	4	$ 18,179	$ 18,148	$
Commercial real estate mortgages	2	15,832	15,832	
Real estate construction:				
Construction	2	9,325	9,325	
Total troubled debt restructured loans	8	$ 43,336	$ 43,305	$
Six months ended June 30, 2012				
Commercial	9	$ 35,161	$ 32,351	$
Commercial real estate mortgages	2	15,832	15,832	
Residential mortgages:				
Fixed	1	655		
Real estate construction:				
Construction	3	14,857	14,458	
Total troubled debt restructured loans	15	$ 66,505	$ 62,641	$

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

The following table provides a summary of troubled debt restructured (TDR) loans that subsequently defaulted during the six months ended June 30, 2012, that had been modified as a troubled debt restructuring during the 12 months prior to their default:

	For the three months ended June 30, 2012	For the six months ended June 30, 2012

(in thousands)	Number of Contracts	Period-End Outstanding Principal	Period-End Specific Reserve	Number of Contracts	Period-End Outstanding Principal	Period-End Specific Reserve
Commercial	2	$ 4,327	$ 277	3	$ 4,341	$ 277
Real estate construction:						
Land				2	1,371	
Total loans that subsequently defaulted	2	$ 4,327	$ 277	5	$ 5,712	$ 277

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

A restructuring constitutes a troubled debt restructuring when a lender, for reasons related to a borrower s financial difficulties, grants a concession to the borrower it would not otherwise consider. Loans with pre-modification outstanding balances totaling $43.3 million and $66.5 million were modified in troubled debt restructurings during the three and six months ended June 30, 2012. The concessions granted in the restructurings completed in 2012 largely consisted of interest rate concessions and modification of payment terms to interest only. The unpaid principal balance of TDR loans was $113.7 million, before specific reserves of $2.6 million, at June 30, 2012 and $89.4 million, before specific reserves of $1.7 million, at December 31, 2011. The net increase in TDR loans from the prior year-end was attributable to $66.4 million of additions that were partially offset by $35.9 million of payments received. The remaining change in TDR loans was a result of charge-offs and loans that were removed from TDR status. Loans modified in troubled debt restructurings are impaired loans at the time of restructuring and subject to the same measurement criteria as all other impaired loans.

During the six months ended June 30, 2012, three commercial loans and two land loans that had been restructured within the preceding 12 months were not performing in accordance with their new terms. The defaults were primarily due to missed or late payments. Additionally, a land loan went into technical default when the borrower failed to sell the collateral by the date specified in the restructuring agreement. All other TDR loans were performing in accordance with their restructured terms at June 30, 2012. As of June 30, 2012, there were no commitments to lend additional funds on restructured loans.

Past Due and Nonaccrual Loans and Leases

Loans are considered past due following the date when either interest or principal is contractually due and unpaid. The following tables provide a summary of past due and nonaccrual loans, excluding covered loans, at June 30, 2012 and December 31, 2011 based upon the length of time the loans have been past due:

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days and Accruing	Nonaccrual	Total Past Due and Nonaccrual Loans	Current	Total Loans and Leases
June 30, 2012							
Commercial	$ 6,864	$ 2,218	$	$ 18,936	$ 28,018	$ 5,351,471	$ 5,379,489
Commercial real estate mortgages	21,290	20,859		28,780	70,929	2,353,404	2,424,333
Residential mortgages:							
Fixed			1,244	5,000	6,244	1,493,281	1,499,525
Variable				9,064	9,064	2,314,041	2,323,105
Total residential mortgages			1,244	14,064	15,308	3,807,322	3,822,630
Real estate construction:							
Construction	1,717			15,126	16,843	219,930	236,773
Land				14,550	14,550	50,506	65,056
Total real estate construction	1,717			29,676	31,393	270,436	301,829
Equity lines of credit	520		322	6,505	7,347	733,923	741,270
Installment:							

Commercial						467	467
Consumer	37			575	612	129,121	129,733
Total installment	37			575	612	129,588	130,200
Lease financing	61	158	499	120	838	706,620	707,458
Total	$ 30,489	$ 23,235	$ 2,065	$ 98,656	$ 154,445	$ 13,352,764	$ 13,507,209

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

Credit Quality Monitoring

The Company closely monitors and assesses credit quality and credit risk in the loan and lease portfolio on an ongoing basis. Loan risk classifications are continuously reviewed and updated. The following tables provide a summary of the loan and lease portfolio, excluding covered loans, by loan type and credit quality classification as of June 30, 2012 and December 31, 2011. Nonclassified loans generally include those loans that are expected to be repaid in accordance with contractual loan terms. Classified loans are those loans that are classified as substandard or doubtful consistent with regulatory guidelines.

	June 30, 2012			December 31, 2011		
(in thousands)	Nonclassified	Classified	Total	Nonclassified	Classified	Total
Commercial	$ 5,224,293	$ 155,196	$ 5,379,489	$ 4,732,663	$ 113,931	$ 4,846,594
Commercial real estate mortgages	2,269,348	154,985	2,424,333	1,930,001	180,748	2,110,749
Residential mortgages:						
Fixed	1,484,559	14,966	1,499,525	1,565,420	16,376	1,581,796
Variable	2,310,241	12,864	2,323,105	2,163,458	17,964	2,181,422
Total residential mortgages	3,794,800	27,830	3,822,630	3,728,878	34,340	3,763,218
Real estate construction:						
Construction	177,950	58,823	236,773	147,916	69,945	217,861

Land	33,350	31,706	65,056	43,717	54,031	97,748
Total real estate construction	211,300	90,529	301,829	191,633	123,976	315,609
Equity lines of credit	721,715	19,555	741,270	724,045	17,036	741,081
Installment:						
Commercial	467		467	601	4	605
Consumer	129,072	661	129,733	130,921	1,121	132,042
Total installment	129,539	661	130,200	131,522	1,125	132,647
Lease financing	703,518	3,940	707,458	396,256	3,231	399,487
Total	$ 13,054,513	$ 452,696	$ 13,507,209	$ 11,834,998	$ 474,387	$ 12,309,385

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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:

(in thousands)	For the three months ended June 30, 2012	For the three months ended June 30, 2011	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Balance, beginning of period	$ 61,471	$ 82,016	$ 64,565	$ 67,389
Provision for losses	13,293	1,716	20,759	20,832
Reduction in allowance due to loan removals	(31,617)	(16,103)	(42,177)	(20,592)
Balance, end of period	$ 43,147	$ 67,629	$ 43,147	$ 67,629

The allowance for loan losses on covered loans was $43.1 million, $64.6 million and $67.6 million as of June 30, 2012, December 31, 2011 and June 30, 2011, respectively. The Company recorded provision expense of $13.3 million and $20.8 million on covered loans for the three and six months ended June 30, 2012, respectively, and $1.7 million and $20.8 million for the three and six months ended June 30, 2011, respectively. The Company updates its cash flow projections for covered loans accounted for under ASC 310-30 on a quarterly basis, and may recognize provision expense and an allowance for loan losses as a result of that analysis. The loss on covered loans is the result of changes in expected cash flows, both amount and timing, due to loan payments and the Company s revised loss forecasts. The revisions of the loss forecasts were based on the results of management s review of the credit quality of the outstanding covered loans and the analysis of the loan performance data since the acquisition of covered loans. The allowance for loan losses on covered loans is reduced for any loan removals. A loan is removed when it has been fully paid-off, fully charged off, sold or transferred to OREO.

Covered loans accounted for under ASC 310-30 are generally considered accruing and performing loans as the loans accrete interest income over the estimated life of the loan when cash flows are reasonably estimable. Accordingly, acquired impaired loans that are contractually past due are still considered to be accruing and performing loans. If the timing and amount of future cash flows is not reasonably estimable, the loans may be classified as nonaccrual loans and interest income is not recognized until the timing and amount of future cash flows can be reasonably estimated. At June 30, 2012 and December 31, 2011, there were no acquired impaired covered loans accounted for under ASC 310-30 that were on nonaccrual status. Of the population of covered loans that are accounted for outside the scope of ASC 310-30, the Company had $0.4 million of acquired covered loans that were on nonaccrual status and were considered to be impaired as of June 30, 2012 and December 31, 2011.

At June 30, 2012, covered loans that were 30 to 89 days delinquent totaled $17.3 million and covered loans that were 90 days or more past due on accrual status totaled $190.0 million. At December 31, 2011, covered loans that were 30 to 89 days delinquent totaled $49.1 million and covered loans that were 90 days or more past due on accrual status totaled $330.2 million.

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Note 7. Other Real Estate Owned

The following table provides a summary of OREO activity for the three months ended June 30, 2012 and 2011:

	For the three months ended June 30, 2012			For the three months ended June 30, 2011		
(in thousands)	Non-Covered OREO	Covered OREO	Total	Non-Covered OREO	Covered OREO	Total
Balance, beginning of period	$ 29,074	$ 78,456	$ 107,530	$ 56,342	$ 121,822	$ 178,164
Additions	10,476	22,960	33,436	3,967	33,549	37,516
Sales	(1,540)	(14,332)	(15,872)	(11,083)	(24,836)	(35,919)
Valuation adjustments	(3,343)	(4,250)	(7,593)	(1,592)	(15,628)	(17,220)
Balance, end of period	$ 34,667	$ 82,834	$ 117,501	$ 47,634	$ 114,907	$ 162,541

The following table provides a summary of OREO activity for the six months ended June 30, 2012 and 2011:

	For the six months ended June 30, 2012			For the six months ended June 30, 2011		
(in thousands)	Non-Covered OREO	Covered OREO	Total	Non-Covered OREO	Covered OREO	Total
Balance, beginning of period	$ 30,790	$ 98,550	$ 129,340	$ 57,317	$ 120,866	$ 178,183
Additions	12,693	29,035	41,728	10,528	61,126	71,654
Sales	(4,417)	(32,693)	(37,110)	(17,147)	(43,153)	(60,300)
Valuation adjustments	(4,399)	(12,058)	(16,457)	(3,064)	(23,932)	(26,996)
Balance, end of period	$ 34,667	$ 82,834	$ 117,501	$ 47,634	$ 114,907	$ 162,541

At June 30, 2012, OREO was $117.5 million and included $82.8 million of covered OREO. At December 31, 2011, OREO was $129.3 million and included $98.6 million of covered OREO. The balance of OREO at June 30, 2012 and December 31, 2011 is net of valuation allowances of $38.8 million and $37.4 million, respectively.

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

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Note 8. Borrowed Funds

Short-term borrowings consist of funds with remaining maturities of one year or less and long-term debt consists of borrowings with remaining maturities greater than one year. The components of short-term borrowings and long-term debt as of June 30, 2012 and December 31, 2011 are provided below:

(in thousands) (1)	June 30, 2012	December 31, 2011
Short-term borrowings		
Current portion of senior notes:		
City National Corporation - 5.125% Senior Notes Due February 2013	$ 210,466	$
Federal funds purchased	110,000	50,000
Current portion of nonrecourse debt (5)	1,611	
Total short-term borrowings	$ 322,077	$ 50,000
Long-term debt		
Senior notes:		
City National Corporation - 5.125% Senior Notes Due February 2013	$	$ 215,848
City National Corporation - 5.25% Senior Notes Due September 2020	297,461	297,308
Subordinated debt:		
City National Bank - 9.00% Subordinated Notes Due July 2019 (2)	49,736	49,718
City National Bank - 9.00% Subordinated Notes Due August 2019	74,867	74,858
City National Bank - Fixed and Floating Subordinated Notes due August 2019 (3)	54,902	54,895
City National Bank - 5.375% Subordinated Notes Due July 2022	149,018	
Junior subordinated debt:		
Floating Rate Business Bancorp Capital Trust I Securities due November 2034 (4)	5,151	5,151
Nonrecourse debt (5)	81,145	
Total long-term debt	$ 712,280	$ 697,778

(1) The carrying value of certain borrowed funds is net of discount and issuance costs, which are being amortized into interest expense, as well as the impact of fair value hedge accounting, if applicable.

(2) These notes bear a fixed interest rate of 9 percent for the initial five years from the date of issuance (July 15, 2009) and thereafter the rate is reset at the Bank s option to either LIBOR plus 600 basis points or to prime plus 500 basis points.

(3) These notes bear a fixed interest rate of 9 percent for the initial five years from the date of issuance (August 12, 2009) and thereafter bear an interest rate equal to the three-month LIBOR rate plus 6 percent. The rate is reset quarterly and is subject to an interest rate cap of 10 percent throughout the term of the notes.

(4) These floating rate securities pay interest of three-month LIBOR plus 1.965 percent which is reset quarterly. As of June 30, 2012, the interest rate was 2.43 percent.

(5) Nonrecourse debt bears interest at an average rate of 4.09 percent as of June 30, 2012 and has maturity dates ranging from September 2012 to July 2018.

On April 30, 2012, the Company assumed $320.9 million in borrowings in its acquisition of FAEF. Subsequent to the acquisition date, the Company paid off a significant portion of the outstanding balance and as of June 30, 2012, FAEF borrowings were comprised of $82.8 million of nonrecourse debt. FAEF assigns the future rentals of certain lease financing loans to financial institutions on a nonrecourse basis at fixed interest rates. In return for future minimum lease rentals assigned, FAEF receives a discounted cash payment. Proceeds from discounting are reflected in the table above as nonrecourse debt.

On June 20, 2012, the Bank issued $150.0 million in subordinated notes that bear a fixed rate of interest of 5.375 percent. The notes mature on July 15, 2022. The proceeds will be used for general corporate purposes.

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Note 9. Shareholders Equity

The components of AOCI at June 30, 2012 and December 31, 2011 are as follows:

(in thousands)	June 30, 2012	December 31, 2011
Net unrealized gain on securities available-for-sale	$ 82,668	$ 73,235
Net unrealized gain on cash flow hedges	139	222
Pension liability adjustment		(1,085)
Total accumulated other comprehensive income	$ 82,807	$ 72,372

The following table presents the tax effects allocated to each component of other comprehensive income for the three and six month periods ended June 30, 2012 and 2011:

	For the three months ended June 30, 2012			For the three months ended June 30, 2011		
(in thousands)	Pre-tax	Tax expense (benefit)	Net-of-tax	Pre-tax	Tax expense (benefit)	Net-of-tax
Securities available for sale:						
Net unrealized gains arising during the period	$ 6,559	$ 2,744	$ 3,815	$ 57,168	$ 23,914	$ 33,254
Reclassification adjustment for net gains included in net income	(17)	(7)	(10)	(1,807)	(759)	(1,048)
Non-credit related impairment loss	(3,951)	(1,652)	(2,299)	(3,838)	(1,605)	(2,233)
Net change on cash flow hedges	(41)		(41)	(248)		(248)
Pension liability adjustment				33		33
Total other comprehensive income	$ 2,550	$ 1,085	$ 1,465	$ 51,308	$ 21,550	$ 29,758

	For the six months ended June 30, 2012			For the six months ended June 30, 2011		
(in thousands)	Pre-tax	Tax expense (benefit)	Net-of-tax	Pre-tax	Tax expense (benefit)	Net-of-tax
Securities available for sale:						
Net unrealized gains arising during the period	$ 20,580	$ 8,609	$ 11,971	$ 40,469	$ 16,928	$ 23,541
Reclassification adjustment for net gains included in net income	(411)	(172)	(239)	(1,895)	(796)	(1,099)
Non-credit related impairment loss	(3,951)	(1,652)	(2,299)	(3,838)	(1,605)	(2,233)
Net change on cash flow hedges	(83)		(83)	(834)		(834)
Pension liability adjustment	1,085		1,085	65		65
	$ 17,220	$ 6,785	$ 10,435	$ 33,967	$ 14,527	$ 19,440

Total other comprehensive income

The following table summarizes the Company s share repurchases for the three months ended June 30, 2012. All repurchases relate to shares withheld or previously owned shares used to pay taxes due upon vesting of restricted stock. There were no issuer repurchases of the Corporation s common stock as part of its repurchase plan for the six months ended June 30, 2012.

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)
April 1, 2012 to April 30, 2012	131	$ 52.61
May 1, 2012 to May 31, 2012	42	53.52
June 1, 2012 to June 30, 2012	1,162	47.97
	1,335	48.60

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Note 10. Earnings per Common Share

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

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

	For the three months ended June 30,				For the six months ended June 30,			
(in thousands, except per share amounts)	**2012**		**2011**		**2012**		**2011**	
Basic EPS:								
Net income attributable to City National Corporation	$	54,758	$	47,471	$	101,023	$	87,163
Less: Earnings allocated to participating securities		788		759		1,532		1,333
Earnings allocated to common shareholders	$	53,970	$	46,712	$	99,491	$	85,830
Weighted average common shares outstanding		53,105		52,462		52,923		52,392
Basic earnings per common share	$	1.02	$	0.89	$	1.88	$	1.64
Diluted EPS:								
Earnings allocated to common shareholders (1)	$	53,972	$	46,718	$	99,496	$	85,841
Weighted average common shares outstanding		53,105		52,462		52,923		52,392
Dilutive effect of equity awards		268		515		294		539
Weighted average diluted common shares outstanding		53,373		52,977		53,217		52,931
Diluted earnings per common share	$	1.01	$	0.88	$	1.87	$	1.62

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

The average price of the Company s common stock for the period is used to determine the dilutive effect of outstanding stock options. Antidilutive stock options are not included in the calculation of basic or diluted EPS. There were 2.7 million and 2.0 million average outstanding stock options that were antidilutive for the three months ended June 30, 2012 and 2011, respectively. There were 2.8 million and 1.8 million average outstanding stock options that were antidilutive for the six months ended June 30, 2012 and 2011, respectively.

Note 11. Share-Based Compensation

On June 30, 2012, the Company had one share-based compensation plan, the Amended and Restated City National Corporation 2008 Omnibus Plan (the Plan), which was approved by the Company s shareholders on April 23, 2008. No new awards have been or will be granted under predecessor plans since the adoption of the Plan. The Plan permits the grant of stock options, restricted stock, restricted stock units, performance shares, performance share units, performance units and stock appreciation rights, or any combination thereof, to the Company s eligible employees and non-employee directors. No grants of performance shares, performance share units or stock appreciation rights had been made as of June 30, 2012. At June 30, 2012, there were approximately 1.9 million shares available for future grants. Refer to the Company s Annual Report on Form 10-K for the year ended December 31, 2011 for further discussion of the Company s share-based compensation plan.

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Note 11. Share-Based Compensation (Continued)

The compensation cost that has been recognized for all share-based awards was $4.3 million and $9.0 million for the three and six months ended June 30, 2012, respectively, compared with $4.8 million and $9.5 million for the three and six months ended June 30, 2011, respectively. The total income tax benefit recognized in the consolidated statements of income for share-based compensation arrangements was $1.8 million and $3.8 million for the three and six months ended June 30, 2012, respectively, compared with $2.0 million and $4.0 million for the three and six months ended June 30, 2011, respectively. The Company received $9.0 million and $4.5 million in cash for the exercise of stock options during the six months ended June 30, 2012 and 2011, respectively. The actual tax benefit realized for the tax deductions from stock option exercises was $0.9 million and $1.1 million for the six months ended June 30, 2012 and 2011, respectively.

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 June 30,		For the six months ended June 30,	
	2012	2011	2012	2011
Weighted-average volatility		30.85%	30.58%	30.91%
Dividend yield		2.48%	2.14%	1.47%
Expected term (in years)		5.81	6.11	6.04
Risk-free interest rate		2.24%	1.44%	2.97%

Using the Black-Scholes methodology, the weighted-average grant-date fair values of options granted during the six months ended June 30, 2012 and 2011 were $11.64 and $18.38, respectively. The total intrinsic values of options exercised during the six months ended June 30, 2012 and 2011 were $2.1 million and $2.5 million, respectively.

A summary of option activity and related information for the six months ended June 30, 2012 is presented below:

Options	Number of Shares (in thousands)	Weighted Average Exercise Price (per share)	Aggregate Intrinsic Value (in thousands) (1)	Weighted Average Remaining Contractual Term
Outstanding at January 1, 2012	4,990	$ 52.61		
Granted	603	46.66		
Exercised	(217)	41.81		
Forfeited or expired	(521)	51.46		
Outstanding at June 30, 2012	4,855	$ 52.48	$ 254,779	5.89
Exercisable at June 30, 2012	3,246	$ 54.94	$ 178,354	4.58

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

A summary of changes in unvested options and related information for the six months ended June 30, 2012 is presented below:

Unvested Options	**Number of Shares (in thousands)**	**Weighted Average Grant Date Fair Value (per share)**
Unvested at January 1, 2012	1,641	$ 13.57
Granted	603	11.64
Vested	(608)	12.20
Forfeited	(27)	13.08
Unvested at June 30, 2012	1,609	$ 13.37

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Note 11. Share-Based Compensation (Continued)

The number of options vested during the six months ended June 30, 2012 and 2011 was 608,172 and 592,266, respectively. The total fair value of options vested during the six months ended June 30, 2012 and 2011 was $7.4 million and $7.0 million, respectively. As of June 30, 2012, there was $16.0 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 2.7 years.

A summary of changes in restricted stock and related information for the six months ended June 30, 2012 is presented below:

Restricted Stock (1)	Number of Shares (in thousands)	Weighted Average Grant Date Fair Value (per share)
Unvested at January 1, 2012	875	$ 50.12
Granted	81	47.04
Vested	(175)	46.05
Forfeited	(11)	48.93
Unvested at June 30, 2012	770	$ 50.73

(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 six months ended June 30, 2012 and 2011 were $47.04 and $60.83, respectively. The number of restricted shares vested during the six months ended June 30, 2012 and 2011 was 174,710 and 151,457, respectively. The total fair value of restricted stock vested during the six months ended June 30, 2012 and 2011 was $8.0 million and $7.4 million, respectively. As of June 30, 2012, the unrecognized compensation cost related to restricted stock granted under the Company s plans was $24.3 million. That cost is expected to be recognized over a weighted-average period of 3.3 years.

In February 2012, the Company amended the Plan to permit the grant of cash-settled restricted stock units. In general, twenty-five percent of the cash-settled restricted stock units vests two years from the date of grant, then twenty-five percent vests on each of the next three consecutive grant anniversary dates. The units are subject to forfeiture until the restrictions lapse or terminate. Upon vesting, the units are converted to cash based on the closing stock price at vesting date and distributed to plan participants. Plan participants are entitled to dividends, which vest and are paid at the same time as the underlying cash-settled restricted stock units. Dividends are subject to forfeiture in the same manner as the underlying cash-settled restricted stock units. A summary of changes in cash-settled restricted stock units for the six months ended June 30, 2012 is presented below:

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

Forfeited	(1)
Unvested at June 30, 2012	98

Cash-settled restricted stock units are initially valued at the closing price of the Company s stock on the date of award and subsequently remeasured at each reporting date until settlement. The compensation expense related to cash-settled restricted stock units for the three and six months ended June 30, 2012 was $0.3 million and $0.4 million, respectively.

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Note 12. Derivative Instruments

The following tables summarize the fair value and balance sheet classification of derivative instruments as of June 30, 2012 and December 31, 2011. The notional amount of the contract is not recorded on the consolidated balance sheets, but is used as the basis for determining the amount of interest payments to be exchanged between the counterparties. If a counterparty fails to perform, the Company s counterparty credit risk is equal to the amount reported as a derivative asset.

Notional Amounts and Fair Values of Derivative Instruments

(in millions) (1)	June 30, 2012 Notional Amount	June 30, 2012 Derivative Assets	June 30, 2012 Derivative Liabilities	December 31, 2011 Notional Amount	December 31, 2011 Derivative Assets	December 31, 2011 Derivative Liabilities
Derivatives designated as hedging instruments						
Interest rate swaps - fair value:						
Long-term and subordinated debt	205.5	6.2		207.4	9.8	
Total derivatives designated as hedging instruments	$ 205.5	$ 6.2	$	$ 207.4	$ 9.8	$
Derivatives not designated as hedging instruments						
Interest rate contracts:						
Swaps	$ 1,684.1	$ 59.4	$ 61.1	$ 1,482.1	$ 51.3	$ 52.5
Interest-rate caps, floors and collars	239.4			267.1	0.3	0.3
Options purchased	2.0	0.2	0.2	2.0	0.1	0.1
Options written	2.0			2.0		
Total interest-rate contracts	$ 1,927.5	$ 59.6	$ 61.3	$ 1,753.2	$ 51.7	$ 52.9
Option contracts	$	$ 0.4	$	$	$ 0.7	$
Foreign exchange contracts:						
Spot and forward contracts	$ 262.8	$ 3.6	$ 3.2	$ 203.8	$ 2.1	$ 2.1
Options purchased	3.8					
Options written	3.8	0.1	0.1			
Total foreign exchange contracts	$ 270.4	$ 3.7	$ 3.3	$ 203.8	$ 2.1	$ 2.1
Total derivatives not designated as hedging instruments	$ 2,197.9	$ 63.7	$ 64.6	$ 1,957.0	$ 54.5	$ 55.0

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

Derivatives Designated as Hedging Instruments

As of June 30, 2012, the Company had $205.5 million notional amount of interest-rate swap hedge transactions, all of which were designated as fair value hedges. There were no cash flow hedges at June 30, 2012. The positive fair value of the fair value hedges of $6.2 million is recorded in other assets. It includes a mark-to-market asset of $5.1 million and net interest receivable of $1.1 million. The balance of borrowings reported in the consolidated balance sheet includes a $5.1 million mark-to-market adjustment associated with interest-rate hedge transactions.

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

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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 and six months ended June 30, 2012 and 2011 is provided below:

(in millions) Derivative Instruments Designated as Hedging Instruments	Location in Consolidated Statements of Income	For the three months ended June 30, 2012	For the three months ended June 30, 2011	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Interest-rate swaps-fair value	Interest expense	$ (2.1)	$ (4.3)	$ (4.1)	$ (8.5)
Interest-rate swaps-cash flow	Interest income		0.2	0.1	0.8
Total income		$ 2.1	$ 4.5	$ 4.2	$ 9.3

Fair value interest-rate swaps increased net interest income by $2.1 million and $4.2 million for the three and six months ended June 30, 2012, respectively, and by $4.5 million and $9.3 million for the three and six months ended June 30, 2011, respectively.

Changes in fair value of the effective portion of cash flow hedges are reported in AOCI. When the cash flows associated with the hedged item are realized, the gain or loss included in AOCI is recognized in Interest income on loans and leases, the same location in the consolidated statements of income as the income on the hedged item. There were no cash flow hedges outstanding during the six month periods ended June 30, 2012 and June 30, 2011. The $0.1 million of gain on cash flow hedges reclassified from AOCI to interest income for the six months ended June 30, 2012, respectively, represents the amortization of deferred gains on cash flow hedges that were terminated in 2010 prior to their respective maturity dates for which the hedge transactions had yet to occur. The amount of gains on cash flow hedges reclassified from AOCI to interest income for the three and six months ended June 30, 2011 was $0.2 million and $0.8 million, respectively. At June 30, 2012, the balance of deferred gain on terminated swaps reported in AOCI was $0.1 million. This balance will be amortized into interest income within the next 12 months.

Derivatives Not Designated as Hedging Instruments

Derivative contracts not designated as hedges are composed primarily of interest rate contracts with clients that are offset by paired trades with unrelated bank counterparties and foreign exchange contracts. Derivative contracts not designated as hedges are marked-to-market each reporting period with changes in fair value recorded as a part of Noninterest income in the consolidated statements of income. The table below provides the amount of gains and losses on these derivative contracts for the three and six months ended June 30, 2012 and 2011:

(in millions) Derivatives Not Designated as Hedging Instruments	Location in Consolidated Statements of Income	For the three months ended June 30, 2012	For the three months ended June 30, 2011	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Interest-rate contracts	Other noninterest income	$ (1.2)	$ (0.4)	$ (0.5)	$ (0.3)
Option contracts	Other noninterest income	(0.1)	(0.1)	(0.7)	(0.1)
Foreign exchange contracts	International services income	6.5	5.8	12.3	11.3
Total income		$ 5.2	$ 5.3	$ 11.1	$ 10.9

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Note 12. Derivative Instruments (Continued)

Credit Risk Exposure and Collateral

The Company s swap agreements require the deposit of cash or marketable debt securities as collateral based on certain risk thresholds. These requirements apply individually to the Corporation and to the Bank. Additionally, certain of the Company s swap contracts contain security agreements that include credit-risk-related contingent features. Under these agreements, the collateral requirements are based on the Company s credit rating from the major credit rating agencies. The amount of collateral required may vary by counterparty based on a range of credit ratings that correspond with exposure thresholds established in the derivative agreements. If the credit ratings on the Company s debt were to fall below the level associated with a particular exposure threshold and the derivatives with a counterparty are in a net liability position that exceeds that threshold, the counterparty could request immediate payment or delivery of collateral for the difference between the net liability amount and the exposure threshold. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a net liability position on June 30, 2012 was $36.4 million. The Company delivered collateral valued at $22.1 million on swap agreements that had credit-risk contingent features and were in a net liability position at June 30, 2012.

The Company s interest-rate swaps had $3.1 million and $5.3 million of credit risk exposure at June 30, 2012 and December 31, 2011, respectively. The credit exposure represents the cost to replace, on a present value basis and at current market rates, all contracts by trading counterparty having an aggregate positive market value, net of margin collateral received. The Company enters into master netting agreements with swap counterparties to mitigate credit risk. Under these agreements, the net amount due from or payable to each counterparty is settled on the contract payment date. Collateral in the form of securities valued at $3.0 million and $5.0 million had been received from swap counterparties at June 30, 2012 and December 31, 2011, respectively. The Company delivered collateral valued at $20.7 million on swap agreements that did not have credit-risk contingent features at June 30, 2012.

Note 13. Income Taxes

The Company recognized income tax expense of $27.3 million and $49.0 million for the three and six months ended June 30, 2012, respectively. The Company recognized income tax expense of $20.7 million and $38.5 million for the same periods in 2011.

The Company recognizes accrued interest and penalties relating to uncertain tax positions as an income tax provision expense. The Company recognized interest and penalties expense of approximately $0.1 million and $0.3 million for the six months ended June 30, 2012 and 2011, respectively. The Company had approximately $3.3 million and $3.2 million of accrued interest and penalties as of June 30, 2012 and December 31, 2011.

The Company and its subsidiaries file a consolidated federal income tax return and also file income tax returns in various state jurisdictions. The Company is currently being audited by the Internal Revenue Service for the tax years 2011 and 2012. The Company is also under audit with the California Franchise Tax Board for the tax years 2005 to 2007. The potential financial statement impact, if any, resulting from completion of these audits is expected to be minimal.

From time to time, there may be differences in opinion with respect to the tax treatment of certain transactions. If a tax position which was previously recognized on the consolidated financial statements is no longer more likely than not to be sustained upon a challenge from the taxing authorities, the tax benefit from the tax position will be derecognized. The Company did not have any tax positions for which previously recognized benefits were derecognized during the six month period ended June 30, 2012.

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Note 14. Employee Benefit Plans

Defined Contribution Plan

The Company has a profit-sharing retirement plan with an Internal Revenue Code Section 401(k) feature covering eligible employees. Employer contributions are made annually into a trust fund and are allocated to participants based on their salaries. The profit sharing contribution requirement is based on a percentage of annual operating income subject to a percentage of salary cap. Eligible employees may contribute up to 50 percent of their salary to the 401(k) plan, but not more than the maximum allowed under Internal Revenue Service (IRS) regulations. The Company matches 50 percent of the first 6 percent of covered compensation. The Company recorded total profit sharing and matching contribution expense of $4.8 million and $9.4 million for the three and six months ended June 30, 2012, respectively. Profit sharing and matching contribution expense was $4.5 million and $9.0 million for the same periods in 2011, respectively.

Deferred Compensation Plan

The Company offers a deferred compensation plan for eligible employees and non-employee directors. Participants under the employee plan may make an annual irrevocable election to defer a portion of base salary and up to 100 percent of commission and incentive compensation while employed with the Company. Participants under the non-employee director plan also may make an annual irrevocable election to defer all or part of annual retainers, annual awards, committee chair retainers and meeting fees (collectively, directors fees) until board service with the Company ceases. The deferred compensation plans are nonqualified plans under IRS regulations. Deferrals are made on a pretax basis and are allocated among the investment options available under the plans as directed by the plan participants. The Company funds plan benefits through the purchase of life insurance policies which are recorded in Other assets on the consolidated balance sheets. Participant deferrals are recorded in Other liabilities on the consolidated balance sheets. Employee salaries and non-employee directors fees deferred under the plan are charged to Salaries and employee benefits and Other operating expense, respectively, on the consolidated statements of income. Earnings on plan assets, net of benefits payable to plan participants, are reported in Salaries and employee benefits on the consolidated statements of income, and were $0.3 million and $0.4 million for the three and six months ended June 30, 2012, respectively. Earnings on plan assets, net of benefits payable to plan participants, were $0.3 million and $0.4 million for the same periods in 2011, respectively.

Other Plans

The Company administers a Supplemental Executive Retirement Plan (SERP) for one of its executive officers. On March 14, 2012, the SERP was amended. In exchange for cancellation of the executive officer s rights to receive supplemental retirement benefits under the SERP, the executive officer would receive fully vested interests in a deferred compensation stock fund under the amended plan. The present value of the accumulated SERP benefit under the amended plan at March 14, 2012 was deemed to be invested in the deferred compensation stock fund, with the number of units being determined by the closing price of the Company s stock on March 14, 2012. The benefit was converted to 167,423 units in the deferred compensation stock fund at March 14, 2012. Distributions to the executive officer from the stock fund will be made solely in Company stock upon termination of employment. As a result of this conversion, the Company reversed its $8.3 million pension liability related to the SERP, recorded the fully vested interests in the deferred compensation stock fund in equity for the same amount, and recognized expense of $1.7 million in the consolidated statements of income for the six months ended June 30, 2012. The Company recognized total expense related to this SERP of $1.9 million for the six months ended June 30, 2012. There was no expense recognized during the three months ended June 30, 2012. Expense for the three and six months ended June 30, 2011 was $0.2 million and $0.5 million, respectively.

The Company also has a SERP covering three former executives of Pacific Bank, which the Company acquired in 2000. As of June 30, 2012, there was an unfunded pension liability for this SERP of $2.3 million. Expense for the three months ended June 30, 2012 and 2011 was insignificant. Expense for the six months ended June 30, 2012 and 2011 was $0.1 million and $0.3 million, respectively.

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.

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Note 15. Contingencies (Continued)

In 2011, the Company received unfavorable judgments through arbitration on two legal claims totaling $7.2 million. Approximately $5.3 million of these judgments was covered by the Company s insurance policies and was received in full by the Company in 2011. Net charges of $1.2 million were included in Other operating expense in the noninterest expense section of the consolidated statements of income for the six months ended June 30, 2011.

Note 16. Variable Interest Entities

The Company holds ownership interests in certain special-purpose entities formed to provide affordable housing. The Company evaluates its interest in these entities to determine whether they meet the definition of a VIE and whether the Company is required to consolidate these entities. The Company is not the primary beneficiary of the affordable housing VIEs in which it holds interests and is therefore not required to consolidate these entities. The investment in these entities is initially recorded at cost, which approximates the maximum exposure to loss as a result of the Company s involvement with these unconsolidated entities. Subsequently, the carrying value is amortized over the stream of available tax credits and benefits. The Company expects to recover its investments over time, primarily through realization of federal low-income housing tax credits. The balance of the investments in these entities was $145.6 million and $121.0 million at June 30, 2012 and December 31, 2011, respectively, and is included in Affordable housing investments in the consolidated balance sheets. Unfunded commitments for affordable housing investments were $57.6 million at June 30, 2012. These unfunded commitments are recorded in Other liabilities in the consolidated balance sheets.

Of the affordable housing investments held as of June 30, 2012, the Company had a significant variable interest in four affordable housing partnerships. These interests were acquired at various times from 1998 to 2001. The Company s maximum exposure to loss as a result of its involvement with these entities is limited to the $1.8 million aggregate carrying value of these investments at June 30, 2012. There were no unfunded commitments for these affordable housing investments at June 30, 2012.

The Company also has ownership interests in several private equity and alternative investment funds that are VIEs. The Company is not a primary beneficiary and, therefore, is not required to consolidate these VIEs. The investment in these entities is carried at cost and net of impairments, which approximates the maximum exposure to loss as a result of the Company s involvement with these entities. The Company expects to recover its investments over time, primarily through the allocation of fund income, gains or losses on the sale of fund assets, dividends or interest income. The balance in these entities was $40.2 million and $39.9 million at June 30, 2012 and December 31, 2011, respectively, and is included in Other assets in the consolidated balance sheets. Income associated with these investments is reported in Other noninterest income in the consolidated statements of income.

Note 17. Noncontrolling Interest

In accordance with ASC Topic 810, *Consolidation*, and EITF Topic D-98, *Classification and Measurement of Redeemable Securities* (Topic D-98), the Company reports noncontrolling interest in its majority-owned affiliates as either a separate component of equity in Noncontrolling interest in the consolidated balance sheets or as Redeemable noncontrolling interest in the mezzanine section between liabilities and equity in the consolidated financial statements. Topic D-98 specifies that securities that are redeemable at the option of the holder or outside the control of the

issuer are not considered permanent equity and should be classified in the mezzanine section.

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

Redeemable Noncontrolling Interest

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

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Note 17. Noncontrolling Interest (Continued)

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

As of June 30, 2012, affiliate noncontrolling owners held equity interests with an estimated fair value of $41.9 million. This estimate reflects the maximum obligation to purchase equity interests in the affiliates. The events which would require the Company to purchase the equity interests may occur in the near term or over a longer period of time. The terms of the put provisions vary by agreement, but the value of the put is at the approximate fair value of the interests. The parent company carries key man life insurance policies to fund a portion of these conditional purchase obligations in the event of the death of certain key holders.

The following is a summary of activity for redeemable noncontrolling interest for the six months ended June 30, 2012 and 2011:

(in thousands)	For the six months ended June 30, 2012	2011
Balance, beginning of period	$ 44,643	$ 45,676
Net income	652	1,120
Distributions to redeemable noncontrolling interest	(867)	(1,163)
Additions and redemptions, net	(1,737)	(1,379)
Adjustments to fair value	(792)	110
Other		(627)
Balance, end of period	$ 41,899	$ 43,737

Note 18. Segment Results

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

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

York, Nevada, Tennessee and Georgia.

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Note 18. Segment Results (Continued)

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

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

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

Income taxes are charged to the business segments at the statutory rate. The Other segment includes an adjustment to reconcile to the Company s overall effective tax rate.

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

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

Selected financial information for each segment is presented in the following tables. Commercial and Private Banking includes all revenue and costs from products and services utilized by clients of Commercial and Private Banking, including both revenue and costs for Wealth

Management products and services. The revenues and costs associated with Wealth Management products and services that are allocated to Commercial and Private Banking for management reporting purposes are eliminated in the Other segment. The current period reflects any changes made in the process or methodology for allocations to the reportable segments. Prior period segment results have been revised to conform with current period presentation.

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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 June 30, 2012			
Earnings Summary:				
Net interest income	$ 184,768	$ 649	$ 31,062	$ 216,479
Provision for credit losses on loans and leases, excluding covered loans	1,000			1,000
Provision for losses on covered loans	13,293			13,293
Noninterest income	50,311	39,966	(15,509)	74,768
Depreciation and amortization	3,414	1,538	4,579	9,531
Noninterest expense	165,834	36,102	(16,951)	184,985
Income before income taxes	51,538	2,975	27,925	82,438
Provision for income taxes	21,646	1,078	4,547	27,271
Net income	29,892	1,897	23,378	55,167
Less: Net income attributable to noncontrolling interest		409		409
Net income attributable to City National Corporation	$ 29,892	$ 1,488	$ 23,378	$ 54,758
Selected Average Balances:				
Loans and leases, excluding covered loans	$ 13,073,029	$	$ 52,838	$ 13,125,867
Covered loans	1,341,041			1,341,041
Total assets	14,728,913	530,179	9,103,454	24,362,546
Deposits	20,379,604	96,839	471,803	20,948,246
Goodwill	370,333	162,813		533,146
Customer-relationship intangibles, net	8,129	25,714		33,843

(in thousands)	Commercial and Private Banking	Wealth Management	Other	Consolidated Company
	For the three months ended June 30, 2011			
Earnings Summary:				
Net interest income	$ 181,034	$ 531	$ 9,262	$ 190,827
Provision for losses on covered loans	1,716			1,716
Noninterest income	60,121	41,065	(9,249)	91,937
Depreciation and amortization	3,654	1,498	3,856	9,008
Noninterest expense	178,690	39,551	(15,417)	202,824
Income before income taxes	57,095	547	11,574	69,216
Provision (benefit) for income taxes	23,980	(6)	(3,324)	20,650
Net income	33,115	553	14,898	48,566
Less: Net income attributable to noncontrolling interest		562	533	1,095
Net income (loss) attributable to City National Corporation	$ 33,115	$ (9)	$ 14,365	$ 47,471
Selected Average Balances:				
Loans and leases, excluding covered loans	$ 11,453,329	$	$ 62,660	$ 11,515,989
Covered loans	1,770,377			1,770,377
Total assets	13,733,704	553,839	7,722,206	22,009,749
Deposits	18,348,651	61,393	374,404	18,784,448
Goodwill	324,762	161,635		486,397
Customer-relationship intangibles, net	12,511	28,164		40,675

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Note 18. Segment Results (Continued)

(in thousands)		For the six months ended June 30, 2012		
	Commercial and Private Banking	Wealth Management	Other	Consolidated Company
Earnings Summary:				
Net interest income	$ 356,568	$ 1,265	$ 59,359	$ 417,192
Provision for credit losses on loans and leases, excluding covered loans	1,000			1,000
Provision for losses on covered loans	20,759			20,759
Noninterest income	97,555	79,337	(26,424)	150,468
Depreciation and amortization	6,996	2,984	8,865	18,845
Noninterest expense	337,322	72,191	(33,122)	376,391
Income before income taxes	88,046	5,427	57,192	150,665
Provision for income taxes	36,979	2,006	10,005	48,990
Net income	51,067	3,421	47,187	101,675
Less: Net income attributable to noncontrolling interest		652		652
Net income attributable to City National Corporation	$ 51,067	$ 2,769	$ 47,187	$ 101,023
Selected Average Balances:				
Loans and leases, excluding covered loans	$ 12,726,026	$	$ 53,054	$ 12,779,080
Covered loans	1,389,877			1,389,877
Total assets	14,433,156	533,956	9,036,610	24,003,722
Deposits	20,050,801	97,937	434,083	20,582,821
Goodwill	347,547	162,367		509,914
Customer-relationship intangibles, net	8,568	26,103		34,671

(in thousands)		For the six months ended June 30, 2011		
	Commercial and Private Banking	Wealth Management	Other	Consolidated Company
Earnings Summary:				
Net interest income	$ 353,719	$ 1,099	$ 17,299	$ 372,117
Provision for losses on covered loans	20,832			20,832
Noninterest income	123,332	82,941	(20,443)	185,830
Depreciation and amortization	7,287	2,947	7,690	17,924
Noninterest expense	344,195	77,735	(30,625)	391,305
Income before income taxes	104,737	3,358	19,791	127,886
Provision (benefit) for income taxes	43,990	940	(6,394)	38,536
Net income	60,747	2,418	26,185	89,350
Less: Net income attributable to noncontrolling interest		1,120	1,067	2,187
Net income attributable to City National Corporation	$ 60,747	$ 1,298	$ 25,118	$ 87,163
Selected Average Balances:				
Loans and leases, excluding covered loans	$ 11,326,163	$	$ 60,494	$ 11,386,657
Covered loans	1,790,569			1,790,569
Total assets	13,634,595	553,547	7,507,430	21,695,572
Deposits	18,051,444	54,020	380,205	18,485,669
Goodwill	324,985	161,638		486,623
Customer-relationship intangibles, net	12,461	28,551		41,012

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Note 19. Subsequent Event

On July 2, 2012, the Company acquired Rochdale Investment Management (Rochdale), a $4.89 billion New York City-based investment firm that manages assets for affluent and high-net-worth clients and their financial advisors across the nation. Rochdale will combine with City National Asset Management to become City National Rochdale Investments, a registered investment advisor which will operate as a wholly owned subsidiary of the Bank. It will offer a wide array of equity, fixed income and non-traditional investment alternatives. The Company expects the integration of the two firms to be completed early next year. 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

CAUTIONARY STATEMENT FOR PURPOSES OF THE SAFE HARBOR PROVISIONS

OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

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

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

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

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

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CITY NATIONAL CORPORATION

FINANCIAL HIGHLIGHTS

(in thousands, except per share amounts)	At or for the three months ended June 30, 2012 (Unaudited)	March 31, 2012 (Unaudited)	June 30, 2011 (Unaudited)	Percent change June 30, 2012 from March 31, 2012	June 30, 2011
For The Quarter					
Net income attributable to City National Corporation	$ 54,758	$ 46,265	$ 47,471	18%	15%
Net income per share, basic	1.02	0.86	0.89	19	15
Net income per share, diluted	1.01	0.86	0.88	17	15
Dividends per share	0.25	0.25	0.20		25
At Quarter End					
Assets	$ 24,801,973	$ 24,038,489	$ 22,526,089	3	10
Securities	8,028,695	7,917,912	6,473,884	1	24
Loans and leases, excluding covered loans	13,507,209	12,747,902	11,663,123	6	16
Covered loans (1)	1,260,135	1,397,156	1,724,634	(10)	(27)
Deposits	21,109,052	20,787,737	19,265,120	2	10
Shareholders equity	2,255,365	2,199,565	2,058,921	3	10
Total equity	2,255,365	2,199,565	2,084,010	3	8
Book value per share	42.70	41.77	39.24	2	9
Average Balances					
Assets	$ 24,362,546	$ 23,644,899	$ 22,009,749	3	11
Securities	7,755,330	7,929,312	6,224,348	(2)	25
Loans and leases, excluding covered loans	13,125,867	12,432,292	11,515,989	6	14
Covered loans (1)	1,341,041	1,438,714	1,770,377	(7)	(24)
Deposits	20,948,246	20,217,395	18,784,448	4	12
Shareholders equity	2,234,411	2,168,748	2,028,357	3	10
Total equity	2,234,411	2,168,748	2,053,447	3	9
Selected Ratios					
Return on average assets (annualized)	0.90%	0.79%	0.87%	14	3
Return on average shareholders equity (annualized)	9.86	8.58	9.39	15	5
Corporation s tier 1 leverage	6.74	6.98	7.09	(3)	(5)
Corporation s tier 1 risk-based capital	9.58	10.20	10.66	(6)	(10)
Corporation s total risk-based capital	12.91	12.71	13.34	2	(3)
Period-end shareholders equity to period-end assets	9.09	9.15	9.14	(1)	(1)
Period-end equity to period-end assets	9.09	9.15	9.25	(1)	(2)
Dividend payout ratio, per share	24.57	28.91	22.40	(15)	10
Net interest margin	3.91	3.74	3.85	5	2
Expense to revenue ratio (2)	63.28	67.27	66.24	(6)	(4)
Asset Quality Ratios (3)					
Nonaccrual loans to total loans and leases	0.73%	0.88%	1.14%	(17)	(36)
Nonaccrual loans and OREO to total loans and leases and OREO	0.98	1.11	1.54	(12)	(36)
	2.00	2.09	2.28	(4)	(12)

Allowance for loan and lease losses to total loans and leases					
Allowance for loan and lease losses to nonaccrual loans	273.21	235.87	200.25	16	36
Net recoveries to average total loans and leases (annualized)	0.08	0.15	0.15	(47)	(47)
At Quarter End					
Assets under management (4)	$ 32,105,076	$ 32,535,021	$ 36,407,304	(1)	(12)
Assets under management or administration (4)	57,984,361	57,837,897	58,502,035	0	(1)

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

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

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

(4) Excludes $18.39 billion, $18.48 billion and $19.54 billion of assets under management for asset managers in which the Company held a noncontrolling ownership interest as of June 30, 2012, March 31, 2012 and June 30, 2011, respectively.

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CRITICAL ACCOUNTING POLICIES

The accounting and reporting policies of the Company conform with U.S. generally accepted accounting principles. The Company s accounting policies are fundamental to understanding management s discussion and analysis of results of operations and financial condition. The Company has identified 11 policies as being critical because they require management to make estimates, assumptions and judgments that affect the reported amount of assets and liabilities, contingent assets and liabilities, and revenues and expenses included in the consolidated financial statements. The judgments and assumptions used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances. Circumstances and events that differ significantly from those underlying the Company s estimates, assumptions and judgments could cause the actual amounts reported to differ significantly from these estimates.

The Company s critical accounting policies include those that address accounting for business combinations, financial assets and liabilities reported at fair value, securities, acquired impaired loans, allowance for loan and lease losses and reserve for off-balance sheet credit commitments, OREO, goodwill and other intangible assets, noncontrolling interest, share-based compensation plans, income taxes, and derivatives and hedging activities. The Company has not made any significant changes in its critical accounting policies or its estimates and assumptions from those disclosed in its 2011 Annual Report. Management has applied its critical accounting policies and estimation methods consistently in all periods presented in these financial statements.

RECENT DEVELOPMENTS

On April 30, 2012, the Company acquired First American Equipment Finance (FAEF), a privately owned, full-service mid-ticket equipment leasing company. Headquartered in Rochester, New York, FAEF leases technology and office equipment nationwide. Its clients include educational institutions, hospitals and health systems, large law firms, insurance underwriters, enterprise businesses, professional service businesses and nonprofit organizations. The acquisition significantly expands the Company s equipment leasing and finance capabilities and provides a platform for future growth. FAEF operates as a wholly owned subsidiary of the Bank. Excluding the effects of acquisition accounting adjustments, the Company acquired approximately $343.0 million in assets and assumed $325.0 million in liabilities. The Company acquired lease receivables with a fair value of $318.3 million and assumed borrowings and nonrecourse debt with a fair value of $320.9 million.

On June 20, 2012, the Bank completed an offering of $150.0 million of 10-year subordinated debt securities with a fixed interest rate of 5.375 percent. The Company will use the proceeds for general corporate purposes.

On July 2, 2012, the Company acquired Rochdale Investment Management (Rochdale), a New York City-based investment firm that manages $4.89 billion of assets for affluent and high-net-worth clients and their financial advisors across the nation. Rochdale will combine with City National Asset Management to become City National Rochdale Investments, a registered investment advisor which will operate as a wholly owned subsidiary of the Bank. It will offer a wide array of equity, fixed income and non-traditional investment alternatives. The Company expects the integration of the two firms to be completed early next year.

HIGHLIGHTS

- For the quarter ended June 30, 2012, consolidated net income attributable to City National Corporation was $54.8 million, or $1.01 per diluted share, compared to $47.5 million, or $0.88 per diluted share, for the year-earlier quarter. During the six month period ended June 30, 2012, consolidated net income attributable to City National Corporation was $101.0 million, or $1.87 per diluted share, compared to $87.2 million, or $1.62 per diluted share, for the year-earlier period. The growth in net income was primarily attributable to an increase in net interest income as a result of higher interest income from securities and covered loans and lower interest expense on deposits. The increase in net interest income, combined with lower noninterest expense, was partially offset by lower noninterest income. Earnings for the second quarter of 2012 also included a net income statement impact of $5.9 million from the recovery of a previously charged-off loan and $2.8 million of transaction costs related to the acquisitions of Rochdale and FAEF.

- Revenue, which consists of net interest income and noninterest income, was $291.2 million for the second quarter of 2012, up 5 percent from $276.4 million in the first quarter of 2012 and 3 percent from $282.8 million in the year-earlier quarter.

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- Fully taxable-equivalent net interest income, including dividend income, amounted to $221.4 million for the second quarter of 2012, up 8 percent from the first quarter of 2012 and 13 percent from the year-earlier period.

- The Company s net interest margin in the second quarter of 2012 was 3.91 percent, up from 3.74 percent in the first quarter of 2012 and 3.85 percent in the second quarter of 2011.

- Noninterest income was $74.8 million for the second quarter of 2012, down 1 percent from the first quarter of 2012 and 19 percent from the year-earlier quarter. The year-over-year decrease was due largely to lower net gains on both the sale of covered OREO and transfer of covered loans to OREO. Noninterest income for the second quarter of 2011 also included an $8.2 million gain from an FDIC-assisted acquisition.

- Noninterest expense for the second quarter of 2012 was $194.5 million, down 3 percent from the first quarter of 2012 and 8 percent from the year-earlier quarter. The year-over-year decline was due largely to lower OREO expenses and FDIC assessments. Legal and professional fees were also down due to the reimbursement of legal expenses related to a recovery of a previously charged-off loan. This decline was partly offset by transaction costs related to the acquisition of Rochdale and FAEF.

- The Company s effective tax rate was 33.1 percent for the second quarter of 2012 compared with 31.8 percent for the first quarter of 2012 and 29.8 percent from the year-earlier period.

- Total assets were $24.80 billion at June 30, 2012, up 3 percent from $24.04 billion at March 31, 2012 and 10 percent from $22.53 billion at June 30, 2011. Total average assets were $24.36 billion for the second quarter of 2012, compared to $23.64 billion for the first quarter of 2012 and $22.01 billion for the second quarter of 2011.

- Loans and leases, excluding covered loans, were $13.51 billion at June 30, 2012, an increase of 6 percent from March 31, 2012 and 16 percent from June 30, 2011. Average loans for the second quarter of 2012, excluding covered loans, were $13.13 billion, up 6 percent from the first quarter of 2012 and 14 percent from the same period of last year. Average commercial loan balances grew 10 percent from the first quarter of 2012 and 25 percent from the year-earlier period.

- Excluding covered loans, results for the second quarter of 2012 included a $1.0 million provision for loan and lease losses. The Company recorded no provision in the first quarter of 2012 and second quarter of 2011. The allowance for loan and lease losses on non-covered loans was $269.5 million at June 30, 2012, compared with $266.1 million at March 31, 2012 and $265.9 million at June 30, 2011. The Company remains adequately reserved at 2.00 percent of total loans and leases, excluding covered loans, at June 30, 2012, compared with 2.09 percent at March 31, 2012 and 2.28 percent at June 30, 2011.

- In the second quarter of 2012, net loan recoveries totaled $2.7 million, or 0.08 percent of average total loans and leases, excluding covered loans, on an annualized basis, compared with net recoveries of $4.5 million, or 0.15 percent, for the first quarter of 2012, and net recoveries of

$4.2 million, or 0.15 percent, in the year-earlier quarter. Nonaccrual loans, excluding covered loans, totaled $98.7 million at June 30, 2012, down from $112.8 million at March 31, 2012 and $132.8 million at June 30, 2011. At June 30, 2012, nonperforming assets, excluding covered assets, were $133.3 million, down from $141.9 million at March 31, 2012 and $180.4 million at June 30, 2011.

- Average securities for the second quarter of 2012 totaled $7.76 billion, down 2 percent from the first quarter of 2012, but up 25 percent from the second quarter of 2011, as deposit growth outpaced loan growth.

- Period-end deposits at June 30, 2012 were $21.11 billion, up 2 percent from $20.79 billion at March 31, 2012 and 10 percent from $19.27 billion at June 30, 2011. Average deposit balances for the second quarter of 2012 grew to $20.95 billion, up 4 percent from $20.22 billion for the first quarter of 2012 and 12 percent from $18.78 billion for the second quarter of 2011. Average core deposits, which equal 97 percent of total deposit balances, were up 4 percent from the first quarter of 2012 and 13 percent from the second quarter of 2011.

- The Company s ratio of Tier 1 common shareholders equity to risk-based assets was 9.6 percent at June 30, 2012 compared with 10.2 percent at March 31, 2012 and 10.5 percent at June 30, 2011. Refer to the Capital section of Management s Discussion and Analysis for further discussion of this non-GAAP measure.

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OUTLOOK

The Company s management continues to anticipate net income growth throughout 2012, as loans and deposits continue to increase and credit quality remains stable. This outlook reflects management s expectations for modest economic growth, and low interest rates for the remainder of the year. Management also anticipates modest loan loss provisions driven primarily by loan growth.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income is the difference between interest income (which includes yield-related loan fees) and interest expense. Net interest income on a fully taxable-equivalent basis expressed as a percentage of average total earning assets is referred to as the net interest margin, which represents the average net effective yield on earning assets. The following tables present the components of net interest income on a fully taxable-equivalent basis for the three and six months ended June 30, 2012 and 2011:

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Net Interest Income Summary

(in thousands) (1)	For the three months ended June 30, 2012 Average balance	Interest income/ expense (2)(4)	Average interest rate	For the three months ended June 30, 2011 Average balance	Interest income/ expense (2)(4)	Average interest rate
Assets						
Interest-earning assets						
Loans and leases						
Commercial	$ 5,844,586	$ 60,333	4.15%	$ 4,693,254	$ 49,411	4.22%
Commercial real estate mortgages	2,294,830	26,801	4.70	1,903,480	26,909	5.67
Residential mortgages	3,815,144	40,812	4.28	3,663,003	43,805	4.78
Real estate construction	310,631	3,331	4.31	395,227	5,030	5.10
Equity lines of credit	731,105	6,417	3.53	729,885	6,540	3.59
Installment	129,571	1,559	4.84	131,140	1,597	4.88
Total loans and leases, excluding covered loans (3)	13,125,867	139,253	4.27	11,515,989	133,292	4.64
Covered loans	1,341,041	48,648	14.51	1,770,377	38,527	8.70
Total loans and leases	14,466,908	187,901	5.22	13,286,366	171,819	5.19
Due from banks - interest-bearing	293,272	173	0.24	526,405	407	0.31
Federal funds sold and securities purchased under resale agreements	136,773	96	0.28	142,398	98	0.28
Securities	7,755,330	45,927	2.37	6,224,348	41,386	2.66
Other interest-earning assets	116,861	694	2.39	134,840	703	2.09
Total interest-earning assets	22,769,144	234,791	4.15	20,314,357	214,413	4.23
Allowance for loan and lease losses	(331,090)			(343,581)		
Cash and due from banks	148,106			184,218		
Other non-earning assets	1,776,386			1,854,755		
Total assets	$ 24,362,546			$ 22,009,749		
Liabilities and Equity						
Interest-bearing deposits						
Interest checking accounts	$ 1,890,174	$ 456	0.10	$ 1,706,556	$ 743	0.17
Money market accounts	5,855,607	1,876	0.13	6,682,870	7,175	0.43
Savings deposits	360,222	127	0.14	327,363	263	0.32
Time deposits - under $100,000	228,172	285	0.50	307,938	376	0.49
Time deposits - $100,000 and over	733,029	822	0.45	833,070	1,459	0.70
Total interest-bearing deposits	9,067,204	3,566	0.16	9,857,797	10,016	0.41
Federal funds purchased and securities sold under repurchase agreements	3,511	1	0.11	10,528	2	0.07
Other borrowings	797,321	9,843	4.97	854,777	9,291	4.36
Total interest-bearing liabilities	9,868,036	13,410	0.55	10,723,102	19,309	0.72
Noninterest-bearing deposits	11,881,042			8,926,651		
Other liabilities	379,057			306,549		
Total equity	2,234,411			2,053,447		
Total liabilities and equity	$ 24,362,546			$ 22,009,749		
Net interest spread			3.60%			3.51%
Fully taxable-equivalent net interest and dividend income		$ 221,381			$ 195,104	
Net interest margin			3.91%			3.85%
Less: Dividend income included in other income		694			703	

Fully taxable-equivalent net interest income	$	220,687	$	194,401

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

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

(3) Includes average nonaccrual loans of $107,713 and $143,881 for 2012 and 2011, respectively.

(4) Loan income includes loan fees of $7,252 and $6,410 for 2012 and 2011, respectively.

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Net Interest Income Summary

	For the six months ended June 30, 2012			For the six months ended June 30, 2011		
(in thousands) (1)	**Average balance**	**Interest income/ expense (2)(4)**	**Average interest rate**	**Average balance**	**Interest income/ expense (2)(4)**	**Average interest rate**
Assets						
Interest-earning assets						
Loans and leases						
Commercial	$ 5,581,619	$ 112,403	4.05%	$ 4,565,917	$ 96,410	4.26%
Commercial real estate mortgages	2,230,380	53,035	4.78	1,913,914	53,276	5.61
Residential mortgages	3,796,402	81,960	4.32	3,613,042	86,680	4.80
Real estate construction	312,156	7,490	4.83	421,512	10,064	4.81
Equity lines of credit	729,035	12,881	3.55	731,497	13,000	3.58
Installment	129,488	3,139	4.87	140,775	3,382	4.85
Total loans and leases, excluding covered loans (3)	12,779,080	270,908	4.26	11,386,657	262,812	4.65
Covered loans	1,389,877	86,872	12.50	1,790,569	73,767	8.24
Total loans and leases	14,168,957	357,780	5.08	13,177,226	336,579	5.15
Due from banks - interest-bearing	230,209	266	0.23	508,478	705	0.28
Federal funds sold and securities purchased under resale agreements	75,659	106	0.28	186,653	252	0.27
Securities	7,842,321	93,511	2.38	5,960,301	80,539	2.70
Other interest-earning assets	118,774	1,385	2.34	136,895	1,403	2.07
Total interest-earning assets	22,435,920	453,048	4.06	19,969,553	419,478	4.24
Allowance for loan and lease losses	(332,968)			(336,250)		
Cash and due from banks	144,771			192,583		
Other non-earning assets	1,755,999			1,869,686		
Total assets	$ 24,003,722			$ 21,695,572		
Liabilities and Equity						
Interest-bearing deposits						
Interest checking accounts	$ 1,921,178	$ 980	0.10	$ 1,738,960	$ 1,557	0.18
Money market accounts	5,936,604	4,078	0.14	6,568,195	14,328	0.44
Savings deposits	359,158	254	0.14	315,247	520	0.33
Time deposits - under $100,000	235,202	582	0.50	316,631	825	0.53
Time deposits - $100,000 and over	714,841	1,705	0.48	827,796	2,976	0.72
Total interest-bearing deposits	9,166,983	7,599	0.17	9,766,829	20,206	0.42
Federal funds purchased and securities sold under repurchase agreements	84,935	32	0.08	5,293	2	0.07
Other borrowings	746,969	18,658	5.02	856,653	18,621	4.38
Total interest-bearing liabilities	9,998,887	26,289	0.53	10,628,775	38,829	0.74
Noninterest-bearing deposits	11,415,838			8,718,840		
Other liabilities	387,418			322,077		
Total equity	2,201,579			2,025,880		
Total liabilities and equity	$ 24,003,722			$ 21,695,572		
Net interest spread			3.53%			3.50%
Fully taxable-equivalent net interest and dividend income		$ 426,759			$ 380,649	
Net interest margin			3.83%			3.84%
		1,385			1,403	

Less: Dividend income included in other income				
Fully taxable-equivalent net interest income	$	425,374	$	379,246

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

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

(3) Includes average nonaccrual loans of $111,201 and $157,479 for 2012 and 2011, respectively.

(4) Loan income includes loan fees of $12,291 and $10,651 for 2012 and 2011, respectively.

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

Changes In Net Interest Income

	For the three months ended June 30, 2012 vs 2011			For the three months ended June 30, 2011 vs 2010		
	Increase (decrease) due to		Net increase	Increase (decrease) due to		Net increase
(in thousands) (1)	Volume	Rate	(decrease)	Volume	Rate	(decrease)
Interest earned on:						
Total loans and leases (2)	$ 14,891	$ 1,191	$ 16,082	$ (4,015)	$ 325	$ (3,690)
Securities	9,374	(4,833)	4,541	13,933	(6,882)	7,051
Due from banks - interest-bearing	(152)	(82)	(234)	(121)	104	(17)
Federal funds sold and securities purchased under resale agreements	(5)	3	(2)	(51)	14	(37)
Other interest-earning assets	(101)	92	(9)	(62)	102	40
Total interest-earning assets	24,007	(3,629)	20,378	9,684	(6,337)	3,347
Interest paid on:						
Interest checking deposits	73	(360)	(287)	(329)	(341)	(670)
Money market deposits	(796)	(4,503)	(5,299)	1,646	(2,102)	(456)
Savings deposits	24	(160)	(136)	28	(103)	(75)
Time deposits	(260)	(468)	(728)	(754)	(613)	(1,367)
Total borrowings	(726)	1,277	551	(1,509)	(2,419)	(3,928)
Total interest-bearing liabilities	(1,685)	(4,214)	(5,899)	(918)	(5,578)	(6,496)
	$ 25,692	$ 585	$ 26,277	$ 10,602	$ (759)	$ 9,843

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

(2) Includes covered loans.

Changes In Net Interest Income

	For the six months ended June 30, 2012 vs 2011			For the six months ended June 30, 2011 vs 2010		
	Increase (decrease) due to		Net increase	Increase (decrease) due to		Net increase
(in thousands) (1)	Volume	Rate	(decrease)	Volume	Rate	(decrease)
Interest earned on:						

Total loans and leases (2)	$ 25,886	$ (4,685)	$ 21,201	$ (12,986)	$ 3,326	$ (9,660)
Securities	23,179	(10,207)	12,972	25,961	(13,395)	12,566
Due from banks - interest-bearing	(335)	(104)	(439)	30	(95)	(65)
Federal funds sold and securities purchased under resale agreements	(156)	10	(146)	74	21	95
Other interest-earning assets	(197)	179	(18)	(97)	201	104
Total interest-earning assets	48,377	(14,807)	33,570	12,982	(9,942)	3,040
Interest paid on:						
Interest checking deposits	151	(728)	(577)	(583)	(593)	(1,176)
Money market deposits	(1,261)	(8,989)	(10,250)	3,639	(4,386)	(747)
Savings deposits	65	(331)	(266)	(73)	(374)	(447)
Time deposits	(578)	(937)	(1,515)	(1,936)	(1,236)	(3,172)
Other borrowings	(661)	729	68	(4,362)	(3,633)	(7,995)
Total interest-bearing liabilities	(2,284)	(10,256)	(12,540)	(3,315)	(10,222)	(13,537)
	$ 50,661	$ (4,551)	$ 46,110	$ 16,297	$ 280	$ 16,577

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

(2) Includes covered loans.

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Net interest income was $216.5 million for the second quarter of 2012, an increase from $200.7 million for the first quarter of 2012 and $190.8 million for the second quarter of 2011. The increase from the first quarter of 2012 was primarily the result of higher interest income on total loans. The increase from the year-earlier quarter was largely due to higher interest income on total loans and lower interest expense on deposits.

Interest income on total loans was $186.1 million for the second quarter of 2012, up 11 percent from the first quarter of 2012 and 9 percent from the year-earlier quarter. The growth from both prior periods was primarily due to higher income from the net accelerated accretable yield recognition on covered loans that were paid off or fully charged off in the second quarter of 2012. Income from net accelerated accretable yield recognition during the second quarter of 2012 was $27.4 million, compared to $15.7 million in the first quarter of 2012 and $11.1 million in the year-earlier quarter. The growth in loan interest income during the second quarter of 2012 was also a result of interest income recognized on lease financing loans that were acquired in the acquisition of FAEF in April 2012 and the recognition of $2.3 million in interest income from the recovery of a previously charged-off loan.

Interest income on securities was $43.5 million for the second quarter of 2012, a 4 percent decrease from $45.4 million for the first quarter of 2012 and a 10 percent increase from $39.6 million for the second quarter of 2011. The decrease in securities income from the first quarter of 2012 is due to a 2 percent decrease in average securities and lower yields. The growth in securities income from the second quarter of 2011 is a result of a 25 percent growth in average securities.

Total interest expense was $13.4 million for the second quarter of 2012, up from $12.9 million for the first quarter of 2012, but down from $19.3 million for the second quarter of 2011. Interest expense on deposits was $3.6 million for the second quarter of 2012, down 12 percent from $4.0 million for the first quarter of 2012 and 64 percent from $10.0 million for the year-earlier quarter, primarily as a result of lower interest rates. Interest expense on borrowings was $9.8 million for the second quarter of 2012, up 11 percent from the first quarter of 2012 and 6 percent from the same period in 2011. The growth in interest expense on borrowings was primarily attributable to debt assumed in the acquisition of FAEF.

The net settlement of interest-rate swaps increased net interest income by $2.1 million for the second quarter of 2012, compared to $2.1 million for the first quarter of 2012 and $4.5 million for the year-earlier quarter.

The fully taxable net interest margin was 3.91 percent for the second quarter of 2012, up from 3.74 percent for the first quarter of 2012 and 3.85 percent for the second quarter of 2011. The average yield on earning assets for the second quarter of 2012 was 4.15 percent, up 18 basis points from 3.97 percent for the first quarter of 2012 and down 8 basis points from 4.23 percent for the year-earlier quarter. The average cost of interest-bearing liabilities was 0.55 percent, up 4 basis points from 0.51 percent for the first quarter of 2012, but down 17 basis points from 0.72 percent for the same period in 2011. Fully taxable-equivalent net interest income, which includes amounts to convert nontaxable income to fully taxable-equivalent amounts, was $220.7 million for the second quarter of 2012 compared to $204.7 million for the first quarter of 2012 and $194.4 million for the second quarter of 2011. Fully taxable-equivalent net interest income and dividend income was $221.4 million for the second quarter of 2012 compared with $205.4 million for the first quarter of 2012 and $195.1 million for the same period in 2011. The $26.3 million increase in fully taxable-equivalent net interest and dividend income from the year-ago quarter was primarily generated through income from the payoff and full charge off of covered loans, loans and securities growth (volume variance), and lower rates on interest-bearing deposits, partially offset by lower yields on securities (rate variance).

Average loans and leases, excluding covered loans, totaled $13.13 billion for the second quarter of 2012, an increase of 6 percent from $12.43 billion for the first quarter of 2012 and 14 percent from $11.52 billion for the second quarter of 2011. The increases were primarily driven by a growth in commercial loans, which grew 10 percent and 25 percent from the first quarter of 2012 and year-earlier quarter, respectively, and commercial real estate loans, which grew 6 percent and 21 percent for the same periods. The growth in commercial loans was partly a result of

lease financing loans that were acquired in the FAEF acquisition during the second quarter of 2012. Average covered loans were $1.34 billion for the second quarter of 2012, a decrease of 7 percent from $1.44 billion in the first quarter of 2012 and 24 percent from $1.77 billion for the year-ago quarter.

Average total securities, which include trading securities, were $7.76 billion for the second quarter of 2012, up 25 percent from the second quarter of 2011 as deposit growth outpaced loan growth. Average securities were down 2 percent from the first quarter of this year, reflecting stronger loan growth in the second quarter of 2012.

Average deposits were $20.95 billion for the second quarter of 2012, a 4 percent increase from $20.22 billion for the first quarter of 2012 and a 12 percent increase from $18.78 billion for the second quarter of 2011. Average core deposits, which do not include certificates of deposits of $100,000 or more, were $20.22 billion for the second quarter of 2012 and represented 97 percent of the total average deposit balance, compared to $19.52 billion and 97 percent in the first quarter of 2012 and $17.95 billion and 96 percent for the year-earlier quarter. Average interest-bearing deposits were $9.07 billion for the second quarter of 2012, down 2 percent from the first quarter of 2012 and 8 percent from the year-earlier quarter. Average noninterest-bearing deposits were $11.88 billion, up 9 percent from the first quarter of 2012 and 33 percent from the second quarter of 2011.

Provision for Credit Losses

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

The Company recorded expense of $1.0 million through the provision for credit losses on loans and leases, excluding covered loans, for the three and six months ended June 30, 2012. The Company recorded no provision for credit losses on loans and leases, excluding covered loans, for the same periods in 2011. The provision reflects management s continuing assessment of the credit quality of the Company s loan portfolio, which is affected by a broad range of economic factors. Additional factors affecting the provision include net loan charge-offs, nonaccrual loans, specific reserves, risk rating migration and changes in the portfolio size and composition. See Balance Sheet Analysis Allowance for Loan and Lease Losses and Reserve for Off-Balance Sheet Credit Commitments for further information on factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for loan and lease losses.

Covered loans represent loans acquired from the FDIC that are subject to loss-sharing agreements, and are primarily accounted for as acquired impaired loans under ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* (ASC 310-30). The provision for losses on covered loans is the expense recognized in the consolidated statements of income related to impairment losses resulting from the Company s quarterly review and update of cash flow projections on its covered loan portfolio. The Company recorded provision for losses on covered loans of $13.3 million during the second quarter of 2012, compared to $7.5 million in the first quarter of 2012 and $1.7 million in the second quarter of 2011. The provision for losses on covered loans is the result of changes in expected cash flows, both amount and timing, due to loan payments and the Company s revised loss forecasts. The revisions of the loss forecasts were based on the results of management s review of the credit quality of the outstanding covered loans and the analysis of the loan performance data since the acquisition of covered loans. The Company will continue updating cash flow projections on covered loans on a quarterly basis. Due to the uncertainty in the future performance of the covered loans, additional impairments may be recognized in the future.

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

Refer to Loans and Leases Asset Quality on page 74 for further discussion of credit quality.

Noninterest Income

Noninterest income was $74.8 million in the second quarter of 2012, a decrease of 1 percent from the first quarter of 2012 and 19 percent from the second quarter of 2011. The decrease from the prior quarters was largely a result of lower net gains on both the sale of covered OREO and transfer of covered loans to OREO. Noninterest income for the second quarter of 2011 also included an $8.2 million gain from an FDIC-assisted acquisition. Noninterest income represented 26 percent of the Company s revenue in the second quarter of 2012, a decrease from 27 percent in the first quarter of 2012 and 33 percent in the year-earlier quarter.

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

(in thousands)	For the three months ended June 30, 2012	March 31, 2012	June 30, 2011
Trust and investment fees	$ 34,067	$ 33,654	$ 36,687
Brokerage and mutual fund fees	5,293	5,028	4,864
Total wealth management fees	39,360	38,682	41,551
Cash management and deposit transaction charges	11,475	11,168	10,905
International services	10,017	8,785	9,015
FDIC loss sharing (expense) income, net	(6,026)	866	(10,684)
Other noninterest income	17,388	13,559	23,169
Total noninterest income before gain (loss)	72,214	73,060	73,956
Gain on disposal of assets	3,011	2,191	8,422
(Loss) gain on sale of securities	(279)	449	1,689
Impairment loss on securities	(178)		(294)
Gain on acquisition			8,164
Total noninterest income	$ 74,768	$ 75,700	$ 91,937

Wealth Management

The Company provides various trust, investment and wealth advisory services to its individual and business clients. The Company delivers these services through the Bank s wealth management division as well as through its wealth management affiliates. Trust services are provided only by the Bank. Trust and investment fee revenue includes fees from trust, investment and asset management, and other wealth advisory services. The majority of these fees are based on the market value of client assets managed, advised, administered or held in custody. The remaining portion of these fees is based on the specific service provided, such as estate and financial planning services, or may be fixed fees. For those fees based on market valuations, the mix of assets held in client accounts, as well as the type of managed account, impacts how closely changes in trust and investment fee income correlate with changes in the financial markets. Changes in market valuations are reflected in fee income primarily on a trailing-quarter basis. Also included in total trust and investment fees is the Company s portion of income from certain investments accounted for under the equity method. Trust and investment fees were $34.1 million for the second quarter of 2012, an increase of 1 percent from $33.7 million for the first quarter of 2012 and a decrease of 7 percent from $36.7 million for the second quarter of 2011. The year-over-year decline in trust and investment fees was due primarily to the third-quarter 2011 divestiture of certain institutional assets by one of the Company s investment affiliates. Money market mutual fund and brokerage fees were $5.3 million for the quarter, up 5 percent from $5.0 million for the first quarter of 2012 and 9 percent from $4.9 million for the year-earlier quarter.

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

(in millions)	June 30, 2012	2011	% Change	March 31, 2012	% Change
Assets Under Management	$ 32,105	$ 36,407	(12)	32,535	(1)
Assets Under Administration					

Brokerage		5,357		5,519	(3)		5,560	(4)
Custody and other fiduciary		20,522		16,576	24		19,743	4
Subtotal		25,879		22,095	17		25,303	2
Total assets under management or administration (1)	$	57,984	$	58,502	(1)	$	57,838	0

(1) Excludes $18.39 billion, $18.48 billion and $19.54 billion of assets under management for asset managers in which the Company held a noncontrolling ownership interest as of June 30, 2012, March 31, 2012 and June 30, 2011, respectively.

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AUM totaled $32.11 billion as of June 30, 2012, down 12 percent from the year-earlier quarter and 1 percent from the first quarter of 2012. Assets under management or administration were $57.98 billion at June 30, 2012, down 1 percent from the year-earlier quarter and virtually unchanged from the first quarter of 2012. The decline in AUM from the year-earlier quarter was primarily attributable to the divestiture of certain institutional assets by one of the Company s wealth management affiliates in the third quarter of 2011.

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

	% of AUM		
Investment	**June 30, 2012**	**March 31, 2012**	**June 30, 2011**
Equities	40%	41%	40%
U.S. fixed income	26	26	25
Cash and cash equivalents	21	20	21
Other (1)	13	13	14
	100%	100%	100%

(1) Includes private equity and other alternative investments.

Other Noninterest Income

Cash management and deposit transaction fees for the second quarter of 2012 were $11.5 million, up 3 percent from the first quarter of 2012 and 5 percent from the second quarter of 2011.

International services income for the second quarter of 2012 was $10.0 million, up 14 percent from the first quarter of 2012 and 11 percent from the second quarter of 2011. International services income includes foreign exchange fees, fees on commercial letters of credit and standby letters of credit, foreign collection fees and gains and losses associated with fluctuations in foreign currency exchange rates. The increases were due primarily to increased client activity and the addition of new clients.

Net FDIC loss sharing expense was $6.0 million for the second quarter of 2012, compared to net FDIC loss sharing income of $0.9 million for the first quarter of 2012 and a net FDIC loss sharing expense of $10.7 million for the year-earlier quarter. See Noninterest Income and Expense Related to Covered Assets for further discussion of FDIC loss sharing income and expense.

Net gain on disposal of assets was $3.0 million in the second quarter of 2012, compared with net gains of $2.2 million in the first quarter of 2012 and $8.4 million in the year-earlier quarter. The net gain is primarily due to gains recognized on the sale of covered and non-covered OREO.

The Company recognized $0.3 million of net loss on the sale of securities in the second quarter of 2012, compared with net gains of $0.4 million for the first quarter of 2012 and $1.7 million for the second quarter of 2011.

Impairment losses on securities available-for-sale recognized in earnings were $0.2 million for the second quarter of 2012, compared with $0.3 million for the year-earlier quarter. The Company did not recognize impairment losses on securities in earnings for the first quarter of 2012. See Balance Sheet Analysis Securities for a discussion of impairment on securities available-for-sale.

Other income for the second quarter of 2012 was $17.4 million, an increase of 28 percent from $13.6 million for the first quarter of 2012, but down 25 percent from $23.2 million for the second quarter of 2011. The increase in other income from the first quarter of 2012 was primarily attributable to higher net gains on the transfer of covered loans to OREO and an increase in lease income from the acquisition of FAEF. The decrease in other income from the second quarter of 2011 was a result of lower net gains on the transfer of covered loans to OREO, which was partially offset by an increase in lease income from the acquisition of FAEF.

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Other income related to covered assets consists primarily of net gain on transfers of covered loans to OREO, the amortization of fair value on acquired unfunded loan commitments and OREO income. Refer to the table on page 67 for additional detail on these components. Other income related to covered assets was $7.0 million in the second quarter of 2012, compared to $2.9 million in the first quarter of 2012 and $13.5 million in the year-earlier quarter. The fluctuations from prior quarters was primarily attributable to changes in net gain recognized on the transfers of covered loans to OREO, which was $6.9 million in the second quarter of 2012, $2.5 million in the first quarter of 2012 and $12.8 million in the year-earlier quarter. The gain or loss recognized on transfer of covered loans to OREO is calculated as the difference between the carrying value of the covered loan and the fair value of the underlying foreclosed collateral.

Noninterest Expense

Noninterest expense was $194.5 million for the second quarter of 2012, a decrease of 3 percent from $200.7 million for the first quarter of 2012 and 8 percent from $211.8 million for the second quarter of 2011. The decrease from the year-earlier quarter was due largely to lower OREO expenses, FDIC assessments, and legal and professional fees. The decrease in noninterest expense from the first quarter of 2012 was primarily a result of lower salaries and employee benefits and lower OREO expenses.

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

	For the three months ended		
(in thousands)	**June 30, 2012**	**March 31, 2012**	**June 30, 2011**
Salaries and employee benefits	$ 115,035	$ 120,245	$ 112,139
All other:			
Net occupancy of premises	14,056	13,686	13,665
Legal and professional fees	11,359	11,880	14,790
Information services	8,539	8,149	8,335
Depreciation and amortization	8,013	7,428	6,904
Amortization of intangibles	1,518	1,886	2,104
Marketing and advertising	7,597	6,816	7,626
Office services and equipment	4,492	3,948	4,672
Other real estate owned	7,541	12,094	22,162
FDIC assessments	4,523	4,479	8,524
Other operating	11,843	10,109	10,911
Total all other	79,481	80,475	99,693
Total noninterest expense	$ 194,516	$ 200,720	$ 211,832

Salaries and employee benefits expense was $115.0 million for the second quarter of 2012, down 4 percent from $120.2 million for the first quarter of 2012 and up 3 percent from $112.1 million for the year-earlier quarter. The decrease in salaries and employee benefits from the first quarter of 2012 was primarily due to the recognition of seasonally higher personnel cost, including higher employer taxes, and a one-time expense affiliated with an executive s supplemental employee retirement plan (SERP) during the first quarter of 2012. See Note 14, *Employee Benefit Plans*, for further discussion of the SERP expense. Full-time equivalent staff was 3,330 at June 30, 2012, up from 3,235 at March 31, 2012 and slightly higher than 3,328 at June 30, 2011. The increase in staff from the first quarter of 2012 was primarily attributable to the acquisition of FAEF.

Salaries and employee benefits expense for the second quarter of 2012 includes $4.3 million of share-based compensation expense compared with $4.7 million for the first quarter of 2012 and $4.8 million for the year-earlier quarter. At June 30, 2012, there was $16.0 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 2.7 years. At June 30, 2012, there was $24.3 million of unrecognized compensation cost related to restricted shares granted under the Company s plans. That cost is expected to be recognized over a weighted average period of 3.3 years. In February 2012, the Company granted cash-settled restricted stock units to employees. Cash-settled restricted stock units are initially valued at the closing price of the Company s stock on the date of award and subsequently remeasured at each reporting date until settlement. See Note 11, *Share-Based Compensation*, of the Notes to the Unaudited Consolidated Financial Statements for further discussion.

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The remaining noninterest expense categories totaled $79.5 million for the second quarter of 2012, down from $80.5 million for the first quarter of 2012 and $99.7 million for the second quarter of 2011. The decrease from the first quarter of 2012 was due primarily to lower OREO expense. The decrease from the year-earlier quarter was also attributable to lower OREO expense, as well as a decrease in FDIC assessments and legal and professional fees. OREO expense was $7.5 million for the second quarter of 2012, down 38 percent and 66 percent from the first quarter of 2012 and year earlier quarter, respectively. OREO expense was comprised mostly of expense related to covered OREO. Of the qualified covered asset-related expenses, 80 percent is reimbursable by the FDIC and reflected in FDIC loss sharing income (expense), net in the noninterest income section of the consolidated statements of income.

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

(in thousands)	For the three months ended June 30, 2012	2011	For the six months ended June 30, 2012	2011
Non-covered OREO expense				
Valuation write-downs	$ 241	$ 1,592	$ 1,149	$ 2,499
Holding costs and foreclosure expense	254	378	425	1,163
Total non-covered OREO expense	$ 495	$ 1,970	$ 1,574	$ 3,662
Covered OREO expense				
Valuation write-downs	$ 4,250	$ 15,628	$ 12,058	$ 23,932
Holding costs and foreclosure expense	2,796	4,564	6,003	9,057
Total covered OREO expense	$ 7,046	$ 20,192	$ 18,061	$ 32,989
Total OREO expense	$ 7,541	$ 22,162	$ 19,635	$ 36,651

Legal and professional fees were $11.4 million for the second quarter of 2012, down 4 percent from $11.9 million in the first quarter of 2012 and 23 percent from $14.8 million in the year-earlier quarter. The decrease in legal and professional fees from the prior year quarters reflects the current quarter reimbursement of $3.6 million in legal expenses related to the recovery of a previously charged-off loan, partially offset by $2.8 million of acquisition-related transactions costs. Legal and professional fees associated with covered loans and OREO were approximately $2.2 million for the second quarter of 2012, $2.3 million for the first quarter of 2012 and $2.8 million for the second quarter of 2011. Qualifying legal and professional fees for covered assets are also reimbursable by the FDIC at 80 percent.

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

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Noninterest Income and Expense Related to Covered Assets

The following table summarizes the components of noninterest income and noninterest expense related to covered assets for the three and six months ended June 30, 2012 and 2011:

(in thousands)	For the three months ended June 30, 2012	2011	For the six months ended June 30, 2012	2011
Noninterest income related to covered assets				
FDIC loss sharing expense, net				
Gain on indemnification asset	$ 17,722	$ 1,687	$ 28,561	$ 16,735
Indemnification asset accretion	(4,133)	(4,126)	(8,158)	(7,750)
Net FDIC reimbursement for OREO and loan expenses	6,724	17,852	17,165	28,971
Removal of indemnification asset for loans paid-off or fully charged-off	(10,654)	(6,306)	(17,170)	(9,819)
Removal of indemnification asset for unfunded loan commitments and loans transferred to OREO	(4,773)	(8,855)	(6,886)	(16,527)
Removal of indemnification asset for OREO and net reimbursement to FDIC for OREO sales	(1,189)	(7,219)	(3,845)	(8,501)
Loan recoveries shared with FDIC	(9,226)	(3,197)	(13,713)	(5,168)
Increase in FDIC clawback liability	(497)	(503)	(1,114)	(779)
Other		(17)		759
Total FDIC loss sharing expense, net	(6,026)	(10,684)	(5,160)	(2,079)
Gain on disposal of assets				
Net gain on sale of OREO	1,486	9,092	3,623	10,720
Gain on acquisition		8,164		8,164
Other income				
Net gain on transfers of covered loans to OREO	6,864	12,817	9,347	23,147
Amortization of fair value on acquired unfunded loan commitments	413	766	972	1,459
OREO income	615	637	1,520	1,297
Other	(864)	(690)	(1,882)	(661)
Total other income	7,028	13,530	9,957	25,242
Total noninterest income related to covered assets	$ 2,488	$ 20,102	$ 8,420	$ 42,047
Noninterest expense related to covered assets (1)				
Other real estate owned				
Valuation write-downs	$ 4,250	$ 15,628	$ 12,058	$ 23,932
Holding costs and foreclosure expense	2,796	4,564	6,003	9,057
Total other real estate owned	7,046	20,192	18,061	32,989
Legal and professional fees	2,200	2,832	4,478	4,651

Other operating expense				
Other covered asset expenses	31	(70)	40	22
Total noninterest expense related to covered assets (2)	$ 9,277	$ 22,954	$ 22,579	$ 37,662

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

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

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Noninterest Income

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

Net FDIC loss sharing expense was $6.0 million for the second quarter of 2012, compared to net FDIC loss sharing income of $0.9 million in the first quarter of 2012 and net FDIC loss sharing expense of $10.7 million in the year-earlier quarter. The change in net FDIC loss sharing income to expense from the first quarter of 2012 was primarily attributable to an increase in net expense from the removal of the indemnification asset for loans paid-off or fully charged-off, as well as increased loan recoveries on loans paid-off or fully charged-off that are shared with the FDIC. It also reflects lower FDIC reimbursement for covered OREO and loan expenses, due to lower levels of OREO and loan expense recognized in the current quarter. The higher net FDIC loss sharing expense was partially offset by a higher gain on the indemnification asset from the revision of the Company s projected cash flows forecast on its covered loans.

The Company recognized a net gain on sales of covered OREO of $1.5 million in the second quarter of 2012 compared to $2.1 million in the first quarter of 2012 and $9.1 million in the first quarter of 2011. Other income related to covered assets was $7.0 million in the current quarter and consists primarily of net gain on transfers of covered loans to OREO, the amortization of fair value on acquired unfunded loan commitments and OREO income. Total other income increased from $2.9 million in the first quarter of 2012 primarily because of higher net gains on the transfers of covered loans to OREO, but decreased from $13.5 million in the year-earlier quarter because of lower net gains on transfers of covered loans to OREO. Refer to the above table for additional information on the components of other income related to covered assets for the three and six months ending June 30, 2012, and 2011.

Noninterest Expense

Noninterest expense related to covered assets includes OREO expense, legal and professional expense and other covered asset-related expenses, and may be subject to FDIC reimbursement. Expenses must meet certain FDIC criteria in order for the expense amounts to be reimbursed. Certain amounts reflected in these balances may not be reimbursed by the FDIC if they do not meet the criteria. Total covered OREO expense, which includes valuation write-downs, holding costs and foreclosure expenses was $7.0 million for the second quarter of 2012, down from $11.0 million for the first quarter of 2012 and $20.2 million for the year-earlier quarter.

Segment Operations

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

Commercial and Private Banking

Net income for the Commercial and Private Banking segment decreased to $29.9 million for the second quarter of 2012 from $33.1 million for the second quarter of 2011. Net income for the six months ended June 30, 2012 was $51.1 million, down from $60.7 million for the year-earlier period. The decrease in net income from the prior-year quarter was due to a decrease in noninterest income and an increase in provision for losses on covered loans, partially offset by lower noninterest expense. The decrease in net income for the six months ended June 30, 2012 was primarily attributable to a decrease in noninterest income from covered assets. Net interest income increased to $184.8 million for the second quarter of 2012 from $181.0 million for the year-earlier quarter. Net interest income for the six months ended June 30, 2012 was $356.6 million compared to $353.7 million for the same period in 2011. The growth in net interest income was a result of higher accelerated yield recognition on covered loans that were paid off or charged off and the recognition of $2.3 million in interest income from the recovery of a previously charged-off loan, partially offset by lower funds transfer pricing income on deposits. See *Other* below for a discussion of funds transfer pricing. Average loans, excluding covered loans, increased to $13.07 billion, or by 14 percent, for the second quarter of 2012 compared with the year-earlier quarter.

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Average loans, excluding covered loans, for the six months ended June 30, 2012 increased 12 percent to $12.73 billion. Average covered loans were $1.34 billion for the second quarter of 2012 compared to $1.77 billion for the second quarter of 2011, and $1.39 billion for the six months of 2012 compared to $1.79 billion for the same period in 2011. Average deposits increased by 11 percent to $20.38 billion for the second quarter of 2012 from $18.35 billion for the year-earlier quarter. Average deposits increased by 11 percent to $20.05 billion for the six months ended June 30, 2012 from $18.05 billion for the same period in 2011. The growth in average deposits compared with the prior-year period was driven by new client relationships and growth in deposits of existing clients.

Provision for credit losses on loans and leases, excluding covered loans, was $1.0 million for the three months and six months ended June 30, 2012, compared to no provision for the same periods in 2011. Provision for losses on covered loans was $13.3 million and $20.8 million for the three months and six months ended June 30, 2012, compared to $1.7 million and $20.8 million for both respective periods in 2011. Refer to Results of Operations Provision for Credit Losses for further discussion of the provision.

Noninterest income for the second quarter of 2012 was $50.3 million, down 16 percent from $60.1 million for the prior-year quarter. Noninterest income for the six months ended June 30, 2012 decreased 21 percent to $97.6 million compared to $123.3 million for the year-earlier period. The decrease from the prior-year periods was primarily due to lower net gains on both the sale of covered OREO and transfer of covered loans to OREO. Noninterest income for the second quarter of 2011 also included an $8.2 million gain from an FDIC-assisted acquisition. Noninterest expense, including depreciation and amortization, decreased to $169.2 million, or by 7 percent, for the second quarter of 2012 from $182.3 million for the year-earlier quarter. Noninterest expense, including depreciation and amortization, decreased to $344.3 million, or by 2 percent, for the first half of 2012 from $351.5 million for the same period in 2011. Noninterest expense decreased from the prior-year periods primarily as a result of lower expense related to covered assets, lower FDIC assessment expense, and the reimbursement of legal expenses related to the recovery of a previously charged-off loan, which were partially offset by higher personnel costs.

Wealth Management

The Wealth Management segment had net income attributable to City National Corporation (CNC) of $1.5 million for the second quarter of 2012, an increase from a net loss of $9 thousand for the year-earlier quarter. Net income attributable to CNC for the six months ended June 30, 2012 was $2.8 million compared to $1.3 million for the year-earlier period. Noninterest income decreased to $40.0 million, or by 3 percent, for the second quarter of 2012 from $41.1 million for the year-earlier quarter, and to $79.3 million, or by 4 percent, for the six months ended June 30, 2012 from $82.9 million for the year-earlier period. Refer to Results of Operations Noninterest Income Wealth Management for a discussion of the factors impacting fee income for the Wealth Management segment. Noninterest expense, including depreciation and amortization, was $37.6 million for the second quarter of 2012, down by 8 percent from $41.0 million for the year-earlier quarter. Noninterest expense, including depreciation and amortization, decreased 7 percent to $75.2 million in the first six months of 2012 from $80.7 million in the year-earlier period. The reduction in expense compared with the year-earlier quarter was primarily due to lower personnel costs and professional fees.

Other

Net income attributable to CNC for the Other segment increased to $23.4 million for the second quarter of 2012, from $14.4 million for the second quarter of 2011. Net income attributable to CNC increased to $47.2 million for the six months ended June 30, 2012, from $25.1 million for the same period in 2011. The Asset Liability Funding Center, which is included in the Other segment, is used for funds transfer pricing. The Funding Center charges the business line units for loans and pays them for generating deposits. In general, net interest income decreases in the Funding Center when loan and securities balances decrease or when deposit balances increase. However, in periods of extremely low interest

rates, the funding credit given on deposits declines considerably which may cause net interest income in the Funding Center to increase. Net interest income was $31.1 million and $59.4 million for the three and six months ended June 30, 2012, respectively, an increase from $9.3 million and $17.3 million for the three and six months ended June 30, 2011, respectively. The increase in net interest income was due to higher funds transfer income due to loan and securities portfolio growth, and to a reduction in the funds transfer rate paid to business line units on deposit balances. Although deposits have increased from the prior-year quarter, the transfer pricing rate paid on deposits declined as a result of the continuing low interest rate environment. Noninterest income (loss) was ($15.5) million for the current quarter compared with ($9.2) million for the year-earlier quarter.

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Noninterest income (loss) was ($26.4) million for the six months ended June 30, 2012 compared with ($20.4) million for the year-earlier period. The change in noninterest income (loss) compared with the year-earlier periods was due to lower gains on the sale of securities in 2012 and life insurance death benefits recognized in 2011.

Income Taxes

The Company recognized income tax expense of $27.3 million during the second quarter of 2012, compared with tax expense of $21.7 million in the first quarter of 2012 and $20.7 million in the year-earlier quarter. The effective tax rate was 33.1 percent of pretax income for the second quarter of 2012, compared with 31.8 percent for the first quarter of 2012 and 29.8 percent for the year-earlier quarter. The effective tax rates differ from the applicable statutory federal and state tax rates due to various factors, including tax benefits from investments in affordable housing partnerships, tax-exempt income on municipal bonds, bank-owned life insurance and other adjustments.

The Company recognizes accrued interest and penalties relating to uncertain tax positions as an income tax provision expense. The Company recognized interest and penalties expense of approximately $0.1 million and $0.3 million for the six months ended June 30, 2012 and 2011, respectively. The Company had approximately $3.3 million, $3.2 million and $3.2 million of accrued interest and penalties as of June 30, 2012, December 31, 2011 and June 30, 2011.

The Company and its subsidiaries file a consolidated federal income tax return and also file income tax returns in various state jurisdictions. The Company is currently being audited by the Internal Revenue Service for 2011 and 2012. The Company is also currently under audit with the California Franchise Tax Board for the tax years 2005 to 2007. The potential financial statement impact, if any, resulting from completion of these audits is expected to be minimal.

From time to time, there may be differences in opinion with respect to the tax treatment of certain transactions. If a tax position which was previously recognized on the consolidated financial statements is no longer more likely than not to be sustained upon a challenge from the taxing authorities, the tax benefit from the tax position will be derecognized. The Company did not have any tax positions for which previously recognized benefits were derecognized during the six months June 30, 2012.

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

BALANCE SHEET ANALYSIS

Total assets were $24.80 billion at June 30, 2012, an increase of 10 percent from $22.53 billion at June 30, 2011 and 5 percent from $23.67 billion at December 31, 2011. Average assets for the second quarter of 2012 increased to $24.36 billion from $22.01 billion for the second quarter of 2011. The increase in period-end and average assets from the year-earlier quarter reflects the growth in loans and securities.

Total average interest-earning assets for the second quarter of 2012 were $22.77 billion, up from $20.31 billion for the second quarter of 2011.

Securities

At June 30, 2012, the Company had total securities of $8.03 billion, comprised of securities available-for-sale at fair value of $6.87 billion, securities held-to-maturity at amortized cost of $1.10 billion and trading securities at fair value of $62.6 million. The Company had total securities of $8.10 billion at December 31, 2011, comprised of securities available-for-sale at fair value of $7.57 billion, securities held-to-maturity at amortized cost of $467.7 million and trading securities at fair value of $62.0 million. At June 30, 2011, the Company had total securities of $6.47 billion, comprised of securities available-for-sale at fair value of $6.35 billion and trading securities at fair value of $125.8 million.

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

	June 30, 2012		December 31, 2011		June 30, 2011	
(in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities available-for-sale:						
U.S. Treasury	$ 17,223	$ 17,208	$ 19,163	$ 19,182	$ 13,036	$ 13,076
Federal agency - Debt	994,268	999,207	1,967,928	1,973,862	1,841,579	1,847,232
Federal agency - MBS	655,384	691,672	650,091	681,044	518,421	534,726
CMOs - Federal agency	4,388,817	4,477,264	4,239,205	4,326,907	3,383,652	3,453,901
CMOs - Non-agency	70,702	65,466	79,999	69,001	98,596	91,083
State and municipal	365,236	383,650	383,210	401,604	344,561	357,804
Other debt securities	231,795	229,908	106,051	99,074	48,826	44,121
Total available-for-sale debt securities	6,723,425	6,864,375	7,445,647	7,570,674	6,248,671	6,341,943
Equity securities and mutual funds	336	1,506	352	1,227	2,088	6,112
Total available-for-sale securities	$ 6,723,761	$ 6,865,881	$ 7,445,999	$ 7,571,901	$ 6,250,759	$ 6,348,055
Securities held-to-maturity (1):						
Federal agency - Debt	$ 103,439	$ 105,441	$ 40,423	$ 41,203	$	$
Federal agency - MBS	200,763	206,184	75,231	76,863		
CMOs - Federal agency	642,102	660,464	292,547	294,932		$
State and municipal	153,925	154,964	59,479	60,905		
Total held-to-maturity securities	$ 1,100,229	$ 1,127,053	$ 467,680	$ 473,903	$	$

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

The duration of securities available-for-sale and held-to-maturity at June 30, 2012 was 3.0 years compared to 3.1 years at March 31, 2012 and 2.3 years at June 30, 2011. The duration of the $6.87 billion available-for-sale portfolio was 2.4 years at June 30, 2012. Changes in the fair value of securities available-for-sale will impact other comprehensive income, and thus shareholders equity, on an after-tax basis. Securities held-to-maturity are presented in the consolidated balance sheets at amortized cost. Changes in the fair value of securities held-to-maturity do not have an impact on other comprehensive income.

At June 30, 2012, the available-for-sale securities portfolio had a net unrealized gain of $142.1 million, comprised of $156.3 million of unrealized gains and $14.2 million of unrealized losses. At December 31, 2011, the available-for-sale securities portfolio had a net unrealized gain of $125.9 million, comprised of $149.1 million of unrealized gains and $23.2 million of unrealized losses. At June 30, 2011, the available-for-sale securities portfolio had a net unrealized gain of $97.3 million, comprised of $118.4 million of unrealized gains and $21.1 million of unrealized losses.

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The following table provides the expected remaining maturities of debt securities included in the securities portfolio at June 30, 2012. The maturities of mortgage-backed securities are allocated according to the average life of expected cash flows. Average expected maturities will differ from contractual maturities because of the amortizing nature of the loan collateral and prepayment behavior of borrowers.

(in thousands)	One year or less	Over 1 year through 5 years	Over 5 years through 10 years	Over 10 years	Total
Securities available-for-sale:					
U.S. Treasury	$ 5,003	$ 12,205	$	$	$ 17,208
Federal agency - Debt	663,719	335,488			999,207
Federal agency - MBS	11	455,069	236,592		691,672
CMOs - Federal agency	309,857	4,012,348	155,059		4,477,264
CMOs - Non-agency	12,442	20,992	32,032		65,466
State and municipal	47,369	218,736	67,047	50,498	383,650
Other	3,416	184,044	42,448		229,908
Total debt securities available-for-sale	$ 1,041,817	$ 5,238,882	$ 533,178	$ 50,498	$ 6,864,375
Amortized cost	$ 1,035,552	$ 5,130,739	$ 506,789	$ 50,345	$ 6,723,425
Securities held-to-maturity:					
Federal agency - Debt	$ 10,947	$	$	$ 92,492	$ 103,439
Federal agency - MBS		2,663	198,100		200,763
CMOs - Federal agency		92,378	549,724		642,102
State and municipal	500	10,386	96,733	46,306	153,925
Total debt securities held-to-maturity at amortized cost	$ 11,447	$ 105,427	$ 844,557	$ 138,798	$ 1,100,229

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.

Through the impairment assessment process, the Company determined that certain non-agency CMOs were other-than-temporarily impaired at June 30, 2012. The Company recorded impairment losses in earnings on securities available-for-sale of $0.2 million for the three and six months ended June 30, 2012. Impairment losses recognized in earnings on securities available-for-sale during the three and six months ended June 30, 2011 were $0.3 million and $0.5 million, respectively. The Company recognized $4.0 million and $3.8 million of non-credit-related other-than-temporary impairment in AOCI on securities available-for-sale at June 30, 2012 and 2011, respectively. There were no impairment losses recognized in earnings or AOCI for securities held-to-maturity during the three and six months ended June 30, 2012.

Of the total securities available-for-sale in an unrealized loss position at June 30, 2012, approximately $504.0 million of securities with unrealized losses of $1.0 million were in a continuous unrealized loss position for less than 12 months and $50.9 million of securities with unrealized losses of $13.3 million were in a continuous loss position for more than 12 months. While the securities in a loss position at June 30, 2012 were comprised mostly of federal agency CMOs, a significant portion of the total gross unrealized loss relates to non-agency CMOs and collateralized debt obligation senior notes.

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At December 31, 2011, approximately $1.28 billion of securities with unrealized losses of $4.2 million were in a continuous unrealized loss position for less than 12 months and $48.1 million of securities with unrealized losses of $19.0 million were in a continuous loss position for more than 12 months. At June 30, 2011, approximately $835.8 million of securities with unrealized losses of $5.8 million were in a continuous unrealized loss position for less than 12 months and $59.6 million of securities with unrealized losses of $15.4 million were in a continuous unrealized loss position for more than 12 months.

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

Loan and Lease Portfolio

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

Loans and Leases

(in thousands)	June 30, 2012	December 31, 2011	June 30, 2011
Commercial	$ 5,379,489	$ 4,846,594	$ 4,420,899
Commercial real estate mortgages	2,424,333	2,110,749	1,930,269
Residential mortgages	3,822,630	3,763,218	3,710,765
Real estate construction	301,829	315,609	355,014
Equity lines of credit	741,270	741,081	735,899
Installment	130,200	132,647	130,924
Lease financing	707,458	399,487	379,353
Loans and leases, excluding covered loans	13,507,209	12,309,385	11,663,123
Less: Allowance for loan and lease losses	(269,534)	(262,557)	(265,933)
Loans and leases, excluding covered loans, net	13,237,675	12,046,828	11,397,190
Covered loans	1,260,135	1,481,854	1,724,633
Less: Allowance for loan losses	(43,147)	(64,565)	(67,629)
Covered loans, net	1,216,988	1,417,289	1,657,004
Total loans and leases	$ 14,767,344	$ 13,791,239	$ 13,387,756
Total loans and leases, net	$ 14,454,663	$ 13,464,117	$ 13,054,194

Total loans and leases were $14.77 billion, $13.79 billion and $13.39 billion at June 30, 2012, December 31, 2011 and June 30, 2011, respectively. Total loans, excluding covered loans, were $13.51billion, $12.31 billion and $11.66 billion at June 30, 2012, December 31, 2011 and June 30, 2011, respectively.

Total loans and leases, excluding covered loans, at June 30, 2012 increased 10 percent from December 31, 2011 and 16 percent from June 30, 2011. Commercial loans, including lease financing, were up 16 percent from year-end 2011 and 27 percent from the year-earlier quarter. The increases were due to organic loan growth and the acquisition of FAEF, which added $318.3 million of lease financing loans at acquisition date.

Commercial real estate mortgage loans increased by 15 percent from year-end 2011 and 26 percent from the year-earlier quarter. Residential mortgages grew by 2 percent from year-end 2011 and 3 percent from the year-earlier quarter. Real estate construction loans declined by 4 percent and 15 percent for the same periods, respectively.

Covered Loans

Covered loans represent loans acquired from the FDIC that are subject to loss-sharing agreements and were $1.26 billion at June 30, 2012, $1.48 billion as of December 31, 2011 and $1.72 billion as of June 30, 2011. Covered loans, net of allowance for loan losses, were $1.22 billion as of June 30, 2012, $1.42 billion as of December 31, 2011 and $1.66 billion as of June 30, 2011.

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

(in thousands)	June 30, 2012	December 31, 2011	June 30, 2011
Commercial	$ 22,772	$ 30,911	$ 41,135
Commercial real estate mortgages	1,135,071	1,288,352	1,482,186
Residential mortgages	5,766	14,931	19,494
Real estate construction	90,196	140,992	173,263
Equity lines of credit	5,265	5,167	5,791
Installment	1,065	1,501	2,764
Covered loans	1,260,135	1,481,854	1,724,633
Less: Allowance for loan losses	(43,147)	(64,565)	(67,629)
Covered loans, net	$		