CITY NATIONAL CORP
Form 10-Q
August 09, 2011
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 1-10521

CITY NATIONAL CORPORATION

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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

City National Plaza

555 South Flower Street, Los Angeles, California, 90071

(Address of principal executive offices)(Zip Code)

(213) 673-7700

(Registrant s telephone number, including area code)

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

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

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

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	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 29, 2011, there were 53,195,181 shares of Common Stock outstanding (including unvested restricted shares).

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CITY NATIONAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)	June 30, 2011 (Unaudited)	December 31, 2010	June 30, 2010 (Unaudited)
Assets			
Cash and due from banks	$ 181,203	$ 126,882	$ 184,277
Due from banks - interest-bearing	725,304	142,807	336,244
Federal funds sold	123,000	165,000	404,760
Securities available-for-sale - cost $6,250,759, $5,658,120, and $4,668,089 at June 30, 2011, December 31, 2010 and June 30, 2010, respectively:			
Securities pledged as collateral			198,577
Held in portfolio	6,348,055	5,720,675	4,562,566
Trading securities	125,829	255,397	129,287
Loans and leases, excluding covered loans	11,663,123	11,386,628	11,483,044
Less: Allowance for loan and lease losses	265,933	257,007	290,492
Loans and leases, excluding covered loans, net	11,397,190	11,129,621	11,192,552
Covered loans, net of allowance for loan losses	1,657,004	1,790,133	2,034,591
Net loans and leases	13,054,194	12,919,754	13,227,143
Premises and equipment, net	134,511	128,426	121,960
Deferred tax asset	88,179	105,398	99,894
Goodwill	486,383	486,070	479,982
Customer-relationship intangibles, net	39,824	42,564	44,838
Affordable housing investments	113,486	99,670	101,999
Customers acceptance liability	1,737	1,715	2,515
Other real estate owned ($114,907, $120,866 and $98,841 covered by FDIC loss share at June 30, 2011, December 31, 2010 and June 30, 2010, respectively)	162,541	178,183	153,292
FDIC indemnification asset	261,734	295,466	394,012
Other assets	680,109	685,111	790,101
Total assets	$ 22,526,089	$ 21,353,118	$ 21,231,447
Liabilities			
Demand deposits	$ 9,403,425	$ 8,457,178	$ 8,173,386
Interest checking deposits	1,689,494	1,863,004	2,171,369
Money market deposits	6,720,604	6,344,749	5,742,069
Savings deposits	332,020	291,299	294,327
Time deposits-under $100,000	293,573	338,112	434,626
Time deposits-$100,000 and over	826,004	882,520	1,157,136
Total deposits	19,265,120	18,176,862	17,972,913
Short-term borrowings	149,771	153,444	3,400
Long-term debt	701,829	704,971	985,974
Reserve for off-balance sheet credit commitments.	23,325	21,529	19,310
Acceptances outstanding	1,737	1,715	2,515
Other liabilities	256,560	264,203	272,753

Total liabilities	20,398,342	19,322,724	19,256,865
Redeemable noncontrolling interest	43,737	45,676	47,622
Commitments and contingencies			
Equity			
Common stock, par value $1.00 per share; 75,000,000 shares authorized; 53,885,886 shares issued at June 30, 2011, December 31, 2010 and June 30, 2010	53,886	53,886	53,886
Additional paid-in capital	485,064	487,868	483,983
Accumulated other comprehensive income	56,293	36,853	58,050
Retained earnings	1,547,989	1,482,037	1,418,486
Treasury shares, at cost - 1,410,483, 1,639,203 and 1,796,485 shares at June 30, 2011, December 31, 2010 and June 30, 2010, respectively	(84,311)	(101,065)	(112,634)
Total shareholders equity	2,058,921	1,959,579	1,901,771
Noncontrolling interest	25,089	25,139	25,189
Total equity	2,084,010	1,984,718	1,926,960
Total liabilities and equity	$ 22,526,089	$ 21,353,118	$ 21,231,447

See accompanying Notes to the Unaudited Consolidated Financial Statements.

Table of Contents

CITY NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(in thousands, except per share amounts)	For the three months ended June 30, 2011	For the three months ended June 30, 2010	For the six months ended June 30, 2011	For the six months ended June 30, 2010
Interest Income				
Loans and leases	$ 169,992	$ 174,354	$ 332,931	$ 343,904
Securities available-for-sale	39,406	32,866	76,739	65,066
Trading securities	233	24	319	(28)
Due from banks - interest-bearing	407	424	705	770
Federal funds sold and securities purchased under resale agreements	98	135	252	157
Total interest income	210,136	207,803	410,946	409,869
Interest Expense				
Deposits	10,016	12,584	20,206	25,748
Federal funds purchased and securities sold under repurchase agreements	2	1,704	2	3,639
Subordinated debt	4,635	4,664	9,283	9,304
Other long-term debt	4,655	6,845	9,337	13,666
Other short-term borrowings	1	8	1	9
Total interest expense	19,309	25,805	38,829	52,366
Net interest income	190,827	181,998	372,117	357,503
Provision for credit losses on loans and leases, excluding covered loans		32,000		87,000
Provision for losses on covered loans	1,716	46,516	20,832	46,516
Net interest income after provision	189,111	103,482	351,285	223,987
Noninterest Income				
Trust and investment fees	36,687	33,976	72,325	67,485
Brokerage and mutual fund fees	4,864	5,461	10,525	10,742
Cash management and deposit transaction charges	10,905	12,008	22,630	24,584
International services	9,015	8,374	17,331	14,882
FDIC loss sharing (expense) income, net	(10,684)	28,339	(2,079)	37,425
Gain (loss) on disposal of assets	8,422	(2,814)	10,846	(1,423)
Gain on sale of securities	1,689	355	1,819	2,489
Gain on acquisition	8,164	25,228	8,164	25,228
Other	23,169	12,215	44,727	19,606
Impairment loss on securities:				
Total other-than-temporary impairment loss on securities	(4,132)	(13,992)	(4,296)	(14,995)
Less: Portion of loss recognized in other comprehensive income	3,838	13,486	3,838	13,486
Net impairment loss recognized in earnings	(294)	(506)	(458)	(1,509)
Total noninterest income	91,937	122,636	185,830	199,509
Noninterest Expense				
Salaries and employee benefits	112,139	99,110	223,151	194,569
Net occupancy of premises	13,665	13,347	27,011	26,252
Legal and professional fees	14,790	13,754	24,867	22,937
Information services	8,335	7,538	15,832	15,054
Depreciation and amortization	6,904	6,363	13,652	12,710
Amortization of intangibles	2,104	2,128	4,272	4,575

Marketing and advertising		7,626		5,798		14,144		11,046
Office services and equipment		4,672		4,272		9,278		8,070
Other real estate owned		22,162		16,892		36,651		34,089
FDIC assessments		8,524		7,662		18,330		14,183
Other operating		10,911		9,823		22,041		19,136
Total noninterest expense		211,832		186,687		409,229		362,621
Income before income taxes		69,216		39,431		127,886		60,875
Income taxes		20,650		(2,859)		38,536		1,559
Net income	$	48,566	$	42,290	$	89,350	$	59,316
Less: Net income attributable to noncontrolling interest		1,095		972		2,187		2,300
Net income attributable to City National Corporation	$	47,471	$	41,318	$	87,163	$	57,016
Less: Dividends and accretion on preferred stock								5,702
Net income available to common shareholders	$	47,471	$	41,318	$	87,163	$	51,314
Net income per share, basic	$	0.89	$	0.78	$	1.64	$	0.98
Net income per share, diluted	$	0.88	$	0.78	$	1.62	$	0.97
Shares used to compute net income per share, basic		52,462		52,012		52,392		51,852
Shares used to compute net income per share, diluted		52,977		52,542		52,931		52,336
Dividends per share	$	0.20	$	0.10	$	0.40	$	0.20

See accompanying Notes to the Unaudited Consolidated Financial Statements.

Table of Contents

CITY NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)	For the six months ended June 30, 2011		For the six months ended June 30, 2010	
Cash Flows From Operating Activities				
Net income	$	89,350	$	59,316
Adjustments to net income:				
Provision for credit losses on loans and leases, excluding covered loans				87,000
Provision for losses on covered loans		20,832		46,516
Amortization of intangibles		4,272		4,575
Depreciation and amortization		13,652		12,710
Share-based employee compensation expense		9,468		8,109
Deferred income tax benefit		2,686		17,813
(Gain) loss on disposal of assets		(10,846)		1,423
Gain on sale of securities		(1,819)		(2,489)
Gain on acquisition		(8,164)		(25,228)
Impairment loss on securities		458		1,509
Other, net		(9,418)		(15,184)
Net change in:				
Trading securities		129,818		25,015
Other assets and other liabilities, net		51,709		154,439
Net cash provided by operating activities		291,998		375,524
Cash Flows From Investing Activities				
Purchase of securities available-for-sale		(2,017,983)		(1,684,200)
Sales of securities available-for-sale		53,304		432,021
Maturities and paydowns of securities available-for-sale		1,367,512		907,157
Loan originations, net of principal collections		(108,530)		629,454
Net payments for premises and equipment		(19,637)		(10,361)
Net cash acquired in acquisitions		28,066		94,706
Other investing activities, net		59,628		10,235
Net cash (used in) provided by investing activities		(637,640)		379,012
Cash Flows From Financing Activities				
Net increase in deposits		961,463		51,966
Net decrease in federal funds purchased and securities sold under repurchase agreements				(449,079)
Net decrease in short-term borrowings, net of transfers from long-term debt		(3,105)		(30,529)
Net decrease in long-term debt		(757)		(353)
Proceeds from exercise of stock options		4,507		17,761
Tax benefit from exercise of stock options		992		3,281
Redemption of preferred stock				(200,000)
Repurchase of common stock warrants				(18,500)
Cash dividends paid		(21,211)		(13,467)
Other financing activities, net		(1,429)		(3,261)
Net cash provided by (used in) financing activities		940,460		(642,181)
Net increase in cash and cash equivalents		594,818		112,355
Cash and cash equivalents at beginning of year		434,689		812,926
Cash and cash equivalents at end of period	$	1,029,507	$	925,281
Supplemental Disclosures of Cash Flow Information:				
Cash paid during the period for:				
Interest	$	40,129	$	39,413

Income taxes		26,072		
Non-cash investing activities:				
Transfer of loans to other real estate owned	$	64,191	$	66,653
Assets acquired (liabilities assumed) in acquisitions:				
Securities available-for-sale	$	10,441	$	17,183
Covered loans		55,313		330,566
Covered other real estate owned		7,463		15,161
Deposits		(126,795)		(541,499)
Other borrowings		(3,165)		(30,539)

See accompanying Notes to the Unaudited Consolidated Financial Statements.

Table of Contents

CITY NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

AND COMPREHENSIVE INCOME

(Unaudited)

	City National Corporation Shareholders Equity								
(in thousands, except share amounts)	**Common shares issued**	**Preferred stock**	**Common stock**	**Additional paid-in capital**	**Accumulated other comprehensive income (loss)**	**Retained earnings**	**Treasury shares**	**Non-controlling interest**	**Total equity**
Balance, January 1, 2010	53,885,886	$ 196,048	$ 53,886	$ 513,550	$ (3,049)	$ 1,377,639	$ (151,751)	$ 26,441	$ 2,012,764
Comprehensive income:									
Net income (1)						57,016		1,070	58,086
Other comprehensive income, net of tax (2)					61,099				61,099
Total comprehensive income								1,070	119,185
Dividends and distributions to noncontrolling interest								(1,070)	(1,070)
Issuance of shares under share-based compensation plans				(22,687)			39,109		16,422
Preferred stock accretion		3,952				(3,952)			
Redemption of preferred stock		(200,000)							(200,000)
Repurchase of common stock warrants				(18,500)					(18,500)
Share-based employee compensation expense				8,090					8,090
Tax benefit from share-based compensation plans				2,181					2,181
Cash dividends:									
Preferred						(1,750)			(1,750)
Common						(10,467)			(10,467)
Net change in deferred compensation plans				425			8		433
Change in redeemable noncontrolling interest				924					924
Other								(1,252)	(1,252)
Balance, June 30, 2010	53,885,886	$	$ 53,886	$ 483,983	$ 58,050	$ 1,418,486	$ (112,634)	$ 25,189	$ 1,926,960
Balance, January 1, 2011	53,885,886	$	$ 53,886	$ 487,868	$ 36,853	$ 1,482,037	$ (101,065)	$ 25,139	$ 1,984,718
Comprehensive income:									
Net income (1)						87,163		1,067	88,230
Other comprehensive income, net of tax (2)					19,440				19,440
Total comprehensive income								1,067	107,670
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
Cash dividends:									
Common						(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

(1) Net income excludes net income attributable to redeemable noncontrolling interest of $1,120 and $1,230 for the six-month periods ended June 30, 2011 and 2010, respectively. Redeemable noncontrolling interest is reflected in the mezzanine section of the consolidated balance sheets. See Note 17 of the Notes to the Unaudited Consolidated Financial Statements.

(2) See Note 9 for additional information on other comprehensive income.

See accompanying Notes to the Unaudited Consolidated Financial Statements.

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Summary of Significant Accounting Policies

Organization

City National Corporation (the Corporation) is the holding company for City National Bank (the Bank). The Bank delivers banking, trust and investment services through 79 offices in Southern California, the San Francisco Bay area, Nevada, New York City and Nashville, Tennessee. As of June 30, 2011, the Corporation had five consolidated investment advisory affiliates and a noncontrolling interest in two other firms. The Corporation also had one unconsolidated subsidiary, Business Bancorp Capital Trust I. Because the Bank comprises substantially all of the business of the Corporation, references to the Company mean the Corporation and the Bank together. The Corporation is approved as a financial holding company pursuant to the Gramm-Leach-Bliley Act of 1999.

Consolidation

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

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

Use of Estimates

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

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

Table of Contents

Note 1. Summary of Significant Accounting Policies (Continued)

Basis of Presentation

The Company is on the accrual basis of accounting for income and expenses. The results of operations reflect any adjustments, all of which are of a normal recurring nature, unless otherwise disclosed in this Form 10-Q, and which, in the opinion of management, are necessary for a fair presentation of the results for the periods presented. In accordance with the usual practice of banks, assets and liabilities of individual trust, agency and fiduciary funds have not been included in the financial statements. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010.

The results for the 2011 interim period are not necessarily indicative of the results expected for the full year. The Company has not made any significant changes in its critical accounting policies or in its estimates and assumptions from those disclosed in its 2010 Annual Report other than the adoption of new accounting pronouncements and other authoritative guidance that became effective for the Company on or after January 1, 2011. Refer to *Accounting Pronouncements* for discussion of accounting pronouncements adopted in 2011.

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

Accounting Pronouncements

During the six months ended June 30, 2011, the following accounting pronouncements applicable to the Company were issued or became effective:

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

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

Table of Contents

Note 1. Summary of Significant Accounting Policies (Continued)

- In April 2011, the FASB issued ASU 2011-03, *Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements* (ASU 2011-03). ASC 860, *Transfers and Servicing*, provides the criteria for determining whether a transfer of financial assets is accounted for as a secured borrowing or as a sale. 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. ASU 2011-03 is effective for transactions, or modification of existing transactions, that occur on or after the first interim or annual period beginning on or after December 15, 2011. The new guidance is not expected to 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. ASU 2011-04 clarifies existing guidance pertaining to the applicability of the concepts of highest and best use and valuation premise in a fair value measurement, and on measuring the fair value of an instrument classified in shareholders equity. The ASU provides a framework for considering whether a premium or discount can be applied in a fair value measurement, and provides additional guidance on the application of fair value measurements to financial assets and liabilities with offsetting positions in market risk or counterparty credit risks. 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 ASU is effective for interim and annual periods beginning after December 15, 2011. Adoption of ASU 2011-04, when effective, will result in expanded fair value disclosures in 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 (OCI). Under either method, entities must display adjustments for items that are reclassified from OCI to net income in both net income and OCI. The ASU does not change the items that must be reported in OCI. ASU 2011-05 is effective for interim and annual periods beginning after December 15, 2011. After adoption, the guidance must be applied retrospectively for all periods presented in the financial statements. The new guidance is not expected to have a material effect on the Company s consolidated financial statements.

Note 2. Business Combinations

Nevada Commerce Bank

On April 8, 2011, the Bank acquired the banking operations of Nevada Commerce Bank (NCB), based in Las Vegas, Nevada, in a purchase and assumption agreement with the Federal Deposit Insurance Corporation (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.

Table of Contents

Note 2. Business Combinations (Continued)

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

In connection with the acquisition of NCB, the Bank entered into loss-sharing agreements with the FDIC under which the FDIC will reimburse the Bank for 80 percent of eligible losses with respect to covered assets. Covered assets include acquired loans (covered loans) and OREO (covered OREO) that are covered under loss-sharing agreements with the FDIC. The term of the loss-sharing agreements is 10 years for single-family residential loans and eight years for all other loans. The expected reimbursements under the loss-sharing agreements were recorded as an indemnification asset at their estimated fair value of $33.8 million. The difference between the fair value of the FDIC indemnification asset and the undiscounted cash flow the Bank expects to collect from the FDIC is accreted into noninterest income.

The Bank recognized a gain of $8.2 million on the acquisition of NCB. The gain represents the amount by which the fair value of the assets acquired and consideration received from the FDIC exceeds the liabilities assumed. The gain is reported in Gain on acquisition in the consolidated statements of income. The Bank recognized approximately $0.3 million of acquisition-related expense. This expense is included in Legal and professional fees in the consolidated statements of income.

The consolidated statement of income for 2011 includes the operating results produced by the acquired assets and assumed liabilities of NCB from its acquisition date through June 30, 2011, which are not material to total operating results for the three and six month periods ended June 30, 2011. Due primarily to the Bank acquiring certain assets and liabilities of NCB which are not material to the Company s consolidated balance sheet, the significant amount of fair value adjustments, and the FDIC loss-sharing agreements, the historical results of the acquired bank is not material to the Company s results, and consequently, no pro forma information is presented.

San Jose, California Branch

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

Datafaction, Inc.

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

Sun West Bank and 1st Pacific Bank of California

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

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

Table of Contents

Note 2. Business Combinations (Continued)

In connection with the acquisitions of SWB and FPB, the Bank entered into loss-sharing agreements with the FDIC under which the FDIC reimburses the Bank for 80 percent of eligible losses with respect to covered assets. 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 indemnification assets at their estimated fair value of $104.6 million for SWB and $36.5 million for FPB at acquisition date. The difference between the fair value of the FDIC indemnification asset and the undiscounted cash flows that the Bank expects to collect from the FDIC is accreted into noninterest income.

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

Note 3. Fair Value Measurements

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

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

Fair Value Hierarchy

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

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

Level 2 Observable inputs including quoted prices (other than Level 1) in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability such as interest rates, yield curves,

volatilities and default rates, and inputs that are derived principally from or corroborated by observable market data.

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

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

Table of Contents

Note 3. Fair Value Measurements (Continued)

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

The following tables summarize assets and liabilities measured at fair value as of June 30, 2011, December 31, 2010 and June 30, 2010 by level in the fair value hierarchy:

		Fair Value Measurements at Reporting Date Using		
(in thousands)	Balance as of June 30, 2011	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Measured on a Recurring Basis				
Assets				
Securities available-for-sale				
U.S. Treasury	$ 13,076	$ 13,076	$	$
Federal agency - Debt	1,847,232		1,847,232	
Federal agency - MBS	534,726		534,726	
CMOs - Federal agency	3,453,901		3,453,901	
CMOs - Non-agency	91,083		91,083	
State and municipal	357,804		357,804	
Other debt securities	44,121		23,315	20,806
Equity securities and mutual funds	6,112	6,112		
Trading securities	125,829	121,141	4,688	
Mark-to-market derivatives (1)	44,488	3,308	41,180	
Total assets at fair value	$ 6,518,372	$ 143,637	$ 6,353,929	$ 20,806
Liabilities				
Mark-to-market derivatives (2)	$ 29,501	$ 1,226	$ 28,275	$
Other liabilities	161		161	
Total liabilities at fair value	$ 29,662	$ 1,226	$ 28,436	$
Measured on a Nonrecurring Basis				
Assets				
Collateral dependent impaired loans (3)				
Commercial (4)	$ 3,822	$	$ 3,822	$
Commercial real estate mortgages	2,505		2,505	
Residential mortgages	4,656		4,175	481
Real estate construction	10,136		1,610	8,526
Equity lines of credit	2,064		1,178	886
Other real estate owned (5)	61,103		41,264	19,839
Private equity investments	7,293			7,293
Total assets at fair value	$ 91,579	$	$ 54,554	$ 37,025

(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 $162.5 million in the consolidated balance sheets includes $114.9 million of covered OREO and is net of estimated disposal costs.

Table of Contents

Note 3. Fair Value Measurements (Continued)

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

(1) Reported in Other assets in the consolidated balance sheets.
(2) Reported in Other liabilities in the consolidated balance sheets.
(3) Impaired loans for which fair value was calculated using the collateral valuation method.
(4) Includes lease financing.
(5) Other real estate owned balance of $178.2 million in the consolidated balance sheets includes $120.9 million of covered OREO and is net of estimated disposal costs.

Table of Contents

Note 3. Fair Value Measurements (Continued)

(in thousands)	Balance as of June 30, 2010	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Measured on a Recurring Basis				
Assets				
Securities available-for-sale				
U.S. Treasury	$ 19,145	$ 19,145	$	$
Federal agency - Debt	1,090,846		1,090,846	
Federal agency - MBS	466,713		466,713	
CMOs - Federal agency	2,528,237		2,528,237	
CMOs - Non-agency	217,078		217,078	
State and municipal	360,422		360,422	
Other debt securities	67,147		42,003	25,144
Equity securities and mutual funds	11,555	11,555		
Trading securities	129,287	113,483	15,804	
Mark-to-market derivatives (1)	60,619	4,976	55,643	
Total assets at fair value	$ 4,951,049	$ 149,159	$ 4,776,746	$ 25,144
Liabilities				
Mark-to-market derivatives (2)	$ 31,736	$ 1,629	$ 30,107	$
Total liabilities at fair value	$ 31,736	$ 1,629	$ 30,107	$
Measured on a Nonrecurring Basis				
Assets				
Collateral dependent impaired loans (3)				
Commercial (4)	$ 2,996	$	$ 2,746	$ 250
Commercial real estate mortgages	35,656		21,243	14,413
Residential mortgages	7,364		6,985	379
Real estate construction	111,339		85,460	25,879
Other real estate owned (5)	50,797		43,592	7,205
Private equity investments	4,427			4,427
Total assets at fair value	$ 212,579	$	$ 160,026	$ 52,553

(1) Reported in Other assets in the consolidated balance sheets.
(2) Reported in Other liabilities in the consolidated balance sheets.
(3) Impaired loans for which fair value was calculated using the collateral valuation method.
(4) Includes lease financing.
(5) Other real estate owned balance of $153.3 million in the consolidated balance sheets includes $98.8 million of covered OREO and is net of estimated disposal costs.

At June 30, 2011, $6.52 billion, or approximately 29 percent, of the Company s total assets were recorded at fair value on a recurring basis, compared with $6.02 billion or approximately 28 percent at December 31, 2010, and $4.95 billion or approximately 23 percent at June 30, 2010. The majority of these financial assets were valued using Level 1 or Level 2 inputs. Less than 1 percent of total assets was measured using Level 3 inputs. Approximately $29.7 million, $26.6 million and $31.7 million of the Company s total liabilities at June 30, 2011, December 31, 2010 and June 30, 2010, respectively, were recorded at fair value on a recurring basis using Level 1 or Level 2 inputs. At June 30, 2011, $91.6 million, or less than 1 percent of the Company s total assets, were recorded at fair value on a nonrecurring basis, compared with $245.8 million, or 1 percent, at December 31, 2010, and $212.6 million, or 1 percent, at June 30, 2010. These assets were measured using Level 2 and Level 3 inputs. There were no transfers of assets or liabilities between Level 1 and Level 2 of the fair value hierarchy during the six months ended

June 30, 2011.

Table of Contents

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, 2011 and 2010:

	For the three months ended June 30,		For the six months ended June 30,	
(in thousands)	**2011**	**2010**	**2011**	**2010**
Collateral dependent impaired loans				
Commercial	$	$ 4,279	$ 606	$ 6,896
Commercial real estate mortgages	(340)	141	(7,454)	17,448
Residential mortgages	47	353	189	1,206
Real estate construction	3,417	(125)	1,199	10,120
Equity lines of credit	546	51	510	51
Installment	(197)		4,317	
Other real estate owned	16,869	10,068	25,991	22,616
Private equity investments	200	30	200	428
Total net losses recognized	$ 20,542	$ 14,797	$ 25,558	$ 58,765

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

Level 3 assets measured at fair value on a recurring basis consist of collateralized debt obligation senior notes. The fair value of these securities is determined using an internal cash flow model that incorporates management s assumptions about risk-adjusted discount rates, prepayment expectations, projected cash flows and collateral performance. These assumptions are not directly observable in the market. Unrealized gains and losses on securities available-for-sale are reported as a component of Accumulated other comprehensive income (AOCI) in the consolidated balance sheets. Activity in Level 3 assets measured at fair value on a recurring basis for the six months ended June 30, 2011 and 2010 is summarized in the following table:

Level 3 Assets Measured on a Recurring Basis

	For the six months ended	
	June 30, 2011	**June 30, 2010**
(in thousands)	**Securities Available-for-Sale**	**Securities Available-for-Sale**
Balance, beginning of period	$ 20,982	$ 26,779
Total realized/unrealized gains (losses):		
Included in other comprehensive income	1,585	(1,358)
Settlements	(1,728)	(221)
Other (1)	(33)	(56)
Balance, end of period	$ 20,806	$ 25,144

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

There were no purchases, sales or issuances of Level 3 assets measured on a recurring basis during the six months ended June 30, 2011 and 2010. Paydowns of $1.7 million and $0.2 million were received on Level 3 assets measured on a recurring basis for the six months ended June 30, 2011 and 2010, respectively. There were no gains or losses for the six months ended June 30, 2011 and 2010 included in earnings that were attributable to the change in unrealized gains or losses relating to assets still held as of June 30, 2011 and 2010.

Table of Contents

Note 3. Fair Value Measurements (Continued)

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

Fair Value of Financial Instruments

A financial instrument is broadly defined as cash, evidence of an ownership interest in another entity, or a contract that imposes a contractual obligation on one entity and conveys a corresponding right to a second entity to require delivery or exchange of a financial instrument. The table below summarizes the estimated fair values for the Company s financial instruments as of June 30, 2011 and June 30, 2010. The disclosure does not include estimated fair value amounts for assets and liabilities which are not defined as financial instruments but which have significant value. These assets and liabilities include the value of customer-relationship intangibles, goodwill, and affordable housing investments carried at cost, other assets, deferred taxes and other liabilities. Accordingly, the total of the fair values presented does not represent the underlying value of the Company.

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

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

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

Loans and leases Loans 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.

Table of Contents

Note 3. Fair Value Measurements (Continued)

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

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

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

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

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

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

Table of Contents

Note 3. Fair Value Measurements (Continued)

The carrying amounts and fair values of the Company s financial instruments as of June 30, 2011 and June 30, 2010 were as follows:

	June 30, 2011		June 30, 2010	
(in millions)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial Assets:				
Cash and due from banks	$ 181.2	$ 181.2	$ 184.3	$ 184.3
Due from banks - interest bearing	725.3	725.3	336.2	336.2
Federal funds sold	123.0	123.0	404.8	404.8
Securities available-for-sale	6,348.1	6,348.1	4,761.1	4,761.1
Trading securities	125.8	125.8	129.3	129.3
Loans and leases, net of allowance	11,397.2	11,719.2	11,192.6	11,494.6
Covered loans, net of allowance	1,657.0	1,660.7	2,034.6	2,027.6
FDIC indemnification asset	261.7	232.1	394.0	389.0
Investment in FHLB and FRB stock	114.9	114.9	128.1	128.1
Derivative assets	44.5	44.5	60.6	60.6
Financial Liabilities:				
Deposits	$ 19,265.1	$ 19,269.4	$ 17,972.9	$ 17,977.1
Federal funds purchased and securities sold under repurchase agreements			2.7	2.7
Structured securities sold under repurchase agreements			175.0	185.3
Other short-term borrowings	149.8	151.1	0.7	0.7
Long-term debt	701.8	744.2	811.0	842.7
Derivative liabilities	29.5	29.5	31.7	31.7
FDIC clawback liability	7.7	7.7	3.8	3.8
Commitments to extend credit	4.9	19.3	7.1	21.0
Commitments to affordable housing funds, private equity funds and alternative investments	32.1	43.6	22.2	40.0

Table of Contents

Note 4. Investment Securities

The following is a summary of amortized cost and estimated fair value for the major categories of securities available-for-sale at June 30, 2011, December 31, 2010 and June 30, 2010:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2011				
U.S. Treasury	$ 13,036	$ 40	$	$ 13,076
Federal agency - Debt	1,841,579	6,534	(881)	1,847,232
Federal agency - MBS	518,421	17,961	(1,656)	534,726
CMOs - Federal agency	3,383,652	73,040	(2,791)	3,453,901
CMOs - Non-agency	98,596	591	(8,104)	91,083
State and municipal	344,561	13,496	(253)	357,804
Other debt securities	48,826	2,746	(7,451)	44,121
Total debt securities	6,248,671	114,408	(21,136)	6,341,943
Equity securities and mutual funds	2,088	4,024		6,112
Total securities	$ 6,250,759	$ 118,432	$ (21,136)	$ 6,348,055
December 31, 2010				
U.S. Treasury	$ 14,070	$ 47	$ (4)	$ 14,113
Federal agency - Debt	1,142,520	5,029	(5,221)	1,142,328
Federal agency - MBS	540,768	13,379	(2,801)	551,346
CMOs - Federal agency	3,442,238	65,494	(10,585)	3,497,147
CMOs - Non-agency	126,819	1,147	(9,671)	118,295
State and municipal	334,596	9,399	(615)	343,380
Other debt securities	50,564	2,018	(8,952)	43,630
Total debt securities	5,651,575	96,513	(37,849)	5,710,239
Equity securities and mutual funds	6,545	3,891		10,436
Total securities	$ 5,658,120	$ 100,404	$ (37,849)	$ 5,720,675
June 30, 2010				
U.S. Treasury	$ 19,096	$ 50	$ (1)	$ 19,145
Federal agency - Debt	1,084,703	6,432	(289)	1,090,846
Federal agency - MBS	447,363	19,350		466,713
CMOs - Federal agency	2,455,952	74,401	(2,116)	2,528,237
CMOs - Non-agency	234,330	1,753	(19,005)	217,078
State and municipal	347,469	13,120	(167)	360,422
Other debt securities	71,048	2,723	(6,624)	67,147
Total debt securities	4,659,961	117,829	(28,202)	4,749,588
Equity securities and mutual funds	8,128	3,427		11,555
Total securities	$ 4,668,089	$ 121,256	$ (28,202)	$ 4,761,143

Table of Contents

Note 4. Investment Securities (Continued)

Proceeds from sales of available-for-sale securities were $47.2 million and $53.3 million for the three and six months ended June 30, 2011, respectively, compared with $24.4 million and $432.0 million for the three and six months ended June 30, 2010, respectively. The following table provides the gross realized gains and losses on the sales of securities:

(in thousands)	For the three months ended June 30, 2011	For the three months ended June 30, 2010	For the six months ended June 30, 2011	For the six months ended June 30, 2010
Gross realized gains	$ 2,621	$ 491	$ 2,781	$ 4,993
Gross realized losses	(932)	(136)	(962)	(2,504)
Net realized gains	$ 1,689	$ 355	$ 1,819	$ 2,489

Interest income on securities available-for-sale for the three months ended June 30, 2011 and 2010 is comprised of: (i) taxable interest income of $36.3 million and $29.6 million, respectively, (ii) nontaxable interest income of $2.9 million and $3.1 million, respectively, and (iii) dividend income of $0.2 million and $0.2 million, respectively. Interest income on securities available-for-sale for the six months ended June 30, 2011 and 2010 is comprised of: (i) taxable interest income of $70.6 million and $58.4 million, respectively, (ii) nontaxable interest income of $5.8 million and $6.2 million, respectively, and (iii) dividend income of $0.3 million and $0.5 million, respectively.

The following table provides the expected remaining maturities of debt securities included in the securities portfolio at June 30, 2011, except for mortgage-backed securities which are allocated according to the average life of expected cash flows. Average expected maturities will differ from contractual maturities because mortgage debt issuers may have the right to repay obligations prior to contractual maturity.

Debt Securities Available-for-Sale

(in thousands)	One year or less	Over 1 year through 5 years	Over 5 years through 10 years	Over 10 years	Total
U.S. Treasury	$ 10,072	$ 3,004	$	$	$ 13,076
Federal agency - Debt	1,258,008	525,285	63,939		1,847,232
Federal agency - MBS	45	198,026	288,692	47,963	534,726
CMOs - Federal agency	319,152	2,416,854	665,121	52,774	3,453,901
CMOs - Non-agency	11,569	41,943	37,571		91,083
State and municipal	42,026	168,958	92,198	54,622	357,804
Other	5,049	15,714	23,358		44,121
Total debt securities	$ 1,645,921	$ 3,369,784	$ 1,170,879	$ 155,359	$ 6,341,943
Amortized cost	$ 1,640,997	$ 3,291,398	$ 1,161,517	$ 154,759	$ 6,248,671

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.

Table of Contents

Note 4. Investment Securities (Continued)

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

Securities Deemed to be Other-Than-Temporarily Impaired

Through the impairment assessment process, the Company determined that certain investments were other-than-temporarily impaired at June 30, 2011. See *Non-Agency CMOs* below. The Company recorded impairment losses in earnings on securities available-for-sale of $0.3 million and $0.5 million for the three and six months ended June 30, 2011, respectively. The Company recorded impairment losses in earnings on securities available-for-sale of $0.5 million and $1.5 million for the three and six months ended June 30, 2010, respectively.

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

(in thousands) **Impairment Losses on** **Other-Than-Temporarily Impaired Securities**	**For the three months ended June 30,** **2011**	**2010**	**For the six months ended June 30,** **2011**	**2010**
Non-agency CMOs	$ 294	$ 212	$ 458	$ 1,215
Perpetual preferred stock		294		294
Total	$ 294	$ 506	$ 458	$ 1,509

The following table provides a rollforward of cumulative credit-related other-than-temporary impairment recognized in earnings for debt securities for the three and six months ended June 30, 2011 and 2010. Credit-related other-than-temporary impairment that was recognized in earnings is reflected as an Initial credit-related impairment if the period reported is the first time the security had a credit impairment. A credit related other-than-temporary impairment is reflected as a Subsequent credit-related impairment if the period reported is not the first time the security had a credit impairment. There were no initial credit-related impairments for the three and six months ended June 30, 2011 and 2010.

(in thousands)	**For the three months ended June 30,** **2011**	**2010**	**For the six months ended June 30,** **2011**	**2010**
Balance, beginning of period	$ 19,609	$ 18,710	$ 19,445	$ 17,707
Subsequent credit-related impairment	294	186	458	1,189
Initial credit-related impairment		26		26
Balance, end of period	$ 19,903	$ 18,922	$ 19,903	$ 18,922

Non-Agency CMOs

The Company identified certain non-agency CMOs that were considered to be other-than-temporarily impaired because the present value of expected cash flows was less than cost. These CMOs have a fixed interest rate for an initial period after which they become variable-rate instruments with annual rate resets. For purposes of projecting future cash flows, the current fixed coupon was used through the reset date for each security. The prevailing LIBOR/Treasury forward curve as of the measurement date was used to project all future floating-rate cash flows based on the characteristics of each security. Other factors considered in the projection of future cash flows include the current level of subordination from other CMO classes, anticipated prepayment rates, cumulative defaults and loss given default. The Company recognized credit-related impairment losses in earnings on its investments in certain non-agency CMOs totaling $0.3 million in the second quarter of 2011 and $0.5 million for the six months ended June 30, 2011. The remaining other-than-temporary impairment for these securities at June 30, 2011 was recognized in AOCI. This non-credit portion of other-than-temporary impairment is attributed to external market conditions, primarily the lack of liquidity in these securities and increases in interest rates.

Table of Contents

Note 4. Investment Securities (Continued)

The following tables provide a summary of the gross unrealized losses and fair value of investment securities aggregated by investment category and length of time that the securities have been in a continuous unrealized loss position as of June 30, 2011, December 31, 2010 and June 30, 2010. The table includes investments for which an other-than-temporary impairment has not been recognized in earnings, along with investments that had a non-credit-related impairment recognized in AOCI:

	Less than 12 months		12 months or greater		Total	
(in thousands)	Fair Value	Estimated Unrealized Loss	Fair Value	Estimated Unrealized Loss	Fair Value	Estimated Unrealized Loss
June 30, 2011						
Federal agency - Debt	$ 334,928	$ 881	$	$	$ 334,928	$ 881
Federal agency - MBS	94,035	1,656			94,035	1,656
CMOs - Federal agency	384,986	2,791			384,986	2,791
CMOs - Non-agency	10,142	224	43,089	7,880	53,231	8,104
State and municipal	11,688	204	725	49	12,413	253
Other debt securities			15,756	7,451	15,756	7,451
Total securities	$ 835,779	$ 5,756	$ 59,570	$ 15,380	$ 895,349	$ 21,136
December 31, 2010						
U.S. Treasury	$ 5,028	$ 4	$	$	$ 5,028	$ 4
Federal agency - Debt	561,205	5,221			561,205	5,221
Federal agency - MBS	109,381	2,801			109,381	2,801
CMOs - Federal agency	755,751	10,585			755,751	10,585
CMOs - Non-agency	7,718	18	61,571	9,653	69,289	9,671
State and municipal	25,845	558	700	57	26,545	615
Other debt securities			14,407	8,952	14,407	8,952
Total securities	$ 1,464,928	$ 19,187	$ 76,678	$ 18,662	$ 1,541,606	$ 37,849
June 30, 2010						
U.S. Treasury	$ 4,029	$ 1	$	$	$ 4,029	$ 1
Federal agency - Debt	50,516	289			50,516	289
CMOs - Federal agency	293,008	2,116			293,008	2,116
CMOs - Non-agency	24,327	455	124,892	18,550	149,219	19,005
State and municipal	2,810	57	4,645	110	7,455	167
Other debt securities	4,585	31	16,933	6,593	21,518	6,624
Total securities	$ 379,275	$ 2,949	$ 146,470	$ 25,253	$ 525,745	$ 28,202

At June 30, 2011, total securities available-for-sale had a fair value of $6.35 billion, which included $895.3 million of securities available-for-sale in an unrealized loss position as of June 30, 2011. This balance consists of $884.5 million of temporarily impaired securities and $10.8 million of securities that had non-credit related impairment recognized in AOCI. At June 30, 2011, the Company had 62 debt securities in an unrealized loss position. The debt securities in an unrealized loss position include 13 Federal agency debt securities, 7 Federal agency MBS, 19 Federal agency CMOs, 10 non-agency CMOs, 12 state and municipal securities and 1 other debt security. The Company does not consider the debt securities in the above table to be other than temporarily impaired at June 30, 2011.

Table of Contents

Note 4. Investment Securities (Continued)

The unrealized loss on Non-agency CMOs reflects the lack of liquidity in this sector of the market. The Company only holds the most senior tranches of each non-agency issue which provides protection against defaults. Other than the $0.5 million credit loss recognized in 2011 on Non-agency CMOs, the Company expects to receive principal and interest payments equivalent to or greater than the current cost basis of its portfolio of debt securities. Additionally, the Company does not intend to sell the securities, and it is not more likely than not that it will be required to sell the securities before it recovers the cost basis of its investment. The mortgages in these asset pools are relatively large and have been made to borrowers with strong credit history and significant equity invested in their homes. They are well diversified geographically. Over the past year, the real estate market has stabilized somewhat, though performance varies substantially by geography and borrower. Though reduced, a significant weakening of economic fundamentals coupled with a return to elevated unemployment rates and substantial deterioration in the value of high-end residential properties could increase the probability of default and related credit losses. These conditions could cause the value of these securities to decline and trigger the recognition of further other-than-temporary impairment charges.

Other debt securities include the Company s investments in highly rated corporate debt and collateralized bond obligations backed by trust preferred securities (CDOs) issued by a geographically diverse pool of small- and medium-sized financial institutions. The CDOs held in securities available-for-sale at June 30, 2011 are the most senior tranches of each issue. The market for CDOs has been inactive since 2008, accordingly, the fair values of these securities were determined using an internal pricing model that incorporates assumptions about discount rates in an illiquid market, projected cash flows and collateral performance. The CDOs had a $7.3 million net unrealized loss at June 30, 2011 which the Company attributes to the illiquid credit markets. The CDOs have collateral that well exceeds the outstanding debt. Security valuations reflect the current and prospective performance of the issuers whose debt is contained in these asset pools. The Company expects to receive all contractual principal and interest payments due on its CDOs. Additionally, the Company does not intend to sell the securities, and it is not more likely than not that it will be required to sell the securities before it recovers the cost basis of its investment.

At December 31, 2010, total securities available-for-sale had a fair value of $5.72 billion, which included $1.54 billion of securities available-for-sale in an unrealized loss position as of December 31, 2010. This balance consisted of $1.51 billion of temporarily impaired securities and $27.4 million of securities that had non-credit related impairment recognized in AOCI. At December 31, 2010, the Company had 109 debt securities in an unrealized loss position. The debt securities in an unrealized loss position included 1 U.S. Treasury note, 22 Federal agency debt securities, 7 Federal agency MBS, 30 Federal agency CMOs, 12 non-agency CMOs, 36 state and municipal securities and 1 other debt securities.

At June 30, 2010, total securities available-for-sale had a fair value of $4.76 billion, which included $525.7 million of securities available-for-sale in an unrealized loss position as of June 30, 2010. This balance consisted of $473.4 million of temporarily impaired securities and $52.3 million of securities that had non-credit related impairment recognized in AOCI. At June 30, 2010, the Company had 50 debt securities in an unrealized loss position. The debt securities in an unrealized loss position included 1 U.S. Treasury note, 1 Federal agency debt security, 16 Federal agency CMOs, 21 non-agency CMOs, 9 state and municipal securities and 2 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 $114.9 million, $120.7 million and $128.1 million at June 30, 2011, December 31, 2010 and June 30, 2010, respectively. Ownership of government agency securities is restricted to member banks, and the securities do not have readily determinable market values. The Company records investments in FHLB and FRB stock at cost in Other assets of the consolidated balance sheets and evaluates these investments for impairment.

Table of Contents

Note 5. Other Investments (Continued)

At June 30, 2011, the Company held $84.1 million of FHLB stock. FHLB banks are cooperatives that provide products and services to member banks. The FHLB provides significant liquidity to the U.S. banking system through advances to its member banks in exchange for collateral. The purchase of stock is required in order to receive advances and other services. FHLB stock is not publicly traded and is purchased and sold by member banks at its par value. The Company expects to recover the full amount invested in FHLB stock and does not consider its investment to be impaired at June 30, 2011.

Private Equity and Alternative Investments

The Company has ownership interests in a limited number of private equity, venture capital, real estate and hedge funds that are not publicly traded and do not have readily determinable fair values. These investments are carried at cost in the Other assets section of the consolidated balance sheets and are net of impairment write-downs, if applicable. The Company s investments in these funds totaled $38.3 million at June 30, 2011 and $37.5 million at December 31, 2010 and June 30, 2010. A summary of investments by fund type is provided below:

(in thousands) **Fund Type**	**June 30,** **2011**	**December 31,** **2010**	**June 30,** **2010**
Private equity and venture capital	$ 22,144	$ 21,408	$ 22,054
Real estate	10,328	10,053	9,545
Hedge	2,902	2,953	2,670
Other	2,929	3,040	3,198
Total	$ 38,303	$ 37,454	$ 37,467

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 $0.2 million on its investments during the three and six months ended June 30, 2011, respectively. The Company recognized impairment losses totaling $30 thousand and $0.4 million for the same periods in 2010.

The table below provides information as of June 30, 2011 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**
Real estate (2)	$ 7,293	$ 1,441	None (1)	N/A

(1) Funds make periodic distributions of income, but do not permit redemptions prior to the end of the investment term.
(2) Funds invest in commercial, industrial and retail projects and select multi-family housing opportunities which are part of mixed use projects in low and moderate income neighborhoods.

Table of Contents

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

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

Loans and Leases

(in thousands)	June 30, 2011	December 31, 2010	June 30, 2010
Commercial	$ 4,420,899	$ 4,136,874	$ 3,935,544
Commercial real estate mortgages	1,930,269	1,958,317	2,078,003
Residential mortgages	3,710,765	3,552,312	3,577,894
Real estate construction	355,014	467,785	629,902
Equity lines of credit	735,899	733,741	742,071
Installment	130,924	160,144	169,070
Lease financing	379,353	377,455	350,560
Loans and leases, excluding covered loans	11,663,123	11,386,628	11,483,044
Less: Allowance for loan and lease losses	(265,933)	(257,007)	(290,492)
Loans and leases, excluding covered loans, net	11,397,190	11,129,621	11,192,552
Covered loans	1,724,633	1,857,522	2,080,846
Less: Allowance for loan losses	(67,629)	(67,389)	(46,255)
Covered loans, net	1,657,004	1,790,133	2,034,591
Total loans and leases	$ 13,387,756	$ 13,244,150	$ 13,563,890
Total loans and leases, net	$ 13,054,194	$ 12,919,754	$ 13,227,143

The loan amounts above include unamortized fees, net of deferred costs, of $4.5 million, $7.0 million and $5.2 million as of June 30, 2011, December 31, 2010 and June 30, 2010, respectively.

Concentrations of credit risk arise when a number of clients are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. The Company s lending activities are predominantly in California, and to a lesser extent, New York and Nevada. Excluding covered loans, at June 30, 2011, California represented 85 percent of total loans outstanding and Nevada and New York represented 6 percent and 2 percent, respectively. The remaining 7 percent of total loans outstanding represented other states. Although the Company has a diversified loan portfolio, a substantial portion of the loan portfolio and credit performance depends on the economic stability of Southern California. Credit performance also depends, to a lesser extent, on economic conditions in the San Francisco Bay area, New York and Nevada. Within the Company s covered loan portfolio at June 30, 2011, the five states with the largest concentration were California (39 percent), Texas (12 percent), Nevada (9 percent), New York (5 percent) and Arizona (4 percent). The remaining 31 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 $1.72 billion as of June 30, 2011, $1.86 billion as of December 31, 2010 and $2.08 billion as of June 30, 2010. Covered loans, net of allowance for loan losses, were $1.66 billion at June 30, 2011, $1.79 billion at December 31, 2010 and $2.03 billion as of June 30, 2010.

Table of Contents

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

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

(in thousands)	June 30, 2011	December 31, 2010	June 30, 2010
Commercial	$ 41,135	$ 55,082	$ 85,638
Commercial real estate mortgages	1,482,186	1,569,739	1,710,159
Residential mortgages	19,494	18,380	21,680
Real estate construction	173,263	204,945	250,162
Equity lines of credit	5,791	6,919	9,780
Installment loans	2,764	2,457	3,427
Covered loans	1,724,633	1,857,522	2,080,846
Less: Allowance for loan losses	(67,629)	(67,389)	(46,255)
Covered loans, net	$ 1,657,004	$ 1,790,133	$ 2,034,591

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 on April 8, 2011, the preliminary 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 remaining life of the underlying loans, which included the effects of estimated prepayments. The Company also acquired non-covered loans with a fair value of $1.1 million that were not considered impaired at acquisition date. Fair value of the acquired loans includes estimated credit losses, therefore, an allowance for loan losses is not recorded on the acquisition date.

Changes in the accretable yield for acquired impaired loans were as follows for the six months ended June 30, 2011 and 2010:

	For the six months ended June 30,	
(in thousands)	2011	2010
Balance, beginning of period	$ 562,826	$ 687,126
Additions	10,871	48,644
Accretion	(54,558)	(58,776)
Reclassifications to nonaccretable yield	13,461	(114,883)
Disposals and other	(27,127)	5,926
Balance, end of period	$ 505,473	$ 568,037

At acquisition date, the Company recorded an indemnification asset for its FDIC-assisted acquisitions. The FDIC indemnification asset represents the present value of the expected reimbursement from the FDIC related to expected losses on acquired loans, OREO and unfunded commitments. The FDIC indemnification asset from all FDIC-assisted acquisitions was $261.7 million at June 30, 2011, $295.5 million at December 31, 2010 and $394.0 million at June 30, 2010.

Table of Contents

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

Credit Quality on Loans and Leases, Excluding Covered Loans

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

The allowance for loan and lease losses and the reserve for off-balance sheet credit commitments are significant estimates that can and do change based on management s process of analyzing the loan and commitment portfolios and on management s assumptions about specific borrowers and applicable economic and environmental conditions, among other factors. The allowance for loan and lease losses and the reserve for off-balance sheet credit commitments which provide for the risk of losses inherent in the credit extension process, are increased by the provision for credit losses charged to operating expense. The allowance for loan and lease losses is decreased by the amount of charge-offs, net of recoveries. There is no exact method of predicting specific losses or amounts that ultimately may be charged off on particular segments of the loan portfolio.

The following tables provide a summary of activity in the allowance for loan and lease losses and period-end balances of loans evaluated for impairment, excluding covered loans, for the three and six month periods ended June 30, 2011. Activity is provided by loan type which is consistent with the Company s methodology for determining the allowance for loans 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, 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	23,689	12,552	60,543	4,522	41		120,583
Collectively evaluated for impairment	4,781,016	1,906,580	3,698,213	294,471	731,377	130,883		11,542,540

---

(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.

Table of Contents

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

The following is a summary of activity in the allowance for loan and lease losses on non-covered loans for the three and six months ended June 30, 2010:

(in thousands)	For the three months ended June 30, 2010	For the six months ended June 30, 2010
Allowance for loan and lease losses		
Balance, beginning of period	$ 292,799	$ 288,493
Charge-offs		
Commercial	(22,680)	(40,749)
Commercial real estate mortgages	(476)	(15,451)
Residential mortgages	(620)	(2,080)
Real estate construction	(12,025)	(26,250)
Equity lines of credit	(345)	(557)
Installment	(5)	(1,502)
Total charge-offs	(36,151)	(86,589)
Recoveries		
Commercial	1,390	1,835
Commercial real estate mortgages	74	81
Residential mortgages	10	79
Real estate construction	1,081	1,123
Equity lines of credit	7	10
Installment	94	430
Total recoveries	2,656	3,558
Net charge-offs	(33,495)	(83,031)
Provision for credit losses	32,000	87,000
Transfers to reserve for off-balance sheet credit commitments	(812)	(1,970)
Balance, end of period	$ 290,492	$ 290,492

Off-balance sheet credit exposures include loan commitments, letters of credit and financial guarantees. The following table provides a summary of activity in the reserve for off-balance sheet credit commitments for the three and six months ended June 30, 2011 and 2010:

(in thousands)	For the three months ended June 30, 2011	For the three months ended June 30, 2010	For the six months ended June 30, 2011	For the six months ended June 30, 2010
Balance, beginning of period	$ 21,707	$ 18,498	$ 21,529	$ 17,340
Transfers from allowance for loan and lease losses	1,618	812	1,796	1,970
Balance, end of period	$ 23,325	$ 19,310	$ 23,325	$ 19,310

Table of Contents

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

Impaired Loans and Leases

Information on impaired loans, excluding covered loans, at June 30, 2011 and December 31, 2010 is provided in the following tables:

				For the three months ended June 30, 2011		For the six months ended June 30, 2011	
(in thousands)	Recorded Investment	Unpaid Principal Balance	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	$ 4,007	$	$ 5,204	$	$ 5,901	$
Commercial real estate mortgages	14,610	14,530		16,550	60	18,866	190
Residential mortgages:							
Fixed	7,834	7,840		7,036	17	8,338	162
Variable	4,163	4,175		3,717	24	3,827	34
Total residential mortgages	11,997	12,015		10,753	41	12,165	196
Real estate construction:							
Construction	39,184	39,097		44,221	175	54,740	405
Land	11,271	11,271		17,400		19,510	
Total real estate construction	50,455	50,368		61,621	175	74,250	405
Equity lines of credit	2,420	2,420		2,856		2,906	
Installment:							
Commercial							
Consumer	41	41		41		41	
Total installment	41	41		41		41	
Lease financing	762	762		935		1,002	99
Total with no related allowance	$ 84,292	$ 84,143	$	$ 97,960	$ 276	$ 115,131	$ 890
With an allowance recorded:							
Commercial	$ 14,467	$ 14,467	$ 7,605	$ 10,695	$	$ 9,986	$
Commercial real estate mortgages	9,159	9,159	1,150	8,229		11,866	
Residential mortgages:							
Fixed	539	537	56	1,046		886	
Variable				707		950	
Total residential mortgages	539	537	56	1,753		1,836	
Real estate construction:							
Construction				4,409		5,889	
Land	10,175	10,175	1,853	5,087		3,392	

Total real estate construction	10,175	10,175	1,853	9,496		9,281	
Equity lines of credit	2,102	2,102	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	$ 36,440	$ 11,068	$ 35,151	$ 3	$ 37,195	$ 6
Total impaired loans by type:							
Commercial	$ 18,474	$ 18,474	$ 7,605	$ 15,899	$	$ 15,887	$
Commercial real estate mortgages	23,769	23,689	1,150	24,779	60	30,732	190
Residential mortgages	12,536	12,552	56	12,506	41	14,001	196
Real estate construction	60,630	60,543	1,853	71,117	175	83,531	405
Equity lines of credit	4,522	4,522	404	4,386	3	4,548	6
Installment	41	41		3,489		2,350	
Lease financing	762	762		935		1,287	99
Total impaired loans	$ 120,734	$ 120,583	$ 11,068	$ 133,111	$ 279	$ 152,326	$ 896

Table of Contents

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

(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
December 31, 2010			
With no related allowance recorded:			
Commercial	$ 7,295	$ 7,293	$
Commercial real estate mortgages	23,496	23,426	
Residential mortgages:			
Fixed	10,942	10,858	
Variable	4,048	4,040	
Total residential mortgages	14,990	14,898	
Real estate construction:			
Construction	75,778	75,639	
Land	23,732	23,732	
Total real estate construction	99,510	99,371	
Equity lines of credit	3,006	2,997	
Installment:			
Consumer	41	41	
Total installment	41	41	
Lease financing	1,137	1,107	
Total with no related allowance	$ 149,475	$ 149,133	$
With an allowance recorded:			
Commercial	$ 8,567	$ 8,567	$ 2,067
Commercial real estate mortgages	19,139	19,154	1,889
Residential mortgages:			
Fixed	566	563	69
Variable	1,435	1,428	273
Total residential mortgages	2,001	1,991	342
Real estate construction:			
Construction	8,850	8,850	366
Total real estate construction	8,850	8,850	366
Equity lines of credit	1,868	1,862	255
Lease financing	855	855	525
Total with an allowance	$ 41,280	$ 41,279	$ 5,444
Total impaired loans by type:			
Commercial	$ 15,862	$ 15,860	$ 2,067
Commercial real estate mortgages	42,635	42,580	1,889
Residential mortgages	16,991	16,889	342
Real estate construction	108,360	108,221	366
Equity lines of credit	4,874	4,859	255
Installment	41	41	
Lease financing	1,992	1,962	525
Total impaired loans	$ 190,755	$ 190,412	$ 5,444

Table of Contents

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

Information on impaired loans, excluding covered loans, at June 30, 2010 is provided in the following table:

(in thousands)	Unpaid Principal Balance With No Allowance Recorded	Unpaid Principal Balance With Allowance Recorded	Total Impaired Loans	Related Allowance
June 30, 2010				
Commercial	$ 23,910	$ 16,595	$ 40,505	$ 6,368
Commercial real estate mortgage	9,974	42,579	52,553	6,350
Residential mortgages	9,700	1,109	10,809	90
Real estate construction	74,412	79,735	154,147	12,836
Equity lines of credit	1,200		1,200	
Lease financing	1,647	1,120	2,767	895
Total impaired loans	$ 120,843	$ 141,138	$ 261,981	$ 26,539

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

(in thousands)	June 30, 2011	December 31, 2010	June 30, 2010
Nonaccrual loans (1)	$ 119,375	$ 179,578	$ 251,807
Troubled debt restructured loans on accrual	1,208	10,834	10,174
Total impaired loans, excluding covered loans	$ 120,583	$ 190,412	$ 261,981

(1) Impaired loans exclude $13.4 million, $11.3 million and $8.3 million of nonaccrual loans under $500,000 that are not individually evaluated for impairment at June 30, 2011, December 31, 2010 and June 30, 2010.

Impaired loans may include troubled debt restructured loans that have been returned to accrual status, but will continue to be reported as impaired until they have a demonstrated period of performance under their restructured terms. Impaired loans at June 30, 2011, December 31, 2010 and June 30, 2010 included $1.2 million, $10.8 million and $10.2 million, respectively, of restructured loans that have been returned to accrual status.

The average balance of impaired loans was $133.1 million and $152.3 million for the three months and six months ended June 30, 2011, respectively. The average balance of impaired loans was $290.5 million and $318.9 million for the same periods of 2010. With the exception of restructured loans that have been returned to accrual status and a limited number of loans on cash basis nonaccrual for which the full collection of principal and interest is expected, interest income is not recognized on impaired loans until the principal balance of these loans is paid off.

Troubled Debt Restructured Loans

The unpaid principal balance of troubled debt restructured loans was $18.3 million, before specific reserves of $1.3 million, at June 30, 2011, $32.5 million, before specific reserves of $1.6 million, at December 31, 2010, and $27.5 million, before specific reserves of $3.9 million, at June 30, 2010. As of June 30, 2011, there were no commitments to lend additional funds on restructured loans.

Table of Contents

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

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, 2011, December 31, 2010 and June 30, 2010 based upon the length of time the loans have been past due:

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days and Accruing	Nonaccrual	Total Past Due and Nonaccrual Loans	Current	Total Loans and Leases
June 30, 2011							
Commercial	$ 18,270	$ 622	$ 351	$ 23,575	$ 42,818	$ 4,378,081	$ 4,420,899
Commercial real estate mortgages	15,342		586	26,676	42,604	1,887,665	1,930,269
Residential mortgages:							
Fixed			1,282	10,036	11,318	1,664,751	1,676,069
Variable		1,317		4,175	5,492	2,029,204	2,034,696
Total residential mortgages		1,317	1,282	14,211	16,810	3,693,955	3,710,765
Real estate construction:							
Construction				39,097	39,097	198,183	237,280
Land			4,995	21,446	26,441	91,293	117,734
Total real estate construction			4,995	60,543	65,538	289,476	355,014
Equity lines of credit	74	160		6,668	6,902	728,997	735,899
Installment:							
Commercial				68	68	1,418	1,486
Consumer	95	40		297	432	129,006	129,438
Total installment	95	40		365	500	130,424	130,924
Lease financing				762	762	378,591	379,353
Total	$ 33,781	$ 2,139	$ 7,214	$ 132,800	$ 175,934	$ 11,487,189	$ 11,663,123
December 31, 2010							
Commercial	$ 9,832	$ 4,178	$ 904	$ 19,498	$ 34,412	$ 4,102,462	$ 4,136,874
Commercial real estate mortgages	15,112	3,996		44,882	63,990	1,894,327	1,958,317
Residential mortgages:							
Fixed		731	379	13,253	14,363	1,628,683	1,643,046
Variable				5,468	5,468	1,903,798	1,909,266
Total residential mortgages		731	379	18,721	19,831	3,532,481	3,552,312
Real estate construction:							
Construction	554			74,446	75,000	251,518	326,518
Land				23,763	23,763	117,504	141,267
	554			98,209	98,763	369,022	467,785

Total real estate construction							
Equity lines of credit	74	526		6,782	7,382	726,359	733,741
Installment:							
Commercial	63			308	371	30,790	31,161
Consumer	304			282	586	128,397	128,983
Total installment	367			590	957	159,187	160,144
Lease financing	7		1,216	2,241	3,464	373,991	377,455
Total	$ 25,946	$ 9,431	$ 2,499	$ 190,923	$ 228,799	$ 11,157,829	$ 11,386,628

Table of Contents

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

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days and Accruing	Nonaccrual	Total Past Due and Nonaccrual Loans	Current	Total Loans and Leases
June 30, 2010							
Commercial	$ 29,781	$ 2,898	$ 149	$ 44,431	$ 77,259	$ 3,858,285	$ 3,935,544
Commercial real estate mortgages	5,442	1,422		57,155	64,019	2,013,984	2,078,003
Residential mortgages:							
Fixed		2,773	640	7,002	10,415	1,663,212	1,673,627
Variable		1,256		4,504	5,760	1,898,507	1,904,267
Total residential mortgages		4,029	640	11,506	16,175	3,561,719	3,577,894
Real estate construction:							
Construction	33,610	3,851		97,706	135,167	320,643	455,810
Land	1,025			41,203	42,228	131,864	174,092
Total real estate construction	34,635	3,851		138,909	177,395	452,507	629,902
Equity lines of credit	249			3,909	4,158	737,913	742,071
Installment:							
Commercial				112	112	40,493	40,605
Consumer	172	44		860	1,076	127,389	128,465
Total installment	172	44		972	1,188	167,882	169,070
Lease financing				3,236	3,236	347,324	350,560
Total	$ 70,279	$ 12,244	$ 789	$ 260,118	$ 343,430	$ 11,139,614	$ 11,483,044

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, 2011, December 31, 2010 and June 30, 2010. Nonclassified loans generally include those loans that are expected to be repaid in accordance with contractual loan terms. Classified loans are those loans that are classified as substandard or doubtful consistent with regulatory guidelines.

		June 30, 2011	
(in thousands)	Nonclassified	Classified	Total
Commercial	$ 4,308,312	$ 112,587	$ 4,420,899
Commercial real estate mortgages	1,716,331	213,938	1,930,269
Residential mortgages:			
Fixed	1,651,983	24,086	1,676,069
Variable	2,019,857	14,839	2,034,696
Total residential mortgages	3,671,840	38,925	3,710,765
Real estate construction:			
Construction	128,584	108,696	237,280

Land	47,214	70,520	117,734
Total real estate construction	175,798	179,216	355,014
Equity lines of credit	717,536	18,363	735,899
Installment:			
Commercial	656	830	1,486
Consumer	127,561	1,877	129,438
Total installment	128,217	2,707	130,924
Lease financing	374,784	4,569	379,353
Total	$ 11,092,818	$ 570,305	$ 11,663,123

Table of Contents

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

	December 31, 2010			June 30, 2010		
(in thousands)	Nonclassified	Classified	Total	Nonclassified	Classified	Total
Commercial	$ 4,009,923	$ 126,951	$ 4,136,874	$ 3,731,182	$ 204,362	$ 3,935,544
Commercial real estate mortgages	1,727,353	230,964	1,958,317	1,856,382	221,621	2,078,003
Residential mortgages:						
Fixed	1,615,970	27,076	1,643,046	1,644,380	29,247	1,673,627
Variable	1,880,570	28,696	1,909,266	1,856,508	47,759	1,904,267
Total residential mortgages	3,496,540	55,772	3,552,312	3,500,888	77,006	3,577,894
Real estate construction:						
Construction	129,671	196,847	326,518	213,061	242,749	455,810
Land	53,400	87,867	141,267	71,892	102,200	174,092
Total real estate construction	183,071	284,714	467,785	284,953	344,949	629,902
Equity lines of credit	716,276	17,465	733,741	725,133	16,938	742,071
Installment:						
Commercial	21,349	9,812	31,161	38,057	2,548	40,605
Consumer	126,905	2,078	128,983	125,523	2,942	128,465
Total installment	148,254	11,890	160,144	163,580	5,490	169,070
Lease financing	371,684	5,771	377,455	342,609	7,951	350,560
Total	$ 10,653,101	$ 733,527	$ 11,386,628	$ 10,604,727	$ 878,317	$ 11,483,044

Credit Quality on Covered Loans

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

	For the three months ended June 30,		For the six months ended June 30,	
(in thousands)	2011	2010	2011	2010
Balance, beginning of period	$ 82,016	$	$ 67,389	$
Provision for losses	1,716	46,516	20,832	46,516
Reduction in allowance due to loan removals	(16,103)	(261)	(20,592)	(261)
Balance, end of period	$ 67,629	$ 46,255	$ 67,629	$ 46,255

The allowance for loan losses on covered loans was $67.6 million and $46.3 million as of June 30, 2011 and 2010, respectively. The Company recorded provision expense of $1.7 million and $20.8 million on covered loans for the three and six months ended June 30, 2011, respectively, and $46.5 million for the three and six months ended June 30, 2010, respectively. The Company updates its cash flow projections for covered loans accounted for under ASC 310-30 on a quarterly basis, and may recognize provision expense and an allowance for loan losses as a result of that analysis. The loss on covered loans is the result of changes in expected cash flows, both amount and timing, due to loan payments and the Company s revised loss forecasts, though overall estimated credit losses decreased as compared with previous expectations. The revisions of the loss forecasts were based on the results of management s review of the credit quality of the outstanding covered loans and the analysis of the loan performance data since the acquisition of covered loans. The allowance for loan losses on covered loans is reduced for any loan removals. A loan is removed when it has been fully paid-off, fully charged off, sold or transferred to OREO.

34

Table of Contents

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

Covered loans accounted for under ASC 310-30 are generally considered accruing and performing loans as the loans accrete interest income over the estimated life of the loan when cash flows are reasonably estimable. Accordingly, acquired impaired loans that are contractually past due are still considered to be accruing and performing loans. If the timing and amount of future cash flows is not reasonably estimable, the loans may be classified as nonaccrual loans and interest income is not recognized until the timing and amount of future cash flows can be reasonably estimated. At June 30, 2011 and 2010, there were no acquired impaired covered loans accounted for under ASC 310-30 that were on nonaccrual status. Of the population of covered loans that are accounted for outside the scope of ASC 310-30, the Company had $1.4 million and $2.6 million of acquired covered loans that were on nonaccrual status and were considered to be impaired as of June 30, 2011 and December 31, 2010, respectively.

At June 30, 2011, covered loans that were 30 to 89 days delinquent totaled $47.3 million and covered loans that were 90 days or more past due on accrual status totaled $368.4 million. At December 31, 2010, covered loans that were 30 to 89 days delinquent totaled $99.5 million and covered loans that were 90 days or more past due on accrual status totaled $399.0 million. At June 30, 2010, covered loans that were 30 to 89 days delinquent totaled $56.3 million and covered loans that were 90 days or more past due on accrual status totaled $362.7 million.

Note 7. Other Real Estate Owned

The following table provides a summary of OREO activity for the three months ended June 30, 2011 and 2010:

	For the three months ended June 30, 2011			For the three months ended June 30, 2010		
(in thousands)	**Non-Covered OREO**	**Covered OREO**	**Total**	**Non-Covered OREO**	**Covered OREO**	**Total**
Balance, beginning of period	$ 56,342	$ 121,822	$ 178,164	$ 58,025	$ 77,526	$ 135,551
Additions	3,967	33,549	37,516	6,048	33,151	39,199
Sales	(11,083)	(24,836)	(35,919)	(2,185)	(6,891)	(9,076)
Valuation adjustments	(1,592)	(15,628)	(17,220)	(7,437)	(4,945)	(12,382)
Balance, end of period	$ 47,634	$ 114,907	$ 162,541	$ 54,451	$ 98,841	$ 153,292

The following table provides a summary of OREO activity for the six months ended June 30, 2011 and 2010:

	For the six months ended June 30, 2011			For the six months ended June 30, 2010		
(in thousands)	**Non-Covered OREO**	**Covered OREO**	**Total**	**Non-Covered OREO**	**Covered OREO**	**Total**
Balance, beginning of period	$ 57,317	$ 120,866	$ 178,183	$ 53,308	$ 60,558	$ 113,866
Additions	10,528	61,126	71,654	27,145	58,045	85,190
Sales	(17,147)	(43,153)	(60,300)	(7,588)	(10,793)	(18,381)
Valuation adjustments	(3,064)	(23,932)	(26,996)	(18,414)	(8,969)	(27,383)
Balance, end of period	$ 47,634	$ 114,907	$ 162,541	$ 54,451	$ 98,841	$ 153,292

At June 30, 2011, OREO was $162.5 million and included $114.9 million of covered OREO. At December 31, 2010, OREO was $178.2 million and included $120.9 million of covered OREO. At June 30, 2010, OREO was $153.3 million and included covered OREO of $98.8 million. The balance of OREO at June 30, 2011 and December 31, 2010 is net of valuation allowances of $32.8 million and $5.5 million, respectively. There was no OREO valuation allowance at June 30, 2010.

Table of Contents

Note 7. Other Real Estate Owned (Continued)

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

Note 8. Borrowed Funds

The components of short-term borrowings and long-term debt as of June 30, 2011, December 31, 2010 and June 30, 2010 are provided below:

(in thousands) (1)		June 30, 2011		December 31, 2010		June 30, 2010
Short-term borrowings						
Current portion of subordinated debt:						
City National Bank - 6.75% Subordinated Notes Due September 2011	$	149,091	$	152,824	$	
Federal funds purchased						2,700
Other short-term borrowings		680		620		700
Total short-term borrowings	$	149,771	$	153,444	$	3,400
Long-term debt						
Senior notes:						
City National Corporation - 5.125% Senior Notes Due February 2013	$	220,086	$	223,416	$	224,978
City National Corporation - 5.25% Senior Notes Due September 2020		297,155		297,003		
Subordinated debt:						
City National Bank - 6.75% Subordinated Notes Due September 2011						158,325
City National Bank - 9.00% Subordinated Notes Due July 2019 (2)		49,699		49,680		49,662
City National Bank - 9.00% Subordinated Notes Due August 2019		74,849		74,839		74,830
City National Bank - Fixed and Floating Subordinated Notes due August 2019 (3)		54,889		54,882		54,875
Junior subordinated debt:						
Floating Rate Business Bancorp Capital Trust I Securities Due November 2034 (4)		5,151		5,151		5,151
9.625% City National Capital Trust I Securities Due February 2040						243,153
Securities sold under repurchase agreements						175,000
Total long-term debt	$	701,829	$	704,971	$	985,974

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

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

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

(4)

These floating rate securities pay interest of three-month LIBOR plus 1.965 percent and is reset quarterly. As of June 30, 2011, the interest rate was approximately 2.22 percent.

Table of Contents

Note 9. Shareholders Equity

The components of accumulated other comprehensive income, net of tax, at June 30, 2011, December 31, 2010 and June 30, 2010 are as follows:

(in thousands)	June 30, 2011	December 31, 2010	June 30, 2010
Net unrealized gain on securities available-for-sale.	$ 56,596	$ 36,386	$ 54,128
Net unrealized gain on cash flow hedges	349	1,184	3,896
Pension liability adjustment	(652)	(717)	26
Total accumulated other comprehensive income	$ 56,293	$ 36,853	$ 58,050

The components of total comprehensive income for the six-months ended June 30, 2011 and 2010 are as follows:

(in thousands)	For the six months ended June 30, 2011	2010
Net income (1)	$ 88,230	$ 58,086
Other comprehensive income:		
Securities available for sale:		
Net unrealized gain, net of taxes of $16,138 and $49,861 and reclassification of $1,099 and $1,193 included in net income	22,442	69,338
Non-credit related impairment loss, net of taxes of ($1,605) and ($5,641)	(2,233)	(7,844)
Net unrealized loss on cash flow hedges, net of taxes of $0 and $2,892 and reclassification of $485 and $3,249 included in net income	(834)	(475)
Pension liability adjustment	65	80
Total other comprehensive income	19,440	61,099
Total comprehensive income	$ 107,670	$ 119,185

(1) Net income excludes net income attributable to redeemable noncontrolling interest of $1,120 and $1,230 for the six-month periods ended June 30, 2011 and 2010, respectively. Redeemable noncontrolling interest is reflected in the mezzanine section of the consolidated balance sheets.

The following table summarizes the Company s share repurchases for the three months ended June 30, 2011. All repurchases relate to shares withheld or previously owned shares used to pay taxes due upon vesting of restricted stock. There were no issuer repurchases of the Corporation s common stock as part of its repurchase plan for the six months ended June 30, 2011.

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)
April 1, 2011 to April 30, 2011	4,000	$ 57.30

May 1, 2011 to May 31, 2011		
June 1, 2011 to June 30, 2011	554	52.80
	4,554	56.75

At June 30, 2011, the Corporation had 1.4 million shares of common stock reserved for issuance and 0.9 million shares of unvested restricted stock granted to employees and directors under share-based compensation programs.

Table of Contents

Note 10. Earnings per Common Share

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

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)	**2011**		**2010**		**2011**		**2010**	
Basic EPS:								
Net income attributable to City National Corporation	$	47,471	$	41,318	$	87,163	$	57,016
Less: Dividends and accretion on preferred stock								5,702
Net income available to common shareholders	$	47,471	$	41,318	$	87,163	$	51,314
Less: Earnings allocated to participating securities		759		535		1,333		635
Earnings allocated to common shareholders	$	46,712	$	40,783	$	85,830	$	50,679
Weighted average common shares outstanding		52,462		52,012		52,392		51,852
Basic earnings per common share	$	0.89	$	0.78	$	1.64	$	0.98
Diluted EPS:								
Earnings allocated to common shareholders (1)	$	46,718	$	40,787	$	85,841	$	50,684
Weighted average common shares outstanding		52,462		52,012		52,392		51,852
Dilutive effect of equity awards		515		530		539		484
Weighted average diluted common shares outstanding		52,977		52,542		52,931		52,336
Diluted earnings per common share	$	0.88	$	0.78	$	1.62	$	0.97

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

The average price of the Company s common stock for the period is used to determine the dilutive effect of outstanding stock options and common stock warrant. Antidilutive stock options and common stock warrant are not included in the calculation of basic or diluted EPS. There were 2.0 million average outstanding stock options that were antidilutive for the three months ended June 30, 2011 compared to 1.5 million outstanding stock options and a 0.1 million common stock warrant that were antidilutive for the same period in 2010. There were 1.8 million average outstanding stock options that were antidilutive for the six month period ended June 30, 2011 compared to 2.2 million outstanding stock options and a 0.6 million common stock warrant that were antidilutive for the same period in 2010.

Note 11. Share-Based Compensation

On June 30, 2011, the Company had one share-based compensation plan, the City National Corporation 2008 Omnibus Plan (the Plan), which was approved by the Company s shareholders on April 23, 2008. No new awards will be granted under predecessor plans. A description of the Plan is provided below. The compensation cost that has been recognized for all share-based awards was $4.8 million and $9.5 million for the three and six months ended June 30, 2011, respectively, and $4.2 million and $8.1 million for the three and six months ended June 30, 2010, respectively. The Company received $4.5 million and $17.8 million in cash for the exercise of stock options during the six months ended June 30, 2011 and 2010, respectively. The tax benefit recognized for share-based compensation arrangements in equity was $1.0 million for the six months ended June 30, 2011, compared with $2.2 million for the six months ended June 30, 2010.

Table of Contents

Note 11. Share-Based Compensation (Continued)

Plan Description

The Plan permits the grant of stock options, restricted stock, restricted stock units, performance shares, performance share units, performance units and stock appreciation rights, or any combination thereof, to the Company s eligible employees and non-employee directors. No grants of performance shares, performance share units, performance units or stock appreciation rights had been made as of June 30, 2011. The purpose of the Plan is to promote the success of the Company by providing additional means to attract, motivate, retain and reward key employees of the Company with awards and incentives for high levels of individual performance and improved financial performance of the Company, and to link non-employee director compensation to shareholder interests through equity grants. Stock option awards are granted with an exercise price equal to the market price of the Company s stock at the date of grant. These awards vest in four years and have 10-year contractual terms. Restricted stock awards granted under the Plan vest over a period of at least three years, as determined by the Compensation, Nominating and Governance Committee. The participant is entitled to dividends and voting rights for all shares issued even though they are not vested. Restricted stock awards issued under predecessor plans vest over five years. The Plan provides for acceleration of vesting if there is a change in control (as defined in the Plan) or a termination of service, which may include disability or death. Unvested options are forfeited upon termination of employment, except for those instances noted above, and the case of the retirement of a retirement-age employee for options granted prior to January 31, 2006. The Company generally issues treasury shares upon share option exercises. All unexercised options expire 10 years from the grant date. At June 30, 2011, there were approximately 1.4 million shares available for future grants.

Fair Value

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

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

	For the three months ended June 30,		**For the six months ended June 30,**	
	2011	**2010**	**2011**	**2010**
Weighted-average volatility	30.85%	31.38%	30.91%	31.41%
Dividend yield	2.48%	0.69%	1.47%	0.73%
Expected term (in years)	5.81	5.80	6.04	6.08
Risk-free interest rate	2.24%	2.83%	2.97%	2.99%

Using the Black-Scholes methodology, the weighted-average grant-date fair values of options granted during the six months ended June 30, 2011 and 2010 were $18.38 and $16.86, respectively. The total intrinsic values of options exercised during the six months ended June 30, 2011 and 2010 were $2.5 million and $9.0 million, respectively.

Table of Contents

Note 11. Share-Based Compensation (Continued)

A summary of option activity and related information for the six months ended June 30, 2011 is presented below:

Options	Number of Shares (in thousands)	Weighted Average Exercise Price (per share)	Aggregate Intrinsic Value (in thousands) (1)	Weighted Average Remaining Contractual Term
Outstanding at January 1, 2011	4,650	$ 51.38		
Granted	486	60.76		
Exercised	(120)	37.66		
Forfeited or expired	(24)	55.80		
Outstanding at June 30, 2011	4,992	$ 52.60	$ 34,978	5.61
Exercisable at June 30, 2011	3,357	$ 55.65	$ 18,494	4.23

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

A summary of changes in unvested options and related information for the six months ended June 30, 2011 is presented below:

Unvested Options	Number of Shares (in thousands)	Weighted Average Grant Date Fair Value (per share)
Unvested at January 1, 2011	1,753	$ 11.62
Granted	486	18.38
Vested	(592)	11.74
Forfeited	(12)	11.84
Unvested at June 30, 2011	1,635	$ 13.58

The number of options vested during the six months ended June 30, 2011 and 2010 were 592,266 and 540,653, respectively. The total fair value of options vested during the six months ended June 30, 2011 and 2010 was $7.0 million and $6.5 million, respectively. As of June 30, 2011, there was $16.5 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.

The Plan provides for granting of restricted shares of Company stock to employees. In general, twenty-five percent of the restricted stock vests two years from the date of grant, then twenty-five percent vests on each of the next three consecutive grant anniversary dates. The restricted stock is subject to forfeiture until the restrictions lapse or terminate. A summary of changes in restricted stock and related information for the six months ended June 30, 2011 is presented below:

Restricted Stock (1)	**Number of Shares (in thousands)**		**Weighted Average Grant Date Fair Value (per share)**
Unvested at January 1, 2011	717	$	45.04
Granted	331		60.83
Vested	(151)		49.04
Forfeited	(7)		47.34
Unvested at June 30, 2011	890	$	50.21

(1) Includes restricted stock units.

Table of Contents

Note 11. Share-Based Compensation (Continued)

Restricted stock is valued at the closing price of the Company s stock on the date of award. The weighted-average grant-date fair values of restricted stock granted during the six months ended June 30, 2011 and 2010 were $60.83 and $50.55, respectively. The number of restricted shares vested during the six months ended June 30, 2011 and 2010 were 151,457 and 110,071, respectively. The total fair value of restricted stock vested during the six months ended June 30, 2011 and 2010 was $7.4 million. The compensation expense related to restricted stock for the six months ended June 30, 2011 and 2010 was $4.9 million and $4.0 million, respectively. As of June 30, 2011, the unrecognized compensation cost related to restricted stock granted under the Company s plans was $30.7 million. That cost is expected to be recognized over a weighted-average period of 3.9 years.

Note 12. Derivative Instruments

The following table summarizes the notional amounts of derivative instruments as of June 30, 2011, December 31, 2010 and June 30, 2010. The notional amount of the contract is not recorded on the consolidated balance sheets, but is used as the basis for determining the amount of interest payments to be exchanged between the counterparties.

Notional Amounts of Derivative Instruments

(in millions)		**June 30, 2011**		**December 31, 2010**		**June 30, 2010**
Derivatives designated as hedging instruments						
Interest rate swaps - fair value:						
Certificates of deposit	$		$	10.0	$	10.0
Long-term and subordinated debt		355.2		355.9		358.2
Total fair value contracts	$	355.2	$	365.9	$	368.2
Interest rate swaps - cash flow:						
U.S. Dollar LIBOR based loans	$		$		$	50.0
Prime based loans						50.0
Total cash flow contracts	$		$		$	100.0
Total derivatives designated as hedging instruments	$	355.2	$	365.9	$	468.2
Derivatives not designated as hedging instruments						
Interest rate contracts:						
Swaps	$	1,071.4	$	1,043.8	$	979.2
Interest-rate caps, floors and collars		115.3		84.5		179.3
Options purchased		2.0		2.0		2.0
Options written		2.0		2.0		2.0
Total interest-rate contracts	$	1,190.7	$	1,132.3	$	1,162.5
Foreign exchange contracts:						
Spot and forward contracts	$	119.7	$	78.2	$	237.9

Options purchased						71.9
Options written						71.9
Total foreign exchange contracts	$	119.7	$	78.2	$	381.7
Total derivatives not designated as hedging instruments	$	1,310.4	$	1,210.5	$	1,544.2

Table of Contents

Note 12. Derivative Instruments (Continued)

The following table summarizes the fair value and balance sheet classification of derivative instruments as of June 30, 2011, December 31, 2010 and June 30, 2010. If a counterparty fails to perform, the Company s counterparty credit risk is equal to the amount reported as a derivative asset.

Fair Values of Derivative Instruments

(in millions) (1)	June 30, 2011 Derivative Assets	June 30, 2011 Derivative Liabilities	December 31, 2010 Derivative Assets	December 31, 2010 Derivative Liabilities	June 30, 2010 Derivative Assets	June 30, 2010 Derivative Liabilities
Derivatives designated as hedging instruments						
Interest rate swaps - fair value:						
Certificates of deposit	$	$	$ 0.3	$	$ 0.5	$
Long-term and subordinated debt	14.5		19.8		27.8	
Total fair value contracts	$ 14.5	$	$ 20.1	$	$ 28.3	$
Interest rate swaps - cash flow:						
U.S. Dollar LIBOR based loans	$	$	$	$	$ 0.3	$
Prime based loans					0.6	
Total cash flow contracts	$	$	$	$	$ 0.9	$
Total derivatives designated as hedging instruments	$ 14.5	$	$ 20.1	$	$ 29.2	$
Derivatives not designated as hedging instruments						
Interest rate contracts:						
Swaps	$ 28.5	$ 28.8	$ 25.7	$ 25.7	$ 29.0	$ 29.6
Interest-rate caps, floors and collars	0.5	0.5	0.5	0.5	0.4	0.4
Options purchased	0.2	0.2	0.2	0.2	0.1	0.1
Total interest-rate contracts	$ 29.2	$ 29.5	$ 26.4	$ 26.4	$ 29.5	$ 30.1
Option contracts	$ 0.5	$	$	$	$	$
Foreign exchange contracts:						
Spot and forward contracts	$ 1.2	$ 0.9	$ 1.3	$ 1.0	$ 6.0	$ 5.7
Options purchased					0.1	0.1
Options written					1.5	1.5
Total foreign exchange contracts	$ 1.2	$ 0.9	$ 1.3	$ 1.0	$ 7.6	$ 7.3
Total derivatives not designated as hedging instruments	$ 30.9	$ 30.4	$ 27.7	$ 27.4	$ 37.1	$ 37.4

(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, 2011, the Company had $355.2 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, 2011. The positive fair value of the fair value hedges of $14.5 million is recorded in other assets. It includes a mark-to-market asset of $14.5 million and net interest receivable of $1.8 million, less $1.8 million of cash collateral received from a counterparty. The balance of borrowings reported in the consolidated balance sheet includes a $14.5 million mark-to-market adjustment associated with interest-rate hedge transactions. AOCI includes a net deferred gain of $0.3 million related to cash flow hedges that were terminated in 2010 prior to their maturity dates for which the hedged transactions had yet to occur.

Table of Contents

Note 12. Derivative Instruments (Continued)

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

As of June 30, 2010, the Company had $468.2 million notional amount of interest-rate swap hedge transactions, of which $368.2 million were designated as fair value hedges and $100.0 million were designated as cash flow hedges. The positive fair value of the fair value hedges of $28.3 million includes a mark-to-market asset of $26.6 million and net interest receivable of $1.7 million. The balance of deposits and borrowings reported in the consolidated balance sheet include a $26.6 million mark-to-market adjustment associated with interest-rate hedge transactions. The net positive fair value of cash flow hedges of variable-rate loans of $0.9 million includes a mark-to-market asset of $0.6 million and interest receivable of $0.3 million. AOCI includes $0.3 million, after tax, related to the net positive fair value of cash flow hedges at June 30, 2010. AOCI also includes a net deferred gain of $3.6 million related to cash flow hedges that were terminated in 2010 prior to their maturity dates for which the hedged transactions had yet to occur.

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, 2011 and 2010 is provided below:

(in millions) **Derivative Instruments Designated as Hedging Instruments**	**Location in Consolidated Statements of Income**	**For the three months ended June 30,**				**For the six months ended June 30,**			
			2011		**2010**		**2011**		**2010**
Interest-rate swaps-fair value	Interest expense	$	(4.3)	$	(4.3)	$	(8.5)	$	(8.7)
Interest-rate swaps-cash flow	Interest income		0.2		2.6		0.8		5.6
Total income		$	4.5	$	6.9	$	9.3	$	14.3

Fair value and cash flow interest-rate swaps increased net interest income by $4.5 million and $9.3 million for the three and six months ended June 30, 2011, respectively, and increased net interest income by $6.9 million and $14.3 million for the same periods in 2010.

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 months ended June 30, 2011, accordingly, the gains on cash flow hedges reclassified from AOCI to interest income for the three and six months ended June 30, 2011 of $0.2 million and $0.8 million, respectively, represent the amortization of deferred gains on terminated cash flow hedges. The amount of gains on cash flow hedges reclassified from AOCI to interest income for the three and six months ended June 30, 2010 was $2.6 million and $5.6 million, respectively. Within the next 12 months, $0.2 million of other comprehensive income, representing the amortization of deferred gains on terminated cash flow swaps, is expected to be reclassified into interest income. Any ineffective portion of the changes of fair value of cash flow hedges is recognized immediately in Other noninterest income in the consolidated statements of income.

The amount of after-tax loss on cash flow hedges recognized in AOCI was $0.5 million for the six months ended June 30, 2010 and includes the loss on the change in fair value of cash flow hedges as well as deferred gains on the early termination of cash flow swaps.

Table of Contents

Note 12. Derivative Instruments (Continued)

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, 2011 and 2010:

(in millions)		**For the three months ended June 30,**		**For the six months ended June 30,**	
Derivatives Not Designated as Hedging Instruments	**Location in Consolidated Statements of Income**	**2011**	**2010**	**2011**	**2010**
Interest-rate contracts	Other noninterest income	$ (0.4)	$ (0.8)	$ (0.3	